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Burkina Faso: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Burkina Faso

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

- the staff report for the Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on January 24, 2007, with the officials of Burkina Faso on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 11, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;

- a Press Release summarizing the views of the Executive Board as expressed during its April 23, 2007 discussion of the staff report that completed the request; and

- a statement by the Executive Director for Burkina Faso.

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

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

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

BURKINA FASO

Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

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

Approved by Thomas Krueger and Mark Plant

April 11, 2007

Discussions: Discussions of the request for a new three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) were held in Ouagadougou during January 10–24, 2007. The staff met with Minister of Finance Jean-Baptiste Compaoré, the National Director of the Central Bank of West African States (BCEAO), and other senior government officials. The staff also met with donors, private sector representatives, and civil society organizations. The staff comprised Messrs. Petri (head), Geiregat, Gottschalk, Shen (all AFR), and Zejan (Resident Representative). Messrs. Tall (OED) and Krueger (AFR) attended some of the policy meetings.
PRGF arrangement: The authorities are requesting a three-year PRGF arrangement for SDR 6.02 million, 10 percent of quota. Burkina Faso's outstanding purchases and loans from the Fund at the end of February 2007 amounted to SDR 23.2 million, 38.6 percent of quota.

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LIST OF ACRONYMS

AGO	Auditor General Office
BCEAO	Central Bank of West African States
CPIA	Country Policy and Institutional Assessment
DDU	*Document en Douane Unique* (Unique Customs Document)
DSA	Debt Sustainability Analysis
ECOWAS	Economic Community Of West African States
DTIS	Diagnostic Trade Integration Study
EPA	Ex Post Assessment
HACLCC	*Haute Autorité de Coordination de la Lutte Contre la Corruption* (Supreme Anti-Corruption Authority)
HIPC	Highly Indebted Poor Country
LIC	Low-Income Country
LTO	Large Taxpayer Office
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
MTEF	Medium-Term Expenditure Framework
MTO	Medium Taxpayer Office
NPV	Net Present Value
OHADA	*Organisation pour l'Harmonisation en Afrique du Droit des Affaires* (Organization for the Harmonization of Business Law in Africa)
PC	Performance Criterion
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PSI	Policy Support Instrument
SRFP	*Stratégie de Renforcement des Finances Publiques* (Public Finance Strengthening Strategy)
UNDP	United Nations Development Program
TA	Technical Assistance
TMU	Technical Memorandum of Understanding
VAT	Value Added Tax
WAEMU	West-African Economic and Monetary Union

EXECUTIVE SUMMARY

- The proposed new Poverty Reduction and Growth Facility (PRGF) program would help anchor macroeconomic stability and support Burkina Faso's poverty reduction and growth strategy.
- Macroeconomic performance under the previous PRGF arrangement was good. Average real GDP growth was above 6 percent, inflation was low and stable and the current account improved.
- The program's macroeconomic policies for 2007–09 would help Burkina Faso progress toward the Millennium Development Goals (MDGs). Growth is projected to be slightly above 6 percent. Despite some scaling up of expenditures, some MDGs may prove difficult to reach based on current policies.

Key issues

- Increasing domestic revenues would create fiscal space for poverty-reducing expenditures while keeping debt sustainable. This requires firm efforts to modernize revenue administration, which—combined with a reform of the tax regime—would reduce compliance costs for taxpayers, limit the discretionary power of revenue officials, and make the tax system more efficient.
- Restoring the viability of the cotton sector requires recapitalizing ginning companies and adopting a producer price mechanism that passes through world cotton prices.
- Reforming public financial management (PFM) is needed to ensure the efficient use of public resources and strengthen governance. Programmed reforms would facilitate budget execution and make the budget process more transparent and accountable.
- Improving the climate for private sector development is necessary to sustain growth. Areas of focus will be the financial sector, public utilities, and corruption.
- Scaling up of aid would help increase growth and reduce poverty. The authorities will need to address capacity constraints in some sectors. Grant financing would be desirable to keep debt sustainable.

Program risks

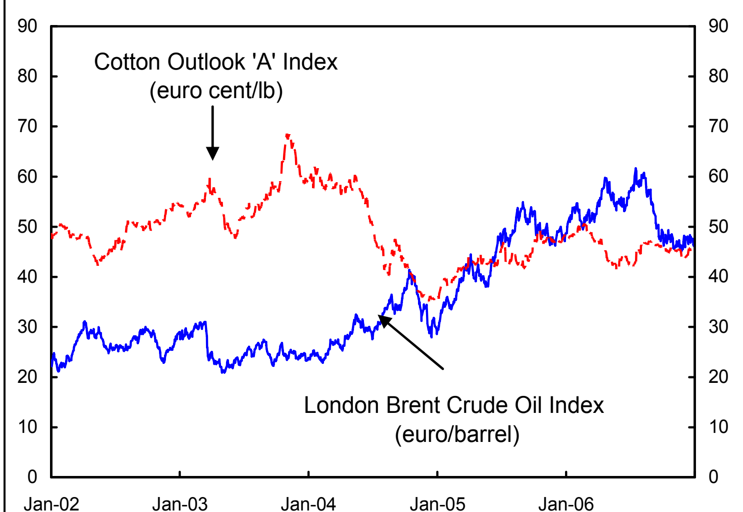
- Risks are mainly related to the domestic revenue effort, cotton sector reform, and the external environment.

I. Introduction

A. Background

1. **Performance under the previous Poverty Reduction and Growth Facility (PRGF) arrangement was good.** The arrangement expired at the end of September 2006, after the sixth and final review. The program focused on strengthening tax and customs administration; in fact, the revenue-to-GDP ratio increased by 1 percentage point relative to 2002. The program period, 2003–06, was marked by a series of severe terms-of-trade shocks. Though oil prices shot up in 2004–06, and cotton prices almost halved in 2004–05, growth remained robust. However, foreign assets of the national branch of the BCEAO declined and the financial situation of the cotton ginning companies deteriorated markedly.

Figure 1: Cotton and Oil Prices, 2002–06



Source: Thomson Datastream.

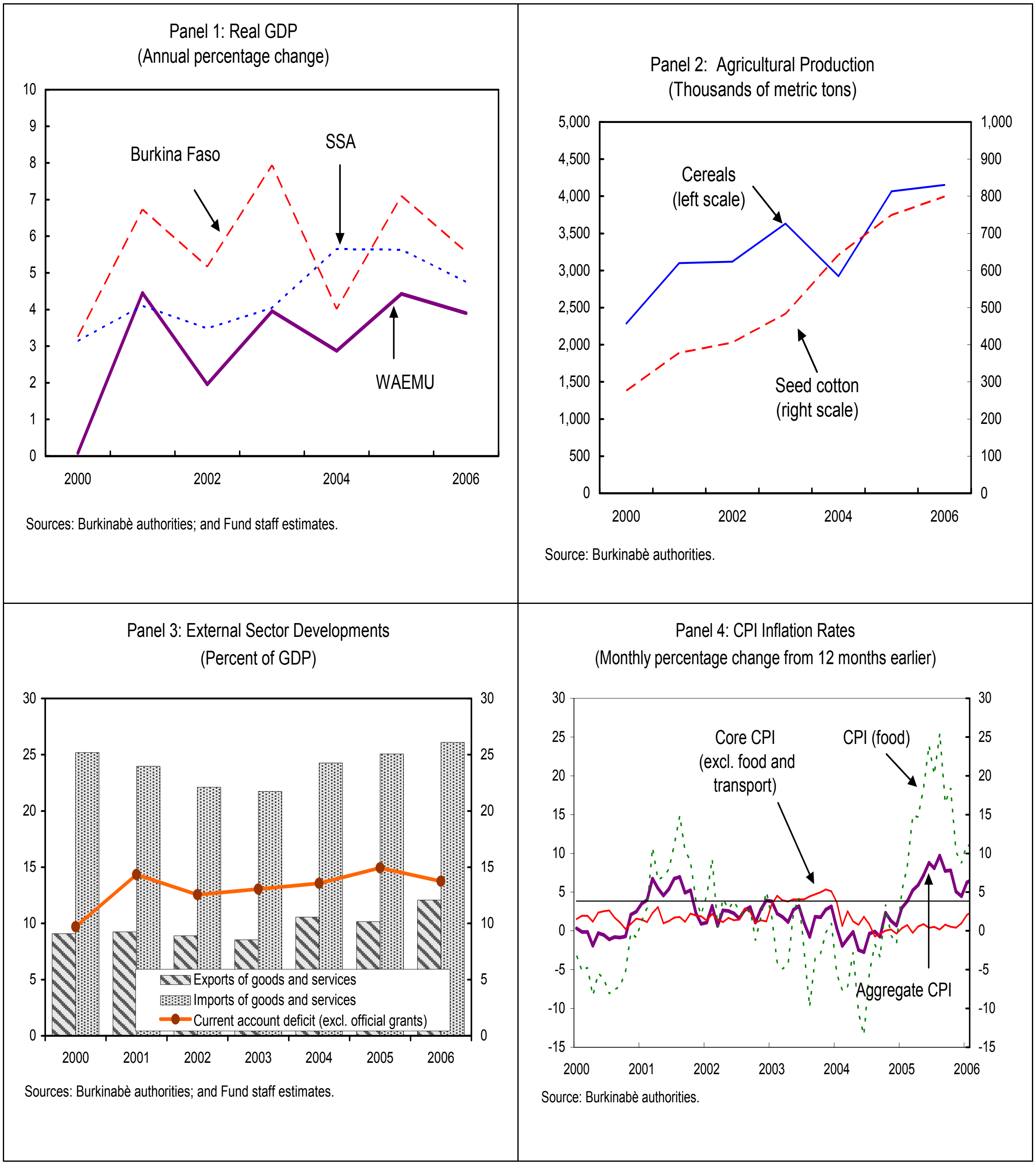
2. **The political situation in Burkina Faso is stable.** President Blaise Compaoré won a third successive term with 80 percent of the votes in November 2005. Municipal elections were held in April 2006. The next parliamentary elections are scheduled for May 6, 2007.

B. Recent Economic Developments

3. **The 2006 macroeconomic performance was good, but financial difficulties emerged in the cotton sector.** Real GDP growth is estimated at 6½ percent. Average inflation declined to 2.4 percent. Favorable rainfall boosted cereal and cotton production, and activity also picked up in the construction and service sectors. Despite continuing high oil and low cotton prices, the current account deficit improved, mainly because of booming cotton exports, encouraged by unsustainably high domestic producer prices for cotton. Credit growth to the economy (excluding crop credit) moderated. ONATEL, the state-owned telecommunications company, was privatized in December 2006. The government sold

51 percent of the shares to a foreign buyer and netted CFAF 139 billion (4.0 percent of GDP)—much more than expected.[1]

Figure 2. Burkina Faso—Economic Developments, 2000–06



[1] The payment was received in January 2007 and is recorded in the 2007 fiscal and external accounts.

4. **Low revenue overshadowed fiscal performance in 2006.** Revenues were 0.9 percent of GDP lower than had been projected during the sixth review of the previous PRGF arrangement (Text Table 1), mainly because profit taxes and taxes on domestic goods and services underperformed.[2] Low cotton prices and the protracted crisis in Côte d'Ivoire suppressed business profits and indirectly taxes, particularly around Bobo Dioulasso where businesses were directly affected by the performance in the cotton sector. Also, households and the transport sector were sensitive to high oil prices, affecting the yield from petroleum taxation. A strike set back the taxpayer census, and there were also delays in implementing administrative measures due to capacity bottlenecks—most notably in the computerization of the tax administration. Finally, revenue losses from the extension of country-of-origin rules from WAEMU to ECOWAS became more pronounced.

Text Table 1. Fiscal Operations, 2005–06 (percent of GDP)

	2005	2006	
	Est.	Sixth[1] Rev.	Est.
Revenue	12.3	13.3	12.4
Grants (without MDRI)	4.4	4.9	5.6
Expenditure and net lending	21.7	23.4	23.2
Current expenditure	11.2	12.4	12.2
Capital expenditure and net lending	10.5	10.9	11.0
Overall balance (commitment basis, without MDRI)	-4.9	-5.2	-5.2
Excluding grants	-9.3	-10.0	-10.8
Overall balance (cash basis, without MDRI)	-4.1	-5.2	-4.0
Memorandum items:			
MDRI relief	0.0	21.8	21.1
Nominal GDP (CFAF billion)	2,961	3,247	3,163

Sources: Burkinabè authorities; and Fund staff estimates and projections.
[1] IMF Country Report No. 06/359, October 2006.

5. **Nevertheless, the overall fiscal balance met earlier projections.** The revenue shortfall was offset by higher grants—mostly for additional capital expenditures—and lower total expenditures. The deficit including grants (commitment basis) was 5.2 percent of GDP, as projected, but the deficit on a cash basis was 1.2 percent of GDP lower than expected because of payment delays in the face of financing constraints. The cash shortage also

[2] A comparison of the GDP ratios is affected by the downward revision of nominal GDP for 2006. For example, the nominal revenue shortfall was CFAF 40 billion (1.3 percent of GDP, versus 0.9 percent in Text Table 1). The revenue shortfall is due mainly to income taxes (0.3 percent of GDP), the VAT (0.5 percent of GDP), and the petroleum tax (0.2 percent of GDP).

affected poverty-reducing expenditures, which remained constant as a share of GDP instead of increasing (Table 2). In 2006 Burkina Faso received Multilateral Debt Relief Initiative (MDRI) relief of 21 percent of GDP (more than halving the debt-to-GDP ratio); this will provide an average annual flow relief of 0.4 percent of GDP through 2010.

6. **All three cotton ginning companies ran into financial difficulties after a prolonged period of low world cotton prices in CFAF terms and high producer prices paid to farmers.** Cotton prices recovered somewhat in 2006, but were still considerably lower than the average for the past decade. The producer price paid to farmers in 2005–06 was much higher than was compatible with prevailing world prices. Thus, the net worth of Burkina Faso's main cotton company SOFITEX, which is partly government-owned, became negative. At the end of 2006 the company was unable to repay the 2005/06 campaign credit to banks, which then would not release credits for the 2006/07 campaign. Consequently, farmers, who are usually paid at the time of the cotton harvest in October/November, only started receiving payments in February 2007.

II. Medium-Term Challenges—Sustaining Growth and Increasing Revenue

7. **The Ex Post Assessment (EPA) found that program implementation over the past 10 years was strong because the authorities took firm ownership of policies.**[3] Significantly improved macroeconomic performance compared favorably to regional averages (Text Table 2). Per capita growth has been high, inflation low, and the debt burden has been substantially reduced by relief from the enhanced Highly Indebted Poor Country (HIPC) Initiative and MDRI. However, the EPA noted that the economy is vulnerable to external shocks because of the dominance of cotton exports. Aid dependence is pronounced; domestic revenue mobilization is low. Burkina Faso also faces institutional and absorptive capacity constraints, despite significant progress in PFM.

8. **Sustained high growth is necessary if Burkina Faso is to meet the Poverty Reduction Strategy (PRS) objectives.** The PRS aims for annual per capita growth of at least 4 percent and a reduction in poverty to below 35 percent by 2015 (from about 46 percent in 2003, see Box 1).[4] The proposed program projects an annual real GDP growth rate of 6 percent through 2015, in line with the 10-year historical average. While this growth rate falls short of the PRS objective (7 percent), historical evidence on the growth elasticity of poverty suggests that a growth rate of 6 percent through 2015 would be sufficient to reach the poverty-reduction goal. Inflation is projected at about 2 percent, consistent with WAEMU convergence criteria.

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[3] See IMF Country Report No. 06/359, October 19, 2006.

[4] The last Annual Progress Report (IMF Country Report No. 06/357, 10/16/06) and Joint Staff Advisory Note (IMF Country Report No. 06/358, 10/19/06) were discussed by the Executive Board in August 2006.

Text Table 2. Developments in Burkina Faso, WAEMU, and Sub-Saharan Africa, 2000–06

	Burkina Faso	WAEMU	SSA
	(Annual percentage change)		
GDP at constant prices	5.7	3.1	4.4
GDP per capita	2.7	0.6	2.4
Consumer prices	2.6	2.4	13.3
Broad money (M2)	9.1	8.4	22.5
Exports (f.o.b.; valued in CFA francs)	19.9	7.4	15.9
Imports (f.o.b.; valued in CFA francs)	14.9	9.0	17.1
	(Period average, percent of GDP)		
Gross investment	18.0	16.5	18.4
Tax revenue	11.0	14.3	…
Overall fiscal balance, excluding grants	-9.7	-4.5	-2.0
Overall fiscal balance, including grants	-1.1	-1.1	-0.5
Current account balance (including current official transfers)	-10.1	-4.5	-1.2
Current account balance (excluding current official transfers)	-13.2	-6.1	-2.2

Sources: Burkinabè authorities; and IMF staff estimates.

9. **Strong long-run growth will depend on improving the business environment, broadening financial sector access, and investing in infrastructure.** Burkina Faso's medium-term growth will have to rely on sectors other than cotton. For such sectors to emerge the country will have to address the rigid business environment—in the 2007 World Bank Doing Business Survey, Burkina Faso ranked only 163 out of 175 countries. Also, the World Bank's Investment Climate Assessment identified lack of access to finance for many small- and medium-sized enterprises as the single most important obstacle to business development. Addressing these issues forcefully—and investing in road, electricity, communications, and irrigation infrastructure—is crucial for expanding markets and achieving growth.

10. **An increase in the revenue-to-GDP ratio over the medium-term is critical to create fiscal space for poverty-reducing expenditures.** The medium-term fiscal framework is based on an increase in poverty-reducing expenditures, leading to higher expenditures than were traditional for Burkina Faso (Figure 3, Panel 1). However, if the initial increase in the deficit after grants were continued over the long term, debt ratios would breach their policy-dependent thresholds (Figure 3, Panel 4). This tension between increased expenditures and long-term debt sustainability might be partly resolved by higher grants, but a durable solution requires a sustained increase in domestic revenues.

Box 1. Burkina Faso—Progress Toward the Millennium Development Goals

Burkina Faso has made progress toward meeting several MDGs (Table 5). In 2005, the poverty rate is estimated to have declined to 42 percent, from 46 percent in 2003, mainly due to developments in agriculture. The country also made progress in reducing gender disparity in primary education, reducing child mortality, and combating diseases.

Nevertheless, on current trends it is likely that some MDGs will be missed. Also, for some MDGs the 1990 data reference points are not available, and thus the government has set national goals. The authorities' assessment of the likelihood of achieving MDGs or national goals is described in the Box Table.

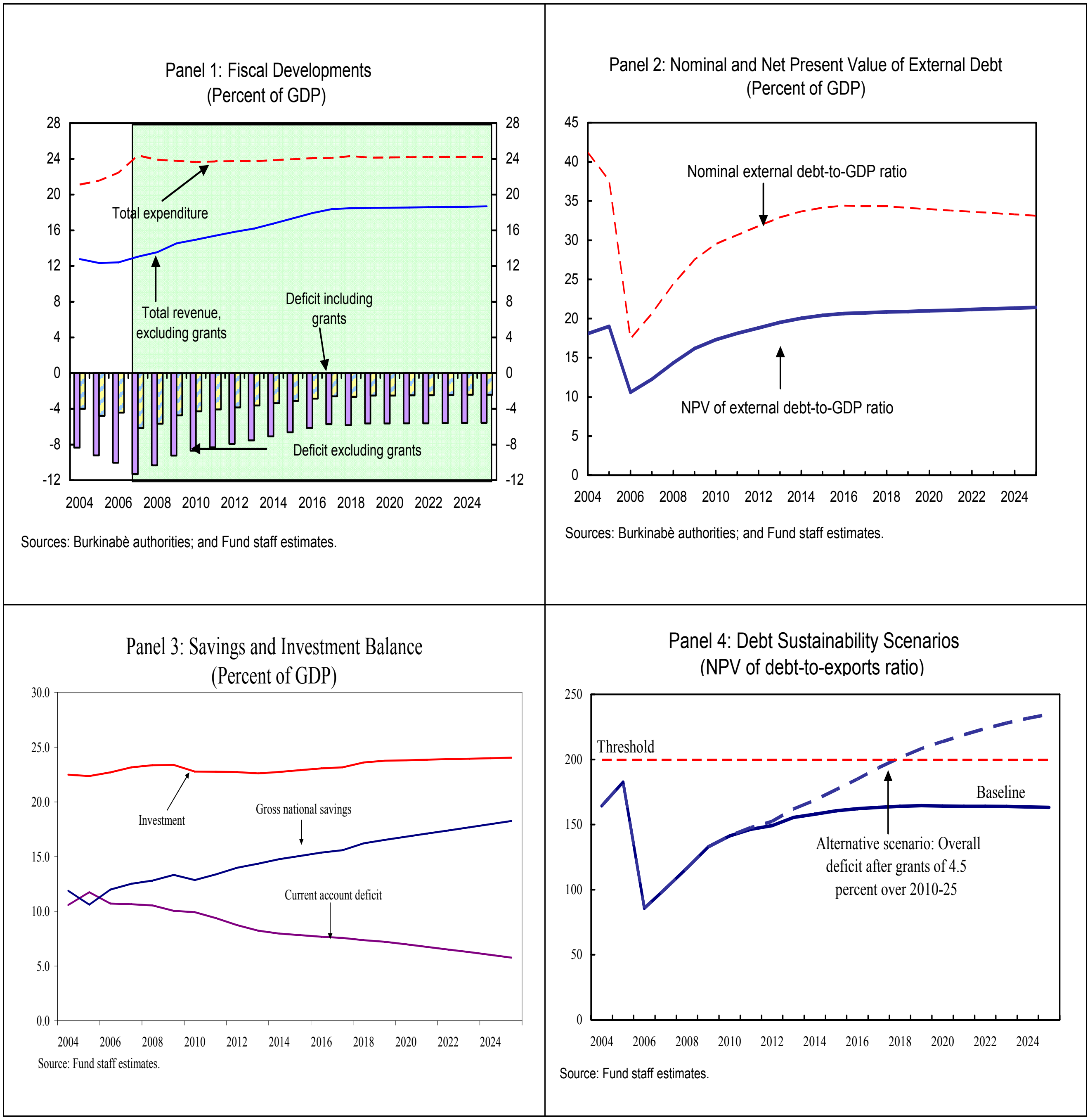
Box Table. Burkina Faso—Likelihood of Meeting the Millennium Development Goals

Selected goals and targets		**Likelihood of achieving**
Goal 1	**Eradicate extreme poverty and hunger**	
	Target 1 : Halve proportion of people with income less than $1 a day (1990-2015).	n.a.
	National goal : Reduce the current incidence of poverty to under 35% in 2015.	Possibly
	Target 2 : Halve the proportion of people who suffer from hunger (1990-2015).	Likely
Goal 2	**Achieve universal primary education**	
	Target 3 : Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.	Unlikely
	National goal : Achieve primary school gross enrollment ratio to 70% in 2010.	Possibly
Goal 3	**Promote gender equality and empower women**	
	Target 4 : Eliminate gender disparity in primary and secondary education preferably by 2005 and in all levels of education no later than 2015.	Unlikely
Goal 4	**Reduce child mortality**	
	Target 5 : Reduce under-5 mortality rate by two-thirds (1990-2015).	Likely
	National goal : Reduce under-5 mortality rate by 40% (2000-10).	Likely
Goal 5	**Improve maternal health**	
	Target 6 : Reduce maternal mortality ratio by three-quarters (1990-2015).	n.a.
	National goal : Reduce maternal mortality rate by 40% (2000-10).	Possibly
Goal 6	**Combat HIV/AIDS, malaria, and other diseases**	
	Target 7 : Have halted by 2015 and begun to reverse the spread of HIV/AIDS.	Likely
	Target 8 : Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.	Possibly
Goal 7	**Ensure environmental sustainability**	
	Target 10 : Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation.	Likely
Goal 8	**Develop a global partnership for development**	
	Target 12 : Develop an open, rule-based, predictable, nondiscriminatory trading and financial system (includes a commitment to good governance, development, and poverty reduction—both nationally and internationally).	Likely

Sources: Burkinabè authorities; and Fund staff.

11. **The medium-term fiscal consolidation has its counterpart in an improved external balance.** The steady increase in fiscal revenue as a ratio of GDP combined with a stable private savings ratio should gradually increase gross national savings and bring down the current account deficit as a ratio to GDP (Figure 3, Panel 3). The current account would be driven by a decline in the trade deficit.

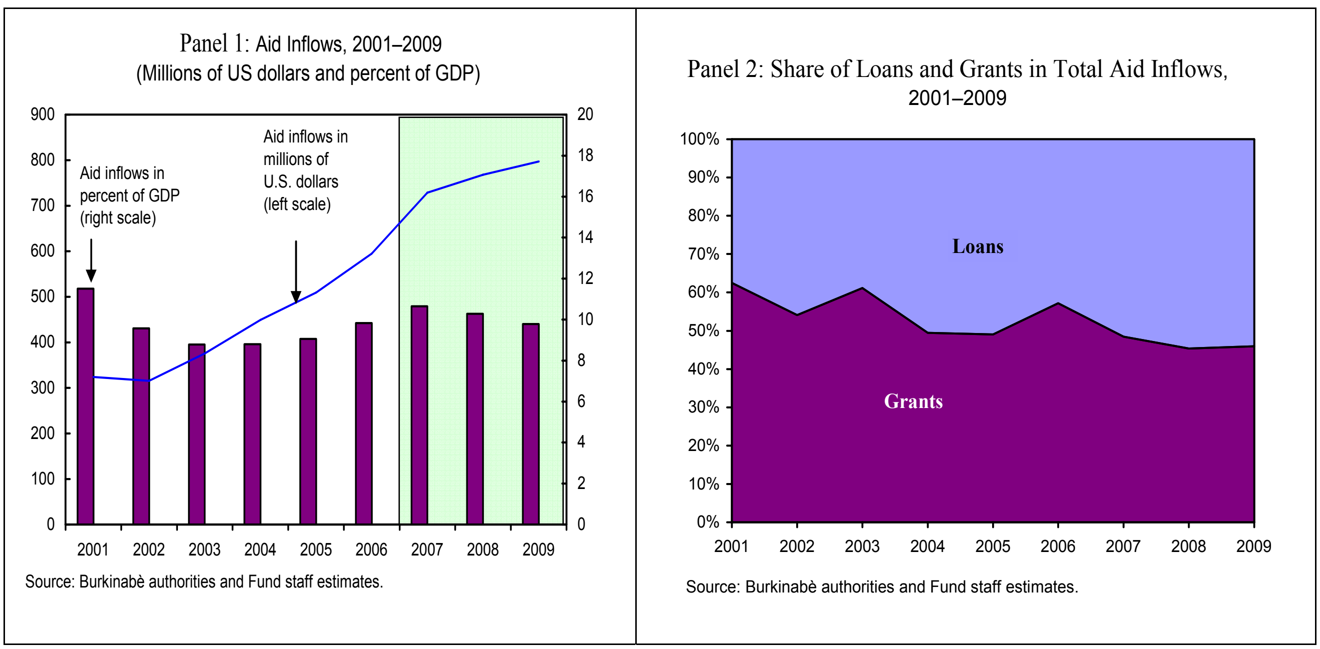
Figure 3. Burkina Faso—Longer-Term Projections, 2004–25



12. **The authorities stressed that scaled-up aid could help stimulate growth and reduce poverty, but also recognized that capacity constraints needed to be addressed.** Discussions with donors and the government suggest that absorptive capacity varies by sector. Education, for example, which has benefited from substantial donor support, is likely to be close to capacity. Many donors identified other sectors, for example, rural development and infrastructure, as offering opportunities for increasing priority expenditures. Developing additional sector-specific Medium-Term Expenditure Frameworks (MTEFs) would be important for guiding additional spending decisions.

