

INTERNATIONAL MONETARY FUND



Staff Country Reports

Burkina Faso: 2003 Article IV Consultation and Request for a New Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2003 Article IV consultation with Burkina Faso and request for a new three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the combined 2003 Article IV consultation and request for a new three-year arrangement under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on April 9, 2003, 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 May 28, 2003.** 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 Public Information Notice (PIN) and Press Release, **summarizing the views of the Executive Board as expressed during its June 11, 2003, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.**

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*
Memorandum of Economic and Financial Policies by the authorities of Burkina Faso*
Statistical Annex
Technical Memorandum of Understanding*

*May also be included in Staff Report

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$15.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

BURKINA FASO

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

Prepared by the African Department

(In consultation with the Finance, Fiscal Affairs, Legal, Policy Development and Review, and Statistics Departments)

Approved by Amor Tahari and Martin Fetherston

May 28, 2003

- The last arrangement under the Poverty Reduction and Growth Facility (PRGF), approved on September 10, 1999, expired on December 9, 2002, after a three-month extension. The sixth and final review of the PRGF-supported program was concluded on November 13, 2002, and the loans available under the PRGF arrangement were fully disbursed.
- Discussions on the 2003 Article IV consultation and on a medium-term program that could be supported by a new three-year arrangement under the PRGF were initiated in Ouagadougou during February 17-March 7, 2003 and concluded in Washington during April 7-9.
- The mission met with Prime Minister Paramanga Yonli and held discussions with the Minister of Finance and Budget (Mr. Compaoré), the National Director of the Central Bank of West African States (BCEAO—Mr. Zallé), and other senior officials, including the Ministers of Economy and Development, Commerce and Private Sector Development, Basic Education, Health, Justice, and Civil Service and Administrative Reform. Meetings were also held with representatives of the banks, public enterprises, the chamber of commerce, and the international donor community in Ouagadougou.
- The staff team comprised Mr. Thiam (Head), Ms. Adenauer, Mr. Bouhga-Hagbé (EP), Mr. Williams, Mr. Zejan, and Ms. John (Administrative Assistant). Mr. Franco, the Fund's Resident Representative in Burkina Faso, participated fully in the mission, as did Mr. Walliser of the World Bank. Mr. Nyambal, Advisor to the Executive Director for Burkina Faso, participated in the policy discussions.
- The program for 2003-06 in support of which the authorities are requesting a new PRGF arrangement is in line with Burkina Faso's PRSP, which was endorsed by the Fund and World Bank Executive Boards in June 2000 as a sound basis for poverty reduction and concessional assistance.
- The authorities have agreed to publish the staff report, the letter of intent, and the memorandum of economic and financial policies (MEFP), following their consideration by the Executive Board.

Contents	Page
Executive Summary	4
I. Introduction	6
II. Recent Developments and Program Performance	7
III. Policy Discussions	13
A. Taking Stock: Achievements and Challenges	13
B. Medium-Term Poverty Reduction Strategy	15
C. Economic and Financial Program for 2003-04	23
IV. Staff Appraisal	30
Boxes	
1. Real GDP Growth by Sector and by Component of Demand, 1990-2002	8
2. Experience with the Absorption of Resources Freed Under the HIPC Initiative	11
3. Diversification and Sources of Growth	16
4. Coverage of Structural Conditionality Under the Proposed PRGF Arrangement	18
5. Donor Coordination: A Memorandum of Understanding for Joint Budgetary Support Through the PRSP Process	22
6. Microfinance	27
Figures	
1. Real and Nominal Effective Exchange Rates, January 1990-November 2002	33
2. Investment and Savings, 1997-2006	34
3. External Sector Developments, 1997-2006	35
4. Fiscal Sector Developments, 1997-2006	36
Tables	
1. Proposed Schedule of Disbursements Under the PRGF Arrangement, 2003-06	37
2. Fund Position During the Period of the Proposed PRGF Arrangement, 2003-06	38
3. IMF Credit Position and Projected Payments to the IMF, 2002-12	39
4. Selected Economic and Financial Indicators, 2000-06	40
5. Consolidated Operations of the Central Government, 2002-06	41
6. Fiscal Operations, 2003-04	42
7. Fiscal Impact of the HIPC Initiative, 2000-06	43
8. Poverty-Reducing Social Expenditures, 1996-2003	44
9. Monetary Survey, 2001-04	45
10. Balance of Payments, 2000-08	46
11. External Financing Requirements, 2003-06	47
12. Tracking Delivery of HIPC Initiative Assistance—Original and Enhanced Framework	48

13.	Expenditure Accountability Assessment and Action Plan (AAP)—Update Table	49
14.	Poverty and Social Indicators, 2002	51
15.	External Public Debt, 2002-06.....	52
16.	New External Borrowing and Debt Indicators, 2002-15	53
17.	External Debt Service by Creditor, 2002-06.....	54
18.	Compliance with WAEMU Convergence Criteria, 2000-06.....	57

Appendices

I.	Letter of Intent	58
	Attachment I: Memorandum of Economic and Financial Policies for 2003-06.....	60
	Table 1: Quantitative Performance Criteria and Indicative Targets for the 2003-04 Program.....	71
	Table 2: Prior Actions, Structural Performance Criteria, and Indicative Targets for the 2003-04 Program.....	72
	Attachment II: Technical Memorandum of Understanding.....	73
II.	Relations with the Fund	83
III.	Relations with the World Bank Group.....	88
IV.	Statistical Issues	93
V.	Public Information Notice.....	98

EXECUTIVE SUMMARY

- **Since 1993, Burkina Faso has satisfactorily implemented three PRGF-supported programs**, leading to sustained growth and very low inflation, improvements in the fiscal balances, and major structural reforms, including in the areas of price and trade liberalization, and governance. However, Burkina Faso continues to be characterized by a high incidence of poverty despite a steady increase in social expenditure.
- Partly reflecting the adverse impact of the crisis in Côte d'Ivoire, **the real GDP growth rate** remained at 4.6 percent in 2002, or 1 percentage point lower than projected, and **inflation**, on a 12-month basis, accelerated to 3.9 percent in 2002, compared with 1 percent in 2001. The **real effective exchange rate** appreciated by 5.2 percent in 2002, mainly as a result of the depreciation of the U.S. dollar against the euro, to which the CFA franc is pegged. The **overall fiscal deficit**, including grants, was contained at 5 percent of GDP, compared with a programmed ceiling of almost 6 percent of GDP; excluding grants, it stood at 10.4 percent of GDP, compared with a target of 13.5 percent of GDP. **Regarding structural reforms**, the authorities instituted the High Authority to Fight Corruption and the Auditor General Office; they also adopted an action plan to ensure transparency and accountability in fiscal management. However, limited progress was made in privatizing large public utilities and bringing down Burkina Faso's high factor costs, including electricity, water, and telephones.

Article IV consultation issues and key elements of the proposed program

- **Burkina Faso's economic, financial, and social situation remains fragile** as (i) the country continues to rely heavily on a very limited number of export commodities and on external assistance; (ii) most social indicators are still very weak; and (iii) there is a need to lower factor costs and to remove structural rigidities in order to increase competitiveness, with a view to diversifying the economic base and setting the stage for sustained growth and poverty reduction.
- The **economic and financial program for 2003-04** is based on a prudent scenario of real GDP growth rates of 2.6 percent in 2003, when the bulk of the adverse impact of the crisis in Côte d'Ivoire will be felt, and 4.0 percent in 2004. Consistent with the objectives of the PRSP, which recognizes appropriate macroeconomic policies and structural reforms as key elements for broad-based growth and poverty reduction, the new program aims to limit inflation and the external current account deficit, and contain the basic budget deficit, including HIPC Initiative-related spending, at 4.5 percent of GDP in 2003 and 3.5 percent in 2004, compared with 3.8 percent in 2002. Structural reforms will aim to further improve governance, foster economic diversification and trade liberalization, and increase competitiveness. Among other measures, the High Authority to Fight Corruption will be made operational by end-June 2003. A review of the cost structure of the electricity utility (SONABEL) will be conducted, with a view to preparing cost-cutting measures. Bids for the privatization of the telephone company (ONATEL) will be launched by end-September 2003.

- In the **medium-term framework**, the projected rate of real GDP growth of 5.2 percent by 2006, compared with an average of 4.7 percent during 1996-2002, and the reduction of the current account deficit, excluding grants, to 12 percent of GDP by 2006 down from 13 percent in 2002 and 14 percent in 2003, are premised on a modest increase in cotton production, and successful competitiveness and diversification strategies, leading to increased investment in the secondary and tertiary sectors. The basic budget deficit would narrow to 3.1 percent by 2006, reflecting a strengthening in government revenue collection and a shift in spending priorities in favor of education, health, and the needs of the rural sector. The regional central bank will pursue a prudent monetary policy, with a view to supporting the fixed parity of the CFA franc vis-à-vis the euro. Further progress will be made on structural reforms to promote private sector development, improve competitiveness, diversification, and good governance, and strengthen regional integration.

Issues highlighted in staff appraisal

- **Burkina Faso's performance under PRGF-supported programs during 1993-2002 and in implementing the policy agenda laid out in the PRSP adopted in 2000 was satisfactory.** Real GDP recovered strongly, inflation remained very low, and significant progress was made in improving expenditure management, liberalizing the price and trade regime, and strengthening regional integration within the WAEMU. **Nonetheless, Burkina Faso's economic, financial, and social situation remains fragile and difficult,** and the country, landlocked and one of the poorest in the world, continues to depend heavily on external assistance and the monoculture of cotton.
- **Revenue collection performance is very weak** and Burkina Faso is falling considerably short of the level required to meet the convergence criterion of the WAEMU in this area. The staff urged the authorities to follow up on the recommendations of the recent Fund technical assistance mission on tax and customs administration.
- The staff supported the **government structural reform strategy** aimed at promoting good governance, economic diversification, competitiveness, and private sector development. It urged the government to **strictly adhere to the fiscal stance agreed for 2003 and 2004 and closely monitor ongoing projects.**

I. INTRODUCTION

1. In concluding the 2002 Article IV consultation on April 9, 2002, Executive Directors commended the authorities for their continued sound economic policies and progress in structural reforms, in particular their prudent management of the cotton sector. They stressed the need to maintain steady and rapid growth, strengthen the external position, and achieve durable poverty reduction. Burkina Faso has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

2. In the attached letter dated May 28, 2003 (Appendix I), the Minister of Finance and Budget of Burkina Faso requests a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 24.08 million, or 40 percent of quota (Table 1). Assuming the loans under the new arrangement are fully disbursed and taking account of repayments, Burkina Faso's outstanding use of Fund resources would amount to SDR 69.2 million (equivalent to 115 percent of quota) at end-December 2006, down from SDR 93.0 million (equivalent to 154.6 percent of quota) at end-December 2002 (Tables 2 and 3).

3. The requested PRGF arrangement is in support of an economic program for the period April 2003-March 2006 that is outlined in the memorandum of economic and financial policies (MEFP) for 2003-06 (Appendix I, Attachment, Annex I), and it is in line with Burkina Faso's poverty reduction strategy paper (PRSP) and its second progress report, which were prepared by the authorities in a participatory process involving civil society. The Executive Boards of the Fund and the World Bank discussed the PRSP in June 2000 and found it to be a sound basis for poverty reduction and concessional support. In concluding the discussions on the second progress report in November 2002, Executive Directors noted the acceleration in the use of the resources freed under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) in the first half of 2002, following a slow start in 2000 and 2001. They stressed, however, that stronger efforts needed to be made to increase the effectiveness of education and health sector spending, address remaining institutional weaknesses and infrastructure bottlenecks that limited absorptive capacity, strengthen the linkages between the PRSP and the budget, and improve the tracking of social outcomes.

4. In April 2002, the IMF and World Bank Boards agreed that Burkina Faso had fulfilled the conditions for reaching the completion point under the enhanced HIPC Initiative. They also agreed to grant Burkina Faso 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 in June 2002 to grant Burkina Faso a stock-of-debt treatment on Cologne terms.¹ They also committed topping-up relief and additional

¹ It provided for the cancellation of 87 percent of remaining pre-cutoff-date commercial claims (US\$22 million).

bilateral debt forgiveness, and agreed on an equal distribution of this additional relief among creditors. The authorities are seeking the participation of Burkina Faso's non-Paris Club bilateral and multilateral creditors in the HIPC Initiative.

5. The World Bank has supported Burkina Faso's reform program since the early 1990s through a number of project and sector credits, with total cumulative commitments through May 12, 2003 of US\$1,359.5 million. The Country Assistance Strategy (CAS) for 2001-03 was approved by the World Bank Executive Board in November 2000 in support of Burkina Faso's PRSP. Progress in implementing the CAS has been satisfactory. Burkina Faso fulfilled all the triggers for the base-case scenario and most of the triggers for the high-case scenario, with good portfolio performance and total lending reaching US\$351.4 million during fiscal years (FY) 2001-03. On April 8, 2003, the World Bank Board extended the CAS for 18 months, with a base-case grant and lending scenario of about US\$300 million for FY 2004-05.² Summaries of Burkina Faso's relations with the Fund and the World Bank Group are presented in Appendices II and III, respectively.

6. Legislative elections were held in Burkina Faso on May 5, 2002. For the first time, all opposition parties participated in the elections, which were judged to be fair by international observers. President Compaoré's ruling party (Congrès Pour la Démocratie et le Progrès—CDP) obtained 57 out of the 111 seats in parliament (51 percent), with the remaining seats going to representatives of 13 different parties. Prime Minister Paramanga Yonli was reappointed in June 2002 to head a new cabinet comprising 26 ministers, of which 3 ministers are not members of the ruling party.

II. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

7. Since 1993, Burkina Faso has satisfactorily implemented three PRGF-supported programs, associated with the conduct of sound macroeconomic policies and significant structural reforms. Under the programs, and following the devaluation of the CFA franc in 1994, the real GDP growth rate increased to 4.7 percent on average during 1996-2002 from 3.5 percent on average during 1990-95, despite two drought years in 1998 and 2000, and terms of trade shocks in 2000 and 2002 (Box 1). In addition, inflation remained low, but the external current account deficit widened during 1996-2002, reflecting, *inter alia*, a weak performance in noncotton exports. The acceleration in growth was spurred by a tripling of cotton production, a boom in construction triggered by public investment in basic infrastructure and social equipment, and private investment in housing, as well as an expansion in trade and transportation. Fiscal policy improved generally, with the overall fiscal deficit contained. However, revenue collection weakened, and constraints in administrative capacity prevented the authorities from fully using the resources freed under

² The grant and lending program under the high-case scenario is slightly over US\$350 million for the two fiscal years. The next CAS will closely follow the full update of Burkina Faso's PRSP, currently scheduled for end-December 2003.

Box 1. Burkina Faso: Real GDP Growth by Sector and Component of Demand, 1990-2002

	Average 1990-95	Average 1996-2002	Difference
	(Annual percentage change)		
Primary sector	3.5	3.6	0.1
Agriculture	3.9	3.9	0.0
Livestock	2.6	2.5	-0.1
Forestry and fishing	3.1	3.8	0.6
Secondary sector	3.8	3.3	-0.5
Mining and industry	5.4	0.9	-4.4
Electricity, gas, and water	5.9	14.7	8.8
Construction and public works	-1.2	9.1	10.3
Tertiary sector	3.4	6.2	2.8
Trade	-1.6	11.2	12.8
Transport	2.4	5.1	2.7
Nonmarket services	6.6	4.3	-2.3
Other services	6.8	3.9	-2.9
GDP at factor cost	3.5	4.8	1.3
Import taxes and duties	1.2	2.4	1.2
Imputed for bank services	-4.1	13.3	17.4
GDP at market prices	3.5	4.7	1.2
	(In percent of GDP)		
Resources	128.5	125.2	-3.4
GDP at market prices	100.0	100.0	0.0
Imports of goods and services	28.5	25.2	-3.4
<i>Of which:</i> Imports of goods	20.2	19.8	-0.4
Use of resources	120.2	120.7	0.5
Consumption	93.7	90.4	-3.2
Public	11.4	8.5	-3.0
Private	82.2	82.0	-0.2
Investment	17.2	22.9	5.7
Fixed capital formation	17.3	22.7	5.4
Public	5.5	12.3	6.8
Private	9.4	10.5	1.0
Change in inventories	-0.1	0.5	0.6
Exports of goods and services	9.3	7.4	-1.9
<i>Of which:</i> exports of goods	7.4	6.4	-1.0
Resource gap	19.2	17.8	-1.4
Current account balance	-4.8	-10.4	-5.6
Excluding official transfers	-9.2	-13.7	-4.5
Overall fiscal deficit	-3.2	-3.3	-0.1

Sources: Burkinabè authorities; and staff estimates.

the HIPC Initiative during 2000-02. Major structural reforms have been carried out, including in the areas of price and trade liberalization, and governance. However, despite a steady increase in social expenditure, Burkina Faso continues to be characterized by a high incidence of poverty (see para. 21 below), the resource base of the economy is still very narrow, and factor costs, including water, energy, telecommunications, and transportation, are very high.

8. **Overall performance under the PRGF-supported program during 1999-2002 was satisfactory**, despite a difficult external environment, including terms of trade shocks, and continued tensions in Côte d'Ivoire, Burkina Faso's most important regional trading partner. In particular, **the crisis that erupted in Côte d'Ivoire in September 2002** has adversely affected Burkina Faso's economic performance. The closing of the border between the two countries since the beginning of the crisis has cut off supplies to industrial units, and many enterprises have lost goods in transit, with negative consequences for their cash-flow position. The railway between Abidjan and Ouagadougou ceased operations, and trade has had to be rerouted from Abidjan through the ports of Tema in Ghana, Lomé in Togo, and Cotonou in Benin, significantly driving up transport costs.

9. **Real GDP growth is estimated to have remained at 4.6 percent in 2002 (Table 4), or 1 percentage point lower than projected at the time of the sixth and final PRGF-supported program review in November 2002 (see EBS/02/183, 10/30/02).**³ This downward revision reflects mainly a lower-than-envisaged growth of cereal production, exacerbated by the adverse impact of the crisis in Côte d'Ivoire. Cereal production increased by only 0.3 percent for the 2002/03 crop year, following a 36 percent rise in 2001/02. Production in the secondary and tertiary sectors was hampered by the Ivoirien crisis, although the adverse impact was reportedly mitigated in the secondary sector by a drawdown of existing stocks of inputs and spare parts, which ran out only toward end-December 2002. On a positive note, following the record cotton output realized in the 2001/02 crop year, production increased even further by 5.7 percent to 400,000 tons in 2002/03, notwithstanding an effective reduction in the producer price of seed cotton of 12.5 percent.⁴

³ In accordance with the new harmonized methodology for preparing national accounts in the West African Economic and Monetary Union (WAEMU), Burkina Faso is adding the value added of the central government to the tertiary sector's GDP. In the process, the authorities have revised upward the GDP series beginning in 1990, effectively increasing the nominal and real levels by about 10 percent over the levels reported previously. However, the trends in terms of growth rates have not changed significantly.

⁴ For the 2002-03 crop year, producers did not receive the bonus of CFAF 25 per kilogram—their share of the pretax profits of the cotton development company (SOFITEX) for the 2000/01 season—that had been paid in the 2001/02 crop year. Thus, the effective producer price dropped from CFAF 200 per kilogram in 2001/02 to CFAF 175 per kilogram in 2002/03.

10. **The disruptions resulting from the Ivoirien crisis also contributed to an increase in the year-on-year consumer price index of 3.9 percent at end-December 2002 (Table 4), compared with 1 percent at end-December 2001 and the objective of 2 percent for 2002. The real effective exchange rate appreciated by 5.2 percent in 2002, mainly owing to the weakening of the U.S. dollar against the euro, to which the CFA franc is pegged (Figure 1).**

11. **Fiscal performance was satisfactory under the PRGF-supported program in 2002, in spite of a weakening in revenue collection toward the end of the year that was partly due to the negative impact of the crisis in Côte d'Ivoire. Tax revenue fell short of the indicative target by CFAF 13 billion (or 0.6 percent of GDP) at end-2002 (Table 5), owing to large shortfalls in the value-added tax (VAT), and in income and profit taxes. The shortfalls also reflected continued weaknesses in tax administration, including in the two large and medium-sized taxpayers' units in Ouagadougou and Bobo-Dioulasso, respectively, and in the control of refund claims. Customs receipts, however, were on target, as a result of improved customs controls and accelerated procedures, as well as a reduction in exemptions.**

12. **Current expenditure exceeded the program target by CFAF 13 billion (or 0.6 percent of GDP), reflecting (i) unforeseen humanitarian assistance and increased border patrol and security spending as a result of the crisis in Côte d'Ivoire; (ii) higher-than-forecast spending on goods and services, including for telephones, electricity, and water; and (iii) larger-than-planned outlays for the May 2002 legislative elections. As budgetary appropriations for current expenditure were exceeded, spending commitments for the government's consumption of telephones, electricity, and water in 2002 were recorded only in early 2003, for a total amount of CFAF 14.6 billion, of which CFAF 9.7 billion represented the consumption for the first three quarters and were considered a carried-over domestic debt from 2002.⁵ However, domestically financed capital expenditure remained 22 percent below projections because of continued constraints on absorptive capacity, including as regards the use of HIPC Initiative-related resources in the social sectors. Only CFAF 28.2 billion (or 1.3 percent of GDP) of HIPC Initiative resources was actually committed in 2002, against a program target of CFAF 47.7 billion (or 2.2 percent of GDP), reflecting both institutional constraints and physical bottlenecks.⁶ Thus, **the overall fiscal deficit, including grants, was contained at 5 percent of GDP, compared with****

⁵ In order to control expenditure, the authorities had, in view of the revenue shortfall and current spending overruns, already stopped commitments on current expenditure on goods and services at end-November 2002, in accordance with the regulation. Commitments continued on investment and on HIPC Initiative-related social spending, which were short of targets.

⁶ For a more detailed discussion of the absorption problem of HIPC Initiative-related resources in Burkina Faso, see Box 2.

**Box 2. Burkina Faso: Experience with the Absorption of Resources
Freed Under the HIPC Initiative**

Burkina Faso received CFAF 7.1 billion in debt relief through the HIPC Initiative in 2000, CFAF 26.5 billion in 2001, and CFAF 20.8 billion in 2002. However, no HIPC Initiative-related expenditure was committed in 2000, and only CFAF 6.6 billion was committed in 2001 and CFAF 28.2 in 2002, accounting for only 64 percent of the total available resources. On a cash basis, only 41 percent of available resources were spent. The reasons for Burkina Faso's absorption problem were institutional weaknesses, as well as physical bottlenecks beyond the government's control.

Institutional constraints arose because the setup of the three tiers of committees to execute and monitor social expenditures, created in June 2000, was very complex: (i) a ministerial oversight committee, chaired by the Prime Minister, is the decision-making body of PRSP implementation; (ii) an interministerial technical monitoring committee coordinates the implementation of sectoral action plans; and (iii) sectoral monitoring groups are responsible for implementing the PRSP within ministerial departments. This structure did not become fully operational because of irregular meetings of sectoral groups and a lack of clear sectoral policies at the ministry level for allocating of resources to reduce poverty. In addition, HIPC Initiative-related spending had to follow **special administrative procedures**, and many line ministries lacked the human resources to master them, so that spending remained well below targets. Moreover, the lack of a **fully operational decentralized administrative structure** did not allow for an efficient and swift execution of poverty-reducing projects in remote areas. Finally, budgetary disbursement procedures had to be adapted to facilitate disbursements at the local level, while ensuring proper tracking.

Physical bottlenecks emerged because poverty reduction expenditure is most strongly needed in rural areas, where basic infrastructure is often lacking. In the absence of basic physical and financial infrastructure, exogenous shocks in the form of poor weather conditions hampered construction work, including the construction of schools and rural roads, which, in turn, delayed disbursements.

Social expenditures, funded with debt relief under the HIPC Initiative, **were significantly accelerated in 2002**, when the government established a special treasury account for HIPC Initiative expenditure and a special HIPC Initiative bank account at the BCEAO. A specific guide on HIPC Initiative spending procedures will be distributed to ministries in 2003, and training for their staff is foreseen. Moreover, the government has launched a comprehensive **decentralization and deconcentration program** in order to improve the efficiency and targeting of social spending. Instructions guiding budget deconcentration procedures were issued in 2002 and are being implemented. Finally, regular and frequent meetings are held by the financial directorates of concerned ministries regularly to review HIPC Initiative-related expenditure. These measures will help to strengthen the absorptive capacity.

a programmed target of about 6 percent of GDP;⁷ **the basic fiscal deficit⁸ was held at 3.8 percent of GDP**, compared with a programmed target of 4.3 percent of GDP (Figure 4).

13. The overall fiscal deficit was partly financed by an increase in the stock of spending commitments for which payment orders had not been issued (*dépenses engagées et non mandatées*—DENMs). Also, there was a sharp increase in deposits of public enterprises at the treasury.⁹ Important nonproject assistance from the Fund, the World Bank, the European Union, and other donors was disbursed during November and December 2002. Most of these amounts remained as government deposits at the Central Bank of West African States (BCEAO) at end-2002 in addition to unused HIPC Initiative resources.

14. Broad money grew by less than 1 percent in 2002 (Table 9). The mobilization of external assistance led to a fall in net bank credit to the government of about 11 percent of beginning-of-year stock of money which, in turn, facilitated an expansion of 18.1 percent in credit to the economy. Most of the credit was short-term, including about one-fifth as crop credit to SOFITEX. The net foreign assets of the banking system improved by 2 percent of beginning-of-year stock of money, owing mainly to increases in commercial banks' net foreign assets. Burkina Faso's contribution to the strengthening in the international reserves position of the BCEAO was very limited.

15. The current account deficit, excluding grants, is estimated to have narrowed to 12.9 percent of GDP in 2002 (10.3 percent, including grants), from 13.6 percent in 2001 (10.5 percent, including grants) (Table 10 and Figure 3). Imports of capital goods rose moderately and cotton exports declined by 7.5 percent in nominal value because the fall in world market prices and disruptions in normal transportation routes more than offset the bumper harvest in 2001/02. Workers' remittances declined slightly from their 2001 level.

16. **There was further progress in the implementation of structural reforms in 2002.** In the area of governance, the High Authority to Fight Corruption was created, as well as the Auditor General Office, and in July 2002 the authorities adopted an action plan to ensure transparency and accountability in fiscal management. With respect to public enterprise divestiture, one government-owned hotel was sold, and progress was made in preparing for the sale of ginning plants in two zones in the cotton-producing region. However, there was only limited progress in privatizing large public utilities and in bringing down Burkina Faso's high factor costs, and more generally, in improving the competitive position of the

⁷ Excluding grants, the overall fiscal deficit stood at 10.4 percent of GDP in 2002.

