EXECUTIVE BOARD MEETING

EBS/18/11

March 1, 2018

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Burkina Faso—Request for a Three-Year Arrangement Under the Extended Credit Facility**

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Wednesday, March 14, 2018**
Proposed Decision:	Page 21
Publication:	Yes*
Questions:	Ms. Hakura, AFR (ext. 36721)
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***The authorities have indicated that they consent to the Fund's publication of this paper.**

INTERNATIONAL MONETARY FUND

BURKINA FASO

February 28, 2018

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

KEY ISSUES

Context. Economic activity continues to recover after the 2014–2015 political transition. However, despite some improvements in recent years, Burkina Faso's human development index remains among the lowest globally and poverty remains relatively high. The government is striving to meet the country's development challenges, which have recently intensified due to security shocks, through implementation of the 2016–2020 national and economic social development plan (PNDES). The authorities have requested a three-year arrangement under the ECF in an amount equivalent to of SDR 108.36 million (90 percent of quota) in support of their medium-term economic reform program.

Program objectives and policies. The program aims to maintain macroeconomic stability while promoting sustainable and inclusive growth. Under the program, the overall fiscal deficit would converge to the WAEMU convergence criterion of 3 percent of GDP by 2019 as part of a regional effort to sustain external stability and rebuild pooled regional foreign exchange reserves. Fiscal space for priority security, social, and investment spending would be supported by strengthening revenue mobilization and containing current spending, especially on wages. Efforts to improve investment selection and execution would achieve more with the resources available. Prudent public financial and debt management along with energy sector reforms would ensure fiscal sustainability and mitigate fiscal risks. Structural reforms would improve the business environment and promote diversification.

Outlook and risks. GDP growth is projected to stabilize at 6 percent in 2018 and over the medium-term. The main risks are the threat of further terrorist attacks, which would weigh on mining and tourism, and social unrest, which would raise spending pressures, including for further public wage bill concessions, and opposition from vested interests to strengthened domestic revenue mobilization. Other risks relate to the price volatility of Burkina Faso's major import and export commodities, namely for oil imports and gold and cotton exports, the vagaries of rainfall on agricultural production, and more binding constraints on access to financing resulting from a tighter regional debt market.

Staff views. Staff supports the authorities' request for an ECF arrangement. The Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) set out appropriate polices to achieve the program's objectives.

Approved By
Dominique Desruelle (AFR) and Johannes Wiegand (SPR)

Discussions were held in Ouagadougou during November 2-10, 2017 and continued via video conferencing and written communication through January 2018. The staff team comprised Ms. Hakura (head), Mr. Arnason, Ms. Diouf (resident representative), Mr. Lessard, and Mr. Ouattara (local economist) (all AFR), and Mr. Lima (FAD). The team received research support from Ms. Nikaein Towfighian, and administrative support from Ms. Margevich and Ms. Ndome (all AFR).
The staff team met with Prime Minister Thiéba, Minister of Economy, Finance and Development Sori/Coulibaly, and Minister of Budget Yaka. The team also met with National Director of the Central Bank of West African States Ki-Zerbo, other senior government officials, representatives of the private sector and civil society, and development partners.

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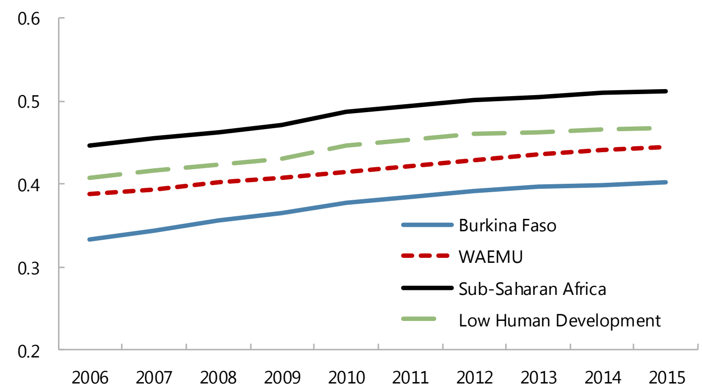
BACKGROUND

1. **Burkina Faso is a low-income country with significant development challenges, which have recently intensified due to security shocks.** Despite some improvements in recent years, Burkina Faso's human development index remains among the lowest in the world (Text Figure 1); around 44 percent of the population live on less than $1.90 (PPP-adjusted) per day. Poor socioeconomic conditions, including low levels of education and health care, and the growing risks from terrorism and social unrest are complicating the government's efforts to put the economy on a higher growth path and lift more people out of poverty.

Text Figure 1. Burkina Faso: Human Development Index, 2006–15

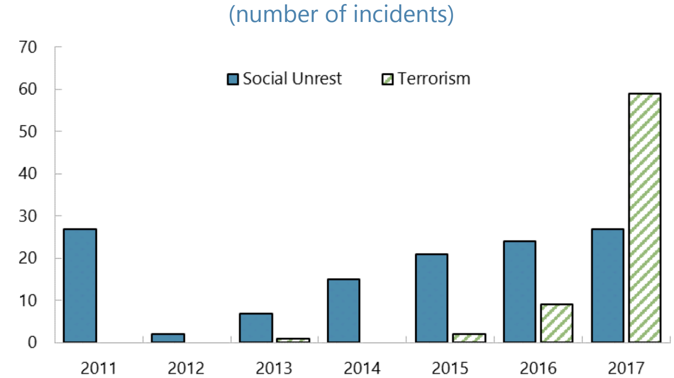


Source: HDI Database

2. **The threats from regional terrorism spillovers have increased and are impacting macroeconomic outcomes**. The number of terrorist incidents rose substantially in 2017 and included an attack with significant loss of life in Ouagadougou in August (Text Figure 2, Annex I). In the face of the deteriorating security situation, the 2017 budget raised military and security spending by 21 percent over 2016, to 1.6 percent of GDP, and a further increase of 50 percent is planned for 2018, mostly because of higher military investment. The authorities are also redirecting spending toward the rural areas in the north to bolster the security forces, local governments, infrastructure, and social services, including in the context of the 2017-2020 Emergency Plan for the Sahel (PUS).

Text Figure 2. Burkina Faso: Social Unrest and Terrorism, 2011–17

(number of incidents)



Source: Control Risks and IMF staff calculations.

3. **The frequency of incidences of social unrest has also increased.** Public sector strikes and social tensions impacted revenue collection in the first half of 2017 and put upward pressure on wages and transfers. These strikes have been motivated by pay and benefits inequalities within and across ministries, and have often led to ministry-specific wage agreements, that in turn motivated further strikes in other ministries. The government's wage bill has also been affected by the 2016 reform (Law 081), which addressed a long-standing demand to incorporate contractual staff into the civil service and harmonize pay across civil servants and contractors.

4. More than two years after the political transition, the authorities are under pressure to deliver tangible results through the implementation of their national economic and development strategy (PNDES). The PNDES aims to accelerate economic growth and lower the poverty rate from 44 percent in 2014 to below 35 percent by 2020.[1] The plan is premised on scaled up public investment, notably to improve the electricity supply and transportation infrastructure, but faces various constraints, including weak domestic revenue mobilization, a rising wage bill, weaknesses in investment selection and execution, and limited budget support.

5. Burkina Faso's program performance was generally satisfactory under the 2013-2017 ECF arrangement which expired July 2017. Quantitative targets were mostly met and agreed structural reforms implemented. However, partly owing to the political transition during 2014-15, progress in increasing revenue mobilization fell short and the composition of spending deteriorated as current spending, particularly on wages and salaries, crowded out public investment spending. However, fiscal performance deteriorated later in 2017 as increased security shocks and other spending pressures prompted a ramp up in public spending, including from the passing of a law and decrees to temporarily ease investment execution procedures, including for public-private partnerships (PPPs).

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

A. Improving Economic Performance

6. Preliminary data suggest that growth accelerated to about 6½ percent (about 3.5 percent in per capita terms) in 2017, from 5.9 percent in 2016. Higher agricultural output, particularly of cotton, increased mining activity, and expanded public investment account for most of the acceleration (Figures 1-3, Table 1). Inflation remained subdued, with consumer prices rising by only by 2 percent year-on-year in December 2017.

7. The current account deficit is projected to have widened to 8.5 percent of GDP in 2017 (Table 2). While still above 2016 levels, staple exports—gold and cotton—production in 2017 are now expected to be slightly lower than initially forecast due to less favorable weather conditions and delay in the ramping up of production from new mines. Meanwhile, a significant scaling up in public investment spending and increased security spending, along with increases in public sector wages, have buoyed import demand. As a member of the West African Economic and Monetary Union (WAEMU), Burkina Faso has full access to the pooled foreign reserves of the BCEAO. The international reserve position of the BCEAO came under pressure in 2016, partly as the result of delayed fiscal consolidation in the region. Helped by Eurobond issuances by Côte d'Ivoire, Senegal, and the West African Development Bank (BOAD), international reserve coverage stabilized at about 4 months of imports at end-2017.

[1] See Box 1 in IMF country report 16/390.

8. Credit to the private sector is projected to have decelerated somewhat, to 11 percent, in 2017. The banking system remains relatively profitable and well-capitalized, but credit remains concentrated to a few large clients and sectors of the economy. Access to financing is particularly constrained for those in rural areas, especially women, and significant informational, IT, and collateral requirements limit access to affordable credit for small and medium-size enterprises.

9. Preliminary data point to a large widening of the overall fiscal deficit in 2017, driven by higher public investment spending (Tables 4a, 4b, and 4c). Despite a disappointing first quarter, tax revenue collections reached an estimated 17 percent of GDP in 2017, an increase of about 1 percentage point of GDP relative to the previous year. Notwithstanding this strong revenue performance, there was a significant increase in capital spending, especially in the second half of 2017, as domestically-financed public investment nearly doubled in nominal terms to 9.2 percent of GDP. In addition, current spending grew faster than expected, driven by increases in the wage bill and current transfers of 0.2 and 0.5 percentage points of GDP, respectively. Increases in current transfers were caused in part by higher transfers to state-owned enterprises, including for the clearance of unpaid liabilities in the energy sector, as well as by increases in social spending. Consequently, the fiscal deficit on a commitment basis is estimated to have reached at least 8.2 percent of GDP in 2017, compared with a projected deficit of 5.4 percent of GDP at the time of the 7th review under the previous ECF arrangement and a deficit of 3.4 percent of GDP in 2016. Taking into account a large cash adjustment, tentatively estimated at CFAF 160 billion, reflecting investment spending committed but not yet disbursed by year end, the deficit on a cash basis is 6 percent of GDP. This cash deficit was financed in part by drawing on government deposits at the Central Bank. As a result, total public debt remained virtually unchanged at 38.3 percent of GDP.

B. Positive Outlook with Downside Risks

10. Staff's baseline projections assume that real GDP growth will stabilize at 6 percent in 2018 and over the medium-term. The growth projections for 2018 and 2019 have been revised downward compared with the 7th review under the previous ECF arrangement in response to the deteriorating security environment and the envisaged fiscal consolidation. Changes in projections for gold and cotton production, as well as the external environment, also contribute to the more modest medium-term growth path. The current account deficit is expected to narrow in 2018 as gold production increases and fiscal consolidation softens import demand, and should settle around 7 percent of GDP in 2019 and beyond.

11. The main risks to the outlook include the threat of terrorism and social unrest, which would weigh on mining, tourism, and government revenue. Other risks relate to the volatility of oil import prices and gold and cotton volumes and export prices, the vagaries of rainfall, and more binding constraints to access to financing from tighter regional liquidity conditions. Rapid implementation of reforms and projects with a high-growth payoff would boost near- and medium-term growth.

POLICY DISCUSSIONS

12. The authorities have requested a Fund arrangement to support their development and poverty reduction objectives in the PNDES, address the current and prospective protracted balance of payments needs, and alleviate the structural impediments to sustainable and inclusive growth. The authorities are facing a set of complex security, social, and developmental objectives. The policies under the ECF-supported program aim to strike a balance between these competing constraints. Specifically, the main objectives of the program are to: (i) foster a realistic fiscal consolidation to the WAEMU 3 percent of GDP fiscal deficit convergence criterion by 2019 to preserve debt sustainability and support regional arrangements; (ii) create fiscal space for priority social and investment spending by enhancing domestic revenue mobilization and containing recurrent spending, particularly on wages and salaries; (iii) improving public investment selection and execution; (iv) strengthening public financial and debt management; and (v) promoting diversification and inclusive growth, including through financial sector development.

13. The discussions took place in the context of the need for regional fiscal consolidation.[2] Burkina Faso's fiscal adjustment plan would help support the region's monetary and exchange rate arrangements, and build up its reserve pool. Conversely, regional monetary policies continue to deliver price stability in Burkina Faso.

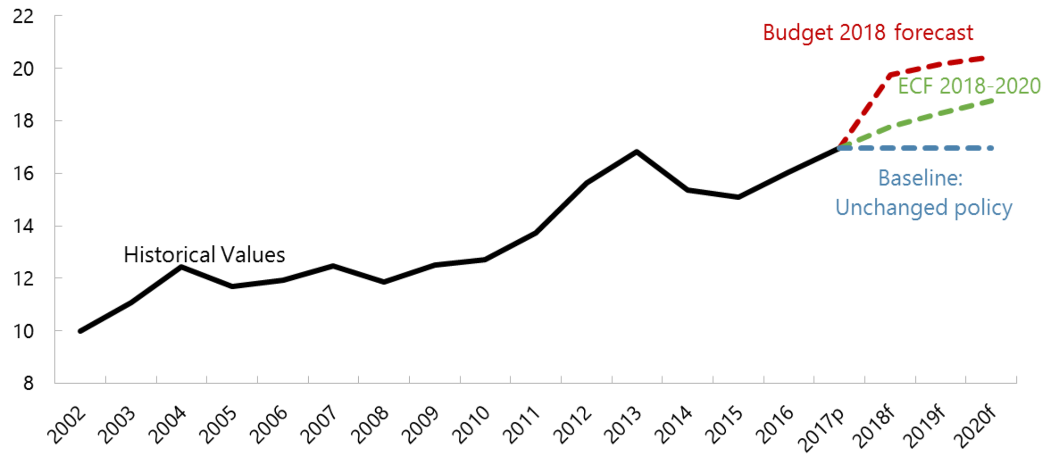
A. Sound and Credible Fiscal Policy

14. The authorities' fiscal framework contains an important commitment to the WAEMU convergence criterion of an overall fiscal deficit not exceeding 3 percent of GDP in 2019 and beyond. Nevertheless, the 2018 budget is highly dependent on ambitious growth and revenue projections that will be difficult to achieve. Of note, the authorities have projected an increase in the domestic revenue-to-GDP ratio of close to 3.3 percentage points in 2018 (Text Figure 3). With respect to expenditures, projections for recurrent spending items, including wages and salaries, seem on the low side. Even with these assumptions, the overall fiscal deficit is projected to be 5.4 percent of GDP in 2018 as the 2018 budget also maintains an elevated level of domestically-financed investment spending.