13. **Based on firm donor intentions, the baseline scenario projects a decline in aid in terms of GDP** (Figure 4). The program nevertheless incorporates a substantial increase in expenditures compared to 2001, when the aid-to-GDP ratio peaked, and is designed to allow full spending of additional grants. A useful starting point for scaling-up scenarios will be the MDG costing exercise now under way with assistance from the UNDP. This exercise assesses the needs and costs of attaining the MDGs and identifies capacity constraints to be addressed if additional aid is to be spent effectively. Relative to the baseline, scaling up aid would lead to higher fiscal and current account deficits to allow for spending and absorption of these resources. However, it would be important that additional aid primarily takes the form of grants, since the debt sustainability analysis (DSA) shows most scaling-up scenarios would breach debt sustainability thresholds (see DSA appendix). Burkina Faso may benefit from grants from the U.S. Millennium Challenge Corporation starting in 2008, but this is not reflected in the baseline projections.

Figure 4. Burkina Faso—External Assistance, 2001–09



III. The New PRGF Arrangement

14. **A new PRGF arrangement would make it easier for the authorities to meet the MDGs while keeping the economy stable.** The authorities already have a solid track record of implementing programs, which is a sound basis for realizing the country's PRS agenda while avoiding a renewed build up of unsustainable debt—the main macroeconomic anchor of the program will be keeping debt sustainable.[5]

A. Macroeconomic Framework

15. **Macroeconomic performance in 2007 is expected to be favorable, with real GDP growth stable at 6½ percent.** The processing of the record 2006 cotton harvest, a positive fiscal impulse, and the expected improvement in the terms of trade are the main reasons for a positive outlook. However, there are downside risks, particularly related to the financial difficulties in the cotton sector, including payment delays to farmers and their reaction to lower producer prices. With lower oil prices and a good cereal harvest, Burkina Faso is entering 2007 with low inflationary pressures. The large privatization-related capital inflows will bring a sizable buildup in foreign exchange reserves.

B. Fiscal Program

16. **In spite of a moderate increase in revenues, the fiscal stance in 2007 is expected to be expansionary.** The tax revenue ratio will increase by ½ percent of GDP, capturing the effects of revenue administration reforms (¶18-19), but because the poor 2006 revenue performance carries over, revenues will be almost 1 percent of GDP below the original budget projections (Text Table 3). The original budget deficit target was motivated by tight financing constraints and implied a reduction in expenditures of 1.2 percent of GDP relative to projections at the last review. After the budget was approved, financing constraints relaxed thanks to the privatization proceeds, and additional, mostly one-off, spending needs emerged to address recapitalization of the cotton sector, security, infrastructure, utility bills, and salaries, which were increased by 5 percent on April 1, 2007 (MEFP ¶24). Taken together these new developments will raise total expenditures for 2007 by almost 2 percent of GDP;[6] social poverty-reducing expenditures will increase by half a percentage point. The deficit including grants (on a payment-order basis) will increase to 6.2 percent of GDP.[7] It will be financed mostly by external concessional borrowing and by a moderate use of privatization

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[5] This is defined as maintaining a moderate risk of debt distress or better.

[6] One-time spending in 2007 is estimated at 1.7 percent of GDP.

[7] The new arrangement measures the deficit on a payment-order (*ordonnancement*) basis. The previous arrangement measured the deficit on a commitment (*engagement*) basis, which is a step earlier in the expenditure process, but may include expenditures committed (*engagé*) that will never be executed. The new definition is in line with the authorities' own reporting and WAEMU guidelines.

receipts (1.5 percent of GDP).[8] Parliament approved a revised budget in line with the program in March 2007.

Text Table 3. Fiscal Operations, 2006–09 (percent of GDP)

	2006	2007			2008	2009
	Est.	Sixth[1] Review	Original Budget	Proj.	Proj.	Proj.
Revenue	12.4	13.6	13.9	13.1	13.6	14.5
Grants (without MDRI)	5.6	4.5	4.7	5.2	4.7	4.5
Expenditure and net lending [2]	22.5	23.9	22.7	24.4	23.9	23.8
Overall balance (payment-order basis, without MDRI)	-4.4	-5.8	-4.1	-6.2	-5.7	-4.7
Excluding grants	-10.0	-10.3	-8.8	-11.3	-10.3	-9.2
Overall balance (cash basis, without MDRI)	-4.0	-5.8	-4.1	-6.6	-5.7	-4.7
Financing (excl. MDRI)	3.9	4.5	4.1	6.6	5.6	4.7
Foreign	3.9	4.5	4.7	5.1	5.4	5.1
Domestic	0.0	0.0	-0.6	1.5	0.2	-0.4
Memorandum items:						
Overall balance (commitment, without MDRI)	-5.2	-5.8	-4.1	-6.2	-5.7	-4.7
Excluding grants	-10.8	-10.3	-8.8	-11.3	-10.3	-9.2
Nominal GDP (CFAF billion)	3,163	3,521	3,451	3,451	3,751	4,074

Sources: Burkinabè authorities; and Fund staff estimates and projections.
[1] IMF Country Report No. 06/359, October 2006.
[2] On a payment-order basis.

17. **Fiscal deficits would decline during the program as revenue efforts gain ground.** Revenues would increase moderately in 2008, mainly because of continuing gains from reforms in the tax and customs administrations (see below). In 2009, comprehensive tax policy reform (see below) is expected to boost revenues further and help Burkina Faso meet the WAEMU revenue target of 17 percent of GDP by 2015. Expenditures would stabilize at about 24 percent of GDP—more than 2 percentage points of GDP higher than pre-2006 spending. This incorporates the authorities' MTEF developed in their priority action plan for implementing the PRS. The ensuing deficits (similar to previous projections) do not lead to debt sustainability concerns per se, provided the envisaged rise in the revenue ratio materializes. The expenditure plan also includes the unwinding of one-time expenditures (still 0.4 percent of GDP in 2008), and moderate increases in the wage bill. Moreover, it allows for additional poverty-reducing expenditures of about 1½ percent of GDP after the unwinding of one-time expenditures in 2007/2008.

[8] In addition to the completed sale of 51 percent of ONATEL, the authorities intend to sell another 20 percent on the regional market in a public offering.

C. Structural Reform Agenda

Fiscal reforms

18. **The PRGF arrangement would support comprehensive efforts to modernize tax administration.** The revenue pillar of the public finance strategy reflects FAD technical assistance (TA) recommendations. In 2007, the authorities expect to fully computerize the large taxpayer office with Fund assistance (MEFP ¶27). Tax administration measures to raise the revenue yield of the current tax system and reduce compliance costs include (i) better taxpayer management (automatic reminders and penalty notices for nonfilers); (ii) more issue-oriented audits; (iii) improved collections enforcement and tax dispute resolution; (iv) elimination of manual and redundant procedures; and (v) greater use of performance indicators.

19. **Customs administration reform focuses on automation and removal of direct contact between traders and customs officials.** The roll-out of ASYCUDA software will allow for computer-based declaration processing, duty calculation, and choice of customs control channels (MEFP ¶28). Use of the unique customs document in all offices, a structural performance criterion, is a precondition for the success of computerization. There are also plans for (i) risk-based analysis of customs and pre-inspection data; (ii) improved valuation databases; (iii) risk-based selectivity criteria in controls; and (iv) greater use of preshipment company information.

20. **A sustained increase in revenues requires that the tax regime be redesigned.** The authorities are already integrating all relevant matters into a single tax code (MEFP ¶30), which will be submitted to Parliament by end-December 2007 (structural benchmark) to be a one-stop reference and an important precursor for comprehensive tax policy reform. They will request Fund TA for a broad review of the tax code; the intent is to simplify the tax regime by broadening the tax base and eliminating nuisance taxes. With the help of the World Bank, the authorities will amend the investment code with the goal of improving the business climate and eliminating costly tax exemptions.

21. **PFM reforms would make the budget a more useful macroeconomic tool and would strengthen transparency.** The authorities are using the findings of the recent Public Expenditure and Financial Accountability (PEFA) exercise to finalize their public finance strategy and action plan. The Fund will support the strategy with TA, and additional PFM measures will be integrated into the program in future reviews. Major objectives are to improve budget execution by interlinking software systems and reducing nonstandard procedures; improve internal and external controls; build up procedures for macroeconomic forecasting; and track poverty-reducing spending.

Cotton sector reform

22. **After large losses over the past two years, recapitalizing the cotton companies is a precondition for making the sector viable again.** Shareholders are recapitalizing the two

smaller private companies, but recapitalization of SOFITEX, which is 35 percent government-owned, has been delayed because the second largest shareholder, a recently privatized foreign company (34 percent), decided not to participate. The World Bank estimates that SOFITEX needs CFAF 38 billion (1.1 percent of GDP).[9] Because there are no new private investors for SOFITEX, the government will temporarily increase its share to comply with legal requirements for recapitalization (MEFP ¶22), but it is committed not to increase its medium-term involvement in the sector. With World Bank assistance, it will approve a liberalization strategy for the company by end-December 2007 (structural benchmark). Liberalization would reduce both the government's involvement in the sector and its contingent liabilities, for example, those that arose this February when the government offered to extend a guarantee of CFAF 50 billion (1.4 percent of GDP) for the outstanding loans from the 2005/06 campaign. Without the guarantee domestic banks would not have released funds to pay farmers for the recent cotton harvest.

23. **A market-based producer price mechanism is indispensable.** Domestic producer prices did not respond sufficiently to the large decline in world market prices after 2004—a root cause of the recent problems. The World Bank is working with the cotton stakeholders to help them adopt a market-based producer price mechanism (an end-June 2007 structural benchmark). The mechanism is expected to be based on a three-year moving average of world market prices to smooth price fluctuations and a 10 percent discount to prevent the depletion of the planned smoothing fund (*fonds de lissage*). Donors intend to contribute to the fund, which has to be designed to ensure that it is financially self-sufficient and transparently managed. The 2007/08 campaign price is expected to be set using this mechanism; if not it will be set at a level that is expected to improve the financial situation of the cotton companies.

Other reform areas

24. **Other financial sector reforms will be integrated into the arrangement.** Broadening access to the financial sector and World Bank-assisted efforts to improve the business climate (MEFP ¶39) are critical to economic growth. The authorities are drafting a financial sector strategy (MEFP ¶35) that will benefit from the scheduled regional FSAP and be integrated into the program at the second review. They have already launched a pilot program to make access to land titles easier, which will facilitate collateralized lending. When SOFITEX had difficulties repaying the 2005/06 campaign loans, a number of banks experienced cash flow problems. This should not cause systemic risks at this time, but it exemplifies the credit risk related to cotton; for some banks campaign loans far exceed net worth.

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[9] Donors intend to provide partial financing for the producers' share of the recapitalization of SOFITEX and the two private companies.

25. **Electricity sector reform should reduce costs and the country's vulnerability to external shocks.** The connection of the electricity transmission grid with Côte d'Ivoire is to be completed by 2009. This will substantially lower costs—and the need for electricity subsidies—as well as diversify energy sources and lower oil dependence. To put the electricity sector on a sound financial footing while expanding access, the government is working with the World Bank on a mechanism that links electricity tariffs to costs (MEFP ¶17). Moreover, new regulations would facilitate private management to increase productivity.

26. **Corruption is perceived as a serious risk to development in Burkina Faso.** The authorities have made promotion of good governance, including the fight against corruption, one of the four pillars of the PRS. In 2006, the government adopted a National Strategy for the Fight against Corruption and an action plan to enhance fiscal transparency, accountability, and judicial institutional reform (MEFP ¶40). Regarding the last, the number of high tribunals will be increased from 13 to 20 and justice personnel will be trained on business law. The authorities intend to expand judicial services in their judicial reform plan for 2007–09. They have also enhanced the independence of magistrates in the Auditor General Office.

D. Program Modalities and Monitoring

27. **There is now a performance criterion (PC) on the overall fiscal deficit including grants measured from the financing side.** This follows EPA recommendations to replace the previous PC on net domestic financing and aligns fiscal conditionality with the program focus on debt sustainability. There will be limited flexibility for unexpected grant shortfalls and additional concessional loan financing. There are also indicative targets on domestic revenue and poverty-reducing social spending. Test dates for PCs would be June 30 and December 31.

28. **The authorities request a low-access PRGF arrangement.** Only small balance of payment needs are projected for the program period (Table 8), and access would be limited to 10 percent of quota. In addition, the authorities preferred a PRGF to a Policy Support Instrument (PSI) because they thought it would facilitate attracting donor support, and they viewed it as being more flexible as concerns the timing of reviews. Burkina Faso has no external payment arrears to multilateral, official bilateral, and private creditors.

29. **National accounts and balance-of-payments statistics need work.** The official national account statistics are incomplete and tardy, and high-frequency trade statistics are nonexistent. The authorities are drafting a statistical development plan that emphasizes strengthening the National Institute of Statistics (MEFP ¶41) and provides support for surveys to generate quarterly national accounts statistics and monthly trade data.

30. **Possible implementation delays and external shocks constitute the main risks to the program.** The most significant risk relates to domestic revenues: past revenue administration reforms did not always achieve the desired results, and reform of the tax

regime is as yet unspecified. Moreover, simplifying regulation to stimulate private sector growth and limit the scope for corruption can be slow and difficult. Finally, there are risks related to the euro/dollar exchange rate, which could affect competitiveness, particularly of the cotton sector, which confronts substantial price risks as well as risks related to sector reform. The authorities intend to address these risks forcefully.

IV. Staff Appraisal

31. **Though macroeconomic management in 2006 held firm, revenue shortfalls required reductions in spending.** Despite high oil and low cotton prices, economic growth proved resilient, inflation declined, and the fiscal stance was as targeted. However, disappointing revenue performance led not only to spending cut-backs, but also to increased delays in payments; poverty-reducing social expenditures were also cut.

32. **The proposed fiscal stance incorporates urgent spending needs while maintaining macroeconomic stability and debt sustainability.** The increase in expenditures in 2007 mainly responds to one-time needs such as the recapitalization of the cotton company; beyond 2007 poverty-reducing spending would be higher and partly financed with resources freed by MDRI. The 2007 deficit expansion should not cause excessive demand pressures given the financing composition (repayment of domestic debt), and low inflationary pressures. The fiscal deficit is programmed to start declining in 2008; this is necessary to keep debt sustainable. Improvements in PFM under the program will help make spending more efficient and budget procedures more transparent. That would put Burkina Faso in a good position to efficiently use any scaled-up aid.

33. **Increasing domestic revenues through better revenue administration and tax reform is the cornerstone of the program.** This is essential to create fiscal space for poverty-reducing spending and maintaining debt sustainability. Progress in revenue administration reform has been slower than expected, but the authorities now intend to significantly step up their efforts in this area. Tax policy reform will broaden the base for the main taxes by removing exemptions and simplify the tax regime by eliminating nuisance taxes. This would better support growth than previous efforts to grant tax preferences, such as those in the investment code.

34. **Restoring the financial viability of the cotton sector and reducing government involvement in it is crucial.** Because the recapitalization of SOFITEX will temporarily increase its share of ownership, the government should develop a strategy, with the assistance of the World Bank, to achieve majority private ownership of SOFITEX. This will be facilitated by adoption of a price mechanism for cotton that links producer prices to world market prices, so that cotton companies can regain financial viability. Financial self-sustainability for the smoothing fund, and the transparency of its operations, need to be assured.

35. **Structural reforms are necessary to improve the business environment and foster private sector led growth.** Privatization of the state-owned telecommunication company was a major accomplishment. The authorities should work closely with the World Bank to streamline regulations and procedures. The automatic fuel-pricing mechanism should be retained. Financial sector reforms should focus on improving private sector access to financing.

36. **The staff supports the request of the authorities for a new PRGF arrangement.** Their solid track record of program ownership and implementation bodes well for future success. Nevertheless, there are risks for program implementation, notably related to domestic revenues, cotton sector reform, and the external environment. The staff urges the authorities to address these risks forcefully.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 2004–10

	2004	2005	2006		2007	2008	2009	2010
	Est.	Est.	Sixth [1] Review	Est.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change; unless otherwise specified)							
GDP and prices								
GDP at constant prices	4.6	7.1	5.6	6.4	6.5	6.3	6.1	5.8
GDP deflator	3.9	2.5	2.3	0.4	2.5	2.3	2.4	2.5
Consumer prices (annual average)	-0.4	6.4	3.1	2.4	2.0	2.0	2.0	2.0
Consumer prices (end of period)	0.7	4.5	1.9	1.5	2.0	2.0	2.0	2.0
Money and credit								
Net domestic assets (banking system) [2]	1.3	12.7	4.6	1.8	-12.2	10.0	6.9	5.2
Credit to the government [2]	-3.7	0.9	-2.7	-6.4	-20.9	1.1	-2.1	0.0
Credit to the private sector [2]	6.1	14.9	6.6	11.2	8.7	8.9	8.9	5.2
Broad money (M2)	-7.2	-3.8	8.1	10.1	9.1	8.7	8.6	8.4
Velocity (GDP/M2)	4.3	4.9	5.0	4.8	4.8	4.8	4.8	4.8
External sector								
Exports (f.o.b.; valued in CFA francs)	33.9	1.2	22.5	26.7	10.3	10.8	7.1	8.6
Imports (f.o.b.; valued in CFA francs)	22.1	11.7	14.5	11.6	5.6	8.1	6.2	6.2
Terms of trade	10.7	-22.1	-2.7	3.2	4.7	0.2	0.8	1.1
Real effective exchange rate (– = depreciation)	-0.6	3.0	...	0.3	...	...	...	...
World cotton price (US$ cents per pound)	62.0	55.2	57.0	58.1	61.7	62.2	62.8	63.3
Average petroleum spot price (US$ per barrel)	37.8	53.4	66.5	64.3	60.8	64.8	64.5	64.3
	(Percent of GDP; unless otherwise indicated)							
Gross investment	22.5	22.4	16.8	22.7	23.2	23.3	23.4	22.8
Government	7.7	7.6	7.4	8.0	8.6	8.3	8.4	8.1
Nongovernment sector	14.8	14.7	9.4	14.7	14.5	15.0	15.0	14.7
Gross domestic savings	8.8	7.4	3.5	8.7	9.4	10.2	10.6	10.5
Government savings	5.8	4.8	4.9	4.6	4.9	5.9	7.0	7.2
Nongovernment savings	3.0	2.6	-1.4	4.1	4.5	4.3	3.6	3.3
Gross national savings	11.9	10.6	6.3	12.0	12.5	12.8	13.3	12.9
Central government finances								
Current revenue	12.8	12.3	13.3	12.4	13.1	13.6	14.5	14.9
Of which: tax revenue	11.8	11.4	12.3	11.5	12.0	12.4	13.3	13.7
Total expenditure (commitment basis)	21.4	21.7	23.4	23.2	24.4	23.9	23.8	23.6
Of which: current expenditure	10.5	11.2	12.4	12.2	12.2	12.1	11.8	12.1
Overall fiscal balance, excl. grants (commitment basis)	-8.6	-9.3	-10.0	-10.8	-11.3	-10.3	-9.2	-8.7
Overall fiscal balance, incl. grants (commitment basis) [3]	-4.3	-4.9	-5.2	-5.2	-6.2	-5.7	-4.7	-4.3
Overall fiscal balance, incl. grants (payment-order basis) [3]	-4.0	-4.8	-5.2	-4.4	-6.2	-5.7	-4.7	-4.3
Domestic financing	-0.4	-0.5	-1.0	-1.7	1.5	0.2	-0.4	0.0
External sector								
Exports of goods and services	10.6	10.1	10.9	12.1	11.9	12.1	12.0	12.0
Imports of goods and services	24.3	25.1	24.2	26.1	25.6	25.2	24.7	24.3
Current account balance (excluding current official transfers)	-13.6	-14.9	-13.2	-13.7	-13.8	-13.4	-12.8	-12.4
Current account balance (including current official transfers)	-10.6	-11.8	-10.5	-10.7	-10.6	-10.5	-10.0	-9.9
Debt indicators								
External debt	34.3	37.6	17.8	17.5	20.7	24.4	27.5	29.5
NPV of external debt	18.1	19.0	10.5	10.6	12.2	14.3	16.2	17.3
NPV of external debt as percent of exports	183.1	182.5	96.0	85.8	101.0	116.6	132.8	141.2
NPV of external debt as percent of revenues	141.5	154.3	78.8	85.4	93.8	105.9	111.3	115.7
Nominal GDP (billions of CFA francs)	2,698	2,961	3,247	3,163	3,451	3,751	4,074	4,415

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

[1] IMF Country Report No. 06/359, October 2006.

[2] In percent of beginning-of-period broad money.

[3] Excluding MDRI grants.

Table 2. Burkina Faso: Consolidated Operations of the Central Government, 2004–10

	2004	2005	2006		2007			2008	2009	2010
	Est.	Est.	Sixth[1] Review	Est.	Sixth[1] Review	Original Budget	Proj.	Proj.	Proj.	Proj.
					(Billions of CFA francs)					
Total revenues and grants	461.8	496.7	590.2	570.1	636.9	639.6	628.4	683.3	775.0	854.8
Total revenues	344.5	365.2	432.3	392.4	478.3	478.1	450.4	508.4	591.9	660.0
Tax revenue, *of which:*	318.2	336.8	399.2	362.3	440.9	449.0	413.5	466.8	543.0	605.0
Income and profits	72.8	79.7	95.5	85.7	107.9	121.2	99.6	112.4	132.1	148.6
Domestic goods and services	177.3	185.8	221.6	194.3	243.9	252.1	224.4	253.6	294.4	327.4
International trade	57.0	60.7	68.2	71.3	73.4	62.5	73.3	82.5	95.0	104.9
Nontax revenue	26.3	28.4	33.1	30.1	37.4	29.2	36.9	41.6	48.9	55.0
Grants (excl. MDRI)	117.3	131.5	157.9	177.6	158.6	161.4	178.0	174.8	183.1	194.8
Project	70.3	73.8	101.9	120.0	104.0	103.8	108.5	109.1	112.3	128.6
Program	47.1	57.8	56.0	57.6	54.6	57.6	69.5	65.8	70.8	66.2
Expenditure and net lending[2]	577.0	642.0	758.6	733.7	842.6	782.6	841.5	896.3	968.4	1043.9
Current expenditure	284.5	332.4	403.8	386.4	437.0	402.3	419.5	453.6	482.5	534.9
Wages and salaries	119.0	141.4	157.8	159.9	171.9	166.7	182.7	189.1	195.7	219.4
Goods and services	62.9	75.3	91.3	82.2	115.7	87.3	93.4	95.4	106.0	118.9
Interest payments	19.1	18.2	15.3	17.3	16.5	8.2	8.2	14.6	17.4	19.9
Current transfers	83.5	97.6	139.4	126.9	132.9	140.2	135.2	154.5	163.4	176.7
Capital expenditure	297.8	322.7	345.3	361.9	406.6	383.1	424.9	445.8	487.9	511.0
Net lending	-5.4	-13.2	9.5	-14.6	-1.0	-2.9	-2.9	-3.0	-2.0	-2.0
Expenditures without payment orders	7.4	3.6	0.0	23.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment-order basis, excl. MDRI)	-107.8	-141.7	-168.4	-140.3	-205.7	-143.0	-213.0	-213.1	-193.4	-189.1
Excluding grants	-225.1	-273.3	-326.3	-317.9	-364.3	-304.4	-391.1	-387.9	-376.5	-383.9
Cash basis adjustment	1.1	21.6	0.0	13.8	0.0	0.0	-15.0	0.0	0.0	0.0
Overall balance (cash basis, excl. MDRI)	-106.7	-120.1	-168.4	-126.4	-205.7	-143.0	-228.0	-213.1	-193.4	-189.1
Excluding grants	-224.0	-251.7	-326.3	-304.1	-364.3	-304.4	-406.1	-387.9	-376.5	-383.9
Financing	108.4	121.6	153.2	124.0	159.0	141.6	227.3	211.5	191.9	188.4
Foreign financing	118.5	136.1	130.1	123.9	159.0	163.1	174.9	203.3	208.0	188.4
Domestic financing	-10.0	-14.5	23.1	0.1	0.0	-21.6	52.4	8.3	-16.1	0.0
Of which: privatization receipts	7.3	0.0	0.0	0.5	0.0	1.0	190.8	0.0	0.0	0.0
Errors and omissions	-1.7	-1.5	0.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	...	...	15.2	...	46.7	1.5	0.8	1.5	1.5	0.8
Identified possible financing, *of which:*	...	...	10.4	...	0.0	0.0	0.0	0.0	0.0	0.0
Grants	...	...	10.4	...	0.0	0.0	0.0	0.0	0.0	0.0
Loans	...	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	...	...	4.8	...	46.7	1.5	0.8	1.5	1.5	0.8
Memorandum items:										
MDRI relief[3]	0.0	0.0	708.1	669.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, excl MDRI)	-115.2	-145.3	-168.4	-163.6	-205.7	-143.0	-213.0	-213.1	-193.4	-189.1
Excluding grants	-232.5	-276.8	-326.3	-341.3	-364.3	-304.4	-391.1	-387.9	-376.5	-383.9
Domestic financing excluding IMF	-2.3	-13.3	17.5	-9.9	0.0	-21.6	52.8	8.3	-16.1	0.6
Poverty-reducing social expenditures, *of which:*	145.0	161.8	199.4	173.2	...	...	204.4	241.8	283.1	307.5
Education	56.9	64.5	79.5	73.0	...	...	80.6	95.4	111.7	121.3
Health	48.1	54.2	64.3	57.3	...	...	64.8	76.6	89.7	97.5
GDP	2,698	2,961	3,247	3,163	3,521	3,451	3,451	3,751	4,074	4,415

Sources: Burkinabè authorities and IMF staff estimates and projections.

[1] IMF Country Report No. 06/359, October 2006.

[2] On a commitment *(engagement)* basis.

[3] Multilateral Debt Relief Initiative stock-of-debt operation, including cancellation of debt treated under the enhanced HIPC Initiative, shown on accrual basis. Includes relief from IMF, World Bank, and African Development Bank. For the World Bank and African Development Bank, implementation of the stock-of-debt operation is assumed for July 1, 2006. The operation increases domestic and external amortization payments in 2006, which are offset by MDRI grants, and lowers amortization and interest from 2006 onwards. MDRI relief from the Fund is higher than in the balance of payments because of a valuation adjustment by the BCEAO.

