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Burkina Faso: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criterion—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Burkina Faso

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

- the staff report for the first review under the three-year arrangement under the Poverty Reduction and Growth Facility, and request for waiver of performance criterion, prepared by a staff team of the IMF, following discussions that ended on **November 24, 2004,** 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 March 4, 2004.** 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 staff statement of **March 19, 2004** updating information on recent developments.

- a Press Release summarizing the **views of the Executive Board as expressed during its March 19, 2004 discussion** of the staff report that completed the request and review.

- a statement by the Executive Director for Burkina Faso.

The document(s) listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Burkina Faso*
Technical Memorandum of Understanding*
Poverty Reduction Strategy Paper Annual Progress Report
Joint Staff Assessment of the Poverty Reduction Strategy Paper Annual Progress Report

*May also be included in the 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

First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criterion

Prepared by the African Department

(In collaboration with other departments)

Approved by Amor Tahari and Mark Plant

March 4, 2004

- A mission visited Ouagadougou during November 10-24, 2003 to conduct discussions for the first review under the Poverty Reduction and Growth Facility (PRGF) arrangement and, together with a World Bank team, assess the third progress report of the authorities on the implementation of their poverty reduction strategy paper (PRSP).
- The mission met with the Minister of Finance and Budget, the National Director of the Central Bank of West African States (BCEAO) and other government officials, and the management and senior staff of the cotton development company (SOFITEX), as well as representatives of the private sector and the donor community.
- The staff team comprised Mr. Thiam (head), Ms. Adenauer, Mr. Williams (all AFR), Mr. Ross (FIN), Mr. Franco (the Fund's Resident Representative), and Mr. Matson (Staff Assistant—LEG). Mr. Menye, Advisor to the Executive Director for Burkina Faso, participated in the policy discussions. The mission worked closely with two World Bank teams visiting Ouagadougou at the same time, to prepare a fourth poverty reduction support credit and participate in the discussions of the third annual PRSP progress report, and to prepare an energy sector project, respectively.
- Upon completion of the first review under the PRGF arrangement, SDR 3.4 million will become available for disbursement to Burkina Faso (Table 1). With this disbursement, Burkina Faso's outstanding use of Fund resources would amount to SDR 80.5 million (equivalent to 133.7 percent of quota) at end-June 2004, down from SDR 83.9 million (139.4 percent of quota) at end-December 2003 (Table 2).
- The Burkinabè authorities have agreed to publish the staff report and the letter of intent, following their consideration by the Executive Board.

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Executive Summary

- **Against the backdrop of better-than-anticipated economic developments, performance under the PRGF-supported program during 2003 was satisfactory**. All performance criteria and indicative targets through end-December 2003 were observed, with the exception of the structural performance criterion for end-October on the effective computerization of the large and medium-sized taxpayers' units in Ouagadougou and in Bobo-Dioulasso, and the targets for end-June and end-December on spending already committed but for which payment orders have not been issued, as well as the target for end-December on the wage bill.

- **Real GDP growth is now estimated at 6.5 percent for 2003, compared with the 2.6 percent originally estimated.** This upward revision stems mainly from substantially higher than projected agricultural production. **Inflation on a 12-month basis declined to below 2 percent at end-December 2003, from 3.9 percent at end-December 2002,** reflecting mainly the excess food supply resulting from higher agricultural production and the appreciation of the CFA franc, which is pegged to the euro.

- **Fiscal performance** was satisfactory during 2003, with government revenue exceeding the end-September and end-December targets by large margins. Total expenditure (on a commitment basis) was below program projections, and, as a result, the basic budget deficit was contained below the program ceiling in 2003. In the area of governance, the High Authority to Fight Corruption was made operational in June 2003, and the annual audited budget acts for both 2001 and 2002 were submitted to the Auditor General Office.

- For **2004, the program** now aims at stabilizing the end-period inflation rate at about 2 percent by end-December and at reducing the external current account deficit (excluding official transfers) to about 12 percent of GDP. Real GDP growth, which was initially projected at 4.0 percent in 2004, is now expected to be 5.2 percent, spurred by continued increase in cotton output. Fiscal policy aims at raising the revenue to GDP ratio, while social spending is programmed to increase. Privatization and public enterprise reform programs, price and trade liberalization, and governance are the principal elements of the government's medium-term structural reform agenda.

- **Main points in the staff appraisal.** First, notwithstanding the good progress made in 2003, Burkina Faso continues to depend heavily on external assistance and on cotton exports, and to be highly vulnerable to terms of trade fluctuations and the volatility of aid flows. In addition, the ratio of the NPV of external debt to exports remains above 150 percent, even following the completion point under the HIPC Initiative. Second, **the authorities' continued resolve to strengthen transparency in public finance management, promote good governance, and combat corruption is welcome.** The authorities are encouraged to strictly adhere to the timetable agreed for the submission of the audited budget acts for 2002 and 2003 to the Auditor General Office and to the National Assembly. Third, the full **PRSP should be updated** soon **for 2004-06**, following a participatory process involving civil society, the private sector, and donors, to take account of **the revised macroeconomic framework**.

I. Introduction

1. **In the attached supplementary letter of intent (LOI, Appendix I), the Burkinabè authorities review performance under the Poverty Reduction and Growth Facility (PRGF)-supported program and describe their policy program for 2004**. The authorities request **a waiver for the nonobservance of the structural performance criterion** at end-October 2003 on the effective implementation of the computerization of the large and medium-sized taxpayers' units. A progress report on the third year of implementation of the poverty reduction strategy paper (PRSP) has been prepared by Burkina Faso and issued separately (IMF Country Report No. 04/78), together with a joint staff assessment (IMF Country Report No. 04/79).

2. **On June 11, 2003, the Executive Board concluded the 2003 Article IV consultation with Burkina Faso and approved a three-year PRGF arrangement, in an amount equivalent to SDR 24.08 million (40 percent of quota).**[1] Executive Directors commended the authorities for their sound economic policies and progress in structural reforms under three medium-term PRGF-supported programs during 1993-2002. Looking ahead, they stressed the need to achieve a competitive, efficient, and resilient economy, capable of delivering sustained economic growth and faster improvement in social indicators.

3. Based on a participatory process involving civil society and the donor community, the PRSP has become the central framework for government policies in Burkina Faso, and for donor support. In April 2002, Burkina Faso reached the completion point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative) and was granted exceptional debt relief (topping up) to achieve debt sustainability and mitigate the adverse effect of terms of trade shocks on the country's debt ratios. In this context, Paris Club creditors agreed on a stock-of-debt treatment on Cologne terms in June 2002, and committed themselves to topping-up relief and additional bilateral debt forgiveness, with an equal distribution of this additional relief among creditors.[2] Summaries of Burkina Faso's relations with the Fund and the World Bank Group are presented in Appendices II and III, respectively.

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[1] IMF Country Report No. 03/197.

[2] The Fund's share of the HIPC Initiative topping-up assistance remains undisbursed, as financing assurances in place fall short of the required 80 percent of the total assistance anticipated. So far, financing assurances have been provided by the IMF, the World Bank, the African Development Bank (AfDB), the European Investment Bank, the West African Development Bank, the OPEC Fund, and Paris Club creditors, accounting for 78 percent of the total assistance anticipated. The authorities are seeking the participation of Burkina Faso's other multilateral creditors and non-Paris Club bilateral creditors in the HIPC Initiative.

II. Recent Developments and Program Performance

4. **Against the backdrop of better-than-anticipated economic developments, performance under the PRGF-supported program during 2003 was satisfactory.** Available information indicates that all performance criteria and benchmarks through end-December 2003 were observed, with the exception of the structural performance criterion for end-October on the effective computerization of the large and medium-sized taxpayers' units in Ouagadougou and Bobo-Dioulasso,[3] the targets for end-June and end-December on spending already committed but for which payment orders have not been issued (DENMs),[4] and the target at end-December on the wage bill, which was missed by a very small margin (Tables 3-4).

5. **Real GDP growth is now estimated at 6.5 percent for 2003, compared with the 2.6 percent envisaged under the program (IMF Country Report No. 03/197), up from a revised real GDP growth rate of 4.4 percent in 2002 (Table 5).**[5] This upward revision stems from an estimate of agricultural production that is substantially higher than initially projected under the program; **food crop production has been raised by about 15 percent and cotton production by almost 23 percent,** reflecting mainly the impact of the unanticipated abundant rainfall and the 6 percent increase in the producer price of cotton to CFAF 185 per kilogram. Moreover, **the adverse impact on the secondary and tertiary sectors of the crisis that broke out in Côte d'Ivoire in September 2002 was considerably smaller than projected** under the program: the economy proved to be much more resilient than had been assumed, including as regards diversifying transportation routes and sources of supply for key imports, particularly raw materials and spare parts for the manufacturing sector.

6. Reflecting the excess food supply resulting from higher agricultural production, as well as the implementation of prudent financial policies, **inflation is estimated to have**

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[3] The computerization of the large and medium-sized taxpayers' unit was achieved in Ouagadougou in October 2003, in line with the program, but that of Bobo-Dioulasso has been delayed because of the resignation of a computer specialist. The departure of the computer specialist was beyond the authorities' control, and the completion of the computerization of the large and medium-sized taxpayers' unit in Bobo-Dioulasso, now expected by mid-March 2004, is a prior action for the conclusion of the first PRGF review.

[4] The indicative target on DENMs was met at end-September 2003.

[5] During the discussions, the authorities provided the mission with definitive national accounts for the period 1994-98, and with "semidefinitive" accounts for 1999. The net effect of the changes was to increase nominal GDP on average by about 2 percent for the period 2000-02. The trends in terms of real GDP growth rates have changed by up to 0.2 percentage point.

declined to below 2 percent at end-December 2003, on a 12-month basis, compared with a program objective of 5 percent and the 3.9 percent registered at end-December 2002.[6] In addition, the appreciation of the CFA franc (pegged to the euro—see para. 24 below) reduced the costs of imports, including petroleum products, helping to contain transportation costs.

7. **Fiscal performance was satisfactory during 2003, with government revenue exceeding the end-September and end-December targets by large margins** in spite of the failure of the West African Economic and Monetary Union (WAEMU) to transfer some CFAF 7 billion in compensation for the application of preferential customs tariffs.[7] The three factors at the origin of the strong revenue performance in 2003 are described in the letter of intent (LOI, para. 6). Total expenditure (on a commitment basis) was below program projections (see LOI, para. 7). As a result, the basic budget deficit was contained below the program's quarterly ceilings in 2003.

8. The deficit was financed by disbursements of nonproject assistance from the Fund, the World Bank, the African Development Bank, and the European Union (EU), by the issuance of government bills and bonds on the WAEMU's regional financial market in line with the program, and by net bank credit to the government. **The increase in net domestic financing of the government (including net bank credit to the government and the stock of government bills and bonds held outside banks, the amount of which was a performance criterion at end-September) was held at CFAF 29 billion in September and CFAF 13 billion in December (Table 6), well below the program targets adjusted for the shortfall in program assistance (Table 3).**[8] There was no accumulation of domestic or external payments arrears during the period. However, given the large shortfall in program

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[6] The National Institute of Statistics and Demography (INSD) computed the consumer price index through end-October 2003, showing that inflation had abated to 1.8 percent at that date, on a 12-month basis. No consumer price observations were made in November and December 2003 for lack of budgetary funding, but the authorities have estimated that inflationary pressures continued to subside during these two months. The Ministry of Finance reallocated budgetary resources to the INSD in January 2004, and the observation of consumer prices has resumed.

[7] The WAEMU could not pay the compensation because of financial difficulties resulting from, inter alia, the crisis in Côte d'Ivoire.

[8] All data for end-September 2003 (test date for the performance criterion on net domestic financing) are definitive. For end-December (test date for the indicative target on net domestic financing), data on government revenue are definitive, but those on government spending and on net bank credit to the government may be revised when the final fiscal operations table and monetary survey become available.

grants and concessional loans (CFAF 24.6 billion, or 1 percent of GDP),[9] the stock of DENMs continued to increase in 2003, compared with a CFAF 15 billion targeted reduction (a quantitative benchmark). Nevertheless, deposits at the treasury were reduced substantially and all nonfinancial private accounts at the treasury were closed at end-September 2003 (a structural performance criterion).

9. **Monetary growth continued to be moderate in 2003, and helped to contain inflation** (Table 10). Money supply increased by about 9 percent, in line with nominal GDP growth. With the shortfall in external program assistance, net banking system credit to the government was higher than anticipated under the program, while the increase in the credit to the economy (of about 11 percent) was lower than envisaged (14.5 percent). The decline in net foreign assets of the banking system was somewhat larger than anticipated.[10] The Central Bank of West African States (BCEAO) reduced its discount rate and repurchase rates by 50 basis points in October 2003, reflecting the developments in euro zone interest rates.

10. **In the external sector**, the current account deficit, including official transfers, is estimated to have continued to narrow to about 8 percent of GDP in 2003 (compared with a program objective of slightly more than 9 percent of GDP) from about 10 percent of GDP in 2002 (Table 11 and Figure 3). **This improvement in the current account deficit resulted from higher cotton exports, following the very good harvest in the 2002-03 crop year,** and lower-than-programmed imports.

11. **On the structural front, progress was made in several areas in 2003. However, delays were encountered in the adoption of the envisaged energy sector strategy, which is now scheduled for end-March 2004**. All nonfinancial private enterprise deposit accounts with the treasury were closed (a structural performance criterion; see para. 8), and the government adopted the WAEMU budgetary nomenclature, including specific codes for identifying social expenditure and expenditure financed under the HIPC Initiative (a structural benchmark). Regarding trade and price liberalization, the government has continued to implement transparently the automatic adjustment mechanisms for petroleum product retail prices (a continuous structural benchmark) and for water rates. In addition, the

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[9] The floating tranche of the EU's program grant for 2003 (of CFAF 7.7 billion) will be disbursed only in 2004, because of delays by the authorities in submitting data on social indicators. The disbursement of the second tranche of the structural adjustment credit from the African Development Bank (of CFAF 9.1 billion) also slipped to 2004. Moreover, several donors did not disburse their program assistance that was meant to mitigate the adverse impact of the Ivoirien crisis on Burkina Faso in 2003, as the economy adapted better than anticipated.

[10] Burkina Faso's contribution to the international reserves position of the BCEAO rose during 2003, but this increase was more than offset by the decline in commercial banks' net foreign assets.

authorities launched the bid for the opening of two cotton-growing regions to private operators in May 2003, as well as that for the privatization of the telecommunications company (ONATEL).

12. **In the area of governance**, the High Authority to Fight Corruption was made operational in June 2003, and progress in implementing the action plan to ensure transparency and accountability in fiscal management was in line with the program (LOI, para. 10). In addition, the draft audited budget act for 2002 was submitted to the Auditor General Office. To enhance the efficiency of expenditure, the government has conducted ten public expenditure reviews; the most recent focused on rural development and transport infrastructure.

III. Policy Discussions and Program for 2004

13. Discussions focused primarily on (i) the revised macroeconomic framework, including the outcome and prospects for agricultural output in the 2003/04 and 2004/05 crop years, and the response of the Burkinabè economy to the crisis in neighboring Côte d'Ivoire (see also para. 5 above); (ii) fiscal performance and policy; and (iii) structural reforms. Box 1 summarizes structural conditionality under the PRGF arrangement and World Bank poverty reduction support credits (PRSCs).

A. Macroeconomic Framework and Growth Prospects

14. The macroeconomic framework has been revised to reflect the improved prospects for agricultural production and the resilience shown by the Burkinabè economy in confronting the crisis in Côte d'Ivoire. In addition, reflecting the higher-than-foreseen export crop and food crop output in 2003, inflation and the external current account deficit in 2003 were better than targeted under the program. For 2004, the program now aims at stabilizing the end-period inflation rate at about 2 percent by end-December and at containing the external current account deficit (excluding official transfers) to about 12 percent of GDP (or about 9 percent of GDP, including official transfers). Real GDP growth, which was initially forecast at 4 percent in 2004, is now projected at 5.2 percent. While a stagnation of cereal output is anticipated, following the bumper crop in 2003, real GDP growth in 2004 is expected to be spurred by a continued increase in cotton output and by a robust expansion in the secondary and tertiary sectors, following the sharp rise in disposable incomes in the rural sector in 2003.

15. For 2005-06, the macroeconomic objectives of the revised program are to (i) contain inflation at 2.2 percent, on an end-of-year basis; and (ii) limit the external current account deficit (including official transfers) to about 10 percent of GDP. Real GDP growth is projected to increase to 5.7 percent by 2006, compared with 5.2 percent in the original program. Growth is expected to stem from further development of the cotton sector, measures to diversify the economy and increase competitiveness, and higher efficiency in agriculture.

Box 1. Burkina Faso: The PRGF Arrangement and World Bank Structural Conditionality

The structural reform agenda for the new program was developed in close collaboration with the World Bank, aiming for a clear division of labor between the two institutions. The Fund-supported program will concentrate on structural measures and governance issues that are key to macroeconomic stability in Burkina Faso, including raising tax revenue and improving budget formulation, execution, and reporting. The World Bank complements this agenda with support in the areas of public finance management, good governance, decentralization, and reform of the health, education and cotton sectors, coupled with specific projects relating to basic education, infrastructure investments in transport, water, and urban areas, rural development, and private sector development (Appendix III).

Structural performance criteria and benchmarks through the first months of the new Fund-supported program in 2003 comprised measures to broaden the budgetary nomenclature to include codes for social expenditure and expenditure financed by the HIPC Initiative, the processing of the draft annual audited budget acts for both 2001 and 2002, and the computerization of tax management of large and medium-sized contributors. Moreover, the government adopted an action plan to strengthen tax and revenue collection based on the recommendations made by a Fund technical assistance mission in early 2003; implementation of this plan will be crucial to help raise tax levels over the medium term.

For 2004, the government committed itself to making a swift submission of the 2002 and 2003 draft annual audited budget acts to parliament. Other key elements of structural conditionality under the Fund-supported program include the introduction of a taxpayer registration system and the establishment of a single large taxpayers' unit in the main tax administration office.

B. Fiscal Policy

16. The fiscal program for 2004 has been revised to take account of the new real GDP growth prospects discussed above, a lower-than-projected fiscal deficit-to-GDP ratio in 2003, and updated projections of donor assistance. The revised fiscal program aims at reducing further the basic budget deficit to 2.9 percent of GDP in 2004 from an estimated 3.7 percent of GDP in 2003 by raising revenue levels through a strong revenue mobilization effort and by containing nonpriority expenditures (Figure 4).[11] To achieve these objectives, government tax revenue is to increase to the equivalent of 12.2 percent of GDP in 2004 from an estimated 11.1 percent of GDP in 2003. This target is ambitious, given continued low revenue levels throughout the past years, and not without risk. Revenue performance in 2004 will critically depend on the swift implementation of measures to strengthen tax and customs revenue collection. Total budgetary outlays, excluding foreign-financed investment, but including the enhanced HIPC Initiative-related spending plan, are to be contained to 16.1 percent of GDP in 2004, the same ratio as in 2003. The government budget for 2004, which was submitted to

[11] The overall fiscal deficit, including grants, will reach 4.9 percent of GDP in 2004, driven by a strong increase in externally-financed investment.

the National Assembly in September (a structural performance criterion under the original program) and approved in December, is in line with these objectives.

17. **On the revenue side,** performance in 2004 will benefit from the successful implementation of **an action plan to strengthen tax and customs revenue collection that was adopted by the authorities in December 2003 (a prior action for the conclusion of the first semiannual review of the PRGF-supported program),** based on the recommendations of a Fund technical assistance mission in March 2003. The measures of the action plan are described in the letter of intent (LOI, para. 15). The authorities will also make effective the computerization of the large and medium-sized taxpayers' unit in Bobo-Dioulasso by mid-March 2004 to make up for the nonobservance of a related structural performance criterion at end-October 2003 (see para. 4 above and LOI, para.11).

18. **On the expenditure side**, the stabilization of total government outlays and net lending, excluding foreign-financed investment,[12] at 16.1 percent of GDP in the budget for 2004 (as in 2003, and up from 15.4 percent of GDP in 2002) reflects further efforts to fully absorb resources freed under the HIPC Initiative in the social sectors. Current expenditures are projected to increase to 11.5 percent of GDP during 2004 from 11.1 percent in 2003, owing to the greater priority given to the social sectors, agriculture, and infrastructure; meanwhile, the government is committed to bringing down its outlays for the consumption of telephone services, electricity, and water. The wage bill will be contained at 4.5 percent of GDP in 2004 (LOI, para.16).

19. The increase in current transfers in 2004 to 3.5 percent of GDP from 2.9 percent in 2003 reflects outlays for the education and health sectors, as well as spending on agriculture and infrastructure maintenance. It also includes the continued provision of support to SONABEL for the price of petroleum products, as well as a subsidy of CFAF 3 billion to cotton farmers (0.1 percent of GDP) to help offset the impact of higher transportation costs on the prices of inputs following the disruptions caused by the Ivoirien crisis. Domestically-financed investment, including HIPC Initiative-related spending, would increase to 4.8 percent of GDP in 2004 from about 4 percent during 2002-03. Overall, social expenditure will reach 24.6 percent of total expenditure in 2004, compared with 24.4 percent in 2003 (Table 9).

20. The revised 2004 fiscal program calls for reducing the stock of DENMs by CFAF 15 billion, as the programmed reduction of the stock could not be achieved as foreseen in 2003 (see Table 6 and para. 8 above). Deposits at the treasury should also decline further by CFAF 11 billion in 2004, resulting in a cash deficit of 6 percent of GDP. This deficit will be financed through external concessional assistance from Burkina Faso's main donors and the issuance of government bonds on the WAEMU's regional financial market. An additional

[12] Foreign-financed capital expenditure is projected to increase from 5.5 percent of GDP in 2003 to 6.7 percent in 2004.

source of financing in 2004 will come from the proceeds of the partial privatization of ONATEL.

C. Monetary Policy and Financial Sector

21. **Monetary policy, conducted by the BCEAO, will continue to focus on maintaining an inflation rate and an international reserves position consistent with the peg of the CFA franc to the euro.** In 2004, money supply growth is targeted to match the nominal GDP growth of about 8 percent (Table 10), a level that is compatible with a real growth in credit to the economy and stabilization in the net foreign assets position of the banking system. Planned issues of treasury bills will continue to help develop the regional money market, and the monetary program provides for most of the increase in banking system credit to the government to be realized through purchases of treasury bills by commercial banks, with some decline in government deposits at the BCEAO.[13]

22. **The financial position of Burkina Faso's banking system remained satisfactory in 2003.** Prudential ratios were generally adhered to, except for the portfolio structure ratio which reflected the lack of economic diversification. **In line with the PRSP, the authorities reiterated their commitment to continue to develop and implement measures to strengthen the financial sector in order to mobilize domestic savings and promote financial sector intermediation for the private sector (LOI, para. 21).**

23. **The authorities remain committed to promoting the microfinance sector to increase the population's access to financial services.** Microfinance has continued to develop, and the number of microfinance institutions has more than doubled, while their size has increased considerably since the mid-1990s. At end-2001, more than 10 percent of the population were clients of these institutions. In October 2003, the authorities organized a national conference on microfinance to discuss a draft national strategy for the sector. This draft strategy has been developed along three principal lines: (i) enhancing the capacity of microfinance institutions and their integration into the financial sector; (ii) improving the communication and dissemination of information to customers, the public, and supervisory authorities; and (iii) developing an organizational structure to represent microfinance institutions. The government plans to complete its strategy to develop the financial sector by end-March 2004 (LOI, para. 21).