[2] See analysis and discussion in the WAEMU regional consultation Staff report (IMF Country Report No. 17/99).

Text Figure 3. Burkina Faso: Tax Revenue to GDP Ratio, 2002–20

(In percent of GDP)



Source: Burkinabè authorities; and IMF staff estimates.

15. Given that the revenue projections in the 2018 budget may not be achieved, the authorities agreed to block under the program spending commitments of 3.3 percent of GDP through a specified list of expenditure items. Given cross-country experience and Burkina Faso's track record, the authorities' planned revenue administration reforms can realistically be estimated to increase the ratio of tax revenue to GDP by about 0.8 percentage points in 2018 and about 0.5 percentage points in subsequent years. Further improvements in the revenue-to-GDP ratio would require additional tax policy and tax administration measures. Projections for recurrent spending in the 2018 budget law were also reconsidered in light of spending pressures relating to security, public investment, and growth in the public-sector wage bill. Against this background and to achieve a deficit target of 5 percent of GDP in 2018, the authorities have identified a list of spending amounting to CFAF 264 billion (approximately 3.3 percent of GDP) for which no financial or legal commitments can be made. This delayed spending list was established by Cabinet (prior action). Spending frozen within this envelope will remain inaccessible up until revenue prospects can be re-evaluated in the context of the next program review and the authorities' mid-year review of budget execution (MEFP¶23). If during the review, total revenue projections are revised upward the government would consider releasing high priority items from the delayed spending list, but only to the extent that would allow the authorities to observe the 5 percent of GDP ceiling on the overall fiscal deficit (commitment basis). The agreed fiscal framework for the ECF-supported program is presented in the "Program" column in Text Table 1.

Text Table 1. Burkina Faso: Fiscal Projections, 2016–19

(In percent of GDP)

	2016	2017	2018		2019
	Prel.	Prog.	Budget	Prog.	Prog.
Total revenue and grants	21.0	21.7	25.5	23.1	23.9
Total revenue	18.4	19.0	22.3	19.7	20.3
Tax revenue	16.0	17.0	20.4	17.8	18.3
Nontax revenue	2.3	2.1	1.9	1.9	2.0
Grants	2.7	2.7	3.2	3.4	3.7
Project	1.5	1.6	2.2	2.2	2.8
Program	1.2	1.0	1.1	1.2	0.9
Total Expenditure	24.4	29.9	30.8	28.1	27.0
Current expenditure	16.7	17.3	16.8	17.4	16.1
Wages and salaries	8.3	8.5	8.0	8.5	8.3
Goods and services	1.9	1.9	1.9	2.1	1.7
Interest payments	1.0	1.0	1.3	1.3	1.2
Current transfers	5.5	6.0	5.6	5.5	4.9
Investment expenditure	7.9	12.6	14.1	10.7	10.8
Domestically financed	5.2	9.2	10.2	6.9	6.3
Externally financed	2.7	3.3	3.9	3.9	4.5
Overall balance (commitment basis)	-3.4	-8.2	-5.4	-5.0	-3.0
Memorandum items:					
Nominal GDP (CFAF billion)	6,704	7,302	7,896	7,896	8,540
Real GDP growth (percent)	5.9	6.4	6.0	6.0	6.0

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

16. Frontloading of fiscal consolidation under the program is achieved by containing domestically-financed investment spending relative to the initial budget and the large commitments in 2017 to a level consistent with available resources. This fiscal path also accommodates the necessary increase in security spending to confront the recent increase in terrorist activity and protects current social spending. Domestically-financed investment spending in 2018 would remain above historical levels. The program limits overall spending through conditionality on the overall fiscal deficit (commitment basis) (indicative target). It also includes performance criteria on domestic and external financing, with some flexibility to allow the debt management unit to efficiently determine the composition of financing in the face of an unprecedented gross financing requirement projected for 2018 (Text Table 2).

Text Table 2. Burkina Faso: Gross Financing Needs, 2014–18

(In percent of GDP)

	2014	2015	2016	2017	2018
				Prel.	Proj.
Gross Financing Needs	3.8	8.9	7.4	11.5	12.7
Primary deficit (commitment basis)	1.1	1.5	2.4	7.2	3.7
Interest Payments	0.7	0.7	1.0	1.0	1.3
External	0.5	0.5	0.7	0.7	0.8
Domestic	0.2	0.3	0.3	0.3	0.4
Amortization	3.2	5.2	5.3	5.6	5.7
Domestic	2.6	4.4	4.5	4.7	4.7
Bills (maturity <1 year)	1.5	3.1	2.9	3.2	3.1
Bonds (maturity >1 year)	0.8	0.9	1.3	1.3	1.6
Other	0.4	0.4	0.3	0.2	0.0
External	0.6	0.8	0.8	0.9	1.0
of which: IMF	0.1	0.2	0.2	0.2	0.2
Cash adjustment	-1.2	1.4	-1.3	-2.2	2.0
Nominal GDP (FCFA billion)	6,120	6,163	6,704	7,302	7,896

Source: Burkinabè authorities and IMF staff calculations.

17. **Staff urged the authorities to take a different approach to budgeting during subsequent program years**. Budgets should be based on realistic projections and spending commitments in the first place. Revenue projections should be realistically assessed based on recent trends and planned actions. After taking into consideration the fiscal deficit target, this would determine the total envelope for spending. The spending envelope would then be allocated across spending categories based on a realistic assessment of obligatory spending needs and government priorities, including to strengthen security. By necessity, this approach would leave fewer resources available for domestically-financed investment spending underscoring the need for careful management of the limited investment budget.

B. Preserving Debt Sustainability

18. **The authorities plan to continue to rely mainly on concessional borrowing for external financing**, in view of constraints on its debt management capacity (MEFP ¶24). The program has a non-concessional borrowing ceiling for the first year of the program of CFAF 200 billion (about 2.5 percent of GDP) to allow contracting of near but not fully concessional loans and non-concessional loans for high priority projects for which concessional financing is not available. It should be noted that disbursements for these projects would be spread out over time. As underscored in the debt sustainability analysis (DSA), the overall buildup of public debt in Burkina Faso during the program period would be constrained by the fiscal deficit path incorporated in the program, consistent with convergence to the WAEMU fiscal deficit target of 3 percent of GDP by 2019 and then maintained at that level.

19. Burkina Faso's risk of external debt distress would remain moderate based on an updated DSA (DSA Appendix). While Burkina Faso's level of debt is relatively low compared to its regional peers, fiscal, capacity, and market risks argue for maintaining the moderate rating. With respect to fiscal risks, aside from the traditional possibility of fiscal slippages, Burkina Faso faces rising risk of a negative debt shock arising from (present and future) contingent liabilities associated with state-owned enterprises and potential PPPs. While debt management is adequate in many respects, the authorities desire to diversify financing sources outside the regional market and traditional (largely concessional) borrowing, including eventual issuance of Sukuk bonds and a Eurobond, will require significant capacity building, particularly in the 'middle-office' analysis function and ability to develop a robust medium-term debt strategy (MTDS). Market risk is also a source of concern given the high dependence Burkina Faso has on the regional debt market combined with the short-term maturity structure of its regional debt. Together, these make Burkina Faso sensitive to interest-rate and rollover risks on the regional debt market. In the context of an organizational review of the Ministry of Finance, the authorities are exploring the possibility of implementing an earlier Fund TA recommendation to centralize all debt management tasks, except those relating to official creditors, in the Debt Management Unit, which would be organized into a front, middle, and back office.

C. Creating Fiscal Space

20. Higher domestic revenue mobilization and containment of the wage bill are key parts of the strategy to create fiscal space for priority investment and social spending, as well as increased security spending. In addition, measures will be taken to protect fiscal space in the budget against the accumulation of contingent liabilities to the energy sector.

21. A multipronged approach will be undertaken to enhance revenue mobilization over the short and medium term, involving revenue administration and tax policy measures. In part based on revenue administration TA received from the Fund in March 2017, the authorities have announced various measures to protect and expand the tax base and improve tax compliance, including the tax code adopted in December 2017, the full enforcement of standardized VAT invoicing, and the improvement of IT systems to enable data sharing among tax administration and customs (Text Table 3). The projected 0.8 percentage point of GDP increase in tax revenue in 2018 mainly reflects: (i) the completion of the authorities tax arrears collection effort (about 0.3 percent of GDP); (ii) the full implementation of revenue administration reforms relating to standardized VAT invoicing, approximately 0.2 percent of GDP) that began in 2017; and (iii) the immediate impact on revenue collections from the implementation of several excise tax and capital gains tax increases (about 0.2 percent of GDP) (prior action). The remaining measures in Text Table 3 focus mostly on revenue administration, and are expected to have a positive although gradual impact on tax collections. The full implementation of these measures is estimated to deliver a permanent increase in tax revenues of about half a percentage point of GDP per year in 2019 and 2010, which will help offset the reduction in tax collections from the full clearance of tax arrears. Further tax policy measures may be taken during 2018 and over the medium term, drawing on the recommendations of a FAD TA mission that took place in January 2018.

Text Table 3. Burkina Faso: Revenue Measures with Impact in 2018–20

(In percent of GDP)

Measures	Impact	Start Date
Tax		
Collection of tax arrears	0.3	October 2017
Full implementation of standardized VAT invoicing (small and medium firms)	0.2	January 2018
Transfer pricing and CIT base broadening	0.1	January 2018
Renewal of property transfer tax	0.1	January 2018
Increases in excise taxes	0.1	January 2018
Changes in taxation of informal sector and synthetic taxes	0.1	June 2018
Customs		
Evaluation procedures for imported vehicles subject to customs duty	0.2	September 2017
Improve effectiveness of customs administration by creating specialist units	0.5	January 2018
Complete automatic data exchange between DGD Togo and DGD Burkina Faso	0.3	April 2018
Total	**1.7**	

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

22. **Efforts to contain the wage bill will also be instrumental to creating fiscal space.** The wage bill to GDP ratio has been on an upward trend relative to GDP, both because of an expansion of the work force and rising compensation levels. The government has made proposals to social partners to stabilize the public wage bill over the next three years. The 2018 budget also proposes the implementation of a global wage bill envelope that will set staff recruitment limits by ministry and encourage mobility of personnel to understaffed departments. Finally, the government aims to control staffing levels by continuing biometric identification of civil servants and regularly monitoring the payroll database (MEFP ¶30). While the biometric identification of civil servants is proceeding, the timeline for the other proposed measures is unclear. The authorities have requested joint technical assistance from the Fund and the World Bank to assist in strengthening the capacity to project the wage bill and to identify structural measures to stem increases in the wage bill. This joint TA is tentatively scheduled for May 2018.

23. **Staff welcomes the authorities' intention to protect fiscal space in the budget against contingent liabilities in the energy sector.** The measures the authorities are taking are also important to put the energy sector on a sound and sustainable financial footing. Addressing energy sector inefficiencies is key to unlocking Burkina Faso's growth potential.

- In line with the tariff-setting regime adopted in 2016, the authorities are limiting and transparently budgeting subsidies for electricity generation. Should fuel prices rise, the difference will be paid from the government budget through regular transfers to SONABEL (the state-owned electricity company), up to a ceiling after which an electricity tariff revision would be triggered. In 2017, the budgeted ceiling was 21 billion CFAF.

- The authorities are considering introducing an automatic adjustment mechanism for pump fuel prices to reduce fiscal risks and inefficient, regressive, fuel subsidies. This is opportune as international oil prices have started to rise. A mechanism for the automatic adjustment of pump fuel prices in response to market prices was adopted in 2013 but not implemented. The authorities have initiated a communication strategy around the fiscal costs of fuel subsidies, their effects, and the benefits of an automatic adjustment mechanism during 2018 (prior action). The authorities are also studying ways to mitigate the effects of a transition from fixed to flexible fuel pump prices on the poorest and most vulnerable members of society (MEFP ¶44). In the interim, to limit the risks to the budget from higher oil prices, the authorities agreed to adjust pump fuel prices when the explicit and implicit subsidy on pump fuel prices exceeds CFAF 25 billion (0.3 percent of GDP).

- The authorities will undertake an independent external audit of SONABHY (the state-owned fuel company). This audit will provide clarity on the assets and liabilities of SONABHY, its overall profitability and capital structure, whether the accounting framework conforms to international best practice and appropriately records the gross and net flows between it and the central government. An independent and external auditor will be appointed by April 2018 (structural benchmark), and the audit is expected to be completed by June 2018 (MEFP ¶45).

- The authorities have continued their plan to clear cross-liabilities in the energy sector. In October 2017, the central government repaid the last CFAF 23 billion of unpaid bills and subsidies to the state electricity producer (SONABEL). In addition, the government paid CFAF 37 billion to the state fuel importer (SONABHY) of accumulated fuel subsidies from previous years (MEFP ¶43). An additional CFAF 35 billion (0.5 percent of GDP) was paid to SONABHY through a tax credit, which SONABHY can use to offset tax liabilities towards the Treasury. This operation is currently recorded below-the-line in 2017, and, therefore, has no impact on the overall deficit in 2017. Staff encouraged the authorities to record the clearance of all unpaid liabilities to the state oil importer above-the line in line with GFSM 2014 guidelines.