Table 2. Burkina Faso: Consolidated Operations of the Central Government, 2004–10 (Concluded)

	2004	2005	2006		2007			2008	2009	2010
	Est.	Est.	Sixth[1] Review	Est.	Sixth[1] Review	Original Budget	Proj.	Proj.	Proj.	Proj.
	(Percent of GDP)									
Total revenues and grants	17.1	16.8	18.2	18.0	18.1	18.5	18.2	18.2	19.0	19.4
Total revenues	12.8	12.3	13.3	12.4	13.6	13.9	13.1	13.6	14.5	14.9
Tax revenue, *of which:*	11.8	11.4	12.3	11.5	12.5	13.0	12.0	12.4	13.3	13.7
Income and profits	2.7	2.7	2.9	2.7	3.1	3.5	2.9	3.0	3.2	3.4
Domestic goods and services	6.6	6.3	6.8	6.1	6.9	7.3	6.5	6.8	7.2	7.4
International trade	2.1	2.1	2.1	2.3	2.1	1.8	2.1	2.2	2.3	2.4
Nontax revenue	1.0	1.0	1.0	1.0	1.1	0.8	1.1	1.1	1.2	1.2
Grants (excl. MDRI)	4.3	4.4	4.9	5.6	4.5	4.7	5.2	4.7	4.5	4.4
Project	2.6	2.5	3.1	3.8	3.0	3.0	3.1	2.9	2.8	2.9
Program	1.7	2.0	1.7	1.8	1.6	1.7	2.0	1.8	1.7	1.5
Expenditure and net lending[2]	21.4	21.7	23.4	23.2	23.9	22.7	24.4	23.9	23.8	23.6
Current expenditure	10.5	11.2	12.4	12.2	12.4	11.7	12.2	12.1	11.8	12.1
Wages and salaries	4.4	4.8	4.9	5.1	4.9	4.8	5.3	5.0	4.8	5.0
Goods and services	2.3	2.5	2.8	2.6	3.3	2.5	2.7	2.5	2.6	2.7
Interest payments	0.7	0.6	0.5	0.5	0.5	0.2	0.2	0.4	0.4	0.5
Current transfers	3.1	3.3	4.3	4.0	3.8	4.1	3.9	4.1	4.0	4.0
Capital expenditure	11.0	10.9	10.6	11.4	11.5	11.1	12.3	11.9	12.0	11.6
Net lending	-0.2	-0.4	0.3	-0.5	0.0	-0.1	-0.1	-0.1	0.0	0.0
Expenditures without payment orders	0.3	0.1	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (payment-order basis, excl. MDRI)	-4.0	-4.8	-5.2	-4.4	-5.8	-4.1	-6.2	-5.7	-4.7	-4.3
Excluding grants	-8.3	-9.2	-10.0	-10.0	-10.3	-8.8	-11.3	-10.3	-9.2	-8.7
Cash basis adjustment	0.0	0.7	0.0	0.4	0.0	0.0	-0.4	0.0	0.0	0.0
Overall balance (cash basis, excl. MDRI)	-4.0	-4.1	-5.2	-4.0	-5.8	-4.1	-6.6	-5.7	-4.7	-4.3
Excluding grants	-8.3	-8.5	-10.0	-9.6	-10.3	-8.8	-11.8	-10.3	-9.2	-8.7
Financing	4.0	4.1	4.7	3.9	4.5	4.1	6.6	5.6	4.7	4.3
Foreign financing	4.4	4.6	4.0	3.9	4.5	4.7	5.1	5.4	5.1	4.3
Domestic financing	-0.4	-0.5	0.7	0.0	0.0	-0.6	1.5	0.2	-0.4	0.0
Of which: privatization receipts	0.3	0.0	0.0	0.0	0.0	0.0	5.5	0.0	0.0	0.0
Errors and omissions	-0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	...	...	0.5	...	1.3	0.0	0.0	0.0	0.0	0.0
Identified possible financing, *of which:*	...	...	0.3	...	0.0	0.0	0.0	0.0	0.0	0.0
Grants	...	...	0.3	...	0.0	0.0	0.0	0.0	0.0	0.0
Loans	...	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	...	...	0.1	...	1.3	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
MDRI relief[3]	0.0	0.0	21.8	21.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis, excl MDRI)	-4.3	-4.9	-5.2	-5.2	-5.8	-4.1	-6.2	-5.7	-4.7	-4.3
Excluding grants	-8.6	-9.3	-10.0	-10.8	-10.3	-8.8	-11.3	-10.3	-9.2	-8.7
Domestic financing excluding IMF	-0.1	-0.4	0.5	-0.3	0.0	-0.6	1.5	0.2	-0.4	0.0
Poverty-reducing social expenditures, *of which:*	5.4	5.5	6.1	5.5	...	...	5.9	6.4	7.0	7.0
Education	2.1	2.2	2.4	2.3	...	...	2.3	2.5	2.7	2.7
Health	1.8	1.8	2.0	1.8	...	...	1.9	2.0	2.2	2.2
GDP (billions of CFA francs)	2,698	2,961	3,247	3,163	3,521	3,451	3,451	3,751	4,074	4,415

Sources: Burkinabè authorities and IMF Staff estimates and projections.

1 IMF Country Report No. 06/359, October 2006.

2 On a commitment *(engagement)* basis.

3 Multilateral Debt Relief Initiative stock-of-debt operation, including cancellation of debt treated under the enhanced HIPC Initiative, shown on accrual basis. Includes relief from IMF, World Bank, and African Development Bank. For the World Bank and African Development Bank, implementation of the stock-of-debt operation is assumed for July 1, 2006. The operation increases domestic and external amortization payments in 2006, which are offset by MDRI grants, and lowers amortization and interest from 2006 onwards. MDRI relief from the Fund is higher than in the balance of payments because of a valuation adjustment by the BCEAO.

Table 3. Burkina Faso: Monetary Survey, 2004–07

	2004	2005	2006			2007
	Dec.	Dec.	Sep.	Dec. Sixth Review [1]	Dec. Est.	Dec. Proj.
	(Billions of CFA francs)					
Net foreign assets [2]	274	171	227	191	221	362
Central Bank of West African States (BCEAO)	232	165	226	186	203	344
Assets	318	244	285	230	275	416
Liabilities [3, 4]	86	79	58	45	72	72
Commercial banks	42	6	0	6	18	18
Net domestic assets	350	430	403	458	440	360
Net domestic credit	385	484	475	508	513	433
Net credit to government [3]	3	9	-56	-7	-29	-167
Treasury	57	72	-16	47	22	-116
BCEAO	15	50	-21	27	8	-130
Commercial banks	42	22	5	20	14	14
Other central government	-54	-63	-41	-54	-51	-51
Of which: project deposits	-86	-91	-94	-86	-101	-101
Credit to the economy	382	475	531	515	542	600
Crop credit	15	63	90	68	75	84
Other	367	413	441	447	467	516
Other items (net) [5]	-35	-55	-72	-49	-73	-73
Broad money [2]	624	600	629	649	661	721
Of which: bank deposits	399	401	448	436	469	515
	(Annual changes in percent of broad money of 12 months earlier, unless otherwise specified)					
Memorandum items:						
Net foreign assets	-8.4	-16.6	9.2	3.4	8.4	21.3
Net domestic assets	1.3	12.7	-0.5	4.6	1.8	-12.2
Net credit to government	-3.7	0.9	-10.8	-2.7	-6.4	-20.9
Credit to the economy	6.1	14.9	14.7	6.6	11.2	8.7
(annual percentage change)	12.0	24.4	19.0	8.3	14.1	10.7
(excluding crop credit)	21.9	12.5	11.1	8.2	13.1	10.6
Money supply	-7.2	-3.8	8.7	8.1	10.1	9.1
Of which: bank deposits	4.7	0.2	8.4	5.9	11.4	6.9
Currency velocity (GDP/broad money)	4.3	4.9	4.8	5.0	4.8	4.8

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

[1] IMF Country Report No. 06/359, October 2006.

[2] From December 2003 onwards, reflects revised BCEAO estimates of currency in circulation.

[3] MDRI relief from the Fund is reflected from 2006 onwards.

[4] For 2006, assumes augmented access under the Fund arrangement.

[5] Includes valuation adjustment related to MDRI relief.

Table 4. Burkina Faso: Balance of Payments, 2004–10

	2004	2005	2006		2007		2008	2009	2010
	Est.	Est.	Sixth [1] Review	Est.	Sixth [1] Review	Proj.	Proj.	Proj.	Proj.
	(Billions of CFA francs)								
Exports, f.o.b.	249	252	301	319	328	352	390	417	453
Of which: cotton	159	149	187	190	208	216	231	247	263
Imports, f.o.b.	-498	-556	-597	-621	-626	-655	-709	-753	-799
Of which: petroleum products	-111	-137	-139	-167	-140	-160	-178	-186	-195
Trade balance	-249	-304	-296	-302	-298	-304	-319	-335	-346
Services and income (net)	-137	-159	-146	-163	-151	-183	-195	-201	-221
Services	-121	-138	-136	-142	-141	-170	-175	-185	-196
Income	-16	-22	-10	-21	-10	-13	-20	-16	-26
Current transfers (net)	100	116	102	125	107	119	119	127	129
Private	20	21	14	29	20	11	13	15	20
Official	80	95	88	96	87	109	106	112	109
Current account (– = deficit)	-286	-348	-341	-339	-341	-367	-395	-409	-438
Excluding current official transfers	-366	-443	-428	-435	-428	-476	-501	-521	-547
Capital transfers	106	115	833	818	121	128	138	142	158
Project grants	70	74	102	120	104	108	109	112	129
Other capital transfers	36	41	731	698	17	19	29	29	30
Of which: MDRI debt relief (incl. IMF)	...	...	704	664	...	...	...	...	...
Of which: IMF MDRI debt relief	...	...	50	50	...	...	...	...	...
Of which: remaining HIPC Initiative relief	25	24	20	15	10	0	9	8	8
Financial operations	114	129	-482	-428	185	380	246	280	306
Official capital	94	112	-544	-506	149	175	195	200	180
Disbursements	120	137	138	133	167	189	211	215	196
Project loans	80	101	93	90	116	133	159	164	147
Program loans	40	36	45	43	50	57	51	51	49
Amortization	-14	-34	-682	-590	-17	-15	-16	-16	-15
Of which: MDRI debt relief (IDA and AfDB)	...	...	-654	-615	0	...	...	...	...
Private capital [2]	21	17	62	78	36	205	52	80	126
Errors and omissions	8	0	0	0	0	0	0	0	0
Overall balance	-57	-103	10	50	-34	140	-11	12	27
Financing	57	103	-25	-50	-12	-141	10	-14	-27
Net foreign assets	57	103	-25	-50	-12	-141	10	-14	-27
Net official reserves, *of which:*	61	67	-25	-38	-12	-141	10	-14	-27
Gross official reserves	73	75	13	-32	-17	-141	10	-14	-27
IMF (net)	-8	-1	-44	-40	0	0	0	0	-1
Of which: IMF MDRI stock of debt relief	...	...	-50	-50	0	...	...	...	...
Net foreign assets, commercial banks	-4	36	0	-12	0	0	0	0	0
Change in arrears (– = reduction)	0	0	0	0	0	0	0	0	0
Financing gap	0	0	15	0	47	1	2	2	1
Identified possible financing	...	...	10	0	0	0	0	0	0
Residual financing gap	...	...	5	0	47	1	2	2	1
Memorandum items:	(Percent of GDP; unless otherwise indicated)								
Debt service relief from MDRI [3]	...	...	0.3	0.3	0.5	...	...	...	...
Trade balance (– = deficit)	-9.2	-10.3	-9.1	-9.5	-8.5	-8.8	-8.5	-8.2	-7.8
Cotton export volume (thousands of metric tons)	203.3	257.8	298.7	298.3	322.9	330.2	352.2	374.8	397.6
Current account (– = deficit)	-10.6	-11.8	-10.5	-10.7	-9.7	-10.6	-10.5	-10.0	-9.9
Excluding current official transfers	-13.6	-14.9	-13.2	-13.7	-12.2	-13.8	-13.4	-12.8	-12.4
Overall balance (– = deficit)	-2.1	-3.5	0.3	1.6	-1.0	4.1	-0.3	0.3	0.6
Total debt-service ratio after HIPC [4]	5.8	5.7	5.7	6.4	4.9	5.3	4.6	3.4	5.1
Gross international reserves (billions of CFA francs)	318.1	243.6	230.4	275.3	247.7	415.9	406.4	419.9	446.8
Months of imports of goods and services	5.8	3.9	3.5	4.0	3.6	5.7	5.2	5.0	5.0
GDP at current prices (billions of CFA francs)	2,698	2,961	3,247	3,163	3,521	3,451	3,751	4,074	4,415

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

[1] IMF Country Report No. 06/359, October 2006.

[2] Includes portfolio investment and foreign direct investment.

[3] Multilateral Debt Relief Initiative.

[4] Percent of exports of goods and services.

Table 5. Burkina Faso: Selected Indicators on the Millennium Development Goals, 1990-2004

	1990	1994	1997	2000	2003	2004
Eradicate extreme poverty and hunger	(2015 target: halve 1990 US$1 a day poverty and malnutrition rates)					
Income share held by lowest 20%	..	..	..	..	7	*7*
Malnutrition prevalence, weight for age (% of children under 5)	..	*33*	..	*34*	38	*38*
Poverty gap at $1 a day (PPP) (%)	..	..	..	..	7	*7*
Poverty headcount ratio at $1 a day (PPP) (% of population)	..	..	..	..	27	*27*
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..	46	*46*
Prevalence of undernourishment (% of population)	..	..	19	..	17	*17*
Achieve universal primary education	(2015 target: net enrollment to 100)					
Literacy rate, youth total (% of people ages 15-24)	..	..	..	..	..	31
Persistence to grade 5, total (% of cohort)	..	..	..	69	76	*76*
Primary completion rate, total (% of age group)	20.4	29.2	*24.2*	25.2	28.2	29.5
School enrollment, primary (% net)	..	..	..	36	38	40
Promote gender equality and empower women	(2015 target: education ratio 100)					
Proportion of seats held by women in national parliament (%)	..	..	4	8	12	12
Ratio of girls to boys in primary and secondary education (%)	..	..	..	69.7	73.5	76.3
Ratio of young literate females to males (% ages 15-24)	..	..	..	..	..	64.6
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	13	13	14	15	15	*15*
Reduce child mortality	(2015 target: reduce 1990 under 5 mortality by two-thirds)					
Immunization, measles (% of children ages 12-23 months)	79	45	41	59	76	78
Mortality rate, infant (per 1,000 live births)	113	..	..	100	..	97
Mortality rate, under-5 (per 1,000)	210	..	..	196	..	192
Improve maternal health	(2015 target: reduce 1990 maternal mortality by three-fourths)					
Births attended by skilled health staff (% of total)	..	*41.5*	..	*31*	38	*38*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	1000	..	..
Combat HIV/AIDS, malaria, and other diseases	(2015 target: halt, and begin to reverse, AIDS, etc)					
Children orphaned by HIV/AIDS	..	..	..	..	260,000	*260,000*
Contraceptive prevalence (% of women ages 15-49)	..	*8*	..	..	14	*14*
Incidence of tuberculosis (per 100,000 people)	157.7	..	..	..	..	191.4
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	2	*2*
Tuberculosis cases detected under DOTS (%)	..	..	16.2	17.7	17.1	18.1
Ensure environmental sustainability	(2015 target: various)					
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1	*0.1*	..
Forest area (% of land area)	26	..	..	25	..	..
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	..	..	..	..	..
Improved sanitation facilities (% of population with access)	13	..	..	..	*12*	..
Improved water source (% of population with access)	39	..	..	..	*51*	..
Nationally protected areas (% of total land area)	..	..	..	..	11.5	11.5
Develop a global partnership for development	(2015 target: various)					
Aid per capita (current US$)	38.8	45.3	35.5	29.8	40.8	47.6
Debt service	8	15	..	20	13	9
Fixed line and mobile phone subscribers (per 1,000 people)	1.9	2.8	3.6	6.9	23.5	37.4
Internet users (per 1,000 people)	0	..	0.2	0.8	3.9	4.1
Personal computers (per 1,000 people)	0.1	0.2	0.8	1.3	2.1	2.2
Total debt service (% of exports of goods, services and income)	7	12	..	15	..	..
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..	..
Other						
Fertility rate, total (births per woman)	7.3	..	6.9	6.5	6.6	6.5
GNI per capita, Atlas method (current US$)	350	240	270	250	290	350
GNI, Atlas method (current US$) (billions)	2.9	2.3	2.8	2.8	3.6	4.4
Gross capital formation (% of GDP)	18.2	19.3	25	22.7	18.7	19.1
Life expectancy at birth, total (years)	47.5	..	45.9	46.8	47.7	48.1
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	..	21.8
Population, total (millions)	8.5	9.6	10.4	11.3	12.4	12.8
Trade (% of GDP)	35.6	37.1	35.6	34.4	31.9	31.5

Source: World Development Indicators database, April 2006.

Table 6. Burkina Faso: Schedule of Disbursements Under the PRGF Arrangement, 2007-10

Amount	Date Available	Conditions Necessary for Disbursement [1]
SDR 0.5 million	April 23, 2007	Following Executive Board approval of the three-year PRGF arrangement
SDR 0.5 million	November 30, 2007	Observance of the performance criteria for June 30, 2007, and completion of the first review under the arrangement
SDR 1.004 million	May 31, 2008	Observance of the performance criteria for December 31, 2007, and completion of the second review under the arrangement
SDR 1.004 million	November 30, 2008	Observance of the performance criteria for June 30, 2008, and completion of the third review under the arrangement
SDR 1.004 million	May 31, 2009	Observance of the performance criteria for December 31, 2008, and completion of the fourth review under the arrangement
SDR 1.004 million	November 30, 2009	Observance of the performance criteria for June 30, 2009, and completion of the fifth review under the arrangement
SDR 1.004 million	March 30, 2010	Observance of the performance criteria for December 31, 2009, and completion of the sixth review under the arrangement

Source: International Monetary Fund.

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

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(Millions of SDRs, unless otherwise indicated)										
Fund credit, net charges	1.8	-12.8	-0.5	-1.5	-1.5	0.2	2.9	5.2	5.3	5.8	5.5
Poverty Reduction and Growth Facility (PRGF) disbursements	10.3	12.9	1.0	2.0	2.0	1.0	0.0	0.0	0.0	0.0	0.0
PRGF repayments	11.7	0.0	0.0	0.0	0.0	0.7	2.4	4.7	4.9	5.4	5.1
PRGF charges and interest	0.4	0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
MDRI relief [2]	0.0	7.4	10.9	11.7	9.6	8.2	6.4	3.1	1.0	0.3	0.0
Quota	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2
Exchange rate: CFA francs per SDR (period average)	778.1	768.7	753.9	...	...	...	...	...	...	...	...
	(Billions of CFA francs, unless otherwise indicated)										
Exports of goods and services	300	382	410	453	487	531	582	643	694	760	825
Tax revenue	337	362	414	467	543	605	675	753	834	935	1,047
GDP	2,961	3,163	3,451	3,751	4,074	4,415	4,788	5,196	5,635	6,110	6,619
Outstanding Fund credit, end of period											
Millions of SDRs	72.4	23.2	24.2	26.2	28.2	28.6	26.1	21.5	16.5	11.2	6.1
Millions of CFA francs	56.4	17.8	18.3	19.8	21.2	21.4	19.6	16.0	12.3	8.3	4.5
Percent of quota	120.3	38.6	40.2	43.6	46.9	47.4	43.4	35.7	27.4	18.6	10.1
Debt service to the Fund											
Millions of SDRs	12.1	0.1	0.5	0.5	0.5	1.2	2.9	5.2	5.3	5.8	5.5
Billions of CFA francs	9.4	0.1	0.4	0.4	0.4	0.9	2.2	3.9	4.0	4.3	4.1
Percent of exports of goods and services	3.1	0.0	0.1	0.1	0.1	0.2	0.4	0.6	0.6	0.6	0.5
Percent of tax revenue	2.8	0.0	0.1	0.1	0.1	0.1	0.3	0.5	0.5	0.5	0.4
Percent of GDP	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1

Sources: IMF Finance Department.

[1] Assumes a new PRGF-supported program with access of 10 percent of quota (SDR 6.02 million).

[2] Annual relief on principal and interest, net of remaining HIPC assistance.

Table 8. Burkina Faso: External Financing Requirements and Sources, 2005–10

	2005 Est.	2006 Est.	2007 Proj.	2008 Proj.	2009 Proj.	2010 Proj.
	(Millions of U.S. dollars)					
1. Gross financing requirements	**780.2**	**2117.0**	**1251.9**	**1011.2**	**1100.8**	**1184.7**
External current account deficit (excluding official transfers)	840.6	832.2	944.0	998.2	1042.3	1099.7
Debt amortization	63.9	1129.3	28.9	31.9	31.5	29.9
Medium and long term debt	63.9	1129.3	28.9	31.9	31.5	29.9
Public sector [1]	63.9	1129.3	28.9	31.9	31.5	29.9
Private sector	0.0	0.0	0.0	0.0	0.0	0.0
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of arrears	0.0	0.0	0.0	0.0	0.0	0.0
Gross reserves accumulation	-141.5	60.7	279.0	-19.0	27.1	54.0
IMF repurchases and repayments	17.3	94.8	0.0	0.0	0.0	1.0
2. Available financing	**780.2**	**2117.0**	**1251.9**	**1011.2**	**1100.8**	**1184.7**
Private Creditors (net)	32.5	149.3	406.4	103.2	159.6	253.9
Official creditors [2]	628.0	2001.1	801.9	878.2	890.7	896.3
To public sector [1]	628.0	2001.1	801.9	878.2	890.7	896.3
of which: balance of payments financing [3]	0.0	0.0	0.0	0.0	0.0	0.0
To private sector	0.0	0.0	0.0	0.0	0.0	0.0
IMF	15.3	113.8	1.5	3.0	3.0	1.5
Accumulation of arrears (exceptional)	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Other flows [4]	104.4	-147.1	42.1	26.7	47.5	33.0
Memorandum item:						
Total balance of payments financing [3]	15.3	19.0	1.5	3.0	3.0	1.5

[1] Excluding the IMF; breakdown between multilateral and bilateral institutions is unavailable.
[2] Includes both loans and grants; excluding the IMF; breakdown between multilateral and bilateral institutions is unavailable.
[3] Includes those transactions that are undertaken for the purpose of financing a balance of payments deficit or an increase in reserves.
[4] Includes all other net financial flows, and errors and omissions.

APPENDIX I

Burkina Faso—Joint Fund-World Bank Debt Sustainability Analysis

1. **This joint DSA was prepared using the Fund-World Bank debt sustainability framework for low-income countries.** The data were updated jointly by the Fund and the World Bank with information provided by the authorities. The medium-term framework was discussed with the authorities in the context of the new PRGF arrangement (Box I.1), which is being considered by the Fund Board at the same time as this DSA.

2. **Burkina Faso's risk of debt distress is moderate.**

A. External Debt Sustainability Analysis

3. **All debt indicators are well below their policy-dependent thresholds in the baseline scenarios** (Text Table I.1). This is a substantial improvement over the results of the previous joint DSA completed in August 2005, when the NPV of debt-to-exports ratio was projected to breach its threshold for a number of years (Box I.2).[10] After the MDRI debt relief in 2006, debt ratios increase again over the medium term and stabilize over the long term. The driver of these debt dynamics is the fiscal stance; over the medium term, fiscal deficits are relatively large and the borrowing requirements lead to increasing debt ratios, but in the long run deficits fall enough to allow debt ratios to stabilize, mainly because of projected revenue increases.

Text Table I.1: Policy-Based External Debt Burden Indicators

	Threshold [1]	Burkina Faso's ratios		
		2006	2007-25 [2]	Peak
NPV of external debt in percent of:				
Exports	200	85.8	152.5	164.5
GDP	50	10.6	19.3	21.4
Revenues	300	85.4	113.6	120.5
External debt service in percent of:				
Exports	25	5.5	6.7	8.8
Revenues	35	5.5	4.9	6.2

[1] Policy-dependent thresholds as used in the joint IMF-World Bank LIC DSA framework for a strong policy performance. Burkina Faso received a rating of 3.76 in the World Bank's 2005 Country Policy and Institutional Assessment, which qualifes it as a strong performer. The staffs decided against using the three-year moving average CPIA score to avoid undue volatility in the applicable thresholds.
[2] Simple average.

[10] See IMF Country Report No. 05/354, September 30, 2005.

Box I.1. Burkina Faso—Macroeconomic Assumptions

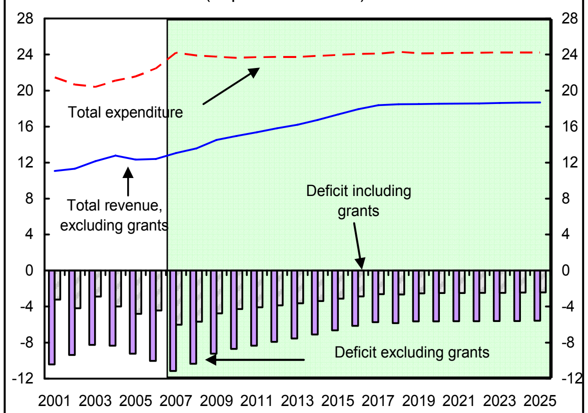
Real GDP growth is projected to average 6 percent through 2025, in line with the historical average of the past ten years. This is consistent with annual per capita GDP growth of 3.6 percent, which would lead to a doubling of real per capita GDP over this period.

Inflation is projected at 2 percent–in line with the 10-year historical average and WAEMU convergence criteria.

The **overall fiscal deficit**, with and without grants, is projected to shrink over time as revenue increases. Strengthening tax and customs administration and reforming the tax system is at the center of the proposed new PRGF program; over the long run, revenue projections are consistent with the authorities' commitment to reach the WAEMU tax revenue target of 17 percent of GDP. Expenditures are programmed to expand considerably in 2007 relative to GDP and stay at the higher level throughout the projection period. External financing requirements are to be met equally by grants and loans, in line with recent experience. The decline in the overall deficit including grants translates into a broadly equal reduction in external new borrowing, because domestic financing is assumed to be zero for most years because its costs are high.

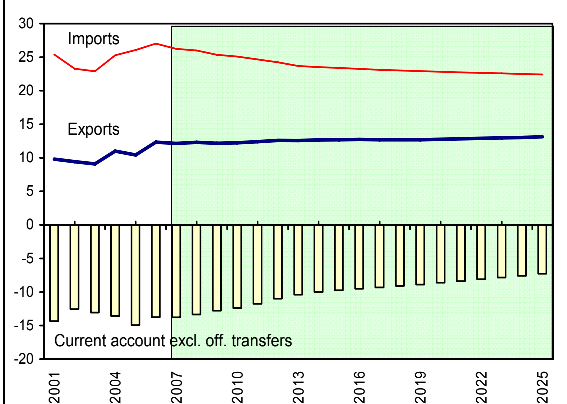
The **current account deficit** is expected to narrow moderately through 2025 as the tighter fiscal stance dampens import demand. The recent increase in the import-to-GDP ratio caused by higher oil prices is likely to be partially reversed because prices are expected to be lower, and the connection of the transmission grid with Côte d'Ivoire should reduce the consumption of oil for electricity generation. The exports-to-GDP ratio is projected to increase slightly over the projection period. The recent increase was brought about by strong cotton exports; future export growth would come from other sources.

Fiscal Developments, 2001–2025
(In percent of GDP)



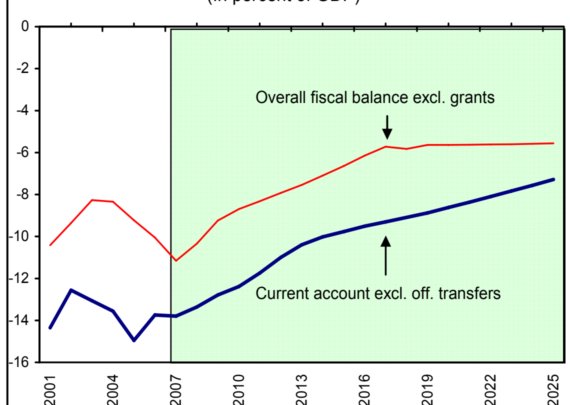
Source: Burkinabè authorities and staff estimates.