⁸ Defined as government revenue, excluding grants, minus total expenditure, excluding foreign-financed investment and lending.

⁹ Deposits at the treasury increased by CFAF 30.6 billion (1.4 percent of GDP) to CFAF 94.6 billion (4.3 percent of GDP), and the DENMs by CFAF 12.4 billion (0.6 percent of GDP) to CFAF 40.8 billion (1.9 percent of GDP) at end-2002.

economy. The privatization of the national telecommunications company (ONATEL) scheduled for 2002, could not be completed because the creation of a regulatory authority and the split-up of the mobile and fixed-line segments of the company were delayed. Reform of the energy sector was also slower than expected, because the authorities did not develop a coherent strategy for the sector, including an appropriate regulatory framework.

III. POLICY DISCUSSIONS

17. **Notwithstanding the broadly satisfactory progress made during 1999-2002 under the PRGF-supported program, Burkina Faso's economic and financial situation remains fragile**, as (i) the country continues to rely heavily on a very limited number of export commodities and on external assistance; (ii) most social indicators are still very weak, and thus Burkina Faso's ability to achieve the Millennium Development Goals (MDGs) poses a daunting challenge; and (iii) there is a need to lower factor costs and to remove structural rigidities in order to increase competitiveness, with a view to diversifying the economic base and setting the stage for sustained economic growth and poverty reduction. The discussions for the 2003 Article IV consultation and a new program, which took place against the backdrop of continued concerns about the implications of the conflict in Côte d'Ivoire, and about the volatility of world cotton prices, focused, therefore, on (i) taking stock of achievements and remaining challenges; and (ii) the design of a medium-term program aimed at furthering the PRSP agenda during 2003-06, with a view to tackling the remaining challenges, boosting growth, reducing poverty, and making progress toward the MDGs.

A. Taking Stock: Achievements and Challenges

18. **In the discussions, the staff indicated that it shared the authorities' views that appropriate macroeconomic policies and structural reforms implemented since 1993 had significantly contributed to improving real GDP growth performance and inflation from the second half of the 1990s through 2002.** Satisfactory progress has also been made in implementing the policy agenda laid out in the PRSP (see the joint staff assessment of the second annual PRSP progress report—EBD/02/144, 10/02/02) and the last PRGF-supported program (see Section II). Burkina Faso has demonstrated ownership of its policy agenda in the PRSP process. However, prospects for strong sustained real GDP growth and poverty reduction will depend critically on how successfully Burkina Faso rises to the challenges it faces, namely, the lack of economic diversification, a weak competitive position, inadequate government revenue collection performance, limited absorptive and policy implementation capacity, including in the management of social sectors, and the adverse impact of recent political and social tensions in neighboring Côte d'Ivoire.

19. **Burkina Faso's exports remain highly concentrated in cotton and, to a lesser extent, livestock products, making the country extremely vulnerable to commodity price volatility.** As the threefold increase in cotton output—which reflected both prudent management and the country's comparative advantage—constituted a major engine of growth in the past decade (1993-2002), economic diversification has so far been elusive.

Obstacles to developing nontraditional exports stem from the structural rigidities in the business environment and the economy's weak competitiveness, including high factor costs. The staff agreed with the authorities that structural measures implemented in the areas of price and trade liberalization, the cotton sector, and governance (MEFP, para. 8) have helped improve the business environment. However, the preparation of sectoral strategies in energy and telecommunications has been delayed as has the privatization of ONATEL, the national electricity company (SONABEL), and the petroleum product distribution company (SONABHY). In updating the PRSP toward the end of 2003, the authorities have stated their intention to firm up their strategy for economic diversification and for increased competitiveness in a participatory process involving the civil society.

20. **With very weak revenue collection performance, Burkina Faso also relies heavily on external donor assistance.** At 11.1 percent in 2002, the ratio of tax revenue to GDP remains substantially below the 17 percent level required to meet the convergence criterion in the WAEMU. Because of this structural deficiency—due to institutional and organizational problems and tax evasion—fiscal consolidation efforts in Burkina Faso have so far been based on the containment of domestically financed public spending. In the circumstances, the country depends heavily on external assistance, including under the HIPC Initiative, to maintain basic government services, realize necessary investment, and carry out its poverty reduction agenda. In addition, given the limited administrative capacity in the social sectors, expenditure control resulted in a decline in the share of education and health in the government budget during 1998-2002 (MEFP, para. 4).

21. **In spite of sustained real GDP growth during 1996-2002, the reduction of the share of social spending impeded an improvement in social indicators—which remain below the sub-Saharan average. Achieving the MDGs constitutes, therefore, a major challenge for Burkina Faso.** The 1998 household survey has established that 45 percent of the population lives below the poverty line;¹⁰ the illiteracy rate is estimated at 74 percent; and the gross primary school enrollment rate has remained below 45 percent, with high gender inequality and repetition rates (Table 14). The infant mortality rate and the maternal mortality rate are very high, and overall, social indicators did not improve significantly during the 1990s. Moreover, attaining the objectives of the social development agenda included in the PRSP would not be sufficient to achieve the MDGs.

22. **The recent crisis in Côte d'Ivoire highlights the vulnerability of Burkina Faso's landlocked economy, which has been heavily dependent on the Ivoirien economy, access to the port of Abidjan, and the railway and road links between Ouagadougou and Abidjan for more than two-thirds of total imports and exports.** While the consequences of the trade and transport disruptions on real GDP growth were somewhat mitigated in 2002 by existing stocks of goods, the economy is bearing the full adverse impact of the crisis in

¹⁰ The poverty line was defined in Burkina Faso in 1998 as an annual income of CFAF 72,690, or US\$0.34 per day.

2003. Assuming that all trade and transport disruptions would cease by end-June 2003, real GDP growth is projected to weaken to 2.6 percent of GDP in 2003, compared with the precrisis projection of 5.7 percent presented in the second annual PRSP progress report. Consumer price inflation, which already reached 3.9 percent in 2002 on a 12-month basis, is projected to increase further to 5 percent in 2003. The weakening in Burkina Faso's prospects for growth and higher prospective inflation will result in a reduction in incomes, including in poor rural areas, further hampering the achievement of poverty reduction objectives.

B. Medium-Term Poverty Reduction Strategy

23. Burkina Faso has been implementing its poverty reduction strategy since June 2000. The PRSP involves a strategy aligned on four axes (i) achieving higher growth and a more diversified economy; (ii) improving access to social services for the poor; (iii) increasing employment opportunities and income-generating activities for the poor; and (iv) promoting good governance. During the discussions, the authorities indicated their intention to reflect the adverse impact of the crisis in Côte d'Ivoire in preparing the third annual progress report on the PRSP in July 2003, with the participation of civil society, and to revise downward the PRSP baseline growth projections for 2003-06. They also plan to review the objectives of the social development agenda during the preparation of the updated PRSP toward end-December 2003, with a view to approaching closer the MDGs. They stressed, however, the need for caution and indicated that the targets should be realistic in view of the constraints on administrative and absorptive capacity. The proposed PRGF-supported program focuses on (i) strengthening the country's record of macroeconomic stability; and (ii) tackling Burkina Faso's challenges, in particular, the competitiveness issues, in order to diversify the economy, improve growth prospects, and reduce poverty.

Macroeconomic framework and sources of growth

24. The authorities recognize that achieving the PRSP objectives requires sustaining Burkina Faso's record of macroeconomic stability during 2003-06. Accordingly, the medium-term macroeconomic objectives, following the crisis in Côte d'Ivoire, are to (i) reduce inflation to less than 3 percent during 2004-06, on an end-of-year basis, from 5 percent expected in 2003; and (ii) narrow the external current account deficit (excluding official transfers) to about 12 percent of GDP by 2006 from about 13 percent of GDP in 2002 and 14 percent in 2003. Following a slowdown in economic growth during 2002-03 triggered by the disruption in production, transport, and trade, the macroeconomic framework projects a progressive recovery of the rate of real GDP growth to 5.2 percent by 2006, compared with the average of 4.7 percent during 1996-2002; such an increase would allow real per capita income to rise gradually by about 3 percent in 2006. This economic recovery is weaker than was envisaged at the time of the conclusion of the last PRGF review in November 2002, but, overall, the poverty reduction strategy remains the same.

Box 3. Burkina Faso: Diversification and Sources of Growth

The sources of growth in Burkina Faso are cotton sector development, diversification and higher efficiency in agriculture, and local transformation of traditional export commodities and increased output in secondary and tertiary sectors through an improvement in competitiveness, including by reductions in factor costs.

Burkina Faso is the second-largest cotton producer in sub-Saharan Africa, with its total output increasing to 400,000 metric tons in 2002/03. The cotton sector, which accounted for 56 percent of Burkina Faso's total export earnings over the last five years and about 10 percent of value added in the agriculture sector, is critical to the country's economic development. It is estimated that about 2 million people (or 17 percent of the population) depend directly or indirectly on cotton; in 2002 cotton producers' gross income reached CFAF 76.7 billion, equivalent to 3.7 percent of GDP. **The country produces cotton of a very high quality and enjoys a comparative advantage,** as it is one of the most competitive cotton producers in the world. **Cotton is typically produced on small plots, with average yields of about 1.1 tons per hectare; however, the most efficient producers in Burkina Faso can reach yields of 2.0-2.5 tons per hectare, which indicates a large scope for productivity growth** through improved use of tools and machinery, fertilizers, and pesticides.

Growth opportunities must focus on agriculture, as about four-fifths of the population lives in rural areas and is dependent on agriculture. The agricultural sector in Burkina Faso in general is very highly labor intensive and suffers from low efficiency, high illiteracy, and diseases. **Improvements in literacy and health will increase productivity and facilitate agricultural diversification into other export crops.**

An example of a successful initiative toward diversification in agriculture is the SOPROFA (Société de promotion des filières agricoles). This Bobo-Dioulasso-based firm, in partnership with the government, has adopted the integrated approach (*filières intégrées*) to develop exports of various nontraditional agricultural products, such as sesame, mangoes, tomatoes, strawberries, soybeans, and various oleaginous products both unprocessed and transformed for better conservation. **SOPROFA reported plans to inject up to CFAF 17 billion into the rural economy during the current crop year.**

The authorities explained during the discussions that they aimed at establishing a business environment that was private-sector friendly, reducing factor costs and liberalizing and privatizing utilities companies (water, electricity, and telecommunications), and at strengthening the financial sector (see para. 29 and MEFP, para. 23). The integration of Burkina Faso into the west African electricity grid—realized for Bobo-Dioulasso in 2001 and scheduled for Ouagadougou in 2005—will help bring electricity costs to levels in line with costs in neighboring Côte d'Ivoire (currently US\$0.2345 per kilowatt for industrial users in Burkina Faso, compared with US\$0.0554 in Côte d'Ivoire and US\$0.0873 in Europe). The reforms and physical improvements will help to process traditional export commodities, including cotton and livestock products, diversify agriculture, and make the outlook more favorable for the secondary and tertiary sectors.

25. Growth projections are premised on a modest increase in cotton output during 2004-06,¹¹ and successful implementation of competitiveness and economic diversification strategies, which would lead to increased investment in the secondary and tertiary sectors (see Box 3). Domestic savings are projected to increase from about 5 percent of GDP in 2002 to about 9 percent of GDP in 2006 as a result of continued fiscal consolidation and, to a lesser extent, a positive response of the private sector savings to the new enterprise development framework (Figure 2). With rising investment, both the public and the private sectors would continue to record negative investment-savings balances; these imbalances would be covered by net transfers from abroad. Following a sudden fall in 2002 in the midst of the regional crisis and the shortfall in project grants, gross national savings are projected to rise substantially during 2003-06, reflecting a further increase in official transfers from abroad.

26. To achieve the program objectives, and in accordance with the PRSP, the economic reform efforts should continue to focus on three key policy components: **(i) a prudent fiscal policy aimed at reducing the basic budget deficit from 3.8 percent of GDP in 2002 to 3.1 percent of GDP by 2006**, following an increase to 4.5 percent of GDP in 2003 that reflects the use of HIPC Initiative resources carried over from 2002; **(tax revenue would increase by about 2.5 percent of GDP over the same four-year period to 13.6 percent of GDP, and the ratio to GDP of public spending would stabilize, while spending priorities for education, health, and the needs of the rural population are reinforced and domestically financed, poverty-reducing public investment would rise); (ii) appropriately prudent monetary conditions to contain inflation and strengthen the international reserves position; and (iii) important structural reforms to promote private sector development and investment, improve competitiveness, foster diversification of the economy, strengthen regional integration, and continue to promote good governance.** Because of the nature of the policy issues involved, close collaboration with the World Bank staff will be critical. Most of the structural reform agenda, consistent with the PRSP and the PRSP progress reports, will continue to be supported by the World Bank, the African Development Bank (AfDB), the European Union, and bilateral donors. The authorities have discussed with these donors how they could most effectively support the implementation of the country's PRSP.

27. The proposed PRGF arrangement will concentrate on macroeconomic issues and particularly emphasize on improving fiscal transparency and good governance, as well as key structural policies relating to trade policy and regional integration. The World Bank will take the lead on other key structural reforms, including (i) deconcentration and decentralization; (ii) reforms in the cotton sector; (iii) reform of the energy and telecommunications sectors; (iv) diversification and competitiveness; and (v) reforms in education and health (Box 4 and Appendix III). **Reforms in the area of governance** will be implemented under the umbrella of the government's action plan to strengthen public finance management. This action plan

¹¹ As indicated in Box 3, cotton producers still have scope for productivity growth, the realization of which could, however, be slow.

Box 4. Burkina Faso: Coverage of Structural Conditionality Under the Proposed PRGF Arrangement

The structural measures identified by the staff and the authorities for the first year of the proposed new arrangement are essential for the successful implementation of the macroeconomic strategy (see Table 2 of Appendix I, Attachment I). Key areas include the following:

- **strengthening tax revenue**—establishment of a computerized tax management system for big enterprises;
- **budget formulation**—timely submission to parliament of the 2004 budget and adoption of WAEMU-conforming budget nomenclature;
- **budget execution**—regularization of annual budget execution by closing all remaining private accounts at the treasury; and
- **budget reporting and good governance**—swift submission of annual audited budget act for 2001 to parliament and timely submission of annual audited budget act for 2002.

Structural conditionality in earlier programs

The **structural reform agenda**, prepared in collaboration with the World Bank, focused on strengthening tax administration and public finance management, lowering factor costs, promoting good governance, and accelerating trade liberalization. In addition, the World Bank supported reforms in the area of privatization, energy and telecommunications, the cotton sector, the private sector, and the judicial system. **Major achievements included the followings:**

(i) adoption of an action plan to strengthen public finance management; (ii) initiation of the computerization of tax revenue collection; (iii) adoption of a transparent and fully flexible petroleum price-setting mechanism—an element that has been carried over to the new program; (iv) interconnection of the data banks of the civil service payroll with the government employment database and a new system of merit-based promotion; (v) submission of audited annual budget execution laws (*lois de règlement*) to parliament; (vi) lower electricity costs through the interconnection of the city of Bobo-Dioulasso with the electricity grid of Côte d'Ivoire; (vii) more competition in the telecommunications sector through adoption of a new regulatory framework and the sale of two cellular licenses to the private sector; (viii) creation of an anticorruption unit; (ix) operationalization of the Auditor General Office; and (x) elimination of most tariff lines subject to administratively set customs values.

Structural areas covered by World Bank lending

Areas of World Bank conditionality (described in more details in Appendix III) in previous and ongoing lending operations include the following: (i) economic management and reform (budget formulation and execution, expenditure management, procurement, civil service reform, and decentralization of government services); (ii) infrastructure support (electricity and telecommunications supply, roads, and water); (iii) agriculture and rural development (cotton sector reform); (iv) private sector development (utility reform to lower factor costs, improve investment climate, and facilitate the creation of enterprises); (v) human resource development (strengthening the provision and efficiency of education and health services).

was adopted in mid-2002; it incorporated the recommendations of the Budget Management Improvement Action Plan (*Plan d'Action pour le Renforcement de la Gestion Budgétaire*—PRGB), the Report on the Observance of Standards and Codes (ROSC), and the Country Financial Accountability Assessment (CFAA) in drawing up measures to strengthen budget formulation, execution, and reporting.

Competitiveness, exchange rate, trade policy, and balance of payments outlook

28. **Competitiveness and external sector policies.** While real effective exchange rate developments suggest that Burkina Faso has largely maintained the **external competitiveness** gains from the 1994 devaluation of the CFA franc, evidence of low factor productivity relative to high labor costs has raised **concerns about competitiveness in the secondary and tertiary sectors**. As discussed above (para. 19), high factor costs (including water, energy, telecommunications, and transportation), infrastructure bottlenecks, *impediments to foreign direct investment, inadequate access to credit and financial services*, and limited external market access, constitute significant obstacles to the development of the private sector and the diversification of the economy.

29. **The authorities have initiated a series of structural reforms aimed at rendering the business environment more private-sector friendly and reducing utility costs to industry.** Against this background, and as part of the World Bank-financed Competitiveness and Enterprise Development Project and Energy Sector Project, they are aiming to enhance the efficiency of the economy through privatization and utility reform, improve the investment climate, and promote private sector development. In particular, the projects seek to roll back government involvement through the liberalization and privatization of the telecommunications sector, the privatization of SONABEL and SONABHY, and other measures to promote private enterprise and to improve the efficiency of electricity services (Appendix III). The government has already established a regulatory authority (ARTEL) for the telecommunications sector (MEFP, para. 24) to ensure competition, quality of service, better coverage, and consumer protection. It is also laying out a regulatory framework for the energy sector. In addition, the authorities indicated their intention to promote financial sector development, including microfinance (see para. 43 below).

30. **Regarding trade policy and regional integration in the context of the West African Economic and Monetary Union (WAEMU),¹² Burkina Faso has implemented most of the regional norms of the union.** Even though compliance with the regional macroeconomic convergence criteria has proved difficult (Table 18), important progress has been made, including the adoption and implementation of the common external tariff (CET) in 2000, the harmonization of the VAT, and the adoption by parliament in January 2003 of a new budget framework law (MEFP, para. 16). To mitigate the losses from the introduction of

¹² For a comprehensive discussion of trade policy and regional integration, see staff report on the 2002 discussions with the WAEMU (SM/03/75, 2/21/03).

the CET, Burkina Faso is implementing the decreasing protection tax (*Taxe Dégressive de Protection*—TDP), which provides temporary and declining protection for selected products, and is expected to be phased out by end-December 2003, as agreed within the WAEMU.¹³ While the WAEMU is negotiating with the World Trade Organization (WTO) over customs valuation, Burkina Faso continues to apply administratively set customs values for 33 tariff lines.¹⁴ It 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 these limited restrictions, the index of trade policy restrictiveness compiled by Fund staff is estimated at 5 on a scale of 1 to 10.¹⁵

31. The exchange system is free of restrictions on the making of payments and transfers on current international transactions. Furthermore, Burkina Faso is expected to benefit from the provisions of the Cotonou Convention.¹⁶ As a result, exports to the European Union could enjoy nonreciprocal preferential treatment in the form of exemption from import duties. Goods from Burkina Faso could also enjoy nonreciprocal preferential access to markets of developed countries other than European Union member countries under the generalized system of preferences. However, the scope of this preferential treatment is limited, owing to the small number of products exported by Burkina Faso. At the WAEMU level, Burkina Faso does not face formal legal or regulatory impediments with respect to its exports.

32. **Balance of payments outlook.** Achieving the program's objectives for the external current account deficit will hinge on (i) the ongoing structural reforms, including export diversification efforts, aimed at reducing the country's vulnerability to commodity price volatility, (ii) a return to normalcy of the Ivoirien economy, and (iii) changes in foreign aid flows. Exports of goods are expected to increase by 7 percent on annual average during 2003-06 in nominal terms, owing to both larger volumes of cotton shipments and a projected

¹³ The TDP is a temporary surtax applied on the c.i.f. value of industrial and agro-industrial products that has declined linearly since July 1999. It was envisaged that the surtax would reach a zero rate in January 2003. However, the WAEMU decided on December 2002 to extend the implementation of the TDP at rates of 2.5 to 5 percent until end-December 2003.

¹⁴ The number of tariff lines was reduced from 59 to 33, and the reference values on 29 of those were reduced by an average of about 20 percent in 2002.

¹⁵ 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.

¹⁶ 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.

recovery of world cotton prices, as well as an increase in nontraditional agricultural exports, an acceleration of gold exports stemming from the exploitation of new mines, and a sustained recovery of livestock exports from their fall in 2002-03. Following a surge in 2003 caused by high capital goods imports and increased volumes of petroleum product import, which were needed for infrastructure construction, the modest increase in imports during 2004-06 (of about 3 percent on annual average) would be consistent with a containment of aggregate demand. Private transfers would increase steadily, assuming a return to normalcy in Côte d'Ivoire, and net private capital inflows, which almost doubled in 2002 following the sale of a wireless phone licenses are projected to remain stable at about 1.2 percent of GDP, as ONATEL, SONABEL, and SONABHY are expected to be privatized.

33. **Program financing.** The financing requirements for 2003-06, after private capital inflows, are expected to be covered by concessional assistance from multilateral and bilateral creditors and donors, including the World Bank, the AfDB, and the European Union, as well as by Fund assistance under the requested PRGF arrangement and debt relief. There still remains a residual financing gap of CFAF 51.6 billion (US\$86 million) for 2004-06 (Table 10). For 2003, the financing requirements, after private capital inflows and the government's project financing, are estimated at about CFAF 337.2 billion (US\$559 million), and the residual financing gap, which is estimated at CFAF 5.8 billion, after HIPC Initiative assistance and concessional budgetary assistance (MEFP, para. 31), could be covered by PRGF disbursements. The authorities are committed to signing **all bilateral agreements under the June 2002 Paris Club stock-of-debt operations on Cologne terms** by the new deadline of end-September 2003 (MEFP, para. 32). They are also seeking additional budgetary assistance to cover the residual gap for 2004-06 from their main multilateral and bilateral donors, including under the framework of a memorandum of understanding signed by six donors in 2002 to coordinate the phasing and conditionality of their budgetary support to the PRSP process (Box 5). The authorities also intend to organize a United Nations Development Program (UNDP)-sponsored donor roundtable meeting to help mobilize the necessary project and nonproject support. The completion of the first review of the program will be contingent on adequate financing for 2004.

34. **Debt sustainability.** Debt relief under the enhanced HIPC Initiative from all of Burkina Faso's creditors amounts to US\$514 million in net present value (NPV) terms at end-2001, including US\$176 million under the original HIPC Initiative framework¹⁷ and US\$129 million of topping up, or exceptional debt relief. With this additional treatment, the total nominal debt-service relief provided under the HIPC Initiative is about US\$930 million. The Fund's share of the topping-up assistance remains undisbursed, as satisfactory financing assurances are not yet in place. So far, financing assurances have been provided by the IMF, the World Bank, the AfDB, the European Investment Bank, the West African Development Bank, and Paris Club creditors, accounting for 76.1 percent of the total assistance anticipated.

¹⁷ Burkina Faso reached the completion point under the original HIPC Initiative in July 2000 and under the enhanced HIPC Initiative in April 2002.

Box 5. Burkina Faso: Donor Coordination: A Memorandum of Understanding for Joint Budgetary Support Through the PRSP Process

In 2002, six of Burkina Faso's major donors (the European Union, Belgium, Denmark, The Netherlands, Sweden, and Switzerland) signed a memorandum of understanding, in agreement with the authorities, to set out the objectives and procedures of donors' **budgetary assistance** to Burkina Faso. The memorandum reaffirmed that the PRSP provided the basis and was the framework for coordinated joint budgetary assistance from the donor community. It also stressed the need to (i) ensure greater country ownership in the formulation and implementation of the authorities' poverty reduction strategy; (ii) improve the monitoring of performance indicators in priority sectors; and (iii) disburse donor assistance increasingly in the form of nontied budgetary support, and enhance the regularity and predictability of this budgetary support.

Under the framework of the memorandum of understanding, donors will jointly support Burkina Faso's poverty reduction strategy by **harmonizing their disbursements with the budget execution cycle**. They intend to program their budgetary assistance over a three-year rolling period in the context of the medium-term expenditure framework (MTEF).

Regarding the principles of disbursement, donors agreed to make their annual assistance available in two tranches:

- the first tranche would be disbursed upon the successful completion of the Fund's PRGF review;; and
- the second (variable) tranche would be disbursed, following the preparation of the PRSP progress report and upon the completion of the donors' joint annual PRSP review.

No additional conditionality is required for the disbursement of the tranches, which would be delivered in fixed amounts. However the second tranche of the European Union's budgetary assistance is variable; it is disbursed **in an amount that could vary, depending on the authorities' performance in relation to specified PRSP indicators**.

These outcome indicators are in the education and health sectors and under the government's medium-term action plan to strengthen public finance management. As indicated in paragraph 27, this action plan, which was adopted in July 2002, incorporates recommendations of the fiscal transparency module of the ROSC for Burkina Faso and the World Bank's Country Financial Accountability Assessment.

The memorandum of understanding promotes a steady dialogue between the government and donors on the implementation of the PRSP. Donors participate in all monitoring meetings of the PRSP on a quarterly basis, and they receive all data and information on PRSP and program implementation, similar to those required by the Fund under the PRGF arrangement.

The authorities are actively seeking the participation of their other multilateral creditors and non Paris Club creditors to debt relief for Burkina Faso under the HIPC Initiative, including the topping up (MEFP, para. 32). The Minister of Finance and Budget is planning to visit the Islamic Development Bank and the OPEC Fund (accounting jointly for 5.7 percent of total assistance) in June 2003, as well as non Paris Club creditors, to secure creditors' responses to the authorities requests.

35. This exceptional treatment, together with additional bilateral assistance beyond HIPC Initiative relief (US\$22 million in NPV terms), reduced Burkina Faso's NPV of debt-to-export ratio to the HIPC Initiative target of 150 percent at the completion point reference date of end-2001. However, in line with the HIPC Initiative completion document, (EBS/02/55, 03/28/02), and including new external debt, the NPV of debt-to-export ratio is projected to rise to 180 percent by 2006 and peak at 190 percent in 2011, before declining progressively to 180 percent by 2015 (Table 16). To ensure debt sustainability in the long term, the authorities should continue to rely on highly concessional external assistance, with a grant element of at least 35 percent (MEFP, para. 32).