D. Improving Investment Selection and Execution

24. Improving the selection and execution of public investment is crucial, especially in the context of severe resource constraints. The execution rate of the public investment budget, particularly the externally-financed component, has consistently been low. This has undermined the attainment of the authorities' development objectives and at times resulted in loss of donor funding. While a new public procurement code was adopted in late 2016 to address these deficiencies, this was bypassed by a temporary law (Law 42/2017) and two decrees passed in July 2017 temporarily easing restrictions on direct contract negotiations for priority PPP projects and investments, such as in the security, infrastructure, and social sectors. The fast-tracking of procedures, including from single-sourcing, could lead to poor project quality, higher costs and fiscal risks. The authorities have allowed the temporary law for PPP projects (prior action) and two decrees pertaining to priority investment to expire on January 13, 2018 and have limited the number of projects authorized under the PPP Law 42/2017. The authorities are also continuing their efforts to streamline and increase transparency of regular public procurement procedures in collaboration with the World Bank to improve efficiency and reduce delays.

25. The authorities are following up on the implementation of the recommendations of the March 2017 Public Investment Management Assessment (PIMA) TA mission (MEFP ¶31). In collaboration with line ministries, the Ministry of Finance has created a list of priority investment projects. Moreover, in line with the recommendations of the PIMA mission, the government will produce a technical guide standardizing the methodology to be used in cost-benefit analyses for large projects costing more than CFAF 1 billion. Such analyses will be conducted for the ten largest investment projects that will be included the 2019 budget (structural benchmark).

26. The authorities have agreed to curtail their intentions to pursue investment scaling up through various off-budget vehicles such as pre-financing arrangements, supplier credits, and public-private partnerships (PPPs). The amounts initially involved would have implied significant budgetary risks from contingent liabilities. A recent FAD TA mission on managing PPP risks provided recommendations on how to strengthen the legal and institutional framework for PPPs, as well as to establish a clear separation between true PPPs and pre-financing and supplier credit arrangements. On this basis, the following agreements were reached with the authorities:

- To help mitigate fiscal risks, the authorities agreed to eschew pre-financing arrangements entirely (zero ceiling quantitative performance criterion), and to record existing and future supplier credit-financed projects in the budget and in the debt statistics in line with international best practice (MEFP ¶25).
- The authorities are currently pursuing two supplier credit-financed projects (hospital and ring road). If these projects are executed, the spending will be recorded in the fiscal accounts. Moreover, as articulated in the Letter of Intent, the authorities are committed to ensure that necessary actions will be taken to ensure that the program ceilings on the 2018 and 2019 fiscal deficits of 5 percent and 3 percent of GDP, respectively, will be observed.
- The authorities will create a database of all existing and potential PPP and supplier credit arrangements (structural benchmark and MEFP ¶33). A similar database will also be created for sovereign guarantees (structural benchmark).
- The government has agreed to an annual quantitative ceiling of CFAF 200 billion (about 5 percent of GDP) on the total amount involved in PPPs under the program (indicative target). In addition, before any PPP project is signed they will conduct a fiscal risk analysis of the project as well as an analysis of the implications of the project for public debt sustainability (MEFP ¶34).

E. Strengthening Public Financial Management

27. PFM needs to be strengthened, building on regional initiatives. Progress has recently been made in implementing WAEMU directives covering program budgeting. Indeed, Burkina Faso was the first country in the region to implement program budgeting in 2017. This has allowed the Burkinabe authorities to better identify and monitor specific expenditure items that directly tackle poverty. The authorities remain committed to further consolidate progress in this area (MEFP ¶36).

However, in other core PFM areas, such as budget formulation, execution, and monitoring, cash management, and IFMIS implementation, a new impetus for reforms is needed.

28. Adopting a treasury single account (TSA) framework at the BCEAO would increase transparency of spending procedures and cash management. The implementation of the TSA has stalled due to technical obstacles and the incompatibility of the IT systems of the BCEAO and the model proposed by a TA mission. The authorities have pledged to develop a new plan for centralizing treasury operations and, in the meantime, continue to make some progress in closing inactive accounts with commercial banks and the central bank (MEFP ¶38).

29. Staff encouraged the authorities to set up a mechanism to ensure timely payment of VAT refunds to improve the business environment. Delays in paying VAT refunds persist because of systematic underbudgeting of VAT refunds as an expenditure item. The authorities have now repaid all unpaid VAT refunds that had been validated for 2016. However, by end-September 2017 the budgetary allocation for VAT refunds had been exhausted and the projected stock of validated but unpaid VAT refunds at end-2017 was about CFAF 60 billion, compared to CFAF 40 billion at end-2016. To preserve the integrity of the VAT system, the government committed to substantially reducing the stock of validated but unpaid VAT refunds over the duration of the ECF-supported program (indicative target and MEFP ¶35).

30. The authorities are continuing with their efforts to clear or cancel "irregular" domestic debts identified in the 2015 annual audit report (MEFP ¶39). Remaining unpaid bills pertain to claims which lack full documentation. They are also implementing the recommendations of the annual audit reports aimed at preventing further accumulation of domestic arrears. The authorities also intend to address the issue of outstanding SONAPOST liabilities to the treasury (MEFP ¶40). Liabilities of 1.6 percent of GDP were identified by a 2016 audit, dating back to when the treasury held accounts at the postal bank, and a first repayment of 0.5 percent of GDP to the Treasury was made in February 2017. The authorities are committed to clearing the remaining cross-liabilities between SONAPOST and the Treasury, and a phased clearance plan will be in place in end-April 2018 (structural benchmark).

F. Promoting Diversification, Poverty Reduction, and Inclusive Growth

31. A large share of the Burkinabè population lives off the agricultural sector, notably cotton. The cotton sector is expected to continue to grow, but productivity remains low. Over the medium-term, value-added in the sector needs to increase, ideally through improvements in cotton production, but also the development of additional processing capacity for cotton fibers before export. For other agricultural products, the authorities are attempting to improve access to financing, infrastructure, and water, which are essential to unlocking growth potential and diversifying exports.

32. The authorities are pursuing various efforts to strengthen the social safety net (MEFP ¶55 and ¶56). Several actions have been undertaken to improve the living conditions of children. Adolescents, including 2,000 girls, have received trades training (vegetable growing, sewing, weaving, and feedlot operations). These actions will continue to be pursued during the PNDES period. Under the social safety net cash transfer project 15,000 recipients (women who are from poor households, who are pregnant, nursing, or raising children under 15, as well as households affected by or vulnerable to food insecurity or shocks) already received transfers payments totaling CFAF 3.8 billion. The aim is that, by the end of the project, the total number of recipients would be increased to 72,000. The authorities also continue to implement the program, announced in 2016, for free access to healthcare for all children under five years of age and women who are pregnant. To preserve social spending through the program period, there is an indicative floor on current social spending expenditures (2.2 percent of GDP in 2018).

33. Expanding financial inclusion is a government priority as it is essential to reducing poverty and supporting private sector-led growth (MEFP ¶51). Only 15 percent of the Burkinabè population have a checking account and far fewer use their accounts on a regular basis. Moreover, access to credit is far more restrictive among SMEs and other smaller borrowers who often cite lack of financing as a fundamental barrier to their operations. The authorities are expected to start implementing in 2018 their national financial inclusion strategy. The national strategy mirrors the regional strategy in its analysis of the barriers to financial access as well as the list of measures to tackle obstacles to financial inclusion. The strategy emphasizes mobile banking, microfinance, and reducing administrative barriers and represents promising first steps to boost financial inclusion. Moreover, the authorities are exploring options to create an agricultural bank as well as a Caisse de Depots et de Consignations (analogous to the French model). There are potentially large benefits of mobile banking when well implemented. Staff cautioned, however, about the fiscal and governance risks associated with state-owned financial institutions, especially if they are monitored and/or regulated differently than other financial institutions. Moreover, staff noted that these state-led financial institutions are not a substitute for tackling known gaps in the financial system, for example information gaps that could be better resolved by the creation of a credit bureau.

34. Tackling gender inequality can help boost growth. Gender inequality is pervasive in Burkina Faso as in much of sub-Saharan Africa. Women are disadvantaged when it comes to educational opportunities, legal rights, and economic empowerment (Annex II). An analysis for sub-Saharan Africa highlights that decreasing gender inequality in Burkina Faso to the level in fast-growing Asian countries can increase real per capita annual GDP growth by about 0.5 percentage points.[3] The government has launched an economic empowerment program for women and youth that aims at financing micro-projects over 2017-19 (MEFP ¶57).

G. Improving the Business Climate

35. The authorities are committed to fighting corruption (MEFP ¶58). Steps are being taken to bring the regime of asset declarations by public officials into line with international best practices by strengthening its framework and implementation. An important first step is to ensure that the good governance and anti-corruption commission (ASCE-LC) has the means necessary to record

[3] See *Sub-Saharan Africa Regional Economic Outlook 2015*.

and analyze asset declarations. With assistance of the World Bank, the ASCE-LC is transitioning from an unsustainable paper-based approach to asset declaration to a digitized, online, submission system. Digitizing the system will allow for superior record keeping, reduce data-entry errors, and facilitate more robust quantitative analysis of the asset declaration database. Moreover, the authorities have undertaken to make available to the ASCE/LC the financial resources it needs to carry out its mandate.

36. For several years, the difficulty in having (reliable and affordable) electricity, the burdensome procedures for paying taxes, and constraints to access credit have been listed as critical barriers to improving the business climate in Burkina Faso. In response, the authorities have prioritized energy production in the PNDES and through a combination of support from international development partners, strategic PPPs, and power purchase agreements with neighboring countries the authorities expect to quickly increase electricity supply to the economy. Similar efforts are being made to ease the burden of paying taxes, most notably with the full implementation of standardized VAT invoicing and efforts to digitize and simplify the tax collection process. The finalization of the authorities' multi-year national financial inclusion strategy, and its implementation beginning in 2018, is expected to reduce barriers to getting credit, especially for women, agriculture, and small- and medium-sized enterprises (SME).

H. Economic Data

37. The authorities are seeking to improve macroeconomic data and three significant milestones are expected to be reached by end-2018 (MEFP ¶59). First, work should finally be completed on updating the base year of the national accounts; replacing the increasingly outdated 1999 base year with a new 2015 base. Second, results from the National Survey on Employment and the Informal Sector as well as the results from the National Survey on Artisanal Gold Production will be integrated into the national accounts. Third, the new national accounts data, incorporating revised gold and informal sector production, will be classified under a new system of national accounts as Burkina adopts the SNA2008 methodology. The revised system of national accounts time series data is expected to be available by end-2018 and preliminary indications are that it could lead to meaningful upward revisions in historical gold and informal sector production data.

I. Capacity Development

38. A capacity building strategy has been developed in consultation with the authorities. The strategy is aligned with the authorities' development priorities in the PNDES as well as agreed in the program. Key components focus on enhancing domestic revenue mobilization, limiting contingent risks, controlling re-current spending, particularly on wages and salaries, and strengthening spending efficiency, especially in regard to public investment spending.

J. Safeguards Assessment

39. A safeguards assessment of the BCEAO is substantially complete. The 2018 assessment, conducted on a four-year cycle for regional central banks, found that the BCEAO continues to maintain a strong internal control environment. Key recommendations from the last assessment in 2013 have been implemented. The bank adopted International Financial Reporting Standards (IFRS) in 2015 and the selection criteria for the external auditors has been strengthened. The audited financial statements in the period since the last assessment have had unmodified (clean) audit opinions and are published on a timely basis.

K. Program Modalities

40. The requested access under the new ECF arrangement is equivalent to SDR 108.36 million, or 90 percent of quota. This reflects Burkina Faso's satisfactory track record under previous programs, increased balance of payments needs stemming from the various developmental, social, and security pressures highlighted in previous sections of the report, and strong policies, including prior actions. Disbursements would be made semi-annually starting in March 2018 (Table 5). Proposed quantitative performance criteria (PC) and indicative targets (IT) are set out in MEFP Table 1. The prior actions and structural benchmarks drawing on Fund TA recommendations are listed in MEFP Table 2. Performance under the program will be reviewed every six months based on continuous quantitative criteria and quantitative criteria for end-June and end-December, starting from June 2018.

41. The program is fully financed (Table 6), of which CFAF 87 billion would be covered by the requested access to Fund resources. The remaining external financing requirement will be met by development partners through budget support and project loans from other IFIs and bilateral donors, as well as limited non-concessional borrowing. While project support (grants and loans is projected to) remain robust over the program period, direct budget support (loans and grants) are projected to continue on a downward trend.

42. The authorities' commitment to program engagement with the Fund along with the design of the quantitative performance criteria and indicative targets and structural benchmarks mitigates against risks to the program. The main fiscal risks pertain to the possibility of disappointing domestic revenue performance, a shortfall in external support, inability to control the wage bill amidst social pressures, and the accumulation of contingent liabilities in the energy sector. Other risks to the baseline scenario relate to a potential deterioration in the security environment, adverse weather conditions (e.g. drought/flood), and terms of trade shocks. In this case, keeping the program on track would require proactive adjustment in macroeconomic policies in consultation with Fund staff.

43. Burkina Faso's capacity to repay the Fund would not be materially affected by the disbursements proposed under the new ECF arrangement (Table 7). Burkina Faso has a long track record of Fund borrowing and repayments that is a testament to their ability and willingness to repay any Fund lending. Moreover, structural reforms to improve export competitiveness and the external position, as well as the pooled reserves of the BCEAO which Burkina Faso has unrestricted access to, further bolster the safety of IMF lending to the country.

STAFF APPRAISAL

44. **Burkina Faso is a low-income country with significant development challenges, which have recently intensified due to security shocks and social unrest.** Despite some improvements in recent years, Burkina Faso's human development indicators remains among the lowest in the world and poverty remains high. The authorities are striving to improve security and meet the elevated expectations of the population in the context of significant resource and capacity constraints.