Current Account, Exports, and Imports 2001-25
(In percent of GDP)



Source: Burkinabè authorities and staff estimates.

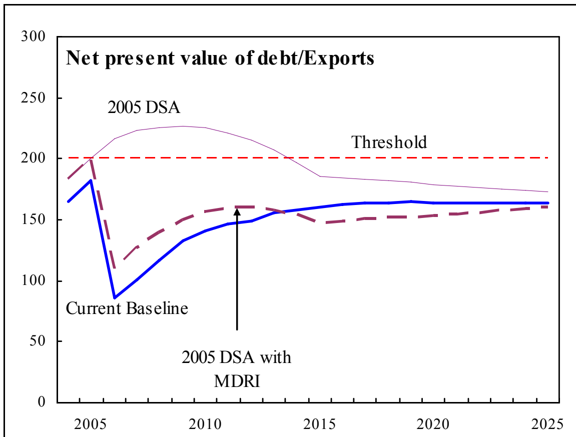
Fiscal and Current Account Balances 2001-25
(In percent of GDP)

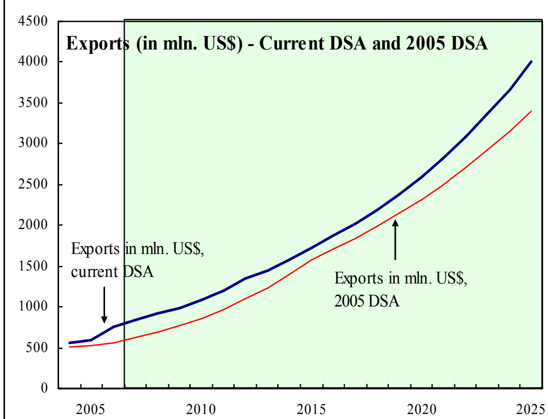


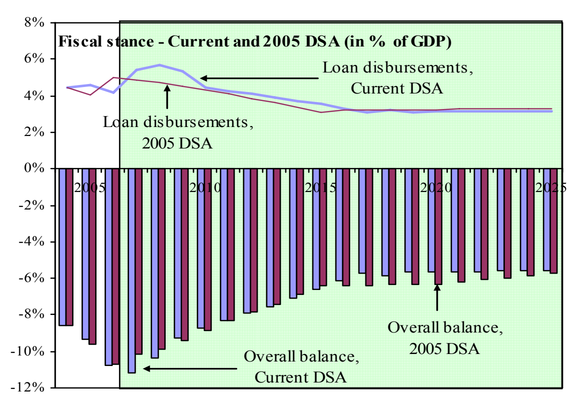
Source: Burkinabè authorities and staff estimates.

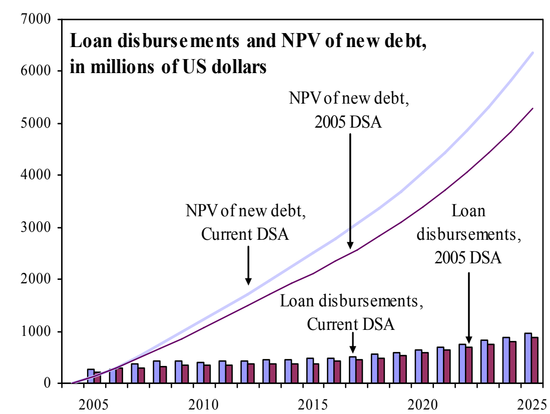
Box I.2. Burkina Faso—Changes From the 2005 Joint DSA

- **MDRI relief**—in the first figure, MDRI relief has been simulated for the 2005 joint DSA, yielding the dotted line, which tracks the current baseline.
- **More favorable macroeconomic performance and outlook**—this is the difference between the current baseline and the 2005 DSA with MDRI over the medium term: unexpectedly good export performance in recent years (second figure), particularly in 2006, creates the basis for a more favorable macroeconomic outlook.
- **Larger new borrowing requirements in nominal terms**—this tends to offset the more favorable export path in the baseline, and the debt ratios of the two DSAs converge (see third figure below). As a percent of GDP, projections for the fiscal stance—as measured by the overall balance excluding grants—have changed relatively little since 2005, except for 2007-09, when the current baseline has larger deficits. In U.S. dollar terms, borrowing requirements in the current baseline are somewhat larger in most years, because nominal GDP is larger. While the differences in individual years tend to be small, they accumulate over time, and the NPV of new debt diverges (fourth figure).









4. **The NPV of debt-to-exports ratio is the most binding indicator for Burkina Faso.** Sensitivity tests show that the ratio breaches its threshold in a number of scenarios, but other debt indicators remain below their thresholds for all standardized stress tests and alternative scenarios (Text Table I.2 and Figure I.1):

- The **stress test on export growth** causes the NPV of debt-to-exports ratio to breach its threshold by a wide margin because exports are volatile: they are heavily dependent on cotton and there are large fluctuations caused by weather-related shocks and changes in international cotton prices.[11]
- **Public borrowing on less favorable terms** would probably be unsustainable. In the alternative scenario, the average grant element is lowered to about 20 percent from over 40 percent in the baseline (which increases the interest rate on new borrowing by 2 percent), resulting in a steadily increasing NPV of debt-to-exports ratio, which breaches the threshold in about 2015.
- In the **alternative historical scenario**, the NPV of debt-to-exports ratio also breaches its threshold. In this scenario, the growth rates for key macroeconomic variables are set at their historical 10-year average. Debt dynamics in Burkina Faso are mostly driven by fiscal policies—the country can draw on the regional reserves of the WAEMU to meet external balance-of-payment needs—and past policies appear to be unsustainable. In contrast, the baseline assumes a significant reduction in the fiscal deficit over the medium term, which is critical for debt sustainability.

5. **A country-specific scenario that retains the fiscal policy stance of the last year of the PRGF indefinitely would also be unsustainable.** In this scenario, the revenue-to-GDP ratio is fixed at its projected level for 2009 (14.5 percent of GDP), but baseline assumptions for expenditures excluding interest are broadly unchanged (Figure I.2).[12] The overall deficit including grants would then average about 4½ percent of GDP for 2010–25, about 1½ percentage points higher than the baseline. The additional new borrowing requirements would lead to a continuous increase in the NPV of debt-to-exports ratio, eventually breaching the threshold in about 2018. This underlines the importance of reducing the deficit over the long run for safeguarding debt sustainability. In the baseline, the increase in domestic revenues reduces the deficit while keeping expenditures high.

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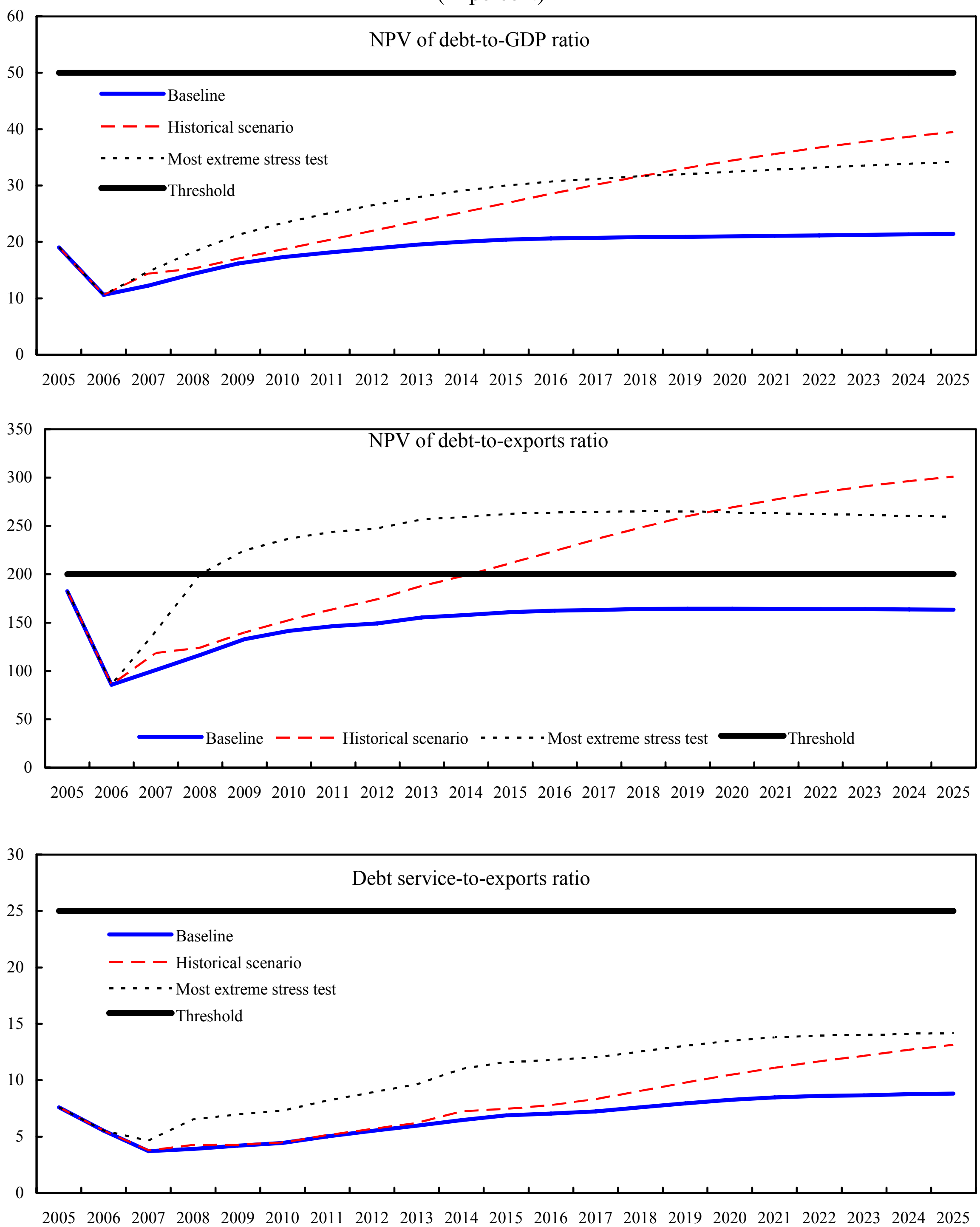
[11] The combination stress test also leads to a breach of the threshold for the NPV of debt-to-exports ratio, again on account of the large export volatility.

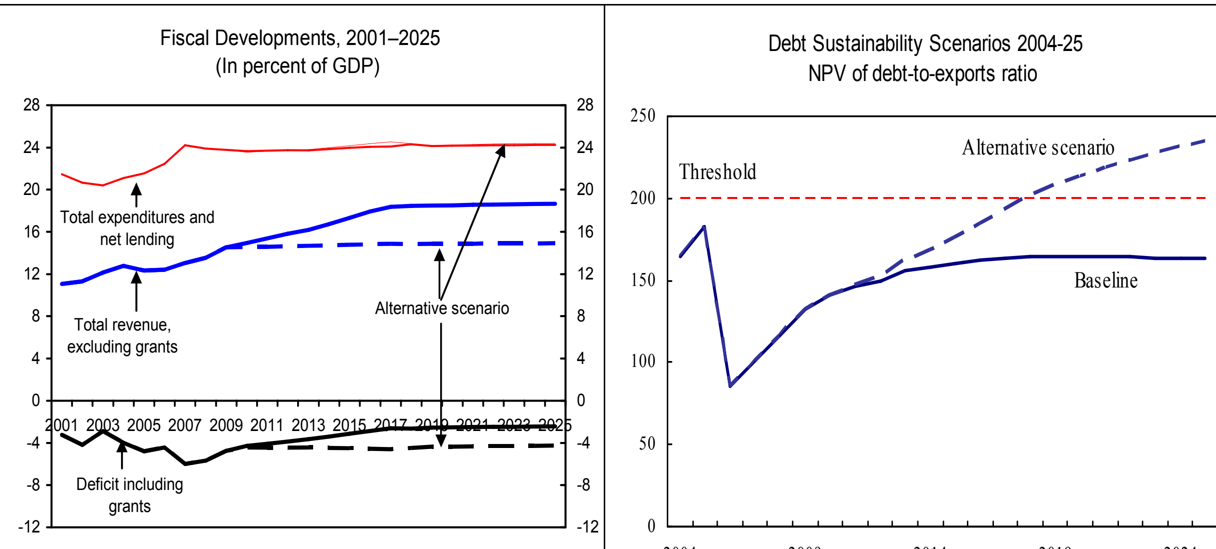
[12] Expenditures increase relative to the baseline because of the larger interest payments; real GDP growth is also higher in the alternative scenario, because growth in the baseline is dampened by the stronger revenue effort.

Figure I.1. Burkina Faso: Indicators of Public External Debt
Under Alternative Scenarios, 2005-25
(In percent)



Source: IMF staff projections and simulations.

Figure I.2: Country-Specific Scenario—Less Long-Term Fiscal Consolidation

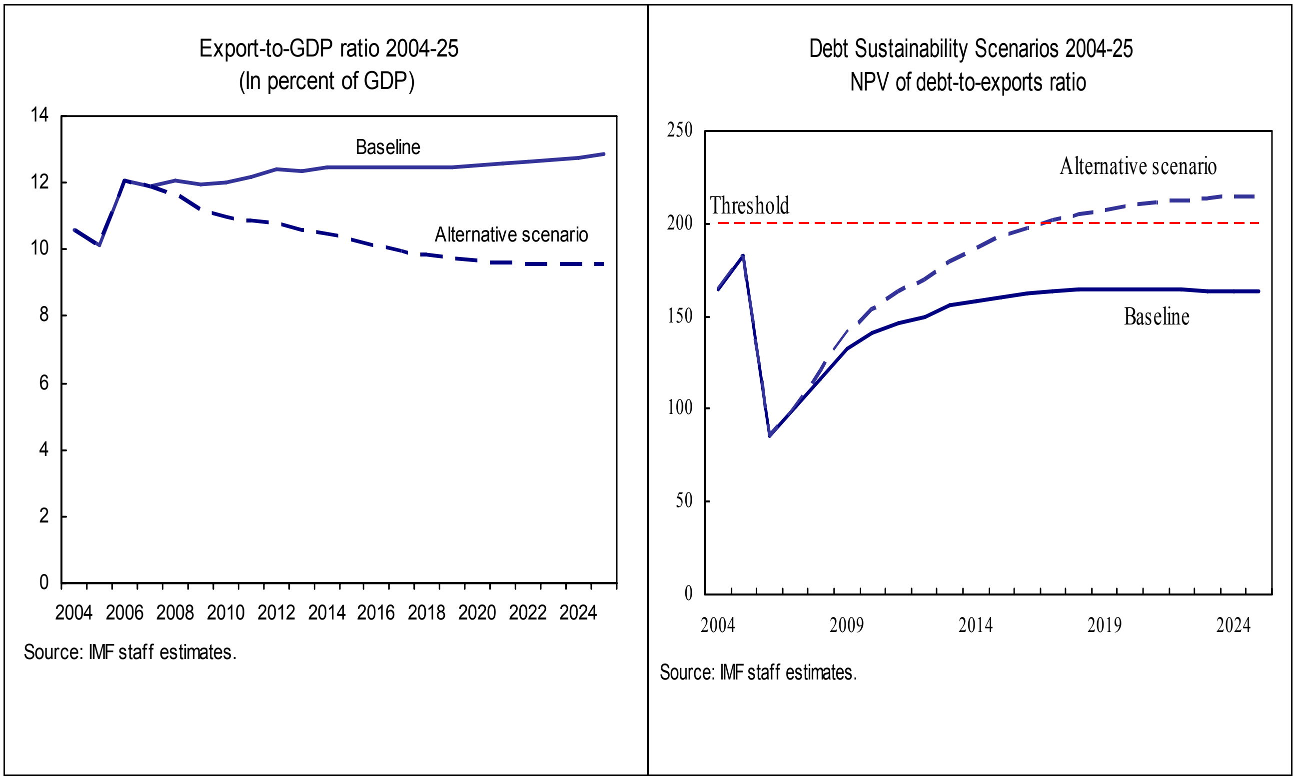


Source: Burkinabè authorities and staff estimates.

Source: IMF staff estimates.

6. **A second country-specific scenario with a more pessimistic export outlook results in a marginal breach of the threshold.** Cotton exports have risen sharply in recent years, mostly because the area under cultivation is larger. The baseline assumes a slowdown in cotton export growth as the sector matures, with most output gains coming from productivity improvements. The alternative scenario assumes no productivity gains and a constant area under cultivation, so the volume of cotton exports stays at the 2007 level. As a consequence, the exports-to-GDP ratio would decline substantially relative to the baseline (Figure I.3). This would lead the NPV of debt-to-exports ratio to breach its threshold, but only marginally. Of course, that scenario would likely require additional external adjustment, which has not been considered in this analysis.

Figure I.3: Country-Specific Scenario—Weaker Export Growth



7. **A country-specific scaling-up of aid scenario makes it clear that additional aid should be in the form of grants.** It is assumed that aid is scaled up between 2010 and 2015 and then scaled down to converge with the baseline by 2020. Three scenarios are considered: (i) a small scaling-up with aid inflows increasing by 2 percent of GDP by 2015, equivalent to an aid increase of about 20 percent relative to the average aid-to-GDP ratio in 2007–09; (ii) a moderate scaling-up with aid inflows of 5 percent of GDP, an increase of about 50 percent; and (iii) a large scaling-up with aid of 10 percent of GDP, i.e., a doubling of aid (Figure I.4). The impact on growth is modeled on cross-country empirical evidence, taking into account the declining marginal returns of aid.[13] As in the baseline, a 50:50 split between loans and grants is assumed. In spite of the high grant share and borrowing on highly concessional terms, the NPV of debt-to-exports ratio increases noticeably in all three scenarios and

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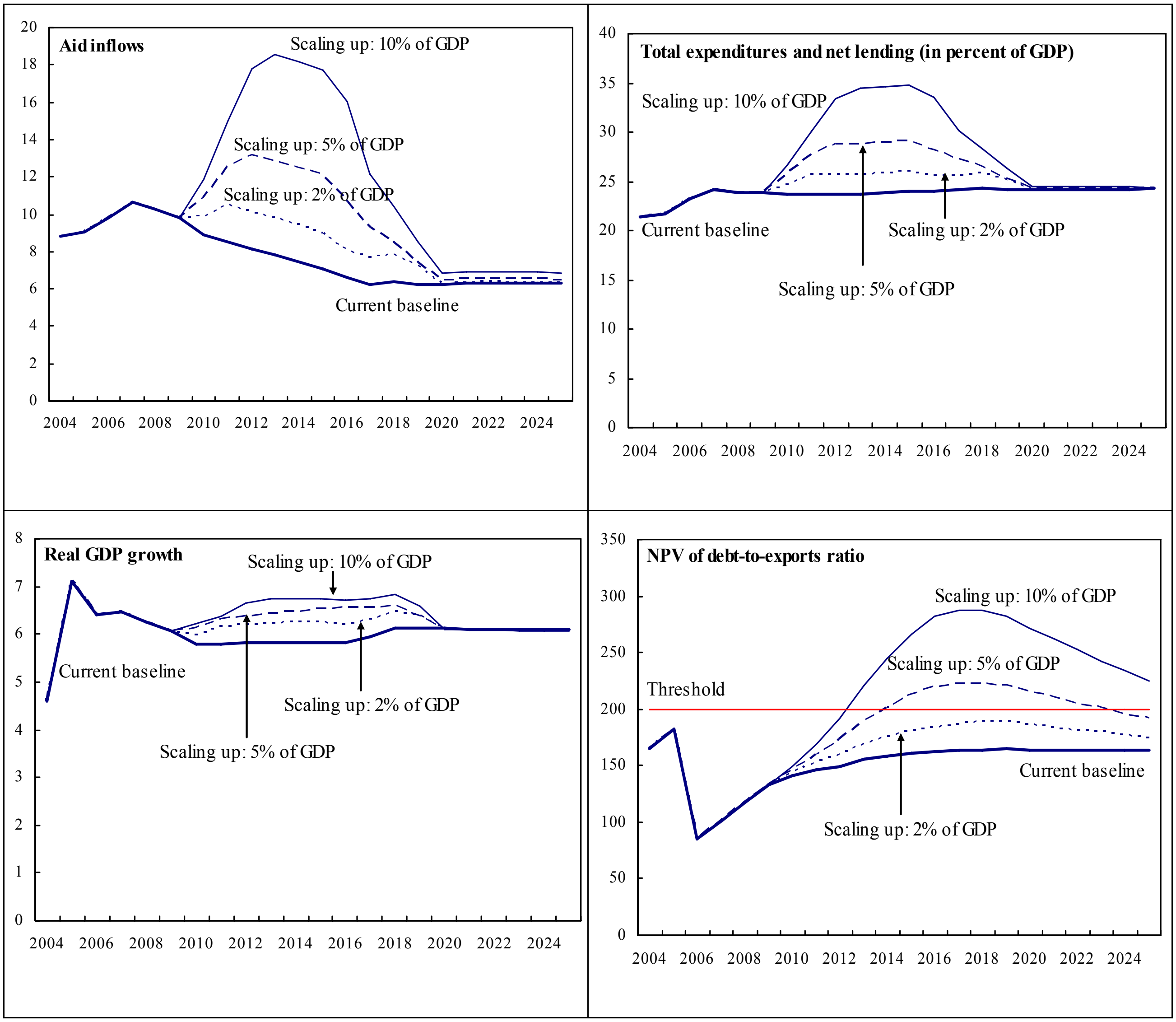
[13] See Michael Clemens, Steven Radelet, and Rikhil Bhavani (2004), “Counting Chickens When They Hatch: The Short Term Effect of Aid on Growth”, Center for Global Development, Working Paper No. 44. The authors distinguish between different types of aid and focus in their growth regressions on “so-called short-impact” aid, which is most likely to have a growth impact over the medium term. Simulations are based on the authors’ preferred conservative specification, which is that short-impact aid equivalent to 1 percent of GDP has an impact on growth of about 0.5 percent if the country receives no aid. Given the already large aid inflows under the baseline, a 1 percent of GDP increase in aid would raise growth about 0.2 percent, declining further to about 0.1 percent under the large scaling-up scenario.

breaches its threshold in the moderate and large scenario. This suggests that a scaling up of aid should rely mostly on grants to safeguard debt sustainability.

Figure I.4: Country-Specific Scenario—Scaling-Up Aid



B. Public Debt Sustainability Analysis

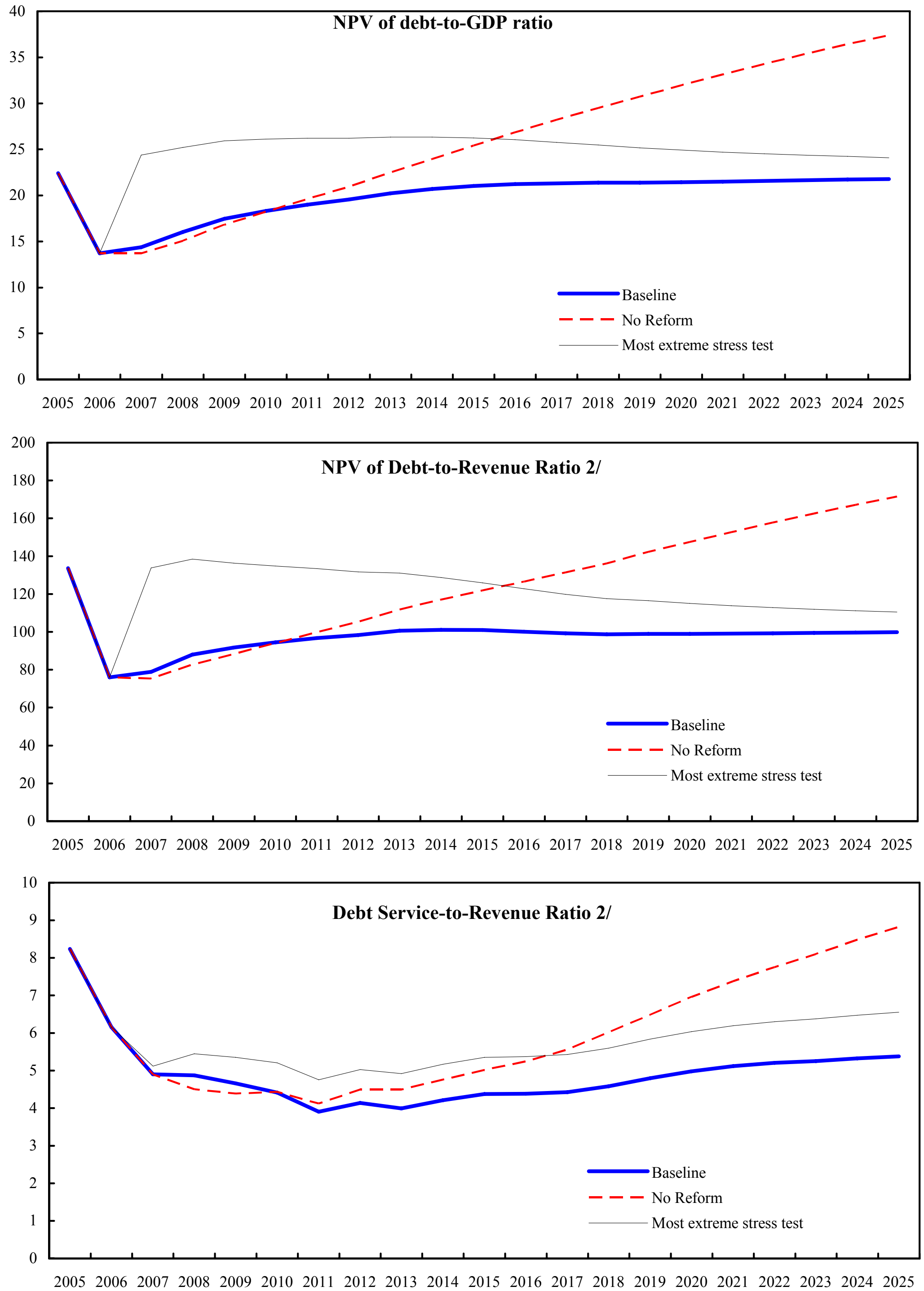
8. **The domestic debt stock in Burkina Faso is low.** As of September 2006 domestic debt totaled less than 3 percent of GDP. Following the large inflow of privatization receipts in January 2007, the government is practically free of domestic debt. The fiscal framework envisions zero domestic financing for most of the projection period, keeping domestic debt very low. Thus, public debt dynamics are similar to those of external debt.

9. **The public debt "no reform" alternative scenario confirms that present deficits are too high to stabilize debt ratios.** The 'no reform' scenario (Table I.4 and Figure I.5) freezes the primary deficit at its 2006 value—about 4¾ percent of GDP—and simulates the resulting debt dynamics. This yields continuously increasing debt ratios—this is not surprising because the 2006 primary deficit is higher than that necessary to stabilize the nominal debt-to-GDP ratio at its post-MDRI level (Box I.3).

C. Conclusions

10. **Burkina Faso's risk of debt distress has moderated.** While all baseline scenarios are comfortably below their policy-dependent thresholds, they depend critically on the assumption that domestic revenues continue to increase and lead to declining deficits after grants, thus reducing new borrowing requirements. The risk embodied in domestic revenue performance is compounded by Burkina's vulnerable export performance, which is essentially based on one product, cotton. MDRI relief has reduced the risk of debt distress, but risks pertaining to revenue and export performance remain. Thus, it is essential to implement the revenue reform program forcefully and to work on broadening the export base.