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[13] This takes into account the September 2002 decision of the Council of Ministers of the WAEMU to phase out the BCEAO's statutory advances to governments. No new central bank advance has been made since end-2002, and Burkina Faso agreed to repay the stock of statutory advances to the BCEAO in 40 equal quarterly installments, starting in 2003.

D. External Sector Policies, Debt Sustainability, and Capacity to Repay the Fund

24. **While Burkina Faso has largely maintained the external competitiveness gains from the 1994 devaluation of the CFA franc, the 7 percent appreciation of the currency in real effective terms during 2002-03 (Figure 1), reflecting the nominal appreciation of the euro vis-à-vis the U.S. dollar, has raised concerns about competitiveness in the secondary and tertiary sectors.** In addition, overall factor costs, including for water, energy, telecommunications, and transportation, are high. Finally, infrastructure bottlenecks, impediments to foreign direct investment, inadequate access to credit and financial services, limited external market access, heavy reliance on external assistance and cotton exports, and vulnerability to terms of trade fluctuations remain a concern. The program's structural reforms, combined with the continued implementation of prudent financial policies, are targeted at addressing these weaknesses, improving the investment climate and stimulating private sector development, diversifying the export base, and increasing productivity.

25. Trade reform and regional integration will continue to be pursued through Burkina Faso's participation in WAEMU initiatives. Regarding trade policy, Burkina Faso has implemented most of the regional norms of the Union. The common external tariff (CET) was adopted in 2000, and has been implemented since. Burkina Faso does not maintain nontariff import restrictions, except for a quantity-based restriction on the import of sugar—which has, however, not been enforced since mid-2002. With this limited restriction, the index of trade policy restrictiveness compiled by Fund staff is estimated at 5 on a scale of 1 to 10.[14] Burkina Faso also benefits from the provisions of the Cotonou Convention.[15]

26. To ensure debt sustainability following Burkina Faso's reaching the completion point under the HIPC Initiative, the authorities are focusing on improving debt management and maintaining prudent borrowing policies. The authorities indicated that they had contacted all non-Paris Club bilateral creditors and some multilateral creditors to seek their participation in the enhanced HIPC Initiative for Burkina Faso. Some non-Paris Club bilateral creditors have not responded while others, such as the Kuwait Fund, the Saudi Fund for Development, and the Islamic Development Bank have agreed to provide debt relief for Burkina Faso in amounts lower than envisaged under the HIPC Initiative, including the topping up. The

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[14] The index of trade restrictiveness combines the main elements of customs tariff protection, namely, the unweighted average level of statutory tariffs, and nontariff barriers in relation to trade and production. Countries are rated on a scale from 1 to 10, with 1 indicating complete openness and 10 indicating complete restrictiveness. The highest customs duty rate is 20 percent, while the average customs duty is 12 percent.

[15] The convention regulates relations between the European Union and the African, Caribbean and Pacific (ACP) countries in the areas of trade cooperation and development aid. Burkina Faso ratified the convention on May 6, 2002.

International Fund for Agricultural Development (IFAD) has indicated its willingness to provide assistance and has initiated debt data reconciliation. The authorities requested the Fund and the Bank to call again on all creditors to provide the assistance envisaged under the enhanced HIPC Initiative.

27. Including new external debt, the net present value (NPV) of debt-to-exports ratio, which was brought to 150 percent at the completion point reference date of end-2001, is projected to rise and peak to 178 percent in 2004 before declining gradually to below 150 percent by 2012 (Figure 5 and Table 15). Burkina Faso's debt profile has improved, compared with the HIPC completion point document, as indicated in Box 2, reflecting a shift in new financing from loans to grants and an improved medium-term outlook for exports. The authorities shared the staff's concerns about debt sustainability, notwithstanding the improvement in the debt profile. However, they did not agree with the staff's proposal to increase the required grant element of concessional external debt to 50 percent, arguing that the grant element does not exceed 35 percent for the PRGF arrangement and for loans provided by several of the country's important donors, including the West African Development Bank (BOAD), the Arab Bank for Economic Development in Africa (BADEA), the OPEC Fund, and some bilateral donors; and that an increase in minimum concessionality could undermine important parts of their development program. It was agreed to assess debt sustainability again on the occasion of the second review of the PRGF-supported program.

28. Nevertheless, given the country's rising debt sustainability indicators, the authorities committed themselves to relying on grants and concessional external assistance, with a grant element of at least 35 percent (LOI, para. 28). New disbursements on loans with a grant element of between 35 percent and 50 percent are projected at CFAF 20.2 billion in 2004 (or US$39 million). The financing requirements for 2004, after private capital inflows, are expected to be fully covered by concessional assistance from multilateral and bilateral creditors and donors, including the World Bank, the United Nations Development Program, to secure the financing of the investment program and other financing needs for 2005-06. The completion of the third review of the program will be contingent on sources of adequate financing for 2005.

29. Burkina Faso has always met its debt-service obligations to the Fund on schedule, and, given the projected improvements in its fiscal and balance of payments positions and the strength of the BCEAO's international reserves position, the country is expected to meet its future financial obligations to the Fund promptly.[16]

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[16] Financial obligations to the Fund are expected to peak in 2004, when repayments, interest, and charges will total SDR 14 million, equivalent to 26.8 percent of total debt-service obligations, 4.4 percent of projected exports of goods and services, and 3.4 percent of government tax revenue (Table 16).

Box 2. Burkina Faso: Debt Sustainability

In April 2002, Burkina Faso met the conditions to reach the completion point under the enhanced HIPC Initiative and the Fund and Bank Boards agreed to provide the country exceptional debt relief (topping up). Total nominal debt relief provided under the enhanced HIPC Initiative equaled about US$930 million or US$514 million in net present value (NPV) terms at end-2001. This amount included US$176 million (in NPV terms) under the original HIPC Initiative framework and US$129 million of topping up or exceptional debt relief. Financing assurances have been received from most creditors, accounting for 78 percent of the total assistance anticipated, while the authorities are seeking the participation of other creditors. This treatment together with additional bilateral assistance beyond HIPC Initiative relief (US$22 million in NPV terms) reduced Burkina Faso's NPV of debt-to-exports ratio to 150 percent at end-2001. However, taking into account new debt disbursements (projected at the completion point), the NPV of debt-to-exports ratio was anticipated to remain above 150 percent until 2015.

Since the completion point, several factors have affected the NPV of Burkina Faso's debt. **First**, discount rates used to calculate the NPV of debt have declined substantially, contributing to increasing the NPV of debt by about 22 percent at end-2003 and through 2012. **Second**, the CFA franc (pegged to the euro) has appreciated strongly vis-à-vis the U.S. dollar during 2002-03, reducing the NPV of debt by about 10 percent at end-2003 and through 2012. **Third**, actual and projected new disbursements in 2002-06 are lower than anticipated at the completion point, reflecting principally a shift to more grant financing by some donors, including the World Bank, as well as delays in loan disbursements in 2002-03. After 2006, loan disbursements are similar to the completion point projections. While lower disbursements in 2002-06 reduce somewhat the nominal stock of debt, this is more than offset by lower discount rates which increase the NPV of new disbursements. As a result, the NPV of debt in 2012 is some 10 percent higher than the completion point projection. **Fourth**, the medium-term outlook for exports has improved, principally for cotton. The national cotton development company (SOFITEX) has provided transparency in the producer price and improved services and input procurement to cotton farmers. In addition, the area under cultivation can double and yields are improving with greater mechanization, providing considerable scope for increasing the volume of cotton exports over the medium term. There has already been an increase in the cultivated area and output and exports have increased substantially during 2002-03. Exports are now projected to be some 30 percent higher in 2012 than projected at the completion point.

The combined impact of these factors improves the outlook for debt sustainability, as reflected in expected lower levels of the NPV of debt-to-exports ratio over the medium term. At end-2003, this ratio is estimated at some 20 percentage points lower than projected in the completion point document. It is projected to be some 40 percentage points lower by end-2006, and to decrease to less than 150 percent by 2012, earlier than anticipated in the completion point document (Table 15 and Figure 5).

E. Structural Reforms and Governance

30. Privatization and public enterprise reform programs, as well as price and trade liberalization, are the principal elements of the government's medium-term structural reform agenda. The government launched the bid for the privatization of the national telecommunications company (ONATEL) in December 2003 and is committed to starting negotiations with the selected buyer by end-March 2004 (LOI, para. 22). Initially, 34 percent of the shares will be offered for sale to the buyer in 2004, with 17 percent slated for sale in two tranches in the future. The government is also committed to finalizing the development strategy for the energy sector (including a legal and regulatory framework for the sector) by end-March 2004, with support from the World Bank. Moreover, audits of the 2002 and 2003 accounts will be carried out by end-December 2004 for both the electricity utility company (SONABEL) and the national petroleum distribution company (SONABHY). Finally, the government is initiating the privatization or liquidation of the remaining government-owned hotels, public and social entities, insurance companies, and banks, while divestiture is planned for the water distribution utility (ONEA) in the medium term.

31. **Regarding the cotton development company (SOFITEX), although** the bid launched in May 2003 for **the opening of two cotton-producing zones to private operators** generated significant interest from several international enterprises, administrative bottlenecks have delayed the government's decision on the choice of enterprises. Nevertheless, the program calls for the bidding procedures to be completed in time to allow two new private sector firms to begin operations by end-May 2004. **In the area of price and trade liberalization**, the government will continue to implement its automatic adjustment mechanisms for petroleum product retail prices (a continuous indicative target) and for water rates in a fully transparent manner. In addition, the government will review the cost structure of the electricity utility (SONABEL), in consultation with the World Bank, with a view to preparing cost-cutting measures.

32. **In the area of governance, the program for 2004 calls** for the submission to the National Assembly of the audited budget acts for 2002 and 2003 by end-March and end-December 2004, respectively, and for the submission to the Auditor General Office of general balance sheets of the treasury for 2001 and 2002 by end-April and end-October 2004, respectively (LOI, para. 19). The government also plans to strengthen the effectiveness of public spending through the conduct of sectoral public expenditure reviews, to adhere to its medium-term expenditure framework (MTEF) (LOI, para. 17), to prepare and adopt a national policy to fight corruption by end-June 2004, and to finalize the first progress report of the High Authority to Fight Corruption by end-September 2004 (LOI, para. 23).

F. Poverty Reduction

33. **The third PRSP progress report, which provides a review of the implementation of the authorities' poverty reduction strategy during the three-year period 2000-02, was finalized by the authorities in December 2003, following comments made by civil society**

and donors during a meeting organized in July 2003 in the context of the PRSP participatory process (LOI, para. 24). In the joint staff assessment of the PRSP progress report, the staffs conclude that macroeconomic policies were generally adequate in 2000-02, but that more efforts are needed to enhance competitiveness, increase rural incomes, and diversify the Burkinabè economy. Continued low tax revenue collection also presented an obstacle to a smooth implementation of the country's poverty reduction strategy, affecting health and education.

34. **In the education sector**, school enrollment increased during 2000-02, while primary school repetition rates declined considerably; however, overall progress was slower than originally projected. Further improvements in the quantity, and especially quality, of education are necessary. **In the area of health,** progress was made with regard to vaccination rates, while usage of health centers and health center staffing increased somewhat. The staffs believe that the capacity of the Ministry of Health needs to be strengthened to improve health outcomes, as originally targeted. In order to clearly understand the links between budgetary expenditure and the results achieved, the authorities should also strengthen the analysis of budget implementation. Since the beginning of the PRSP process, **participation has broadened and become more effective.** Both civil society and private sector groups were more actively involved throughout the last year. Overall, the government has made further progress in the implementation of its poverty reduction strategy, and is committed to addressing remaining weaknesses.

G. Program Monitoring

35. The authorities agreed to implement two measures or actions in order to complete the review. First, in December 2003, they adopted an action plan to strengthen tax and customs revenue collection based on the recommendations made by the March 2003 Fund technical assistance mission in order to ensure that the program remained firmly on track. Second, by mid-March 2004, they will implement a computerized tax management system in the large and medium-sized taxpayers' unit of the regional tax directorate in the west (Bobo-Dioulasso) to make up for the nonobservance of a structural performance criterion.

36. In accordance with the revised program objectives for 2004, and in light of the end-September and end-December 2003 outcomes, quantitative performance criteria are proposed for end-March and end-September 2004, together with quantitative indicative targets for end-June and end-December 2004, and structural performance criteria and indicative targets for end-March 2004 and the remainder of 2004 (LOI, para. 30 and appendix I, Tables 1-2). The second and third reviews under the PRGF arrangement are scheduled to be completed by end-August 2004 and end-February 2005, respectively (LOI, para. 31). At the time of the second review, quantitative performance criteria will be set for end-March 2005 and quantitative indicative targets for end-June 2005, as well as structural indicative targets and performance criteria for the first half of 2005.

IV. Staff Appraisal

37. The adverse impact of the crisis in Côte d'Ivoire on the Burkinabè economy was considerably smaller than projected, reflecting its enhanced flexibility and resilience and the ability of Burkina Faso to diversify transportation routes and sources of supply for key imports. In addition, unanticipated abundant rainfall and an increase in the effective producer price of cotton led to substantially higher than projected agricultural production, both for food crops and the cotton export crop. As a result, inflation and the external current account deficit were better than targeted in 2003 under the program, while the ratio to GDP of the basic budget deficit was maintained at its 2002 level and the near-term prospects for real GDP growth improved significantly.

38. Against this background, performance under the PRGF-supported program in 2003, and in implementing the policy agenda laid out in the PRSP adopted in 2000, was satisfactory. All quantitative performance criteria and most quantitative indicative targets were observed, as well as all structural performance criteria and indicative targets, with the exception of one structural performance criterion that was missed for reasons beyond government control. This outcome is attributable to continued efforts of fiscal consolidation, including an improvement in tax revenue collection, compared with 2002, and continued containment of government spending within the limits of budgetary appropriations; these actions made it possible to consistently reduce the basic budget deficit below the program's quarterly ceilings.

39. **Progress was also made in implementing most of the structural reform agenda, and the authorities were successful in strengthening transparency and accountability in fiscal management**, in line with the program, including through the submission of the annual audited budget acts for 2001 and 2002 to the Auditor General Office, the finalization of treasury annual accounts for the last two decades, the implementation of measures to strengthen budget execution, and the effective establishment of the High Authority to Fight Corruption.

40. However, notwithstanding the good progress made in 2003, **Burkina Faso's economic, financial, and social situation remains fragile.** The country continues to depend heavily on external assistance and on cotton exports, making it highly vulnerable to terms of trade fluctuations and to the volatility of aid flows. Moreover, the external debt burden remains high, even following the completion point under the HIPC Initiative. In this context, while the rise in the overall fiscal deficit in 2004 is a cause for concern, it is justified by the higher spending on infrastructure, needed to improve competitiveness, financed by concessional external resources. In addition, while the program remains on track, government tax revenue performance is still significantly weaker than required under the WAEMU's convergence criteria, and limited absorptive capacity of HIPC Initiative resources in the social sectors has contributed to a slower execution of the government's public investment program, limiting the authorities' performance in reducing poverty and achieving the Millennium Development Goals. Finally, in the staff's view the continued rise in the stock of DENMs in 2003 is worrisome and reflects underlying public expenditure management

problems that require the authorities' attention. These weaknesses need to be addressed to achieve the objectives of the PRSP and the PRGF-supported program. Strict adherence to the quarterly program targets on DENMs through 2004 will be crucial in this respect.

41. **The successful implementation of the program in 2004 will critically depend on a substantial strengthening of revenue collection performance, and on the effective assertion of continued control over public expenditure management. On the revenue side**, projections are ambitious and the authorities' commitment to reduce non-priority spending if they are not achieved is welcome. Achievement of the significant revenue increase depends crucially on the recent adoption and rigorous implementation by the authorities of a comprehensive action plan to improve tax and customs revenue collection, based on the recommendations of the Fund March 2003 technical assistance mission. The staff also welcomes the effective computerization of the large and medium-sized taxpayers' unit in Ouagadougou, and urges the authorities to implement that in Bobo-Dioulasso.

42. **On the expenditure side**, it is essential for the authorities to contain domestically financed expenditure, including the wage bill and public investment, while making adequate provisions for the education and health sectors, pursuing their poverty reduction objectives, and remaining current on external debt-service obligations. The authorities should strictly follow the fiscal policy stance agreed on for 2004, strengthen the effectiveness of public spending, including HIPC Initiative-related social spending, and continue to adhere to the medium-term expenditure framework (MTEF) developed with the Fund and the World Bank.

43. **The staff endorses the authorities' commitment to absorb fully in 2004 all HIPC Initiative-related resources made available to date, including the carryover from 2003, in order to finance priority education, health, and other poverty-reducing spending,** while lowering the ratio of the basic budget deficit to GDP. Taking these actions will help increase public spending in social sectors, as intended, and achieve the policy objectives and priorities of the PRSP.

44. **The authorities' continued resolve to strengthen transparency in public finance management, promote good governance, and combat corruption is welcome.** They are to be commended for the progress made in these areas in 2003, with the effective functioning of the Auditor General Office and the High Authority to Fight Corruption. The authorities are also encouraged to adhere strictly to the timetable agreed for the submission of the audited budget acts for 2002 and 2003 to the Auditor General Office and to the National Assembly.

45. **While Burkina Faso, along with other WAEMU countries, has largely maintained the external competitiveness gains from the 1994 devaluation of the CFA franc, the recent appreciation of the euro and the CFA franc during 2002-03 raises concern about competitiveness in the secondary and tertiary sectors.** In addition, high factor costs, infrastructure bottlenecks, inadequate access to credit and financial services, and limited external market access are likely to continue to hamper economic diversification. Continued implementation of the program structural reforms and strict adherence to prudent financial policies are needed to address these weaknesses, improve the

investment climate, and stimulate private sector development. In this regard, continued determination is needed on the part of the authorities to carry out their price and trade liberalization policies, including the effective implementation of the mechanism for adjusting petroleum product prices in line with imports and distribution costs, and their privatization and public enterprise reform programs, especially in the cotton, telecommunications, and energy sectors.

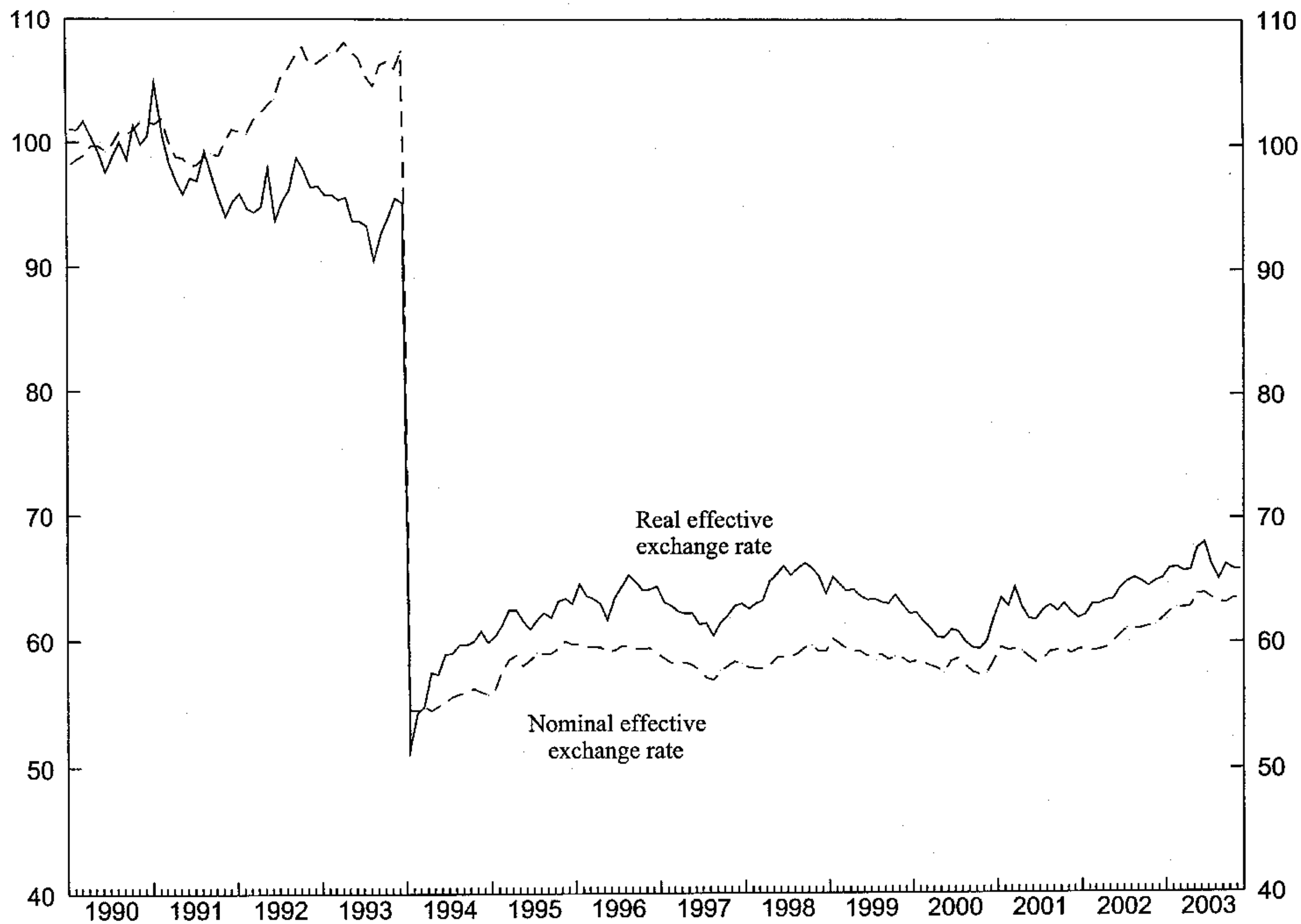
46. **In the banking sector**, the central bank should continue to monitor closely lending activities and bank portfolio performance, and financial sector development should be promoted, including microfinance, with a view to increasing access to bank credit and financial services for small and medium-sized enterprises and the rural sector. There is also an urgent **need to improve the quality and timeliness** of external debt data and adhere to the very prudent borrowing policy intended under the program.

47. Following a participatory process involving civil society, the private sector, and donors, the full **PRSP should be updated** soon **for 2004-06**, to take into account **the revised macroeconomic framework**. In this regard, the staff welcomes the finalization of a household survey by the authorities in 2003 and would urge them to carry out poverty assessments and prepare adequate series of social and poverty indicators in a timely manner. More generally, the staff urges the authorities to ensure that resources are made available to fund the timely preparation of reliable and high-quality statistics, including with regard to the consumer price index.

48. In view of the strength of the program for 2004 and provided that the prior action on the completion of the effective computerization of a large and medium-sized taxpayers' unit has been implemented to make up for the nonobservance of the related structural performance criterion, the staff would **recommend that the Executive Board approve the authorities' request for a waiver of performance criterion and complete the first review under the PRGF arrangement**.