45. **The economic outlook is broadly favorable but with several risks**. Growth has accelerated and revenue collections have recovered from their low levels experienced during the political transition of 2014-15. GDP growth is projected to stabilize at 6 percent in 2018 and over the medium-term. The main risks are the threat of further terrorist attacks, which would weigh on mining and tourism, and social unrest, which could impact the fiscal stance through further public wage bill concessions, and opposition from vested interests to improvements in domestic revenue mobilization.

46. **Against this background, the authorities are determined to implement a national development strategy that prioritizes scaled up investment, social expenditure and security needs to accelerate sustainable inclusive growth.** Higher priority spending requires fiscal space from stronger revenue mobilization and contained current spending, particularly on wages, while also favoring concessional financing over non-concessional and domestic financing. It also calls for improvements in project selection and execution to make the most of available resources.

47. **A new Fund ECF arrangement would support the authorities' commitment to WAEMU norms**. This applies especially to the commitment to an overall fiscal deficit of no more than 3 percent of GDP by 2019, but also efforts to improve domestic revenue mobilization and moderate the public wage bill. The fiscal framework agreed between the authorities and staff provides a frontloaded and credible path toward meeting the WAEMU convergence criterion for the overall fiscal deficit by 2019. It depends critically on the authorities' commitment to the delayed spending list of CFAF 264 billion from the 2018 budget and to ensuring that execution of the two priority supplier-credit projects (hospital and ring-road) fit within the program's fiscal deficit ceilings.

48. **Fiscal policy will focus on creating space for infrastructure investment, social and security spending.** The authorities are seeking to increase revenue mobilization through improving tax administration and adopting new tax policy measures. This includes the adoption of a new tax code, the full implementation of standardized VAT invoicing, and the improvement of IT systems to enable data sharing among tax administration and customs. Additional tax policy measures should be considered building on the January 2018 FAD technical assistance. The wage bill should be

contained. The authorities are also encouraged to protect the budget against accumulation of contingent liabilities in the energy sector from applying the electricity tariff-setting regime adopted with the support of the World Bank and setting a timeline for the implementation of the automatic fuel price adjustment mechanism.

49. The authorities will also take steps to improve the quality and efficiency of investments through prioritization and cost-benefit analysis for projects, including PPPs. The legal and institutional framework for public investment management and PPPs should be strengthened. The authorities' decision to refrain from resorting to pre-financing arrangements is welcome in view of the risk such arrangements entail. The inclusion of supplier credits in the budget and the debt stock is also welcome and necessary to ensure the budget accurately reflects the government's real underlying fiscal position. The authorities should pursue PPPs with care and carefully analyze their implications for fiscal risk, contingent liabilities, and debt sustainability.

50. In view of Burkina Faso's long track record of satisfactory performance under programs with the Fund, staff supports the authorities' request for an ECF arrangement with access equivalent to SDR 108.36 million (90 percent of quota). The LOI and MEFP set out appropriate policies to pursue the program's objectives. The capacity to repay the Fund is adequate and risks to the program are manageable.

Proposed Decision

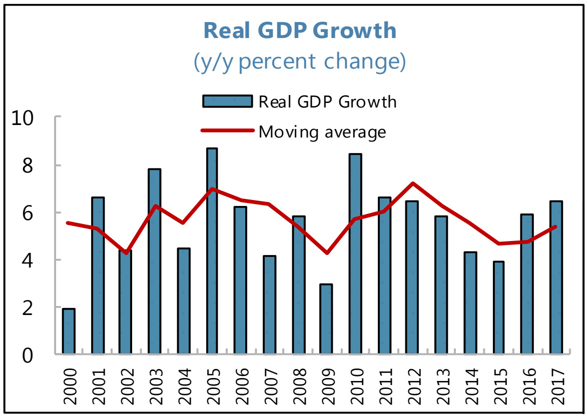
The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Burkina Faso has requested a three-year arrangement under the Extended Credit Facility in a total amount equivalent to SDR 108.36 million.

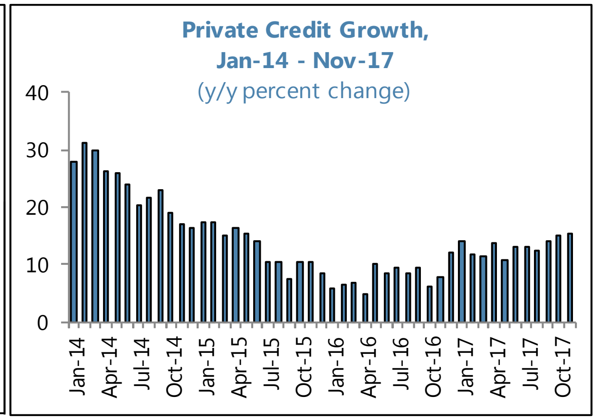
2. The Fund approves the arrangement set forth in EBS/18/11, 3/1/18, and decides that Burkina Faso may request the first disbursement under the arrangement, on the condition that the information provided by Burkina Faso on the implementation of the measures specified as prior actions in Table 2 of the Memorandum of Economic and Financial Policies attached to the letter from the Minister of Economy, Finance and Development, dated February 27, 2018, is accurate.

Figure 1. Burkina Faso: Recent Economic Developments

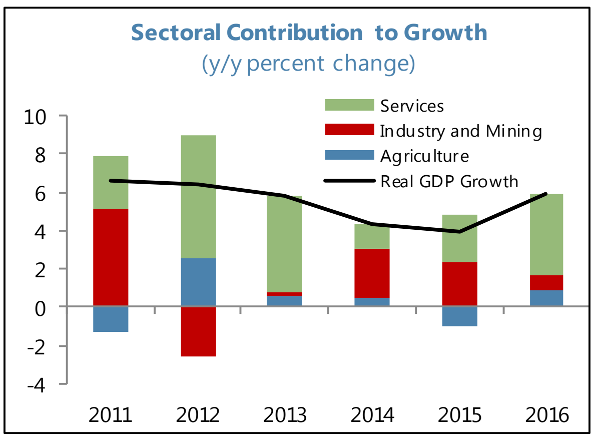
Growth currently averages 6 percent



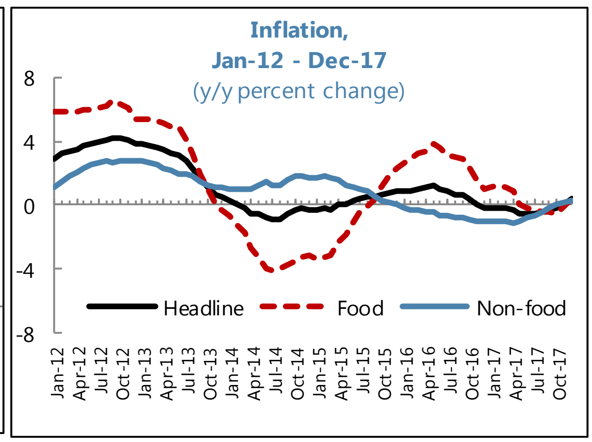
Credit growth remains relatively subdued.



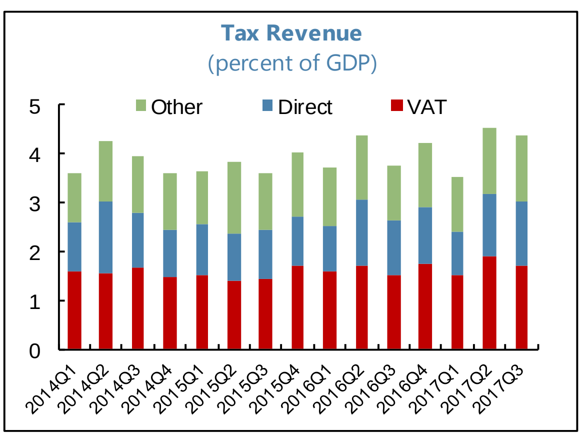
Services contributed importantly to growth in 2016.



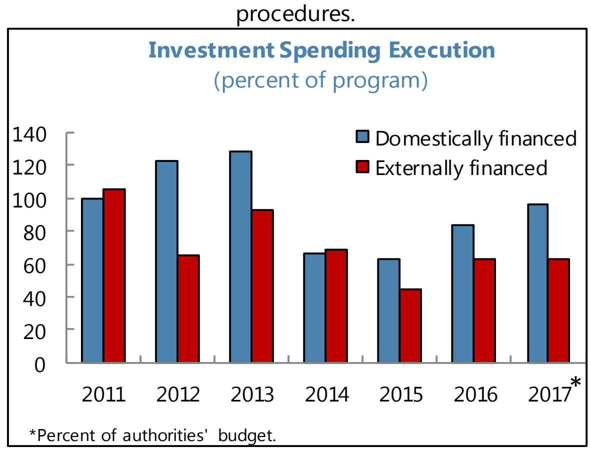
Inflation remained subdued in 2017.



Tax revenues continued to recover in 2017



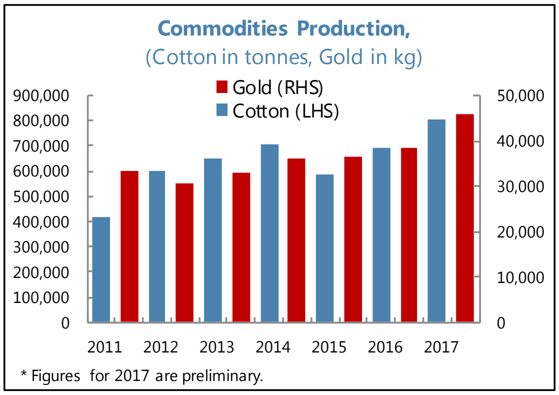
...and public investment execution increased buttressed by the temporary easing of investment procedures.



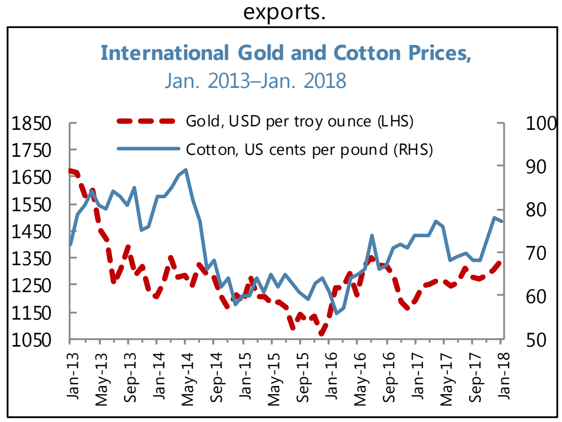
Source: Burkinabè authorities; and IMF staff calculations.

Figure 2. Burkina Faso: Real and External Developments

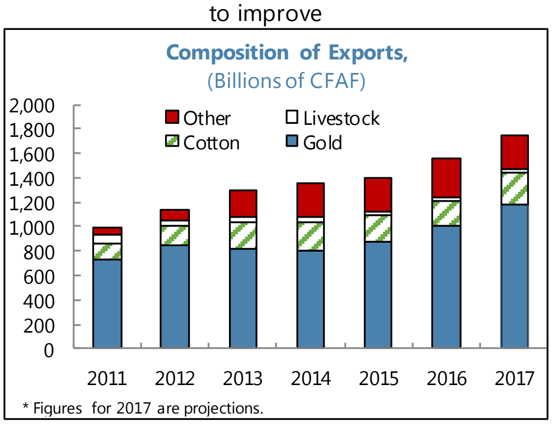
Cotton production recovered due to abundant rainfall



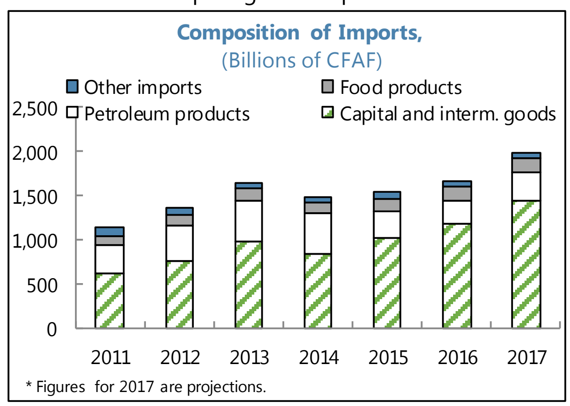
...while higher cotton and gold prices boosted exports.



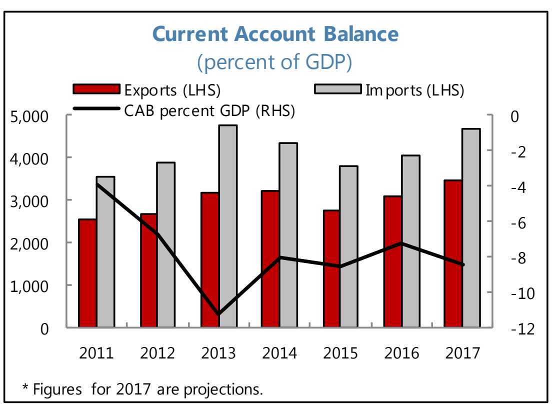
Prospects for cotton and gold exports continued to improve



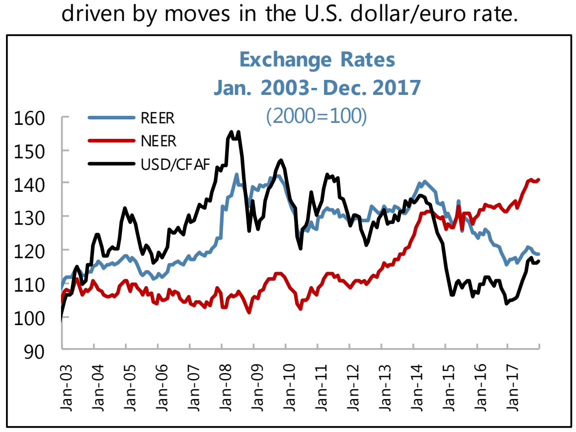
...while mining and public investment increased capital goods imports



...so the current account deficit is projected to have widened in 2017.