Figure I.5. Burkina Faso: Indicators of Public Debt
Under Alternative Scenarios, 2005-25 1/
(In percent)



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2015.
2/ Revenue including grants.

Box I.3. Burkina Faso—Standard Debt Dynamics

The link between the fiscal stance and debt dynamics in Burkina Faso can be considered in a standard model where the evolution of the public debt-to-GDP ratio ($d\left(t\right)$) is a function of the growth rate of real GDP (g), the real interest rate on government debt (r), and the primary balance on the government budget (pb):

(1) $d\left(t+1\right)=d\left(t\right)\left[\left(1+r\right)/\left(1+g\right)\right]-pb$.

The primary surplus needed to keep the debt ratio stable (pb^*) is:

(2) $pb^*=\left[\left(r-g\right)/\left(1+g\right)\right]d\left(t\right)$.

Baseline projections for Burkina Faso assume an average real GDP growth rate of about $g=6.1\%$, and the average real interest rate is approximately $r=-0.6\%$, reflecting a very high share of external debt with very low nominal interest rates, which implies a negative real interest rate overall.

The model allows for calculating the primary balance that is consistent with stabilizing either the pre- or post-MDRI debt-to-GDP ratio (Box Table 1). The baseline scenario assumes an average primary deficit of about 1.8 percent of GDP, which is close to the debt-stabilizing primary deficit for the post-MDRI level. Hence, debt dynamics are relatively stable in the baseline. However, the debt-stabilizing deficits for pre- or post-MDRI debt ratios are much smaller than what has been observed historically—the average for 2001-06 was 3.8 percent of GDP—so alternative historical or "no reform" scenarios show increasing debt ratios throughout the projection horizon, because it takes considerable time for these scenarios, starting from low post-MDRI debt levels in 2006, to converge to their equilibrium with much higher debt levels (Box Table 2).

Box Table 1: Debt-stabilizing primary balance

Debt-to-GDP ratio	Debt-stabilizing primary balance
Pre-MDRI level: 1/ 43%	-2.8%
Post-MDRI level: 2/ 20%	-1.3%

1/ Average of public debt-to-GDP ratio for 2003-05.
2/ End 2006.

Box Table 2: Debt-to-GDP ratios for alternative primary balances

Primary balance	Simulated path for debt-to-GDP ratio 1/ 2006	2025	2050
Average 2001-06: -3.8%	20%	49%	58%
Average 2007-09: 2/ -5.1%	20%	63%	77%
Average baseline: 3/ -1.8%	20%	26%	28%

1/ Maintains indicated primary balance throughout the projection horizon, beginning in 2007.
2/ Projection for program period.
3/ Projection for 2007-25.

Appendix Table I.1. Burkina Faso: External Debt Sustainability Framework Including Impact of MDRI, Baseline Scenario, 2004-25

(Percent of GDP, unless otherwise indicated)

	Actual 2004	Historical Average [1]	Standard Deviation [1]	Estimate 2005	Projections 2006	2007	2008	2009	2010	2005-10 Average	2015	2020	2025	2011-25 Average
External debt (nominal) [2]	**41.2**			**37.6**	**17.5**	**20.7**	**24.4**	**27.5**	**29.5**	**26.2**	**34.2**	**34.0**	**33.1**	33.4
Change in external debt	-0.7			-3.6	-20.2	3.2	3.7	3.1	2.0	-1.9	0.5	-0.2	-0.2	0.2
Identified net debt-creating flows	3.3			8.7	8.1	4.2	9.0	6.9	5.8	7.1	3.5	2.5	2.4	3.2
Noninterest current account deficit	**10.3**	**8.9**	**3.2**	**11.5**	**10.5**	**10.5**	**10.3**	**9.8**	**9.6**	10.4	**7.4**	**6.6**	**5.3**	6.9
Deficit in balance of goods and services	14.3			15.7	14.7	14.1	13.7	13.2	12.8	14.0	10.7	10.0	9.3	10.4
Exports	11.0			10.4	12.3	12.1	12.3	12.2	12.2	11.9	12.7	12.8	13.1	12.8
Imports	25.3			26.1	27.0	26.2	26.0	25.3	25.1	26.0	23.4	22.8	22.4	23.2
Net current transfers (negative = inflow)	-3.7	-5.8	2.6	-3.9	-4.0	-3.5	-3.2	-3.1	-2.9	-3.4	-2.9	-3.1	-3.5	-3.0
Other current account flows (negative = net inflow)	-0.3			-0.3	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4
Net FDI (negative = inflow)	**-0.5**	**-0.5**	**0.2**	**-0.4**	**-0.4**	**-5.4**	**-0.4**	**-1.7**	**-2.6**	-1.8	**-2.5**	**-2.6**	**-1.5**	-2.3
Endogenous debt dynamics [3]	**-6.6**			**-2.4**	**-2.0**	**-0.8**	**-1.0**	**-1.1**	**-1.1**	-1.4	**-1.4**	**-1.5**	**-1.4**	-1.4
Denominator: 1+g+r+gr	1.2			1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Contribution from nominal interest rate	0.3			0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Contribution from real GDP growth	-1.6			-2.7	-2.2	-1.0	-1.2	-1.4	-1.5	-1.6	-1.8	-1.9	-1.9	-1.8
Contribution from price and exchange rate changes	-5.2			…	…	…	…	…	…	...	…	…	…	
Residual (3-4) [4]	**-4.0**			**-12.3**	**-28.3**	**-1.0**	**-5.3**	**-3.8**	**-3.8**	-9.1	**-3.0**	**-2.7**	**-2.6**	-3.0
Of which: Exceptional financing	0.0			0.0	-21.5	0.0	0.0	0.0	0.0	-3.6	0.0	0.0	0.0	0.0
NPV of external debt [5]	18.1			19.0	10.6	12.2	14.3	16.2	17.3	14.9	20.4	21.0	21.4	20.5
In percent of exports	164.4			182.5	85.8	101.0	116.6	132.8	141.2	126.7	160.6	164.3	163.2	160.4
Debt service-to-exports ratio (percent)	8.1			7.6	5.5	3.7	3.9	4.2	4.4	4.9	6.9	8.3	8.8	7.4
Total gross financing need (millions of U.S. dollars)	550.3			670.1	654.9	375.0	778.2	694.8	665.3	639.7	782.0	1,029.1	1,526.6	984.8
Noninterest current account deficit that stabilizes debt ratio	11.0			15.1	30.6	7.3	6.6	6.6	7.6	12.3	6.9	6.7	5.5	6.7
Key macroeconomic assumptions														
Real GDP growth (in percent)	4.6	6.3	2.1	7.1	6.4	6.5	6.3	6.1	5.8	6.3	5.8	6.1	6.1	6.0
GDP deflator in US dollar terms (change in percent)	14.3	4.3	11.8	2.7	1.2	6.2	2.7	2.8	3.0	3.1	2.3	2.2	2.2	2.5
Effective interest rate (percent) [6]	0.8	0.4	0.4	0.7	0.7	1.2	1.2	1.3	1.3	1.0	1.3	1.3	1.4	1.3
Growth of exports of G&S (U.S. dollar terms, percent)	44.8	10.3	21.7	4.2	27.6	11.0	10.8	7.9	9.6	11.8	8.5	9.0	9.1	9.1
Growth of imports of G&S (U.S. dollar terms, percent)	32.2	11.0	15.3	13.3	11.6	9.7	8.3	6.2	7.9	9.5	7.7	8.1	8.1	7.8
Grant element of new public sector borrowing (percent)	...	...	...	46.3	44.9	44.5	43.9	44.1	45.6	44.9	44.0	41.1	38.6	42.3
Memorandum item:														
Nominal GDP (millions of U.S. dollars)	5,114			5,624	6,055	6,844	7,471	8,145	8,878		13,537	20,315	30,509	

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

[1] Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

[2] Includes public external debt.

[3] Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

[4] Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes. Includes also capital transfers—in particular project grants, which are projected to average over 3 percent of GDP in 2007-10—and private, non-debt creating capital inflows.

[5] Assumes that NPV of private sector debt is equivalent to its face value.

[6] Current-year interest payments devided by previous period debt stock.

Appendix Table I.2. Burkina Faso: Sensitivity Analysis for Key Indicators of Public External Debt, 2005-25
(In percent)

	Est.	Projections						
	2005	2006	2007	2008	2009	2010	2015	2025
NPV of debt-to-GDP ratio								
Baseline	19.0	10.6	12.2	14.3	16.2	17.3	20.4	21.4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-25 [1]	19.0	10.6	14.4	15.3	17.0	18.7	26.9	39.5
A2. New public sector loans on less favorable terms in 2007-25 [2]	19.0	10.6	14.7	18.2	21.2	23.3	30.0	34.2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	19.0	10.6	12.5	14.9	16.8	18.0	21.2	22.3
B2. Export value growth at historical average minus one standard deviation in 2007-08 [3]	19.0	10.6	13.7	15.7	17.5	18.5	21.3	21.7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	19.0	10.6	14.0	18.3	20.6	22.0	26.0	27.2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 [4]	19.0	10.6	15.1	16.8	18.5	19.5	22.0	22.0
B5. Combination of B1-B4 using one-half standard deviation shocks	19.0	10.6	13.4	15.6	17.7	19.0	22.6	24.0
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 [5]	19.0	10.6	17.1	20.0	22.5	24.1	28.4	29.8
NPV of debt-to-exports ratio								
Baseline	182.5	85.8	101.0	116.6	132.8	141.2	160.6	163.2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-25 [1]	182.5	85.8	118.7	124.1	139.8	152.6	211.6	301.0
A2. New public sector loans on less favorable terms in 2007-25 [2]	182.5	85.8	121.7	148.0	174.5	190.6	236.3	260.4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	182.5	85.8	101.0	116.6	132.8	141.2	160.6	163.2
B2. Export value growth at historical average minus one standard deviation in 2007-08 [3]	182.5	85.8	141.2	199.9	224.6	237.0	262.6	259.4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	182.5	85.8	101.0	116.6	132.8	141.2	160.6	163.2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 [4]	182.5	85.8	124.5	136.5	152.0	159.4	173.2	167.5
B5. Combination of B1-B4 using one-half standard deviation shocks	182.5	85.8	114.3	140.3	160.6	171.3	196.5	201.7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 [5]	182.5	85.8	101.0	116.6	132.8	141.2	160.6	163.2
Debt service-to-exports ratio								
Baseline	7.6	5.5	3.7	3.9	4.2	4.4	6.9	8.8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-25 [1]	7.6	5.5	3.8	4.3	4.3	4.5	7.5	13.1
A2. New public sector loans on less favorable terms in 2007-25 [2]	7.6	5.5	3.8	4.8	5.9	6.4	10.6	15.2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	7.6	5.5	3.7	3.9	4.2	4.4	6.9	8.8
B2. Export value growth at historical average minus one standard deviation in 2007-08 [3]	7.6	5.5	4.6	6.5	7.0	7.3	11.6	14.2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	7.6	5.5	3.7	3.9	4.2	4.4	6.9	8.8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 [4]	7.6	5.5	3.7	4.4	4.6	4.8	7.8	9.2
B5. Combination of B1-B4 using one-half standard deviation shocks	7.6	5.5	4.1	4.9	5.1	5.4	8.3	10.9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 [5]	7.6	5.5	3.7	3.9	4.2	4.4	6.9	8.8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) [6]	41.7	41.7	41.7	41.7	41.7	41.7	41.7	41.7

Source: IMF staff estimates and projections.

[1] Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and nondebt creating flows.
[2] Assumes that the interest rate on new borrowing is 2 percentage points higher than in the baseline, while grace and maturity periods are the same.
[3] Export values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
[4] Includes official and private transfers and FDI.
[5] Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
[6] Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Appendix Table I.3. Burkina Faso: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004-25
(Percent of GDP, unless otherwise indicated)

	Actual			Estimate				Projections					
	2004	Historical Average [1]	Standard Deviation [1]	2005	2006	2007	2008	2009	2010	2005-10 Average	2015	2025	2011-25 Average
Public sector debt [2]	43.4			42.9	19.7	22.8	26.0	28.7	30.4		34.7	33.3	
Of which: Denominated in foreign currency	38.2			39.5	16.6	20.6	24.3	27.4	29.4		34.0	33.0	
Change in public sector debt	-0.5			-0.5	-23.2	3.1	3.3	2.7	1.7		0.5	-0.2	
Identified debt-creating flows	-2.2			5.6	-22.5	4.7	3.8	2.6	1.9		0.5	-0.2	
Primary deficit	3.8	3.0	0.8	4.4	4.8	5.9	5.3	4.4	3.9	4.8	2.7	2.0	2.5
Revenue and grants	17.1			16.8	18.0	18.2	18.2	19.0	19.4		20.8	21.8	
Of which : grants	4.3			4.4	26.8	5.2	4.7	4.5	4.4		3.5	3.1	
Primary (noninterest) expenditure	20.9			21.2	22.8	24.1	23.6	23.4	23.2		23.5	23.8	
Automatic debt dynamics	-6.0			1.2	-6.2	-1.1	-1.6	-1.8	-2.0		-2.2	-2.2	
Contribution from interest rate/growth differential	-2.6			-3.6	-3.3	-1.2	-1.4	-1.6	-1.7		-2.1	-2.1	
Of which : contribution from average real interest rate	-0.7			-0.7	-0.7	0.0	-0.1	-0.1	-0.1		-0.2	-0.2	
Of which : contribution from real GDP growth	-1.9			-2.9	-2.6	-1.2	-1.3	-1.5	-1.6		-1.9	-1.9	
Contribution from real exchange rate depreciation	-3.4			4.8	-2.9	0.1	-0.2	-0.2	-0.3		...	...	
Other identified debt-creating flows	0.0			0.0	-21.1	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0			0.0	-21.1	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	1.7			-6.1	-0.7	-1.7	-0.5	0.1	-0.2		0.0	0.0	
NPV of public sector debt, *of which:*	23.3			22.4	13.7	14.4	16.0	17.5	18.3		21.0	21.8	
Denominated in foreign currency	18.1			19.0	10.6	12.2	14.3	16.2	17.3		20.4	21.4	
External	18.1			19.0	10.6	12.2	14.3	16.2	17.3		20.4	21.4	
NPV of contingent liabilities (not included in public sector debt)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Gross financing need [3]	5.3			5.8	5.9	6.8	6.2	5.3	4.7		3.6	3.1	
NPV of public sector debt-to-revenue ratio (in percent) [4]	136.1			133.7	76.0	79.0	88.0	91.8	94.5		100.9	99.8	
Of which: External	105.6			113.4	58.8	67.2	78.8	85.0	89.3		97.9	98.2	
Debt service-to-revenue ratio (in percent) [4, 5]	8.7			8.2	6.2	4.9	4.9	4.7	4.4		4.4	5.4	
Primary deficit that stabilizes the debt-to-GDP ratio	4.3			4.9	28.0	2.8	2.1	1.7	2.2		2.2	2.2	
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.6	6.3	2.1	7.1	6.4	6.5	6.3	6.1	5.8	6.3	5.8	6.1	6.0
Average nominal interest rate on forex debt (in percent)	0.8	0.7	0.1	0.7	0.6	1.2	1.2	1.3	1.3	1.1	1.3	1.4	1.3
Average real interest rate on domestic currency debt (in percent)	0.8	3.4	3.7	2.1	4.6	1.5	3.1	3.8	4.5	3.3	3.6	2.6	3.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.3	-1.5	12.4	13.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.9	3.4	3.4	2.5	0.4	2.5	2.3	2.4	2.5	2.1	2.3	2.2	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	9.6	8.3	7.4	8.8	14.4	12.4	3.9	5.3	5.1	8.3	6.3	6.1	6.1
Grant element of new external borrowing (in percent)	0.0	0.0	0.0	0.5	0.4	0.4	0.4	0.4	0.5	0.4	0.4	0.4	...

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

[1] Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

[2] Central government

[3] Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

[4] Revenues including grants.

[5] Debt service is defined as the sum of interest and amortization of medium and long-term debt.

Appendix Table I.4. Burkina Faso: Sensitivity Analysis for Key Indicators of Public Debt, 2005-25
(In percent)

	Projections							
	2005	2006	2007	2008	2009	2010	2015	2025
NPV of Debt-to-GDP Ratio								
Baseline	22	14	14	16	17	18	21	22
A. Alternative scenarios								
A1. Real GDP growth and primary balance at historical averages	22	14	13	13	14	14	17	24
A2. Primary balance unchanged from 2006	22	14	14	15	17	18	25	37
A3. Permanently lower GDP growth [1]	22	14	14	16	18	19	24	31
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviations in 2007-08	22	14	15	17	19	20	25	28
B2. Primary balance at historical average minus one standard deviation in 2007-08	22	14	13	14	16	16	20	21
B3. Combination of B1-B2 using one-half standard deviation shocks	22	14	13	14	15	16	19	20
B4. One-time 30 percent real depreciation in 2007	22	14	18	18	18	18	19	19
B5. 10 percent of GDP increase in other debt-creating flows in 2007	22	14	24	25	26	26	26	24
NPV of Debt-to-Revenue Ratio [2]								
Baseline	134	76	79	88	92	94	101	100
A. Alternative scenarios								
A1. Real GDP growth and primary balance at historical averages	134	76	70	72	73	74	83	110
A2. Primary balance unchanged from 2006	134	76	75	83	88	94	122	172
A3. Permanently lower GDP growth 1/	134	76	79	89	94	98	113	140
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	134	76	81	93	99	103	117	127
B2. Primary balance at historical average minus one standard deviation in 2007-08	134	76	72	77	82	85	94	96
B3. Combination of B1-B2 using one-half standard deviation shocks	134	76	71	75	80	83	91	93
B4. One-time 30 percent real depreciation in 2007	134	76	97	99	97	95	91	89
B5. 10 percent of GDP increase in other debt-creating flows in 2007	134	76	134	138	136	135	126	110
Debt Service-to-Revenue Ratio [2]								
Baseline	8.2	6.2	4.9	4.9	4.7	4.4	4.4	5.4
A. Alternative scenarios								
A1. Real GDP growth and primary balance at historical averages	8.2	6.2	4.9	3.9	3.7	3.6	3.4	5.5
A2. Primary balance unchanged from 2006	8.2	6.2	4.9	4.5	4.4	4.4	5.0	8.8
A3. Permanently lower GDP growth [1]	8.2	6.2	4.9	4.9	4.8	4.6	4.8	7.3
B. Bound tests								
B1. Real GDP growth at historical average minus one standard deviations in 2007-08	8.2	6.2	5.0	5.1	5.0	4.8	5.0	6.8
B2. Primary balance at historical average minus one standard deviations in 2007-08	8.2	6.2	4.9	4.2	4.0	4.2	3.9	5.1
B3. Combination of B1-B2 using one-half standard deviation shocks	8.2	6.2	4.9	4.1	3.9	4.1	3.7	4.9
B4. One-time 30 percent real depreciation in 2007	8.2	6.2	5.1	5.4	5.4	5.2	5.3	6.6
B5. 10 percent of GDP increase in other debt-creating flows in 2007	8.2	6.2	4.9	4.9	4.7	4.4	4.4	5.4

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

[1] Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

[2] Revenues are defined inclusive of grants.

APPENDIX II

Translated from French

Ouagadougou
April 11, 2007

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

Mr. de Rato:

1. The government of Burkina Faso has successfully implemented macroeconomic policies and structural reforms in the context of the Poverty Reduction Strategy Paper (PRSP) our country adopted in June 2003. This PRSP served as a reference for financial support from donors and lenders, including the International Monetary Fund and the World Bank. To consolidate the progress we have achieved and intensify our reform efforts, the government adopted an economic and financial reform program for 2007–09, the objectives of which are set forth in the Annual Progress Report adopted in 2006.

2. The attached memorandum of economic and financial policies sets out the government's economic objectives and policies for 2007–10 and objectives and specific measures planned for the first year of the program, from April 2007 to March 2008. In support of these objectives and policies, the government requests a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 6.02 million (10 percent of quota).

3. The government believes that the policies set forth in the attached memorandum will enable it to meet the objectives of its program, but it is ready to take any other measures that may prove necessary to this end. During the period of the proposed three-year arrangement, the authorities will consult with the Fund on the adoption of any measures that may be appropriate, and in advance of revisions to the policies contained in the attached Memorandum of Economic and Financial Policies (MEFP), in accordance with the Fund’s policies on such consultation. Moreover, after the arrangement period, and as long as Burkina Faso has outstanding financial obligations to the Fund resulting from loans disbursed under the arrangement, the government will consult with the IMF from time to time on Burkina Faso’s economic and financial policies, at its own initiative or at the request of the Managing Director.

4. The government will provide to the Fund any information that the Fund may request for the purpose of monitoring progress made in implementing the economic and financial policies and the measures needed to achieve the program objectives. A technical memorandum of understanding describing the performance criteria, indicative targets, and structural benchmarks of the program is attached. Burkina Faso will follow a

schedule of biannual reviews, the first of which is expected to be concluded before end-December 2007.

Sincerely yours,

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

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

APPENDIX II
ATTACHMENT I

Translated from French

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES OF THE GOVERNMENT FOR 2007–10

I. INTRODUCTION

1. This new Poverty Reduction and Growth Facility (PRGF) arrangement will contribute to meeting the Millennium Development Goals (MDGs) by reducing the poverty rate to below 35 percent by 2015 and achieving per capita growth rates of at least 4 percent. It is largely based on our policies as described in the Poverty Reduction Strategy Paper (PRSP) approved in 2004 and updated in the 2006 priority action plan. The objectives of this program are to (i) increase the domestic revenue effort; (ii) strengthen public financial management (PFM) to allow for better domestic absorption of aid and improved poverty-reducing spending; and (iii) increase private sector participation to accelerate growth and diversify economic activity.

2. Burkina Faso's program engagement with the Fund, going back to 1991, has been instrumental in maintaining macroeconomic stability, increasing economic growth, and reducing poverty. The government has a strong track record of program implementation even under adverse circumstances, such as the shock to the terms of trade from cotton and petroleum prices and difficult developments in the region. Despite significant progress particularly during the last PRGF arrangement from 2003–2006, our economy remains vulnerable to external shocks and institutional constraints. Thus we see continued involvement with the Fund as vital in completing our reform agenda and creating the base for an eventual surveillance relationship with the Fund.

II. PERFORMANCE UNDER THE 2003–06 PROGRAM AND RECENT ECONOMIC DEVELOPMENTS

3. Macroeconomic performance in 2003–2006 was strong in spite of large terms-of-trade shocks. Real GDP growth averaged 6½ percent—implying per capita growth of 4½ percent. Average inflation at 2½ percent was below the West African Economic and Monetary Union (WAEMU) convergence target of 3 percent, even though the terms of trade deteriorated by 15 percent between 2003 and 2006. Whereas the economy as a whole withstood the shock well, the cotton companies suffered large financial losses in 2004/05 and 2005/06. Debt has become considerably more sustainable over the past three years as a result of substantial debt relief under the enhanced Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

4. The favorable macroeconomic developments have been supported by structural reforms under the PRGF-supported program, in particular with respect to

- Public financial management, with a focus on improving budget formulation and execution, the production and submission of accounts to the Auditor General Office (AGO, *Cour des Comptes*), and of the audited budget act to parliament;
- Tax and customs administration, especially computerization of tax and customs offices; creation of the large taxpayer office; introduction of a taxpayer identification number; and a taxpayer census; and
- Petroleum prices, with the adoption of an automatic price adjustment mechanism that ensures full pass-through of changes in costs.

5. In spite of these steps, challenges remain in the area of public financial management, in particular modernizing the tax and customs administration, strengthening public expenditure tracking systems, and reinforcing audit systems. Recent surveys of the business and investment climate identified obstacles that we will address over the short and medium term.

6. Macroeconomic performance in 2006 was favorable. Cereal and cotton harvests have been good, which bolstered growth and brought down cereal prices and food-price inflation. The construction and service sectors also thrived, and real GDP growth is estimated at 6½ percent. Average inflation remained low at 2.4 percent. External prices remained unfavorable, with oil prices high and cotton low, but the recent decline in oil prices has offered some respite. Credit growth to the economy (excluding crop credit) slowed from high levels in 2005 to stabilize at about 13 percent in 2006.

7. Fiscal revenues in 2006 were considerably less than projected, mainly because of lower domestic consumption and income taxes in part related to the crisis in the cotton sector. Though total expenditures were also reduced in nominal terms, the overall deficit excluding grants reflected the revenue shortfall and increased to 11 percent of GDP (on an *engagement* basis). However, with higher than expected capital expenditures funded by additional project grant disbursements, the overall balance including grants was in line with projections at 5.2 percent of GDP.

III. Medium-Term Objectives and Macroeconomic Framework for 2007–10

8. The macroeconomic framework for the proposed program is based on a real GDP growth rate of about 6 percent, in line with historical performance. Growth could be higher with additional concessional resources, particularly in the form of grants. This would allow to accelerate progress toward meeting the MDGs. To keep debt sustainability at prudent levels, we plan to limit the overall deficit including grants to about 5½ percent of GDP over the program period. The program will aim for an average inflation rate of about 2 percent, in line with the WAEMU convergence target.

9. Strengthening the revenue effort will be a central objective of our activities under the PRGF-supported program. This will entail measures to both broaden the tax base and modernize tax and customs administration. Higher revenues will help us to create fiscal space for poverty-reducing expenditures while limiting our need for external borrowing, which is critical to keep debt sustainable.

10. We will consider broadening the tax base to raise additional revenues. To this end, we will review the existing investment code to see where exemptions can be reduced. We have consolidated most tax legislation into a single five-volume tax code, incorporating simplifications that are now being reviewed by the public. We intend to consolidate all tax relevant legislation into this single tax code *(Code général des impôts)* and will ensure that all future tax policy changes are implemented as amendments to the tax code so as to ensure its comprehensiveness and usefulness as a one-stop reference.

11. On tax administration, we plan to complete the computerization of the large taxpayer office (LTO) in 2007, and of the medium-sized taxpayer office (MTO) over 2008 and 2009. In this context, we will deploy all modules of our computerized tax administration management system *(Sintax)*, which include those for monitoring tax obligations, payment, and collection, beginning with the LTO. Other activities to improve tax administration are to:

- Increase the number of audits and auditors in the LTO, and make better use of issue-oriented audits;
- Reinforce collection enforcement by instituting all measures provided by law; and
- Improve the VAT refund system.

12. To modernize customs administration, we will move to deploy all functionalities of ASYCUDA and make systematic and exclusive use of them in the computerized customs offices. The objective is to reduce both manual procedures and direct interaction between importers and customs officials so as to speed up processing and limit the scope for discretion. Once ASYCUDA has been fully deployed, we will abolish redundant manual procedures and require exclusive use of documents and statements issued by ASYCUDA. We will also ensure that customs inspections use the ASYCUDA selectivity system—which will be based on risk criteria—so we can increase the use of the green channel (with no further controls). We will also strengthen import verification using a recently developed customs valuation database that will help us to detect customs declarations that understate true values.