Figure 1. Burkina Faso: Real and Nominal Effective Exchange Rates, January 1990 - November 2003

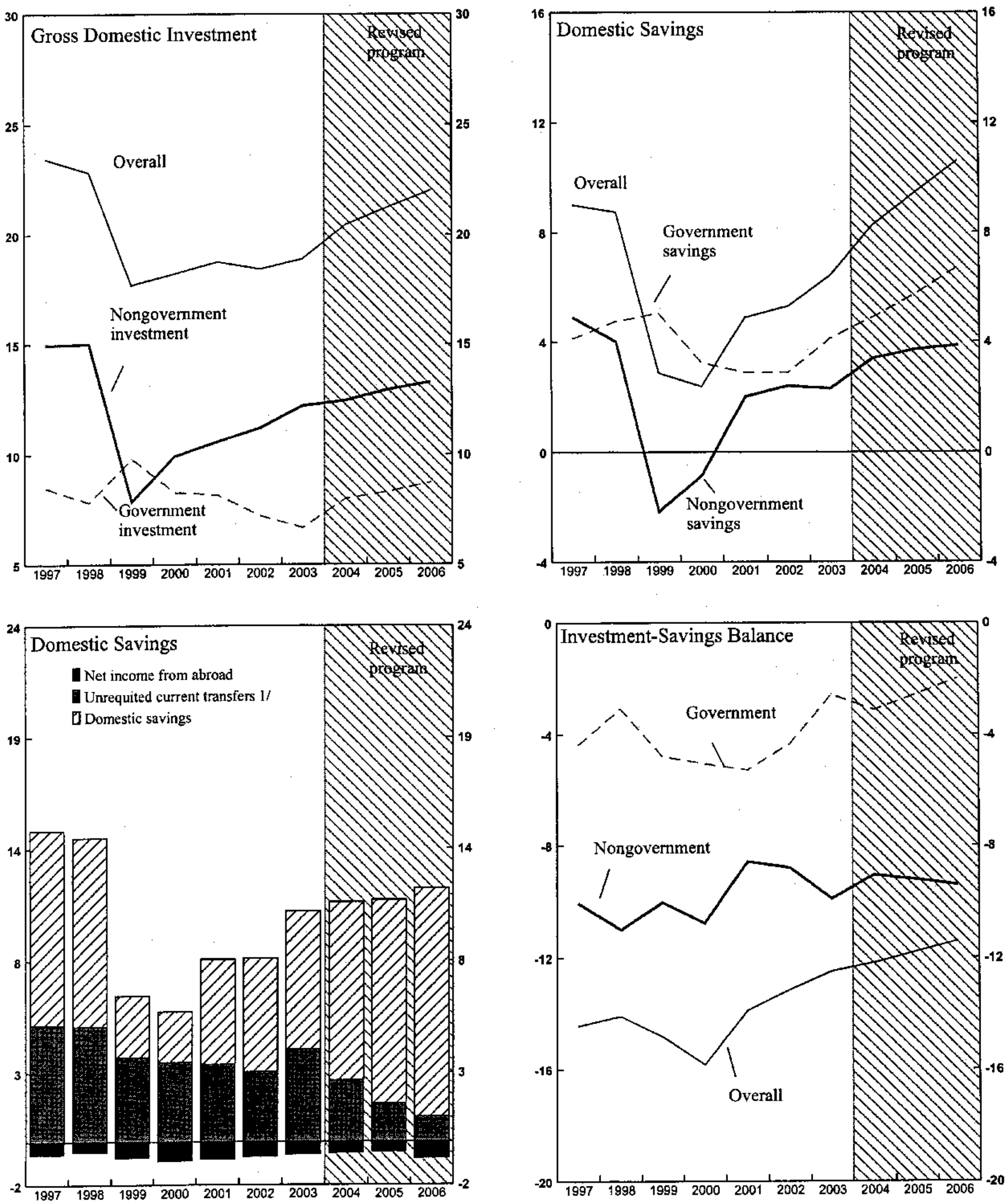
(Index, 1990=100)



Source: IMF, Information Notice System.

Figure 2. Burkina Faso: Investment and Savings, 1997-2006

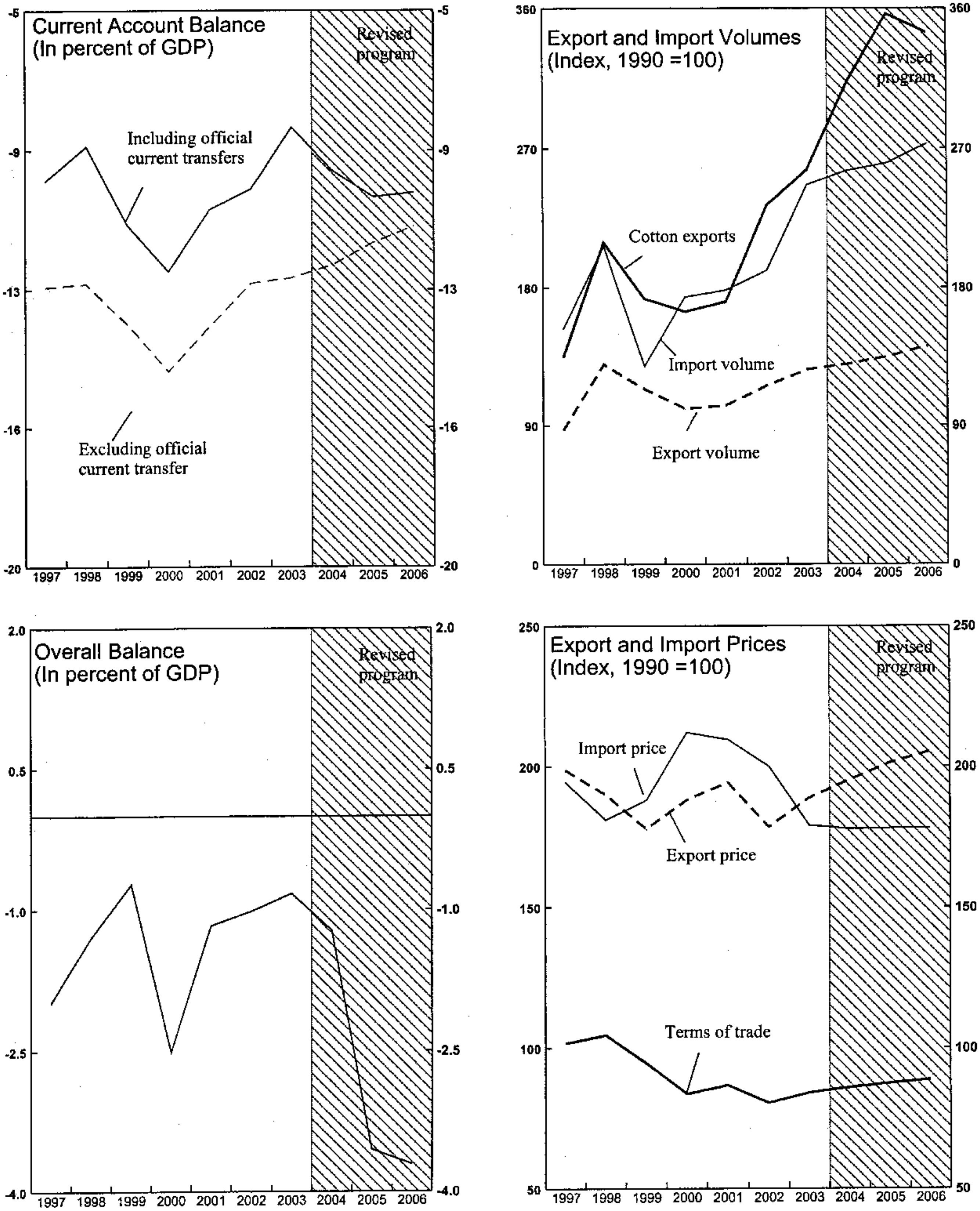
(In percent of GDP)



Sources: Burkinabè authorities; and staff estimates and projections.

1/ Budgetary grants, technical assistance, worker remittances, and other transfers, including from nongovernmental organizations.

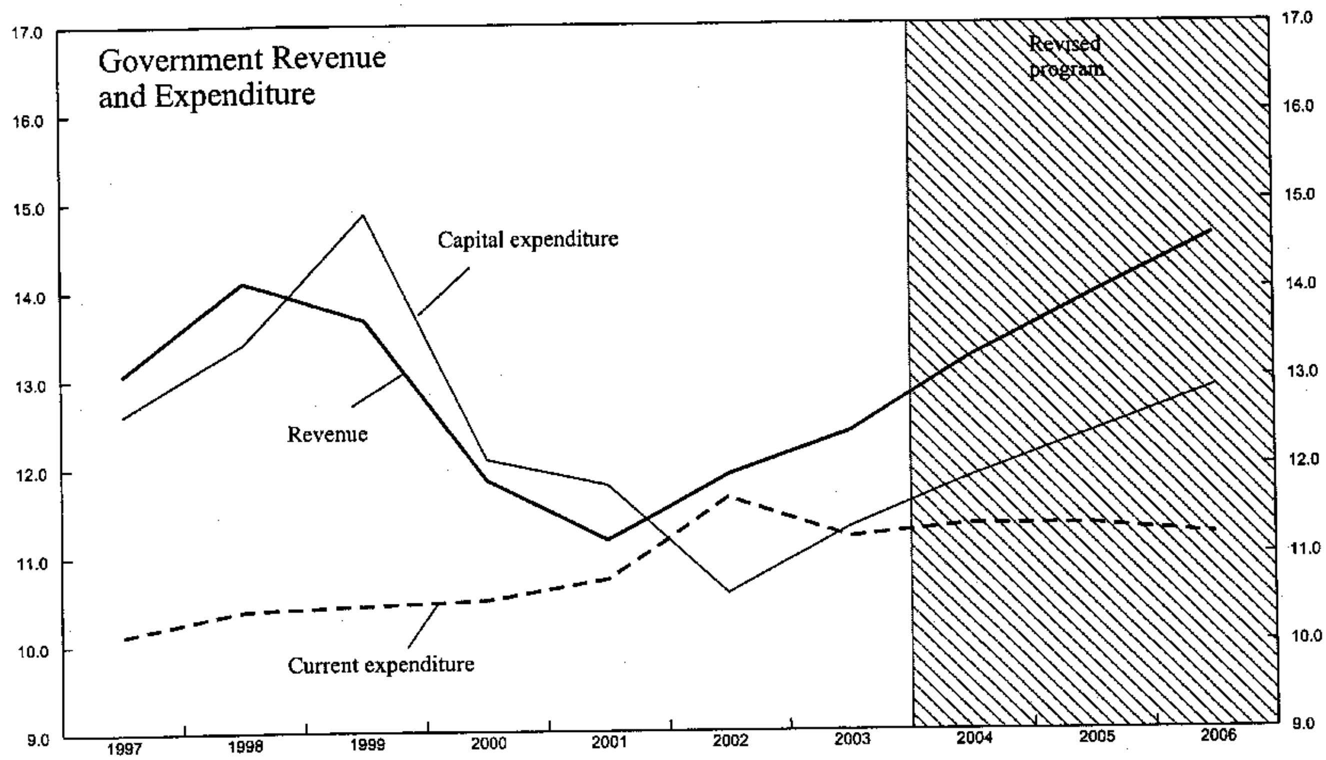
Figure 3. Burkina Faso: External Sector Developments, 1997-2006

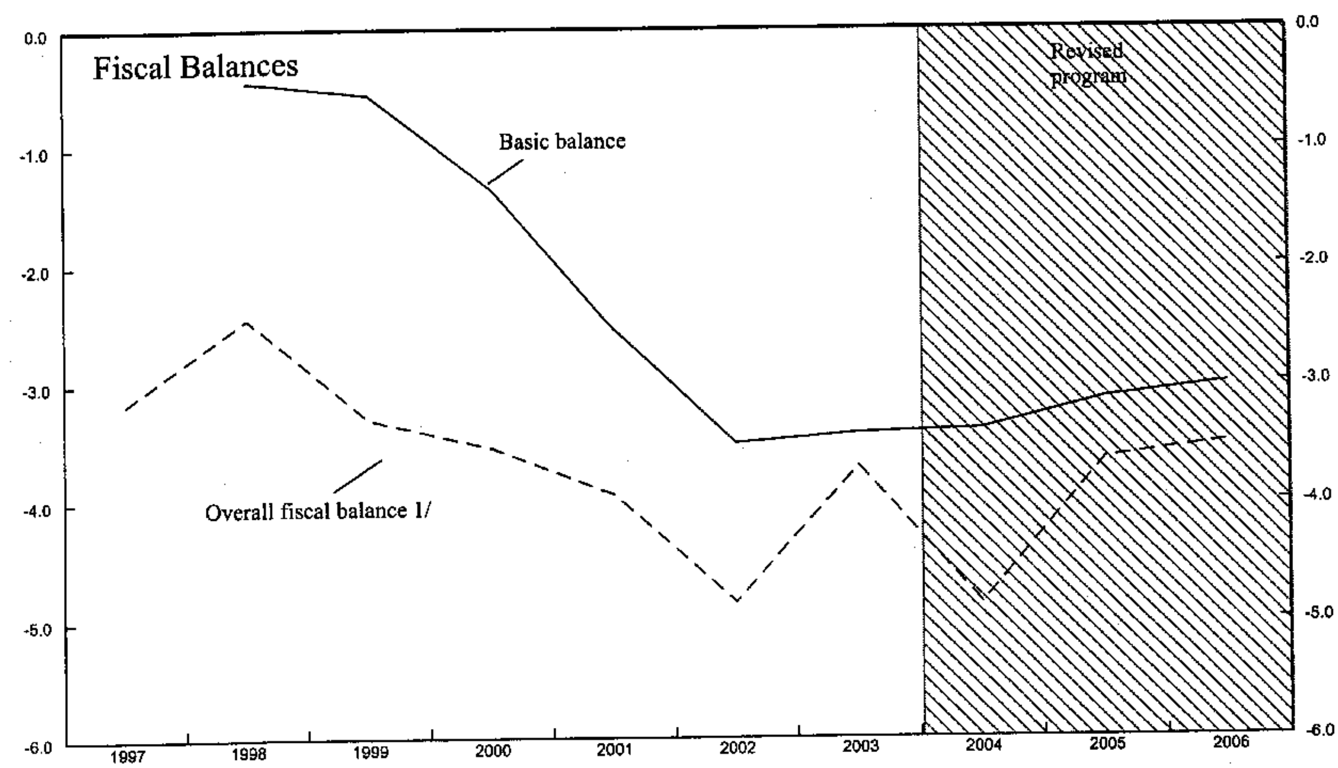


Sources: Burkinabè authorities; and staff estimates and projections.

Figure 4. Burkina Faso: Fiscal Sector Developments, 1997-2006

(In percent of GDP)



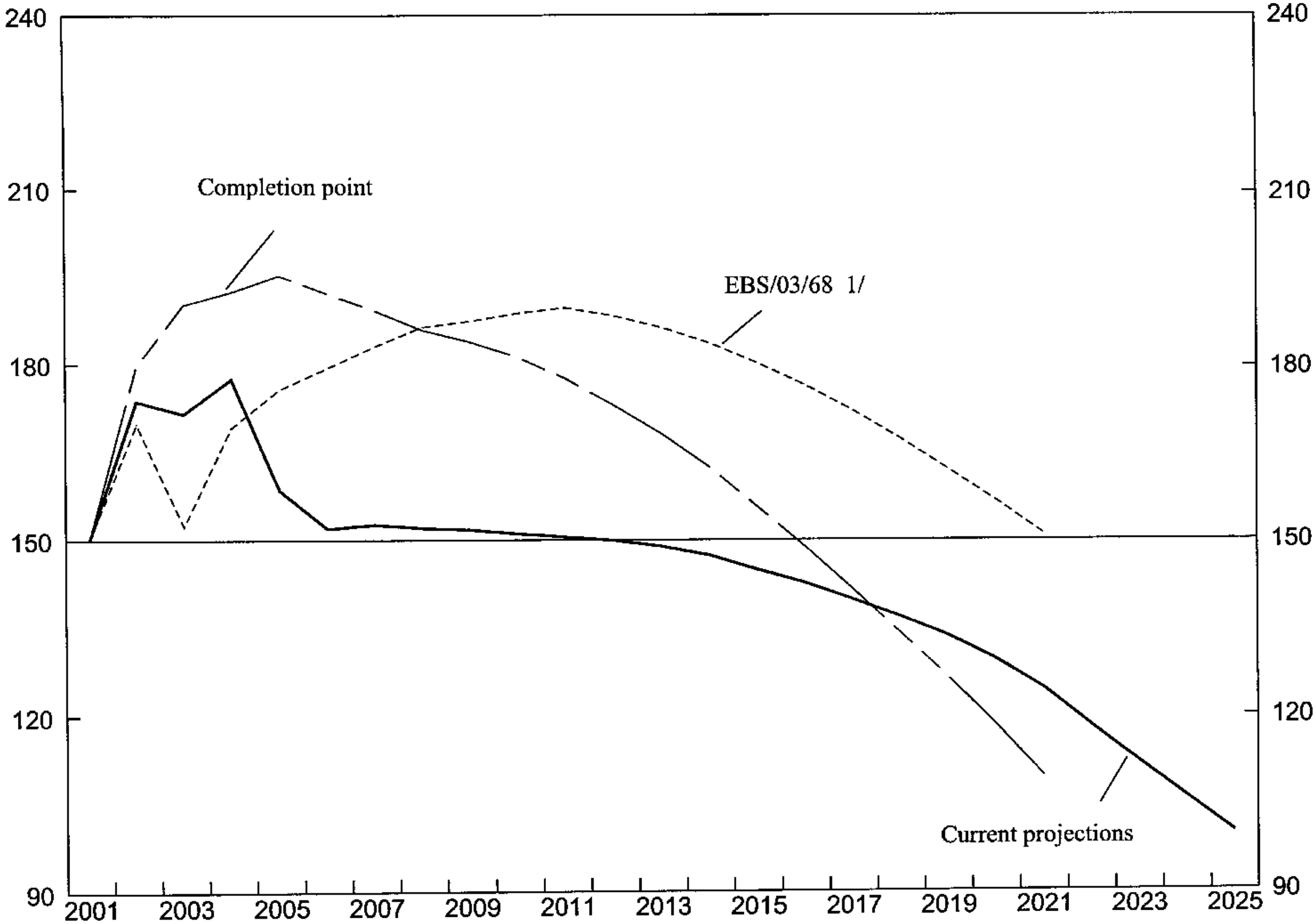


Sources: Burkinabè authorities; and staff estimates and projections.

1/ Commitment basis; including grants.

Figure 5. Burkina Faso: Ratio of Net Present Value of External Debt to Exports, 2001-25

(In percent)



Sources: Burkinabè authorities; and staff estimates and projections.

1/ Staff Report for the 2003 Article IV Consultation and Request for a New Three-Year Arrangement Under the Poverty Reduction and Growth Facility.

Table 1. Burkina Faso: Schedule of Disbursements Under the PRGF Arrangement, 2003-06

Amount	Available Date	Conditions Necessary for Disbursement 1/
SDR 3.44 million	June 11, 2003	Following Executive Board approval of the three-year PRGF arrangement
SDR 3.44 million	March 19, 2004	Observance of the performance criteria for September 30, 2003 and completion of the first review under the arrangement
SDR 3.44 million	August 15, 2004	Observance of the performance criteria for March 31, 2004 and completion of the second review under the arrangement
SDR 3.44 million	February 1, 2005	Observance of the performance criteria for September 30, 2004 and completion of the third review under the arrangement
SDR 3.44 million	July 1, 2005	Observance of the performance criteria for March 31, 2005 and completion of the fourth review under the arrangement
SDR 3.44 million	January 15, 2006	Observance of the performance criteria for September 30, 2005 and completion of the fifth review under the arrangement
SDR 3.44 million	June 11, 2006	Observance of the performance criteria for March 31, 2006 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 2. Burkina Faso: Fund Position During the PRGF Arrangement, 2003-06

	2003	2004		2005		2006	
	Jul.-Dec.	Jan.-June	Jul.-Dec.	Jan.-June	Jul.-Dec.	Jan.-June	Jul.-Dec.
				(in millions of SDRs)			
Poverty Reduction and Growth Facility (PRGF)	-6.2	-3.4	-3.2	-2.9	-2.0	1.8	-5.0
Loans	0.0	3.4	3.4	3.4	3.4	6.9	0.0
Repayments	6.2	6.9	6.6	6.3	5.4	5.1	5.0
Total Fund credit outstanding end of period	83.9	80.5	77.3	74.4	72.4	74.2	69.2
Of which: PRGF	83.9	80.5	77.3	74.4	72.4	74.2	69.2
				(In percent of quota)			
Total Fund credit outstanding end of period	139.4	133.7	128.4	123.6	120.3	123.3	115.0
Of which: PRGF	139.4	133.7	128.4	123.6	120.3	123.3	115.0

Source: IMF, Finance Department.

Table 3. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for the Program
Under the Poverty Reduction and Growth Facility Arrangement, 2002-03
(In billions of CFA francs; cumulative from beginning of year)

	2002	2003							
	Dec. Est.	End-Sep. Performance Criteria	End-Sep. Adjusted Criteria	End-Sep. Est.	End-Sep. Observance	End-Dec. Indicative Target	End-Dec. Adjusted Targets	End-Dec. Est.	End-Dec. Observance
Performance criteria and indicative targets 1/									
Ceiling on cumulative change in net domestic financing to government 2/	-23.8	33.8	38.7	28.9	Observed	23.4	48.2	13.2	Observed
Ceiling on the cumulative amount of new nonconcessional external debt									
contracted or guaranteed by the government 3/ 4/	0.0	0.0	0.0	0.0	Observed	0.0	0.0	0.0	Observed
Of which: less than one year's maturity 3/ 4/	0.0	0.0	0.0	0.0	Observed	0.0	0.0	0.0	Observed
Accumulation of domestic payments arrears 4/	0.0	0.0	0.0	0.0	Observed	0.0	0.0	0.0	Observed
Accumulation of external payments arrears 4/	0.0	0.0	0.0	0.0	Observed	0.0	0.0	0.0	Observed
									Observed
Indicators									
Government revenue	259.4	209.2	209.2	222.7	Observed	291.7	291.7	300.9	Observed
Current expenditure	258.9	205.4	205.4	196.4	Observed	269.8	269.8	268.9	Observed
Expenditure on wages and salaries	103.0	84.1	84.1	82.4	Observed	111.4	111.4	112.1	Not observed
Basic balance 5/ 6/	-83.4	-70.0	-70.0	-68.8	Observed	-106.0	-106.0	-89.0	Observed
Change in the stock of expenditure committed but without payment orders 6/	12.3	15.0	15.0	11.3	Observed	-15.0	-15.0	13.6	Not observed
Adjustment factors									
Balance of payments assistance	75.9	39.1	34.2	34.2		108.4	83.6	83.6	
Adjustment lending (excluding IMF)	46.0	0.0	0.0	0.0		21.2	12.1	12.1	
Adjustment grants	29.9	39.1	34.2	34.2		87.1	71.6	71.6	

Sources: Burkinabè authorities; and staff estimates.