C. Economic and Financial Program for 2003-04

36. The first annual program to be supported under the three-year PRGF arrangement covers the period April 2003-March 2004 and thus straddles two fiscal years (2003 and 2004). Achieving the macroeconomic objectives for this period (see para. 24) will require the implementation of appropriate fiscal policies and key structural reforms, including in tax administration, and fiscal transparency and good governance. The key elements of the program are discussed in the following sections; a more detailed description is provided in the authorities' memorandum of economic and financial policies for 2003-06.

Fiscal policy

37. **The fiscal program for 2003-04 aims at containing the basic budget deficit (including HIPC Initiative-related social spending) at 4.5 percent of GDP in 2003 and at reducing it to 3.5 percent of GDP in 2004, compared with a level of 3.8 percent of GDP in 2002.¹⁸ The overall fiscal deficit (excluding grants) would be limited to 11.0 percent of GDP in 2003 and reduced to 10 percent of GDP in 2004, compared with 10.4 percent of GDP in 2002.¹⁹ The widening in the basic budget deficit and in the overall fiscal deficit in 2003 reflects an increase of HIPC Initiative-related outlays of 1 percentage point to**

¹⁸ Excluding HIPC Initiative-related social spending, the basic fiscal deficit would narrow from 2.5 percent in 2002 to 2.1 percent of GDP in 2003 and 2004.

¹⁹ Including grants, the overall fiscal deficit would be reduced to 3.3 percent of GDP in 2004 from 5.0 percent of GDP in 2002.

2.3 percent of GDP in 2003,²⁰ **including provisions for humanitarian assistance** necessitated by the displacement of populations resulting from the crisis in Côte d'Ivoire, **and an on-lending operation, equivalent to 0.6 percent of GDP** made by the government in April 2003 to help develop a business district.²¹ For 2004, it is projected that the backlog of HIPC Initiative-related resources will be exhausted, that the adverse impact of the crisis in Côte d'Ivoire will subside, and that new revenue-increasing measures will bear fruit. The draft revised budget for 2003, which was submitted by the authorities to the National Assembly in mid-April 2003, is in line with these objectives.²² The authorities are also committed to submitting to the National Assembly in September 2003 a draft budget for 2004 (a structural indicative target) that will be consistent with these objectives (MEFP, para. 15).

38. **Government revenue is projected to increase to 11.4 percent of GDP in 2003 and to 12.3 percent of GDP in 2004 from 11.1 percent of GDP in 2002, through the implementation of tax administration measures that the government has yet to finalize.** As the economy has to bear the brunt of the adverse impact of the crisis in the region in 2003 and because most of the measures foreseen are scheduled late in the year—such as the computerization of the tax management system in the two large and medium-sized taxpayers' units, which is envisaged as a structural performance criterion for end-October 2003 (MEFP, para. 17)—the authorities were not confident that revenue collection will improve significantly in 2003. However, they are committed to preparing an action plan to strengthen tax and customs revenue collection by the time of the first review under the PRGF arrangement. The staff believes that this action plan, which will be based on the recommendations made by a recent Fund technical assistance mission,²³ should cover, inter

²⁰ The expansion in HIPC Initiative-related social spending is predicated on the assumption of a full use of resources that will be made available under the Initiative in 2003, as well as those carried over from 2000-02 (see Box 2).

²¹ The on-lending, which was financed by the issuance of four-year treasury bonds on the WAEMU regional market, was made to the government-owned urban development company (SONATUR) to develop a business district (*projet d'aménagement de la zone d'activités commerciales et administratives*—ZACA) in the capital city, Ouagadougou (MEFP, para. 15). The ZACA project is scheduled to repay the total amount during 2005-07, as it sells developed land to private operators. The government made a bridge loan equivalent to 0.4 percent of GDP to the electricity utility company, SONABEL, in April to help finance a power generator ahead of the approval of the World Bank-proposed energy sector credit. This second loan is scheduled to be refinanced by the World Bank by end-September 2003 on IDA terms.

²² The original budget law, approved in late 2002, did not incorporate the effect of the crisis.

²³ The technical assistance mission that visited Burkina Faso in March 2003, following the PRGF arrangement negotiation mission, noted persisting weaknesses in tax administration

(continued)

alia, (i) the strengthening of the control of large taxpayers through establishing a single large taxpayers' unit in the tax administration's main office in Ouagadougou; (ii) effective implementation of the new computer system for tax management; (iii) the introduction of a taxpayer registration system; and (iv) the modernization of customs administration through strengthening control valuation and implementing the customs computerization system (SYDONIA) in major field offices. The authorities should also implement measures to crack down on tax and customs exemptions and reinforce internal tax control mechanisms.

39. **On the expenditure side**, total budgetary outlays and net lending, excluding foreign-financed investment and lending, will increase from 15.7 percent of GDP in 2002 to 17.1 percent of GDP in 2003 and fall to 16.7 percent in 2004—reflecting mainly further efforts to catch up with expenditure financed by resources freed by the HIPC Initiative (see para. 37 above).²⁴ The wage bill will be contained at 4.7 percent of GDP during 2003-04, the same ratio as in 2002—by making the merit-based promotion system operational, and enhancing the single computerized system for civil service and payroll management (MEFP, para. 18). The ratio to GDP of current transfers is projected to stabilize at its 2002 level, in spite of a new subsidy of CFAF 2 billion granted in 2003—to help offset the impact of higher transportation costs on the prices of inputs to cotton farmers—and continued support of the price of petroleum products to SONABEL. Other current expenditure would also stabilize in 2003-04 in terms of GDP, owing to measures to reduce the government's outlays for the consumption of telephones, electricity, and water (MEFP, para. 19), and public investment is set to increase; meanwhile greater provisions have been made for humanitarian expenditure and spending for the social sectors in general (MEFP, para. 20).

40. The program calls also for **reducing the stock of expenditures committed but for which payment orders have not been issued (DENMs)** by CFAF 15 billion in 2003, and stabilizing them in 2004, with the view to maintaining them below 10 percent of total expenditure, excluding foreign-financed investment, the wage bill, and interest obligations. In addition, **deposits at the treasury**, which amounted to CFAF 94.6 billion at end-2002, **should decline** by CFAF 22 billion in 2003, and by CFAF 13 billion in 2004. The closure of

and recommended the taking of priority measures to improve collection performance. The authorities will review these recommendations in the coming months, with a view to preparing and implementing their action plan.

²⁴ The authorities are committed to containing spending commitments further in the event of tax revenue shortfall in 2003 and to reassessing the budget for 2004 at the time of the first review of the program, to take account of tax collection performance (MEFP, para. 15).

all nonfinancial private accounts at the treasury constitutes a performance criterion of the program at end-September 2003.²⁵

41. **To improve fiscal transparency and good governance, the government will implement its medium-term action plan to strengthen public finance management** (MEFP, para. 16). In this context, it has made the Auditor General Office fully operational since end-2002, and the annual audited budget acts (*lois de règlement*) for 1995-2000 were submitted to parliament in mid-April 2003. The submission of the annual audited budget act for 2001 to parliament by end-September 2003 (an indicative target), and that for 2002 by end-March 2004 (a structural performance criterion), as well as setting out a timetable for the preparation of the general balance sheets of treasury operations for 2001 and 2002 by the time of the first review of the program constitute critical steps of the government progress in improving fiscal transparency and accountability. To better track social expenditure and outlays financed by HIPC Initiative-related resources, the government is also committed to adopting the WAEMU budgetary nomenclature, with specific codes for such spending by end-September 2003 (an indicative target). More generally, it will bring the budgetary system into complete harmony with the WAEMU framework in 2003.

Monetary policy

42. The regional central bank (BCEAO) will continue to pursue a prudent monetary policy in 2003-04 aimed at containing inflationary pressures and at reinforcing the external position of the banking system, with a view to supporting the fixed parity of the CFA franc vis-à-vis the euro. The net foreign assets of the banking system are projected to decline moderately by 0.5 percent of beginning-of-period broad money in 2003 and to rise by 1.7 percent in 2004. Broad money would increase by 9.2 percent in 2003 and by 7.1 percent in 2004, about the same rates as for nominal GDP. The strengthening of public finances is expected to allow net bank credit to the government to contract by 0.3 percent of beginning-of-period broad money in 2003 and by 0.4 percent in 2004, which, in turn, will allow credit to the private sector to rise by 14.5 percent in 2003 and by 8.1 percent in 2004. In accordance with the decision taken by the WAEMU Council of Ministers in September 2002 to eliminate member governments' statutory advances from the BCEAO, the treasury will issue government bills on the regional money market to finance its operations, foster the development of the regional market for government securities, and promote financial sector development (MEFP, para. 21).

43. **The overall health of the banking system is satisfactory** with regard to compliance with prudential ratios. The only ratio that none of the banks respect is the portfolio structure ratio which mainly reflects a lack of diversification of the economy. Nonperforming loans

²⁵ During the discussions, the staff agreed with the authorities on the need for microfinance institutions in rural areas to maintain the savings of their members in accounts with decentralized treasury offices.

have declined to a very low level because of the greater provisions made by banks. The staff welcomed this development and encouraged the authorities to strengthen the role of the regional banking commission in bank supervision. It also urged them to strengthen financial sector development, promote microfinance (Box 6), and move ahead with the reform of the legal and judiciary system to further improve the recovery of loans. The authorities intend to prepare a sector strategy in this area by end-March 2004, in the process of updating the PRSP (MEFP, para. 22). The staff encouraged them to adopt legislation to combat money laundering and the financing of terrorism at an early stage, as intended in the context of the WAEMU.

Box 6. Burkina Faso: Microfinance

The **microfinance sector** is pivotal in providing credit and financial services to all those who have limited access to banks' services, especially the rural population and women. At least 1.3 million people (about 10 percent of total population) directly benefited from the services of microfinance institutions at end-2001. End-December 2000 data show that, from 1998 to 2000, the number of structures increased from 16 to 36 and of counters from 267 to 343. During the same period, both deposits and the stock of credit increased by about 34 percent.

Following an expansion period that started in the early 1990s, the sector is moving toward a consolidation and professionalization phase whose objectives are to (i) reorganize by restructuring nonviable entities; (ii) improve surveillance by, among other measures, placing larger microfinance institutions under the scrutiny of the BCEAO and audit cabinets; and (iii) reinforce capacities through a better training of the personnel and the use of modern equipment. This evolution will be conducted within the framework of the Action Plan for the Financing of the Rural Sector (Plan d'Action pour le Financement du Monde Rural or PAFMR). During the discussions, the staff encouraged the authorities to pursue this new wave of reforms in the sector in order to provide a better regulatory framework of microfinance institutions in the context of the poverty reduction strategy. A conference on the sector is expected to take place in July 2003.

In spite of its rapid growth in recent years, the microfinance sector remains marginal in the overall financial system. At end-2000, it still represented only 6 percent of total deposits of the banking system and 6.4 percent of its credits. Its main strength remains its accessibility, as it has about 70 percent of all bank counters. The increase in the penetration rate from 20.6 percent in 1998 to 25.6 percent in 2000 reflects the success of the microfinance institutions in meeting the needs of the population.

Structural issues

44. In addition to the structural measures described above, key elements of the medium-term structural reform agenda are governance, price and trade liberalization, the acceleration of the privatization program, and continued reform of the cotton sector.

45. **Regarding governance**, besides strengthening transparency in public finance management as described in paragraph 41, the authorities are determined to crack down on all cases of fraud and corruption. They are committed to making the High Authority to Fight Corruption operational by end-June 2003 (MEFP, para. 25); the Authority will work closely with the government's control and inspection agencies, and the reform of the judiciary will continue, with donor assistance. **In the area of price and trade liberalization**, the automatic adjustment mechanisms for petroleum product retail prices (a continuous indicative target) and for water rates implemented by the government (MEFP, para. 24) are flexible and fully transparent. In addition, the government will review the cost structure of the electricity utility (SONABEL), with a view to preparing cost-cutting measures. It will conduct a review of the telecommunications sector, with the aim of eliminating the monopoly of the telephone company. The government is committed to launching the bids for the **privatization** of the telecommunications company (ONATEL) by end-September 2003 and to conducting those of SONABEL and the petroleum product distribution company (SONABHY) by the end of 2004 (MEFP, para. 24).

46. The cotton sector has been liberalized gradually in recent years, with the emphasis on strengthening the role of producers' associations. **To ensure the long-term viability of the sector, the government's strategy involves opening the sector to private sector participation**, with a view to improving further efficiency and competitiveness. The monopoly of the cotton development company (SOFITEX) on the collection and marketing of seed cotton was eliminated in December 2001, and two zones will be opened for private operators in May 2003 (MEFP, para. 24). For the crop year 2003/04, the government raised the effective producer price for cotton by 5.7 percent to CFAF 185 per kilogram, by reintroducing a bonus of CFAF 10 per kilogram, in view of the recent increase in world prices.

Statistical issues

47. Burkina Faso's economic and financial statistical database is adequate, but further work is needed to improve the quality and coverage of statistical information, in particular for the national accounts statistics and fiscal data. The authorities are addressing these issues. They are also planning to finalize a household survey by end-December 2003 (MEFP, para. 29). Moreover, the country has achieved full participation in the General Data Dissemination System (GDDS). A ROSC mission on the data module visited Ouagadougou in May 2003 and made recommendations in this area. Statistical issues are summarized in Appendix IV.

Risks for the program, proposed access, and capacity to repay the Fund

48. There are two major potential exogenous risks to the economic outlook and a successful implementation of the program, namely (i) the impact of regional social and political tensions on the economy of Burkina Faso, especially the crisis in Côte d'Ivoire, and (ii) the volatility of world commodity prices, mainly for cotton and oil. Delays (beyond end-June 2003) in the full resolution of the regional crisis may depress economic activity further in Burkina Faso, put upward pressures on inflation, impose additional strains on the budget

and the balance of payments, and make it more difficult to achieve the government's macroeconomic objectives. A possible deterioration in the terms of trade owing to a further decline in world cotton prices may oblige the government to provide more subsidies to the cotton sector in order to avoid lowering producer prices below production costs. Continued subsidies to cotton farmers in industrialized countries could jeopardize crop development in Burkina Faso. In addition, increases in world oil prices could encounter resistance to retail price adjustments and compromise the collection of taxes owed on petroleum product imports. Other major risks include natural risks, such as possible drought and pest infestation, as well as the HIV/AIDS pandemic.

49. The proposed access under the PRGF arrangement (see para 2 above) is set in view of the strength of the authorities' program, and taking into account Burkina Faso's present indebtedness to the Fund, its projected external financing needs over the next three years, the adverse impact of the Côte d'Ivoire's crisis, and the risks for a possible decline in world cotton prices. Under the proposed access, Fund disbursements would be smaller than scheduled repayments obligations to the Fund, and Burkina Faso's net outstanding use of Fund resources is projected to decline substantially during 2003-06, consistent with the prospects for this program to be an exit program. Burkina Faso has always met its debt-service obligations to the Fund on schedule, and, given the prospective improvements in its fiscal and balance of payments positions and the strength of the BCEAO's international reserves position, the country can be expected to meet its future obligations promptly.²⁶

Program monitoring

50. The first year of the proposed PRGF-supported program will be monitored through quantitative performance criteria for end-September 2003 and end-March 2004, and quantitative quarterly indicative targets (MEFP, Table 1), as well as structural performance criteria and indicative targets (MEFP, Table 2). The authorities have provided further evidence of their continued commitment to the program by implementing the following two prior actions in mid-April 2003: (i) submission to the National Assembly of a draft revised budget for 2003; and (ii) submission to the National Assembly of draft annual audited budget acts (*lois de règlement*) for the period 1995-2000.

51. Six semiannual reviews of the proposed PRGF-supported program will be conducted, with the first two reviews (related to quantitative performance criteria for end-September 2003 and for end-March 2004) to be completed by end-December 2003 and by end-June 2004, respectively. Disbursement of the second to seventh loans under the PRGF

²⁶ Financial obligations to the Fund are expected to peak in 2004, when repayments interests and charges will total SDR 14.1 million, equivalent to 22.5 percent of total debt-service obligations, 5.3 percent of projected exports of goods and services, and 3.8 percent of government revenue (Table 3).

arrangement will be subject to the observance of performance criteria and the completion of a semiannual review.

IV. STAFF APPRAISAL

52. **Burkina Faso's performance under three medium-term PRGF-supported programs during 1993-2002, and in implementing the policy agenda laid out in the PRSP adopted in 2000, was satisfactory.** Real GDP recovered strongly, inflation remained very low, and significant progress was made in improving expenditure management, liberalizing the price and trade regime, and strengthening regional integration within the WAEMU. However, **notwithstanding the good progress made during the last decade, Burkina Faso's economic, financial, and social situation remains fragile,** and the country, landlocked and one of the poorest in the world, continues to depend heavily on external assistance and the monoculture of cotton. The economy thus remains very vulnerable to terms of trade fluctuations and the volatility of aid flows. This vulnerability has been exacerbated by the crisis in neighboring Côte d'Ivoire.

53. **Burkina Faso needs now to consolidate the gains achieved in implementing its poverty reduction strategy and in strengthening fiscal consolidation, and to move toward economic diversification and increased competitiveness, with a view to fostering higher growth, and making progress toward achieving the MDGs.** The fiscal consolidation efforts so far have derived from the containment of domestically financed public spending; **revenue collection performance has been very weak,** with Burkina Faso falling considerably short of the level required to meet the convergence criterion set by the WAEMU in this area. The authorities need to substantially improve tax and customs revenue collection, and in this context, the staff would urge them to follow up on the recent Fund technical assistance mission on tax and customs administration, with a view to preparing an action plan to reduce exemptions and strengthen the administration, control, and collection of taxes in the coming months. It is also essential to make operational the computerization of the two large and medium-sized taxpayers' units by end-October 2003, as intended.

54. **Although the authorities have taken a prudent stance in projecting government revenue collection in 2003, they have committed themselves to fully absorbing all HIPC Initiative-related resources made available so far, including the unused carryover from 2000-02, in order to finance priority education, health, and other poverty-reducing spending.** This process presents a risk for macroeconomic stability, as it is likely to increase the ratio of the basic budget deficit to GDP in 2003; however, it will also help **improve national ownership,** align fiscal policy with the policy agenda of the PRSP, and ensure greater country commitment to successful program implementation. The authorities should strictly adhere to the fiscal policy stance agreed for 2003 and 2004, closely monitor ongoing projects, including the business district development project in Ouagadougou (the ZACA project), strengthen the effectiveness of public spending, including HIPC Initiative-related social spending, and adhere to the newly established medium-term expenditure framework (MTEF) developed with the Fund and the World Bank. In this regard, it is essential to contain domestically financed expenditure, including the wage bill and public

investment, while providing adequately for education and health, and to remain current on all external debt-service obligations.

55. **In making operational the Auditor General Office and the High Authority to Fight Corruption**, the government has demonstrated its continued resolve to strengthen transparency in public finance management, promote good governance in public policy, combat corruption, and implement steadfastly the program and the PRSP policy agenda. The staff believes that the government is committed to opening economic and social policy to public debate, and is also determined to implement the agreed measures in a timely manner.

56. **On the basis of real effective exchange rate developments, Burkina Faso, along with other WAEMU countries, has maintained the external competitiveness gains from the 1994 devaluation of the CFA franc. However, high factor costs constitute an obstacle to economic diversification.** In addition, there are risks that a drought or a terms of trade shock, combined with the limited administrative capacity in Burkina Faso, could hamper program implementation. The authorities will need technical and financial assistance to help prepare and implement the reforms needed to achieve economic diversification, improve competitiveness, and make further progress toward reaching the MDGs. Continued determination on the part of the authorities to develop and carry out the strategies is also needed. In this regard, the staff welcomes the competitiveness and private sector development strategy approved by the government in 2002, aimed, inter alia, at promoting new export crops, reducing factor costs, and privatizing public enterprises. It is crucial that these efforts are pursued, and other sectoral strategies developed and implemented during 2003-06 in accordance with the PRSP (including for education, health, energy, and infrastructure).

57. **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 also is an urgent need to improve the quality and timeliness of external debt data. In that context, the staff urges the authorities to prepare plans to follow up on the recommendations of the recent ROSC data module.

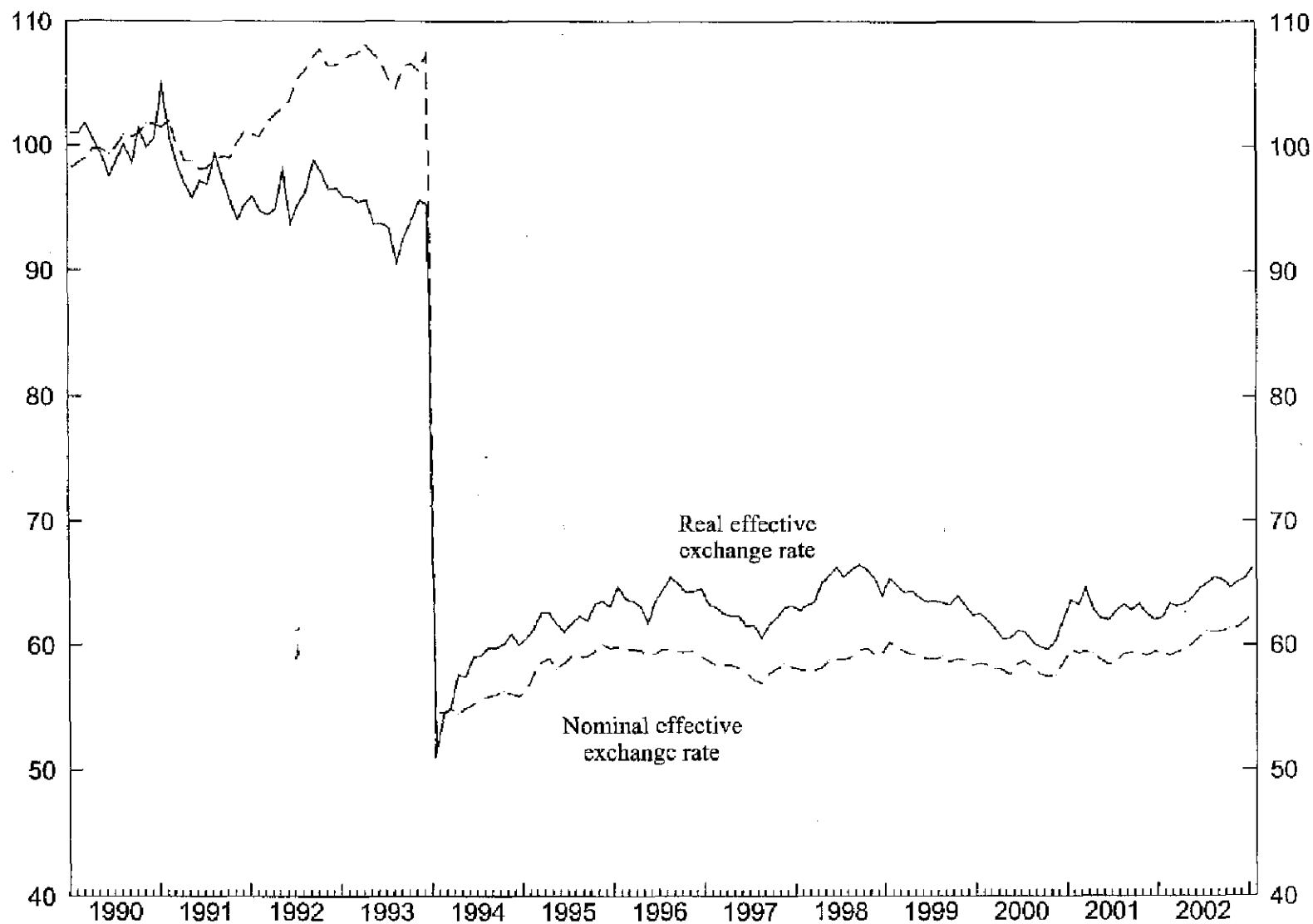
58. As is intended, the **third annual PRSP progress report should be prepared soon** to take account of the adverse impact of the crisis in Côte d'Ivoire on the macroeconomic framework, and the full poverty reduction strategy for 2003-06 should be updated by end-2003, following a participatory process involving the civil society. In this regard, and because the social database is weak, the staff would stress the importance of finalizing the necessary household survey and poverty assessments at an early date, and of developing an adequate series of social and poverty indicators in a timely manner, taking into account the timetable and participatory process for the revision of the PRSP.

59. In view of the strength of the authorities' program and its alignment to the country's PRSP policy agenda, and taking account of the exceptionally severe real shock imposed on

the economy and finances of Burkina Faso by the regional crisis, the staff believes that the government's reform program merits the support of the international community and recommends Board approval of the authorities' request for a new three-year arrangement under the PRGF.

60. It is proposed that the next Article IV consultation with Burkina Faso be held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002.