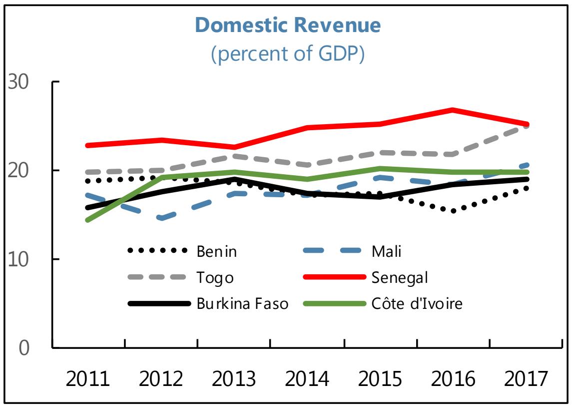
The real exchange rate has been depreciating, driven by moves in the U.S. dollar/euro rate.



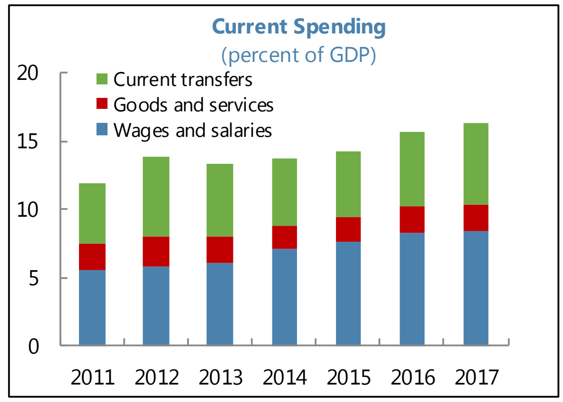
Sources: Burkinabè authorities; and IMF staff calculations.

Figure 3. Burkina Faso: Fiscal Developments

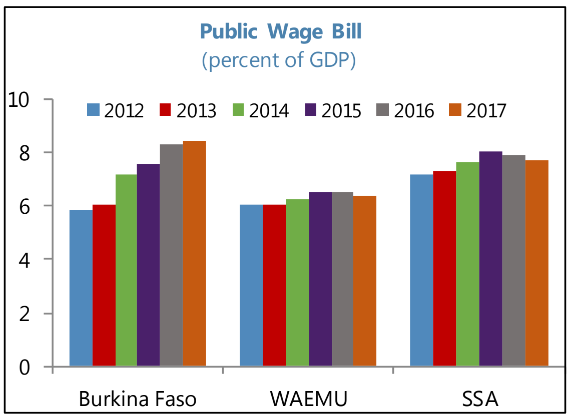
Domestic revenue continued to trend up in 2017.



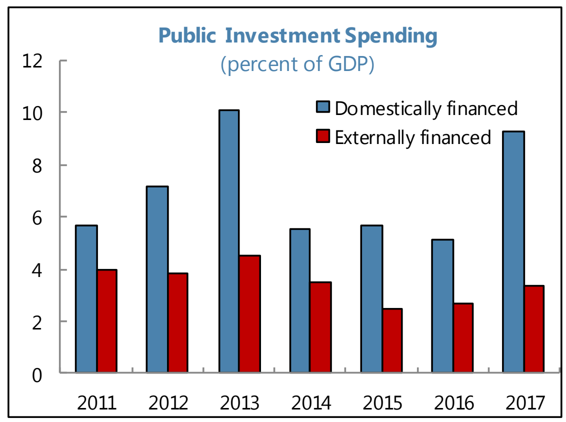
Current spending also increased.



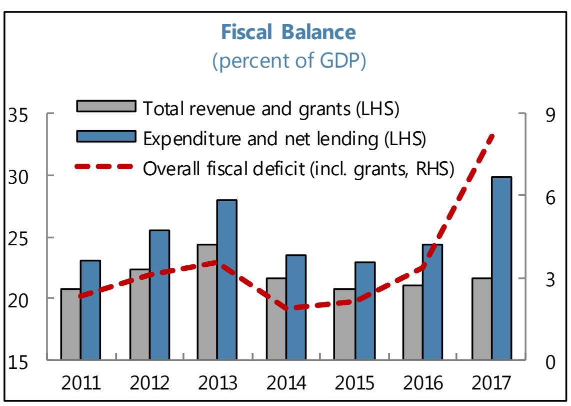
The wage bill is higher than in peers.



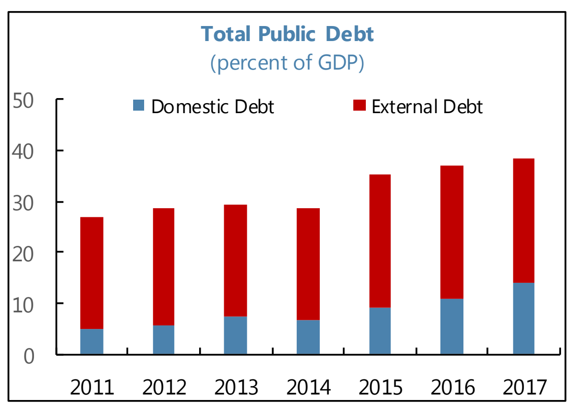
Investment spending is estimated to have sharply increased in 2017.



The fiscal deficit is estimated to have widened markedly…



…keeping public debt at its current level as the share of domestic debt rose.



Sources: Burkinabè authorities; and IMF staff calculations.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 2014–21

	2014	2015	2016	2017	2018	2019	2020	2021
					Projections		Staff Proj.	Staff Proj.
	(Annual percentage change, unless otherwise indicated)							
GDP and prices								
GDP at constant prices	4.3	3.9	5.9	6.4	6.0	6.0	6.0	6.0
GDP deflator	-0.6	-3.1	2.7	2.3	2.0	2.0	2.0	2.0
Consumer prices (end of period)	-0.1	1.3	-1.6	2.1	2.0	2.0	2.0	2.0
Money and credit								
Net domestic assets (banking system) 1/	32.9	16.7	2.0	21.2	13.3	13.5		
Credit to the government (banking system) 1/	4.4	-1.3	-4.5	12.4	8.5	3.5		
Credit to the private sector	16.9	10.2	6.0	8.7	8.4	12.3		
Broad money (M3)	9.3	19.3	11.8	15.6	12.7	14.2		
Private sector credit/GDP	25.7	27.7	28.5	29.0	29.0	30.1		
External sector								
Exports (f.o.b.; valued in CFA francs)	3.6	2.7	12.2	11.9	-0.3	4.1	5.0	5.9
Imports (f.o.b.; valued in CFA francs)	-9.3	3.3	7.9	19.5	1.2	0.1	6.2	6.2
Terms of trade	-5.4	13.2	8.7	...	...	...	-1.3	-1.5
Current account (percent of GDP)	-8.1	-8.5	-7.2	-8.4	-8.0	-7.0	-7.1	-6.9
	(Percent of GDP, unless otherwise indicated)							
Central government finances								
Current revenue	17.4	17.0	18.4	19.0	19.7	20.3	20.8	20.9
Total expenditure and net lending	23.4	22.9	24.4	29.9	28.1	27.0	27.2	27.4
Overall fiscal balance, incl. grants (commitments)	-1.9	-2.2	-3.4	-8.2	-5.0	-3.0	-3.0	-3.0
Total Public Debt	30.4	35.8	38.3	38.3	41.0	41.3	41.8	41.6
Of which: external debt	23.5	26.5	27.4	24.2	24.6	24.3	23.9	23.5
Memorandum items:								
Nominal GDP (CFAF billion)	6,120	6,163	6,704	7,302	7,896	8,540	9,232	9,986
Nominal GDP per capita (US$)	705	576	614	652	702	742	781	820

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

1/ Percent of beginning-of-period broad money.

Table 2. Burkina Faso: Balance of Payments, 2014–21

	2014	2015	2016	2017	2018	2019	2020	2021
	Est.	Est.	Est.	Prel.	Staff Proj.	Staff Proj.	Staff Proj.	Staff Proj.
	(CFAF billions, unless otherwise indicated)							
Current account	-493	-525	-486	-614	-632	-595	-653	-687
Trade balance	-129	-141	-91	-227	-257	-187	-221	-241
Exports of goods	1,362	1,400	1,571	1,758	1,752	1,825	1,916	2,029
Of which: cotton	237	213	198	260	295	326	360	378
Of which: gold	800	878	1,011	1,179	1,116	1,113	1,111	1,160
Imports of goods	-1,491	-1,540	-1,662	-1,985	-2,009	-2,012	-2,137	-2,270
Of which: oil	-451	-299	-258	-319	-326	-343	-360	-374
Of which: food	-135	-150	-159	-170	-181	-193	-205	-219
Of which: public investment	436	363	400	695	653	713	808	888
Services, net	-423	-459	-476	-507	-531	-557	-583	-611
Income, net	-178	-197	-137	-135	-135	-134	-135	-136
Current transfers	236	272	218	256	291	284	286	300
Of which: Official transfers, net	112	140	85	88	120	109	108	119
Capital account	200	154	165	169	220	289	248	270
Project grants	158	105	99	120	172	240	240	265
Financial account	-123	438	557	304	407	347	330	388
Direct investment	142	129	180	254	240	187	204	223
Portfolio investment	-86	3	8	15	12	13	14	15
Other investment	-178	306	370	35	156	148	113	151
Long-term investment	-188	303	361	34	152	127	103	149
Project loans	58	46	82	124	134	144	146	173
Program loans	24	76	63	0	56	6	-5	41
Amortization of public loans (excl. IMF)	-31	-33	-39	-50	-57	-54	-59	-66
Other private	-240	214	255	-40	19	31	21	1
Short-term investment	10	3	9	1	4	21	10	2
Errors and omissions	0	2	1	0	0	0	0	0
Overall balance	-416	68	238	-141	-5	41	-75	-29
Financing	416	-68	-238	141	5	-41	75	29
Net change in foreign assets of the central bank	468	226	73	203	6	-16	-13	-38
of which: IMF net financing	-2	7	7	-10	10	10	14	-17
Disbursements (past and prospective)	4	19	19	4	29	29	29	0
Repayments (excluding charges)	-5	-12	-12	-13	-19	-19	-15	-17
Net change in foreign assets of commercial banks	-53	-294	-310	-62	-1	-25	87	67
Financing Gap	0	0	0	0	0	0	0	0
	(Percent of GDP, unless otherwise indicated)							
Memorandum items:								
Trade balance (goods)	-2.1	-2.3	-1.4	-3.1	-3.3	-2.2	-2.4	-2.4
Trade balance (goods and services)	-9.0	-9.7	-8.5	-10.1	-10.0	-8.7	-8.7	-8.5
Exports of goods	22.3	22.7	23.4	24.1	22.2	21.4	20.8	20.3
Imports of goods	-24.4	-25.0	-24.8	-27.2	-25.4	-23.6	-23.1	-22.7
Current account (– = deficit)	-8.1	-8.5	-7.2	-8.4	-8.0	-7.0	-7.1	-6.9
GDP at current prices (CFAF billions)	6,120	6,163	6,704	7,302	7,896	8,540	9,232	9,986
FDI inflows	2.3	2.1	2.7	3.5	3.0	2.2	2.2	2.2
BCEAO Reserves								
In million USD	13,222	12,415	10,387	12,713	12,698	13,963	15,318	16,949
In months of next year's WAEMU imports	4.7	5.0	4.0	4.1	3.8	3.9	4.0	4.3
In percent of broad money	46.7	43.6	34.5	35.1	31.5	31.4	31.7	32.2

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

Table 3. Burkina Faso: Monetary Survey, 2014–19

	2014	2015	2016	2017	2018	2019
	Act.	Act.	Act.	Prel.	Staff Proj.	Staff Proj.
	(CFAF billions, unless otherwise indicated)					
Net foreign assets	95	163	400	259	254	295
BCEAO 1/	-428	-654	-727	-929	-935	-919
Assets	45	41	32	34	39	44
Liabilities	473	695	758	963	974	964
Commercial banks	523	817	1,127	1,188	1,190	1,215
Net domestic assets	1,936	2,263	2,310	2,865	3,268	3,728
Domestic credit	1,827	1,981	1,994	2,497	2,945	3,366
Net Bank credit to government	50	24	-80	243	501	622
BCEAO	-12	-8	-142	-31	-15	-11
Commercial banks	62	32	61	274	516	633
Credit to other sectors	1,777	1,957	2,075	2,254	2,443	2,744
of which: Credit to private sector	1,573	1,705	1,909	2,121	2,291	2,571
Other items (net)	-389	-595	-713	-1,029	-1,029	-1,029
Shares and other equities	280	313	396	457	457	457
Total broad money liabilities	2,031	2,426	2,711	3,124	3,523	4,023
Liquid liabilities	1,966	2,344	2,620	3,028	3,412	3,898
Non-liquid liabilites (excl. from broad money)	65	82	91	97	110	126
	(Annual percentage change, unless otherwise indicated)					
Memorandum items:						
Net foreign assets	-81.4	71.5	146.1	-35.2	-1.8	16.1
Net domestic assets 2/	32.9	16.7	2.0	21.2	13.3	13.5
Net credit to government 2/	4.4	-1.3	-4.5	12.4	8.5	3.5
Credit to Private Sector	16.3	8.4	12.0	11.1	8.0	12.2
Private sector credit (percentage of GDP)	25.7	27.7	28.5	29.0	29.0	30.1
Money supply	9.3	19.3	11.8	15.6	12.7	14.2
Velocity of money (GDP/M2) 3/	3.1	2.6	2.6	2.4	2.3	2.2

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

1/ Only includes current reserves in BCEAO Ouagadougou. It does not include all regional reserves.

2/ Annual change as a percentage of broad money from 12 months earlier.

3/ End-of-period average.