1/ Performance criteria at end-September 2003 and end-March 2004.
2/ For 2003 and 2004, the ceiling on the cumulative change in net domestic financing is to be adjusted upward (downward) by the amount of shortfall (surplus) in balance of payments assistance (excluding debt relief under the HIPC Initiative). At end-September 2003, the adjustment is limited to a maximum of CFAF 30 billion.
3/ Excluding treasury notes and bonds issued in CFA francs on the regional West African and Economic Monetary Union (WAEMU) market.
4/ To be observed on a continuous basis.
5/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment outlays and net lending.
6/ Including HIPC Initiative expenditure.

Table 4. Burkina Faso: Structural Performance Criteria
and Structural Indicative Targets for the 2003-04 Program

Measures	Date	Status
Adoption by the government of the West African Economic and Monetary Union (WAEMU) budgetary nomenclature with specific codes for identifying social expenditure and expenditure financed under the HIPC Initiative.	End-September 2003	Observed
Submission to the National Assembly of the 2004 draft budget law.	End-September 2003	Observed
Submission to the National Assembly of the 2001 draft annual audited budget act.	End-September 2003	Observed
Closing of all nonfinancial private enterprise deposit accounts with the treasury.[1]	End-September 2003	Observed
Implementation of a computerized tax management system in the large and medium-sized taxpayers' units of the regional tax directorates in the center (Ouagadougou) and the west (Bobo-Dioulasso).[1]	End-October 2003	Not observed; implemented in Ouagadougou in October 2003, as scheduled; to be implemented in Bobo-Dioulasso by mid-March 2004, as a prior action for the completion of the first review
Submission to the National Assembly of the 2002 draft annual audited budget act.[1]	End-March 2004	Not applicable
Implementation of the automatic price structure adjustment mechanism for petroleum products in relation to costs.	Continuous	Observed

[1] Performance criterion.

Table 5. Burkina Faso: Selected Economic and Financial Indicators, 2002-06

	2002	2003		2004		2005		2006	
	Est.	Prog.	Est.	Prog.	Rev. Progr.	Prog.	Rev. Progr.	Prog.	Rev. Progr.
	(Annual percentage change, unless otherwise specified)								
GDP and prices									
GDP at constant prices	4.4	2.6	6.5	4.0	5.2	4.8	5.3	5.2	5.7
GDP deflator	2.2	6.4	2.2	2.6	2.6	2.1	2.1	2.8	2.8
Consumer prices (annual average)	2.3	4.5	1.8	2.8	1.9	2.6	2.0	2.4	2.0
Consumer prices (end of period)	3.9	5.0	1.9	3.0	2.1	2.8	2.2	2.6	2.2
Money and credit									
Net domestic assets (banking system) 1/	0.0	9.7	11.1	5.4	7.9	5.4	5.9	6.1	7.7
Credit to the government 1/	-10.1	-0.3	6.7	-0.4	2.5	-0.2	1.9	0.0	2.5
Credit to the private sector 1/	11.9	10.0	7.2	5.8	5.4	5.6	3.9	6.1	5.1
Broad money (M2)	2.9	9.2	9.1	7.1	7.9	7.0	7.5	7.7	8.7
Velocity (GDP/M2)	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
External sector									
Exports (f.o.b.; valued in CFA francs)	0.2	8.5	18.7	7.5	11.1	7.8	11.7	6.9	5.5
Imports (f.o.b.; valued in CFA francs)	2.3	11.9	8.5	1.8	8.0	2.7	7.2	5.2	5.4
Terms of trade	-14.6	11.0	7.5	4.3	4.3	4.1	2.1	1.5	1.9
Real effective exchange rate (depreciation -) 2/	5.2	...	1.4	...	...	...	...	...	...
	(In percent of GDP, unless otherwise specified)								
Gross investment	18.4	19.1	18.9	19.1	20.5	20.6	21.2	21.5	22.0
Government	7.2	7.7	6.7	8.3	8.0	8.7	8.3	9.0	8.7
Nongovernment sector	11.2	11.4	12.2	10.8	12.5	12.0	12.9	12.5	13.3
Gross domestic savings	5.3	4.7	6.4	6.1	8.3	8.1	9.5	9.2	10.6
Government savings	2.9	3.7	4.1	4.8	4.9	5.7	5.7	6.6	6.7
Nongovernment savings	2.4	0.9	2.3	1.3	3.4	2.5	3.7	2.6	3.9
Gross national savings	8.6	9.8	10.8	9.0	11.2	11.7	11.2	12.8	12.1
Central government finances									
Tax revenue	10.8	11.4	11.1	12.4	12.2	13.0	12.8	13.6	13.5
Current expenditure	11.6	11.3	11.1	11.3	11.5	11.3	11.3	11.2	11.1
Overall fiscal balance, excluding grants	-10.2	-11.0	-9.2	-9.9	-9.6	-9.5	-9.1	-9.2	-8.8
Overall fiscal balance, including grants	-4.9	-2.5	-3.7	-3.3	-4.9	-2.1	-3.6	-1.7	-3.5
Basic balance 3/	-3.7	-4.5	-3.7	-3.5	-2.9	-3.2	-3.0	-3.1	-2.9
Excluding use of HIPC Initiative resources	-2.5	-2.1	-2.2	-2.1	-1.4	-1.9	-1.9	-2.1	-2.1
External sector									
Exports of goods and nonfactor services	8.5	8.7	9.3	8.7	9.5	8.7	9.8	8.7	9.5
Imports of goods and nonfactor services	21.6	23.2	21.7	21.7	21.7	21.2	21.6	20.9	20.9
Current account balance (excluding current official transfers)	-12.3	-14.2	-12.2	-12.6	-11.8	-12.0	-11.2	-11.7	-10.8
Current account balance (including current official transfers)	-9.8	-9.4	-8.1	-10.1	-9.3	-8.9	-10.0	-8.7	-9.9
External debt indicators (before HIPC Initiative)									
Debt-service ratio 4/ 5/	27.1	24.8	23.6	23.2	21.7	21.2	19.1	19.0	17.0
NPV of debt/exports of goods and services (in percent)	169.8	152.4	171.5	169.2	177.5	175.7	158.6	179.5	152.0
Gross official reserves (in months of imports of goods and services)	4.2	3.9	3.6	3.7	3.3	3.6	3.2	3.7	3.3
Nominal GDP (in billions of CFA francs)	2,233	2,380	2,430	2,548	2,624	2,728	2,819	2,936	3,064

Sources: Burkinabè authorities; and staff estimates and projections.

1/ In percent of beginning-of-period broad money.
2/ For 2003, estimates are for 11 months through end-November.
3/ Revenue, excluding grants, minus expenditures, excluding foreign-financed investment outlays.
From 1998 on, revenue includes taxes paid by contractors on foreign-financed public investments using checks issued by the treasury.
4/ In percent of exports of goods and services.
5/ After traditional debt-relief mechanisms and before original Heavily Indebted Poor Countries (HIPC) Initiative assistance delivered as of end-2001.

Table 6. Burkina Faso: Consolidated Operations of the Central Government, 2002-06

	2002	2003				2004		2005		2006	
	Est. 1/	Progr. 1/	Sep. Progr. 1/	Sep. Est.	Est. 1/	Progr. 1/	Rev. Progr. 1/	Progr. 1/	Rev. Progr. 1/	Progr. 1/	Rev. Progr. 1/
	(In billions of CFA francs)										
Total revenue and grants 2/	378.1	494.3	331.8	303.3	434.3	504.6	470.0	581.3	544.2	650.6	608.8
Current revenue 2/	259.4	291.7	209.2	222.7	300.9	337.3	345.6	380.2	391.2	429.0	447.6
Tax revenue	240.9	271.0	195.1	203.0	270.1	313.7	319.3	353.3	361.3	398.3	414.9
Income and profits	61.7	70.5	50.3	52.4	67.2	82.5	79.0	94.0	91.0	107.2	108.2
Domestic goods and services	130.2	151.7	109.2	111.9	147.2	175.9	179.8	200.6	200.6	228.7	230.7
International trade	42.4	42.0	30.5	32.8	43.8	47.0	52.6	48.5	60.5	50.0	66.0
Other	6.6	6.8	5.1	5.9	11.8	8.2	7.9	10.2	9.2	12.4	10.0
Nontax revenue	18.5	20.7	14.1	19.6	30.8	23.6	26.3	26.9	29.9	30.7	32.7
Capital revenue	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grants	118.6	202.5	122.5	80.6	133.3	167.3	124.4	201.1	153.0	221.6	161.2
Project	88.7	115.4	83.4	46.4	61.8	130.4	84.8	145.7	145.7	161.2	161.2
Program	29.9	87.1	39.1	34.2	71.6	36.9	39.6	55.4	7.3	60.4	0.0
Expenditure and net lending 3/	486.4	554.2	403.4	389.9	524.4	589.5	597.5	639.7	647.0	700.6	716.3
Current expenditures	258.9	269.8	205.4	196.4	268.9	288.9	300.7	309.1	319.4	329.4	341.1
Of which: HIPC	11.0	23.1	18.7	6.9	11.2	13.1	11.2	12.6	10.8	10.2	8.7
Wages and salaries	103.0	111.4	84.1	82.4	112.1	118.1	118.1	125.2	125.2	132.7	132.7
Goods and services	62.5	66.8	52.8	45.1	61.5	71.3	70.0	75.9	76.9	78.7	81.7
Other expenditure	5.1	0.0	0.0	0.0	7.0	0.0	0.0	0.0	0.0	1.0	1.0
Interest payments	16.8	14.4	9.9	12.6	16.3	16.0	18.7	15.5	16.8	14.8	16.5
Domestic	3.9	4.0	2.6	4.1	5.2	6.3	8.0	6.3	6.3	6.2	6.2
External	12.9	10.4	7.3	8.5	11.1	9.7	10.7	9.2	10.5	8.6	10.3
Current transfers	70.1	75.6	57.4	55.7	70.7	81.6	91.4	90.5	98.5	101.3	107.3
Safety net / oil and gas subsidies	1.5	1.6	0.0	0.6	1.3	2.0	2.5	2.0	2.0	2.0	2.0
Investment expenditure	230.3	261.4	174.5	167.6	232.0	302.6	299.8	337.6	334.6	378.1	382.1
Domestically financed	86.7	115.0	60.3	69.3	97.6	138.4	125.0	165.2	162.2	197.1	201.1
Of which: HIPC	17.2	32.5	26.4	14.8	25.0	22.3	29.7	21.5	20.1	17.3	16.1
tax component	13.4	11.2	5.4	14.9	18.8	12.0	0.0	14.0	14.0	14.0	14.0
Externally financed	143.5	146.4	114.2	98.3	134.4	164.2	174.8	172.4	172.4	181.0	181.0
Net lending	-2.7	23.0	23.5	25.8	23.5	-2.0	-3.0	-7.0	-7.0	-7.0	-7.0
Of which: foreign financed	0.0	10.0	10.0	0.0	0.0	...	...	...	...	...	...
ZACA	0.0	15.0	15.0	15.0	15.0	...	...	-5.0	-5.0	-5.0	-5.0
Overall surplus/deficit (commitment basis)	-108.3	-59.9	-71.6	-86.5	-90.1	-84.9	-127.5	-58.4	-102.8	-50.0	-107.5
Excluding grants	-227.0	-262.4	-194.1	-167.1	-223.4	-252.2	-252.0	-259.5	-255.8	-271.6	-268.7
Basic balance 4/	-83.4	-106.0	-70.0	-68.8	-89.0	-88.0	-77.1	-87.1	-83.4	-90.6	-87.7
Excluding use of HIPC resources	-55.3	-50.5	-43.6	-47.1	-52.8	-52.6	-36.2	-53.0	-52.5	-63.1	-62.9
Cash basis adjustment	39.7	-37.0	0.1	1.6	-3.4	-13.0	-30.0	-7.0	-7.0	-7.0	-7.0
Change in payments arrears	-3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures committed but not paid 5/	12.3	-15.0	15.0	11.3	13.6	0.0	-15.0	3.0	3.0	3.0	3.0
Of which: HIPC	10.2	0.0	5.0	0.0	9.6	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures with payment orders but not paid	0.0	0.0	0.0	3.2	4.0	0.0	-4.0	0.0	0.0	0.0	0.0
Change in treasury's commitments	30.6	-22.0	-14.9	-12.8	-20.9	-13.0	-11.0	-10.0	-10.0	-10.0	-10.0
Overall deficit (cash basis)	-68.6	-96.9	-71.5	-84.9	-93.4	-97.9	-157.5	-65.4	-109.8	-57.0	-114.5
Excluding grants	-187.3	-299.4	-194.0	-165.5	-226.8	-265.2	-282.0	-266.5	-262.8	-278.6	-275.7
	121.6										
Financing	70.4	91.1	68.6	79.7	91.6	70.1	152.3	55.5	26.9	43.2	14.6
Foreign	94.1	67.7	34.8	50.8	78.5	97.4	132.6	69.1	24.5	55.8	13.3
Drawings	121.6	98.2	30.8	51.7	84.7	92.4	133.4	66.6	26.7	59.7	19.8
Project loans	54.8	41.0	30.8	51.7	72.6	33.8	90.0	26.7	26.7	19.8	19.8
Adjustment aid	46.0	21.2	0.0	0.0	12.1	58.6	43.4	39.9	0.0	39.9	0.0
HIPC Initiative	20.8	36.0	25.0	17.3	25.5	35.4	32.0	34.1	30.9	27.5	24.8
Amortization	-27.4	-30.5	-21.0	-18.2	-31.7	-30.5	-32.8	-31.7	-33.1	-31.3	-31.4
Domestic financing	-23.8	23.4	33.8	28.9	13.2	-27.3	19.7	-13.6	2.4	-12.6	1.4
Bank financing	-43.9	-1.4	6.7	37.0	29.1	-2.0	12.0	-1.0	10.0	0.0	14.0
Central bank	-36.4	1.8	9.2	17.4	5.3	-2.0	5.0	-1.0	5.0	0.0	10.0
Of which: HIPC account	-3.1	19.6	...	5.8	...	...	...	...	...	...	...
Commercial banks	-7.5	-3.2	-2.4	19.6	23.8	0.0	7.0	0.0	5.0	0.0	4.0
Nonbank financing	20.1	24.8	27.1	-8.2	-16.0	-25.3	7.7	-12.6	-7.6	-12.6	-12.6
Government bonds	6.1	24.8	27.1	8.0	-4.6	-36.8	-3.8	-12.6	-7.6	-12.6	-12.6
New issues	14.2	57.5	...	31.3	35.9	0.0	33.0	0.0	5.0	0.0	0.0
Amortization	8.2	32.7	...	23.3	40.5	36.8	36.8	12.6	12.6	12.6	12.6
Privatization revenue	0.9	0.0	0.0	0.0	1.0	11.5	11.5	0.0	0.0	0.0	0.0
Other	13.2	0.0	0.0	-16.1	-12.3	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-1.7	0.0	0.0	5.3	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	5.8	2.9	0.0	0.0	27.9	5.3	9.9	82.9	13.8	99.8
Memorandum items:											
Poverty-reducing social expenditures	108.9	155.7	...	...	128.2	164.4	147.1	152.0	164.2	143.0	179.0
Of which: education	42.7	60.5	...	...	54.3	65.3	58.2	65.3	70.6	62.9	76.9
health	38.5	48.3	...	...	39.4	52.2	42.3	52.2	56.4	45.7	61.4
Military expenditure	33.4	35.0	...	...	35.0	32.0	32.0	33.0	33.0	34.0	34.0
	(In percent of GDP, unless otherwise specified)										
Total revenue and grants	16.9	20.8	13.9	12.5	17.9	20.0	17.9	21.3	19.3	22.2	19.9
Tax revenue	10.8	11.4	8.2	8.4	11.1	12.4	12.2	12.9	12.8	13.6	13.5
Grants	5.3	8.5	5.1	3.3	5.5	6.6	4.7	7.4	5.4	7.5	5.3
Expenditure and net lending	21.8	23.3	16.9	16.0	21.6	23.4	22.8	23.4	22.9	23.9	23.4
Current expenditure	11.6	11.3	8.6	8.1	11.1	11.3	11.5	11.3	11.3	11.2	11.1
Capital expenditure	10.3	11.0	7.3	6.9	9.5	12.0	11.4	12.4	11.9	12.9	12.5
Domestically financed	3.9	4.8	2.5	2.9	4.0	5.5	4.8	6.1	5.8	6.7	6.6
Foreign financed	6.4	6.2	4.8	4.0	5.5	6.5	6.7	6.3	6.1	6.2	5.9
Overall balance (commitment basis)											
Including grants	-4.9	-2.5	-3.0	-3.6	-3.7	-3.3	-4.9	-2.1	-3.6	-1.7	-3.5
Excluding grants	-10.2	-11.0	-8.2	-6.9	-9.2	-9.9	-9.6	-9.5	-9.1	-9.3	-8.8
Basic balance 4/	-3.7	-4.5	-2.9	-2.8	-3.7	-3.5	-2.9	-3.2	-3.0	-3.1	-2.9
Excluding use of HIPC resources	-2.5	-2.1	-1.8	-1.9	-2.2	-2.1	-1.4	-1.9	-1.9	-2.1	-2.1
Financing gap	0.0	0.2	0.1	0.0	0.0	1.1	0.2	0.4	2.9	0.5	3.3
GDP (in billions of CFA francs)	2,233	2,380	2,380	2,430	2,430	2,548	2,624	2,728	2,819	2,936	3,064

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Includes HIPC resources.
2/ Revenue includes taxes on goods and services paid during the execution of public investment projects using checks issued by the treasury.
3/ On a commitment basis and including the tax component of the public investment projects, which is paid by the treasury.
4/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment and net lending outlays.
5/ Float during the year. Decline of stock of expenditure committed but not paid : (-).

Table 7. Burkina Faso: Fiscal Operations, 2004
(In billions of CFA francs)

	2004			
	March Rev. Prog.	June Rev. Prog.	Sept. Rev. Prog.	Dec. Rev. Prog.
Total revenue and grants	96.5	209.3	340.6	470.0
Current revenue	70.7	162.4	248.8	345.6
Tax revenue	65.3	150.1	229.9	319.3
Income and profits	16.2	37.1	56.9	79.0
Domestic goods and services	36.8	84.5	129.4	179.8
International trade	10.8	24.7	37.9	52.6
Other tax revenue	1.6	3.7	5.7	7.9
Nontax revenue	5.4	12.3	18.9	26.3
Capital revenue	0.0	0.0	0.0	0.0
Grants	25.9	46.9	91.8	124.4
Project	10.6	28.3	56.8	84.8
Program	15.3	18.6	35.0	39.6
Expenditure and net lending	129.7	275.2	431.5	597.5
Current expenditures	72.2	148.8	225.5	300.7
Wages and salaries	28.3	58.5	88.6	118.1
Goods and services	16.8	34.7	52.5	70.0
Interest payments	4.5	9.3	14.0	18.7
Domestic	1.9	4.0	6.0	8.0
External	2.6	5.3	8.0	10.7
Current transfers	21.9	45.2	68.5	91.4
Safety net / oil and gas subsidies	0.6	1.2	1.9	2.5
Investment expenditures	58.2	127.9	208.2	299.8
Domestically financed	26.0	55.0	83.9	125.0
Of which : tax component	0.9	1.9	4.7	29.7
Externally financed	32.2	72.8	124.3	174.8
Net lending	-0.7	-1.5	-2.2	-3.0
Overall surplus/deficit (commitment basis)	-33.1	-65.9	-90.8	-127.5
Excluding grants	-59.0	-112.8	-182.6	-252.0
Basic balance	-26.8	-40.0	-58.3	-77.1
Cash basis adjustment	-0.5	-2.4	-19.8	-30.0
Change in payments arrears	0.0	0.0	0.0	0.0
Domestic	0.0	0.0	0.0	0.0
External	0.0	0.0	0.0	0.0
Expenditures committed but not paid	2.0	2.6	-12.3	-15.0
Expenditures with payment orders but not paid	-1.0	-2.0	-3.0	-4.0
Change in treasury's commitments	-2.5	-5.0	-7.5	-11.0
Overall deficit (cash basis)	-33.6	-68.3	-110.7	-157.5
Excluding grants	-59.5	-115.2	-202.5	-282.0
Financing	31.0	65.6	105.4	152.3
Foreign financing	13.7	44.4	102.3	132.6
Drawings	21.6	60.7	126.9	165.4
Project loans	21.6	44.6	67.5	90.0
Adjustment aid	0.0	8.1	43.4	43.4
HIPC Initiative	0.0	8.0	16.0	32.0
Amortization	-7.9	-16.3	-24.6	-32.8
Domestic financing	17.3	21.2	3.1	19.7
Bank financing	17.3	21.2	-8.4	12.0
Central bank	12.3	16.2	-13.4	5.0
Commercial banks	5.0	5.0	5.0	7.0
Nonbank financing	0.0	0.0	11.5	7.7
Government bonds	0.0	0.0	0.0	-3.8
Privatization revenue	0.0	0.0	11.5	11.5
Other	0.0	0.0	0.0	0.0
Errors and omissions	0.0	0.0	0.0	0.0
Financing gap	2.7	2.7	5.3	5.3

Sources: Burkinabè authorities; and staff estimates and projections.

Table 8. Burkina Faso: Fiscal Impact of the HIPC Initiative, 2000-06

(In billions of CFA francs, unless otherwise specified)

	2000	2001	2002	2003	2004	2005	2006
					Rev. Progr.		
Initiative for Heavily Indebted Poor Countries (HIPC Initiative) assistance given							
A. Interest due before HIPC Initiative assistance	13.1	12.5	12.9	11.1	10.7	10.5	10.3
B. Interest paid before HIPC Initiative assistance	13.1	12.5	12.9	11.1	10.7	10.5	10.3
C. HIPC Initiative assistance on interest (as a result of stock-of-debt operation only)	0.0	0.0	0.0	0.2	0.4	0.5	2.3
D. Interest due after HIPC Initiative assistance	13.1	12.5	12.9	10.9	10.3	10.0	8.0
E. Amortization due before HIPC Initiative assistance	27.8	27.1	27.4	31.7	32.8	33.1	31.4
F. Amortization paid before HIPC Initiative assistance	27.8	27.1	27.4	31.7	32.8	33.1	31.4
G. HIPC Initiative assistance on amortization (as a result of stock-of-debt operation only)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
H. Amortization due after HIPC Initiative assistance	27.8	27.1	27.4	31.7	32.8	33.1	31.4
I. HIPC Initiative assistance provided as grants (to cover debt service due)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
J. HIPC Initiative assistance as exceptional financing (to cover debt service due)	7.1	26.5	20.8	25.5	32.0	30.9	24.8
Total HIPC Initiative assistance (C+G+I+J)	7.1	26.5	20.8	25.7	32.4	31.4	27.1
Total HIPC Initiative assistance (in millions of U.S. dollars)	10.0	36.2	29.9	44.3	62.6	60.7	52.5
Net cash flow to the budget from HIPC Initiative assistance (B+F-(D+H-I-J))	7.1	26.5	20.8	25.7	32.4	31.4	27.1
Memorandum items:							
Other donor flows	201.3	237.3	219.4	218.0	257.8	179.7	181.0
Total net external flows (net external financing less debt service due)	160.4	197.7	179.1	175.2	214.3	136.2	139.3
Poverty reduction government expenditures 1/							
Baseline pre-HIPC Initiative assistance expenditure projections	85.9	73.9	56.6	...	...	...	...
Post-HIPC Initiative assistance expenditure projections	85.9	80.4	108.9	128.2	147.1	164.2	179.0
Memorandum items:							
Tax revenue (in percent of GDP)	10.7	10.3	10.8	11.1	12.2	12.8	13.5
Overall fiscal balance before HIPC Initiative assistance (in percent of GDP)	-3.9	-5.3	-4.0	-4.9	-7.2	-10.4	-9.9
Overall fiscal balance after HIPC Initiative assistance (in percent of GDP)	-3.5	-3.9	-4.9	-3.7	-4.9	-3.6	-3.5

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Excludes foreign-financed investment.