Figure 1. Burkina Faso: Real and Nominal Effective Exchange Rates, January 1990 - November 2002
(Index, 1990=100)

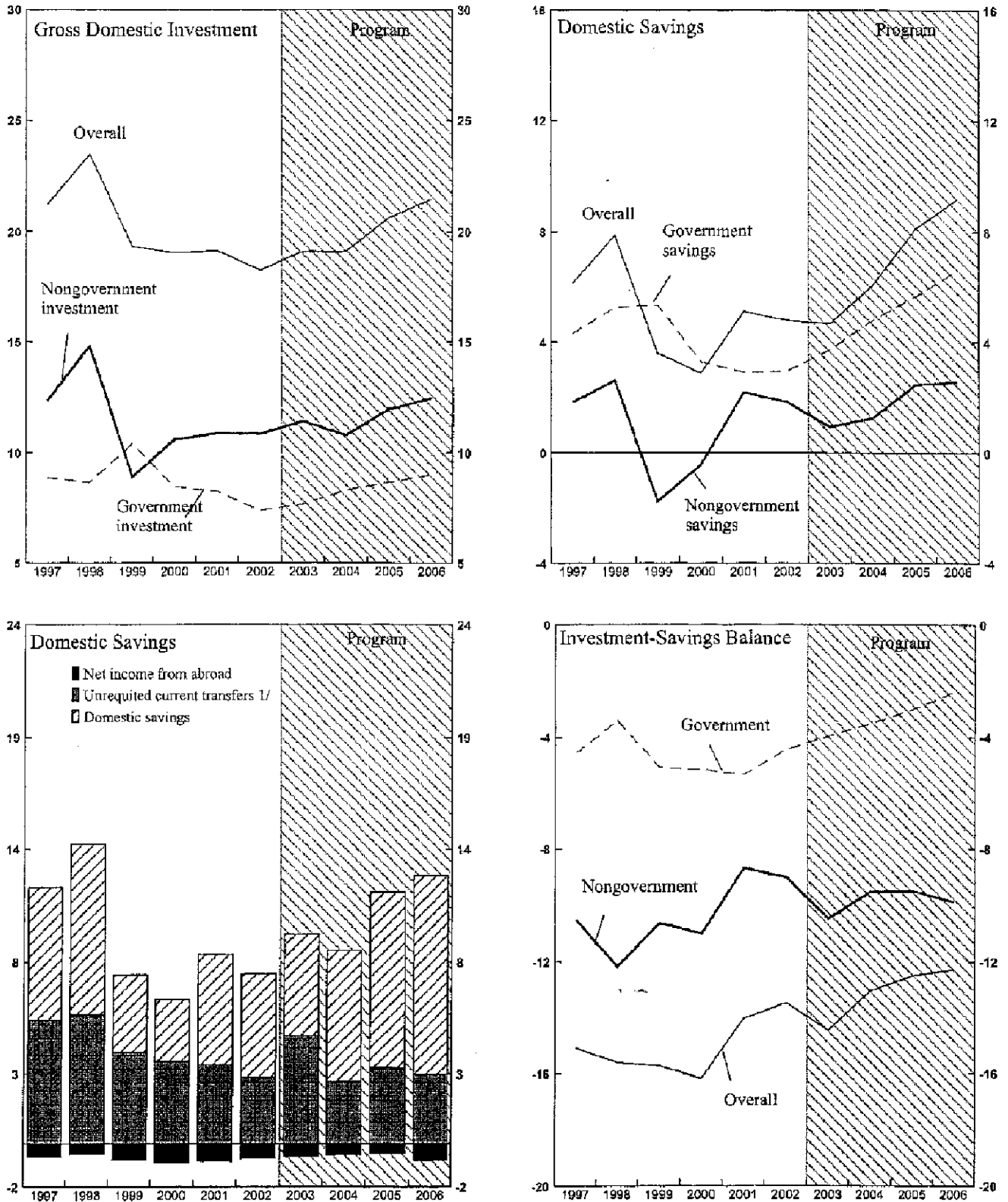


Source: IMF, Information Notice System.

©International Monetary Fund. Not for Redistribution

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

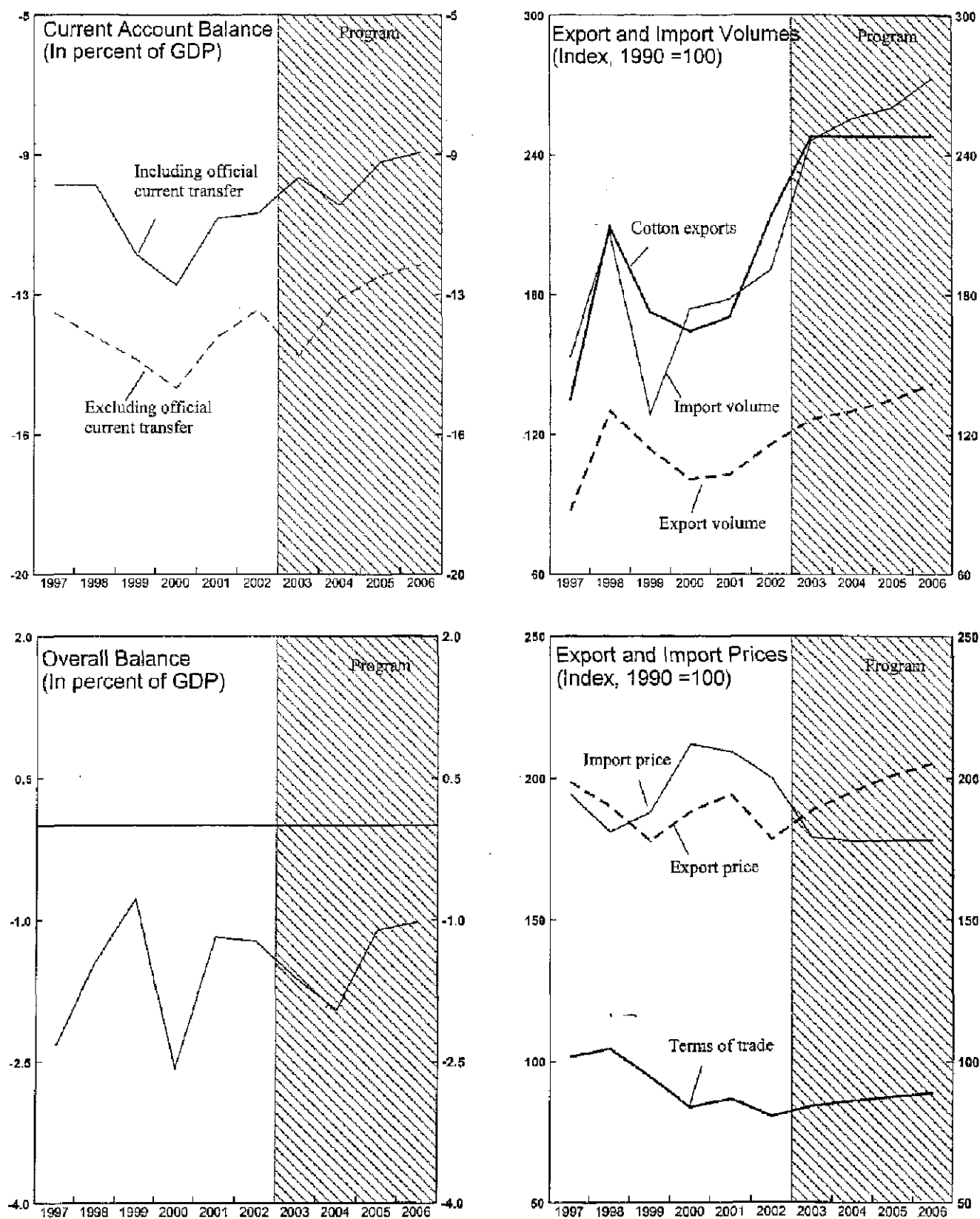
(In percent of GDP)



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)

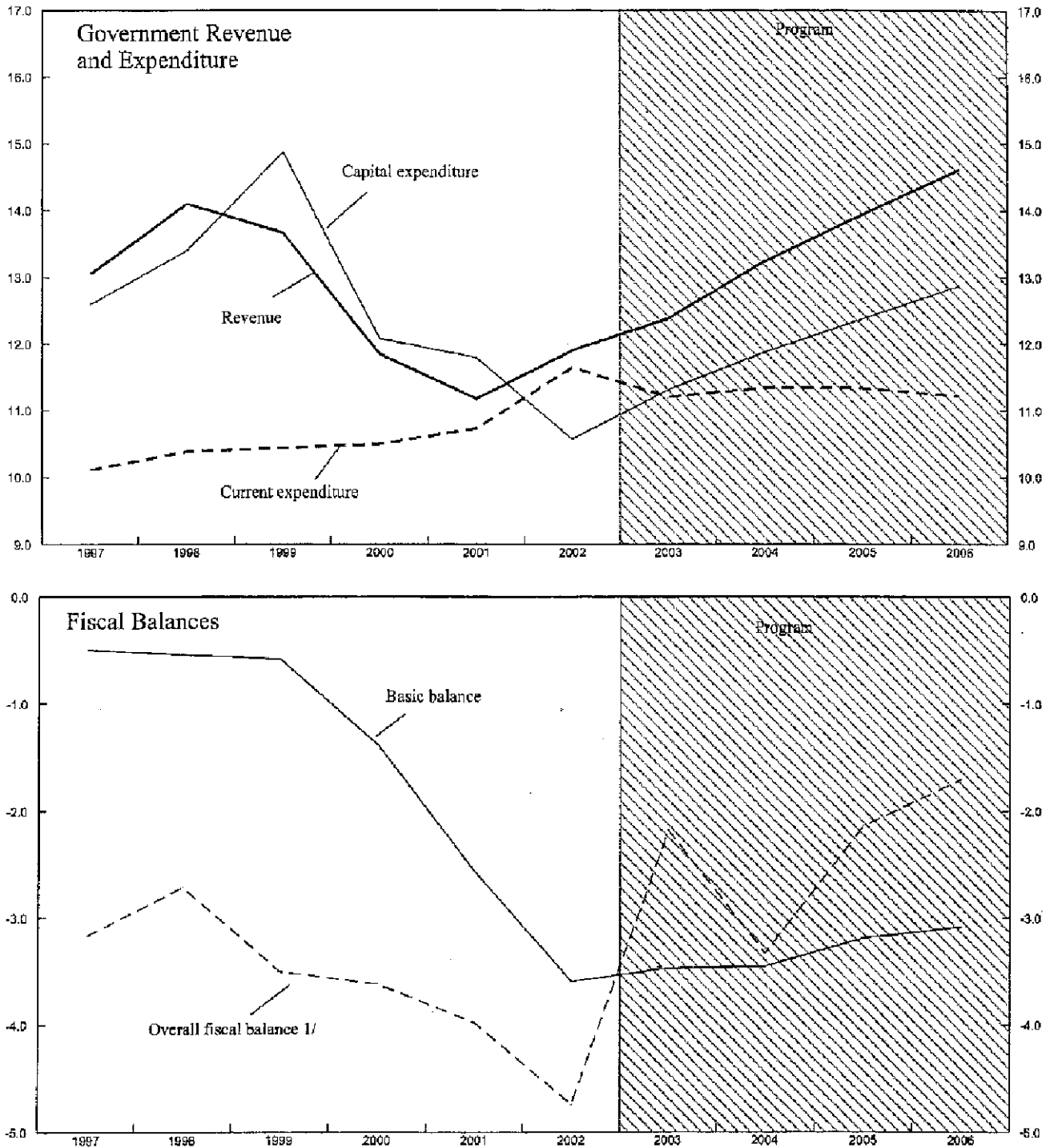


Table 1. Burkina Faso: Proposed Schedule of Disbursements under the PRGF Arrangement, 2003-06

Amount	Available Date	Conditions Necessary for Disbursement 1/
SDR 3.44 million	June 15, 2003	Executive Board approval of the three-year PRGF arrangement
SDR 3.44 million	December 15, 2003	Observance of the performance criteria for September 30, 2003 and completion of the first review under the arrangement
SDR 3.44 million	June 14, 2004	Observance of the performance criteria for March 31, 2004 and completion of the second review under the arrangement
SDR 3.44 million	December 15, 2004	Observance of the performance criteria for September 30, 2004 and completion of the third review under the arrangement
SDR 3.44 million	June 14, 2005	Observance of the performance criteria for March 31, 2005 and completion of the fourth review under the arrangement
SDR 3.44 million	December 15, 2005	Observance of the performance criteria for September 30, 2005 and completion of the fifth review under the arrangement
SDR 3.44 million	June 14, 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 Period of the Proposed PRGF Arrangement, 2003-06

	2002	2003		2004		2005		2006	
	Dec.	Jan.-June	Jul.-Dec.	Jan.-June	Jul.-Dec.	Jan.-June	Jul.-Dec.	Jan.-June	Jul.-Dec.
(In millions of SDRs)									
Poverty Reduction and Growth Facility (PRGF)	0.0	-3.0	-2.7	-3.4	-3.2	-2.9	-2.0	-1.7	-5.0
Loans	0.0	3.4	3.4	3.4	3.4	3.4	3.4	3.4	0.0
Repayments	0.0	6.4	6.2	6.9	6.6	6.3	5.4	5.1	5.0
Total Fund credit outstanding end of period	93.0	90.1	87.3	83.9	80.7	77.9	75.9	74.2	69.2
<i>Of which</i> PRGF	93.0	90.1	87.3	83.9	80.7	77.9	75.9	74.2	69.2
(In percent of quota)									
Total Fund credit outstanding end of period	154.6	149.6	145.1	139.4	134.1	129.3	126.0	123.3	115.0
<i>Of which</i> PRGF	154.6	149.6	145.1	139.4	134.1	129.3	126.0	123.3	115.0

Source: IMF, Finance Department.

Table 3. Burkina Faso: IMF Credit Position and Projected Payments to the IMF, 2002-12 1/

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(In millions of SDRs, unless otherwise indicated)											
Fund credit, net changes	1.0	-5.7	-6.6	-4.8	-6.7	-12.1	-11.5	-10.2	-9.8	-9.5	-6.5
Poverty Reduction and Growth Facility (PRGF) disbursements (+)	11.2	6.9	6.9	6.9	3.4	0.0	0.0	0.0	0.0	0.0	0.0
PRGF repayments (-)	-10.2	-12.6	-13.5	-11.7	-10.1	-12.1	-11.5	-10.2	-9.8	-9.5	-6.5
PRGF charges and interest (-)	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3	-0.2
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)	899.7	830.6	829.0	829.0	829.0	829.0	829.0	829.0	829.0	829.0	829.0
(In billions of CFA francs, unless otherwise indicated)											
Exports of goods and services	189.5	207.3	221.9	238.4	254.2	267.9	282.3	301.4	320.4	340.9	362.7
Tax revenue	240.4	269.4	311.2	352.3	399.4	482.9	538.8	489.6	541.2	598.0	660.4
GDP	2,179.2	2,379.6	2,548.3	2,727.6	2,936.3	3,219.3	3,498.7	3,098.9	3,340.8	3,602.1	3,884.5
Outstanding Fund credit, end of period											
In millions of SDRs	93.0	87.3	80.7	75.9	69.2	57.1	45.6	35.4	25.6	16.1	9.6
In billions of CFA francs	83.7	72.5	66.9	62.9	57.4	47.4	37.8	29.4	21.2	13.4	8.0
In percent of quota	154.6	145.1	134.1	126.0	115.0	94.9	75.8	58.9	42.6	26.8	16.0
Debt service to the Fund											
In millions of SDRs	10.8	13.2	14.1	12.3	10.6	12.6	11.9	10.6	10.1	9.8	6.7
In billions of CFA francs	9.7	11.0	11.7	10.2	8.8	10.4	9.9	8.8	8.4	8.1	5.6
In percent of exports of goods and services	5.1	5.3	5.3	4.3	3.5	3.9	3.5	2.9	2.6	2.4	1.5
In percent of tax revenue	4.1	4.1	3.8	2.9	2.2	2.2	1.8	1.8	1.5	1.4	0.8
In percent of GDP	0.4	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.1

Source: IMF, Finance Department.

1/ Assumes two disbursements of SDR 3.44 million each year from 2003 to 2005 and one disbursement of the same amount in 2006.

Table 4. Burkina Faso: Selected Economic and Financial Indicators, 2000-06

	2000	2001	2002		2003	2004	2005	2006
			Est.	Rev. Prog.	Est.		Prog.	
	(Annual percentage changes, unless otherwise specified)							
GDP and prices								
GDP at constant prices	1.6	4.6	5.7	4.6	2.6	4.0	4.8	5.2
GDP deflator	5.3	5.3	1.7	2.2	6.4	3.0	2.1	2.3
Consumer prices index (annual average)	-0.3	4.9	2.0	2.3	4.5	2.8	2.6	2.4
Consumer prices (end of period)	2.4	1.0	2.0	3.9	5.0	3.0	2.8	2.6
Money and credit								
Net domestic assets (banking system) 1/	8.3	10.0	1.4	-1.2	9.7	5.4	5.4	6.1
Credit to the government 1/	6.8	-4.5	-1.4	-10.6	-0.3	-0.4	-0.2	0.0
Credit to the private sector 1/	8.1	8.0	2.8	10.6	10.0	5.8	5.6	6.1
Broad money (M2)	-1.4	10.7	10.6	0.8	9.2	7.1	7.0	7.7
Velocity (GDP/M2)	4.8	4.8	3.8	5.1	5.1	5.1	5.1	5.1
External sector								
Exports (f.o.b.; valued in CFA francs)	-6.3	11.9	8.1	0.2	8.5	7.5	7.8	6.9
Imports (f.o.b.; valued in CFA francs)	3.1	1.3	1.7	2.3	11.9	1.8	2.7	5.2
Terms of trade	-5.5	11.0	-7.2	-6.7	11.0	4.3	4.1	1.5
Real effective exchange rate (depreciation -)	-4.5	3.3	...	5.2	...	...	...	...
	(In percent of GDP, unless otherwise specified)							
Gross investment	19.0	19.1	28.1	18.3	19.1	19.1	20.6	21.5
Government	8.5	8.3	15.2	7.4	7.7	8.3	8.7	9.0
Nongovernment sector	10.6	10.9	12.9	10.9	11.4	10.8	12.0	12.5
Gross domestic savings	2.9	5.1	13.4	4.8	4.7	6.1	8.1	9.2
Government savings	3.3	2.9	7.0	3.0	3.7	4.8	5.7	6.6
Nongovernment savings	-0.4	2.2	6.4	1.8	0.9	1.3	2.5	2.6
Gross national savings	6.8	8.7	17.8	7.9	9.8	9.0	11.7	12.8
Central government finances								
Tax revenue	11.0	10.5	13.8	11.1	11.4	12.3	13.0	13.6
Current expenditure	10.5	10.7	13.4	11.9	11.3	11.3	11.3	11.2
Overall fiscal balance, excluding grants	-10.9	-11.3	-13.5	-10.4	-11.0	-9.9	-9.5	-9.2
Overall fiscal balance, including grants	-3.6	-4.0	-5.9	-5.0	-2.5	-3.3	-2.1	-1.7
Basic balance 2/	-1.4	-2.6	-4.3	-3.8	-4.5	-3.5	-3.2	-3.1
Excluding use of HIPC Initiative resources	-1.4	-2.2	-2.9	-2.5	-2.1	-2.1	-1.9	-2.1
External sector								
Exports of goods and nonfactor services	9.1	9.3	11.2	8.7	8.7	8.7	8.7	8.7
Imports of goods and nonfactor services	25.3	23.4	26.0	22.2	23.2	21.7	21.2	20.9
Current account balance (excluding current official transfers)	-15.0	-13.6	-14.1	-12.9	-14.2	-12.6	-12.0	-11.7
Current account balance (including current official transfers)	-12.3	-10.5	-10.5	-10.3	-9.4	-10.1	-8.9	-8.7
External debt indicators (before HIPC Initiative)								
Debt-service ratio 3/ 4/	24.5	26.5	25.8	26.4	24.8	23.2	21.2	19.0
Gross official reserves (in months of imports of goods and services)	4.3	4.2	5.3	4.3	3.9	3.7	3.6	3.7
Nominal GDP (in billions of CFA francs)	1,852	2,040	1,834	2,179	2,380	2,548	2,728	2,936

Sources: Burkinabé authorities; and staff estimates and projections.

1/ In percent of beginning-of-period broad money.

2/ 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.

3/ In percent of exports of goods and services.

4/ After traditional debt-relief mechanisms and before original Heavily Indebted Poor Countries (HIPC) Initiative assistance delivered as of end-2001.

Table 1. Burkina Faso: Consolidated Operations of the Central Government, 2000-06

	2000	2001	2002	2003	2004	2005	2006
			Rev. Prog. 1/	Est. 1/	Prog. 1/	Prog. 1/	Prog. 1/
(In billions of CFA francs)							
Total revenue and grants 2/	354.2	376.5	412.7	373.1	494.3	504.6	650.6
Current revenue 2/	219.3	228.0	273.2	239.4	291.7	337.3	425.0
Tax revenue	202.9	213.2	253.9	249.9	271.0	313.7	398.3
Income and profits	61.4	56.1	66.7	61.7	70.5	82.5	107.2
Domestic goods and services	97.7	111.8	139.4	130.2	151.7	175.9	228.7
International trade	38.2	39.2	41.3	42.4	42.0	47.0	50.0
Other	5.7	6.2	6.6	6.6	6.8	8.2	12.4
Nontax revenue	16.4	14.7	19.3	18.5	20.7	23.6	30.7
Capital revenue	0.0	0.0	0.4	0.6	0.0	0.0	0.0
Grants	134.8	148.3	139.2	118.6	202.5	167.3	221.6
Project	111.9	121.1	103.1	88.7	115.4	130.4	161.2
Program	22.9	27.2	34.1	29.9	87.1	36.9	60.4
Expenditure and net lending 3/	421.1	457.5	521.0	486.4	554.2	589.5	709.6
Current expenditures	394.3	218.8	245.8	258.9	269.8	289.9	322.4
Of which: HIPC	0.0	1.7	...	11.0	23.1	13.1	10.2
Wages and salaries	88.7	98.2	104.3	105.0	111.4	118.1	132.7
Goods and services	40.0	40.5	54.8	61.3	66.8	71.3	78.7
Other expenditure	0.0	0.0	0.0	5.1	0.0	0.0	1.0
Interest payments	16.6	17.5	16.4	16.8	14.4	16.0	15.5
Domestic	1.3	5.0	6.3	1.9	4.0	6.3	6.8
External	13.1	12.5	10.1	12.9	10.4	9.7	8.6
Current transfers	49.0	60.1	68.4	70.1	75.6	81.6	101.3
Safety net / oil and gas subsidies	...	2.6	2.0	1.5	1.6	2.0	2.0
Investment expenditure	221.7	240.5	278.5	230.3	261.4	302.6	378.1
Domestically financed	47.5	63.5	110.2	86.7	115.0	138.4	197.1
Of which: HIPC	0.0	4.9	...	17.2	32.5	22.3	17.3
tax component	14.3	17.6	20.7	13.4	11.2	12.0	14.0
Externally financed	176.2	177.1	168.3	143.5	146.4	164.2	181.0
Net lending	3.1	-1.9	-3.3	-2.7	23.0	-2.0	-7.0
Of which: SONABEL	0.0	0.0	0.0	0.0	10.0	...	...
ZACA	0.0	0.0	0.0	0.0	15.0	-5.0	-5.0
Overall surplus/deficit (commitment basis)	-67.0	-81.2	-108.3	-108.3	-59.9	-84.9	-50.0
Excluding grants	-201.8	-229.5	-247.4	-227.0	-162.4	-252.2	-271.6
Basic balance 4/	-25.6	-52.4	-79.2	-83.4	-106.0	-88.0	-90.6
Excluding use of HIPC resources	-25.6	-45.8	-54.0	-55.3	-50.5	-52.6	-63.1
Cash basis adjustment	-7.2	-1.5	-9.3	35.7	-37.0	-13.0	-7.0
Change in payments arrears	0.0	0.0	0.0	-3.3	0.0	0.0	0.0
Domestic	0.0	0.0	0.0	-3.3	0.0	0.0	0.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures committed but not paid 5/	-10.0	14.8	-9.3	12.4	-15.0	0.0	3.0
Of which: HIPC	0.0	1.8	0.0	10.2	0.0	0.0	0.0
Change in treasury's commitment	2.9	3.5	0.0	30.6	-22.0	-13.0	-10.0
HIPC adjustment	-7.1	-21.7	0.0	0.0	0.0	0.0	0.0
Overall deficit (cash basis)	-74.2	-82.6	-116.6	-68.7	-96.9	-97.9	-57.0
Excluding grants	-209.0	-230.9	-255.7	-187.3	-199.4	-265.2	-278.6
Financing	75.3	82.0	116.6	70.4	92.1	70.1	43.2
Foreign	43.6	88.4	108.2	94.1	67.7	57.4	55.8
Drawings	71.4	115.5	135.7	109.8	62.2	92.4	66.6
Project loans	66.5	56.0	63.2	54.8	41.0	33.8	26.7
Adjustment aid	0.0	38.1	47.3	46.0	21.2	58.6	39.9
HIPC Initiative	7.1	26.5	25.2	20.8	36.0	34.1	27.3
Amortization	-27.8	-27.1	-27.3	-27.4	-30.5	-31.7	-31.3
Domestic financing	29.0	-7.4	8.4	-23.8	23.4	-27.6	-12.8
Bank financing	19.8	-11.9	-6.0	-43.8	-1.4	-2.0	0.0
Central bank	23.1	-9.4	-2.5	-36.3	1.8	-2.0	0.0
Of which: HIPC account	0.0	0.0	...	-3.1	19.6	...	...
Commercial banks	-3.3	-2.5	-3.5	-7.5	-3.2	0.0	0.0
Nonbank financing	9.2	4.4	14.3	20.0	24.8	-25.3	-12.6
Government bonds	-5.4	1.4	-9.7	6.1	24.8	-36.8	-22.6
New issues	...	...	...	14.2	37.5	0.0	0.0
Amortization	...	...	...	8.2	32.7	36.8	12.6
Privatization revenue	14.6	5.0	1.5	0.9	0.0	11.5	0.0
Other	0.0	0.0	0.0	13.1	0.0	0.0	0.0
HIPC account	0.0	0.0	22.5	0.0	0.0	0.0	0.0
Debt under discussion 6/	2.6	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-1.1	1.6	0.0	-1.7	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	5.8	27.9	13.8
Memorandum items:							
Poverty-reducing social expenditures	69.9	80.4	64.0	109.2	115.7	164.4	173.8
Of which: education	29.9	35.1	...	42.7	60.5	65.3	70.6
health	23.3	27.3	...	38.5	48.3	52.2	56.4
Military expenditure	26.1	27.0	31.0	33.4	35.0	32.0	34.0
(In percent of GDP, unless otherwise specified)							
Total revenue and grants	19.1	18.4	22.5	17.3	25.0	21.3	22.2
Tax revenue	11.0	10.5	13.8	11.1	11.4	13.0	13.6
Grants	7.3	7.3	7.6	5.4	8.5	6.6	7.5
Expenditure and net lending	22.7	22.4	28.4	22.3	23.5	23.5	23.9
Current expenditure	18.5	19.7	13.4	11.9	11.3	11.3	11.2
Capital expenditure	12.1	11.8	15.2	10.6	11.0	11.9	12.4
Domestically financed	2.5	3.1	6.9	4.0	4.8	5.4	6.7
Foreign financed	9.5	8.7	9.2	6.6	6.2	6.4	5.7
Overall balance (commitment basis)	-3.6	-4.0	-5.9	-5.0	-2.5	-3.3	-1.7
Including grants	-10.9	-11.3	-13.5	-10.4	-11.0	-9.5	-9.2
Excluding grants	-1.4	-2.6	-4.3	-3.8	-4.5	-3.3	-3.1
Basic balance 4/	-1.4	-2.2	-2.0	-2.3	-2.1	-2.9	-2.1
Excluding use of HIPC resources	0.0	0.0	0.0	0.0	0.2	1.1	0.5
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP (in billions of CFA francs)	1,852	2,040	1,824	2,179	2,380	2,548	2,936

Sources: Burkina Faso 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 the 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: (-).