Table 4a. Burkina Faso: Consolidated Operations of the Central Government, 2015–21

(CFAF billions)

	2015	2016	2017			2018		2019	2020	2021
	Act.	Act.	7th Rev.	Budget supp.	Prel.	Budget	Prog.	Prog.	Prog.	Proj.
Total revenue and grants	1,278	1,411	1,765	1,795	1,584	2,012	1,822	2,043	2,229	2,435
Total revenue	1,048	1,231	1,413	1,441	1,389	1,757	1,553	1,730	1,916	2,091
Tax revenue	929	1,075	1,290	1,315	1,238	1,608	1,404	1,561	1,733	1,915
Of which: Gold Mining CIT	17	26	43	43	43	45	45	51	50	58
Nontax revenue	119	155	123	126	151	149	149	169	183	176
Of which: Royalties from gold	38	45	44	44	44	46	46	46	44	46
Grants	230	180	352	354	194	255	269	314	313	344
Project	105	99	261	261	120	172	172	240	240	265
Program	125	81	91	93	74	83	97	74	73	78
Expenditure and net lending 1/	1,412	1,636	2,188	2,294	2,180	2,435	2,217	2,303	2,509	2,738
Current expenditure	923	1,119	1,230	1,206	1,264	1,328	1,372	1,378	1,461	1,586
Wages and salaries	469	554	598	573	618	631	669	710	743	802
Goods and services	109	128	145	154	139	152	167	145	147	159
Interest payments	44	65	68	68	69	100	100	106	120	137
Domestic	28	49	45	45	49	67	67	82	94	107
External	16	17	23	23	20	34	34	24	27	30
Current transfers	301	371	419	412	438	445	436	417	451	487
Investment expenditure	501	526	962	1,091	919	1,111	848	925	1,049	1,152
Domestically financed	349	346	574	703	675	805	542	540	662	714
Externally financed	152	181	388	388	244	306	306	384	387	438
Net lending	-13	-9	-4	-4	-3	-3	-3	0	0	0
Overall balance 1/	-134	-226	-423	-498	-596	-423	-395	-260	-281	-304
Cash basis adjustment	-89	87	0	0	160	0	0	0	0	0
Overall balance (cash basis)	-223	-139	-423	-498	-436	-423	-395	-260	-281	-304
Financing	221	138	420	498	440	423	395	260	281	304
Foreign financing	89	106	129	116	74	104	133	96	82	148
Drawings	122	145	173	155	124	162	190	150	141	214
Project loans	46	82	127	127	124	134	134	144	146	173
Program loans	76	63	47	29	0	27	56	6	-5	41
Amortization (excl. IMF)	-33	-39	-44	-39	-50	-57	-57	-54	-59	-66
Domestic financing	132	50.8	290	382	370	319	263	163	199	156
Bank financing	85	-41	104	384	327	321	258	120	144	79
Central bank	-4	-99	94	-10	115	3	16	4	7	-21
of which: IMF net financing	7	7		-10	-10	3	10	10	14	-17
Disbursements	19	19		4	4	29	29	29	29	0
Repayments	-12	-12		-14	-13	-26	-19	-19	-15	-17
Commercial banks	89	58	10	394	213	318	242	117	138	99
Nonbank financing	47	92	186	-2	42	-2	4	43	54	77
Errors and Omissions	2	1			-4					
Financing gap	0	0	4	0	0	0	0	0	0	0
Memorandum items:										
Mining revenue	167	194	208		209		204	215	223	245
Overall Balance excl. mining revenue	-389	-333	-632		-645		-600	-475	-504	-549

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

1/ Commitment ("engagement") basis.

Table 4b. Burkina Faso: Consolidated Operations of the Central Government, 2015–21

(In percent of GDP)

	2015	2016	2017			2018		2019	2020	2021
	Act.	Act.	7th Rev.	Budget supp.	Prel.	Budget	Prog.	Prog.	Prog.	Proj.
Total revenue and grants	20.7	21.0	22.6	24.6	21.7	25.5	23.1	23.9	24.1	24.4
Total revenue	17.0	18.4	18.1	19.7	19.0	22.3	19.7	20.3	20.8	20.9
Tax revenue	15.1	16.0	16.5	18.0	17.0	20.4	17.8	18.3	18.8	19.2
Of which: Gold Mining CIT	0.3	0.4	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.6
Nontax revenue	1.9	2.3	1.6	1.7	2.1	1.9	1.9	2.0	2.0	1.8
Of which: Royalties from gold	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Grants	3.7	2.7	4.5	4.9	2.7	3.2	3.4	3.7	3.4	3.4
Project	1.7	1.5	3.4	3.6	1.6	2.2	2.2	2.8	2.6	2.7
Program	2.0	1.2	1.2	1.3	1.0	1.1	1.2	0.9	0.8	0.8
Expenditure and net lending 1/	22.9	24.4	28.1	31.4	29.9	30.8	28.1	27.0	27.2	27.4
Current expenditure	15.0	16.7	15.8	16.5	17.3	16.8	17.4	16.1	15.8	15.9
Wages and salaries	7.6	8.3	7.7	7.8	8.5	8.0	8.5	8.3	8.0	8.0
Goods and services	1.8	1.9	1.9	2.1	1.9	1.9	2.1	1.7	1.6	1.6
Interest payments	0.7	1.0	0.9	0.9	1.0	1.3	1.3	1.2	1.3	1.4
Domestic	0.5	0.7	0.6	0.6	0.7	0.8	0.8	1.0	1.0	1.1
External	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3
Current transfers	4.9	5.5	5.4	5.6	6.0	5.6	5.5	4.9	4.9	4.9
Investment expenditure	8.1	7.9	12.3	14.9	12.6	14.1	10.7	10.8	11.4	11.5
Domestically financed	5.7	5.2	7.4	9.6	9.2	10.2	6.9	6.3	7.2	7.2
Externally financed	2.5	2.7	5.0	5.3	3.3	3.9	3.9	4.5	4.2	4.4
Net lending	-0.2	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance 1/	-2.2	-3.4	-5.4	-6.8	-8.2	-5.4	-5.0	-3.0	-3.0	-3.0
Cash basis adjustment	-1.4	1.3	0.0	0.0	2.2	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-3.6	-2.1	-5.4	-6.8	-6.0	-5.4	-5.0	-3.0	-3.0	-3.0
Financing	3.6	2.1	5.4	6.5	6.0		5.0	3.0	3.0	3.0
Foreign financing	1.4	1.6	1.7	1.5	1.0		1.7	1.1	0.9	1.5
Drawings	2.0	2.2	2.2	2.0	1.7		2.4	1.8	1.5	2.1
Project loans	0.8	1.2	1.6	1.7	1.7		1.7	1.7	1.6	1.7
Program loans	1.2	0.9	0.6	0.4	0.0		0.7	0.1	-0.1	0.4
Amortization (excl. IMF)	-0.5	-0.6	-0.6	-0.5	-0.7		-0.7	-0.6	-0.6	-0.7
Domestic financing	2.1	0.8	3.7	5.0	5.1		3.3	1.9	2.2	1.6
Bank financing	1.4	-0.6	1.3	5.0	4.5		3.3	1.4	1.6	0.8
Central bank	-0.1	-1.5	1.2	-0.1	1.6		0.2	0.0	0.1	-0.2
of which: IMF net financing	0.1	0.1			-0.1		0.1	0.1	0.1	-0.2
Disbursements	0.3	0.3			0.0		0.4	0.3	0.3	0.0
Repayments	-0.2	-0.2			-0.2		-0.2	-0.2	-0.2	-0.2
Commercial banks	1.4	0.9	0.1	5.2	2.9		3.1	1.4	1.5	1.0
Nonbank financing	0.8	1.4	2.4	0.0	0.6		0.1	0.5	0.6	0.8
Errors and Omissions	0.0	0.0								
Financing gap	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
Memorandum items:										
Mining revenue	2.7	2.9	2.7		2.9		2.6	2.5	2.4	2.5
Overall Balance excl. mining revenue	-6.3	-5.0	-8.1		-8.8		-7.6	-5.6	-5.5	-5.5
Nominal GDP (CFAF billion)	6,163	6,704	7,797	7,302	7,302	7,896	7,896	8,540	9,232	9,986

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

1/ Commitment ("engagement") basis.

Table 4c. Burkina Faso: Consolidated Operations of the Central Government, 2018

(CFAF billions)

	March			June			September			December		
	CFAF Billions	Exec. Rate	Y-o-Y	CFAF Billions	Exec. Rate	Y-o-Y	CFAF Billions	Exec. Rate	Y-o-Y	CFAF Billions	Exec. Rate	Y-o-Y
Total revenue and grants	378	21	23	870	48	21	1,320	72	20	1,822	100	15
Total revenue	346	22	21	769	49	15	1,155	74	13	1,553	100	12
Tax revenue	321	23	24	696	50	18	1042	74	15	1,404	100	13
Of which: Gold Mining CIT												
Nontax revenue	24	16	-7	73	49	-8	113	76	-2	149	100	-1
Grants	33	12	35	102	38	96	165	61	121	269	100	38
Project	33	19	36	64	37	57	103	60	62	172	100	43
Program	0	0	0	38	39	234	63	64	446	97	100	31
Expenditure and net lending 1/	405	18	18	1,067	48	10	1632	74	11	2,217	100	2
Current expenditure	273	20	11	676	49	8	1016	74	10	1,372	100	9
Wages and salaries	157	23	9	320	48	9	494	74	10	669	100	8
Goods and services	30	18	33	88	53	36	129	78	34	167	100	20
Interest payments	11	11	153	44	43	60	56	56	63	100	100	44
Domestic	10		156	31		201	39		209	67		232
External	2		140	13		-25	18		-19	34		-32
Current transfers	75	17	2	224	51	-6	336	77	-1	436	100	0
Investment expenditure	132	16	34	393	46	12	619	73	12	848	100	-8
Domestically financed	72	13	27	245	45	-11	403	74	-7	542	100	-20
Externally financed	61	20	43	149	49	94	215	70	81	306	100	25
Net lending	0			-2						-3		
Overall balance 1/	-27			-197			-313			-395		
Cash basis adjustment	0			0			0			0		
Overall balance (cash basis)	-27			-197			-313			-395		
Financing	40			197			313			395		
Foreign financing	20			40			80			133		
Drawings	28			64			112			190		
Project loans	28			64			92			134		
Program loans	0			0			20			56		
Amortization (excl. IMF)	-8			-25			-32			-57		
Domestic financing	20			157			232			263		
Bank financing	6			155			229			258		
Central bank	-3			8			5			16		
Commercial banks	9			147			224			242		
Nonbank financing	14			2			3			4		
Errors and Omissions	0			0			0			0		

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

1/ Commitment ("engagement") basis.

Table 5. Burkina Faso: Proposed Schedule of Disbursements Under Three-year ECF Arrangement, 2018–20

Amount	Availability date	Conditions for disbursement 1/
SDR 18.06 million	March 15, 2018	Executive Board Approval of a new arrangement under the Extended Credit Facility
SDR 18.06 million	December 15, 2018	Observance of continuous and end-June 2018 performance criteria, and completion of the first review under the arrangement
SDR 18.06 million	June 15, 2019	Observance of continuous and end-December 2018 performance criteria, and completion of the second review under the arrangement
SDR 18.06 million	December 15, 2019	Observance of continuous and end-June 2019 performance criteria, and completion of the third review under the arrangement
SDR 18.06 million	June 15, 2020	Observance of continuous and end-December 2019 performance criteria, and completion of the fourth review under the arrangement
SDR 18.06 million	December 15, 2020	Observance of continuous and end-June 2020 performance criteria and completion of the fifth review under the arrangement

Sources: Burkinabè authorities; and IMF staff estimates.

1/ In addition to the generally applicable conditions under the Extended Credit Facility.

Table 6. Burkina Faso: External Financing Requirements, 2015–21

(CFAF billions)

	2015	2016	2017	2018	2019	2020	2021
	Est.	Prel.	Staff Proj.	Staff Proj.	Staff Proj.	Staff Proj.	Staff Proj.
Financing need	-593	-390	-534	-508	-503	-492	-559
Current account balance (excl. official transfers)	-666	-571	-702	-752	-704	-761	-806
IMF repayments	-12	-12	-13	-19	-19	-15	-17
Private capital flows	117	233	231	321	274	344	330
Amortization of public loans (excl. IMF)	-33	-39	-50	-57	-54	-59	-66
Financing	586	383	545	479	474	463	560
Project loans:	46	82	124	134	144	146	173
of which: World Bank	19	23	34				
AfDB	3	9	13				
Islamic Development Bank	4	6	9				
BOAD	6	9	14				
Program loans (excl. IMF):	76	63	0	56	6	-5	41
of which: World Bank	59	63	31				
AfDB	17	-	15				
Official transfers, net	140	85	88	120	109	108	119
of which: budget support EU	57	34	53				
World Bank	30	28	26				
Denmark	11	9	8				
Swizterland	5	5	5				
France	1	4	-				
NFA central bank (excl. prospective IMF disbursements and repayments)	219	66	212	-3	-26	-26	-38
Project grants	105	87	120	172	240	240	265
Eurobond	0	0	0	0	0	0	0
Residual Gap	-7	-7	11	-29	-29	-29	1
IMF ECF-Financing (past and prospective)	7	7	-10	29	29	29	0

Sources: Burkinabè authorities and IMF staff estimates and projections.