Table 9. Burkina Faso: Poverty-Reducing Social Expenditure, 1999-2004 1/

	1999	2000	2001	2002	2003	2004 Rev. Prog.
	(As percentage of total expenditure)					
Total poverty-reducing social expenditure	16.0	16.6	21.7	22.4	24.4	24.6
Current	13.3	14.4	16.0	15.8	17.1	16.9
Capital	2.7	2.2	5.7	6.6	7.4	7.7
Health	5.5	5.5	8.4	7.9	7.5	7.1
Current expenditure	4.6	4.9	6.9	6.5	6.1	5.5
Capital expenditure	0.9	0.6	1.5	1.4	1.4	1.6
Education	6.7	7.1	9.3	8.8	10.4	9.7
Current expenditure	6.0	6.6	6.7	6.3	7.6	7.6
Capital expenditure	0.7	0.5	2.7	2.5	2.7	2.1
Women's welfare and other poverty-reducing social expenditure	3.8	4.0	3.5	5.3	6.1	6.9
Current expenditure	2.7	2.9	2.4	3.0	3.4	3.7
Capital expenditure	1.0	1.1	1.1	2.3	2.7	3.2
Rural roads (capital)	0.0	0.0	0.4	0.4	0.5	0.9
	(As percentage of GDP)					
Total poverty-reducing social expenditure	4.0	3.7	4.8	4.9	5.3	5.6
Current	3.4	3.2	3.5	3.4	3.7	3.8
Capital	0.7	0.5	1.3	1.4	1.6	1.8
Health	1.4	1.2	1.9	1.7	1.6	1.6
Current expenditure	1.2	1.1	1.5	1.4	1.3	1.3
Capital expenditure	0.2	0.1	0.3	0.3	0.3	0.4
Education	1.7	1.6	2.1	1.9	2.2	2.2
Current expenditure	1.5	1.5	1.5	1.4	1.6	1.7
Capital expenditure	0.2	0.1	0.6	0.5	0.6	0.5
Women's welfare and other poverty-reducing social expenditure	1.0	0.9	0.8	1.2	1.3	1.6
Current expenditure	0.7	0.6	0.5	0.7	0.7	0.9
Capital expenditure	0.3	0.2	0.2	0.5	0.6	0.7
Rural roads (capital)	0.0	0.0	0.1	0.1	0.1	0.2

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Including use of HIPC Initiative resources, and excluding foreign-financed investment.

Table 10. Burkina Faso: Monetary Survey, 2002-04

	2002	2003								2004					2005
	Dec.	Mar.		June		Sep.		Dec.		Mar.	June	Sep.	Dec.		Dec.
	Est.	Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Est.	Rev. Prog.	Rev. Prog.	Rev. Prog.	Prog.	Rev. Prog.	Rev. Prog.
	(In billions of CFA francs)														
Net foreign assets	140.5	136.0	117.3	135.5	124.5	135.0	130.2	134.4	131.5	131.5	131.5	131.5	142.3	131.5	139.7
Central Bank of West African States (BCEAO)	80.9	77.0	79.4	76.5	78.6	76.0	73.8	75.4	86.3	86.3	86.3	86.3	83.3	86.3	94.6
Assets	190.1	183.6	191.8	181.8	175.7	180.1	167.8	178.4	183.8	182.5	181.3	180.0	180.8	178.7	183.2
Liabilities	109.2	106.5	112.5	105.4	97.1	104.2	94.0	103.0	97.5	96.2	94.9	93.7	97.5	92.4	88.6
Commercial banks	59.6	59.0	37.9	59.0	45.9	59.0	56.3	59.0	45.1	45.1	45.1	45.1	59.0	45.1	45.1
Net domestic assets	296.2	301.5	343.3	311.8	328.0	322.2	353.6	332.5	344.8	354.3	363.8	373.2	357.8	382.7	412.8
Net domestic credit	317.7	333.9	362.0	351.1	355.9	347.4	380.1	349.9	378.3	402.1	412.5	389.3	375.1	416.2	446.3
Net credit to government	17.7	28.4	35.3	34.9	44.0	20.5	54.4	12.2	46.8	64.1	68.0	38.4	10.2	58.8	68.8
Treasury	73.0	84.1	73.0	90.6	90.9	76.2	99.6	68.0	89.7	107.0	110.9	81.3	66.0	101.7	111.7
BCEAO	36.3	51.9	36.3	59.2	39.6	45.6	52.8	38.2	41.1	53.4	57.3	27.7	36.2	46.1	51.1
Commercial banks	36.7	32.2	36.7	31.4	51.3	30.6	46.9	29.8	48.7	53.7	53.7	53.7	29.8	55.7	60.7
Other central government	-55.3	-55.7	-37.7	-55.7	-46.9	-55.7	-45.2	-55.7	-43.0	-43.0	-43.0	-43.0	-55.7	-43.0	-43.0
Of which: project deposits	-43.6	-25.2	-43.6	-25.2	-37.5	-25.2	-37.2	-25.2	-36.4	-36.4	-36.4	-36.4	-25.2	-36.4	-36.4
Credit to the economy	300.0	305.5	326.8	316.2	311.9	326.9	325.6	337.7	331.6	338.0	344.5	351.0	364.9	357.4	377.5
Of which: crop credit	47.6	49.4	54.8	51.2	55.0	53.0	51.5	54.8	40.0	60.0	63.0	61.0	59.3	43.5	46.0
Other items (net)	-21.4	-32.4	-18.7	-39.3	-27.9	-25.2	-26.5	-17.3	-33.5	-47.8	-48.7	-16.1	-17.3	-33.5	-33.5
Broad money	436.8	437.5	460.6	447.3	452.5	457.1	483.7	467.0	476.3	485.8	495.2	504.7	500.1	514.2	552.5
Of which: currency in circulation	83.2	82.8	83.7	84.9	65.6	87.0	66.7	89.1	59.0	60.4	61.9	63.3	96.3	64.8	73.0
	(Changes in percent of beginning-of-period broad money, unless otherwise specified)														
Memorandum items:															
Net foreign assets	2.9	-0.1	-5.3	-0.1	-2.6	-0.1	-1.5	-0.5	-2.1	0.0	0.0	0.0	1.7	0.0	1.6
Net domestic assets	0.0	2.4	10.8	2.4	6.1	2.3	14.6	9.7	11.1	2.0	4.0	6.0	5.4	7.9	5.9
Net credit to government	-10.1	3.4	4.0	1.5	3.6	-3.2	9.5	-0.3	6.7	3.6	4.5	-1.8	-0.4	2.5	1.9
Credit to the economy	11.9	2.5	6.1	2.5	1.5	2.4	7.2	10.0	7.2	1.4	2.7	4.1	5.8	5.4	3.9
(annual percentage change)	20.2	3.6	8.9	3.5	2.1	3.4	27.8	14.5	10.5	3.4	5.4	3.9	8.1	7.8	5.6
Money supply	2.9	2.3	5.5	2.2	3.4	2.2	13.1	9.2	9.1	2.0	4.0	6.0	7.1	7.9	7.5
Currency velocity (GDP/broad money)	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1

Sources: Burkinabè authorities; and staff estimates and projections.

Table 11. Burkina Faso: Balance of Payments, 2000-06

	2000	2001	2002	2003		2004		2005		2006	
			Est.	Prog.	Est.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.
	(In billions of CFA francs)										
Exports, f.o.b.	146.4	163.8	164.2	178.1	194.9	191.6	216.6	206.6	241.8	220.7	255.2
Of which: cotton	72.2	96.0	97.4	110.0	123.3	112.5	139.8	117.8	156.6	119.3	153.6
gold	6.2	2.2	3.9	8.1	8.1	10.6	8.5	13.3	10.5	13.4	11.7
Imports, f.o.b.	-368.6	-373.3	-381.7	-427.2	-414.3	-435.1	-447.4	-446.7	-479.6	-469.8	-505.5
Of which: capital goods	-122.8	-115.5	-124.5	-145.9	-134.5	-147.1	-153.4	-151.6	-163.9	-156.7	-168.8
Trade balance	-222.2	-209.5	-217.5	-249.1	-219.4	-243.5	-230.8	-240.1	-237.8	-249.1	-250.3
Services and income (net)	-91.5	-94.6	-89.0	-106.6	-96.6	-100.0	-101.3	-111.9	-107.1	-122.2	-111.5
Services	-77.3	-76.7	-75.9	-94.6	-84.0	-88.6	-89.0	-100.8	-94.7	-111.6	-99.3
Income	-14.3	-17.9	-13.1	-11.9	-12.6	-11.4	-12.4	-11.0	-12.3	-10.6	-12.3
Of which: interest payments	-13.2	-15.8	-13.8	-10.4	-11.1	-9.7	-10.7	-9.2	-10.5	-8.6	-10.3
Of which: budget	-13.1	-12.5	-12.9	-10.4	-11.1	-9.7	-10.7	-9.2	-10.5	-8.6	-10.3
Current transfers (net)	86.8	90.8	88.0	133.1	118.5	86.2	88.3	108.0	62.8	116.0	58.8
Private	35.6	25.8	31.3	18.9	19.9	22.0	21.4	25.1	27.9	27.8	30.9
Of which : workers' remittances (gross)	44.5	32.0	31.3	24.4	25.0	27.9	27.0	31.5	34.0	34.7	37.5
Official	51.2	65.0	56.7	114.2	98.6	64.2	66.9	82.9	34.9	88.3	27.9
Of which: budgetary (program grants) 1/	22.9	27.2	29.9	87.1	71.6	36.9	39.6	55.4	7.3	60.4	0.0
Current account (deficit= -)	-227.0	-213.3	-218.5	-222.6	-197.5	-257.3	-243.8	-244.0	-282.0	-255.2	-303.1
Excluding current official transfers	-278.1	-278.3	-275.2	-336.8	-296.1	-321.5	-310.7	-326.9	-316.9	-343.5	-331.0
Capital transfers	115.4	126.0	92.1	119.0	65.3	134.1	88.6	149.6	149.6	165.3	165.3
Project grants	111.9	121.1	88.7	115.4	61.8	130.4	84.8	145.7	145.7	161.2	161.2
Other capital transfers	3.5	5.0	3.4	3.6	3.6	3.7	3.7	3.9	3.9	4.1	4.1
Financial operations	62.7	78.4	116.0	65.4	87.6	73.5	123.2	64.2	32.2	59.9	24.1
Official capital	32.9	61.9	73.3	31.7	53.0	61.9	100.5	34.9	-6.4	28.4	-11.6
Disbursements	60.7	89.1	100.8	62.2	84.7	92.4	133.4	66.6	26.7	59.7	19.8
Project loans	66.5	56.0	54.8	41.0	72.6	33.8	90.0	26.7	26.7	19.8	19.8
Program loans 1/	0.0	33.1	46.0	21.2	12.1	58.6	43.4	39.9	0.0	39.9	0.0
Amortization	-27.8	-27.1	-27.4	-30.5	-31.7	-30.5	-32.8	-31.7	-33.1	-31.3	-31.4
Government securities 2/	...	...	14.3	14.9	18.5	-19.6	-10.0	-5.0	-5.0	-5.0	-5.0
Private capital 3/	29.8	16.5	28.5	18.8	16.1	31.2	32.7	34.2	43.6	36.5	40.6
Errors and omissions	1.4	-15.3	1.9	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-47.5	-24.1	-22.7	-38.2	-34.6	-49.7	-32.0	-30.2	-100.2	-30.0	-113.6
Financing	47.5	24.1	8.4	32.4	34.6	21.9	26.7	20.2	17.3	16.2	13.8
Net foreign assets	37.7	-2.4	-12.4	2.1	23.6	-7.9	0.0	-8.2	-8.2	-8.4	-5.7
Net official reserves 4/	37.6	-22.5	-4.4	2.1	9.1	-7.9	0.0	-8.2	-8.2	-8.4	-5.7
Of which: gross official reserves	39.3	-28.7	-4.7	6.9	16.5	-2.4	5.1	-4.2	-4.5	-2.9	-3.2
IMF (net)	-1.7	6.3	0.3	-10.5	-7.4	-11.2	-10.4	-9.7	-9.1	-8.4	-7.8
Use of resources 5/	5.2	15.7	10.4	...	2.8	...	...	...	...	...	...
Repayments	-7.0	-9.5	-10.1	-10.5	-10.2	-11.2	-10.4	-9.7	-9.1	-8.4	-7.8
Net foreign assets, commercial banks	0.2	20.1	-8.0	0.0	14.5	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (reduction= -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC Initiative	7.1	26.5	20.8	36.0	25.5	35.4	32.0	34.1	30.9	27.5	24.8
Debt under discussion 6/	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 7/	0.0	0.0	0.0	5.8	0.0	27.9	5.3	9.9	82.9	13.8	99.8
Memorandum items:	(In percent of GDP, unless otherwise indicated)										
Trade balance (deficit= -)	-11.8	-10.2	-9.7	-10.5	-9.0	-9.6	-8.8	-8.8	-8.4	-8.5	-8.2
Cotton export volume (thousands of metric tons)	109.1	113.3	154.7	164.6	170.0	164.6	207.5	164.6	236.6	164.6	228.8
Current account (deficit= -)	-12.0	-10.3	-9.8	-9.4	-8.1	-10.1	-9.3	-8.9	-10.0	-8.7	-9.9
Excluding current official transfers	-14.7	-13.5	-12.3	-14.2	-12.2	-12.6	-11.8	-12.0	-11.2	-11.7	-10.8
Overall balance (deficit= -)	-2.5	-1.2	-1.0	-1.6	-1.4	-2.0	-1.2	-1.1	-3.6	-1.0	-3.7
Total debt-service ratio before HIPC 8/	28.4	27.5	27.1	24.8	23.6	23.2	21.7	21.2	19.1	19.0	17.0
Total debt-service ratio after HIPC 8/	24.2	13.6	16.1	7.2	8.8	6.9	7.9	8.2	8.5	6.2	4.1
Net present value of debt/exports of goods and services (percent)	244.6	201.4	169.8	152.4	171.5	169.2	177.5	175.7	158.6	179.5	152.0
Gross international reserves (in billions of CFA francs)	171.3	194.0	198.7	189.4	182.2	191.8	177.1	196.0	181.6	198.9	184.8
In months of imports of goods, c.i.f.	5.5	6.1	5.8	5.2	4.9	5.2	4.4	5.0	4.3	4.8	4.2
In months of imports of goods and services	4.3	4.4	4.2	3.9	3.6	3.7	3.3	3.6	3.2	3.7	3.3
GDP at current prices (in billions of CFA francs)	1,890	2,063	2,233	2,380	2,430	2,548	2,624	2,728	2,819	2,936	3,064

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

1/ The World Bank has been providing its assistance mainly in the form of budgetary program grants from 2003 onward.
2/ Outstanding government bonds and treasury bills issued on the regional market that are held by resident in countries other than Burkina Faso.
3/ Includes portfolio investment and foreign direct investment.
4/ In 2004-06, does not include the increase in liabilities owing to possible IMF disbursements.
5/ In 2004-06, IMF financing is included in the financing gap.
6/ Contentious debt in negotiation with non-Paris Club creditors.
7/ Includes IMF financing in 2004-06.
8/ In percent of exports of goods and services.

Table 12. Burkina Faso: External Financing Requirements, 2003-06

(In billions of CFA francs)

	2003	2004	2005	2006
	Est.	Rev. Prog.		
External financing requirements	321.5	348.8	363.6	373.3
Current account, excluding current official transfers and interest payments	285.0	300.0	306.4	320.7
Interest payments	11.1	10.7	10.5	10.3
Amortization	31.7	32.8	33.1	31.4
Fund repurchases	10.2	10.4	9.1	7.8
Increase in external reserves	-16.5	-5.1	4.5	3.2
Change in arrears	0.0	0.0	0.0	0.0
Government securities 1/	18.5	-10.0	-5.0	-5.0
Private capital, net	16.1	32.7	43.6	40.6
Net external financing requirements	286.9	326.2	324.9	337.7
Financing	286.9	326.2	324.9	337.7
Disbursements	251.4	288.9	211.2	213.0
Loans	87.5	133.4	26.7	19.8
Project loans	72.6	90.0	26.7	19.8
Program loans	14.9	43.4	0.0	0.0
Official transfers	164.0	155.5	184.5	193.2
Project grants	61.8	84.8	145.7	161.2
Program grants	71.6	39.6	7.3	0.0
Other current transfers	27.1	27.3	27.6	27.9
Other capital transfers	3.6	3.7	3.9	4.1
Other 3/	10.0	...	...	...
HIPC Initiative assistance 2/	25.5	32.0	30.9	24.8
Financing gap	0.0	5.3	82.9	99.8
Memorandum items:				
New program assistance disbursements and debt relief				
Multilateral	68.2	72.8	...	...
IMF disbursements	2.8	5.3	...	...
World Bank	28.5	35.2	...	...
European Union	24.8	24.1	...	...
African Development Bank	12.1	8.2	...	...
HIPC Initiative	25.5	32.0	...	...
Bilateral	21.1	15.5	...	...

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Outstanding government bonds and treasury bills issued on the regional market that are held by residents in countries other than Burkina Faso.

2/ Includes the share of topping-up assistance of the Fund, which remains undisbursed.

Table 13. Burkina Faso: Tracking Delivery of HIPC Initiative Assistance—Original and Enhanced Framework

	Original			Enhanced				
	Agreement to provide HIPC relief under original	Begun to deliver interim assistance	Begun to deliver comp. point assistance	Agreement to provide HIPC relief	Agreement to provide interim assistance	Begun to deliver interim assistance	Begun to deliver comp. point assistance	Agreement to provide topping up
Multilateral creditors								
IMF	yes	yes	yes	yes	yes	yes	yes	yes
IDA	yes	yes	yes	yes	yes	yes	yes	yes
African Development Bank/Fund	yes	yes	yes	yes	yes	yes	yes	yes
International Fund for Agricultural Development	yes	yes	yes	yes	no	no	no	no
European Union	yes	yes	yes	yes	yes	yes	no	yes
OPEC Fund	yes	limited	limited	pending	no	no	pending	yes
Arab Bank for Economic Development in Africa	yes	limited	limited	pending	no	no	pending	pending
Economic Community of West African States	no	no	no	no	no	no	no	no
Conseil de l'Entente	minimis	minimis	minimis	minimis	minimis	minimis	minimis	no
West African Development Bank	yes	yes	yes	yes	yes	yes	yes	yes
Islamic Development Bank	yes	limited	limited	pending	no	no	pending	pending
Paris Club creditors								
Austria 1/	yes	yes	yes	yes	no	no	yes	yes
Russia 2/	yes	yes	yes	yes	no	no	yes	yes
France 2/	yes	yes	yes	yes	yes	yes	yes	yes
Italy 3/	yes	yes	yes	yes	yes	yes	yes	yes
Netherlands 2/	yes	yes	yes	yes	yes	yes	yes	yes
Spain 2/	yes	yes	yes	yes	yes	yes	yes	yes
United Kingdom 3/	yes	yes	yes	yes	no	no	yes	yes
Non-Paris Club bilateral creditors								
Algeria	no	no	no	no	no	no	no	...
China	no	no	no	no	no	no	no	...
Kuwait	yes	yes	yes	yes	pending	pending	pending	pending
Saudi Arabia	no	no	no	no	no	no	no	no
Libya	no	no	no	no	no	no	no	no
Taiwan Province of China	no	no	no	no	no	no	no	no
Côte d'Ivoire	no	no	no	no	no	no	no	no

Sources: Burkinabè authorities; and staff estimates.

1/ Agreement on debt cancellation signed on June 20, 2002.

2/ Cancellation of 85 percent of debt stock agreed on June 20, 2002 (agreement not signed).

3/ Agreement not signed.

Table 14. Burkina Faso: Expenditure Accountability Assessment and Action Plan (AAP)—Update Table

Indicator	Actions to Strengthen – From Agreed Action Plans [1/] and Time Horizon (S/M) [2/] (from AAP)	Status [3/]	Progress to Date on Action Plans and Indicated Improvements (Outcomes)
Budget formulation			
Composition of budget entity	Apply WAEMU guidelines on public finances, including to local governments (M)	II	The current fiscal accounts cover only a narrow definition of central government. The government will work on extending coverage of fiscal accounts to comply with WAEMU guidelines with the 2004 budget cycle.
Limitations to use of off-budget transactions	n.a. (meets benchmark)		
Reliability of budget as guide to outturn level	n.a. (meets benchmark)		The government still needs to include outturn data in the budget laws presented to the National Assembly.
Data on donor financing	Integrate the computerized expenditure management systems of the Department for Cooperation and the Budget/Treasury (S)	II	The computer links between the government departments have been reestablished and currently information of foreign-financed investments is being gathered to feed it into the computerized expenditure management system.
Classification of budget transactions	Implement WAEMU budget classification system (S)	II	The government will convert its expenditure management system to the new classification system in 2003 and apply the new classification system with the 2004 budget.
	Make the necessary adjustments to automatically generate a functional budget classification (S)	II	Adjustments to the computerized expenditure management system are under way for the 2004 budget exercise.
Identification of poverty-reducing expenditures	n.a.		Poverty-reducing expenditure is identified through budgetary lines by ministry (administrative classification).
Quality of multiyear expenditure projections	n.a. (meets benchmark)		The MTEF is fully integrated in the budget cycle and includes HIPC resources.
Budget execution			
Level of payment arrears	Link commitment decisions to cash reserves and reinforce use of cash-flow plan (S)	FI	Implemented in 2002. No new arrears were accumulated.
	Prepare an annual cash-flow plan and update monthly (S)	FI	Implemented in 2002.
	Extend computerized expenditure management system to local level (M)	II	Pilot extension for Bobo-Dioulasso became effective in 2003.