6/ Contingent debt under negotiation with non-Paris Club creditors.

Table 6. Burkina Faso: Fiscal Operations, 2003-04
(in billions of CFA francs)

	2003				2004 March
	March	June	Sep.	Dec.	
Total revenue and grants	87.3	204.6	331.8	494.3	85.3
Current revenue	58.1	136.3	209.2	291.7	69.0
Tax revenue	55.2	128.4	195.1	271.0	64.1
Income and profits	10.4	31.1	50.3	70.5	16.9
Domestic goods and services	34.2	74.3	109.2	151.7	36.0
International trade	9.1	19.8	30.5	42.0	9.6
Other tax revenue	1.5	3.2	5.1	6.8	1.7
Nontax revenue	2.9	7.9	14.1	20.7	4.8
Capital revenue	0.0	0.0	0.0	0.0	0.0
Grants	29.2	68.3	122.5	202.5	16.3
Project	26.0	55.9	83.4	115.4	16.3
Program	3.2	12.5	39.1	87.1	0.0
Expenditure and net lending	108.1	274.7	403.4	554.2	119.3
Current expenditures	62.0	140.3	205.4	269.8	69.3
Wages and salaries	25.2	55.3	84.1	111.4	28.3
Goods and services	16.2	38.5	52.8	66.8	17.1
Interest payments	2.6	6.2	9.9	14.4	3.8
Domestic	0.3	1.3	2.6	4.0	1.5
External	2.3	4.9	7.3	10.4	2.3
Current transfers	17.6	39.5	57.4	75.6	19.6
Safety net / oil and gaz subsidies	0.4	0.8	1.2	1.6	0.5
Investment expenditures	46.6	110.4	174.5	261.4	50.4
Domestically financed	10.7	34.2	60.3	115.0	26.0
Of which : tax component	1.0	3.1	5.4	11.2	2.2
Externally financed	35.8	76.1	114.2	146.4	24.4
Net lending	-0.5	24.0	23.5	23.0	-0.5
Overall surplus/deficit (commitment basis)	-20.8	-70.0	-71.6	-59.9	-34.0
Excluding grants	-50.0	-138.3	-194.1	-262.4	-50.3
Basic balance	-14.1	-52.2	-70.0	-106.0	-23.9
Cash basis adjustment	-3.0	5.0	3.0	-37.0	0.0
Change in payments arrears	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.0	0.0	0.0	0.0
External	0.0	0.0	0.0	0.0	0.0
Expenditures committed but not paid	2.0	12.0	15.0	-15.0	0.0
Change in treasury's commitments	-3.0	-7.0	-12.0	-22.0	0.0
Overall deficit (cash basis)	-23.8	-65.0	-68.6	-96.9	-34.0
Excluding grants	-53.0	-133.3	-191.1	-299.4	-50.3
Financing	23.7	65.1	68.6	91.1	24.6
Foreign financing	11.0	22.9	34.8	67.7	0.8
Drawings	17.4	37.6	55.8	98.2	8.1
Project loans	9.8	20.3	30.8	41.0	8.1
Adjustment aid	0.0	0.0	0.0	21.2	0.0
HIPC Initiative	7.6	17.3	25.0	36.0	0.0
Amortization	-6.4	-14.7	-21.0	-30.5	-7.3
Domestic financing	12.7	42.2	33.8	23.4	23.8
Bank financing	14.7	21.2	6.7	-1.4	23.8
Central bank	15.5	22.8	9.2	1.8	23.8
Commercial banks	-0.8	-1.6	-2.4	-3.2	0.0
Nonbank financing	-2.0	21.0	27.1	24.8	0.0
Government bonds	-2.0	21.0	27.1	24.8	0.0
Privatization revenue	0.0	0.0	0.0	0.0	0.0
Debt under discussion	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	5.8	9.4

Sources: Burkinabè authorities; and staff estimates and projections.

Table 7. 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
					Progr.		
Initiative for Heavily Indebted Poor Countries (HIPC Initiative) assistance given							
A. Interest due before HIPC Initiative assistance	13.1	12.5	12.9	10.4	9.7	9.2	8.6
B. Interest paid before HIPC Initiative assistance	13.1	12.5	12.9	10.4	9.7	9.2	8.6
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	10.2	9.3	8.7	6.3
E. Amortization due before HIPC Initiative assistance	27.8	27.1	27.4	30.5	30.5	31.7	31.3
F. Amortization paid before HIPC Initiative assistance	27.8	27.1	27.4	30.5	30.5	31.7	31.3
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	30.5	30.5	31.7	31.3
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	36.0	35.4	34.1	27.5
Total HIPC Initiative assistance (C+G+H+J)	7.1	26.5	20.8	36.2	35.8	34.6	29.8
Total HIPC Initiative assistance (in millions of U.S. dollars)	10.0	36.2	29.9	60.1	59.5	57.6	49.6
Net cash flow to the budget from HIPC Initiative assistance (B+F-(D+H-I-J))	7.1	26.5	20.8	36.2	35.8	34.6	29.8
Memorandum items:							
Other donor flows	201.5	237.3	219.4	264.8	259.7	267.7	281.3
Total net external flows (net external financing less debt service due)	160.4	197.7	179.1	223.8	219.5	220.8	241.4
Poverty reduction government expenditures 1/							
Baseline pre-HIPC Initiative assistance expenditure projections	85.9	73.9	57.0	...	...	...	...
Post-HIPC Initiative assistance expenditure projections	85.9	90.4	109.2	155.7	164.4	164.4	173.8
Memorandum items:							
Tax revenue (in percent of GDP)	11.0	10.6	11.1	11.4	12.3	13.0	13.6
Overall fiscal balance before HIPC Initiative assistance (in percent of GDP)	-4.0	-5.3	-4.1	-5.6	-5.2	-3.7	-3.0
Overall fiscal balance after HIPC Initiative assistance (in percent of GDP)	-3.6	-4.0	-5.0	-2.5	-3.3	-2.1	-1.7

Sources: Burkinabe authorities; and staff estimates and projections.

1/ Excludes foreign-financed investment.

Table 8. Burkina Faso: Poverty-Reducing Social Expenditures, 1996-2003 1/

	1996	1997	1998	1999	2000	2001	2002	2003 Progr.
(As a percentage of total expenditure)								
Total poverty-reducing social expenditure	20.7	19.8	19.4	16.0	16.6	17.6	22.5	23.5
Current	11.5	10.8	10.2	13.3	14.4	14.2	15.9	18.1
Capital	9.2	9.0	9.1	2.7	2.2	3.4	6.6	9.4
Health	10.8	9.5	9.0	5.5	5.5	6.0	7.9	8.6
Current expenditure	4.6	4.7	4.6	4.6	4.9	5.3	6.5	6.5
Capital expenditure	6.3	4.9	4.5	0.9	0.6	0.7	1.4	1.9
Education	8.6	9.5	9.3	6.7	7.1	7.7	8.8	10.7
Current expenditure	6.2	5.6	5.0	6.0	6.6	6.5	6.3	7.4
Capital expenditure	2.4	3.9	4.3	0.7	0.5	1.2	2.5	3.3
Women's welfare and other poverty-reducing social expenditure	1.3	0.8	1.0	0.8	0.8	3.5	5.4	7.5
Current expenditure	0.7	0.6	0.6	0.7	0.7	2.4	3.1	4.7
Capital expenditure	0.6	0.2	0.4	0.1	0.1	1.1	2.3	3.3
Rural roads (capital)	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.8
(As a percentage of GDP)								
Total poverty-reducing social expenditure	4.6	4.8	4.7	4.0	3.8	3.9	5.0	6.5
Current	2.5	2.6	2.5	3.4	3.3	3.2	3.5	4.3
Capital	2.0	2.2	2.2	0.7	0.5	0.8	1.5	2.2
Health	2.4	2.3	2.2	1.4	1.3	1.3	1.8	2.0
Current expenditure	1.0	1.1	1.1	1.2	1.1	1.2	1.4	1.6
Capital expenditure	1.4	1.2	1.1	0.2	0.1	0.2	0.3	0.5
Domestic resources	0.1	0.1	0.2	0.2	0.2	0.2	0.5	0.4
External expenditure	1.3	1.1	0.8	0.9	0.6	0.7	-0.1	0.0
Education	1.9	2.3	2.3	1.7	1.6	1.7	2.0	2.5
Current expenditure	1.4	1.4	1.2	1.5	1.5	1.5	1.4	1.8
Capital expenditure	0.5	1.0	1.0	0.2	0.1	0.2	0.6	0.8
Domestic resources	0.1	0.1	0.2	0.2	0.1	0.3	0.9	0.9
External expenditure	0.4	0.8	0.9	0.7	0.8	0.8	-0.3	0.0
Women's welfare and other poverty-reducing social expenditure	0.3	0.2	0.2	0.2	0.2	0.8	1.2	1.8
Current expenditure	0.2	0.1	0.1	0.2	0.2	0.5	0.7	1.1
Capital expenditure	0.1	0.0	0.1	0.0	0.0	0.3	0.5	0.8
Rural roads (capital)	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2

Sources: Burkinabé authorities; and staff estimates and projections.

1/ Including use of HIPC Initiative resources.

Table 9. Burkina Faso: Monetary Survey, 2001-04

	2001	2002	2003				2004
	Dec.	Dec.	Mar.	June	Sept.	Dec.	Dec.
	Est.	Est.	Prog.	Prog.	Prog.	Prog.	Prog.
(In billions of CFA francs)							
Net foreign assets	128.1	136.5	136.0	135.5	135.0	134.4	142.3
Central Bank of West African States (BCEAO)	76.5	77.6	77.0	76.5	76.0	75.4	83.3
Assets	194.0	185.3	183.6	181.8	180.1	178.4	180.8
Liabilities	117.5	107.7	106.5	105.4	104.2	103.0	97.5
Commercial banks	51.6	59.0	59.0	59.0	59.0	59.0	59.0
Net domestic assets	296.2	291.1	301.5	311.8	322.2	332.5	357.8
Net domestic credit	308.4	308.4	333.9	351.1	347.4	349.9	375.1
Net credit to government	58.8	13.7	28.4	34.9	20.5	12.2	10.2
Treasury	101.9	69.4	84.1	90.6	76.2	68.0	66.0
BCEAO	74.2	36.4	51.9	59.2	45.6	38.2	36.2
Commercial banks	27.7	33.0	32.2	31.4	30.6	29.8	29.8
Other central government	-43.1	-55.7	-55.7	-55.7	-55.7	-55.7	-55.7
Of which: project deposits	-25.2	-25.2	-25.2	-25.2	-25.2	-25.2	-25.2
Credit to the economy	249.6	294.8	305.5	316.2	326.9	337.7	364.9
Of which: crop credit	38.3	47.6	49.4	51.2	53.0	54.8	59.3
Other items (net)	-12.2	-17.3	-32.4	-39.3	-25.2	-17.3	-17.3
Broad money	424.4	427.7	437.5	447.3	457.1	467.0	500.1
Of which: currency in circulation	120.6	80.7	82.8	84.9	87.0	89.1	96.3
(Changes in percent of beginning-of-period of broad money, unless otherwise specified)							
Memorandum items:							
Net foreign assets	0.6	2.0	-0.1	-0.1	-0.1	-0.5	1.7
Net domestic assets	10.0	-1.2	2.4	2.4	2.3	9.7	5.4
Net credit to government	-4.5	-10.6	3.4	1.5	-3.2	-0.3	-0.4
Credit to the economy	8.0	10.6	2.5	2.5	2.4	10.0	5.8
(annual percentage change)	14.1	18.1	3.6	3.5	3.4	14.5	8.1
Money supply	10.7	0.8	2.3	2.2	2.2	9.2	7.1
Currency velocity (GDP/broad money)	4.8	5.1	5.1	5.1	5.1	5.1	5.1

Sources: Burkina Faso authorities; and staff estimates and projections.

Table 10. Burkina Faso: Balance of Payments, 2000-08

	2000	2001	2002		2003	2004	2005	2006	2007	2008
			Prog	Est.			Prog			
(In billions of CFA francs)										
Exports, f.o.b.	146.4	163.8	182.6	164.2	178.1	191.6	206.6	230.7	232.1	244.5
Of which: cotton	72.2	96.0	108.9	88.8	110.0	112.5	117.8	119.3	126.6	133.1
gold	6.2	2.2	2.3	3.9	8.1	10.6	13.3	13.4	13.1	13.0
Imports, f.o.b.	-368.6	-373.3	-379.4	-381.7	-427.2	-435.1	-446.7	-469.8	-497.7	-524.9
Of which: capital goods	-122.8	-115.5	-113.4	-124.3	-145.9	-145.1	-151.6	-156.2	-158.2	-180.0
Trade balance	-222.2	-209.5	-196.8	-217.5	-249.1	-243.5	-240.1	-239.1	-265.6	-280.3
Services and income (net)	-91.5	-94.6	-85.3	-89.0	-106.6	-100.0	-111.9	-122.2	-129.0	-145.6
Services	-77.3	-76.7	-72.1	-75.9	-94.6	-88.6	-100.8	-111.6	-118.6	-135.1
Income	-14.3	-17.9	-13.2	-13.1	-11.9	-11.4	-11.0	-10.6	-10.4	-10.5
Of which: interest payments	-13.2	-15.8	-12.5	-13.8	-10.4	-9.7	-9.2	-8.6	-7.8	-7.3
Of which: budget	-13.1	-12.5	-11.5	-12.9	-10.4	-9.7	-9.2	-8.6	-7.8	-7.3
Current transfers (net)	86.8	90.8	90.4	81.7	133.1	86.3	108.0	116.0	126.4	137.2
Private	35.6	25.8	24.3	25.0	18.9	22.0	25.1	27.8	32.8	38.3
Of which: workers' remittances (gross)	44.5	32.0	32.1	30.0	24.4	27.9	31.3	34.7	38.3	42.5
Official	51.2	65.0	66.1	56.7	114.2	64.2	82.9	88.3	93.6	98.9
Of which: budgetary (program grants) 1/	22.9	27.2	34.1	29.9	87.1	36.9	55.4	60.4	65.4	70.4
Current account (deficit= -)	-227.0	-213.3	-191.7	-234.8	-222.6	-257.3	-244.0	-255.2	-268.2	-288.7
Excluding current official transfers	-278.1	-278.3	-257.9	-281.5	-336.8	-321.5	-326.9	-343.5	-361.8	-387.6
Capital transfers	115.4	126.0	108.5	92.1	119.0	134.1	149.6	165.3	175.5	185.8
Project grants	111.9	121.1	105.1	88.7	115.4	130.4	145.7	161.2	171.2	181.2
Other capital transfers	3.5	5.0	3.4	3.4	3.6	3.7	3.9	4.1	4.3	4.6
Financial operations	69.3	80.2	95.5	116.6	63.4	73.5	64.2	59.9	73.0	85.8
Official capital	39.5	63.7	81.0	73.9	31.7	61.9	34.9	28.4	38.6	43.7
Disbursements	60.7	89.1	110.5	101.3	62.2	92.4	66.6	59.7	60.0	64.0
Project loans	66.5	56.0	63.2	54.8	41.0	33.8	26.7	19.8	30.0	32.0
Program loans 1/	0.0	33.1	47.3	46.0	21.2	58.6	39.9	39.9	30.0	32.0
Amortization	-21.2	-25.4	-27.4	-27.4	-30.5	-30.5	-31.7	-31.3	-21.4	-20.3
Government securities 2/				14.3	14.9	-19.6	-5.0	-5.0	6.0	0.0
Private capital 3/	29.8	16.5	14.5	28.5	18.8	31.2	34.2	36.5	39.3	42.1
Errors and omissions	-5.3	-17.0	0.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-47.5	-24.1	12.3	-26.6	-38.2	-49.7	-30.2	-30.0	-19.7	17.2
Financing	47.5	24.1	-12.3	12.4	32.4	21.9	20.2	16.2	8.6	5.9
Net foreign assets	37.7	-2.4	-37.5	-8.4	2.1	-7.9	-8.2	-8.4	-13.9	-15.4
Net official reserves 4/	37.6	-22.5	-37.5	-1.0	2.1	-7.9	-8.2	-8.4	-13.9	-15.4
Of which: gross official reserves	39.3	-28.7	-37.8	-2.3	6.9	-2.4	-4.2	-2.9	-3.9	-5.8
IMF (net)	-1.7	6.2	0.4	1.3	-10.5	-11.2	-9.7	-8.4	-10.0	-9.5
Use of resources 5/	5.2	15.6	10.3	10.0	-	-	-	-	-	-
Repayments	-7.0	-9.4	-9.9	-8.3	-10.5	-11.2	-9.7	-8.4	-10.0	-9.5
Net foreign assets, commercial banks	9.2	20.1	0.0	-7.4	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
HIPC Initiative	7.2	26.5	25.3	20.8	36.0	35.4	34.1	27.5	22.5	21.3
Debt under discussion 6/	2.6	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	0.0	5.8	27.9	9.9	13.8	11.1	11.3
Memorandum items	(In percent of GDP)									
Trade balance (deficit= -)	-12.0	-10.3	-10.7	-10.0	-10.5	-9.6	-8.8	-8.5	-8.2	-8.0
Cotton export volume (thousands of metric tons)	109.1	113.3	164.1	141.9	164.6	164.6	164.6	164.6	171.5	178.7
Current account (deficit= -)	-12.3	-10.5	-10.5	-10.3	-9.4	-10.1	-8.9	-8.7	-8.3	-8.3
Excluding current official transfers	-15.0	-13.6	-14.1	-12.9	-14.2	-12.6	-12.0	-11.7	-11.2	-11.1
Overall balance (deficit= -)	-2.6	-1.2	0.7	-1.2	-1.6	-2.0	-1.1	-1.0	-0.6	-0.5
Total debt-service ratio before HIPC 8/	24.5	26.5	25.8	26.4	24.8	23.2	21.2	19.0	14.6	13.2
Total debt-service ratio after HIPC 8/	20.3	12.6	...	15.4	7.2	6.9	8.2	6.2	5.6	4.4
Gross international reserves (in billions of CFA francs)	171.3	194.0	221.5	196.3	189.4	191.8	196.0	198.9	212.8	228.2
In months of imports of goods, e.i.f.	5.5	6.1	6.6	5.5	5.2	5.2	5.0	4.8	4.9	5.0
In months of imports of goods and services	4.3	4.2	5.3	4.3	3.9	3.7	3.6	3.7	3.7	3.7
GDP at current prices (in billions of CFA francs)	1,852	2,040	1,834	2,179	2,380	2,548	2,728	2,936	3,219	3,499

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

1/ The World Bank program loans have been reclassified to budgetary program grants from 2003 onward.

2/ Outstanding government bonds and T-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 2003-06, does not include the increase in liabilities owing to possible IMF disbursements.

5/ In 2003-06, IMF financing is included in the financing gap.

6/ Contentious debt in negotiation with non-Paris Club creditors.

7/ Includes IMF financing in 2003-06.

8/ In percent of exports of goods and services.

Table 11. Burkina Faso: External Financing Requirements, 2003-06

(In billions of CFA francs)

	2003	2004	2005	2006
External financing requirements	370.8	365.6	372.5	386.1
Current account, excluding current official transfers and interest payments	326.3	311.9	317.7	334.9
Interest payments	10.4	9.7	9.2	8.6
Amortization	30.5	30.5	31.7	31.3
Fund repurchases	10.5	11.2	9.7	8.4
Increase in external reserves	-6.9	2.4	4.2	2.9
Change in arrears	0.0	0.0	0.0	0.0
Government securities 1/	14.9	-19.6	-5.0	-5.0
Private capital, net	18.8	31.2	34.2	36.5
Net external financing requirements	337.2	354.1	343.3	354.6
Financing	337.2	354.1	343.3	354.6
Disbursements	295.4	290.8	299.2	313.3
Loans	62.2	92.4	66.6	59.7
Project loans	41.0	33.8	26.7	19.8
Program loans	21.2	58.6	39.9	39.9
Official transfers	233.2	198.3	232.6	253.6
Project grants	115.4	130.4	145.7	161.2
Program grants	87.1	36.9	55.4	60.4
Other current transfers	27.1	27.3	27.6	27.9
Other capital transfers	3.6	3.7	3.9	4.1
HIPC Initiative assistance 2/	36.0	35.4	34.1	27.5
Financing gap	5.8	27.9	9.9	13.8
Memorandum items:				
New program assistance disbursements and debt relief				
Multilateral	93.3	90.1	96.4	101.8
IMF disbursements	5.7	5.7	5.7	2.9
World Bank	30.1	36.1	36.1	36.0
European Union	36.3	27.1	33.4	41.7
African Development Bank	21.2	21.2	21.2	21.2
HIPC Initiative	36.0	35.4	34.1	27.5
Bilateral	20.7	11.1	4.5	1.3

Sources: Burkinabe authorities; and staff estimates and projections.

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

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

Table 12. 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
Organization of Petroleum Exporting Countries Fund	yes	limited	limited	pending	no	no	pending	pending
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: Burkina Faso 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 13. 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/}	Status ^{3/}	Progress to Date on Action Plans and Indicated Improvements (Outcomes)
(from AAP)			
Budget formulation			
Composition of budget entity	Apply WAEMU guidelines on public finances, including to local governments (M)	NS	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 (S)	II	The government will convert its expenditure management system to the new classification in 2003 and apply the new classification 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 multi-year expenditure projections	n.a., meets benchmark		The MTEF is fully integrated in the budget cycle and includes HIPC resources.
Budget executive			
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 13. 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 as functional classification 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.
<p>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 has 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 does reflect only certain elements of the government's public expenditure reform program.</p> <p>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 2-3 years.</p> <p>3/ Degree of implementation, i.e. whether implementation has been initiated (II), is not yet started (NS), or is complete (FI, for fully implemented).</p>			

Table 14. 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.

Table 15. Burkina Faso: External Public Debt, 2002-2006
(In millions of U.S. dollars, unless otherwise indicated)

	2002	2003	2004	2005	2006
	Est.			Proj.	
Debt disbursed until end-2001					
A. Stock of debt (beginning of period)	1,343.6	1,249.9	1,183.9	1,116.8	1,050.3
Multilateral creditors	1,174.4	1,125.7	1,076.5	1,025.0	973.5
Bilateral creditors	169.2	124.2	107.4	91.8	76.7
Paris Club	66.9	30.7	28.3	26.1	23.1
Other	102.3	93.5	79.2	65.7	53.6
B. Amortizations (before HIPC debt relief) 1/	-57.7	-65.9	-67.1	-66.6	-64.0
Multilateral creditors	-48.7	-49.2	-51.5	-51.5	-49.1
Bilateral creditors	-9.0	-16.7	-15.6	-15.1	-14.9
Paris Club	-0.2	-2.4	-2.1	-3.1	-3.5
Other	-8.8	-14.3	-13.5	-12.1	-11.4
C. Debt stock cancellation	-36.0	0.0	0.0	0.0	0.0
Multilateral creditors	0.0	0.0	0.0	0.0	0.0
Bilateral creditors	-36.0	0.0	0.0	0.0	0.0
Paris Club	-36.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
D. Stock of debt (end of period) (A+B+C)	1,249.9	1,183.9	1,116.8	1,050.3	986.2
Multilateral creditors	1,125.7	1,076.5	1,025.0	973.5	924.5
Bilateral creditors	124.2	107.4	91.8	76.7	61.8
Paris Club	30.7	28.3	26.1	23.1	19.6
Other	93.5	79.2	65.7	53.6	42.2

Sources: Burkinabe authorities; and staff estimates and projections.

1/ In 2003-06, amortizations apply only to debt disbursed until 2001.

Table 16. Burkina Faso: New External Borrowing and Debt Indicators, 2002-15

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

	2002	2003	2004	2005	2006	2009	2011	2013	2015
	Est.				Proj.				
Annual disbursements	145.0	103.2	177.6	122.9	114.9	120.9	125.7	125.7	125.7
Projected project loans	78.9	68.0	56.1	44.4	33.0	55.2	56.8	56.8	56.8
Projected program loans	66.1	35.2	97.4	66.4	66.5	56.8	60.2	60.2	60.2
Remaining financing needs (loans)	0.0	0.0	24.1	12.1	15.4	8.9	8.7	8.7	8.7
Cumulative disbursements	145.0	248.3	425.9	548.8	663.7	1,011.4	1,262.8	1,514.2	1,765.6
Net Present Value (NPV) of outstanding debt disbursed before end-2001	387.3	391.7	394.7	396.7	391.9	373.6	379.8	379.8	379.8
NPV of debt disbursed as of 2002	75.7	132.4	228.8	300.1	368.8	571.5	702.3	823.4	940.7
NPV of debt	463.0	524.1	623.5	696.8	760.7	945.1	1,082.1	1,203.2	1,320.5
NPV of debt/Government revenue (in percent) 1/	124.0	108.3	111.3	110.2	106.3	91.0	95.2	56.6	41.8
NPV of debt/GDP (in percent)	14.8	13.3	14.7	15.4	15.5	18.2	18.0	17.2	16.2
NPV of debt/Exports of goods and services (in percent)	169.8	152.4	169.2	175.7	179.5	187.5	189.9	186.5	180.4

Sources: Burkina Faso authorities; and staff estimates and projections.

1/ Government revenue, excluding grants.