13. Improving public financial management (PFM) is necessary to make public expenditures more efficient and render the public sector more transparent. We have recently adopted a public finance strengthening strategy (*Stratégie de Renforcement des Finances Publiques,* SRFP) that was prepared in consultation with technical and financial partners. The main PFM objectives of the SRFP are to improve the legal and operational framework for budget procedures, and to enhance transparency and decentralization in budget management. The strategy is expected to be launched officially in April 2007. Its three-year action plan includes biannual reviews. Several donors require progress in implementing the SRFP for their budget support. We have recently received inputs from the public expenditure and financial accountability (PEFA) assessment for this strategy, which will set benchmarks against which progress will be measured, and we intend to request assistance from the Fund in fine-tuning the strategic priorities. Within the first three-year sectoral action plan, the SRFP will emphasize (i) generating more domestic revenue; (ii) reforming public procurement; and (iii), in the area of PFM, reinforcing our audit systems and ensuring that expenditures are properly classified so that poverty-

reducing and foreign-financed expenditures can be tracked. Further PFM reforms will be integrated into the program during the first and second reviews.

14. Expanding access to financial services will be at the center of our financial sector reform agenda. The World Bank's Investment Climate Assessment identified limited access to finance as the largest obstacle for formal and informal enterprises. High guarantee requirements and complex application procedures further constrain access to credit. In particular the land title system and bankruptcy procedures need reform to strengthen the role of collateral. The government is also considering creating a credit bureau to make financial history information available to qualified parties. Recommendations from the Financial Sector Review being conducted by the World Bank and the WAEMU Financial Sector Assessment Program (FSAP) planned for early 2007 will be included in the SRFP action plan and integrated into the program during the first and second reviews.

15. To support growth, it is of paramount importance to improve the business climate and facilitate financial sector development. We will work with the World Bank to (i) streamline procedures for registering businesses and reduce the time and cost of starting up businesses; (ii) reform the labor code to encourage formal employment through increased labor flexibility, while guaranteeing appropriate worker protections; (iii) strengthen the judicial system in the area of commercial law to improve the ability of firms to access the courts and enforce contracts; (iv) ease the procedures for obtaining land titles and simplify and reduce the costs of registering property; and (v) improve liquidation and bankruptcy procedures. A stronger legal system that respects the rights of creditors and easier access to land titles will be critical for financial sector development by increasing the role of collateral, which will facilitate the development of collateralized loans.

16. We will draw on the Diagnostic Trade Integration Study (DTIS) to formulate a trade promotion agenda. Our adoption of the WAEMU common external tariff in 2000 was an important reform and we will work to further liberalize tariffs. However, a lack of export diversification, burdensome customs procedures, and a fragmented and inefficient transportation industry continue to hinder trade. To supplement exports of cotton, we will promote gold mining and the production of fruits and vegetables, two sectors with considerable export potential. Modernization of customs administration under the program will help to streamline cumbersome procedures, which should promote trade and reduce fraud. As for transportation, we will increase investment in rural infrastructure, especially roads, and promote containerization of shipments to help make the sector more professional.

17. The government is preparing, with advice from the World Bank, a transparent electricity tariff mechanism to ensure price adjustments in line with costs. This mechanism will draw on a tariff policy assessment expected to be finalized by June 2008. We also intend to establish a regulatory authority for the electricity sector by June 2009. The preparatory legal work for this new institution will be undertaken in close collaboration with the World Bank as soon as the revised Electricity Law has been submitted to the National Assembly, probably in the second half of 2007. Since 1994

tariffs have been adjusted only twice, in November 2004 and September 2006, and at current electricity tariff levels, SONABEL requires subsidies of about 0.7 percent of GDP that increase with electricity consumption and hardly benefit the poorest consumers. Cost savings from full connection of the electricity grid with Côte d'Ivoire, scheduled for late in 2008, will gradually eliminate the need for subsidies. Moreover, to make progress toward the MDGs, it is essential to expand electricity access to the rural population. One government objective is to increase rural electrification from 2 percent in 2006 to 15 percent by 2015.

18. We are preparing for aid to be scaled up. The schedule, scope, and likely areas of increased donor support still need to be determined, but the fact that the World Bank, OECD-DAC, and the UNDP have named Burkina Faso a priority country for scaling up could catalyze higher aid inflows. Preliminary World Bank estimates suggest that over the medium term the country could effectively absorb an increase in aid of about 25 percent beyond the 2006 levels (about 2 percent of GDP annually). The government believes that absorptive capacity is potentially higher and that there might be areas with high absorptive capacity that have received less attention from donors, such as rural infrastructure. An MDG costing exercise will be available by the end of 2007 and could catalyze additional donor resources. The government expects to receive substantial funding from the U.S. Millennium Challenge Corporation over a five-year period starting in late 2007. The current macroeconomic framework does not contemplate a scaling up of aid, but it would be updated as donor commitments become clearer.

19. The government intends to address governance issues systematically. In 2002 we introduced a five-year action plan to strengthen the justice system and created a High Authority of Coordination of the Fight against Corruption (*Haute Autorité de Coordination de la Lutte contre la Corruption,* HACLCC). The HACLCC coordinates the fight against corruption and assists the government in the prevention, detection, and punishment of financial delinquency and corruption within the administration. Recognizing the problems in this area the Council of Ministers on May 14, 2006, adopted a national strategy for the fight against corruption. The government is committed to allowing the HACLCC to directly introduce investigations, provided certain legal conditions are met. Furthermore, the government will review the legal framework governing the internal audit structures *(Inspection Générale de l'État (IGE), Inspection Générale des Finances (IGF), and Inspections techniques des services)* to clarify their mandates and look for synergies in their activities. More generally, the government will work to strengthen internal and external control mechanisms for public financial management (in particular the Auditor General Office, *Cour des Comptes*) and make their actions more visible by extending the scope of their reporting.

IV. PROGRAM FOR 2007

20. The macroeconomic program for 2007 is geared toward keeping the economy stable and laying the foundation for strong pro-poor growth through private sector development. Poverty will also be reduced through larger poverty-related fiscal outlays.

A. Macroeconomic Outlook

21. The government expects growth in 2007 to be about 6½ percent, slightly above trend growth. Processing the strong 2006 cotton harvest will support real GDP growth in 2007. Another positive growth impulse is likely to come from the expected improvement of about 4 percent in the terms of trade, from the impact of debt relief on private sector confidence, and from a positive fiscal impulse. Downside risks for the 2007 growth outlook could result from the reduction in the cotton producer price for the 2007/08 campaign. Also, delays in payments to farmers for the 2006/07 campaign as a result of the financial difficulties in the cotton sector (see below) may hurt production in 2007. Inflation is projected at about 2 percent, consistent with WAEMU convergence criteria. As a result of the good cereal harvest in 2006, Burkina Faso is entering 2007 with low inflationary pressures.

22. The crisis in the cotton sector is being resolved and the conditions for its sustainable development are being put into place. After sizable losses in two consecutive campaigns (2004/05 and 2005/06), the net worth of Burkina Faso's main cotton company SOFITEX was reduced to below zero. The main reasons behind the loss, based on audited accounts, were the low world cotton prices, the appreciation of the CFAF, and high prices paid to farmers, reflecting slow adjustment to the external shocks. The recapitalization was complicated by the fact that ultimately SOFITEX's main private shareholder decided not to participate. In this context, the government had offered to extend a guarantee of CFAF 50 billion for the outstanding loans from the 2005/06 campaign so that domestic banks would release the funds to pay farmers. The recapitalization need for SOFITEX is currently estimated at CFAF 38 billion. The actual amount will be confirmed in an extraordinary general assembly meeting of shareholders in June 2007. Shareholders must contribute at least 75 percent of the recapitalization amount by end-2007. The final phase, expected after 2007, would bring the company's net worth back to a level compatible with regional business regulations (OHADA). The government's 35 percent share in SOFITEX could temporarily increase as a result of the recapitalization. Given the systemic importance of the cotton sector, the government is consulting with the sectors' stakeholders and technical advisors to find a solution that will minimize the financial impact on the budget. In addition, the government, in collaboration with the World Bank, will approve a liberalization strategy for SOFITEX by end-2007 (a structural benchmark). An agreement on the core elements of this strategy will be reached during the first review of the program. It is expected that shareholders will recapitalize the two private cotton ginning companies. The contribution of producers in the three companies to recapitalization will be limited to contributions from donors.

23. The adoption of a new producer price mechanism is expected to help restore the financial viability of the cotton sector. The new mechanism will be adopted by the interprofessional association of cotton producers and ginning companies (AIPC), in cooperation with the World Bank (an end-June 2007 structural benchmark). The mechanism will link producer prices to world market prices with some smoothing achieved by a fund (*fonds de lissage*) that will initially be funded by donors. The 2007/08 campaign price is expected to be set in accordance with the new mechanism or in a way

that is expected to help restore SOFITEX's financial health. The government will not assume responsibility for any potential future losses of the sector.

Fiscal policy

24. The original 2007 budget reflected the government's emphasis on prudent macroeconomic management. Relative to the preliminary outcome of 2006, budgeted spending would fall by ½ percent of GDP. Revenues were budgeted to increase which would have resulted in a reduction in the budgeted overall deficit including grants of about 1.1 percent of GDP. However, developments in late 2006 and early 2007 have necessitated a revised budget, which was approved by parliament in March 2007. The most important change is that revenues are now projected to be 0.8 percent of GDP lower, in spite of projected gains from the ongoing comprehensive tax and customs administrations reform program. Moreover, some new, mainly one-time, expenditure needs emerged, notably with respect to the SOFITEX recapitalization (CFAF 26 billion); security (CFAF 7.5 billion); utility bills (CFAF 7.5 billion); infrastructure (CFAF 14 billion); and salaries (CFAF 16 billion). Together these created a fiscal gap of CFAF 94 billion (2.7 percent of GDP) compared to the original budget deficit target.

25. The government believes that the increase in the overall deficit including grants in 2007 should be limited to safeguard debt sustainability. We have identified offsetting cuts in nonpriority spending of CFAF 24 billion, mostly through cuts in domestically financed investment (CFAF 12 billion); transfers (CFAF 5 billion); and spending on goods and services (CFAF 3 billion). Total spending would still increase by 10 percent in real terms, and social spending will increase by CFAF 31 billion (18 percent) to further reduce poverty.

26. The deficit would be financed mainly through concessional foreign borrowing and limited use of privatization receipts (CFAF 52 billion). A 51 percent share of the telecommunications company ONATEL was successfully sold to Maroc Telecom for a net amount of CFAF 139 billion (4.0 percent of GDP) in December 2006, and another 20 percent share will be floated on the regional exchange in 2007. We also intend to use these proceeds to repay costly domestic debt (about CFAF 50 billion) and eliminate the payment delays that arose during 2006 (CFAF 15 billion). Moreover, we will draw up a plan for how the remaining resources from privatization will be used over the coming years.

27. As a first step in the area of tax administration by the end of June, we will refocus the computerization priorities and review the organization and functions of the tax administration directorate (*Direction Générale des Impôts*, DGI) to ensure full computerization of the LTO. Moreover, we will

- Use Sintax to generate a list of late filers and nonfilers for the main tax categories *(TVA, BIC, IRVM, IRF)* and send reminders within a week after the filing deadline (a continuous structural performance criterion). This will enable us to better manage taxpayers so we can keep the nonfiler rate in the LTO to below 5 percent by the end of June 2007 and in the two MTOs by end-2007.

- Finalize assigning the unique taxpayer identifier (*IFU*) to all taxpayers in the LTO and the MTOs and update the taxpayer database *(fichier des contribuables)* with the results of the taxpayer census by end-June 2007.
- Strengthen the management of offices by introducing tools to measure performance, such as scorecards, indicators, and quarterly statistical reports.
- Implement all the modules of Sintax at the LTO and the two MTOs by end-December 2007.
- Pay all verified VAT refund requests for exporters within 90 days by streamlining administrative procedures and ensuring an adequate budget allocation for refunds (end-June structural benchmark).
- Finalize the connection of all regional tax offices to the central server by end-December 2007.
- Optimize the management and prioritization of tax arrears *(restes à recouvrer)* in Sintax and formulate a collection enforcement program.
- Amend the regulations to fuse the two collection divisions in the LTO *(la recette de l'impôt, la recette de l'enregistrement)*.
- Encourage taxpayers, particularly large taxpayers, to pay by bank transfer.
- Reorganize the MTO by sector of activity and create a unit for issue-oriented audits.
- Properly staff the tax dispute division *(direction de la législation et du contentieux)* and shorten the time needed for handling disputes.

28. In customs administration, we will introduce the unique customs document (DDU) in all offices (structural performance criterion for end-June 2007), using the lessons learned from the pilot project in the Ouaga Gare office. Further, we intend to fully implement ASYCUDA by making fully operational the modules that (i) allow customs brokers to access ASYCUDA from their premises; (ii) process declarations; (iii) automatically generate duty amounts; and (iv) select the appropriate customs channel. Specifically we will:

- Refocus computerization priorities and draw up a work program to finalize the four main functionalities of ASYCUDA in the Ouagadougou customs offices (an end-September 2007 structural benchmark).
- Apply the principle of selectivity in controls by defining and coordinating risk-based control procedures that distinguish between ex ante and ex post controls and require adherence to the appropriate customs channel, thus allowing the green channel to function as intended without further controls.
- Continue to require a verification certificate issued by the preshipment inspection company Cotecna for any customs declaration exceeding CFAF 3 million in fob value, and introduce a mandatory reference to the Cotecna verification certificate on the DDU.

- Strengthen our risk-based analysis of the monthly data reconciliation of the Cotecna and customs data by creating a tool to detect discrepancies (by, e.g., tariff nomenclature number, importer, and customs office), and identify whether any customs decision not to follow the company's opinion was appropriate.
- Install and implement the customs valuation database in all customs offices (end-September 2007 structural benchmark) and ensure that it is updated every quarter.

29. To reduce the number of exemptions in line with our policy to broaden the tax base, we will eliminate all possibilities for income tax holidays, remove all VAT exemptions from the existing investment code, and limit the exemption regimes to two categories. To improve the investment climate we will work with the World Bank to draft an investment code that is in line with international best practices. Moreover, we will remove any tax-related elements from the investment code and integrate them into the single tax code. We will ensure that those measures be in accordance with the general framework defined by WAEMU.

30. The single tax code will be submitted to parliament by end-December 2007 (a structural benchmark) and, once adopted, will be posted on the Internet and kept up to date to maintain its usefulness as a one-stop reference. Moreover, we will amend the regulatory framework to ensure that the Minister of Finance cosigns any initiative that has tax policy implications, and we will include an annual tax expenditure calculation in an annex to the budget. A broader review to simplify the tax code, including enlarging the tax base and lowering tax rates, will be launched in mid-2007, and we will request technical assistance from the Fund for this purpose. This reform should help increase the tax-to-GDP ratio over the medium term. The council of ministers will approve a tax policy agenda in line with Fund staff recommendations with a view to broadening the tax base, and eliminating exemptions and nuisance taxes (a structural benchmark for end-December 2007).

31. Good public financial management is key to improving the efficiency and transparency of the public sector. The budget classification system now allows for economic and functional expenditure classification, which increases the analytical value of the budget. Also, we are striving to better track social expenditures and will ensure that they do not fall below an agreed floor. To increase the transparency of public sector finances, starting with the second quarter of 2007, five weeks after each quarter ends we will publish and present to parliament quarterly budget execution reports analyzing developments in revenues, expenditures, and financing. We also intend to improve our budget preparation and revenue forecasting systems and base them on the latest available information.

32. We are evaluating and reinforcing controls on simplified budget execution procedures for cash advances *(régies d'avances, avances de trésorerie)*, limiting this practice to exceptional cases. We will also verify that outstanding balances in treasury accounts *(comptes au Trésor)* reflect current commitments and close accounts that are not necessary. We will complete the development of a fully integrated system to manage externally financed projects by end-2007 (structural benchmark). We will improve the transparency and control mechanisms in revenue collection by implementing the

integrated revenue system *(Circuit Intégré des Recettes, CIR)* at the central level and link it to the other systems of expenditure and revenue management, and we will enhance the effectiveness of the internal and external audit systems by adding staff. Local governments and noncommercial public entities will submit budget execution reports to the AGO (*Cour des Comptes*) in a timely manner.

Monetary policy and financial sector development

33. Monetary policy, which is set at the WAEMU level, will continue to aim at keeping inflation below the WAEMU convergence target. This will be aided by low inflationary pressures early in 2007. Growth in credit to the economy (excluding crop credit) stabilized at about 13 percent in 2006; this provided substantial support to the economy without posing inflationary risks, and a similar rate of expansion is expected for 2007. Net foreign assets will increase by a large margin as a result of foreign direct investment inflows related to the privatization of ONATEL. The import coverage of gross foreign assets of the BCEAO is expected to rise to about 5½ months of imports, reversing a large part of the decline in import coverage that took place over 2004–06 as a result of the terms of trade shock. The corresponding buildup in government deposits in 2007 will limit the monetary impact of the privatization inflows.

34. The financial difficulties in the cotton sector put considerable strain on the banking sector in late 2006 and early 2007. SOFITEX's inability to repay outstanding campaign loans on time adversely affected the cash flow of a number of banks. The systemic risks posed by this situation were limited, though, because excess liquidity in the banking system was high. Also, the shareholders in SOFITEX decided to recapitalize the company to increase the company's net worth and settle bank debts. These actions are complemented by the efforts of the monetary authority to reform regulation so as to confront the financial situation of credit institutions—notably to reduce systemic risk by diversifying the sources of financing.

35. We are now drafting a comprehensive strategy for financial sector development, which has been informed by the World Bank's Financial Sector Review and will further benefit from input by the regional FSAP planned for later this year. Access to collateral—in particular, land titles—has emerged as a key obstacle to the promotion of bank lending. In response, we have launched a pilot program to streamline the granting of land titles, and with World Bank assistance we are now fundamentally revising land tenure legislation. Surveys have also revealed weaknesses in our judicial systems that make enforcement of creditor rights a lengthy and costly process. Judicial reform has been one of our principal priorities in past years, and preparations are already under way to strengthen the application of commercial law (see below).

External sector and financing needs

36. The external sector is expected to improve in 2007. The trade deficit is likely to shrink because exports would be boosted by a good cotton harvest from the 2006/07 campaign. Import growth should decline, partly reflecting the decline in international oil

prices. ONATEL's privatization, which implies an inflow of foreign direct investment of 6 percent of GDP, will result in a substantial buildup in foreign exchange reserves.

37. We will abstain from nonconcessional external borrowing, except in cases that are well-justified. The program would accommodate nonconcessional borrowing in exceptional circumstances, when (i) a project has a high financial return (verified by the World Bank or another donor); (ii) no project loan on concessional terms can be obtained; (iii) it is not feasible to use fungible concessional resources like budgetary support; and (iv) the risk of debt distress continues to be no more than moderate. If these conditions are met, the ceiling on nonconcessional borrowing could be raised in the context of program reviews to accommodate such projects, provided that they do not jeopardize macroeconomic stability.

B. Structural Policies

38. The government intends to continue with its privatization agenda. Another 20 percent of ONATEL will be sold through an initial public offering (IPO) on the regional market and 6 percent share will be sold to ONATEL employees at a small discount. The government will retain a 23 percent share in the company. Moreover, together with the World Bank, we are studying the possibilities of private sector participation in the oil-importing company SONABHY and the electricity company SONABEL. The full pass-through of international to domestic oil prices will be maintained under the program. Moreover, the government is committed to holding electricity subsidies to their budgeted levels in 2007.

39. Improving the business environment is essential for developing the private sector and increasing growth. Consolidation and simplification of the tax code will reduce the costs of applying the code for individuals and businesses and provide a starting point for the further streamlining of the tax system planned for 2008 and 2009. Laws reforming the land tenure systems and streamlining procedures for granting land titles will be important milestones on the road to enhanced property rights and collateralized lending. Financial sector development will also require better protection of creditor rights; to this end we will intensify our efforts to reform the judiciary and to strengthen application of commercial law. In 2007 this will be complemented by making operational the Arbitration and Commercial Dispute Resolution Center *(Centre d'arbitrage et de règlement des litiges commerciaux)* under the aegis of the Chamber of Commerce. The laws governing its operations were adopted and its operating bodies were installed during 2006. Reform of labor market legislation will be another priority for 2007 so that the labor market can be made more flexible. Finally, we will continue to ease the administrative burden of opening and closing businesses. The government has recently expanded the responsibilities of the enterprise registration centers (*Centres de formalités des entreprises*), by simplifying registration formalities and eliminating certain obstacles to opening a business (such as a criminal record and leasing contracts). To improve the business climate in Burkina Faso, the government is working with the World Bank to reduce the time needed to meet all formalities in case of bankruptcy.

40. We are intensifying our efforts to improve governance and reduce corruption. The HACLCC has been consulting at the national level to finalize a three-year action plan, which will implement the recently adopted national policy on fighting corruption. This plan envisages for 2007 a national survey on corruption that will shed light on the extent of the problem in Burkina Faso. Moreover, we have recently updated the National Plan of Good Governance *(*PNBG*)* for 2004–08. Its action plan was adopted in May 2006—after long discussions with technical and financial partners—and is being implemented. The three main objectives of the PNGB are (i) to enhance the role of the state in the socioeconomic development of the country; (ii) to create incentives for the promotion and professionalization of the private sector; and (iii) to enhance capacities in the civil society to influence political and economic decisions.

41. The government is committed to regular publication of official statistics. The publication of some statistics has been prone to delays; the last release of national accounts statistics relates to 2001. We intend to produce the national accounts with a delay of no more than two years. By June 30 we will produce a statistical development plan that emphasizes national accounts and balance-of-payments statistics. The intent is to provide adequate staff and resources for surveys to generate enhanced source data.

V. Program Monitoring

42. The PRGF arrangement covers the period from April 2007 through April 2010. Biannual reviews will be based on test dates for end-June and end-December so as to align the program with the budget year and the PRSP process. Quantitative performance criteria and indicative targets used for monitoring program implementation and structural conditionality measures are shown in Tables 1 and 2, based on definitions in the attached Technical Memorandum of Understanding (TMU). The definition of poverty-reducing spending will be refined by the first review of the program; in the meantime we will continue to use the same concept as in the previous program. We will provide data for program monitoring as described in the TMU. During the program period, the government will not impose or intensify restrictions on the making of payments and transfers on current international transactions without the approval of the International Monetary Fund; nor will it introduce or modify multiple currency practices, conclude bilateral payment agreements inconsistent with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons.

43. Structural conditionality focuses on tax and customs administration, public financial management, and private sector development. Quantitative PCs and targets for 2007 are based on cumulative changes from 2006, and include

- a ceiling on the overall fiscal deficit including grants (PC), with one limited upward adjuster for shortfalls in grants and another for concessional foreign borrowing;
- a floor on fiscal revenues (indicative target);
- a floor on poverty-reducing social expenditures (indicative target);
- a zero ceiling on the accumulation of domestic arrears (PC);

- a zero ceiling on the accumulation of external arrears (PC);
- a ceiling on new nonconcessional external debt contracted or guaranteed by the government (PC); and
- a ceiling on new short-term external debt contracted or guaranteed by the government (PC).

44. The first review of the PRGF will assess performance through June 2007 on quantitative targets and structural conditionality. The second review will assess performance through December 2007 on quantitative targets and structural conditionality.

Table 1. Burkina Faso: Preliminary Quantitative Performance Criteria and Indicative Targets for the Program Under the Poverty Reduction and Growth Facility Arrangement, 2007

(Billions of CFA francs; cumulative from beginning of year)

	2006	2007			
	Dec. Actual	End-Mar. Proj.	End-Jun. Proj.	End-Sep. Proj.	End-Dec. Proj.
Performance criteria and indicative targets[1]					
Ceiling on the overall fiscal deficit including grants (payment-order basis)[2]	140.3	70.0	80.0	155.0	215.0
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government[3, 4]	0.0	0.0	0.0	0.0	0.0
Ceiling on the amount of new external debt of less than one year's maturity contracted or guaranteed by the government[3, 4]	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears[3]	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears[3]	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Government revenue	392.4	95.0	230.0	340.0	450.0
Poverty-reducing social expenditures	173.2	45.0	95.0	150.0	204.0
Maximum upward adjustment of fiscal deficit ceiling including grants due to:					
Shortfall in grants relative to program projections		25.0	25.0	25.0	25.0
Excess in concessional loan financing relative to program projections		15.0	15.0	15.0	15.0
Memorandum items:					
Grants[5]	846.6	39.5	110.0	140.2	178.0
Concessional loans[5]	133.2	28.7	69.5	161.5	189.5

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

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

[2] The ceiling on the overall fiscal deficit including grants is to be adjusted in line with the specifications set out in the TMU.

[3] To be observed continuously.

[4] Excluding Treasury bills and bonds issued in CFA francs on the regional West African Economic and Monetary Union (WAEMU) market. This ceiling excludes supplier credit with a maturity of one year or less.

[5] Includes identified financing only.

Table 2. Burkina Faso—Structural Conditionality

	Measure	Timing	PC / Benchmark
Tax administration	Use Sintax to generate a list of LTO late filers and nonfilers for the main tax categories (VAT, corporate income, tax on income from securities, and tax on income from real estate), and send reminders within a week after the declaration deadline (MEFP ¶27).	June 30, 2007 (start date)	Continuous PC
	Put in place a mechanism to accelerate VAT refunds so that verified refund requests are paid within 90 days. (MEFP ¶27)	June 30, 2007	Benchmark (1st review)
Customs administration	Implement the single customs declaration form (MEFP ¶28).	June 30, 2007	PC (1st review)
	Make main ASYCUDA modules fully functional in computerized offices and put them into operation, beginning with Ouagadougou (MEFP ¶28).	September 30, 2007	Benchmark (1st review)
	Put in operation a computerized customs-specific valuation database in the computerized offices (MEFP ¶28).	September 30, 2007	Benchmark (1st review)
Public financial management	Introduce a comprehensive system for tracking foreign-financed expenditures (MEFP ¶32).	December 31, 2007	Benchmark (2nd review)
Tax policy	Submit the single tax code to parliament consolidating all tax legislation (MEFP ¶30).	December 31, 2007	Benchmark (2nd review)
	Secure approval from the Council of Ministers for a tax policy reform strategy in line with Fund staff recommendations (MEFP ¶30).	December 31, 2007	Benchmark (2nd review)
Cotton sector	Adopt a formula-based producer price mechanism for cotton linking the producer price to world prices in collaboration with the World Bank (MEFP ¶23).	June 30, 2007	Benchmark (1st review)
	Secure government approval of a liberalization strategy for SOFITEX in collaboration with the World Bank (MEFP ¶22).	December 31, 2007	Benchmark (2nd review)

APPENDIX II
ATTACHMENT II

Translated from French

TECHNICAL MEMORANDUM OF UNDERSTANDING

Ouagadougou, April 11, 2007

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

I. DEFINITIONS

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

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

- Treasury bills and bonds issued in CFA francs on the WAEMU (West African Economic and Monetary Union) regional market are included in domestic debt for purposes of this memorandum.

- **Government** is defined as the central government of Burkina Faso and does not include any political subdivision, government-owned entity with a separate legal personality, or the central bank.

- **External payments arrears** are external payments due but unpaid. Domestic arrears are domestic payments due but unpaid after a 90-day grace period, unless the obligation specifies a different grace period.