Table 7. Burkina Faso: Indicators of Capacity to Repay the IMF, 2015–32 1/

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	Act.	Prel.	Projections															
Fund obligations based on existing and prospective credit (in millions of SDRs)																		
Principal	14.1	14.4	9.0	24.2	23.6	19.0	21.2	18.3	16.0	23.5	25.9	25.3	22.6	18.1	9.0	3.6	0.0	0.0
Charges and interest	0.0	0.0	0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total obligations based on existing and prospective credit																		
In millions of SDRs	14.1	14.4	9.1	24.5	24.0	19.4	21.5	18.6	16.4	23.9	26.2	25.7	22.9	18.4	9.4	4.0	0.4	0.4
In billions of CFAF	11.7	11.9	7.4	19.6	19.2	15.5	17.2	15.0	13.2	19.2	21.1	20.7	18.4	14.8	7.6	3.2	0.3	0.3
In percent of government revenues	1.1	1.0	0.5	1.3	1.1	0.8	0.8	0.7	0.5	0.7	0.7	0.7	0.5	0.4	0.2	0.1	0.0	0.0
In percent of exports of goods and services	0.7	0.6	0.4	1.0	0.9	0.7	0.7	0.6	0.5	0.7	0.7	0.6	0.5	0.4	0.2	0.1	0.0	0.0
In percent of debt service 2/	18.2	17.2	9.0	22.2	20.0	15.2	15.5	12.4	10.1	12.4	11.7	9.9	7.8	5.4	2.4	0.9	0.1	0.1
In percent of GDP	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
In percent of quota	11.7	12.0	7.5	20.3	19.9	16.1	17.9	15.5	13.6	19.8	21.8	21.3	19.0	15.3	7.8	3.3	0.3	0.3
Outstanding IMF credit																		
In millions of SDRs	146.6	155.2	141.9	171.9	184.4	183.4	162.3	144.0	128.0	104.5	78.6	53.3	30.7	12.6	3.6	0.0	0.0	0.0
In billions of CFAF	121.3	127.9	115.4	137.8	147.5	146.6	130.0	115.8	102.9	84.0	63.2	42.8	24.7	10.2	2.9	0.0	0.0	0.0
In percent of government revenues	11.6	10.4	8.3	8.9	8.5	7.7	6.2	5.1	4.2	3.1	2.2	1.3	0.7	0.3	0.1	0.0	0.0	0.0
In percent of exports of goods and services	7.4	7.0	5.7	6.7	6.8	6.4	5.4	4.5	3.8	3.0	2.1	1.3	0.7	0.3	0.1	0.0	0.0	0.0
In percent of debt service 2/	188.5	184.7	141.1	155.6	154.0	143.9	116.5	95.8	78.9	54.4	35.1	20.6	10.4	3.7	0.9	0.0	0.0	0.0
In percent of GDP	2.0	1.9	1.6	1.7	1.7	1.6	1.3	1.1	0.9	0.7	0.5	0.3	0.2	0.1	0.0	0.0	0.0	0.0
In percent of quota	121.8	128.9	117.8	142.8	153.2	152.4	134.8	119.6	106.3	86.8	65.3	44.2	25.5	10.5	3.0	0.0	0.0	0.0
Net use of IMF credit (in millions of SDRs)	8.9	8.6	-4.6	11.6	12.1	16.7	-21.5	-18.6	-16.4	-23.9	-26.2	-25.7	-22.9	-18.4	-9.4	-4.0	-0.4	0.6
Disbursements	23.0	23.0	4.5	36.1	36.1	36.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Repayments and repurchases	14.1	14.4	9.1	24.5	24.0	19.4	21.5	18.6	16.4	23.9	26.2	25.7	22.9	18.4	9.4	4.0	0.4	0.4
Memorandum items:																		
Nominal GDP (in billions of CFAF)	6,163	6,704	7,302	7,896	8,540	9,232	9,986	10,803	11,608	12,479	13,415	14,430	15,517	16,665	17,936	19,292	20,498	21,820
Exports of goods and services (in billions of CFAF)	1,637	1,837	2,041	2,058	2,156	2,274	2,417	2,567	2,690	2,830	3,030	3,258	3,530	3,797	4,088	4,392	4,692	5,026
Government revenue (in billions of CFAF)	1,048	1,231	1,389	1,553	1,730	1,916	2,091	2,285	2,480	2,692	2,923	3,177	3,451	3,712	4,001	4,310	4,570	4,855
Debt service (in billions of CFAF) 2/ 3/	64	69	82	89	96	102	112	121	130	154	180	208	237	275	315	364	422	495
CFAF/SDR (period average)	827	824	813	802	800	799	801	804	804	804	804	804	804	804	804	804	804	804

Sources: IMF staff estimates and projections.

1/ Includes proposed disbursements under the new ECF of 90 percent of quota.

2/ Total external debt service includes IMF repurchases and repayments.

3/ Includes state-owned enterprises debt.

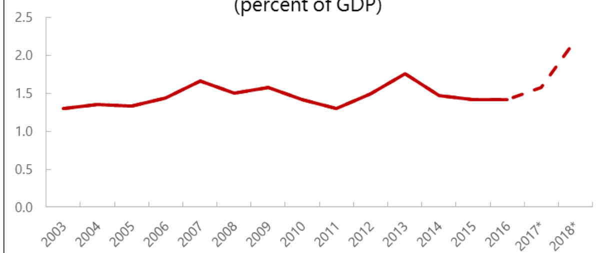
Annex I. Security Issues

Beginning in 2015, Burkina Faso began to suffer intermittent cross-border raids targeting police and military outposts near the country's border with Mali. Prior to 2016, security issues were most accurately characterized as a rural issue, particularly for border regions with neighboring Mali and Niger. In contrast, the capital Ouagadougou was perceived as largely secure. The divergent security situations between large urban centers and rural areas helped anchor the view that jihadi and terrorist activities were almost exclusively a spillover phenomenon and that home-grown threats were non-existent. The two high profile attacks in January 2016 and August 2017 targeting restaurants in central Ouagadougou, both known for catering to foreigners and expatriates, has called for a reassessment of the situation and domestic threats to security.

Defense spending has been trending upwards since 2012, coinciding with the beginning of the armed conflict in Mali. Between 2012 and 2016, defense spending increased slowly but security concerns following the January 2016 terrorist attack in Ouagadougou led the authorities to revise their security budget

Investors are still assessing how best to respond to the deterioration in the security situation. The sectors that are most likely to be impacted are those operating in the rural areas, namely mining and agricultural production, and tourism in urban areas.

Burkina Faso: Defense Spending
(percent of GDP)



Source: Burkinabe authorities and IMF staff estimates.
*Projections

Most commercial mining sites are in the northern part of the province where jihadists activities have been most prevalent. Commercial mining operators have expressed concern over increased security costs and coordination difficulties with the authorities. However, security issues for the moment seem to relate to economic infractions, for example local Burkinabe illegally entering mining sites to pan for gold, rather than terrorist activities. Cotton remains a staple of the economy and the primary means of employment for a large part of the population. At present, cotton and agricultural production, which is composed almost exclusively small-scale domestic producers, have not been affected by the deterioration in security conditions.

Ouagadougou is a cultural center that hosts several large tourist events each year, most notably the region's largest film festival and the continent's largest arts and crafts festival. It is too early to ascertain what will be the impact of the high-profile attack of August 2017 on tourism, but a continued deterioration in the security environment and sentiment about the safety of the region could have large negative effects in this sector of the economy.

Annex II. Gender Inequality

Like many other sub-Saharan African countries, Burkina Faso scores low on gender equity in global rankings, placing 123rd out of 144 countries in the World Economic Forum's 2016 Gender Gap Index. It performs well in terms of female labor force participation. However, Burkina Faso ranks 136th out of 144 countries for female relative to male educational attainment and 127th out of 144 countries for women's political empowerment.

Women have relatively low levels of access to education. Adult literacy rates are lower for Burkina Faso than the average in other sub-Saharan African countries, and more so for women than men. The gender gap in access to education increases for higher levels of education: while the gender gap in primary education has almost closed, significant gaps remain for secondary and tertiary education. This gender gap is partly attributed to cultural biases as households under tight budget constraints choose to educate only one or a few of their children. It is also partly explained by the generally low marriage age for women in Burkina Faso.

Employment opportunities are also more limited for women. On average, women are more confined to be employed in lower paid informal jobs, mainly in subsistence agriculture. Women have fewer opportunities than men in cities, where the jobs are better paid. This partly relates to women's lower average level of educational attainment. It also relates to the fact that women find it harder to access legal services. Women lack an understanding of their legal rights and the laws are not always enforced in the way they are intended by the largely male-dominated justice system.

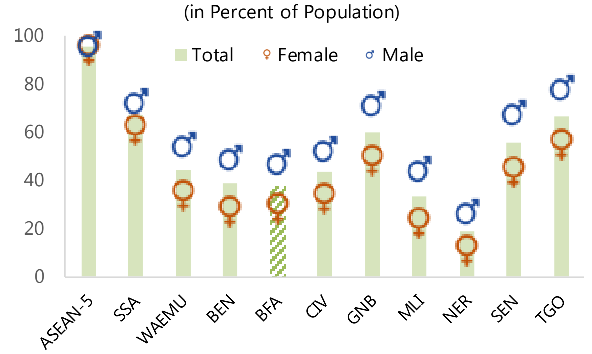
There are important legal restrictions that women face in Burkina Faso in addition to weaknesses in the implementation of laws. There is no legislation to prohibit discrimination in access to credit based on gender or marital status. The laws to protect women from violence are weaker than in other comparator countries and regions. Similarly, the legal system does not mandate equal remuneration for work of equal value and there are tax provisions that favor men.

Reducing gender inequalities could increase Burkinabe women's productivity and boost growth. An analysis for the WAEMU region shows that decreasing gender inequalities in the region to levels observed in fast-growing Asian benchmark countries could increase real annual per capita GDP growth by about ½ percentage point annually. Lowering the gender gap in economic participation increases the pool of talent in the labor market and leads to a more efficient allocation of resources. As women get more educated, they are more likely than men to invest a large proportion of their household income in the education of their children and grandchildren. Better access to education would also reduce fertility rates and hence population growth. As it stands, Burkina Faso's population growth (2.9 percent per annum) and fertility rate (women on average have 5.4 children) are among the highest in the world.

Burkina Faso: Gender Inequality, 2005–15

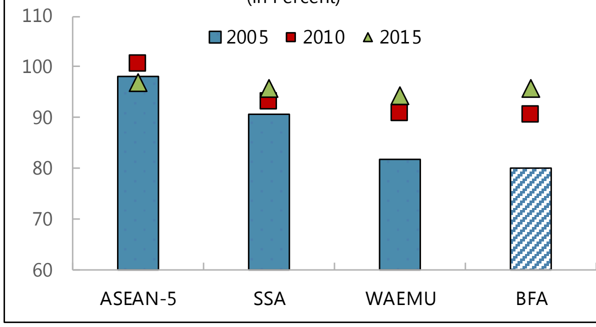
Gender gaps in literacy rates remain high compared to other SSA countries and fast-growing ASEAN countries...

Adult Literacy Rates, 2015
(in Percent of Population)



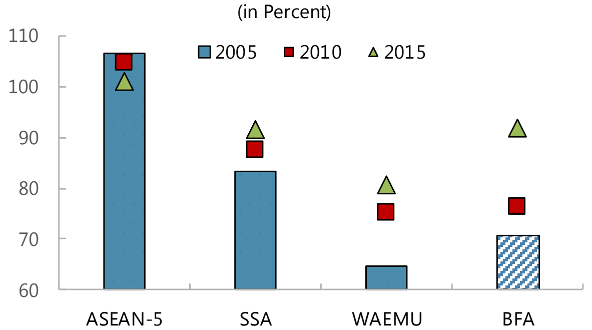
...while primary enrollment gaps have almost closed, they are still wider than in the Asia benchmark.

Ratio of female to male primary enrollment, 2005-2015
(in Percent)



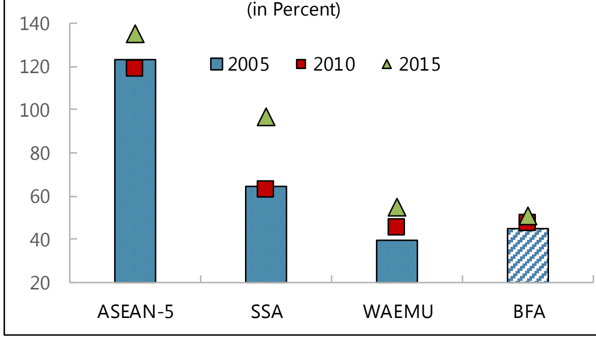
...and, with only 9 girls enrolled for 10 boys, the gender gap is significantly wider for secondary education.

Ratio of female to male secondary enrollment, 2005-2015
(in Percent)



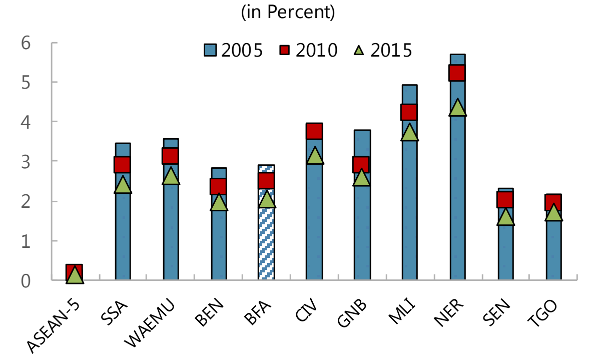
Men are nearly 50 percent more likely to be enrolled in tertiary education than women.

Ratio of female to male tertiary enrollment, 2005-2015
(in Percent)



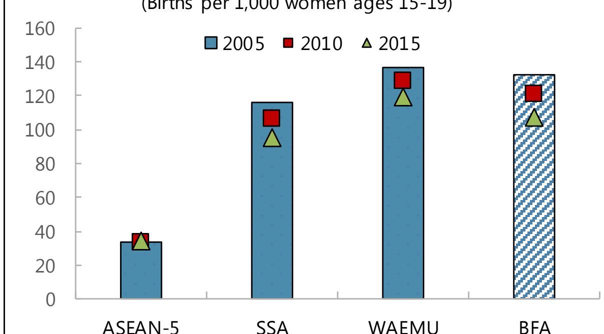
Health indicators are better than in African peers, but remain relatively high.

Lifetime Risk of Maternal Death, 2005-2015
(in Percent)



Adolescent fertility rates have declined but remain relatively high.

Adolescent Fertility Rate, 2005-2015
(Births per 1,000 women ages 15-19)



Sources: World Development Indicators; and IMF staff estimates.

Three-Year Arrangement Under the Extended Credit Facility

Attached hereto is a letter dated February 27, 2018 (the "Letter"), with its attached Memorandum of Economic and Financial Policies (the "MEFP") and Technical Memorandum of Understanding (the "TMU"), from the Minister of Economy, Finance and Development of Burkina Faso requesting from the International Monetary Fund, as Trustee of the Poverty Reduction and Growth Trust (the "Trustee"), a three-year arrangement under the Extended Credit Facility ("ECF"), and setting forth:

(a) the objectives and policies of the program that the authorities of Burkina Faso intend to pursue during the three-year period of the arrangement;

(b) the objectives, policies and measures that the authorities of Burkina Faso intend to pursue during the first year of the arrangement; and

(c) understandings of Burkina Faso with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Burkina Faso will pursue during the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Trust (the "PRG Trust") including in particular Section II, paragraph 1(b)(4) of the PRG Trust instrument annexed to Decision No. 8759-(87/176) ESAF, as amended.