Table 17. *Burkina Faso: External Debt Service by Creditor, 2002-06*
(In thousands of U.S. dollars, unless otherwise indicated)

	2002					2003				
	Amortization	Interest	HIPC debt	HIPC debt	Debt service	Amortization	Interest	HIPC debt	HIPC debt	Debt service
	due	due	relief	relief	after HIPC	due	due	relief	relief	after HIPC
			amortization	interest	relief			amortization	interest	relief
Multilateral 1/	48,726	15,724	24,366	7,957	32,127	49,193	11,280	23,524	6,171	20,778
AFDF	3,676	2,741	3,417	2,085	915	3,433	1,669	2,458	1,331	1,313
AFDB	2,413	374	1,998	345	445	1,745	252	1,596	202	400
ASBCNA	314	72	0	0	385	0	0	0	0	0
BADEA	1,916	1,331	0	366	2,882	4,717	1,071	4,717	1,071	0
BOAD	1,288	850	833	658	647	1,289	413	258	87	1,378
ECOWAS	465	416	0	0	880	495	212	0	0	717
EIB	1,503	229	1,086	115	531	2,831	357	1,093	152	1,943
EU-IDA	115	2	0	0	116	161	32	81	16	97
IDA	14,755	6,750	10,152	3,727	7,626	9,230	4,669	4,615	2,334	6,949
IFAD	681	357	681	357	0	421	285	421	285	0
IMF	14,034	413	6,198	104	8,144	17,363	841	14,028	0	4,173
IsDB	3,724	1,077	0	0	4,801	3,739	0	1,849	0	1,911
OPEC Fund	3,843	913	0	0	4,756	3,749	1,452	2,610	695	1,896
Bilateral	9,609	5,168	73	843	13,261	16,733	5,441	14,237	4,008	3,929
Paris Club	189	1,592	73	791	918	2,434	1,970	2,244	1,740	420
Austria	20	26	0	0	45	38	80	38	80	0
France	0	653	0	380	276	2,265	1,211	2,081	1,102	292
Italy	78	174	40	87	125	73	143	73	143	0
Netherlands	4	358	3	136	222	19	275	17	339	38
Russia	49	15	0	0	64	16	78	14	24	6
Spain	37	260	27	121	148	17	136	14	54	85
United Kingdom	2	93	2	57	38	7	98	7	98	0
Other	8,820	3,575	0	52	12,343	14,299	3,470	11,993	2,268	3,508
Algeria	0	0	0	0	0	845	51	0	0	895
China	0	0	0	0	0	951	0	951	0	0
Côte d'Ivoire	0	0	0	0	0	3,493	0	3,493	0	0
Kuwait	854	1,053	0	52	1,866	2,516	1,200	1,056	447	2,212
Lybia (government)	0	0	0	0	0	600	0	600	0	0
Libyan Foreign Bank	192	37	0	0	229	161	22	161	0	22
Saudi Arabia	2,911	434	0	0	3,344	1,732	482	1,732	220	262
SIREXM 2/	1,221	0	0	0	1,221	1	0	0	0	1
Taiwan, Province of C	3,643	2,041	0	0	5,683	3,999	1,716	3,999	1,600	116
Total	57,735	20,892	24,439	8,800	45,389	65,926	16,721	47,761	10,180	24,707
Of which: IMF	14,034	413	6,198	104	8,144	17,363	841	14,028	0	4,173
(in billions CFA francs)	36.12	13.07	15.29	5.50	28.39	39.74	10.08	28.79	6.14	14.89
Of which: IMF	8.78	0.26	3.88	0.07	5.09	10.47	0.51	8.46	0.00	2.52

Table 17 Burkina Faso, External Debt Service by Creditor, 2002-06 (continued)

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

	2004					2005				
	Amortization	Interest	HIPC debt	HIPC debt	Debt service	Amortization	Interest	HIPC debt	HIPC debt	Debt service
	due	due	relief	relief	after HIPC	due	due	relief	relief	after HIPC
	amortization	interest	relief	relief	relief	amortization	interest	relief	relief	relief
Multilateral IF	51,465	10,512	34,300	5,703	21,978	51,471	9,803	33,899	5,293	22,081
AfDB	3,773	1,643	2,730	1,312	3,374	3,723	1,615	2,978	1,292	1,063
AfDB	873	92	698	73	192	0	0	0	0	0
ASPCNA	0	1	0	0	1	0	0	0	0	1
BADEA	5,034	902	5,034	902	0	6,301	740	5,034	740	1,247
BOAD	1,187	363	237	73	1,240	978	299	194	60	1,077
ECOWAS	545	189	0	0	734	545	135	0	0	699
EBF	2,871	316	1,997	133	1,920	2,780	277	1,063	116	1,379
EU-IDA	161	31	81	15	96	161	30	81	15	96
IDA	10,038	4,596	5,044	2,298	7,342	11,870	4,319	5,945	2,250	8,194
IFAD	421	280	421	280	0	486	276	686	276	0
IMF	15,566	757	14,021	0	5,302	16,173	682	12,699	0	4,136
IsDB	1,947	0	2,436	0	1,911	4,280	0	2,490	0	1,911
OPIC Fund	4,023	1,343	2,886	617	1,865	4,059	1,230	2,920	535	1,834
Bilateral	15,612	5,036	13,322	3,628	3,697	15,121	4,937	12,197	3,558	4,308
Paris Club	2,143	1,840	1,314	1,616	1,053	3,056	1,738	1,589	1,574	1,681
Austria	43	80	43	80	0	48	79	48	79	0
France	1,298	1,067	1,115	982	288	1,534	1,047	1,310	946	284
Italy	87	142	83	142	0	93	141	93	141	0
Netherlands	34	273	30	238	40	51	271	44	236	42
Roumania	18	27	15	24	6	20	27	17	24	6
Spain	655	134	16	93	719	1,293	127	18	53	1,349
United Kingdom	12	98	12	98	0	18	97	18	97	0
Other	13,469	3,193	12,007	2,012	2,644	12,065	3,140	10,604	1,984	2,626
Algeria	0	0	0	0	0	0	0	0	0	0
China	951	0	951	0	0	528	0	528	0	0
Côte d'Ivoire	3,493	0	3,493	0	0	3,493	0	3,493	0	0
Kuwait	3,116	1,153	1,656	428	2,185	3,116	1,096	1,656	397	2,160
Lybia (government)	600	0	600	0	0	0	0	0	0	0
Lybian Foreign Bank	161	13	161	0	13	81	5	81	0	5
Saudi Arabia	1,746	449	1,746	187	262	1,390	416	1,390	154	262
SJREXIM 2/	1	0	0	0	1	1	0	0	0	1
Taiwan Province of China	3,490	1,980	3,490	1,397	133	3,455	1,632	5,455	3,433	199
Total	67,081	15,548	47,621	9,331	25,676	66,592	14,740	46,092	8,851	26,389
Of which: IMF	15,566	757	14,021	0	5,302	16,173	682	12,699	0	4,136
(in billions of CFAF)	40.79	9.36	28.67	5.62	15.46	40.03	8.86	27.71	5.92	13.86
Of which: IMF	11.18	0.46	8.44	0.00	3.19	9.72	0.40	7.53	0.00	2.49

Table 27. *Burkina Faso: External Debt Service by Creditor, 2002-06 (concluded)*

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

	2006				
	Amortization	Interest	HIPC debt	HIPC debt	Debt service
	due	due	relief <small>(not applicable)</small>	relief <small>interest</small>	after HIPC relief
Multilateral 1/	49,091	9,282	23,737	4,890	29,646
AFDF	3,876	1,586	3,101	1,263	1,092
AFDB	0	0	0	0	0
ASECNA	0	0	0	0	1
BADEA	5,899	571	5,315	571	2,494
BOAD	845	243	0	0	1,089
ECOWAS	545	120	0	0	665
EBI	2,144	237	681	98	1,802
EU-IDA	161	29	81	14	95
IDA	12,693	4,425	6,347	2,215	8,561
IFAD	707	269	707	269	0
IMF	13,921	579	4,167	0	10,334
IsDB	4,510	0	2,599	0	1,911
OPEC Fund	3,881	1,118	2,742	434	1,803
Bilateral	34,913	4,545	12,254	3,324	3,981
Paris Club	3,501	1,724	2,031	1,527	1,697
Austria	54	78	54	78	0
France	1,932	1,004	1,748	907	231
Italy	104	139	104	139	0
Netherlands	69	267	60	232	44
Russia	22	27	19	23	6
Spain	1,295	114	24	52	1,337
United Kingdom	25	95	25	95	0
Other	11,412	2,921	10,223	1,797	2,314
Algeria	0	0	0	0	0
China	528	0	528	0	0
Cote d'Ivoire	3,493	0	3,493	0	0
Kuwait	2,344	1,039	1,656	365	1,862
Libia (government)	0	0	0	0	0
Libian Foreign Bank	0	0	0	0	0
Saudi Arabia	1,035	388	1,035	127	262
SIREX M 2/	1	0	0	0	1
Taiwan, Province of China	3,511	1,494	3,511	1,395	189
Total	64,004	13,828	35,992	8,214	33,627
<i>Of which: IMF</i>	13,921	579	4,167	0	10,334
(In billions CFAF)	58.39	8.29	21.59	4.33	20.17
<i>Of which: IMF</i>	8.35	0.35	2.50	0.00	6.20

Sources: Burkina authorities; and staff estimates and projections.

1/ AFDF = African Development Fund; AFDB = African Development Bank; ASECNA = Agence pour la Sécurité et la Navigation Africaine; BADEA = Arab Bank for Economic Development in Africa; BOAD = West African Development Bank; ECOWAS = Economic Community of West African States; EIB = European Investment Bank; EU = European Union; IFAD = International Fund for Agricultural Development; IsDB = Islamic Development Bank; and OPEC = Organization of Petroleum Exporting Countries.

2/ Société Internationale de Recherche et Exploitation Minière.

Table 18. Burkina Faso: Compliance with WAEMU Convergence Criteria, 2000-06

	2000	2001	2002	2003	2004	2005	2006
First-order criteria	(In percent)						
Basic fiscal balance/GDP (≥ 0 percent) 1/	-1.4	-2.6	-3.8	-4.5	-3.5	-3.2	-3.1
	(Annual percentage change)						
Average consumer price inflation (≤ 3 percent)	-0.3	4.9	2.3	4.5	2.8	2.6	2.4
	(In percent)						
Total debt/GDP (≤ 70 percent)	72.9	69.7	64.2	...	...	...	...
	(In billions of CFA francs)						
Change in domestic arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in external arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Second-order criteria	(In percent)						
Wages and salaries/fiscal revenue (≤ 35 percent)	43.7	46.1	42.7	41.1	37.6	35.4	33.3
Capital expenditure domestically financed/ fiscal revenue (≥ 20 percent)	23.4	29.8	36.0	42.4	44.1	46.7	49.5
External account balance, excluding grants/GDP (≤ 5 percent)	-15.0	-13.6	-12.9	-14.2	-12.6	-12.0	-11.7
Fiscal revenue/GDP (≥ 17 percent)	11.0	10.5	11.1	11.4	12.3	13.0	13.6

Sources: Burkinabe authorities; West African Economic and Monetary Union; Central Bank of West African States; and staff estimates and projections.

1/ Total revenue, excluding grants, minus total expenditure, excluding foreign-financed investment outlays.

Translated from French

Ouagadougou, May 28, 2003

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

Dear Mr. Köhler:

1. During the past three years, the Burkina Faso authorities implemented macroeconomic policies and structural reforms in the context of the poverty reduction strategy paper (PRSP) adopted by the country in early 2000. This PRSP and its first two progress reports served as a reference for financial support by donors and lenders, including the International Monetary Fund and the World Bank. To consolidate the progress achieved and intensify reform efforts, the government adopted an economic and financial reform program for 2003-06, the objectives of which are set forth in the PRSP adopted in 2000 and amended by the second progress report, which was discussed by the Executive Boards of the Fund and the World Bank in November 2002.
2. The attached memorandum of economic and financial policies (Annex I) sets out the government's economic objectives and policies for 2003-06, as well as the specific objectives and measures envisaged for the first year of the program, from April 2003 to March 2004. In support of these objectives and policies, the government requests a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 24.08 million (40 percent of quota). The government is also counting on continued assistance from the Fund, the World Bank, and the international financial community in the context of the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative).
3. The government believes that the policies set forth in the attached memorandum will enable it to meet the objectives of its program, but it is ready to take all other measures that may prove necessary to this end. During the period of the proposed three-year arrangement, the authorities will consult with the Managing Director of the Fund on the adoption of any measures that may be appropriate, either at their own initiative or at the request of the Managing Director. Moreover, following the period of implementation of the arrangement, and as long as Burkina Faso has outstanding financial obligations to the Fund resulting from loans disbursed under the arrangement, the government will consult with the IMF, from time to time, on Burkina Faso's economic and financial policies, at its own initiative or at the request of the Managing Director.

4. The government will provide to the Fund any information that the Fund may request for the purpose of monitoring progress made in implementing the economic and financial policies and the measures needed to achieve the program objectives. A technical memorandum of understanding describing the quantitative performance criteria and benchmarks of the program is attached (Annex II). In addition, Burkina Faso will conduct two semiannual reviews of the program with the Fund during the first year, to be completed by end-December 2003 and by end-June 2004, respectively.

/s/

Jean-Baptiste Compaoré
Minister of Finance and Budget

Attachments: Memorandum of economic and financial policies for 2003-06 and
technical memorandum of understanding

Translated from French

BURKINA FASO

Memorandum of Economic and Financial Policies for 2003–06

May 28, 2003

I. INTRODUCTION

1. During the past three years, the government of Burkina Faso implemented macroeconomic policies and structural reforms in the context of the poverty reduction strategy paper (PRSP) adopted by the country in 2000. Overall, these measures and reforms helped to achieve the macroeconomic objectives, particularly as regard consolidation, fiscal, control of inflation, and liberalization of the economy. During this period, the government's efforts were supported by technical and financial assistance from the International Monetary Fund, the World Bank, and several other multilateral and bilateral donors and lenders.

2. However, the economic and financial situation of the country remains fragile despite the progress achieved. Burkina Faso's economy and external position are dependent upon a very narrow economic base dominated by cotton exports, remittances from nationals of Burkina Faso living abroad, and foreign assistance. Per capita income is very low, and the high factor costs continue to constrain economic growth and the development of the private sector. Access to basic social services is limited, and the poverty rate is very high. Moreover, the crisis that erupted in Côte d'Ivoire in September 2002 has seriously disrupted transportation, trade, and production in Burkina Faso. In this context, the government is aware of the need to consolidate the advances made during 1999–2002, to intensify fiscal adjustment, and to accelerate structural reforms, with a view to diversifying the economy in the years ahead, to achieving sustainable growth, and to reducing poverty significantly, while maintaining domestic and external financial balances.

3. Accordingly, the government has adopted a program of economic reforms for 2003–06, based on the objectives set forth in the PRSP adopted in 2000 and updated in the second progress report discussed with the boards of the International Monetary Fund and the World Bank in November 2002. This memorandum of economic and financial policies analyzes the recent performance of the economy of Burkina Faso, and sets out the government's economic and financial objectives and policies for 2003–06, as well as the specific objectives and measures for the April 2003–March 2004 period.

II. PERFORMANCE UNDER THE 1999–2002 PROGRAM AND RECENT ECONOMIC DEVELOPMENTS

4. Since 1993, Burkina Faso has satisfactorily implemented three three-year programs supported by Fund resources. In the context of these programs, and following the devaluation of the CFA franc in 1994, the real GDP growth rate increased overall despite several years of

drought, the external current account deficit decreased, and the rate of inflation remained low. More recently, the government of Burkina Faso successfully implemented a medium-term program in 1999–2002 within the framework of its PRSP. This program enabled Burkina Faso to continue to reduce the inflation rate (as measured by the consumer price index) from over 5 percent in 1998 to 2.3 percent in 2002, on an annual average basis, and to reduce the external current account deficit (excluding official transfers) from 13.7 percent of GDP in 1998 to 12.9 percent of GDP in 2002. Real GDP growth averaged 4.2 percent for the 1999–2002 period (the same average rate as for the 1993–98 period).

5. With regard to public finances, the overall fiscal deficit (excluding grants) stood at 10.4 percent of GDP in 2002, compared with 9.0 percent of GDP in 1998, reflecting a downward trend in tax revenue collection. Total expenditure stabilized at about 22 percent of GDP during 1998–2002. Government expenditure, excluding foreign-financed investment, totaled 15.7 percent of GDP in 2002, compared with 13.6 percent of GDP in 1998. On the same basis, spending for education declined from 15.2 percent of total expenditure in 1998 (or 2 percent of GDP) to 12.4 percent in 2002 (or 1.9 percent of GDP), including Initiative for Heavily Indebted Poor Countries (HIPC Initiative) expenditure. Over the same period, spending for health also declined from 14.6 percent of expenditures (or 1.9 percent of GDP) to 11.2 percent (or 1.8 percent of GDP). Regarding government revenue, steps taken during the program period to improve tax administration have resulted in higher receipts from taxes on international trade in general. However, fuel oil subsidies granted to Burkina Faso's national electricity company, SONABEL, have continued to limit returns from customs duties and specific excises on petroleum products. Moreover, the collection of direct taxes and indirect domestic taxes has suffered from the weak control of the tax base and the informal sector.

6. In spite of the overall fiscal deficit and owing to the mobilization of budgetary assistance from the main donors and lenders, as well as external public debt relief granted within the framework of the HIPC Initiative, the government eliminated all of its domestic arrears in 2002, and continued to remain current on the service of external debt to its multilateral and bilateral creditors. Nevertheless, efforts to improve the country's fiscal position were thwarted in the second half of 2002, in part owing to the negative impact of the crisis in Côte d'Ivoire. Tax collection weakened further, particularly with respect to the value-added tax (VAT) and income and profit taxes, resulting in a shortfall of CFAF 13 billion in revenue. Expenditure on humanitarian assistance and security that had not been included in the budget had to be made, while water, electricity, and telephone expenditure increased more rapidly than expected, resulting in excess current spending of CFAF 13 billion. In these circumstances, the government expanded its domestic debt by increasing the level of stock of expenditure committed and for which payment orders had not been issued, as well as of deposits with the treasury. However, investment spending financed by domestic resources remained considerably below forecast levels, reflecting the very low rate of absorption of HIPC Initiative resources.

7. On the financial side, the money supply increased by an annual average of 3.4 percent during the 1999–2002 period, or less than the nominal GDP growth rate, while the

improvement in public finances limited the expansion of the banking system's net credit to the government. In these circumstances, the net foreign assets of the banking system continued to improve, and credit to the economy increased in real terms during the program period.

8. On the structural side, the government eliminated price controls and liberalized internal trade, including the marketing of agricultural commodities. The government also eliminated quantitative import restrictions, except for a minimum quantity of 1,000 tons per operator for sugar imports. In addition, it applied the common external tariff of the West African Economic and Monetary Union (WAEMU), although Burkina Faso continues to maintain a small number of reference valuations for customs while awaiting a decision from the World Trade Organization (WTO). The government also liberalized the pricing system, except for the prices of goods and services produced by public utilities, such as water and electricity. In 2001, the government introduced an automatic mechanism for adjusting prices of petroleum products as a function of world prices and local distribution costs. Since 2001, water rates have been adjusted annually. In the public sector, the government privatized or liquidated several state-owned enterprises in 1999–2002. However, there were delays in the implementation of the overall reform of public administration. With respect to governance, in 2001 the government published a decree establishing High Authority to fight Corruption and made the Auditor General Office operational in 2002. It also adopted an action plan for improving budget management (PRGB) in July 2002 that aims to ensure transparency and accountability in the fiscal sector.

III. MEDIUM-TERM STRATEGY AND OBJECTIVES FOR 2003–06

9. The government is committed to consolidating the gains made in 1999–2002 and to strengthening macroeconomic policies and structural reforms in order to solve the economic and social problems of Burkina Faso, improve the medium-term economic growth prospects, reduce poverty, and raise the population's standard of living while continuing to reduce internal and external financial imbalances. The government has decided to take new steps within the framework of a medium-term program covering the 2003–06 period. The government's policy will center around four main themes: (a) pursuing of a prudent fiscal policy that aims to expand the tax base and grant priority to social sectors and infrastructure maintenance in the allocation of government spending; (b) contributing to the implementation of the regional monetary policy to contain inflation and to strengthen the international reserves position of the banking system while supporting the promotion of microfinance; (c) accelerating the implementation of structural reforms that aim to promote the development of the private sector and strengthen the foundations of sustainable economic growth; and (d) implementing an ambitious social program, particularly with regard to poverty reduction, focused on the education and health sectors. Special emphasis will be placed on strengthening good governance.

10. The 2003–06 adjustment strategy aims to (a) contain inflation at less than 3 percent by 2006; and (b) limit the current external deficit (excluding official transfers) to 11.7 percent of GDP in 2006, or 8.7 percent of GDP, including official transfers. The

government will also work to (a) intensify its poverty reduction efforts; (b) support job creation by promoting the private sector; (c) develop human resources; and (d) strengthen environmental protection and implement a sustainable development strategy through a synergy resulting from the administration of the sector policies contained in the PRSP. The average annual real GDP growth rate is anticipated to be 5.2 percent in 2006, after dipping to 2.6 percent in 2003; this acceleration will allow an increase in per capita income of 2.7 percent. The balance of payments should continue to improve as a result of diversification efforts, particularly in agriculture, agribusiness, and livestock products. Private investment is expected to increase from 10.9 percent of GDP in 2002 to 12.5 percent of GDP in 2006, reflecting efforts to diversify and improve competitiveness, and gross national savings are expected to rise from 7.9 percent of GDP in 2002 to 12.8 percent of GDP in 2006.

11. To reach its medium-term adjustment strategy objectives, the government will focus its efforts on pursuing a prudent fiscal policy that aims to reduce the government's basic budget deficit from 3.8 percent of GDP in 2002 to 3.1 percent of GDP in 2006, while increasing budget allocations for the education and health sectors. The Central Bank of West African States (BCEAO) will also follow a prudent monetary policy that aims to contain inflation, improve the central bank's international reserves position, and support the parity of the CFA franc vis-à-vis the euro. The government will also expand its structural reforms, so as to promote diversification of the economy and development of the private sector through healthy competition, while improving public sector efficiency.

12. After broadly liberalizing the economy, the government adopted a letter of private sector development policy that set forth the priorities for actions to be taken to ensure effective promotion of private enterprise. In this regard, the government will strengthen the legal and regulatory framework, in order to make it more favorable to the development of private investment and to private foreign capital inflows, as well as to promote the private sector as an engine of economic growth. Moreover, the government will move to improve the operations of the judicial system, and it will implement the program to privatize public enterprises, with the assistance of the World Bank.

13. The government is convinced that achieving sustainable economic growth will help reduce poverty. In order to increase life expectancy and improve the population's standard of living, the government intends to strengthen the fight against the major endemic diseases, particularly malaria and AIDS, expand access to primary health care, intensify the vaccination of children, increase enrollment and literacy rates, and improve housing, particularly for the most impoverished. Moreover, the government aims to reduce infant and child mortality rates and intensify its information, education, and communication campaigns with regard to health and family planning by conducting an outreach program among women, particularly in rural areas.

IV. THE PROGRAM FOR 2003–04

14. In the context of the PRSP, the primary macroeconomic objectives of the program for the first year are to (a) contain the rate of inflation at 5 percent in 2003 and 3 percent in 2004, year-on-year; and (b) limit the external current account deficit (excluding official transfers) to 14.2 percent of GDP in 2003 and 12.6 percent of GDP in 2004. Real GDP growth is projected at 2.6 percent in 2003 and 4 percent in 2004, compared with 4.6 percent in 2002. With regard to government finance, the program aims to contain the basic government budget deficit at 4.5 percent of GDP in 2003 and to reduce it to 3.5 percent of GDP in 2004. To achieve these objectives, a set of measures will be implemented during 2003–04 in the areas of fiscal policy, monetary policy, the external sector, and structural reforms.

A. Macroeconomic Policies

Fiscal policy

15. Fiscal policy will aim to limit the fiscal deficit (on a commitment basis, including HIPC Initiative-related expenditure) to 11.0 percent of GDP in 2003, compared with 10.4 percent of GDP in 2002, and to reduce it to 9.9 percent in 2004; it will also aim to limit the basic deficit to 4.5 percent of GDP in 2003 and to reduce it to 3.5 percent of GDP in 2004, compared with 3.8 percent of GDP in 2002. The evolution at the basic budget deficit in 2003 reflects a forecast of a rise in social expenditure financed by HIPC Initiative resources from 1.3 percent of GDP in 2002 to 2.3 percent of GDP in 2003, owing, in turn, to the usage of existing funds carried over from 2002, as well as a loan equivalent to 0.6 percent of GDP that the government made to a company (SONATUR) in April 2003 to finance the Commercial and Administrative Zone Development Project (ZACA). The draft supplementary budget for 2003, which was submitted to the National Assembly in April 2003, and the budget proposal for 2004, which will be submitted to the National Assembly by end-September 2003, are and will be consistent with the program's objectives. The draft supplementary budget for 2003 is based on a set of administrative measures that aim to rationalize indirect domestic taxation, expand the tax base, and bring the growth of expenditure under control, while improving the capacity to absorb HIPC Initiative resources. In the event of tax revenue shortfall, the Minister of Finance will reduce spending commitments up to the extent of the revenue shortfall to meet the program objectives. In addition, on the occasion of the first review of the program, the government will revise the budget for 2004 to take account of revenue collection performance. The government of Burkina Faso remains current on its external payment obligations. The government has also decided to conduct an audit of domestic debt and will continue, through end-June 2003, to close deposit accounts opened with the treasury, keeping only the accounts of entities required to deposit their funds in a treasury account, in accordance with current regulations. In any event, by end-September 2003 the government will close all accounts of nonfinancial private enterprises that remain open with the treasury. The government will not accumulate domestic or external payment arrears during the program period. Moreover, the government will substantially reduce expenditure on a commitment basis for which payment orders have

not yet been authorized. It established a monthly meeting of a committee for the control and follow-up of such expenditure in May 2003, with the participation of the Minister of Finance.

16. In the context of the action plan for improving budget management, and with a view to strengthening good governance, transparency, and staff accountability, in accordance with the objectives of the PRSP, the draft annual audited budget acts for 1995–2000 were reviewed by the Auditor General Office in late 2002; the government then submitted the budget acts to the National Assembly at end-March 2003. Following the same procedure of prior review by the Auditor General Office, the government will submit the draft annual audited budget act for 2001 to the National Assembly by end-September 2003, and the draft annual audited budget act for 2002 by end-March 2004. During the program period, the government, in accordance with the studies of the Country Financial Accountability Assessment (CFAA), the Report on the Observance of Standards and Codes (ROSC), and the Budget Management Improvement Action Plan (PRGB), will reach agreement with the Auditor General Office concerning an administrative audit of the individual accounts of the accountants (*comptes de gestion*) for the government's financial operations for the years prior to 2001, and it will produce these accounts regularly in future. The government will finalize the timetable for preparation of the *comptes de gestion* for 2001 and 2002 at the first program review. The government submitted the budget framework law, in accordance with West African Economic and Monetary Union (WAEMU) directives, to parliament, which approved it in January 2003. By September 2003, it will also adopt the WAEMU general rules of public accounting and its budget nomenclature, inserting specific codes to identify social expenditure and HIPC Initiative-related expenditure.