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

II. QUANTITATIVE PERFORMANCE CRITERIA

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

A. Overall Deficit Including Grants

Definition

4. For the program, the overall deficit including grants is valued on a payment-order basis *(ordonnancement)*. It is defined as the sum of foreign and domestic financing (net) of the government measured from the financing side plus cash basis adjustment. Net foreign financing is the sum of foreign borrowing and debt relief minus amortization. Net domestic financing is the sum of (i) net bank credit to the government, including both net bank credit to the treasury as defined below and other government claims on and debts to national banking institutions; (ii) unredeemed government bills and bonds held outside national commercial banks; and (iii) privatization receipts. Net bank credit to the treasury is the balance of the treasury's claims and debts vis-à-vis national banking institutions. Treasury claims include the cash holdings of the Burkinabè Treasury, deposits with the central bank, deposits with commercial banks, secured obligations, and government deposits with the postal system (CCP). Treasury debt to the banking system includes funding from the central bank (including statutory advances, consolidated advances, IMF financing, and refinancing of secured obligations), government securities held by the central bank, funding from commercial banks (including government securities held by commercial banks), and CNE *(Caisse Nationale d'Épargne Postale)*/CCP securitized deposits. Net bank credit to the government is calculated by the Central Bank of West African States (BCEAO), whose figures are recognized as valid for program purposes. The stock of treasury bills and other government debt, as well as net foreign financing, is calculated by the Ministry of Finance. Cash basis adjustment is the sum of (i) payment orders not executed *(ordonnonancées non-payées)*; and (ii) change in treasury deposits.

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

Adjustment

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

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

Reporting deadlines

8. The Ministry of Finance will forward data to the IMF on the overall deficit excluding grants within six weeks after the end of each quarter.

B. Nonaccumulation of Domestic Arrears

Definition

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

Performance criterion

10. The government will not accumulate any arrears on domestic government obligations during the program period. This is a performance criterion, to be observed continuously.

Reporting deadlines

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

C. Nonaccumulation of External Arrears

Performance criterion

12. The government's external debt is the stock of debt owed or guaranteed by the government. External arrears are external payments due but not paid on the due date. Under the program, the government undertakes not to accumulate arrears on its external debt, except those arising from government debt that is being renegotiated with creditors,

including non-Paris Club bilateral creditors. Nonaccumulation of external arrears is a performance criterion, to be observed continuously.

Reporting deadlines

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

D. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

14. The government undertakes not to contract or guarantee any external debt maturing in one year or more that has a grant element of less than 35 percent (calculated using the interest reference rate for borrowed foreign currencies provided by the IMF) beyond the ceiling indicated in the MEFP (Table 1). This performance criterion applies not only to debt as defined in point 9 of the Guidelines (see ¶2), but also to all commitments contracted or guaranteed for which value has not been received. However, it does not apply to treasury bills and bonds issued in CFA francs on the WAEMU regional market. This performance criterion is to be observed continuously.

Reporting deadlines

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

E. Government Short-Term External Debt

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

III. Other Quantitative Indicative Targets

17. The program also includes indicative targets on total government revenue and poverty-reducing social expenditures.

A. Total Government Revenue

Definition

18. Total government revenue is valued on a cash basis. It includes all tax and nontax revenue collected by the Directorate General of Taxation, the Directorate General of

Customs, the Burkinabè Treasury, and revenue collection units at ministries and institutions, and it also includes revenue from treasury checks.

Reporting deadlines

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

B. Poverty-Reducing Social Expenditures

Definition

20. Poverty-reducing social expenditures are defined by the PRSP priority sector programs designed to accelerate the reduction of poverty. They cover all spending categories for the following ministries: Primary Education and Literacy; Health; Social Action and National Solidarity; Promotion of Women; Labor and Social Security; Employment and Youth; Agriculture, Water and Fishing Resources; Animal Resources; and Environment. They also cover rural roads and HIPC resources for infrastructure spending and for the Justice Ministry and the Ministry of Economy and Development. Until 2006 these expenditures were compiled from budget execution tables and from the special HIPC account. Starting in 2007 they are monitored directly through the budget, as are all HIPC resources.

Reporting deadlines

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

IV. Structural Performance Criteria

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

A. Nonfiler Notices

23. The government will use Sintax to generate a list of Large Taxpayer Office (LTO) late filers and nonfilers for the main tax categories and send reminders within a week after the deadline for returns. This performance criterion will be observed on a continuous basis starting in June 30, 2007. A late filer is anyone who files a tax return after the deadline. A nonfiler is anyone in the database who did not file taxes. The main tax categories are the VAT *(TVA)*, the corporate income tax *(BIC)*, the tax on income from securities *(IRVM)*, and the tax on income from real estate *(IRF)*. Declaration deadlines for the main tax categories are set in the tax code. The government will send reminders to at least 98 percent of the late filers and nonfilers.

B. Single Customs Declaration Form

24. The government will by June 30, 2007, implement the single customs declaration form (a performance criterion). The form *(Document en Douane Unique, DDU)* will be

the sole document used for customs declarations in all customs offices after June 30, 2007.

V. ADDITIONAL PROGRAM-MONITORING INFORMATION

A. Public Finance

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

- A monthly government flow-of-funds table (TOFE) and the customary appendix tables, to be forwarded within six weeks after the end of each month; if data on actual investment financed by external grants and loans are not available in time, a linear implementation estimate based on the annual projections will be used.
- Complete monthly data on domestic budgetary financing (net bank credit to the government and stock of unredeemed treasury bonds and bills), to be provided within six weeks after the end of each month.
- Quarterly data on implementation of the public investment program, including details on financing sources, to be sent within six weeks after the end of each quarter.
- Quarterly data on external debt stock, external debt service, signing of external loans, and disbursements of external loans, to be sent within four weeks after the end of each quarter.
- Monthly data on prices and the taxation of petroleum products, including (i) prices prevailing during the month; (ii) detailed calculation of the price structure, from the f.o.b.-MED price to the retail price; (iii) volumes purchased and made available for consumption by the petroleum distributor (SONABHY); and (iv) a breakdown of receipts from the taxation of petroleum products—customs duties, tax on petroleum products (TPP), and value-added tax (VAT)—and of subsidies, to be provided within four weeks after the end of each month.
- A monthly statement of the status of accounts with the treasury, classified by major category (administrative services, state enterprises, mixed enterprises, public administrative enterprises, international organizations, private depositors, and others), to be provided within six weeks after the end of each month.
- Quarterly data for the large taxpayer office on (for *TVA, BIC, IRVM, and IRF*) the numbers of:
  - registered taxpayers
  - declarations received on time
  - declarations with payments
  - declarations with credit balances
  - declarations with no tax liability
  - declarations with tax liability but without payment

- reminder letters sent to late and nonfilers
- penalty letters sent for late filing, failure to file, and insufficient payments
- comprehensive and issue-oriented audits

as well as:

- amounts of additional tax liabilities, assessed penalties, and collections amounts (principal and penalties)
- data by tax type (VAT, CIT, and excises)
- the stock of tax arrears (original amount, penalties, and interest)
- the flow of new tax arrears
- amounts recovered, and amounts written off.

These quarterly statistics are to be provided within two weeks after the end of each quarter. Similarly, quarterly data on the following are to be sent within 2 weeks of the end of the quarter:

- total number of customs declarations
- number of declarations selected by channel
- number of declarations processed by customs in less than 24 hours
- number of transit declarations not acquitted within 30 days and the value of the corresponding goods
- number of declarations reviewed after release
- number of post-release audits on traders premises
- duties and penalties assessed by category of offences
- collected duties and penalties
- total duty assessed
- total duty collected
- stock of duty under deferred payment (*crédit d'enlèvement*)
- stock of customs arrears.

B. Monetary Sector

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

- the consolidated balance sheet of monetary institutions
- provisional data on the monetary survey (with final data provided ten weeks after the end of each month)
- borrowing and lending interest rates

- customary banking supervision indicators for bank and nonbank financial institutions, if necessary.

C. Balance of Payments

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

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

D. Real Sector

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

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

E. Structural Reforms and Other Data

29. The government will also report the following:

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

Summary of Data Requirements

Type of Data	Tables	Frequency	Reporting Deadline
Real sector	Provisional national accounts	variable	End of provisional estimate + eight weeks
	Revisions of national accounts	Variable	End of revision + eight weeks
	Disaggregated consumer price index	Monthly	Month's end + two weeks
Public finance	Net treasury and government position at the BCEAO and details of nonbank financing, including the stock of treasury bills and bonds	Monthly	Month's end + six weeks
	Government flow-of-funds table (TOFE) and the customary appendix tables	Monthly	Month's end + six weeks
	Execution of capital budget	Quarterly	End of quarter + six weeks
	Poverty-reducing social expenditures	Monthly	Month's end + 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 + six weeks
	Statistics of the LTO on tax filings, tax audits, tax arrears, and collection enforcement actions.	Quarterly	End of quarter + (two) weeks
	Statistics on customs declarations.	Quarterly	End of quarter + 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
	Trade statistics	Quarterly	End of quarter + eight weeks
	Revised balance of payments data	Variable	When revisions occur
External debt	Outstanding external debt stock, arrears and repayments (if applicable)	Quarterly	End of quarter + four weeks
	Details of all new external borrowing	Quarterly	End of quarter + four weeks

INTERNATIONAL MONETARY FUND

BURKINA FASO

Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Informational Annex

Prepared by the African Department
(In collaboration with other departments)

Approved by Thomas Krueger and Mark Plant

April 11, 2007

- **Relations with the Fund.** Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 23.2 million (38.6 percent of quota) at end-February 2007.

- **Relations with the World Bank.** Describes the World Bank Group program and portfolio, including a statement of IFC investments.

- **Statistical Issues.** Assesses the quality of statistical data. Weaknesses in a broad range of economic statistics are hampering the analyses of economic developments in the country.

BURKINA FASO: Relations With The Fund

(As of February 28, 2007)

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

II. General Resources Account:	**SDR Million**	**In percent of quota**
Quota	60.20	100.00
Fund holdings of currency	52.83	87.76
Reserve position in Fund	7.37	12.25
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**In percent of allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.06	0.64

IV. Outstanding Purchases and Loans:	**SDR Million**	**In percent of quota**
Poverty Reduction and Growth Facility (PRGF) arrangements	23.22	38.57

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jun. 11, 2003	Sept. 30, 2006	30.10	30.10
PRGF	Sept. 10, 1999	Dec. 09, 2002	39.12	39.12
PRGF	Jun. 14, 1996	Sept. 09, 1999	39.78	39.78

VI. Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2007	2008	2009	2010	2011
Principal				0.69	2.41
Charges/interest	0.41	0.52	0.51	0.51	0.50
Total	0.41	0.52	0.51	1.19	2.91

VII. Implementation of HIPC Initiative:

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

VIII. Implementation of MDRI Assistance:

I. Total Debt Relief (SDR Million)[3]	62.12
Of which: MDRI	57.06
Of which: HIPC	5.06

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery date	**GRA**	**PRGF**	**Total**
January 2006	N/A	62.12	62.12

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

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

[3] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

IX. Safeguards Assessments:

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

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

The new assessment identified a number of areas where further steps would help solidify the progress made. The main recommendations relate to improvements in the external audit process (including the adoption of a formal rotation policy), further enhancement of the transparency of the financial statements by fully adopting IFRS, and further strengthening of the effectiveness of the internal audit function.

X. Exchange Rate Arrangement:

Starting on January 1, 1999, Burkina Faso's currency, the CFA franc, has been pegged to the euro at the rate of €1=CFAF 655.957. The exchange rate as of March 23, 2007 was CFAF 874.2=SDR 1. The exchange system is free of restrictions on the making of payments and transfers on current international transactions.

XI. Article IV Consultations:

The periodicity of Burkina Faso's Article IV consultation is set in accordance with the July 15, 2002 Executive Board Decision on consultation cycles. Discussions on the 2005 Article IV consultation and fourth review under the Poverty Reduction and Growth Facility (PRGF) were held during the period May 24—June 9, 2005 in Ouagadougou. The staff report (EBS/05/130; 8/24/05) and the Selected Issues and Statistical Annex (SM/05/333; 8/24/05) were considered by the Executive Board on September 7, 2005.

XII. ROSC/AAP:

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

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

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

XIII. Technical Assistance:

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

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	Tax Advisor	February 7–11, 2005	Review the progress made on: (1) the setup of the Large Taxpayer Unit and the Medium Taxpayers Office; (2) the steps to strengthen the fiscal control; and (3) the corporate registry reform.
AFRITAC	Customs Advisor	February 14–18, 2005	Provide assistance to control transit merchandises in the country and travelers at Ouagadougou airport.
AFRITAC	Customs, short-term Expert	February 14–23, 2005	Implement customs valuation code and establish a database for indicative import prices.
AFRITAC	Microfinance Advisor	March 21–25, 2005	Assess the TA need of the Cellule responsible of the supervision of microfinance institutions and prepare a capacity-building program.
AFRITAC	Short-term Expert	April 18–29, 2005	Training of auditors of the Tax administration.
AFRITAC	PEM Advisor	June 27, July 1, 2005	Review of the public finance directives of WAEMU.
AFRITAC	STA Advisor and Short-term Expert	June 27–July 5, 2005	Assist in setting up database for the TOFE (first or two scheduled missions) and expand further the scope of the TOFE (last of three scheduled missions).
AFRITAC	Customs Advisor visits	July 10–16, 2005	Advise on customs enforcement and assessment of further TA needs.
AFRITAC	Tax Advisor	August 8–12, 2005	(1) Review the status of implementation of the 2003 FAD mission's recommendations; (2) update the tax directorate's action plan; and (3) asses the DGI TA's needs.

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	STA Short-term Expert	August 22–26, 2005	Assist with putting in place the database of public finances.
AFRITAC	Customs Advisor	August 28–September 1, 2005	Advise on customs enforcement and assessment of further TA needs.
AFRITAC	STA Short-term Expert	August 29–September 2, 2005	Assist and set up database for the TOFE (last of the two scheduled missions).
AFRITAC	Microfinance Advisor	September 19–23, 2005	Strengthen operational systems for the surveillance of microfinance institutions.
AFRITAC	STA Short-term Expert	September 19–23, 2005	Assist and setting up database for the TOFE (additional mission).
AFRITAC	PEM Advisor	October 10–14, 2005	Review the status of implementation the January 2004 mission recommendations and asses the technical assistance needs.
AFRITAC	Microfinance Advisor and Short-term Expert	November 21–December 16, 2005	Coach in microfinance inspections.
AFRITAC	STA Advisor	December 6–15, 2005	Review the WAEMU directives on budgetary nomenclature.
AFRITAC	Customs Advisor	January 23–25, 2006	Strengthen the dialogue between the customs administration and the private sector (regional workshop).
AFRITAC	STA Advisor	March 11–25, 2006	Review the directive on the TOFE.
AFRITAC	PEM Advisor	March 13–17, 2006	Review the directive on the TOFE.
AFRITAC	Tax administration; Short term Expert	March 14–28, 2006	Assist in strengthening (1) operations of the LTU; and (2) tax auditing.
AFRITAC	Customs Advisor	March 14–28, 2006	Assist in defining an action plan to improve revenue mobilization.
FAD	Revenue administration mission	March 14–28, 2006	Advise on tax and customs administration reform strategy (including improvement of the large tax payer unit, and strengthening of the tax and customs organization and operations).

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	Custom Advisor	April 4–14, 2006	Strengthen the control of goods valuation.
AFRITAC	Tax administration; Short term Expert	April 17–28, 2006	Strengthen the management of the most important taxpayers.
AFRITAC	Tax Advisor	July 24–28, 2006	Follow up the implementation of the recommendations by the FAD mission in March 2006.
AFRITAC	Microfinance Advisor	July 31–August 4, 2006	Identify the follow-up indicators from a distance.
AFRITAC	Real statistic sector Advisor	September 11–20, 2006	Take stock of the implementation of the recommendations by the ROSC mission in March 2004.
AFRITAC	Microfinance, Short term Expert	September 28–October 20, 2006	Accompany the agents of the Cell S-IFD
AFRITAC	Public expenditure Advisors	October 2–12, 2006	Review and follow up the implementation of the priority action plan in the PF strengthening strategy.
AFRITAC	Microfinance; Short term Expert	October 2–20, 2006	Develop agent's abilities in inspection and accompany them in the field.
AFRITAC	Customs administration, Short-term Expert	November 20–December 1, 2006	Assess the implementation of preview recommendations relating to the control of goods valuation in the customs.
AFRITAC	Tax Advisor	November 20–December 1, 2006	Strengthen capacities of the tax administration to fight tax evasion.
AFRITAC	Macroeconomic statistics Advisor	March 5–9, 2007	Training in Government Statistics Manual 2001
AFRITAC	Debt Advisor	March 5–16, 2007	Study the situation of the administrative management of the internal and external debts.

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	Customs Advisor	March 12–23, 2007	Follow up the implementation of the recommendations by the FAD mission in March 2006, and assess the implementation of the goods valuation control in the customs.
AFRITAC	Macroeconomic statistics Advisor	March 19–23, 2007	Training in Government finance statistics framework.
AFRITAC	Tax Advisor	March 26–30, 2007	Assist in the implementation of the tax administration strengthening and modernization measures.

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

Burkina Faso: Relations with the World Bank Group[4]

(As of March 5th, 2007)

Partnership in Burkina Faso's development strategy

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

1. **Partnership with the Fund**. The Fund has supported Burkina Faso with four arrangements under the Poverty Reduction and Growth Facility between 1993 and 2006. The sixth and last review of the fourth PRGF arrangement has been concluded in September 2006. A recent Ex-Post assessment of the Fund's engagement in Burkina Faso recognizes weak revenue performance as a key area requiring additional efforts. The authorities are currently seeking support under a fifth PRGF arrangement which aims to cover 2007–09.

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

The FY06–09 Country Assistance Strategy (CAS)

3. **Lessons from past support to Burkina**. The 2000 CAS Completion Report concludes that development outcomes in FY01–05 were satisfactory, as was Bank performance in supporting implementation of the strategy. Key lessons from the past CAS have shaped the strategy for FY06–09. First, strong country commitment and consistent

[4] This appendix has been prepared by the World Bank. Additional information can be obtained from Michelle Keane, Acting Country Program Coordinator, or Abdoulaye Seck, Senior Country Economist.

policy reform have succeeded in creating an environment more conducive to growth. Second, a more aggressive approach to economic diversification and administrative decentralization will be required in order to accelerate growth and make it more inclusive. Third, the CAS needs to do more to support strengthening of national capacity and country systems, in order to get better results and sustain them. Finally, IDA and other external partners must use the next few years to translate principles of harmonization into reality, in order to reduce the burden of aid management for Burkina Faso. The positive and constructive example of the General Budget Support Framework (CGAB), which provides for a joint framework shared by the government and the donors engaged in providing budget support in Burkina, could serve as appoint of reference.

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

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

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

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

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

5. The PRSP-2 provides the framework of development objectives and priorities, which the FY06–09 CAS aims to support. Given the country context, recent progress and medium-term prospects, the main challenges for Burkina Faso in the upcoming CAS period can be

summarized as follows: (i) maintaining commitment to reform despite less favorable conditions for growth; (ii) overcoming long-standing obstacles to economic diversification; (iii) improving the efficiency of public spending for social services, water and sanitation; (iv) decentralizing development to enhance pro-poor growth; and (v) creating a public sector interface that inspires private sector confidence.

Assessment of country policies

6. In close collaboration with the Burkinabè authorities, IDA has undertaken substantial analytical work over the past five years to assess key social, structural, and sectoral development policies and to identify policy and institutional reform priorities for poverty reduction. IDA has relied on a combination of the PRSP and its annual progress reports, a second priority poverty survey and two poverty profiles, sectoral policy notes, and informal papers on specific issues, such as constraints in growth and competitiveness, or the dynamics of poverty and income inequality. IDA has also helped the Burkinabè authorities carry out analytical work in key sectors (education, health, rural development, energy, transport, and private sector development) and assisted with the preparation of a comprehensive economic study on long-term sources of growth and competitiveness in 2001. IDA completed a public expenditure review in June 2004 and a Poverty Assessment in July 2004; a Population Sector Work in April 2005 and a Country Procurement Assessment Report (CPAR) in June 2005. An Investment Climate Assessment and a Labor Market Study were finalized in 2006. IDA will continue to support preparation and dissemination of participatory analytical work in the FY07–09 period linked to strategic priorities. Areas of particular emphasis in the next few years include a Financial Sector Review, Integrated Trade Framework, sequencing of decentralization, understanding and addressing persistent malnutrition, and a Country Economic Memorandum analyzing more deeply the sources of growth in Burkina Faso and policy options to sustain growth and poverty reduction.

The Bank's current portfolio

7. The Bank's cumulative commitments to Burkina Faso as of February 28th, 2007 amount to US$2,365. million, which resulted in 82 operations, comprising 76 IDA credits and 6 IDA grants.

8. The **current portfolio** comprises IDA and GEF commitments of US$687 million, of which US$ 246 million are undisbursed. IDA's portfolio in Burkina Faso is as follows:

- The **PRSC-6** approved on June 20, 2006 for US$60 million equivalent supports the implementation of PRSP-2 and its accompanying PAP. PRSC-6 has been fully disbursed by August 2006. Under the growth and employment objectives, PRSC-6 supports reforms in the cotton, rural, telecommunication and energy sectors, as well as in the labor market, to lower factor costs, increase productivity and favor new investments. PRSC-6 also supports policies in the education, health, social protection, and water sectors with the objectives to improve access and improve service quality. Lastly, PRSC-6 supports measures to strengthen budget formulation, execution, procurement, and control, as well as public sector performance, decentralization, and environmental management. Currently a new PRSC series is being prepared.

- In the **agriculture** sector, the community-based rural development program (US$66.7 million equivalent, FY01) aims at reducing poverty and promoting sustainable development in rural areas. Its first phase provides for building local capacity to plan and implement rural development projects, accelerating the pace of public transfers for decentralized rural development, and supporting implementation of the country's decentralization framework. The recently approved Agricultural Diversification and Market Development Project (US$84.5, FY 2006) aim to increase the competitiveness of selected agricultural products.

- To support **human resource development**, three operations are being implemented. In **education**, a basic education operation (US$32.6 million equivalent) was approved in January 2002. The project provides support for the government's ten-year basic education program, which will be implemented in three phases, the first of which covered the period 2001–05. The main development objective of Phase I of the ten-year program was to lay the foundation for accelerating the development of basic education, while ensuring adequate quality and financial sustainability. The Bank also assists the country with the implementation of a new development learning center (US$2.3 million equivalent, FY03) for distance-learning activities that will give the Burkinabè access to the latest research worldwide. Both projects have been fully disbursed. Following the **HIV/AIDS** disaster response project (US$22 million equivalent, FY02) and its full implementation in 2001–04, a US$5 million supplemental grant has been approved on May 3, 2005 to complete the activities of the original operation. In addition, the multi-country *HIV/AIDS Treatment Acceleration Program* (TAP), approved in June 2004, includes US$22 million for Burkina Faso, to scale up treatment through strengthening the response of associations of persons living with HIV/AIDS and the Ministry of Health.

- A **Health Sector Support and Multisectoral AIDS Project** (US$47.7 million) was approved in April 2006 and aims at improving the quality and use of maternal and child health services; scaling up the malaria response and control by supporting malaria prevention and treatment activities; subsidizing procurement and distribution of insecticide-treated bed nets and malaria medicines, with a focus on children under five and women; and providing flexible support for rapidly responding to epidemics, including meningitis, cholera, and bird influenza; scaling up AIDS treatment, promoting HIV prevention and behavioral change, and mitigating the socio-economic consequences of the HIV/AIDS epidemic.

- A **Post Primary Education Project** (US$25.9 million, FY06) was approved in June 2006 and aims at supporting the Government strategy to increase the number, and quality of students graduating from secondary school at reduced costs for parents, with increased equity of access by gender and by area (rural-urban).

- An **Agricultural Diversification and Market Development Project** (US$66.0 million, FY06) aims at strengthening private operators' capacities to respond to market opportunities and requirements; developing irrigation and marketing infrastructure for agricultural productivity increase, product quality improvement, and agricultural diversification, while strengthening producers' linkages to markets; improving the business environment, regulatory framework, and provision of advisory services.

- A **water supply** project (US$70 million equivalent, FY01) aims at increasing access to adequate and reliable potable water in Ouagadougou through expanded distribution and tertiary water networks and improved urban water sub-sector management.
- A technical assistance credit for **private sector development** (Competitiveness and Enterprise Development Project, US$34.3 equivalent, FY03) provides support to implement the privatization program; improve the quality, access, and cost of telecommunications, and promote the development of a strong indigenous private sector in Burkina Faso through a streamlined business environment and well-targeted financial and nonfinancial services to small and medium-sized enterprises.
- The Bank approved a **transport sector** project in April 2003 for US$92 million equivalent. The project concentrates on rural roads as the rural economy is the main source of income and employment for 80 percent of the population.
- A **statistical capacity building** credit for US$13 million equivalent was approved in March 2004. The project aims at improving policy decision-making, based on timely and accurate quantitative and qualitative information, that help monitor progress towards national development goals, including the PRSP goals and the MDGs.
- An **administration capacity building** grant for US$8.5 million equivalent was approved in March 2005. The project aims at improving administration structures and processes in light of the decentralization policy, in order to yield measurable impact on provision of services to the citizens of Burkina Faso. This will improve human and financial management systems and entrench a culture of capacity building in the administration.
- A **power sector development** project, US$63.5 million equivalent, was approved in November 2004, with the aim to increase power supply through domestic generation and investment in sub-regional inter-connectors for increased electricity imports.

9. The Bank's **proposed remaining lending** program for the FY06–09 period will consist of: (i) one programmatic development lending operation per fiscal year; (ii) support to the agriculture sector through a follow up to the intensification and market diversification project, and the second phase of the community-based rural development program; (iii) an energy access project which will aim at increasing access to infrastructure services, especially for rural communities; (iv) a capacity building project to support the decentralization agenda. In addition, Burkina Faso will participate in regional projects to improve infrastructure networks and increase agricultural productivity[5].

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

Bank-Fund collaboration in specific areas

10. **Cotton sector.** The Bank and Fund staffs jointly follow developments in the cotton sector, because of its importance for macroeconomic aggregates and rural incomes. The Fund staff focuses on the overall financial management of the cotton sector in order to limit spillover effects for government finances and the banking sector. The Bank staff is accompanying the government's structural reform agenda in the sector under a series of PRSCs. These reforms aim to create a more competitive environment. The reforms have contributed over the past decade to a gradual privatization of the state managed cotton monopoly with the transformation of the former state monopoly company into a privately held company, with a minority stake hold by the state; the introduction of two additional fully privately owned cotton companies, improved financial management, and the increased involvement of producer organizations in decision-making processes, including the setting of producer prices.