Table 14. Burkina Faso: Expenditure Accountability Assessment and Action Plan (AAP)—Update Table (concluded)

Indicator	Actions to Strengthen – From Agreed Action Plans 1/ and Time Horizon (S/M) 2/ (from AAP)	Status 3/	Progress to Date on Action Plans and Indicated Improvements (Outcomes)
Quality of internal audit	n.a.		Internal audit function effective and fully integrated in commitment process.
Use of tracking surveys	Reinforce the use of tracking surveys on the decentralized level (S)	II	Tracking surveys are conducted under the PRSP process but could be broadened and deepened further.
	Disseminate results of tracking surveys within the administration (S)	FI	Implemented in 2002.
Quality of fiscal/banking data reconciliation	n.a. (meets benchmark)		
Budget reporting			
Timeliness of internal budget reports	n.a. (meets benchmark)		
Classification used for budget tracking	n.a.		Tracking uses administrative classification system as functional classification sysem is not yet available.
Timeliness of accounts closure	n.a.		
Timeliness of final audited accounts	Take an administrative decision as regards the treasury account balances prior to 1994 (S)	II	Legal opinions have been sought out to define a procedure for the administrative decision.
	Regularly produce treasury account balances and submit accounts to the Supreme Audit Court jointly with budget execution reports (S)	II	The government has accelerated the production of treasury account balances.
	Fully operationalize the Supreme Audit Court (S)	FI	The court was set up, offices have been identified and renovated, and magistrates were named. The court became fully operational in 2003.
	Respect the delays in presenting budget execution reports to the National Assembly (S)	II	The 1999 and 2000 execution reports were sent to the National Assembly. The 2001 execution reports were approved by the Council of Ministers in April 2003, and submitted to Parliament.

1/ Action plans were agreed by the government, the IMF, and World Bank at the time of the 2001 AAP mission. In the meantime, the government adopted an action plan for the improvement of budget management (PRGB) in July 2002 that encompasses the recommendations of the AAP and other analytical work, including the Country Financial Accountability Assessment (CFAA). The implementation of the PRGB is supported by the World Bank's Poverty Reduction Support Credit (PRSC). The AAP update table reflects only certain elements of the government's public expenditure reform program.

2/ S = short term, i.e., action that is expected to be completed in one year. M = medium term, i.e, action that is expected to be completed in two-three years.

3/ Degree of implementation, i.e., whether implementation has been initiated (II), is not yet started (NS), or is complete (FI, for fully implemented).

Table 15. Burkina Faso: New External Borrowing and Debt Indicators, 2003-16

(In millions of U.S. dollars, unless otherwise indicated)

	2003	2004	2005	2006	2009	2012	2016
	Est.	Projections					
Annual disbursements	146.0	260.8	105.1	102.8	107.7	154.4	178.1
Projected project loans	125.1	173.7	51.6	38.3	30.3	65.9	87.5
Projected program loans	20.8	76.9	0.0	0.0	65.9	77.5	90.7
Remaining financing needs (loans)	0.0	10.2	53.4	64.4	11.6	11.0	0.0
Cumulative disbursements	291.0	551.8	656.9	759.7	1,080.5	1,483.1	2,154.9
Net present value (NPV) of debt 1/	520.0	702.1	767.6	826.1	1,009.1	1,233.9	1,598.4
NPV of debt/ government revenue (in percent)	100.2	105.3	101.4	95.3	83.9	70.3	54.7
NPV of debt/GDP (in percent)	12.4	13.9	14.1	13.9	13.2	12.5	11.6
NPV of debt/exports of goods and services (in percent)	171.5	177.5	158.6	152.0	151.7	149.9	142.6

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Government revenue, excluding grants.

Table 16. Burkina Faso: IMF Credit Position and Projected Payments to the IMF, 2003-13 1/

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	(In millions of SDRs, unless otherwise indicated)										
Fund credit, net changes	-9.2	-6.6	-4.8	-3.2	-12.1	-11.5	-9.5	-9.1	-9.1	-6.5	-4.4
Poverty Reduction and Growth Facility (PRGF) disbursements (+)	3.4	6.9	6.9	6.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGF repayments (-)	-12.6	-13.5	-11.7	-10.1	-12.1	-11.5	-9.5	-9.1	-9.1	-6.5	-4.4
PRGF charges and interest (-)	-0.6	-0.5	-0.5	-0.3	-0.4	-0.4	-0.3	-0.3	-0.2	-0.2	-0.1
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)	811.2	773.9	774.7	775.7	776.3	776.4	776.6	776.6	776.6	776.6	776.6
	(In billions of CFA francs, unless otherwise indicated)										
Exports of goods and services	225.0	248.6	275.8	291.2	312.0	334.6	359.0	387.5	418.3	451.9	488.4
Tax revenue	270.1	319.3	361.3	414.9	449.9	508.6	575.4	651.3	738.9	838.4	838.4
GDP	2,430.4	2,623.6	2,819.2	3,064.5	3,331.8	3,623.2	3,940.8	4,287.1	4,664.8	5,076.6	5,525.9
Outstanding Fund credit, end of period											
In millions of SDRs	83.9	77.3	72.4	69.2	57.1	45.6	36.1	27.0	17.9	11.4	7.0
In billions of CFA francs	68.1	59.8	56.1	53.7	44.3	35.4	28.1	21.0	13.9	8.9	5.5
In percent of quota	139.4	128.4	120.3	115.0	94.9	75.8	60.0	44.9	29.8	19.0	11.7
Debt service to the Fund											
In millions of SDRs	13.2	14.0	12.2	10.4	12.5	11.9	9.8	9.4	9.3	6.7	4.5
In billions of CFA francs	10.7	10.8	9.5	8.1	9.7	9.2	7.6	7.3	7.2	5.2	3.5
In percent of exports of goods and services	4.8	4.4	3.4	2.8	3.1	2.8	2.1	1.9	1.7	1.2	0.7
In percent of tax revenue	4.0	3.4	2.6	1.9	2.2	1.8	1.3	1.1	1.0	0.6	0.4
In percent of GDP	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1

Source: IMF, Finance Department.

1/ Assumes two disbursements of SDR 3.44 million in each year in 2004-06.

Table 17. Burkina Faso: Poverty and Social Indicators, 2002

	Burkina Faso	Sub-Saharan Africa	Low-Income Countries
Population, midyear (millions)	11.8	674	2,511
GNI per capita (Atlas method, in U.S. dollars)	230	470	430
GNI (Atlas method, in billions of U.S. dollars)	2.7	317	1,069
Average annual growth, 1996-2002			
Population (annual percentage change)	2.4	2.5	1.9
Labor force (annual percentage change)	2.0	2.6	2.3
Most recent estimate (latest year available, 1996-2002)			
Poverty (percent of population below national poverty line)	45	...	...
Urban population (percent of total population)	17	32	31
Life expectancy (years)	44	47	59
Infant mortality (per 1,000 live births)	104	91	76
Child malnutrition (percent of children under age 5)	34	...	...
Access to an improved water source (percent of population)	78	55	76
Illiteracy (percent of population age 15+)	74	37	37
Gross primary enrollment (percent of school-age population)	44	78	96
Male	51	85	103
Female	36	72	88

Source: World Bank.

Ouagadougou, March 4, 2004

Mr. Horst Köhler
Managing Director
International Monetary Fund
700, 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Dear Mr. Köhler:

1. To build on the progress achieved in the past ten years and intensify reform efforts, the Burkina Faso authorities adopted a program of economic and financial reforms for the period 2003–06, in support of which the International Monetary Fund approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for a total amount equivalent to SDR 24.08 million (40 percent of quota). The objectives of this program were in line with the Poverty Reduction Strategy Paper (PRSP) adopted in 2000 and updated by the second progress report discussed at meetings of the Executive Boards of the Fund and the World Bank in November 2002.

2. Despite the disruption caused by the crisis in Côte d'Ivoire, major progress was achieved in implementing the program during the first nine months of 2003. The government continued to strengthen its fiscal policy and accelerated the introduction of numerous structural measures, in particular in the areas of privatization, governance, and price and trade liberalization. All of the performance criteria, indicators, and benchmarks (quantitative and structural) were observed, except for the structural performance criterion at end-October 2003 on the implementation of a computerized tax management system in the large- and medium-sized enterprises' units of the regional tax directorates in the center of the country (Ouagadougou) and in the west (Bobo-Dioulasso), and the quantitative benchmarks at end-June and at end-December on the reduction of expenditure committed but for which payment orders have not been issued (*dépenses engagées et non mandatées*—DENMs).

3. This letter, which updates and supplements the Memorandum of Economic and Financial Policies of May 28, 2003, reviews program implementation during the first nine months of 2003, describes the additional measures introduced during the fourth quarter of 2003, and presents the government's macroeconomic objectives for the period 2004–06, as well as the objectives and the specific economic and financial policies planned for 2004. Based on the measures introduced and on the objectives and measures envisaged, the government requests a waiver for nonobservance at end-October of the performance criterion regarding establishment of a computerized tax management system. The government also hopes to continue receiving assistance from the Fund, the World Bank, and the international financial community, in particular within the framework of the enhanced Heavily Indebted Poor Countries Initiative (HIPC Initiative).

I. PROGRAM IMPLEMENTATION IN 2003

4. With the good rainfall in 2003, the increase by CFAF 10 per kilogram of the effective producer price for cotton, and the stabilization of agricultural input prices, areas cultivated increased, and agricultural yields improved. In this context and on the basis of the preliminary estimates of cotton and grain production, agricultural GDP seems to have grown at a much higher rate than initially expected under the program. However, the economy continues to cope with the adverse impact of the crisis in Côte d'Ivoire, especially in the secondary and tertiary sectors in the west of the country, in the region of Bobo-Dioulasso. In spite of the reopening of the border with Côte d'Ivoire at end-August 2003, that is, two months later than envisaged in the program, trade with this country has not actually resumed, because of persistent road security problems. Nevertheless, economic agents have diversified the channels of communication and the sources of supply, thereby beginning to help the economy adjust to the repercussions and to the increase in transportation costs imposed by regional tensions. Traffic increases with frequent transit toward Mali and Niger have significantly deteriorated roads, leading to the implementation of a road strengthening program. Overall, the rate of growth in real GDP was estimated at 6.5 percent in 2003, compared with 2.6 percent anticipated under the program, as a result of the improved performance by the agricultural sector and the economy's adjustment to the shock of the Ivoirien crisis.

5. The increase in agricultural production led to a decline in the inflation rate in the first ten months of 2003, from 3.9 percent on a year-to-year basis at end-December 2002 to 1.8 percent at end-October 2003, despite the disruptions in transportation and trade. At end-December 2003, the inflation rate stabilized at below 2 percent, compared with a program forecast of 5 percent. In the external sector, the current account deficit (including official transfers) is estimated at 8.1 percent of GDP in 2003, less than initially expected.

6. As illustrated by the observance of all the programmed fiscal performance criteria and quantitative benchmarks at end-September 2003, the government budget was executed most satisfactorily in 2003. On the revenue side, actual collection exceeded the indicative target by CFAF 13 billion (0.5 percent of GDP) at end-September, despite the failure of the West African Economic and Monetary Union (WAEMU) to pay fully compensation for shortfalls in preferential community tax (*taxes préférentielles communautaires*—TPC). At end-December, government revenue exceeded the program objective by CFAF 9 billion. The government exceeded its total revenue target for three main reasons. First, large enterprises realized major profits in 2002, in particular public enterprises such as SONABHY, ONATEL, and SONABEL; this led to a higher yield from the business profit tax (BIC) and from dividends paid to the government. Second, the diversification of the sources of supply through the Ghanaian corridor meant that the ordinary law customs tariff was applied to a larger proportion of imports. Third, the efforts made to increase tax audits have begun to deliver results, in particular as regards the VAT.

7. Expenditure, excluding externally financed investment and net lending, was generally executed as planned during the first nine months of the year, with current expenditure savings offsetting overruns with respect to domestically financed investment. For 2003 overall, large savings were recorded on domestically financed investment (CFA 17 billion, or

0.7 percent of GDP), helping to maintain total spending below the program target, despite expenditure on humanitarian assistance and security and the granting of loans to SONATUR and SONABEL for promotion of the Commercial and Administrative Zone Development (ZACA) project and for investment in the energy sector. In this context, the basic deficit of the government budget was CFAF 69 billion at end-September (compared with a benchmark of CFAF 70 billion) and is estimated at CFAF 89 billion at end-December 2003 (compared with a benchmark of CFAF 106 billion).

8. The government continued to pay the remaining service on its external debt to multilateral and bilateral creditors. It did not accumulate domestic or external payment arrears. Nevertheless, sizable shortfalls were recorded with respect to the mobilization of nonproject external assistance during the second half of the year and the government had to increase the DENM stock in 2003, including on HIPC-financed social expenditure.

9. The money supply increased by 9 percent in 2003, slightly above the nominal GDP growth rate. The insufficient mobilization of nonproject external assistance led to higher-than-anticipated growth in net banking system credit to the government, and the government had to issue more treasury bills. However, after adjustment for the shortfall in external assistance, the quantitative performance criterion at end-September and the quantitative benchmark at end-December on domestic financing to the government were observed. The Central Bank of West African States (BCEAO) reduced its discount rate and its repurchase rate by 50 basis points in October 2003, to 4.5 percent and 5 percent respectively. Credit to the economy grew in real terms during the program period, reflecting the financing requirements for the 2002–03 agricultural crop year, and the banking system's net foreign assets deteriorated in 2003.

10. Several structural measures planned in the context of the program in 2003 were introduced. In particular, in May the authorities issued a call for bids for opening up two cotton-producing regions to private firms (as planned), as well as a call for expressions of interest for the privatization of ONATEL (ahead of schedule). Moreover, in the area of trade and price liberalization, the government continued to apply the automatic mechanism for continuously and transparently adjusting the structure of petroleum product prices (a continuous structural benchmark under the program). In the area of governance, members of the High Authority for Coordination of the Fight Against Corruption took their oath of office in April, while progress was made in implementation of the action plan for increasing transparency in fiscal management, including the submission of the 2001 budget review law to the Auditor General's Office and then to the National Assembly. The Treasury has produced the list of accounts opened in its books, certifying that nonfinancial private enterprises no longer held deposit accounts with the Treasury at end-September 2003 (a program performance criterion).

11. On the other hand, as indicated above (paragraph 2), one structural performance criterion was not observed in October 2003. Computerization of the large and medium-sized enterprises' units in Ouagadougou was introduced as planned, but the computerization of the Bobo-Dioulasso unit had to be postponed to mid-March 2004 owing to the resignation of the project head in the service provider company. In addition, there were delays in the

preparation of the energy sector strategy and the project proposed for World Bank financing in this sector.

II. Medium-term Objectives and the 2004 Program

12. In the context of the PRSP, the government's main objectives for the period 2004–06 are to hold the year-on-year inflation rate to about 2 percent and contain the external current account deficit to less than 12 percent of GDP. Real GDP growth is expected to reach 5.7 percent in 2006.

13. For 2004, the macroeconomic objectives of the program are as follows: (a) to keep the inflation rate below 3 percent, year on year; and (b) to limit the external current account deficit (excluding official transfers) to 11.8 percent of GDP. Real GDP growth is projected at 5.2 percent in 2004. In the fiscal area, the program aims to reduce the basic deficit of the government budget to 2.9 percent of GDP in 2004. To attain these objectives, a package of measures will be implemented in 2004 in the areas of government finance, money and credit, the external sector, and structural reforms.

A. Macroeconomic Policies

Fiscal policy

14. Fiscal policy will aim to contain the government financial operations deficit (on a commitment basis, including HIPC-financed expenditure) at 9.6 percent of GDP in 2004; and to lower the basic deficit to 2.9 percent of GDP in 2004, compared with 3.7 percent in 2003. The draft 2004 budget law that was submitted to the National Assembly in September 2003 is consistent with these program objectives. The draft budget is based on a package of administrative measures aimed at increasing the collection of taxes and customs duty, broadening the tax base, and controlling expenditure performance while improving the capacity to absorb HIPC resources. Should shortfalls be recorded in the tax revenue collected in 2004, the Minister responsible for Finance will reduce commitments of non-poverty reducing expenditure, including domestically financed investments, up to the amount of those shortfalls, with a view to observing the program objectives. The government of Burkina Faso remains current in its external and domestic payments. It will not accumulate external or domestic payment arrears during the program period. The government will also make a sizable reduction in the DENM stock.

15. Tax revenue is projected to increase to 12.2 percent of GDP in 2004, from 11.1 percent of GDP in 2003. To attain this objective, the government in December 2003 adopted an action plan for strengthening the tax and customs administrations. This action plan, which is based on the recommendations of the March 2003 technical assistance mission from the IMF's Fiscal Affairs Department, includes the rapid implementation of the following actions: (i) the enhancement of supervision over the largest taxpayers through the establishment of a directorate responsible for large enterprises at the head office of the General Directorate of Taxes in Ouagadougou (by end-September 2004); (ii) the effective computerization of tax administration; (iii) the introduction of a new taxpayer identification system (by end-June 2004); and (iv) the modernization of customs administration through

enhanced controls over valuations and the setting up of an SYDONIA computer system in the main customs offices (by end-April 2004). The authorities will request IMF technical assistance to review the progress made by the tax and customs departments on a regular basis, in connection with the implementation of this action plan.

16. On the expenditure side, control of government spending, exclusive of interest on public debt, will be pursued through wage bill restraint. To achieve this, the government will continue implementation of its overall civil service reform program during the program period, with a view to introducing increased flexibility in civil service management. It will also pursue the implementation of its merit-based compensation and promotion system, as well as the improvement of the single civil service and payroll computer database. No general wage hike is planned for 2004. However, the authorities have realized a study on the procedures for raising the retirement age of civil servants and the attendant implications for the pension system. The application of this wage policy will make it possible to limit the wage bill increase to 6.0 percent in 2004, primarily reflecting the planned integration of people on temporary contracts (*intégrations statutaires*) in the education and health sectors and the revenue collection agencies (*régies financières*). It will also stabilize the ratio of government personnel expenditure to GDP at 4.5 percent in 2004.

17. Other current expenditure on goods and services are expected to stabilize at around 2.7 percent of GDP in 2004, in light of the priority given to improving nonwage spending in favor of the education, health, agriculture, and infrastructure maintenance sectors. Transfer spending will represent 3.5 percent of GDP in 2004, compared with 3.2 percent of GDP in 2003, largely because of the support provided for agricultural inputs in cotton-producing areas.[17] The government will design its sectoral development strategies and continue to conduct sectoral public expenditure reviews, with World Bank technical assistance. It will conduct public expenditure reviews in the sectors of secondary and higher education, scientific research, and the judicial system, by end-March 2004. The government will also spell out in greater detail its public investment program and its medium-term expenditure framework (MTEF). The 2005–07 MTEF, which will be adopted by end-April 2004, will continue to reflect the priorities stated in the PRSP. More generally, the government will make every effort to improve the tracking of public investment, in particular externally financed investment, by specifically integrating such investment into the computerized expenditure system.

18. The government will increase the budgetary appropriation ceiling for health and education spending and for poverty reduction in general, in accordance with the PRSP. Total education expenditure (excluding externally financed investment and including HIPC Initiative-related spending) is forecast to stabilize at 2.2 percent of GDP in 2004, as in 2003. The government may further increase its education expenditure in the context of the

[17] Subsidies to input prices for cotton producers should help improve the standard of living in rural areas. These subsidies offset the additional transportation costs imposed by the traffic diverted because of the crisis in Côte d'Ivoire.

accelerated "Education for All" initiative. Spending will also stabilize in the health sector at 1.6 percent of GDP in 2004, as in 2003.

19. In the context of the Budget Management Improvement Plan (PRGB) and with a view to strengthening governance, transparency, and staff accountability in accordance with the objectives stated in the PRSP, the government submitted the draft 2002 budget review law to the Auditor General's Office at end-2003. Based on the report of the Auditor General's Office, the government will submit this draft budget review law to the National Assembly at end-March 2004. Following the same procedure of obtaining a prior review by the Auditor General's Office, the government will submit the draft 2003 budget review law to the National Assembly by end-December 2004 in accordance with the law on budget laws, which was published in October 2003 in line with the WAEMU guidelines. In accordance with the recommendations of the studies of the Country Financial Accountability Assessment (CFAA), the Report on the Observance of Standards and Codes (ROSC), and the PRGB, the government made substantial efforts in improving its book keeping record by producing its final accounts (balances du Trésor) through 2002, and submitted to the Auditor General's Office in December 2003 a draft administrative audit of the individual accounts of public accountants (*comptes de gestion*) for the years 1984 to 2000. It will also produce these accounts regularly in future, and in particular it will submit the *comptes de gestion* for 2001 and 2002 to the Auditor General's Office, respectively by end-April and by end-October 2004. The government will also adopt the WAEMU general rules of public accounting by end-June 2004.

Monetary policy and financial sector

20. The BCEAO will pursue a prudent monetary policy in 2004. It will aim to curb inflation and to limit the decline in the net foreign assets of the banking system in 2004. In light of the decision by the WAEMU member countries to refrain from BCEAO advances to public treasuries, the government will issue Treasury bills and bonds to finance its operations and to contribute to the development of a regional financial market. Credit to the private sector is expected to increase by 7.8 percent in 2004, in line with the projected growth of the economy. The money supply is expected to increase by 7.9 percent in 2004—at the same pace as nominal GDP growth.

21. To strengthen the development of the financial sector in accordance with the PRSP, to improve the mobilization of domestic savings, and to promote the latter's intermediation for financing the private sector, the government will pursue its judicial system reform program, with the assistance of the World Bank, so as to permit foreclosure on collateral and improve loan collection. It will also encourage small and medium-sized enterprises to implement accounting standards and will pursue its efforts to develop the microfinance sector, with a view to providing increased access to credit and financial services for the people, particularly women and inhabitants of rural areas, and to reduce poverty. In the context of the revision of its PRSP, the government will by end-March 2004 prepare a strategy for the development of microfinance, with the assistance of its technical and financial partners. The Banking Commission of the West African Monetary Union (WAMU) will further strengthen banking supervision to ensure that banks continue to observe the prudential ratios it has set.

B. Structural Policies

22. The government will continue to implement its privatization and public enterprise reform program during the program period, with the assistance of the World Bank. In the telecommunications sector, the government issued invitations in December 2003 seeking prequalification bids for the privatization of the telecommunications company (ONATEL); it will by end-March 2004 begin negotiations on the financial bids with the enterprises selected on the basis of technical criteria. In the energy sector, the government is planning to arrange for the financial accounts of the national electricity company (SONABEL) and the oil company (SONABHY) for 2002 and 2003 to be audited by end-2004, in the context of the negotiation of a World Bank credit; and it will reexamine the structure of electricity production and distribution costs, in consultation with the World Bank, with a view to introducing cost-saving measures. It will continue to apply the automatic mechanism for adjusting public water rates on the basis of costs. The government will also continue to apply the automatic mechanism for adjusting retail petroleum product prices as a function of import and distribution costs. In the agricultural sector, the government will close the May 2003 bidding procedures, to allow two new firms to set up their business in two cotton-producing areas where SOFITEX is still in operation, by end-May 2004.

23. **Governance.** The government is committed to pursuing a consistent practice of transparency and good governance. In addition to moving toward greater transparency in the management of public affairs, as described above, the government will by end-June 2004 adopt a national policy on combating corruption and examine by end-September 2004 the first annual report of the High Authority for the Coordination of the Fight Corruption, which was established in April 2003. The High Authority will strengthen its collaboration with the monitoring agencies (the Inspector General's Office of the Government, the Office of the Inspector General of Finance, and the technical Inspectorates of line ministries), and the Auditor or General's Office to investigate irregularities. The government will also continue the reform of the judicial system, with the assistance its development partners.