17. Revenues are expected to increase by 12.5 percent to CFAF 291.7 billion in 2003, and by 15.6 percent to CFAF 337.3 billion in 2004. To achieve this increase, the authorities will strengthen fiscal and customs administration, and intensify collection efforts during the 2003–04 period through a number of approaches. First, they will establish an inventory of all tax and customs exemptions by end-September 2003, with a view to strengthening controls of legal exemptions and increasing the tax base. Second, the authorities will strengthen tax audit departments at the Directorate General of Taxation and within the customs administration. The number of audit squads at the Directorate General of Taxation has been increased from five to seven, and the number of teams per squad has grown from three to five since November 2002 at the regional directorates in the center and west. In addition, four other squads are shared by the center-west, east, and north regional directorates and the Office of Investigation and Audit. Third, by end-October 2003 the authorities will bring on-line a computer system to monitor deposits and payments, and to track the collection of outstanding taxes in the large and medium-sized taxpayers' units of the regional tax directorates in the center (Ouagadougou) and west (Bobo-Dioulasso). These two divisions collect 85 percent and 10 percent, respectively, of domestic taxes. Fourth, the authorities will ensure the application of all tax and customs laws, particularly for the informal sector. Implementation of this set of measures should increase in government revenues from 11.1 percent of GDP in 2002 to 12.3 percent of GDP in 2004. In this regard, the government will take advantage of the recommendations of the March 2003 IMF technical assistance

mission to develop an action plan to strengthen the collection of taxes and customs duties before the first review of the program.

18. On the expenditure side, control of government spending, exclusive of interest on public debt, will be pursued by controlling the wage bill. To achieve this, the government will continue implementation of its public administration reform program during the program period, in order to introduce increased flexibility in managing the civil service. In light of the objectives for inflation and civil service staffing levels, the government will by December 2003 implement the merit-based compensation and promotion system adopted in 2001. It will also continue to improve the integrated computer system for civil service and payroll management. In light of the outcomes expected in terms of revenue recovery, no general salary increase is planned for the 2003–04 period. Application of this salary policy will limit the increase in the wage bill to 8.1 percent in 2003 and 6 percent in 2004, reflecting mainly the planned integration of people on temporary contracts in the education and health sectors, and in the revenues collection agencies. This salary policy will also stabilize the ratio of government wage expenditure to GDP at 4.7 percent in 2003–04.

19. Other current expenditure for goods and services should stabilize at approximately 2.6 percent of GDP during the 2003–04 period, while reflecting the priority given to improving nonwage expenditure for the education, health, agriculture, and infrastructure maintenance sectors. This stabilization of expenditure for goods and services is due to savings measures that aim to reduce water, electricity, and telephone expenditure. Transfer expenditure will also stabilize at 3.2 percent of GDP in 2003–04, despite higher humanitarian assistance outlays triggered by the crisis in Côte d'Ivoire and price support for agricultural inputs in cotton-growing areas. The government will prepare sector development strategies and continue to conduct sector reviews of government expenditure, with the technical assistance of the World Bank. After the reviews of spending in the rural development and transportation infrastructure sectors, the government will review education spending (particularly secondary and higher education) and expenditure in the judicial system. The government will also deepen its public investment planning and medium-term expenditure framework (MTEF). The MTEF for 2004–06 will continue to reflect the priorities stated in the PRSP. Generally, the government will work to improve the monitoring of public investments, particularly externally funded investments, by integrating them into the computerized expenditure system (CID).

20. The government will increase the budgetary appropriation ceiling for health and education expenditure and for poverty reduction in general, in accordance with the PRSP. Total expenditure for education (excluding foreign-financed investment and including HIPC Initiative-related expenditure), which amounted to 12.4 percent of total expenditure in 2002 (1.9 percent of GDP), is forecast at 14.8 percent in 2003 (2.5 percent of GDP) and at 15.4 percent in 2004 (2.5 percent of GDP). The strong increase in the share of education in total spending in 2003 reflects the acceleration in the use of resources freed under the HIPC Initiative. The government may further increase its education expenditure in the context of the accelerated Education for All Initiative. In the health sector, spending (excluding foreign-financed investment) will increase from 11.2 percent of total expenditure in 2002

(1.8 percent of GDP) to 11.8 percent in 2003 (2 percent of GDP), and to 12.3 percent in 2004 (2 percent of GDP).

Monetary policy and the financial sector

21. The regional central bank will pursue a prudent monetary policy in 2003–04. It will aim to contain inflation, and to limit the decline in the net foreign assets of the banking system in 2003 to 0.5 percent of the end-December 2002 money supply, before increasing them in 2004 by 1.7 percent of the end-December 2003 money supply. The use of resources from the HIPC Initiative account of the treasury at the central bank will limit the contraction of net bank credit to the government in 2003 to 0.3 percent of the end-December 2002 money supply and in 2004 to 0.4 percent of the end-December 2003 money supply. In light of the decision by the WAEMU member countries to reduce BCEAO advances to governments, the treasury will issue bills and government paper to finance its operations, to lend funds to SONATUR and SONABEL, and to contribute to the development of a regional financial market. Credit to the private sector is expected to increase by 14.5 percent in 2003 and by 8.1 percent in 2004—a pace higher than inflation—reflecting the projected diversification of the economy and the development of financial intermediation. The money supply is expected to increase by 9.2 percent in 2003 and by 7.1 percent in 2004—the same pace as nominal GDP growth.

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

B. Structural Policies

23. **Private sector competitiveness and development.** The government will design and implement an action plan to strengthen incentives for private sector activity and investment, with the assistance of the World Bank, particularly by strengthening the legislative and regulatory framework and the judicial system. In the context of this project, which will be implemented in July 2003, the government's aim is to ensure long-term economic development through a reduction in factor costs and an increase in productivity, in accordance with the PRSP. To achieve this objective, the government will (a) simplify the formalities involved in establishing an enterprise, (b) promote a private sector-government dialogue through regular meetings of a joint committee responsible for examining the

obstacles to business development, (c) continue liberalization of the telecommunications sector, (d) work to reduce the production costs of electricity and expand access to energy infrastructure, including in rural areas, (e) strengthen arbitration for trade disputes, (f) continue the privatization program, and (g) set up a competition committee responsible for proposing solutions to problems that impede promotion of the private sector.

24. The government will continue to implement its privatization and public enterprise reform program during the program period, with the assistance of the World Bank, to increase the incentives to produce and invest. In the telecommunications sector, the government will by end-September 2003 issue invitations to bid for the privatization of the telecommunications company (ONATEL). It has already established a regulatory authority (ARTEL) and opened cellular telephony to competition. In the energy sector, the government will privatize SONABEL and the oil company (SONABHY) by end-2004. It will reexamine the structure of electricity production and distribution costs, in consultation with the World Bank, with a view to introducing savings measures. It will continue to apply the automatic adjustment mechanism for public water rates as a function of costs. The government will also continue to apply the automatic adjustment mechanism for retail pricing of petroleum products as a function of import and distribution costs. In the agricultural sector, the government will in May 2003 issue an invitation to bid in order to permit two new firms to become established in two cotton-producing areas still operated by the cotton development company (SOFITEX).

25. **Good governance.** The government is committed to following 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 2003 make operational the High Authority to Fight Corruption. It will fight and suppress any act of fraud or corruption brought to its attention. The high authority will work with the monitoring agencies (the State Inspector's Office and Inspectorate of Public Finances) and the Auditor General Office to investigate irregularities. The government will also continue the reform of the judicial system, with the assistance of donor or lender organizations.

26. **Poverty reduction.** Achieving sustainable per capita revenue growth will help reduce poverty in Burkina Faso. In particular, price subsidies for cotton producer inputs and the social safety net for the consumption of butane gas and domestic kerosene should help to raise the standard of living of the population, particularly in rural areas. However, structural measures, including the program to reform public enterprises, will affect the quality of life of salaried populations in urban areas. With lenders' support, and in consultation with civil society, the government will prepare by end-July 2003 the third annual progress report on its PRSP. It will also update the PRSP in December 2003.

27. The revised PRSP will make sector policies consistent and take environmental issues into account in the various sectors involved. Moreover, it will include highly targeted measures that aim, among other things, to raise further the enrollment and literacy rates; improve primary health care; increase the participation of women in development activities; and reduce rural-to-urban migration, particularly by promoting the employment of youth,

controlling demographic growth, promoting social protection, and preserving natural resources (water, land, forests, and wildlife). The PRSP will continue to form the single reference for interventions of the government and development partners. To that end, one of the objectives of revising the PRSP will be to ensure that it provides a real strategy for sustainable development. To ensure the effective monitoring of progress achieved in reaching the social and poverty reduction objectives, a system of indicators will be established in consultation with partners. The authorities will report the annual figures relating to these indicators to the International Monetary Fund and the World Bank.

28. With regard to education, the government recognizes that enrollment and literacy rates are low with respect to the PRSP objectives. With lenders' support, the government will continue to implement its plan to develop basic education, with a view to accelerating Burkina Faso's progress toward the Millennium Development Goals (MDGs). The government is already proposing to build or rehabilitate 3,600 classrooms per year in primary schools, particularly in rural areas, and to recruit and train an average of 8,700 new teachers per year. In the health sector, vaccination rates have improved, and the level of staffing of health districts has risen and the price of medications has decreased, in accordance with the PRSP objectives. The government will hold a sector roundtable of lenders to examine the National Health Development Plan that it adopted in July 2001, and to seek financing for projects to support health districts.

29. **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 the Article IV consultations, and will strengthen program control and monitoring. The government will conduct a new statistical household survey by end-December 2003 with the technical assistance of the World Bank, and it will prepare a series of social and poverty indicators to monitor in the context of its poverty reduction policy.

V. EXTERNAL SECTOR AND BORROWING REQUIREMENTS

30. 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 memorandum, without having recourse to restrictions on current transactions.

31. Overall, the external current account deficit (excluding official transfers) is projected at CFAF 336.8 billion in 2003, or 14.2 percent of GDP, and CFAF 321.5 billion in 2004, or 12.6 percent of GDP (compared with 12.9 percent of GDP in 2002). Given the amortization of the external public debt (CFAF 41.0 billion) and the projected negative contribution of Burkina Faso to the international reserves of the central bank (CFAF -6.9 billion), gross external financing requirements will amount to CFAF 370.8 billion in 2003. These financing requirements will be covered in part by grants and project and nonproject concessional lending from multilateral and bilateral donors and lenders, and by private capital flows. Residual borrowing requirements of CFAF 5.8 billion will remain, which the government intends to cover by applying disbursements from the arrangement requested under the PRGF

in 2003. The government will provide program financing assurances for 2004 at the first review.

32. To cover its financing requirements, the government will continue to seek grants and highly concessional loans only. In this respect, it will not contract or guarantee new nonconcessional external loans (with a grant element of less than 35 percent) having terms of maturity of more than one year, except for treasury bills offered on the WAEMU capital market. Moreover, the government will not contract or guarantee external loans having an original maturity of less than one year. To regularize its relations with its main foreign creditors and donors, Burkina Faso will ensure current service of its external debt and will not accumulate domestic or external payment arrears during the program period. The Paris Club agreed to extend to end-September 2003 the deadline for signing the June 2002 bilateral agreements on the treatment of the stock of debt. The government will sign those bilateral agreements as soon as possible, before the new deadline. It will also seek 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.

VI. MONITORING OF PROGRAM EXECUTION

33. To monitor the progress made in implementing the program, the government has established quantitative performance criteria and indicative targets for end-June, end-September, and end-December 2003, and for end-March 2004 (Table 1), as well as structural performance criteria and indicative targets (Table 2). The government will also provide the International Monetary Fund with the statistical data and information specified in the attached technical memorandum of understanding, 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 International Monetary Fund, introduce or modify multiple currency practices, conclude bilateral payment agreements inconsistent with the Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons.

34. The government will conduct two reviews of the program with the International Monetary Fund to evaluate the progress made during the first year. The first of these reviews will be held by end-December 2003, and the second by end-June 2004.

Attachments

Table 1. Burkina Faso: Quantitative Performance Criteria, and Indicative Targets for the Program
Under the Poverty Reduction and Growth Facility Arrangement, 2003-04
(in billions of CFA francs; cumulative from beginning of year)

	2002	2003			2004
	Dec. Est.	End-June Indicative Target	End-Sep. Performance Criteria	End-Dec. Indicative Target	End-March Performance Criteria
Performance criteria and indicative targets 1/					
Ceiling on cumulative change in net domestic financing to government 2/	-23.8	42.2	33.8	23.4	23.8
Ceiling on the cumulative amount of new nonconcessional external debt contracted or guaranteed by the government 3/ 4/	0.0	0.0	0.0	0.0	0.0
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	259.4	136.3	209.2	291.7	69.0
Current expenditure	258.9	140.3	205.4	269.8	69.3
Expenditure on wages and salaries	25.2	55.3	84.1	111.4	28.3
Basic balance 5/ 6/	-83.4	-52.2	-70.0	-106.0	-25.9
Change in the stock of expenditure committed but without payment orders 6/	28.4	12.0	15.0	-15.0	0.0
Adjustment factors					
Balance of payments assistance	75.9	12.5	39.1	108.4	0.0
Adjustment lending (excluding IMF)	46.0	0.0	0.0	21.2	0.0
Adjustment grants	29.9	12.5	39.1	87.1	0.0

Sources: Burkinabè authorities; and staff estimates and projections.

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 2. Burkina Faso: Prior Actions, Structural Performance Criteria,
and Indicative Targets for the 2003-04 Program

Measures	Date
Prior actions	
Submission to the National Assembly of the amended 2003 draft budget law, as described in paragraph 15.	
Submission to the National Assembly of the 1995-2000 draft annual audited budget acts, as described in paragraph 16.	
Performance criteria and indicative targets	
Adoption by the government of the WAEMU budgetary nomenclature with specific codes for identifying social expenditure and expenditure financed under the HIPC Initiative, as described in paragraph 16.	End-September 2003
Submission to the National Assembly of the 2004 draft budget law, as described in paragraph 15.	End-September 2003
Submission to the National Assembly of the 2001 draft annual audited budget act, as described in paragraph 16.	End-September 2003
Closing of all nonfinancial private enterprise deposit accounts with the treasury, as described in paragraph 15. ¹	End-September 2003
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), as described in paragraph 17. ¹	End-October 2003
Submission to the National Assembly of the 2002 draft annual audited budget act, as described in paragraph 16. ¹	End-March 2004
Implementation of the automatic price structure adjustment mechanism for petroleum products in relation to costs, as described in paragraph 24.	Continuous

¹ Performance criterion.

Translated from French

INTERNATIONAL MONETARY FUND

BURKINA FASO

Technical Memorandum of Understanding

Ouagadougou, May 28, 2003

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, 2000,¹ 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

¹ See EBS/00/128 (6/30/00) – “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 2003-04 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 2003-04 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. As of December 31, 2002, net domestic financing of the government was CFAF -23.8 billion, made up of CFAF -43.8 billion in net bank credit to the government and CFAF 20 billion in unredeemed stock of government bills and bonds.

Quantitative performance criterion/indicative targets

7. The ceiling on the cumulative change (from January 1, 2003 onward) in net domestic financing of the government is set at CFAF 42.2 billion at June 30, 2003 and CFAF 33.8 billion at September 30, 2003. These ceilings represent an indicative target at end-June 2003 and a performance criterion at end-September 2003. The ceiling is projected at CFAF 23.4 billion at December 30, 2003 and CFAF 23.8 billion at March 31, 2004 (from January 1, 2004 onward). These figures will be re-examined and set as an indicative target at end-December 2003 and as a performance criterion at end-March 2004, when the first program review takes place.

Adjustment

8. The ceilings on the cumulative change in net domestic financing to the government will be subject to adjustment when program forecasts differ from actual disbursements 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-June 2003, a maximum of CFAF 30 billion at end-September 2003, and a maximum of CFAF 60 billion at end-December 2003.

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 payment arrears on its debt, with the exception of external payments arrears arising from government debt being renegotiated with external creditors, including non-Paris Club member 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 payment 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, 2000,² 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

² See para. 2.

bonds issued in CFA francs on the WAEMU regional market. This commitment is a performance criterion, to be observed continuously.

Reporting deadlines

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

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, 2002, 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, excluding foreign-financed investment. 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 loans. It is made up of payroll, expenditure on goods and services, interest on the debt (domestic and foreign), 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. At end-December 2002, the basic deficit was valued at CFAF 83.4 billion, made up of CFAF 259.4 billion in revenue and CFAF 342.9 billion in expenditure, excluding foreign-financed investments. Total revenue was made up of the following:

- total revenue (customs, Directorate General of Taxation): CFAF 240.9 billion; and
- nontax revenue, including capital revenue: CFAF 18.5 billion.

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

Expenditure Category	Amount (In billions of CFA francs)
Current Expenditure	258.9
Payroll	103.0
Goods and services	62.5
Interest on debt (domestic and foreign)	16.8
Transfers and subsidies	71.6
Other	5.1
Capital expenditure financed by treasury	86.7
Capital expenditure financed from HIPC funds	17.2

26. The stock of DENMs was valued at CFAF 40.8 billion at end-December 2002.

Other quantitative indicative targets

27. The ceiling for the cumulative basic deficit (from January 1, 2003 onward) of government financial operations is established at CFAF 52.2 billion at June 30, 2003 and at CFAF 70 billion at September 30, 2003. These ceilings are end-June 2003 and end-September 2003 indicatives targets. The ceiling is projected at CFAF 106 billion at

December 30, 2003 and at CFAF 25.9 billion at March 31, 2004 (from January 1, 2004 onward). These figures will be reexamined during the first program review.

28. The floor for total government revenue (cumulative from January 1, 2003 onward) is set at CFAF 136.3 billion at June 30, 2003 and at CFAF 209.2 billion at September 30, 2003. These floors are end-June 2003 and end-September 2003 indicatives targets. The floor is projected at CFAF 291.7 billion at December 30, 2003 and CFAF 69 billion at March 31, 2004 (cumulative from January 1, 2004 onward). These figures will be reexamined and established as indicative targets when the first program review takes place.

29. The respective ceilings for current expenditure and the wage bill (cumulative from January 1, 2003 onward) are established at CFAF 140.3 billion and CFAF 55.3 billion at June 30, 2003, and at CFAF 205.4 billion and CFAF 84.1 billion at September 30, 2003. These ceilings are end-June 2003 and end-September 2003 indicatives targets. They are projected, respectively, at CFAF 269.8 billion and CFAF 111.4 billion at December 30, 2003, and at CFAF 69.3 billion and CFAF 28.3 billion at March 31, 2004 (cumulative from January 1, 2004 onward). These figures will be reexamined and established as indicative targets when the first program review takes place.

30. The ceiling for the cumulative increase (from January 1, 2003 onward) in the stock of DENMs is set at CFAF 12 billion at end-June 2003 and CFAF 15 billion at end-September 2003. These ceilings are indicatives targets. The floor for the cumulative reduction of the stock of DENMs is projected at CFAF 15 billion at end-December 2003 and at zero at March 31, 2004 (from January 1, 2004 onward). These figures will be reexamined and established as indicative targets at end-December 2003 and at end-March 2004, when the first program review takes place.

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

Burkina Faso: Relations with the Fund

(As of March 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	52.94	87.95
Reserve position in Fund	7.26	12.06
Holdings Exchange Rate		

III. SDR Department:	SDR Million	In percent of allocation
Net cumulative allocation	9.41	100.00
Holdings	0.30	3.19

IV. Outstanding Purchases and Loans:	SDR Million	In percent of quota
Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF) arrangements	90.83	150.89

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF/PRGF	Sep. 10, 1999	Dec. 09, 2002	39.12	39.12
ESAF	Jun. 14, 1996	Sep. 09, 1999	39.78	39.78
ESAF	Mar. 31, 1993	May 30, 1996	53.04	44.20

VI. Projected Payments to Fund (without HIPC Assistance)

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Principal	10.39	13.48	11.73	10.09	12.12
Charges/interest	0.56	0.53	0.47	0.41	0.35
Total	10.95	14.02	12.20	10.50	12.47

Projected Payments to Fund (with Board-approved HIPC Assistance)

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Principal	2.42	3.30	2.52	7.07	10.70
Charges/interest	0.56	0.53	0.47	0.41	0.35
Total	2.98	3.84	2.99	7.48	11.05

VII. Implementation of HIPC Initiative:

	Original Framework	Enhanced Framework	Total
I. Commitment of HIPC assistance	Sep. 1997	Jul. 2000	
Decision point date			
Assistance committed			
by all creditors (US\$ Million) ¹	229.00	195.60	
<i>Of which:</i> 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 the 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 by the BCEAO and Fund staff that the **BCEAO will strive to improve its financial and accounting reporting by aligning its**

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.

practices with those recommended by IAS, as adopted internationally by other central banks.

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 by 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 they 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.**

The staff will 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 March 31, 2003 was CFAF 834.5=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 2002 Article IV consultation discussions and the fifth review under the Poverty Reduction and Growth Facility (PRGF) were held during the period January 29-February 14, 2002 in Ouagadougou. The staff report (EBS/02/48; 3/15/02) and the statistical annex (SM/02/84; 3/15/02) were considered by the Executive Board on April 9, 2002.

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	Assisting 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 May 12, 2003)

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 intends to fully update the PRSP in 2003. 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 intend to request a subsequent fourth arrangement in 2003. 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 AIDS, basic education, infrastructure investments, 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 (PRSCs) and self-standing projects for capacity building, support for community driven development activities (concentrating on rural, social, or 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, which will likely be completed by end-2003/early 2004.

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 planned in the near future, a participatory poverty assessment (2002-03) and the third national household survey (2002-03).

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 two poverty reduction support credits (PRSC-1 and PRSC-2). The Bank's cumulative commitments to Burkina Faso as of May 12, 2003, amount to US\$1,359.5 million equivalent for 64 operations, comprising 61 IDA credits and 3 IFC investments.

9. The current portfolio amounts to commitments of US\$504.3 million, of which US\$353 million is undisbursed. IDA's active portfolio in Burkina Faso is as follows:

- The PRSC-2 was approved in July 2002 for US\$35 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.
- 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.
- 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. It is expected that this project will be effective by June 2003. 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 (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, and at increasing access to infrastructure services, especially for rural communities.
- A third **poverty reduction support credit (PRSC-3)** is envisaged for Board presentation in early FY04.

Bank-Fund collaboration in specific areas

10. **Cotton sector.** The Bank and Fund staffs jointly follow developments in the cotton sector because of its importance for macroeconomic aggregates and rural incomes. The Fund staff focuses on the overall financial management of the cotton sector in order to limit spillover effects for government finances and the banking sector. The Bank staff is accompanying the government's structural reform agenda in the sector under a series of PRSCs. These reforms aim 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.

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

(In millions of U.S. dollars)

Credit Number	Fiscal Year	Sector	IDA	Undisbursed
C27280-BF	1995	Urban Environnent	59.0	22.8
CN0070-BF	1997	Post-Primary Education	26.0	9.2
CN0290-BF	1997	Mining Capacity Building	21.4	5.9
C29740-BF	1998	Agricultural Services II	41.3	17.3
C31610-BF	1999	Private Irrigation	5.2	1.5
C34360-BF	2001	Community-Based Rural Devlpt.	66.7	59.3
C34760-BF	2001	Ouagadougou Water Supply	70.0	64.6
C35570-BF	2002	HIV/AIDS Disaster Response	22.0	17.3
C35970-BF	2002	Basic Education	32.6	30.0
C36910-BF	2002	PRSC 2	35.0	0.0
N/e	2003	Development Learning Center	2.3	2.3
N/e	2003	Competitiveness & Ent. Dev.	30.7	30.7
N/e	2003	Transport Sector	92.1	92.1
Total (number of credits: 13)			504.3	353.0

Source: World Bank.

N/e: Not yet effective

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

Burkina Faso: Statistical Issues

1. In January 2001, Burkina Faso formally adopted the General Data Dissemination System (GDDS) as its statistical development framework, and a country coordinator has been named. During the GDDS workshop in Bamako in March-April 2001, draft GDDS metadata were prepared for all five sectors, including plans for improvements; they were posted on the Data Standards Bulletin Board (DSBB) in December 2001. Following the conversion of the National Institute of Statistics and Demography (INSD) into an autonomous agency, its allocations in human and material resources were significantly raised in the 2002 budget.

2. Burkina Faso has received technical assistance under the government finance statistics component of the regional GDDS project (funded by Japan) for member countries of the West African Economic and Monetary Union (WAEMU)¹. Assistance under the real sector statistics component of the project will be afforded to Burkina Faso under phase II of the project during 2003. A data module ROSC mission visited Burkina Faso in May 2003.

Real sector

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

4. The quality of the national accounts estimates is impaired by the scarcity of suitable data sources and by deficiencies in statistical practices. In particular, the informal sector is not properly captured, with estimates derived from the limited informal sector surveys conducted in 1989 and 1996. With regard to administrative data, most of the medium and small enterprises belonging to the "modern sector" fall short of submitting accounting statements or tax declarations, although they are recorded in the directory of industrial and commercial enterprises. Other deficiencies emerging from GDDS work on metadata are the residual estimation of private household consumption in the absence of an adequate framework to validate data (i.e., supply-use tables), and the use of an outdated base year (1985) for constant price estimates. Plans for improvement under the GDDS include a survey of the informal sector and the compilation of a health satellite account requested by the Ministry of Health. The final 1993–1997 national accounts were published in 2001.

5. The **consumer price index** compiled by the INSD follows the methodology of the harmonized index adopted by the WAEMU member countries. The index covers only expenditures by households living in the capital. Further restrictions are the exclusion of non-

¹ Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

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

6. The authorities do not compile a **producer price index** or wholesale price index. According to Burkina Faso's plans for improvement posted on the Data Dissemination Bulletin Board, the development of these indices is not envisaged even for the medium term.

Government finance

7. The last summary annual data published in *International Financial Statistics (IFS)* are for 2000. No detailed data have been reported for the past five years to STA; hence, the 2002 *Government Finance Statistics (GFS) Yearbook* covers only 1984-93, with limited details and coverage, and the data relate only to budget operations and capital expenditures financed through grants. No data are reported on extrabudgetary and social security operations, as well as on operations financed by foreign loans. The compilation of *GFS* is constrained by a lack of coordination among fiscal agencies, which has a negative impact on the reliability and timeliness of these data.

Monetary accounts

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

9. A technical assistance mission visited the BCEAO in August 1997 to address issues affecting monetary and financial statistics. The mission recommended that timing targets for reducing delays in producing the principal report forms be established. The BCEAO is

working on additional measures to accelerate the bank note sorting operations in order to expedite the reporting of monetary statistics.