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

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

Statement of IDA Credits/Grants

As of February 28th, 2006

(In millions of U.S. dollars)

Burkina Faso Active Projects	Approval Date	Initial IDA Allocation in million of US$	Undisbursed Amount of Active Projects
Post-Primary Education [a/]	6/20/2006	25.9	16.0
West and Central Africa Air Transport Safety and Security Project	4/27/2006	33.5	4.5
Agricultural Diversification and Market Development Project	6/20/2006	84.5	43.8
Health Sector Support & Multisectoral AIDS Project	4/27/2006	47.7	30.9
Administration Capacity Building Project [b/]	3/22/2005	8.5	3.8
Africa Emergency Locust Project (REGIONAL) [c/]	12/16/2004	72.8	3.8
Development of the National Statistical System	3/25/2004	13.0	3.7
HIV/AIDS Treatment Acceleration Project (REGIONAL) [c/ d/]	6/17/2004	18.7	4.9
Sahel Integrated Lowland Ecosystem Management	6/22/2204	4.9	3.0
Power Sector Development Project [e/]	11/30/2004	63.5	30.1
HIV/AIDS Disaster Resp. Supl. [f/]	5/3/2005	5.2	5.0
Competitiveness & Enterprise Development Project [g/]	3/4/2003	34.3	17.3
Transport Sector Project [e/]	4/8/2003	92.0	49.9
Basic Education Sector Project	1/22/2002	32.6	15.7
Partnership for Natural Ecosystem Management Project	5/21/2002	13.4	0.8
Ouagadougou Water Supply Project	3/20/2001	70.0	11.6
Community-Based Rural Development Projet	11/30/2000	66.7	1.0
Total		687.2	245.8

a/ 80% IDA Grant

b/ 90% IDA Grant

c/ Initial IDA allocation set aside for Burkina Faso.

d/ 100% Grant

e/ 15% IDA Grant

f/ 45% IDA Grant

Source: World Bank

Burkina Faso: Statistical Issues

Overall, data provision is adequate for surveillance purposes, but serious shortcomings hamper economic and program monitoring. Burkina Faso has participated in the General Data Dissemination System (GDDS) since December 2001 and its metadata are posted on the Dissemination Standards Bulletin Board (DSBB). However, the metadata have not been updated since 2001. Following the conversion of the National Institute of Statistics and Demography (INSD) into an autonomous agency, its human and material resources were significantly increased in 2002.

Burkina Faso has received technical assistance (TA) under the government finance statistics (GFS) component of the regional GDDS project (funded by Japan) for member countries of the West African Economic and Monetary Union (WAEMU).[6] A data ROSC mission visited Burkina Faso in May 2003 and the report was published in March 2004. STA missions that visited Burkina Faso in May 2006 and September 2006 helped the authorities update the statistical plans for improvements and recommended increasing resources to support statistical reforms, especially to the INSD, for additional staff and survey work. This was seen as a prerequisite to enhanced overall effectiveness of technical assistance.

Real sector

Serious problems have been identified in both national accounts and price statistics. The INSD compiles the **national accounts** following the harmonized WAEMU guidelines, which are in line with the *1993 SNA*. Annual data are available on GDP estimates by economic activity (19 industries) and by expenditure categories at current and constant (1985) prices, as well as by institutional sector accounts. Also, a general table of transactions and an overall balance of goods and services are available.

The quality of the national accounts estimates is impaired by the scarcity of suitable data sources and by deficiencies in statistical practices. In particular, the informal sector is not properly captured, with estimates derived from limited informal sector surveys conducted in 1989 and 1996. Although included in the directory of industrial and commercial enterprises, most medium and small enterprises belonging to the "modern sector" fall short of submitting accounting statements or tax declarations. Other deficiencies revealed from GDDS metadata are the residual estimation of private household consumption in the absence of an adequate framework to validate data (i.e., supply-use tables), and the use of an outdated base year (1985) for constant price estimates. Burkina Faso has completed, with TA from the Fund and other donors, the current price accounts for 2000 and revised the 1999 data. A work program aiming at improving the quality of the national accounts and producing estimates for missing years has been set up with AFRITAC assistance. To this end, the INSD will receive further TA from the AFRISTAT and INSEE-France.
The **consumer price index** compiled by the INSD follows the methodology of the harmonized index adopted by the WAEMU member countries. The index only covers expenditures by households living in the capital. Further restrictions are the exclusion of non-African households,

[6] Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

various types of purchased goods and services, as well as services of owner-occupied dwellings. The weight for the item "food, beverages, and tobacco" (33.9 percent of the total) is very low in comparison with neighboring countries. A possible explanation is that the survey from which the weights are taken did not cover a full year. There are plans—subject to the availability of funding—to update the weights. Currently, the base year is 1996. When a product is unavailable, its price is presumed to remain unchanged for a period of up to three months, which is in conformity with the WAEMU methodology. However, best practice would impute a price change for these items on the basis of the prices recorded for closely related products. The software package used for calculating the consumer price index needs to be improved. There do not seem to be other major problems concerning the index, whose periodicity and timeliness meet SDDS requirements. The index is published by the INSD and is also available on the BCEAO and AFRISTAT websites.

The authorities do not compile a **producer price index** or wholesale price index. According to plans for improvement posted on the DSBB, the development of these indices is not envisaged, even for the medium term.

Government finance

Annual data are published in the *International Financial Statistics (IFS)* through 2005. No detailed monthly or quarterly data have been reported to STA for publication. *The 2006 Government Finance Statistics Yearbook* includes data for 2004 and 2005 that were for the first time reported in the format of the *Government Finance Statistics Manual 2001.* The data cover budgetary operations only, but include a breakdown by function for 2004. In general, *GFS* compilation is constrained by a lack of coordination among fiscal agencies. The ROSC identified as areas for improvement the production of functional and ministerial breakdown of expenditure, extending the coverage of the TOFE to the general government, and basing compilation on the Treasury ledger.

Monetary and financial statistics

Preliminary monetary data are prepared by the national agency of the Central Bank of West African States (BCEAO) and released officially with a lag of two to three months. Most of the problems in the monetary statistics are not specific to Burkina Faso, but concern all member countries of the WAEMU. For example, the BCEAO has encountered difficulties in estimating currency in circulation in each WAEMU member country due to large backlogs of unsorted banknotes held by the central bank in its various national agencies. Another problem has been the slower-than-expected implementation of the new accounting system by banks since its introduction on January 1, 1996. These delays contribute substantially to the lag in reporting monetary statistics.

The problems underlying delays in reporting of monetary statistics have not been resolved, despite technical assistance and additional measures to accelerate the bank note sorting operations to estimate currency in circulation in the WAEMU countries. In August 2005, the BCEAO informed STA of a change in the method to estimate currency in circulation in the WAEMU countries. The new method, based on updated sorting coefficients ("coefficients de tri"), has been applied backwards to time series from December 2003 and aims at improving the accuracy and timeliness of monetary statistics in the WAEMU countries. The African Department and STA await more information from the authorities to review the new methodology. Meanwhile, however, key monetary aggregates such as broad money, net foreign assets and other monetary indicators have undergone substantial revisions.

Following a technical assistance mission to the BCEAO headquarters in 2001, the authorities agreed on an action plan for the implementation of the *Monetary and Financial Statistics Manual* (*MFSM*) and on the introduction of an area-wide page for the WAEMU in the *IFS;* the latter was achieved in January 2003.

In August 2006, as part of the authorities' efforts to implement the *MFSM*'s methodology, the BCEAO reported to STA monetary data for June 2006 for all member countries using Standardized Report Forms (1SR-central bank, 2SR-other depository corporations, and 5SR-monetary aggregates). These data were reviewed in STA and feedback was provided to the authorities. However, no response from the authorities has been received thus far.

Balance of payments

The BCEAO national agency disseminates balance of payments statistics with a seven-month lag, and annual international investment position data with an eighteen-month lag, in full consistency with the recommendations of the GDDS guidelines. Regarding trade data, the customs computer system (SYDONIA) was upgraded in 1999, and its implementation in the main border customs offices is complete; this allowed for better monitoring of import data and should improve the coverage of informal trade. Further improvement of services and transfers (especially workers' remittances) coverage is clearly linked to the future intensification of the contacts with reporting bodies. The data ROSC mission that visited Ouagadougou in 2004 found that the response rate for the survey among industrial and commercial enterprises was only 40 percent. To address this, the mission recommended that more attention and resources be devoted to improve data collection. Despite several requests from STA, reporting of data for *IFS* and the *BOPSY* is unsatisfactory, as updates have been provided only through 2001.

In the financial account, the foreign assets of the private nonbank sector are well covered through the use of data from the Bank for International Settlements (BIS). The organization of annual surveys for the reporting of foreign direct investment transactions in Burkina Faso is still at a preliminary stage. The BCEAO authorities have indicated that they are looking forward to integrating two additional sources aimed at improving the quality of the balance of payments reports: the regional stock exchange transactions, and the firms' balance sheet database (*centrale des bilans*). They have also indicated that quarterly data derived from banking settlement reports will soon be used to assess the existing information. The balance of payments compilers receive payments statements every ten days; however, the information is not used in the compilation of the annual balance of payments statements, but rather to support data quality controls and to provide early information to the BCEAO authorities.

The computer debt-management system software, SYGADE, developed by the United Nations Conference on Trade and Development (UNCTAD), was introduced in 1999 and is fully operational. Information on debt disbursement has also been fully integrated with the expenditure-monitoring system.

Burkina Faso: Table of Common Indicators Required for Surveillance

As of March 31, 2007

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items:	
						Data Quality – Methodological soundness[7]	Data Quality Accuracy and reliability[8]
Exchange Rates	Current	Current	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec 2006	Mar 2007					
Reserve/Base Money	Dec 2006	Mar 2007	M	M	M	LO, LO, LNO, O	LO, O, O, O, O
Broad Money	Dec 2006	Mar 2007	M	M	M		
Central Bank Balance Sheet	Dec 2006	Mar 2007	M	M	M		
Consolidated Balance Sheet of the Banking System	Dec 2006	Mar 2007	M	M	M		
Interest Rates[2]	Feb 2007	Mar 2007	M	M	M		
Consumer Price Index	Dec 2006	Jan 2007	M	M	M	O, LNO, O, O	LNO, O, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3] –General Government[4]	Dec 2006	Jan 2007				O, LO, O, O	O, LO, O, O, LNO
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Dec 2006	Jan 2007					
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar 2006	May 2006	A	A	A		
External Current Account Balance	Dec 2004	Feb 2006	A	A	A	O, O, O, O	LO, O, LO, O, O
Exports and Imports of Goods and Services	Dec 2004	Feb 2006	A	A	A		
GDP/GNP	2005	Sep. 2006	A	A	A	LO, LNO, LNO, LO	LNO, LNO, LO, LO, LNO
Gross External Debt	Mar 2006	May 2006	A	A	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[7] Reflects the assessment provided in the data ROSC published in March 2004 and based on the findings of the mission that took place in May 2003 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not available (NA).
[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

Press Release No. 07/77
FOR IMMEDIATE RELEASE
April 24, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$9.2 Million PRGF Arrangement for Burkina Faso

The Executive Board of the International Monetary Fund (IMF) has approved a three-year, SDR 6.02 million (about US$9.2 million) arrangement under the Poverty Reduction and Growth Facility (PRGF) for Burkina Faso, which will support the government's economic reform program for 2007–10. The decision will make available to Burkina Faso an amount equivalent to SDR 0.5 million (about US$0.8 million).

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

In commenting on the Executive Board's decision, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"The Burkinabè authorities' prudent macroeconomic policies have underpinned a decade of sustained economic growth and macroeconomic stability. Since 2004, however, adverse external developments, in particular the drop in world cotton prices, have posed significant economic challenges. Against this background, advancing toward the Millennium Development Goals will require further reforms. These should aim at maintaining a high rate of growth and increasing tax revenues, thereby creating sustainable fiscal space for higher poverty-reducing expenditures.

"The government has made a commitment to substantially improve revenue performance through modernization of tax and customs administration and through comprehensive tax policy reform. Revenue administration reform will concentrate on efficiency gains through computerization, improved audits, and reduced compliance costs for taxpayers. Tax policy reform will aim at simplifying the tax regime by broadening the tax base and abolishing nuisance taxes, including by eliminating costly tax exemptions.

"The decline in the world market prices for cotton has led to significant financial difficulties for cotton ginning companies. Fundamental reform is needed to put the sector on a sustainable footing. In particular, the cotton producer price setting mechanism must closely link producer prices to world market prices. Over the medium term, it will be important to reduce the role of the government in the cotton sector to allow for a full liberalization of the sector.

"The successful privatization of the telecommunication company has made a major contribution to enhancing the role of the private sector in the economy. Nevertheless, Burkina Faso's business environment remains restrictive, requiring further reform to promote private-sector led growth. Likewise, implementation of the governments' anti-corruption strategy will be necessary to improve governance.

"Maintaining debt sustainability will require a commitment from the government and donors to rely mostly on grant financing, in particular for a scaling up of aid. External borrowing should continue to take place on highly concessional terms. Over time, it will be necessary to reduce the overall fiscal deficit including grants to reduce external borrowing requirements and keep external debt at sustainable levels," Mr. Portugal said.

ANNEX

Recent Economic Developments

Macroeconomic performance under the previous PRGF arrangement (2003-2006) was good, with a real GDP above 6 percent and a low and stable inflation despite financial difficulties in the cotton sector. Average inflation declined to 2.4 percent. Cereal and cotton production were boosted by favorable rainfall and activity also picked up in the construction and service sectors. However, low revenues overshadowed fiscal performance in 2006. They were 0.9 percent of GDP lower than projected during the sixth review of the previous PRGF arrangement, mainly because profit taxes and taxes on domestic goods and services underperformed. Nevertheless, the overall fiscal balance met earlier projections. The deficit including grants on a commitment basis was 5.2 percent of GDP, as projected, but on a cash basis, it was 1.2 percent of GDP lower than expected because of payment delays in the face of financial constraints.

In 2006, Burkina Faso received debt relief of about 21 percent of GDP through the Multilateral Debt Relief Initiative (MDRI). This will provide an average annual flow relief of 0.4 percent of GDP through 2010.

Program Summary

The primary objectives of the new program are to prepare the way to meeting the Millennium Development Goals (MDGs) while keeping the economy stable. Macroeconomic performance in 2007 is expected to be favorable, with real GDP growth stable at 6 ½ percent. The processing of the record 2006 cotton harvest, a positive fiscal impulse, and the expected improvement in the terms of trade form the basis for this projection. However, downside risks related to financial difficulties in the cotton sector exist and will have to be addressed.

Despite a moderate increase in revenues, the fiscal stance in 2007 is expected to be expansionary. The tax ratio will increase by ½ percent of GDP, capturing the effects of recent revenue administration reforms. Fiscal deficit will decline during the program as revenue collection efforts gain ground.

The structural reform agenda will mainly focus on modernizing tax administration and the cotton sector. Computerizing the tax payer office and improving collections enforcement and tax dispute resolution are some of the key elements of the tax administration reform.

Burkina Faso: Selected Economic and Financial Indicators, 2004-10

	2004 Est.	2005 Est.	2006 Est.	2007 Est.	2008 Proj.	2009 Proj.	2010 Proj.
	(Annual percentage change; unless otherwise specified)						
GDP and prices							
GDP at constant prices	4.6	7.1	6.4	6.5	6.3	6.1	5.8
GDP deflator	3.9	2.5	0.4	2.5	2.3	2.4	2.5
Consumer prices (annual average)	-0.4	6.4	2.4	2.0	2.0	2.0	2.0
Consumer prices (end of period)	0.7	4.5	1.5	2.0	2.0	2.0	2.0
Money and credit							
Net domestic assets (banking system)[1]	1.3	12.7	1.8	-12.2	10.0	6.9	5.2
Credit to the government[1]	-3.7	0.9	-6.4	-20.9	1.1	-2.1	0.0
Credit to the private sector[1]	6.1	14.9	11.2	8.7	8.9	8.9	5.2
Broad money (M2)	-7.2	-3.8	10.1	9.1	8.7	8.6	8.4
Velocity (GDP/M2)	4.3	4.9	4.8	4.8	4.8	4.8	4..8
External Sector							
Exports (f.o.b.;valued in CFA francs)	33.9	1.2	26.7	10.3	10.8	7.1	8.6
Imports (f.o.b.; valued in CFA francs)	22.1	11.7	11.6	5.6	8.1	6.2	6.2
Terms of trade	10.7	-22.1	3.2	4.7	0.2	0.8	1.1
Real effetive exchange reate (-=depreciation)	-0.6	3.0	0.3	…	…	…	…
World cotton price (US$ cents per pound)	62.0	55.2	58.1	61.7	62.2	62.8	63.3
Average petroleum spot price (US$ per barrel)	37.8	53.4	64.3	60.8	64.8	64.5	64.3
	(Percent of GDP; unless otherwise indicated)						
Gross investment	22.5	22.4	22.7	23.2	23.3	23.4	22.8
Government	7.7	7.6	8.0	8.6	8.3	8.4	8.1
Nongovernment sector	14.8	14.7	14.7	14.5	15.0	15.0	14.7
Gross domestic savings	8.8	7.4	8.7	9.4	10.2	10.6	10.5
Government savings	5.8	4.8	4.6	4.9	5.9	7.0	7.2
Nongovernment savings	3.0	2.6	4.1	4.5	4.3	3.6	3.3
Gross national savings	11.9	10.6	12.0	12.5	12.8	13.3	12.9
Central government finances							
Current revenue	12.8	12.3	12.4	13.1	13.6	14.5	14.9
Of which: tax revenue	11.8	11.4	11.5	12.0	12.4	13.3	13.7
Total expenditure (commitment basis)	21.4	21.7	23.2	24.4	23.9	23.8	23.6
Of which: current expenditure	10.5	11.2	12.2	12.2	12.1	11.8	12.1
Overall fiscal balance, excl. grants (commitment basis)	-8.6	-9.3	-10.8	-11.3	-10.3	-9.2	-8.7
Overall fiscal balance, incl. grants (commitment basis) [2]	-4.3	-4.9	-5.2	-6.2	-5.7	-4.7	-4.3
Overall fiscal balance, incl. grants (payment-order basis)[2]	-4.0	-4.8	-4.4	-6.2	-5.7	-4.7	-4.3
Domestic financing	-0.4	-0.5	-1.7	1.5	0.2	-0.4	0.0
External sector							
Exports of goods and services	10.6	10.1	12.1	11.9	12.1	12.0	12.0
Imports of goods and services	24.3	25.1	26.1	25.6	25.2	24.7	24.3
Current account balance (excluding current official transfers)	-13.6	-14.9	-13.7	-13.8	-13.4	-12.8	-12.4
Current account balance (including current official transfers)	-10.6	-11.8	-10.7	-10.6	-10.5	-10.0	-9.9
Debt indicators							
External debt	34.3	37.6	17.5	20.7	24.4	27.5	29.5
NPV of external debt	18.1	19.0	10.6	12.2	14.3	16.2	17.3
NPV of external debt as percent of exports	183.1	182.5	85.8	101.0	116.6	132.8	141.2
NPV of external debt as percent of revenues	141.5	154.3	85.4	93.8	105.9	111.3	115.7
Nominal GDP (billions of CFA francs)	2,698	2,961	3,163	3,451	3,751	4,074	4,415

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

[1]In percent of beginning-of-period broad money.

[2]Excluding MDRI grants.

Statement by Laurean W. Rutayisire, Executive Director for Burkina Faso
April 23, 2007

I- INTRODUCTION

My Burkinabé authorities would like to express their great appreciation to staff for the well-written set of papers and the candid exchange of views and policy dialogue held during the discussion on the new PRGF-supported arrangement. My authorities would also like to thank Executive Directors and Management for their continued support and advice received over the past years.

With this advice and the strong support of development partners, Burkina Faso has made steady progress towards reaching the Millennium Development Goals (MDGs). As recognized in the Ex-Post assessment report discussed by the Board in 2006, Burkina Faso has established a track record of strong program implementation, despite severe exogenous shocks. With the request for a new, low-access, PRGF arrangement, my authorities are seeking to maintain a continued policy dialogue with the Fund going forward. The proposed new PRGF program would help anchor macroeconomic stability and support Burkina Faso's poverty reduction and growth strategy and will help build the foundations for a surveillance-based relation with the Fund.

II- Performance under the 2003-06 Program and Recent Economic Developments

Macroeconomic performance under the previous PRGF arrangement was strong with average real GDP growth above 6 percent during the period 2003-06. Average inflation was low at 2 ½ percent and the current account improved, notwithstanding a deterioration of the terms of trade by 15 percent between 2003 and 2006. In 2006, thanks to a good harvest, and booming construction and service sectors, real GDP growth is estimated to have reached 6 ½ percent. Average inflation remained low at 2.4 percent, even in the context of deteriorating terms of trade, and continued high oil prices.

During the program period, Burkina Faso's **level of indebtedness** became sustainable after it benefited from substantial debt relief. Going forward, my authorities request the Fund's technical support and advice in debt management. It is also a case for deepening borrowing policies of post-HIPC/MDRI countries. This question becomes all the more relevant when good policy Implementers as Burkina Faso encounter difficulties in maintaining debt sustainability. It is also important to tackle the daunting challenge of addressing the adverse effects, for low-income countries, of the exogenous shocks to commodity sectors, particularly the cotton sector.

Despite these adverse conditions, my authorities implemented a strong **structural reform agenda** under the previous PRGF arrangement. In public finance management, there has been an improvement in the budget formulation and execution, including with the production and submission of the budget act to parliament after its audit by the *Cour des Comptes*. In the area of tax and custom administration, notable measures include the computerization of tax and customs offices, the creation of the Office of Large Taxpayers, and the introduction of a taxpayer identification number. An automatic petroleum price adjustment mechanism was adopted that ensures a full pass-through of changes in costs.

Nevertheless, going forward, my authorities recognize areas in need of improvement, in particular modernizing the tax and custom administration, strengthening public expenditure tracking and improving the business climate.

As regards the **fiscal sector**, revenues performance was below expectations, partly because of the crisis in the cotton sector. Even though expenditures were reduced, the overall deficit (excluding grants) increased to 11 percent of GDP. This deficit was financed through increased grant disbursements. In this regard, my authorities are very thankful to the donor community.

In the **monetary area**, credit growth to the economy –excluding crop credit –slowed to stabilize at about 10 percent in 2006.

On the **external front**, the terms of trade were unfavorable, with the increase in oil prices and the drop in the world market prices for cotton. Consequently the current account deficit net of official transfers worsened. As a corrective measure the authorities took steps to reduce the consumption of oil by allowing the full pass-through of oil prices to consumers.

III- Economic Policies and Structural Reforms Going Forward

My authorities are fully aware of the need to pursue the implementation of prudent policies and accelerate structural reforms in order to sustain growth and progress towards achieving the MDGs. Accordingly, macroeconomic policies will focus on creating the fiscal space required for scaling up poverty reducing spending and advancing growth-enhancing structural reforms. The proposed program will strive to (i) increase domestic revenue efforts; (ii) strengthen public financial management (PFM) to allow for better domestic absorption of aid and improved poverty-reducing spending; and (iii) increase private sector participation, with the view to accelerate growth and diversify economic activity. My authorities expect growth to reach 6 percent and inflation to stay subdued at 2 ½ percent during the program years.

Fiscal Policy

My authorities are committed to prudent fiscal policies to preserve debt sustainability and macroeconomic stability while scaling up efforts to meet the MDG’s. On the revenue side, they intend to implement comprehensive structural reforms in order to reach the WAEMU's average of 17 % of GDP by 2015.

With regards to spending, my authorities are committed to reduce non-priority spending. They plan to increase spending towards social sectors and productivity-enhancing projects such as infrastructure. The overall budget deficit including grants is expected to remain within the margin of 5 ½ percent of GDP over the program period, in order to keep debt sustainability at prudent levels. To achieve this objective my authorities are determined to finance the deficit mostly through grants and highly concessional borrowing.

Monetary and Financial Policies

Monetary policy will continue to aim at keeping inflation below the WAEMU convergence target. The import coverage of gross foreign assets of the BCEAO is expected to rise to about 5 ½ months of imports.

Difficulties in the cotton sector have adversely affected the cash flow position of a number of Banks. However, the systemic impact was mitigated by the excess liquidity cushion held by the banking system. Nonetheless the Central Bank, is consulting with the Banks and the cotton sector companies to strengthen their resilience to exogenous shocks including through the augmentation and diversification of the medium- and long-term capital sources.

With the assistance of the World Bank, my authorities are developing a strategy to promote the development of the **financial sector**. The measures envisioned include a simplification of the procedure to access to collateral, in particular land titles and the reform of the judicial system to reduce the cost of enforcing creditors' rights and to enhance the efficiency in the application of commercial law.

Structural Reforms

My authorities are determined to pursue their structural reform agenda, with a view to tackle obstacles identified on the path towards a strong and sustainable economic growth. Among theses obstacles they note a low revenue collection, difficulties in the cotton sector and an undiversified export base dominated by this sector, an underdeveloped financial system, and a high cost of doing business.

Fiscal Reforms

With technical assistance from the IMF, my authorities have identified measures to further increase revenue collection. They include the broadening of the tax base, simplification and consolidation of the tax legislation and reduction of tax exemptions in the investment code, the modernization of tax and custom administrations, including the full deployment of ASYCUDA and its exclusive use in major customs offices and border posts, and measures to improve public financial management such as improvements in the legal and operational frameworks of the budget process.

Cotton Sector

My authorities are in close consultation with the World Bank in their efforts to reform the cotton sector so as to put in place the conditions for its sustainable development. They recognize that the long run viability of this sector hinges on the recapitalization of the cotton companies which will strengthen their ability to borrow in order to face short term exogenous shocks, increased private sector participation and a market based producer price mechanism. However given the systemic importance of this sector which represents 60% of the countries' exports it is compelled to intervene in the sector in the short run to help mitigate the impact of the recent crisis.

The producer pricing mechanism (*fonds de lissage*) has been put in place by the inter-professional association of cotton producers and ginning companies (*AICB*) and will be implemented starting with the 2007/08 campaign. The mechanism seeks a balance between conflicting objectives of long-run viability of the cotton sector while shielding producers from market price variability. My authorities have indicated that they will signal clearly their determination not to assume any potential future losses of the sector stemming from a misaligned producer prices. They hope that by doing so they will avoid any potential moral hazard when the AICB sets its price for the 2007/08 campaign. Nonetheless they pin their hopes on the success of the Doha trade rounds and on the removal of world cotton price distortions to reverse the decline of world cotton prices.

Other Structural Reforms

My authorities plan to move forward with their **privatization agenda**. Following the successful divesture of 51 percent of the telecommunications company, ONATEL, the government will further reduce its participation in the capital of the company by selling 20 percent more of its share. Another 6 percent share will be sold to the employees of ONATEL with a small discount thus further reducing the government's share in the company to 23 percent.

In consultation with the World Bank, my authorities are considering the privatization of the oil importing company SONABHY and the electricity company SONABEL. They are committed to maintaining a full pass-through of international to domestic oil prices and to reduce electricity subsidies by 0.2 percentage points to 0.5 percent of GDP in 2007.

My authorities took good note of the World Bank Doing Business report on the **Business Climate** in Burkina Faso, which identified areas in need of improvement. In line with its findings, they have started the process of simplifying the tax code and to reform the land tenure system and plan a major overhaul of the code in 2008 and 2009. Further reforms such as the reform of the labor market to enhance its flexibility, the reform of the judicial system to better protect creditors' right and the reduction of the regulatory burden associated with opening and closing businesses figure prominently on the reform agenda.

My authorities are committed also to **improving governance and fighting corruption** by implementing the recently adopted national anti-corruption policy as well as the National Plan of Good Governance (PNGB). Moreover, the independent authority in charge of the fight against corruption plans to conduct in 2007 a national survey to assess the extent of the problem in Burkina.

IV- CONCLUSION

My authorities are thankful to the Fund and the international community for their policy advice, technical and financial support which helped them make commendable progress towards meeting the MDG's.

On the basis of Burkina Faso's past track record of strong program implementation, and in light of the authorities' commitment to implement sound policies and reforms as set out in the proposed PRGF-supported program, I will appreciate Directors support of my Burkina Faso authorities' request for a new, low access, PRGF arrangement.