24. **Poverty reduction.** With the support of donors and lenders, and in consultation with civil society, the government in September 2003 completed the third progress report on its PRSP. It submitted this annual report to the Managing Director of the IMF and to the President of the World Bank in separate letters. The government also plans to update the PRSP, using a participatory approach, by end-March 2004. The revised PRSP will continue to serve as the sole benchmark for action by the government and its development partners. One of the objectives of its revision will therefore be to ensure that it is a genuine strategy for sustainable development.

25. **Statistics.** The government will redouble its efforts to improve the quality and timeliness of its statistical data. It will provide Fund staff with the basic data required in the context of Article IV consultations and will strengthen program control and monitoring. To ensure the efficient monitoring of progress made in implementing social objectives and poverty reduction goals, a system of indicators was established in June 2003, in consultation with development partners. The authorities will report to the Fund and the World Bank the annual figures for these indicators.

III. External Sector, Debt Sustainability, and Financing Requirements

26. In the external sector, the government will pursue its objective of reducing the external current account deficit by implementing the macroeconomic and structural adjustment policies described in this letter of intent, without imposing any restrictions on current transactions.

27. The external current account deficit (excluding official transfers) is projected at CFAF 310.7 billion in 2004, or 11.8 percent of GDP (compared with 12.2 percent of GDP in 2003). Given the amortization of the external public debt, including IMF repurchases (CFAF 43.2 billion) and the projected negative contribution of Burkina Faso to the international reserves of the central bank (CFAF -5.1 billion), gross external financing requirements will amount to CFAF 348.8 billion in 2004. These financing requirements will be met in part by grants and by project and nonproject concessional lending from multilateral and bilateral donors and lenders, by assistance received under the HIPC Initiative, and by private capital flows. Residual borrowing requirements of CFAF 5.3 billion will remain, which the government intends to finance by applying disbursements from the three-year arrangement under the PRGF in 2004. The government hopes to identify adequate resources for financing the program for 2005 on the occasion of the second review.

28. The government will continue to seek only grants and highly concessional loans to meet its financing requirements. In this respect, it will not contract or guarantee new nonconcessional external loans (with a grant element of less than 35 percent) maturing in more than a year, except for treasury bills and bonds offered on the WAEMU capital market. In addition, the government will not contract or guarantee any external loans with original maturities of less than a year. To pursue the normalization of its relations with its main external creditors, donors, and lenders, Burkina Faso will continue to service its external debt and will not accumulate external arrears during the program period. The Paris Club extended for the second time, to December 31, 2003, the deadline for signing the June 2002 bilateral agreements on the treatment of the stock of debt. The government has signed all those bilateral agreements, except for the agreement with France, which it intends to sign as soon as possible. The government will also make every effort to obtain the participation of all its multilateral creditors and its non-Paris Club bilateral creditors in providing assistance to Burkina Faso in the context of the HIPC Initiative. To date, the authorities have obtained assurances of financing from the country's HIPC Initiative creditors, representing 78 percent of the additional debt relief (topping up).

IV. Monitoring of Program Implementation

29. The government believes that the policies set forth above are adequate to achieve the objectives of its program, but will take any further measures that may prove necessary for this purpose. During the implementation period of the three-year arrangement, the authorities will consult with the Managing Director of the IMF, either at their own initiative or whenever the Managing Director of the IMF requests such consultation, regarding the adoption of any additional measures that may be appropriate. Moreover, after the implementation period of the arrangement and while Burkina Faso has outstanding financial obligations to the IMF arising from loans under the arrangement, the government will consult with the IMF from

time to time, at its own initiative or whenever the Managing Director requests such consultations, regarding its economic and financial policies.

30. To ensure that the progress made in implementing the program is monitored, the government has established quantitative performance criteria and benchmarks for end-March, end-June, and end-September 2004 (Table 1) and structural performance criteria and benchmarks (Table 2). The Technical Memorandum of Understanding (TMU) describing the quantitative performance criteria and benchmarks of the program is attached herewith (Attachment). The government will also provide the International Monetary Fund with other statistical data and information specified in the TMU, on a monthly basis, as well as any information it deems necessary, or that the Fund staff requests for program-monitoring purposes. 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 Fund, 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.

31. The government will, by end-August 2004, conduct the second half-yearly review of the program with the Fund, to evaluate the progress made as at end-March 2004. The third half-yearly review of the program is also expected to be carried out by end-February 2005, on the basis of the results at end-September 2004.

Sincerely yours,

/s/

Jean-Baptiste M. P. Compaoré
Minister of Finance and Budget
Ouagadougou, Burkina Faso

Attachment: technical memorandum of understanding

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

	2003	2004			
	Dec. Indicative Target	End-March Performance Criteria	End-June Indicative Target	End-Sep. Performance Criteria	End-Dec. Indicative Target
Performance criteria and indicative targets 1/					
Ceiling on cumulative change in net domestic financing to government 2/	13.2	17.3	21.2	3.1	19.7
Ceiling on the cumulative amount of new nonconcessional external debt contracted or guaranteed by the government 3/ 4/	0.0	0.0	0.0	0.0	0.0
Of which: less than one year's maturity 3/ 4/	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears 4/	0.0	0.0	0.0	0.0	0.0
Accumulation of external payments arrears 4/	0.0	0.0	0.0	0.0	0.0
Indicators					
Government revenue	300.9	70.7	162.4	248.8	345.6
Current expenditure	268.9	72.2	148.8	225.5	300.7
Expenditure on wages and salaries	112.1	28.3	58.5	88.6	118.1
Basic balance 5/ 6/	-89.0	-26.8	-40.0	-58.3	-77.1
Change in the stock of expenditure committed but without payment orders 6/	13.6	2.0	2.6	-12.3	-15.0
Adjustment factors					
Balance of payments assistance	83.6	15.3	26.7	78.4	83.0
Adjustment lending (excluding IMF)	12.1	0.0	8.1	43.4	43.4
Adjustment grants	71.6	15.3	18.6	35.0	39.6

Sources: Burkinabè authorities; and staff estimates and projections.
1/ Performance criteria at end-March and end-September 2004.
2/ For 2004, the ceiling on the cumulative change in net domestic financing is to be adjusted upward (downward) by the amount of shortfall (surplus) in balance of payments assistance (excluding debt relief under the HIPC Initiative). At end- March 2004, the adjustment is limited to a maximum of CFAF 10 billion, to a maximum of CFAF 15 billion at end-June 2004, to a maximum of CFAF 45 billion at end-September 2004, and to a maximum of CFAF 50 billion at end-December 2004.
3/ Excluding treasury notes and bonds issued in CFA francs on the regional West African and Economic Monetary Union (WAEMU) market.
4/ To be observed on a continuous basis.
5/ Revenue (excluding grants) minus expenditure, excluding foreign-financed investment outlays and net lending.
6/ Including HIPC Initiative expenditure.

Table 2. Burkina Faso: Prior Actions, and Structural Performance Criteria and Indicative Targets for 2004

Measures		Date
Prior actions		
1.	Implementation of a computerized tax management system in the large- and medium-sized taxpayers' unit of the regional tax directorate in the west (Bobo-Dioulasso), as described in paragraph 11.	
2.	Adoption by the government of an action plan to strengthen tax and customs revenue collection, as described in paragraph 15.	
Performance criteria and indicative targets		
1.	Submission to the National Assembly of the 2002 draft annual audited budget act, as described in paragraph 19.[18]	End-March 2004
2.	Submission to the Auditor General Office of the general balance sheets of the Central Accountant of the Treasury (Agent Comptable Central du Trésor), the General Spending Accountant (Payeur Général), and the General Revenue Accountant (Receveur Général), as described in paragraph 19.	End-April 2004
3.	Implementation of the customs computerization system SYDONIA in ten (10) main customs field offices, as described in paragraph 15.[1]	End-April 2004
4.	Introduction of a taxpayer registration system, as described in paragraph 15.	End-June 2004
5.	Establishing a single large taxpayers' unit in the tax administration main office in Ouagadougou, as described in paragraph 15.[1]	End-September 2004
6.	Submission to the National Assembly of the 2003 draft annual audited budget act, as described in paragraph 19	End-December 2004
7.	Implementation of the automatic price structure adjustment mechanism for petroleum products in relation to costs, as described in paragraph 22.	Continuous

[18] Performance criterion.

Translated from French

INTERNATIONAL MONETARY FUND

BURKINA FASO

Technical Memorandum of Understanding

Ouagadougou, March 4, 2004

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

I. Definitions

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

- As specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 24, 2000,[19] debt will be understood to mean a current, that is, not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, obligations, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods have been delivered or the services provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified periods of time, which are usually shorter than the total expected life of the property, while the lessor retains the title to the property. For the

[19] See http://www.imf.org – "Limits on External Debt or Borrowing in Fund Arrangements—Proposed Change in Coverage of Debt Limits."

expected life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property. Treasury bills and bonds issued in CFA francs on the WAEMU (West African Economic and Monetary Union) regional market, are included in domestic debt for the purposes of this memorandum.

- Government is defined as the central government of Burkina Faso and does not include any political subdivision, government-owned entity, or central bank having a separate legal personality.
- External payments arrears are external payments due but unpaid. Domestic payments arrears under the 2004 program are domestic payments due (following the expiration of a 90-day grace period, except where the obligation provides for a specific grace period, in which case that grace period will apply) but unpaid.
- Government obligation is any financial obligation of the government accepted as such by the government (including any government debt).

II. Quantitative Performance Criteria

A. Cumulative Change in Net Domestic Financing to the Government

Definition

3. Under the 2004 program, net domestic financing of the government is defined as the sum of (i) net bank credit to the government, including both the net bank credit to the treasury as defined below, and other government claims and debts vis-à-vis national banking institutions; and (ii) the unredeemed stock of government bills and bonds held outside national commercial banks.

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

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

6. In 2003, net domestic financing of the government was CFAF 13.2 billion, made up of CFAF 29.1 billion in changes in net bank credit to the government and CFAF -16 billion in nonbank financing.

Quantitative performance criterion/indicative targets

7. The ceiling on the cumulative change (from January 1, 2004 onward) in net domestic financing of the government is set at CFAF 17.3 billion at March 31, 2004, and CFAF 21.2 billion at June 30, 2004. These ceilings represent a performance criterion at end-March 2004 and an indicative target at end-June 2004 . The ceiling is projected at CFAF 3.1 billion at September 30, 2004 and at CFAF 19.7 billion at December 31, 2004. These figures will be re-examined and set as a performance criterion at end-September 2004 and as an indicative target at end-December 2004 during the second program review.

Adjustment

8. The ceilings on the cumulative change in net domestic financing to the government will be subject to adjustment when actual disbursements differ from program forecasts of external budgetary assistance, excluding external debt relief (whether in the context of traditional mechanisms or under the Heavily Indebted Poor Countries (HIPC) Initiative). When disbursements exceed forecasts, the ceilings will be adjusted downward by the amount of excess disbursements. In contrast, when disbursements fall short of forecasts, the ceilings will be adjusted upward by the amount of the shortfall. However, upward adjustments of ceilings are limited to a maximum of CFAF 10 billion at end-March 2004, a maximum of CFAF 15 billion at end-June 2004, a maximum of CFAF 45 billion at end-September 2004, and a maximum of CFAF 50 billion at end-December 2004.

Reporting deadlines

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

B. Nonaccumulation of Domestic Payments Arrears

Definition

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

Performance criterion

11. The government will not accumulate any domestic payments arrears on government obligations in 2003 and 2004. Said nonaccumulation of domestic payments arrears is a performance criterion, to be observed continuously.

Reporting deadlines

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

C. Nonaccumulation of External Payments Arrears

Performance criterion

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

Reporting deadlines

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

D. Nonconcessional External Debt Contracted or Guaranteed by the Government of Burkina Faso

Performance criterion

15. The government undertakes not to contract or guarantee any external debt maturing in one year or more with a grant element of less than 35 percent (calculated using the interest reference rate for borrowed foreign currencies provided by the IMF). This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF's Executive Board on August 24, 2000,[20] but also to all commitments contracted or guaranteed for which value has not been received. However, this performance criterion does not apply to treasury bills and bonds issued in CFA francs on the WAEMU regional market. This commitment is a performance criterion, to be observed continuously.

[20] See para. 2.

Reporting deadlines

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

E. Government Short-Term External Debt

17. The government undertakes not to accumulate or guarantee any new external debt with a contractual maturity of less than one year. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF's Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are import- and export-related loans and treasury bills and bonds issued in CFA francs on the WAEMU regional market. This obligation is a performance criterion to be observed continuously. As of December 31, 2003, the government of Burkina Faso had no short-term external debt.

III. Other Quantitative Indicative Targets

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

Definitions

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

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

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

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

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

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

25. In 2003, the basic deficit was valued at CFAF 89 billion, made up of CFAF 300.9 billion in government revenue and CFAF 390 billion in expenditure, excluding foreign-financed investments. Total revenue was made up of the following:

- tax revenue (customs, Directorate General of Taxation): CFAF 270 billion; and
- nontax revenue, including capital revenue: CFAF 30.8 billion.

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

Expenditure Category	Amount (In billions of CFA francs)
Current Expenditure	268.9
Wage bill	112.1
Goods and services	61.5
Interest on debt (domestic and foreign)	16.3
Transfers and subsidies	72.0
Other	7.0
Capital expenditure financed by treasury	97.6
Capital expenditure financed from HIPC funds	25.0

26. The stock of DENMs was valued at CFAF 54.4 billion at end-December 2003.

Other quantitative indicative targets

27. The ceiling for the cumulative basic deficit (from January 1, 2004 onward) of government financial operations is established at CFAF 26.8 billion at March 31, 2004 and at CFAF 40.0 billion at June 30, 2004. These ceilings are indicative targets at end-March 2004

and end-June 2004. The ceiling is projected at CFAF 58.3 billion at September 30, 2004 and at CFAF 77.1 billion at December 31, 2004. These figures will be reexamined and established as indicative targets during the second program review.

28. The floor for total government revenue (cumulative from January 1, 2004 onward) is set at CFAF 70.7 billion at March 31, 2004 and at CFAF 162.4 billion at June 30, 2004. These floors are end-March 2004 and end-June 2004 indicative targets. The floor is projected at CFAF 248.8 billion at September 30, 2004 and CFAF 345.6 billion at December 31, 2004. These figures will be reexamined and established as indicative targets during the second program review.

29. The respective ceilings for current expenditure and the wage bill (cumulative from January 1, 2004 onward) are established at CFAF 72.2 billion, respectively, and CFAF 28.3 billion, respectively, at March 31, 2004, and at CFAF 148.8 billion and CFAF 58.5 billion, respectively, at June 30, 2004. These ceilings are end-March 2004 and end-June 2004 indicatives targets. They are projected, respectively, at CFAF 225.5 billion and CFAF 88.6 billion at September 30, 2004, and at CFAF 300.7 billion and CFAF 118.1 billion at December 31, 2004. These figures will be reexamined and established as indicative targets during the second program review.

30. The ceiling for the cumulative increase (from January 1, 2004 onward) in the stock of DENMs is set at CFAF 2.0 billion at end-March 2004 and CFAF 2.6 billion at end-June 2004. These ceilings are indicative targets. The floor for the cumulative reduction of the stock of DENMs is projected at CFAF 12.3 billion at end-September 2004 and at CFAF 15 billion at December 31, 2004. These figures will be reexamined and established as indicative targets at end-September 2004.

Reporting deadlines

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

IV. Additional Information for Program-Monitoring Purposes

A. Public Finance

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

- a monthly government flow-of-funds table (TOFE) and the 13 customary appendix tables, to be forwarded monthly within six weeks following the end of each month; if the data on actual investment financed by external grants and loans are not available in time, a linear implementation estimate based on the annual projections will be adopted;

- complete monthly data on domestic budgetary financing (net bank credit to the government and stock of unredeemed treasury bonds and bills), to be provided monthly within six weeks following the end of each month;

- quarterly data on implementation of the public investment program, including details on financing sources. These data will be sent quarterly within six weeks following the end of each quarter;

- monthly data on external debt stock and service, to be sent within four weeks following the end of each month;

- monthly data on prices and the taxation of petroleum products, including (i) the price structure prevailing during the month; (ii) the detailed calculation of the price structure, from the f.o.b.-MED price to the retail price; (iii) the volumes purchased and made available for consumption by the petroleum distributor (SONABHY); and (iv) the breakdown of receipts from the taxation of petroleum products—customs duties, tax on petroleum products (TPP), and value-added tax (VAT)—and of subsidies, to be provided within four weeks following the end of each month; and

- the status of accounts with the treasury, classified by major category (administrative services, state enterprises, mixed enterprises, public administrative enterprises, international organizations, private depositors, and others), and to be provided monthly within four weeks following the end of each month.

B. Monetary Sector

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

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

C. Balance of Payments

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

- any revision of balance of payments data (including services, private transfers, official transfers, and capital transactions), whenever they occur;

- foreign trade statistics compiled by the National Statistics Institute, within three months following the end of the month concerned; and
- preliminary annual balance of payments data, within nine months following the end of the year concerned.

D. Real Sector

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

- disaggregated monthly consumer price indices, within two weeks following the end of each month;
- provisional national accounts, within six months after the end of the year; and
- any revision of the national accounts.

E. Structural Reforms and Other Data

36. The government will report the following information:

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

F. HIPC Initiative

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

G. Summary of Data Requirements

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

Burkina Faso: Relations with the Fund

(As of December 31, 2003)

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

II. General Resources Account:	**SDR Million**	**In percent of quota**
Quota	60.20	100.00
Fund holdings of currency	52.93	87.92
Reserve position in Fund	7.28	12.10
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**In percent of allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.21	2.21

IV. Outstanding Purchases and Loans:	**SDR Million**	**In percent of quota**
Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF) arrangements	83.89	139.35

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jun. 11, 2003	Jun. 10, 2006	24.08	3.44
ESAF/PRGF	Sep. 10, 1999	Dec. 09, 2002	39.12	39.12
ESAF	Jun. 14, 1996	Sep. 09, 1999	39.78	39.78

VI. Projected Payments to Fund (without HIPC Assistance)
(SDR Million; based on existing use of resources and present holdings of SDRs):

		Forthcoming			
	2004	2005	2006	2007	2008
Principal	13.48	11.73	10.09	12.12	11.48
Charges/interest	0.54	0.47	0.41	0.36	0.30
Total	14.02	12.20	10.50	12.47	11.78

Projected Payments to Fund (with Board-approved HIPC Assistance)
(SDR Million; based on existing use of resources and present holdings of SDRs):

		Forthcoming			
	2004	2005	2006	2007	2008
Principal	2.86	2.07	7.07	10.71	11.48
Charges/interest	0.54	0.47	0.41	0.36	0.30
Total	3.39	2.55	7.48	11.07	11.78

VII. Implementation of HIPC Initiative:

	Original Framework	Enhanced Framework	Total
I. Commitment of HIPC assistance			
Decision point date	Sep. 1997	Jul. 2000	
Assistance committed			
by all creditors (US$ Million)[1]	229.00	195.60	
Of which: IMF assistance (US$ million)	21.70	22.21	
(SDR equivalent in millions)	16.30	16.74[2]	
Completion point date	Jul. 2000	Apr. 2002	
II. Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	16.30	16.74	33.04
Interim assistance	0.0	4.15	4.15
Completion point balance	16.30	12.59	28.89
Additional disbursement of interest income[3]	0.0	1.34	1.34
Total disbursements	16.30	18.08	34.38

VIII. Safeguards Assessments:

The Central Bank of the West African States (BCEAO) is the common central bank of the west African states, which includes Burkina Faso. An on-site safeguards assessment of the BCEAO proposed specific remedies to alleviate vulnerabilities that were identified by staff. Although Fund staff and BCEAO authorities disagreed on the initial modalities of the recommendations, the following specific understandings were subsequently reached regarding the key remedies.

Financial reporting framework. Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes. It was agreed between the BCEAO and Fund staff that the **BCEAO will strive to improve its financial and accounting reporting by aligning its practices with those recommended by IAS**, as adopted internationally by other central banks.

[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] Excludes commitment of additional enhanced HIPC Initiative assistance of SDR 10.93 million, subject to receipt of satisfactory financial assurances from other creditors.

[3] 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.

Internal controls system. The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represented a significant risk. It was agreed between the BCEAO and Fund staff that, after seeking the opinion of the external auditor (Commissaire Contrôleur), BCEAO staff will propose to the BCEAO Board of Directors that it adopt a resolution whereby **the external auditor will be required to apprise the Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the bank.**

Based on the 2001 financial statements, the staff noted that the BCEAO has improved the explanatory notes to the financial statements and further changes are scheduled for the next fiscal year, with a view toward a graduate alignment with IAS accounting to the extent applicable to central banks by 2005. The external auditor has apprised the Board of Directors of the BCEAO of the quality of internal controls in June 2003, and the financial statements for the year 2001 were published on the bank's website. The staff will continue its follow up on the progress of the BCEAO in implementing the proposed recommendations as part of the ongoing safeguards monitoring process."

IX. 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 February 4, 2004 was CFAF 780.4=SDR 1. The exchange and trade system is free of restrictions on the making of payments and transfers on current international transactions.

X. Article IV Consultations:

Burkina Faso is on the standard 12-month consultation cycle. The 2003 Article IV consultation and discussions on a new three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) were held during the period February 17—March 7, 2003 in Ouagadougou. The staff report (IMF Country Report No. 03/197) and the Statistical Annex (IMF Country Report No. 03/198) were considered by the Executive Board on June 11, 2003.

XI. 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. But 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 were in broad agreement with the mission assessment. On July 31, 2002, the authorities formally adopted an action plan based on the recommendations of the final ROSC.

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' agreement with 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 communicated to the authorities by the staff of the IMF and the World Bank for final endorsement.

XII. 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
FAD	Staff	October 6-17, 1997	Assessing the fiscal impact of the common external tariff (CET) and regional integration and defining policies to offset revenue losses.
FAD	Staff	November 20-30, 1998	Assessing implementation of the 1997 mission recommendations, and proposing complementary reforms to strengthen the fiscal and customs administration.
FAD	Staff	February 11-25, 1999	Assisting in upgrading the computer system used for large taxpayers and following up on the implementation of previously recommended measures.
FAD	Staff	December 4-11, 1999	Monitoring the upgrading of the computer system used for large taxpayers; reviewing the establishment of a withholding system for business taxes; reviewing the system of treasury refunds of taxes due on foreign-financed projects; and proposing modalities for eliminating value-added tax exemptions on investments.

FAD	Staff	May 7-18, 2001	Assisting in completion of the fiscal module of the ROSC, and drafting on assessment of an action plan on the capacity of the public expenditure management system to track and report on the uses of HIPC Initiative assistance and all poverty-reducing expenditures.
STA	Staff	Since April 2002	Assisting West African Economic and Monetary Union (WAEMU) countries in improving government finance statistics (GFS).
FAD	Staff	March 6-17, 2003	Reviewing the status of implementation of previous FAD recommendations and developing a program of measures to further improve the effectiveness of the tax and customs administration.
STA	Staff	May 8-21, 2003	Assist in completing the data module of the ROSC, assessing the quality and timeliness of macroeconomic data, and helping draft an action plan to ensure the timely disclosure and improve the quality of data.