10. A follow-up monetary and financial statistics mission visited the headquarters of the BCEAO in May 2001 and found that the situation had improved recently. The mission reviewed the procedures for collecting and compiling monetary statistics, and addressed the outstanding methodological issues that concerned all the member countries of the WAEMU. The authorities agreed on an action plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM)* and on the introduction of an area-wide page for the WAEMU in the *IFS*, which subsequently took place in January 2003. The mission discussed the provision of future technical assistance in monetary statistics for the region.

11. Following the recommendations of the 2001 monetary and financial statistics mission, a regional seminar on monetary and financial statistics was organized by the BCEAO in Dakar during April 22-25, 2003. An expert from STA participated in the seminar. Participants agreed to set up a working group of representatives from the national agencies and various departments of the BCEAO's headquarters; the working group will follow-up on the seminar's recommendations to foster implementation of the *MFSM*.

Balance of payments

12. Since December 1998, the responsibility for compiling and disseminating balance of payments statistics has been formally assigned to the BCEAO through area-wide legislation adopted by the WAEMU member countries. The national agency of the BCEAO is responsible for completing and disseminating the balance of payments statement, while the BCEAO headquarters delineates the methodology and calculates the international reserves managed on behalf of the participating countries. Data consistency has significantly improved over the past few years, with a full transition to the *Balance of Payments Manual*, fifth edition (*BPM5*), improved sourcing methods, and the training of staff. This improvement was supported by technical assistance provided by STA (a Statistical Advisor was posted at the BCEAO headquarters in Dakar from July 1996 through July 1999) and contributed to the reporting of better yearly balance of payments data in the framework of the *BPM5* for the period 1996-99. This improvement, coupled with the backward revision of data from 1988 onward, has created a consistent series of annual balance of payments statistics. The BCEAO national agency disseminates balance of payments statistics with a seven-month lag, and annual international investment position data with an eighteen-month lag, in full consistency with the recommendations of the GDDS guidelines. Regarding trade data, the customs computer system (SYDONIA) was upgraded in 1999, and its installation in the main border customs offices is complete; this allows for a better monitoring of import data and should improve the coverage of informal trade. The further improvement of services and transfers (especially workers' remittances) coverage is clearly linked to the future intensification of the contacts with reporting bodies; this implies that the authorities' commitment to strengthen the human and technical resources should be enhanced.

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

14. The follow-up mission at the BCEAO headquarters (April 17-28, 2000) highlighted improvements in published data. However, the mission pointed out serious shortages in the human and technical resources that were hampering the implementation of the Statistical Advisor's recommendations.

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

Burkina Faso: Core Statistical Indicators

(As of May 12, 2003)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates 1/	Consumer Price Index	Exports/ Imports 2/	Current Account Balance	Overall Government Balance	GDP/GNP 3/	External Debt
Date of latest Observation	Apr. 2003	Mar. 2003	Dec. 2002	Dec. 2002	Dec. 2002	Mar. 2003	Mar. 2003	Dec. 2002	Dec. 2001	Oct. 2002	2002	Dec. 2001
Date received	May 2003	May 2003	Mar. 2003	Mar. 2003	Mar. 2003	Apr. 2003	Apr. 2003	Apr. 2003	Feb. 2002	Dec. 2002	Apr. 2003	Mar. 2002
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annual	Monthly	Annually	Annual
Frequency of reporting	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Quarterly	Annually	Monthly	Annually	Annually
Source of data 4/	EIS/FIN	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	Ministry of Finance	Ministry of Finance	Ministry of Finance
Mode of reporting	On-line	Staff/e-mail	Staff/e-mail	Staff/e-mail	Staff/e-mail	Staff/e-mail	Electronic	Electronic	Staff	Staff	Staff	Staff
Confidentiality	No	5/	5/	5/	5/	No	No	5/	5/	5/	5/	5/
Frequency of publication	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Monthly	Annually	Annually

1/ Up-to-date data available upon request from BCEAO; also updated regularly in press.

2/ Customs data available monthly in conjunction with fiscal data.

3/ Revised periodically during year.

4/ EIS = IMF, Economic Information System; FIN = IMF, Finance's Department; BCEAO = Central Bank of West African States.

5/ Preliminary use for staff only; actual data unrestricted.



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 03/79
FOR IMMEDIATE RELEASE
June 30, 2003

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2003 Article IV Consultation with Burkina Faso

On June 11, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the 2003 Article IV consultation with Burkina Faso.¹

Background

Since 1991, Burkina Faso's sustained adjustment effort has been supported by the IMF under successive Enhanced Structural Adjustment Facility and Poverty Reduction and Growth Facility (PRGF) arrangements.² The latest PRGF arrangement, in support of a program covering the period 1999-2002, was approved in September 1999 and expired in December 2002; it was fully disbursed. Under the programs, the government of Burkina Faso implemented a broad range of macroeconomic and structural reforms that have

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

² On November 22, 1999, The IMF's concessional facility for low-income countries, the Enhanced Structural Adjustment Facility, was renamed the Poverty Reduction and Growth Facility, and its purposes were redefined. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a poverty reduction strategy paper. This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an interest rate of 0.5 percent a year, and are repayable over 10 years with a 5½ year grace period on principal payments.

contributed to liberalizing the economy, raising per capita GDP, and reducing internal imbalances. In April 2002, the IMF and the World Bank Boards decided that Burkina Faso had fulfilled the conditions for reaching the completion point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative). In November 2002, the Boards considered the second annual progress report of the poverty reduction strategy paper (PRSP) and agreed that the authorities' efforts to implement the strategy provided sufficient evidence of their continued commitment to poverty reduction.

Macroeconomic performance was broadly satisfactory in 2002 despite a difficult external environment, marked by terms of trade shocks and continued tension in Côte d'Ivoire, Burkina Faso's most important regional trading partner. Real GDP growth in 2002 stagnated at 4.6 percent, the same rate as in 2001 but 1 percentage point below projections, reflecting mainly lower growth of cereal production. Fortunately, following the record cotton production attained in the 2001/02 crop year, output increased by a further 5.7 percent in 2002/03 to 400,000 tons. The disruptions in trade and transport resulting from the crisis in Côte d'Ivoire contributed to a rise in the year-on-year consumer price index of 3.9 percent at end-December 2002, compared with 1 percent for end-December 2001 and an objective of 2 percent for 2002. The external current account deficit (excluding grants) narrowed to 12.9 percent of GDP in 2002 from 13.6 percent of GDP in 2001. The terms of trade deteriorated by 6.7 percent on account of weaker cotton export prices and higher world petroleum prices. The real effective exchange rate appreciated by 5.2 percent in 2002, mainly as a result of the depreciation of the U.S. dollar against the euro, to which the CFA franc is pegged.

Fiscal performance in 2002 was broadly satisfactory, in spite of a weakening in revenue collection toward the end of the year, partly owing to the adverse impact of the crisis in Côte d'Ivoire. The overall fiscal deficit, including grants, was contained at 5 percent of GDP, compared with a program target of almost 6 percent of GDP. Tax revenue fell short of the program indicative target, owing to shortfalls in the value-added tax, and in income and profit taxes. The shortfalls in taxes also reflected continued weaknesses in tax administration, in particular the large and medium-sized taxpayers' units. Current spending exceeded budgetary allocations, owing to (i) unforeseen humanitarian assistance, border patrol, and security spending as a result of the crisis in Côte d'Ivoire; (ii) higher-than-forecast spending on goods and services, including for telephones, electricity, and water; and (iii) larger-than-planned outlays for the May 2002 legislative elections. However, domestically-financed capital expenditure was 22 percent below projections, mainly reflecting problems in administrative capacity, including in the social sectors.

Monetary policy, conducted at the regional level by the Central Bank of West African States, remained prudent in 2002. A reduction in the net bank credit to the government of about 11 percent of beginning-of-period broad money was offset by an 18 percent increase in bank credit to the economy, while the net foreign assets of the banking system rose by 2 percent of beginning-of-period broad money. In the circumstances, broad money grew by less than 1 percent in 2002.

There was further progress in the implementation of structural reforms in 2002. In the area of governance, the High Authority to Fight Corruption was created, as well as the Auditor General Office, and the authorities adopted an action plan to ensure transparency and accountability in fiscal management in July 2002. With respect to public enterprise divestiture, one government-owned hotel was sold, and progress was made in preparing for the sale of ginning plants in two zones in the cotton sector. However, only limited progress was made in improving the competitive position of the economy and bringing down Burkina Faso's high factor costs in the area of electricity, water, and telephones. The privatization of the national telephone company, ONATEL, scheduled for 2002, could not be completed because of delays in the creation of a regulatory authority. Reform of the energy sector was also slower than expected because the authorities did not prepare a coherent strategy for the sector, including an appropriate regulatory framework.

Executive Board Assessment

Executive Directors welcomed the broadly satisfactory performance of Burkina Faso's economy under three medium-term PRGF-supported programs during 1993-2002, which, going forward, provides a good basis for implementing the policy agenda laid out in the PRSP. Real GDP growth has recovered, inflation has remained low, and progress has been made in improving public expenditure management, liberalizing the price and trade regimes, and enhancing regional integration within the West African Economic and Monetary Union (WAEMU).

Directors noted that despite the progress achieved, Burkina Faso's economy remains fragile, with a large external current account deficit, and heavy dependence on external assistance and a few export commodities, notably cotton. Poverty remains widespread, and poor infrastructure and limited administrative capacity hamper the implementation of measures to improve health and education. The landlocked economy has also been hurt by the crisis in neighboring Côte d'Ivoire, the country's major regional trading partner. Directors considered that in this environment, the authorities should maintain their central focus on achieving a competitive, efficient, and resilient economy capable of delivering sustained economic growth and faster improvement in the social indicators.

Directors endorsed the authorities' plans for further fiscal consolidation in 2003. They noted that fiscal consolidation has been focused on containing domestically financed public spending. They expressed concern that revenue collection remains weak, repeatedly falling short of program targets. Last year government revenue as a percentage of GDP fell back to the level of a decade ago, and well below that required to meet the convergence criterion on revenue collection set by the WAEMU. Directors urged the authorities to give high priority to improving tax and customs revenue collection, in line with the recommendations of the recent Fund technical assistance mission. Preparation of an action plan to reduce exemptions

and strengthen tax administration, control, and collection should be a key element of this effort.

Directors noted that social spending has fallen short of the resources freed under the HIPC Initiative, and welcomed the authorities' commitment to use all HIPC Initiative-related resources in 2003 to finance priority education, health, and other poverty-reducing spending. Visible progress in these areas should help to boost national ownership of the program and better align fiscal policy with the policy agenda of the PRSP. Directors urged the authorities to keep strictly to the fiscal policy stance agreed for 2003 and 2004, closely monitoring ongoing projects and strengthening the effectiveness of public spending, including HIPC Initiative-related social spending. They welcomed the development of the medium-term expenditure framework (MTEF) in collaboration with the Fund and the World Bank. Directors considered that it will be essential to continue to contain domestically financed expenditure, including the wage bill and public investment, and called on the authorities to remain current on all domestic and external debt-service obligations.

Directors noted that in carrying out its monetary policy, the regional central bank, the Central Bank of West African States (BCEAO), focuses on containing inflation and supporting the exchange rate peg of the CFA franc to the euro. The BCEAO will continue to monitor lending activities and bank portfolio performance closely. Promoting financial sector development in Burkina Faso, including microfinance, will help small and medium-sized enterprises and the rural sector increase access to bank credit and financial services. The continued issuance of government bills on the regional money market will be conducive to financial sector development.

Directors welcomed the authorities' continued resolve to strengthen transparency in public finance management, promote good governance in public policy, combat corruption, open economic and social policy to public debate, and implement the program and the PRSP policy agenda in a timely manner. They commended the authorities for making operational the Auditor General's Office and the High Authority to Fight Corruption. They encouraged the authorities to adopt legislation to combat money laundering and the financing of terrorism, as planned in the context of WAEMU.

Directors welcomed the action plan to improve the business and investment environment, which focuses on strengthening the legal and judicial system, improving infrastructure, and streamlining the regulatory framework. They underscored the importance of a sound strategy to promote economic diversification, including alternative export crops, to strengthen growth prospects and protect the economy better against external shocks. Prospects for diversification would be improved by a reduction in factor costs in Burkina Faso, which are high in comparison with those in other countries in the region.

As part of the agenda of structural reforms designed to bolster competitiveness and encourage private sector development, Directors encouraged the authorities to

develop and implement sectoral strategies in accordance with the PRSP—including in education, health, energy, telecommunications, and infrastructure—and to continue to liberalize trade policies, and accelerate the privatization of public enterprises, including the utility companies. Several Directors regretted that subsidies for cotton industries in industrial countries are undermining Burkina Faso's efforts to fully exploit its comparative advantage in this sector, and called for their dismantling.

Directors considered Burkina Faso's financial statistical database to be generally adequate, but called for improvements in the quality and coverage of national accounts and external debt data, and development of social and poverty indicators. Directors urged the authorities to follow up on the recommendations of the recent Report on Standards and Codes data module mission.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2003 Article IV Consultation with Burkina Faso is also available.

Burkina Faso: Selected Economic and Financial Indicators, 2000-06

	2000	2001 Est.	2002 Rev. Prog.	Est.	2003	2004 Prog.	2005	2006
(Annual percentage changes, unless otherwise specified)								
GDP and prices								
GDP at constant prices	1.6	4.6	5.7	4.6	2.6	4.0	4.8	5.2
GDP deflator	5.3	5.3	1.7	2.2	6.4	3.0	2.1	2.3
Consumer prices index (annual average)	-0.3	4.9	2.0	2.3	4.5	2.8	2.6	2.4
Consumer prices (end of period)	2.4	1.0	2.0	3.9	5.0	3.0	2.8	2.6
Money and credit								
Net domestic assets (banking system) 1/	8.3	10.0	1.4	-1.2	9.7	5.4	5.4	6.1
Credit to the government 1/	6.8	-4.5	-1.4	-10.6	-0.3	-0.4	-0.2	0.0
Credit to the private sector 1/	8.1	8.0	2.8	10.6	10.0	5.8	5.6	6.1
Broad money (M2)	-1.4	10.7	10.6	0.8	9.2	7.1	7.0	7.7
Velocity (GDP/M2)	4.8	4.8	3.8	5.1	5.1	5.1	5.1	5.1
External sector								
Exports (f.o.b.; valued in CFA francs)	-6.3	11.9	8.1	0.2	8.5	7.5	7.8	6.9
Imports (f.o.b.; valued in CFA francs)	3.1	1.3	1.7	2.3	11.9	1.8	2.7	5.2
Terms of trade	-5.5	11.0	-7.2	-6.7	11.0	4.3	4.1	1.5
Real effective exchange rate (depreciation = -)	-4.5	3.3	...	5.2	...	...	...	...
(In percent of GDP, unless otherwise specified)								
Gross investment	19.0	19.1	28.1	18.3	19.1	19.1	20.6	21.5
Government	8.5	8.3	15.2	7.4	7.7	8.3	8.7	9.0
Nongovernment sector	10.6	10.9	12.9	10.9	11.4	10.8	12.0	12.5
Gross domestic savings	2.9	5.1	13.4	4.8	4.7	6.1	8.1	9.2
Government savings	3.3	2.9	7.0	3.0	3.7	4.8	5.7	6.6
Nongovernment savings	-0.4	2.2	6.4	1.8	0.9	1.3	2.5	2.6
Gross national savings	6.8	8.7	17.8	7.9	9.8	9.0	11.7	12.8
Central government finances								
Tax revenue	11.0	10.5	13.8	11.1	11.4	12.3	13.0	13.6
Current expenditure	10.5	10.7	13.4	11.9	11.3	11.3	11.3	11.2
Overall fiscal balance, excluding grants	-10.9	-11.3	-13.5	-10.4	-11.0	-9.9	-9.5	-9.2
Overall fiscal balance, including grants	-3.6	-4.0	-5.9	-5.0	-2.5	-3.3	-2.1	-1.7
Basic balance 2/	-1.4	-2.6	-4.3	-3.8	-4.5	-3.5	-3.2	-3.1
Excluding use of HIPC Initiative resources	-1.4	-2.2	-2.9	-2.5	-2.1	-2.1	-1.9	-2.1
External sector								
Exports of goods and nonfactor services	9.1	9.3	11.2	8.7	8.7	8.7	8.7	8.7
Imports of goods and nonfactor services	25.3	23.4	26.0	22.2	23.2	21.7	21.2	20.9
Current account balance (excluding current official transfers)	-15.0	-13.6	-14.1	-12.9	-14.2	-12.6	-12.0	-11.7
Current account balance (including current official transfers)	-12.3	-10.5	-10.5	-10.3	-9.4	-10.1	-8.9	-8.7
External debt indicators (before HIPC Initiative)								
Debt-service ratio 3/ 4/	24.5	26.5	25.8	26.4	24.8	23.2	21.2	19.0
Gross official reserves (in months of imports of goods and services)	4.3	4.2	5.3	4.3	3.9	3.7	3.6	3.7
Nominal GDP (in billions of CFA francs)	1,852	2,040	1,834	2,179	2,380	2,548	2,728	2,936

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

1/ In percent of beginning-of-period broad money.

2/ 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.

3/ In percent of exports of goods and services.

4/ After traditional debt-relief mechanisms and before original Heavily Indebted Poor Countries (HIPC) Initiative assistance delivered as of end-2001.



INTERNATIONAL MONETARY FUND

EXTERNAL
RELATIONS
DEPARTMENT

Press Release No. 03/82
FOR IMMEDIATE RELEASE
June 11, 2003

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves US\$34 Million Three-Year PRGF Arrangement for Burkina Faso

The Executive Board of the International Monetary Fund (IMF) today approved a three-year, SDR 24.08 million (about US\$34 million) arrangement under the Poverty Reduction and Growth Facility (PRGF) for Burkina Faso, which will support the government's economic reform program for 2003-06. The decision will make available to Burkina Faso an amount equivalent to SDR 3.44 million (about US\$5 million).

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

In commenting on the Executive Board's decision, Anne Krueger, First Deputy Managing Director and Acting Chair, stated:

"Burkina Faso's performance under three medium-term PRGF-supported programs during 1993-2002 was broadly satisfactory, and the policy agenda laid out in the PRSP adopted in 2000 is being followed faithfully. Real GDP growth has recovered over the period, inflation has remained low, and progress has been made in improving expenditure management and implementing structural reforms. However, Burkina Faso's economy remains fragile, and vulnerable to external shocks. Poverty remains high, and limited administrative capacity and poor infrastructure pose a challenge to efforts to raise the social indicators. A further strengthening of governmental institutions, well-targeted and effective public spending, measures to improve competitiveness and economic diversification, and encouragement of private sector and rural development will be needed to alleviate poverty and achieve sustained economic growth.

"The authorities' fiscal consolidation efforts should continue. Particular attention needs to be paid to revenue collection, which has been weak and has fallen short of the level required to meet the convergence criterion on revenue collection set by the West African Economic and Monetary

Washington, D.C. 20431 • Telephone 202-623-7100 • Fax 202-623-6772 • www.imf.org

Union. In light of this, the authorities appropriately plan to strengthen customs administration and tax administration, control, and collection in the coming months.

"The authorities will also continue to contain domestically financed public expenditure, and remain current on all domestic and external payments obligations. At the same time, resources will be reserved to protect social sector spending, in particular for education and health. The government intends to strengthen transparency in public finance management and the effectiveness of public spending, including HIPC Initiative-related spending. Further progress is expected in promoting good governance, combating corruption, and further encouraging public debate on economic and social policy. The program and the PRSP policy agenda are appropriately focused on fostering economic growth and working toward achieving the Millennium Development Goals.

"The government's program is appropriately ambitious, and well aligned with the country's PRSP policy agenda. It merits the support of the international community. All multilateral and non-Paris Club creditors are urged to participate fully in the HIPC Initiative for Burkina Faso," Ms. Krueger said.

ANNEX

Recent Economic Developments

Since 1993, Burkina Faso has satisfactorily implemented three PRGF-supported programs associated with the conduct of sound macroeconomic policies and significant structural reforms. Under these programs, and following the devaluation of the CFA franc in 1994, the real GDP growth rate increased to 4.7 percent on average during 1996-2002 from 3.5 percent during 1990-95, despite two drought years in 1998 and 2000 and terms of trade shocks in 2000 and 2002. Inflation remained low, but the external current account deficit widened during 1996-2002, reflecting, among other things, a weak performance in noncotton exports. Fiscal policy improved generally, with the overall fiscal deficit contained. Major structural reforms have been carried out, including in the areas of price, trade liberalization, and governance.

Program Summary

Achieving the macroeconomic objectives of the program will require the implementation of appropriate fiscal policies and key structural reforms, including in tax administration, fiscal transparency, and governance.

The fiscal program for 2003-04 aims at containing the basic budget deficit (including HIPC Initiative-related social spending) at 4.5 percent of GDP in 2003 and at reducing it to 3.5 percent of GDP in 2004. The overall fiscal deficit (excluding grants) would be limited to 11.0 percent of GDP in 2003 and reduced to 10 percent of GDP in 2004. To improve fiscal transparency and good governance, the government will implement its medium-term action plan to strengthen public finance management. Government revenue is projected to increase to 11.4 percent of GDP in 2003 and to 12.3 percent of GDP in 2004. On the expenditure side, the ratio to GDP of total budgetary outlays and net lending, excluding foreign-financed investment and lending, will

increase from 15.7 percent of GDP in 2002 to 17.1 percent of GDP in 2003 and fall to 16.7 percent in 2004.

The program also calls for reducing the stock of expenditures committed but for which payment orders have not been issued by CFA 15 billion in 2003, and stabilizing them in 2004, with the view of maintaining them below 10 percent of total expenditure. The regional central bank BCEAO will continue to pursue a prudent monetary policy in 2003-04 aimed at containing inflationary pressures and at reinforcing the external position of the banking system.

On the structural front, the cotton sector has been liberalized gradually in recent years, with the emphasis on strengthening the role of producers' associations. To ensure the long-term viability of the sector, the government's strategy involves opening the sector to private sector participation, with a view to improving further efficiency and competitiveness.

Burkina Faso joined the Fund on May 2, 1963. Its quota is SDR 60.20 million (about US\$85 million), and its outstanding use of IMF resources totaled SDR 89.07 (about US\$126 million) as of end March, 2003.

Burkina Faso: Selected Economic and Financial Indicators, 2000-06

	2000	2001 Est.	2002 Rev. Prog.	Est.	2003	2004 Prog.	2005	2006
(Annual percentage changes, unless otherwise specified)								
GDP and prices								
GDP at constant prices	1.6	4.6	5.7	4.6	2.6	4.0	4.8	5.2
GDP deflator	5.3	5.3	1.7	2.2	6.4	3.0	2.1	2.3
Consumer prices index (annual average)	-0.3	4.9	2.0	2.3	4.5	2.8	2.6	2.4
Consumer prices (end of period)	2.4	1.0	2.0	3.9	5.0	3.0	2.8	2.6
Money and credit								
Net domestic assets (banking system) 1/	8.3	10.0	1.4	-1.2	9.7	5.4	5.4	6.1
Credit to the government 1/	6.8	-4.5	-1.4	-10.6	-0.3	-0.4	-0.2	0.0
Credit to the private sector 1/	8.1	8.0	2.8	10.6	10.0	5.8	5.6	6.1
Broad money (M2)	-1.4	10.7	10.6	0.8	9.2	7.1	7.0	7.7
Velocity (GDP/M2)	4.8	4.8	3.8	5.1	5.1	5.1	5.1	5.1
External sector								
Exports (f.o.b.; valued in CFA francs)	-6.3	11.9	8.1	0.2	8.5	7.5	7.8	6.9
Imports (f.o.b.; valued in CFA francs)	3.1	1.3	1.7	2.3	11.9	1.8	2.7	5.2
Terms of trade	-5.5	11.0	-7.2	-6.7	11.0	4.3	4.1	1.5
Real effective exchange rate (depreciation = -)	-4.5	3.3	...	5.2	...	...	...	...
(In percent of GDP, unless otherwise specified)								
Gross investment	19.0	19.1	28.1	18.3	19.1	19.1	20.6	21.5
Government	8.5	8.3	15.2	7.4	7.7	8.3	8.7	9.0
Nongovernment sector	10.6	10.9	12.9	10.9	11.4	10.8	12.0	12.5
Gross domestic savings	2.9	5.1	13.4	4.8	4.7	6.1	8.1	9.2
Government savings	3.3	2.9	7.0	3.0	3.7	4.8	5.7	6.6
Nongovernment savings	-0.4	2.2	6.4	1.8	0.9	1.3	2.5	2.6
Gross national savings	6.8	8.7	17.8	7.9	9.8	9.0	11.7	12.8
Central government finances								
Tax revenue	11.0	10.5	13.8	11.1	11.4	12.3	13.0	13.6
Current expenditure	10.5	10.7	13.4	11.9	11.3	11.3	11.3	11.2
Overall fiscal balance, excluding grants	-10.9	-11.3	-13.5	-10.4	-11.0	-9.9	-9.5	-9.2
Overall fiscal balance, including grants	-3.6	-4.0	-5.9	-5.0	-2.5	-3.3	-2.1	-1.7
Basic balance 2/	-1.4	-2.6	-4.3	-3.8	-4.5	-3.5	-3.2	-3.1
Excluding use of HIPC Initiative resources	-1.4	-2.2	-2.9	-2.5	-2.1	-2.1	-1.9	-2.1
External sector								
Exports of goods and nonfactor services	9.1	9.3	11.2	8.7	8.7	8.7	8.7	8.7
Imports of goods and nonfactor services	25.3	23.4	26.0	22.2	23.2	21.7	21.2	20.9
Current account balance (excluding current official transfers)	-15.0	-13.6	-14.1	-12.9	-14.2	-12.6	-12.0	-11.7
Current account balance (including current official transfers)	-12.3	-10.5	-10.5	-10.3	-9.4	-10.1	-8.9	-8.7
External debt indicators (before HIPC Initiative)								
Debt-service ratio 3/ 4/	24.5	26.5	25.8	26.4	24.8	23.2	21.2	19.0
Gross official reserves (in months of imports of goods and services)	4.3	4.2	5.3	4.3	3.9	3.7	3.6	3.7
Nominal GDP (in billions of CFA francs)	1,852	2,040	1,834	2,179	2,380	2,548	2,728	2,936

Sources: Burkinabè authorities; and staff estimates and projections.

1/ In percent of beginning-of-period broad money.

2/ 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.

3/ In percent of exports of goods and services.

4/ After traditional debt-relief mechanisms and before original Heavily Indebted Poor Countries (HIPC) Initiative assistance delivered as of end-2001.