XIII. Resident Representative:

Mr. Robert Franco took up the post of Resident Representative in early December 2000.

Burkina Faso: Relations with the World Bank Group

(As of January 14, 2004)

Partnership in Burkina Faso's development strategy

1. The government of Burkina Faso outlined its development strategy in a poverty reduction strategy paper (PRSP) in May 2000. The Bank and Fund Board endorsed this strategy in June 2000, as well as the first (December 2001) and second (November 2002) annual progress report. The government is currently undertaking the full update of the PRSP. The PRSP sets out the following four pillars of the government's strategy: (i) accelerating equitable growth; (ii) promoting access to social services; (iii) increasing employment and income-generating activities for the poor; and (iv) promoting good governance.

2. The Fund has supported Burkina Faso under three arrangements under the Poverty Reduction and Growth Facility between 1993 and 2002, and the authorities are currently receiving support under a fourth arrangement covering 2003-06. The Fund takes the lead in the policy dialogue on macroeconomic policies and monitors macroeconomic performance through quantitative performance criteria. In addition, it established recently structural performance criteria in the areas of tax policy, financial transparency and good governance, and trade policy. The Bank is supporting the implementation of the PRSP in the areas of public finance 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 to address issues relating to HIV/AIDS, basic education, infrastructure investments in transport, water and urban areas, rural development, and private sector development, as outlined below.

The Country Assistance Strategy (FY 00-03) and the Bank portfolio

3. The general objective of the November 2000 Country Assistance Strategy (CAS) for the World Bank is to support the government's efforts, as described in the June 2000 PRSP, to achieve sustained high growth rates, to reduce the high incidence of poverty, and to improve the nutrition, health, and education of the rural population, which constitutes the largest group among the poor. The CAS has three specific objectives: (i) supporting policies and programs aimed at improving the supply side of the economy in order to allow for sustained, broad-based, and export-oriented growth; (ii) improving public finance management to increase efficiency of public spending, and (iii) ensuring that the allocation process and public spending effectiveness goals result in a special emphasis on social services.

4. The Bank's assistance to the PRSP is intended to be selective and complementary to activities supported by other donors. Specifically, the Bank envisages a program and related country budget allocation that will (i) give priority to supervision of ongoing projects; (ii) acknowledge the important role of donors; (iii) consolidate lending operations into fewer but broader resource transfer mechanisms that are more closely integrated with the government's own budgetary allocation and execution processes; and (iv) include a share of nonlending services to foster a robust analytical base for consensus and partnership building.

5. To refocus its assistance program and put a consistent emphasis on rapid growth with poverty reduction, the Bank Group strategy in Burkina Faso focuses attention on (i) key social sectors, where there are viable long-term strategies or where they can be developed; (ii) longer-term economic reforms to improve competitiveness and reduce business costs; (iii) the improvement of public resource management; and (iv) the adapting of Bank-supported programs to the subregional framework and potentials. Bank lending to Burkina Faso takes the form of results-driven programmatic credits (Poverty Reduction Support Credits—PRSCs) and self-standing projects for capacity building, support for community driven development activities (concentrating on rural, social, and HIV/AIDS interventions) and infrastructure investments directly targeted to poverty alleviation and private sector development. There is a continued commitment to analytical and advisory activities, as knowledge is the critical input for progress in the substantive areas presented in the PRSP.

6. The March 2003 CAS Progress Report (i) assesses the progress made in implementing the PRSP and the FY01-03 CAS, (ii) provides an update on the economic and social developments, (iii) elaborates the new challenges that Burkina Faso is facing, and (iv) identifies the risks for continued implementation of the PRSP and CAS. The progress report confirms that the strategy set out in the 2000 CAS remains appropriate and proposes an extension of this strategy for 12-18 months to cover the period until the new CAS is prepared. The new CAS is expected to follow closely the full update of the PRSP.

7. **Assessment of country policies.** In close collaboration with the Burkinabè authorities, IDA has undertaken substantial analytical work over the past three years to assess key social, structural, and sectoral development policies and 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. On poverty reduction, two further studies are underway - a participatory poverty assessment and the third national household survey.

8. Since the beginning of the structural reforms in the early 1990s, the World Bank has approved, in addition to support for investment projects, two structural adjustment credits, an economic recovery credit, an agricultural sector adjustment credit, a transport adjustment credit, an economic management reform credit, and three poverty reduction support credits (PRSC-1, PRSC-2, and PRSC-3). The Bank's cumulative commitments to Burkina Faso as of January 14, 2004 amount to US$1,403.6 million equivalent for 68 operations, comprising 65 IDA credits and 3 IDA grants.

9. The **current portfolio** amounts to IDA commitments of US$519.3 million, of which US$312.8 million is undisbursed. There is also a GEF Project for US$7.5 million, of which $1.54 million has been disbursed. IDA's active portfolio in Burkina Faso is as follows:

- The PRSC-3 grant was approved in July 2003 for US$50 million. The PRSC program focuses on key sectoral action plans and reforms to improve public finance management, the competitiveness of the economy, and to facilitate the country's integration into the regional and world economy.

- Three operations support IDA's strategy in the **agriculture** sector. A second agricultural services project (US$41.3 million, FY98) aims at increasing agricultural productivity and farmers' incomes, improving natural resource management, and promoting institutional development. A private irrigation project (US$5.2 million, FY99) supports provision of the demand-driven services necessary for the development of an efficient, sustainable small irrigation subsector in Burkina Faso. A community-based rural development program (US$66.7 million, 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. A Rural Intensification and Market Diversification Project is currently under preparation for delivery in FY05.

- To support **human resource development**, four operations are being implemented. In **education**, a basic education operation (US$32.6 million) was approved in January 2002 by the World Bank Executive Board. The project provides support for the government's ten-year basic education program, which will be implemented in three phases, the first of which covers the period 2001-05. The main development objective of Phase I of the ten-year program is to lay the foundation for accelerating the development of basic education, while ensuring adequate quality and financial sustainability. A post-primary education project (US$26 million, FY97) finances parts of the government's post-primary education strategy. The Bank also assists the country with the implementation of a new development learning center (US$2.5 million, FY03) for distance-learning activities that will give the Burkinabè access to the latest research worldwide. A HIV/AIDS disaster response project (US$22 million, FY02) underpins the implementation of the government's 2001-04 medium-term HIV/AIDS/STIs strategic plan, which has been endorsed by the country's technical and financial partners. The second phase of the HIV/AIDS project is under preparation and the project is expected to be approved in FY05.

- In the **urban sector**, an urban environment project (US$37 million, FY95) aims at improving living conditions through priority urban works and urban services benefiting low-income groups. Under this project, supplemental financing of US$22 million for the government's decentralization process was approved in FY02.

- A **water supply** project (US$70 million, FY01) aims at increasing access to adequate and reliable potable water in Ouagadougou through expanded distribution and tertiary water networks and improved urban water subsector management.

- In the **mining** sector, a mining sector capacity building and environmental management project (US$21.4 million, FY97) supports regulatory reform and training, institutional strengthening and resource management, environmental management, and small-scale artisanal mining.

- A technical assistance credit for **private sector development** (competitiveness and enterprise development project, US$30.7, 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$92.1 million. The project concentrates on rural roads as the rural economy is the main source of income and employment for 80 percent of the population.

The Bank's **proposed lending** program is as follows:

- **In the energy sector**, the Bank is considering assisting the government, through a sector reform operation (late-FY04) aimed at introducing private sector participation to improve the efficiency of the provision of electricity services and the supply of hydrocarbon products to the economy. A second Rural Energy Project will be prepared for delivery in FY05 which will aim at increasing access to infrastructure services, especially for rural communities.
- A fourth **poverty reduction support credit (PRSC-4)** is envisaged for Board presentation in late FY04.

Bank-Fund collaboration in specific areas

10. **Cotton sector and energy 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 at creating a more competitive environment by introducing additional operators over time, while safeguarding the historical achievements of a prudent financial management and the 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 PRSC focused on the creation and operationalization of the 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 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 planned for 2003. 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 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.

Statement of IDA Credits/Grants

(In millions of U.S. dollars)

Credit/Grant Number	Fiscal Year	Sector	IDA	Undisbursed
C27280-BF	1995	Urban Environment	59.0	16.3
CN0070-BF	1997	Post-Primary Education	26.0	6.7
CN0290-BF	1997	Mining Capacity Building	21.4	6.7
C29740-BF	1998	Agricultural Services II	41.3	11.0
C31610-BF	1999	Private Irrigation	5.2	1.0
C34360-BF	2001	Community-Based Rural Devlpt.	66.7	51.5
C34760-BF	2001	Ouagadougou Water Supply	70.0	60.8
C35570-BF	2002	HIV/AIDS Disaster Response	22.0	12.4
C35970-BF	2002	Basic Education	32.6	28.1
C37070-BF	2003	Development Learning Center	2.3	1.8
C37330/H0220	2003	Competitiveness & Ent. Dev.	30.7	30.7
C37450/H0320	2003	Transport Sector	92.1	85.8
H0580	2004	PRSC-3	50.0	0.0
Total (number of credits/grants: 13)			519.3	312.8

Source: World Bank.

For additional information, please contact A. David Craig, Country Director, Tel. 473-2589 or Jan Walliser, Senior Country Economist, Tel. 473-2329.

Statement by the IMF Staff Representative
March 19, 2004

Following the issuance of the staff report on the first review under the PRGF arrangement and request for waiver of performance criteria (3/4/04), the staff was informed by the authorities that **the prior action on the effective implementation of the computerized tax management system in the large and medium-sized taxpayers' unit in Bobo-Dioulasso has been met since March 1, 2004**. This information does not change the thrust of the staff appraisal.

The computerization of the large and medium-sized taxpayers' unit in Bobo-Dioulasso, which was delayed owing to the resignation of the project manager in the information technology service provider company, has been accelerated since December 2003. The computer network was built during December 2003-January 2004, including the server, workstations, and printers. In February, the tax management software, which has already been operational in Ouagadougou since October 2003, was installed in Bobo-Dioulasso, and the fifteen staff members of the taxpayers' unit attended computer and software training sessions. Starting on March 1, all tax assessment and collection tasks have been computerized in the unit.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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March 19, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review Under Burkina Faso's PRGF Arrangement and Approves US$5.1 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Burkina Faso's economic performance under a SDR 24.08 million (about US$35.5 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 03/82). The completion of the review enables the release of a further SDR 3.44 million (about US$5.1 million), which will bring the total amount drawn under the arrangement to SDR 6.88 million (about US$10.2 million).

In completing the review, the Board waived the nonobservance of the performance criterion pertaining to the effective computerization of the large and medium-sized taxpayers' units in two main cities, Ouagadougou and Bobo-Dioulasso. The Board also concluded that the third progress report submitted by Burkina Faso on its Poverty Reduction Strategy Paper (PRSP) provided a sound basis for IMF concessional assistance.

The PRGF is the IMF's concessional facility for low-income countries. 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 PRSP. This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework 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 5 ½-year grace period on principal payments.

Following the Executive Board's discussion on Burkina Faso's economic performance, Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

"The performance of the Burkinabè economy under the PRGF-supported program has been satisfactory to date. The Burkinabè authorities implemented prudent macroeconomic policies and strengthened fiscal transparency and accountability in 2003. This, along with abundant rainfall and a higher producer price for cotton that boosted agricultural production, resulted in robust economic growth, subdued inflation, and continued narrowing of the current account deficit in 2003. Nevertheless, the Burkinabè economy remains fragile and vulnerable, owing to the country's heavy reliance on cotton exports and external assistance, the high public external debt burden, and the continued difficulties in Cote d'Ivoire.

"The authorities' economic program for 2004 remains guided by the objectives set out in the Poverty Reduction Strategy Paper (PRSP). Successful implementation of the program will depend critically on further fiscal consolidation. The main fiscal challenges will be to increase tax revenue, contain domestically-financed expenditure while re-orienting resources to priority areas, and fully utilize HIPC Initiative-related resources to finance priority social spending. In this regard, the authorities are implementing a comprehensive action plan to improve tax and customs revenue collection, and are taking steps to control the wage bill and non-priority spending and to increase absorptive capacity in the social sectors.

"In the context of the 2004 program, the authorities aim to continue to make progress in enhancing transparency, accountability, and governance; liberalizing prices and trade; privatizing and restructuring public enterprises; and opening up the cotton sector to private firms. These reforms will be important to enhance Burkina Faso's external competitiveness and spur private sector growth.

"The broad participatory approach to preparing the PRSP progress report has been helpful in building national consensus on the poverty reduction strategy. The PRSP is being updated for the period 2004–06, and for this purpose it would be useful to carry out a poverty assessment and develop adequate social and poverty indicators," Mr. Carstens said.

Statement by Damian Ondo Mañe, Executive Director for Burkina Faso
March 19, 2004

I. Introduction

As a landlocked Sahelian country, Burkina Faso has to overcome the challenges of transportation and adverse weather conditions while striving to improve the well-being of its population. In this regard, it is important to note that my Burkinabè authorities have set for the period 2000-03, an ambitious real GDP growth rate target of 8 percent in their 2000 PRSP. In 2000-03, average growth was 4.5 percent, lower than targeted, due to external shocks such as adverse weather conditions in 2000-01 and the deterioration in the terms of trade. However, in 2004, better prospects are expected and growth is projected to be about 5 percent of GDP. I should add that Burkina Faso is among the best performers of the region. My Burkinabè authorities would also like to express their appreciation to Fund's management and staff for the fruitful dialogue that has contributed to improving the macroeconomic framework over the past years.

II. Poverty Reduction

My authorities have completed the third annual progress report of the PRSP in consultation with civil society. The report indicates that structural reforms have advanced, the macroeconomic program remained broadly on track, fiscal consolidation efforts remained solid, and several social indicators have also progressed. Thus, priority measures were taken toward improving the environment of private sector development, and reducing vulnerability in the rural sector. On the social front, after a slow progress in several areas in 2000-01, availability of HIPC resources allowed Burkina Faso to increase poverty-related spending, with a view to improving human and technical capacities. In the education sector, infrastructure investments have increased as well as recruitment of primary school teachers. As a result, the enrollment rate reached 47.5 percent during school year 2002-03. Moreover, in the health sector, most vaccination rates exceeded targets and staffing along with usage rates of health services have improved. My authorities are also grateful for the support received from the international community in their fight against poverty. Indeed, donors' enhanced coordination has had a positive impact on these achievements.

My Burkinabè authorities are well aware that social indicators are still low as compared to their initial objectives set forth in their PRSP. They are determined to further enhance social services in order to improve social indicators and achieve MDGs. They generally share the candid analysis and recommendations provided by the staff in the context of the Joint Staff Assessment (JSA) of the third annual progress report of the PRSP and the first review of the PRGF-supported program. Using the participatory approach, a revised PRSP will focus on decentralization of the rural development process, in line with MDGs objectives. The revised PRSP will be produced by end-March 2004 and will continue to serve as the sole reference for action by the government and its development partners. At a Donors conference held in early March 2004 in Ouagadougou, the international community has made a commitment to support the country's priority actions set forth in the revised PRSP for the period 2004-06.

III. Recent Economic Developments

Burkina Faso's economic performance under the PRGF-supported program in 2003 and in the implementation of the PRSP was satisfactory. All quantitative performance criteria for end-September 2003 and most indicative targets for end-December 2003 were observed. Macroeconomic developments were marked by a sharp increase of economic growth. Real GDP is estimated to have increased by about 6.5 percent, compared with a program objective of 2.6 percent, with inflation falling below 2 percent, reflecting a better than projected cereal production. In fact, the agricultural sector remains the foremost engine that leads growth in Burkina Faso as reflected by the magnitude of cotton (about 500 000 tons) and cereal (about 3.5 million tons) production in 2003. The production level of cotton, cereal and other food crops was helped by a combined effect of good rainfall, stabilized agricultural inputs prices, and a price incentive of CFAF 10 per kg to cotton growers. Although one structural performance criterion was not observed in October 2003 and for which the authorities are requesting a waiver, corrective measures have already been taken. And the computerization of the large and medium sized enterprise unit in Bobo Dioulasso was completed in early March 2004.

As regards the fiscal area, my authorities pursued their efforts to strengthen the country's fiscal stance and the 2003 budget was executed satisfactorily. On the revenue side, collection exceeded the indicative target by CFAF 9 billion at end-December 2003, due mainly to substantial profits made by public enterprises such as SONABHY, ONATEL and SONABEL and to dividend paid to the government. Expenditures were generally carried out as planned during the year. The government continued to pay the remaining service of its external debt to multilateral and bilateral creditors and did not accumulate domestic or external arrears. However, substantial shortfalls were recorded with respect to the mobilization of non-project external assistance and the government had to issue treasury bills in the West African Economic and Monetary Union's (WAEMU) regional financial market.

In the monetary and banking area, the Central Bank of West African States (BCEAO) reduced its discount rate and its repurchase rate by 50 basis points in October 2003, to 4.5 percent and 5 percent respectively. The money supply increased by 9 percent, slightly above the nominal GDP growth rate. Also, the insufficient mobilization of non-project external assistance mentioned above led to higher-than anticipated growth in net banking system credit to the government, but the relevant performance criteria was met.

On the structural front, progress was made in the implementation of reforms. My authorities are resolved to reform and privatize public enterprises as reflected by a call for bids issued in May 2003 for opening up two cotton-producing regions to private firms as well as a call for the privatization of ONATEL. In the area of trade and price liberalization, the government continued to apply the automatic price adjustment mechanism for petroleum products. In the area of governance, the members of the High Authority for the Coordination of the Fight against Corruption (HACLC) took their oath in April 2003. In addition, the Treasury has produced the list of accounts opened in its books, certifying that non financial private enterprises no longer hold deposit accounts with it as of end-September 2003.

IV. Medium-Term Program and Policies for 2004

Fiscal Policy

The 2004 budget law is consistent with the program objectives. Fiscal policy will focus on containing the government financial operations deficits at 9.6 percent of GDP. My authorities have adopted measures aimed at improving collection of taxes and customs, through strengthening of tax and customs administrations, broadening the tax base, and controlling expenditure performance while improving the capacity to absorb HIPC resources. The government is committed to not accumulate external or domestic arrears during the program period; in case of shortfalls in tax revenue collected in 2004, commitments of non-poverty related expenditure will be reduced up to the amount of those shortfalls. In the same vein, my authorities are committed to substantially reduce the stock of expenditures committed but not paid (DENMs).

On the revenue side, the government is committed to increase tax revenue to 12.2 percent of GDP from 11.1 percent of the 2003 GDP. This objective will be attained through the implementation of an action plan adopted in December 2003 for strengthening the tax and customs administrations, and improve tax collection. This action plan includes the following measures: establishment of a Large Taxpayers Unit and enhancement of supervision of the largest taxpayers, effective computerization of the tax administration, introduction of the new taxpayer identification system, modernization of the customs service and setting of a SYDONIA computer system in the main customs offices.

On the expenditure side, the quality of spending will be enhanced. The government will continue to carry out civil service reform with the view to increasing flexibility in civil service management, limiting increase in the wage bill and computerizing the payroll. Also, my authorities will complete a study on the procedures for raising the retirement age of civil servants and on its implication to the pension system. In order to offset the additional transportation cost imposed by the traffic diverted because of the crisis in Côte d'Ivoire, transfer spending will be limited to 3.5 percent of GDP in 2004, compared wit 3.2 percent of GDP in 2003. In line with the PRSP, my authorities will substantially increase outlays for health, education and poverty-related activities in general, reflecting the acceleration in the use of HIPC resources. Also, with the TA of the World Bank, public sector expenditure reviews will be conducted in the sectors of secondary and higher education, scientific research, and the judicial system by end-March 2004.

With a view to strengthening governance, transparency and staff accountability, my authorities submitted to the Auditor General's Office, the final individual accounts (*comptes de gestion*) of the government's operations for the years prior to 2001. Substantial efforts were made in improving its book-keeping records by producing its 1987-2002 final accounts. My authorities will adopt the WAEMU general rules of public accounting by end-June 2004.

Monetary Policy and Financial Sector

The BCEAO will pursue prudent monetary policy in 2004 aimed at curbing inflation and limiting the decline in the net foreign assets of the banking system. In light of the decision of the WAEMU member countries to refrain from BCEAO advances to public treasuries, my authorities will issue treasury bills and bonds, in order to finance government operations and also contribute to the development of the regional financial market. Credit to the private sector is expected to grow, in line with the projected growth of the economy, while net bank credit to the government will decline.

Regarding the financial sector, the authorities are committed to pursue their efforts towards improvement in the mobilization of domestic savings and the development of the microfinance sector, with a view to increasing access to credit and financial services for the people, particularly women and inhabitants of rural areas, and to reducing poverty. The Banking Commission of the West African Monetary Union (WAMU) will further strengthen banking supervision to ensure that banks continue to observe prudential ratios.

Structural Reforms

My authorities will deepen structural reforms and stimulate the development of the private sector, improve the business climate and enhance competitiveness. With the assistance of the World Bank and other donors, my authorities are determined to continue to implement privatization and public enterprises reform program. Three major state owned companies in the telecommunication, electricity and oil sectors are in the process of being privatized.. Also, the government will continue the automatic price adjustment policies of water and petroleum products. Moreover, the cotton sector will be opened up further to create more competition and stimulate and increase productivity. Additionally, my authorities have taken steps to improve governance by working on a legislation adopting a national policy combating corruption. Thus the first report of the High Authority for the Coordination of the Fight against Corruption (HACLC) will be submitted to the government by September 2004. The HACLC will strengthen its collaboration with other monitoring agencies and the government will continue the reform the judicial system.

Impact of the Cotton Sector on Debt sustainability

After reaching the completion point under the enhanced HIPC initiative in April 2002, Burkina Faso was provided a topping up and has received financing assurances from most of its creditors, accounting for 78 percent of the total debt relief anticipated. Nevertheless, its external debt burden remains high as the country continues to depend heavily on external assistance and on cotton exports. Since the completion point, based on the combination of several factors affecting the NPV of Burkina Faso's Debt, the new DSA is suggesting that its debt profile has improved. Debt projections detailed in box 2 of the Staff Report anticipate the decrease of Burkina Faso's NPV of debt-to-export ratio to less than 150 percent by 2012. While this scenario is principally based on an assumption of an improvement of cotton production, nevertheless, it does not consider the volatilities of prices in the international market and the subsidies of some developed countries. Without subsidized production, terms of trade would improve and Burkina Faso would therefore further improve its debt profile. My authorities call for a total elimination of subsidies in cotton production in developed countries, a position put forward during the Cancún WTO summit.

V. Conclusion

My Burkinabè authorities have demonstrated their commitment to face persistent difficult economic conditions and to implementing sound economic policies, in order to foster economic growth and poverty reduction. My authorities are aware of the fragility of progress achieved so far, since their economy remains vulnerable to exogenous shocks, as evidenced by yearly weather changes and sharp variations in cotton prices. They will continue their reform efforts and continue to seek the international community's support in these efforts aimed at transforming their economy and making it more resilient to shocks.