1. (a) For a period of three years from the date of approval of this arrangement, Burkina Faso will have the right to obtain disbursements from the Trustee in a total amount equivalent to SDR 108.36 million, subject to the availability of resources in the PRG Trust.

   (b) Disbursements under this arrangement shall not exceed the equivalent of SDR 36.12 million in the first twelve months of the arrangement and the equivalent of SDR 72.24 million in the first twenty-four months of the arrangement.

2. During the period of the arrangement:

(a) the first disbursement, in an amount equivalent to SDR 18.06 million, will be available upon approval of the arrangement, at the request of Burkina Faso;

(b) the second disbursement, in an amount equivalent to SDR 18.06 million, will be available on or after December 15, 2018 at the request of Burkina Faso and subject to paragraphs 4 and 5 below;

(c) the third disbursement, in an amount equivalent to SDR 18.06 million, will be available on or after June 15, 2019 at the request of Burkina Faso and subject to paragraphs 4 and 5 below.

3. The right of Burkina Faso to request further disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined in the context of reviews under the ECF arrangement for Burkina Faso.

4. Burkina Faso will not request:

The second or third disbursements under this arrangement specified in paragraphs 2(b) and 2(c) above, respectively:

(a) if the Managing Director of the Trustee finds that with respect to the second disbursement the data as of June 30, 2018 and with respect to the third disbursement the data as of December 31, 2018 indicate that:

(i) the ceiling on net domestic financing of government; or

(ii) the ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government

as set out in Table 1 of the MEFP and further specified in the TMU was not observed; or

(b) until the Trustee has determined that, with respect to the second disbursement the first program review and with respect to the third disbursement the second program review referred to in paragraph 60 of the MEFP has been completed.

5. Burkina Faso will not request a disbursement under this arrangement if at any time during the period of this arrangement:

(a) the ceiling on the accumulation of new external payment arrears; or
(b) the ceiling on the government guaranteeing new domestic loans to suppliers and contractors; or
(c) the ceiling on government guarantees on new bank pre-financing for public investments

as set out in Table 1 of the MEFP and further specified in the TMU, is not observed, or

(d) Burkina Faso:

  (i) imposes or intensifies restrictions on the making of payments and transfers for current international transactions, or
  (ii) introduces or modifies multiple currency practices, or
  (iii) concludes bilateral payments agreements that are inconsistent with Article VIII, or
  (iv) imposes or intensifies import restrictions for balance of payments reasons.

6. When Burkina Faso is prevented from requesting disbursements under this arrangement because of paragraphs 4 and 5 above, such disbursements may be made available only after consultation has taken place between the Trustee and Burkina Faso and understandings have been reached regarding the circumstances in which Burkina Faso may request the disbursements.

7. In accordance with Paragraph 12 of the Letter, Burkina Faso will provide the Trustee with such information as the Trustee requests in connection with the progress of Burkina Faso in implementing the policies and reaching the objectives of the program supported by this arrangement.

8. During the period of this arrangement, Burkina Faso shall remain in close consultation with the Trustee. In accordance with Paragraph 11 of the Letter, Burkina Faso shall consult with the Trustee on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director of the Trustee requests such a consultation. Moreover, after the period of this arrangement and while Burkina Faso has outstanding financial obligations to the Trustee arising from loan disbursements under this arrangement, Burkina Faso will consult with the Trustee from time to time, at the initiative of the government or whenever the Managing Director of the Trustee requests consultation on Burkina Faso's economic and financial policies. These consultations may include correspondence and visits of officials of the Trustee to Burkina Faso or of representatives of Burkina Faso to the Trustee.

Appendix I. Letter of Intent

No. 2017-----------/MINEFID/SG/DGCOOP

Ouagadougou, February 27, 2018

From: The Minister of Economy, Finance and Development

To: Madame Christine Lagarde,
Managing Director,
International Monetary Fund,
700 19th St. N.W.
Washington DC 20431

Subject: Letter of Intent concerning Economic and Financial Policies

Madame Managing Director:

The government of Burkina Faso is requesting a new, three-year arrangement under the Extended Credit Facility (ECF) of the International Monetary Fund (IMF) in support of its economic and financial policies for the period 2018-2020. The previous arrangement was completed in July 2017.

The Memorandum of Economic and Financial Policies (MEFP) attached hereto reviews recent economic and fiscal developments. It also presents the policies that the government intends to carry out in the context of the new three-year ECF arrangement for 2018-2020 that we are requesting. The program aims to preserve macroeconomic stability and consolidate the foundations for accelerated, sustainable, and inclusive growth, consistent with the National Plan for Economic and Social Development (PNDES) adopted in July 2016.

The government encountered significant challenges in 2017, which made the implementation of economic policies difficult. A serious terrorist attack in Ouagadougou in August and a deterioration in the security situation along the northern border required an urgent response through an increase and reorientation in security-related spending. Moreover, public sector workers launched a series of strikes earlier in the year, which disrupted the work of government. As a result, the overall fiscal deficit widened and is expected to reach 8.2 percent of GDP in 2017, from 3.4 percent in 2016.

Despite this challenging environment, the government remains determined to maintain the overall fiscal deficit at a level not exceeding 5 percent of GDP in 2018 en route to capping the overall fiscal deficit at no more than 3 percent of GDP in 2019 in keeping with the WAEMU commitments made.

To this end, and to take into account possible challenges in collecting tax revenues, the government has agreed on a list of “spending items” totaling CFAF 264 billion, the execution of which has been placed on hold as a precautionary measure. We will effectively delay commitment, release, and implementation of the spending items on this list. If the mid-term evaluation of budget execution in

August 2018 reveals overperformance of domestic revenues relative to the program targets, the government will consider unblocking the highest priority projects from the delayed spending list, but only to the extent that revised revenue and spending projections for the whole year permit this while still remaining within the overall deficit target of 5 percent of GDP in 2018 and after consultation with the IMF. The delayed spending list has been drawn up jointly with the relevant ministries and validated by the Cabinet council.

In view of the resource constraints it faces, the government will redouble its efforts to prioritize the highest quality projects. It also pledges not to use pre-financing agreements to implement investment projects, including government guarantees of commercial bank loans to suppliers and contractors. We are committed to accounting for supplier credit-financed projects in the budget by recording them above the line as capital expenditure and below the line as domestic financing. We are presently pursuing two such projects (a hospital and bypass road for Ouagadougou). They could be financed by supplementary resources, namely resources generated from efforts to collect outstanding unpaid taxes and the streamlining of tax exemptions. To the extent that their execution begins in 2018, and that these supplementary resources are available, we will ensure that they fit within the overall fiscal deficit ceiling of 5 percent of GDP. Moreover, we will take steps to make reasonable use of public-private partnerships, primarily in sectors where risk sharing is feasible, such as the energy sector.

Law No.042-2017/AN of July 3, 2017 to simplify the procedures for entering into contracts for PPP projects expired on January 13, 2018. Regular procedures have been in place since then. We are also continuing to work with our technical and financial partners to streamline our public procurement procedures and strengthen their transparency.

Regarding fuel pricing, the government launched a communication strategy in December 2017 aimed at raising public awareness of the need to reflect the change in international prices in the price of retail petroleum products through an automatic fuel-price adjustment mechanism. In preparation for launching this mechanism, we will undertake studies by September 2018 on how the impact of this policy change on the poorest and most vulnerable members of society can be mitigated. However, we may have to adjust the price of retail petroleum products when the explicit and implicit subsidy on pump fuel prices exceeds the budgeted amount of CFAF 25 billion (0.3 percent of GDP) in 2018.

Despite the difficult fiscal situation, the government has ringfenced current social spending to protect it in the face of the needed fiscal consolidation.

Based on Burkina Faso’s track record of satisfactory program performance and the strength of the economic and financial program described in the attached MEFP, as well as our balance of payments need, we request that the IMF Executive Board approve a new ECF arrangement in the amount of SDR 108.36 million (90 percent of quota) and release the first tranche under this arrangement in the amount of SDR 18.06 million.

The government believes that the measures presented in the MEFP will serve to achieve the economic and social objectives of its program. Nevertheless, the government remains committed to taking any further measures that may prove necessary to this end. The government will consult with the IMF prior to the adoption of any such measures in accordance with applicable IMF policies.

The government will also communicate to the IMF any information concerning implementation of the agreed measures and program execution, as specified in the attached Technical Memorandum of Understanding (TMU), or as the IMF may request.

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

Very truly yours,

/s/
Hadizatou Rosine Coulibaly/Sori

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

Attachment I. Memorandum of Economic and Financial Policies

I. INTRODUCTION

1. The implementation of the National Economic and Social Development Plan (Plan national de développement économique et social – PNDES), for the development of Burkina Faso for the 2016–2020 period, continued in 2017. The Plan's overall objective is to structurally transform the country's economy for strong, sustainable, resilient, and inclusive growth that is conducive to the creation of decent jobs for all and the improvement of social well-being. After more than a year of PNDES implementation, economic activity in 2017 continued the recovery that began in 2016 despite a deteriorated national and sub-regional security situation as a result of terrorist attacks during the year and ongoing social tensions.

2. This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and lays out the macroeconomic and structural policy program for which Burkina Faso is seeking assistance from the International Monetary Fund (IMF) under a new three-year Extended Credit Facility (ECF) arrangement. The key objectives of the new program are to maintain macroeconomic stability over the medium term through credible fiscal policy and to strengthen the foundation for sustained, inclusive growth, in keeping with Burkina Faso's development strategy objectives.

II. RECENT ECONOMIC DEVELOPMENTS

3. Economic growth is estimated to have continued its upward momentum to 6.4 percent in 2017, up from 5.9 percent in 2016, owing to significant gains in the secondary sector, particularly in mining and construction. Consumer prices rose by 2 percent in 2017, after declining by 1.6 percent in 2016. In the period ahead, inflation is expected to remain moderate and below the WAEMU target.

4. On the fiscal front, preliminary data indicate that revenue was CFAF 1,389 billion in 2017, up from CFAF 1,231 billion in 2016. Tax revenue totaled CFAF 1,238 billion as a result of good performance of the value-added tax (VAT), as well as corporate and personal income taxes. However, the disbursement of donor budget grants was CFAF 74 billion, down CFAF 81 billion the year before. Total expenditures and net lending was CFAF 2,180 billion in 2017 versus CFAF 1,636 billion in 2016 owing to an increase in the wage bill, transfers, and in particular, public investment expenditure. The wage bill was higher due partially to the implementation of law no. 081 that regularized and aligned the salaries and benefits of various categories of public sector workers, whereas the increase in current transfers followed on from social measures taken by the government to improve living conditions, including by providing free health care for pregnant women and children aged up to five-year-old, and the clearance of arrears to SONABEL and SONABHY. Higher investment spending, particularly from domestic resources, was due largely to measures put in place in July 2017 to streamline public procurement procedures. Overall, the fiscal deficit (on a commitment basis) was CFAF 596 billion in 2017, compared to CFAF 226 billion in 2016, and was financed primarily through the issuance of Treasury bills and securities on the regional market.

5. In light of the low degree of project implementation in the first half of 2017 due to the cumulative effect of cumbersome procurement procedures, many public sector strikes, and rising insecurity in the Sahel region, the government developed the Emergency Program for the Sahel (Programme d'Urgence pour le Sahel – PUS-BF) and took measures to accelerate the implementation of related projects as well as the public-private partnerships (PPP). To this end, two decrees were adopted, easing, for a period of six (6) months, the conditions governing the use of direct contracting procedures to award public procurement and public service delegation contracts. One of the decrees was adopted as part of PUS-BF implementation (decree no. 2017-616/PRES/PM/MINEFID of July 14, 2017) and the other as part of the development and project implementation program (decree no. 2017-617/PRES/PM/MINEFID of July 14, 2017). In the same vein, a law easing contracting procedures for PPP projects was passed by the National Assembly in July 2017 (law no. 042-2017/AN of July 3, 2017). The two decrees and the one law expired on January 13, 2018.

6. Much has been achieved regarding infrastructure investments in the energy field, including: (i) completion of the construction of a solar photovoltaic power plant in Zagtouli, now operational; (ii) the program to install solar equipment on public buildings (schools and hospitals) is 75 percent complete; (iii) the continued implementation of the Bolgatanga (Ghana)–Ouagadougou (Burkina Faso) 225 kV electricity interconnection project; and (iv) the successful electrification of 40 towns by the Burkinabè Rural Electrification Agency (Agence Burkinabè d'électrification rurale – ABER).

7. In terms of education and training, government efforts have yielded the following results: (i) 90 new classrooms have been created; (ii) 142 straw hut schools have been brought up to standard; (iii) 5 colleges have been built; (iv) a 700-seat amphitheater has been built and equipped at the Université Ouaga I Science Institute; and (v) multiple three-story buildings have been built and equipped at the universities of Koudougou, Dédougou, Ouahigouya, and Fada N'Gourma to accommodate classrooms and laboratories.

8. In health, investments were made in: (i) the continued implementation of the policy on free health care for pregnant women and children under five years of age, which resulted in the provision of care to more than eight million pregnant women and children; (ii) free emergency care costing approximately CFAF 1.6 billion; (iii) the successful conversion of 24 health and social promotion centers (Centre de santé et de promotion sociale – CSPS) into medical centers; (iv) the construction and fit-out of 59 new CSPS; (v) the successful conversion of the Ouahigouya regional hospital (Centre hospitalier régional – CHR) into a university hospital (Centre hospitalier universitaire – CHU); and (vii) the successful implementation of the hospital pharmacy at CHU Blaise Compaoré and the Bogodogo district hospital.

9. As for security, there were investments in: (i) the recruitment and training of 1,515 new police officers, 750 new non-commissioned officer trainees, and 100 firefighter trainees; and

(ii) the provision of considerable resources to defense and security forces for combatting insecurity, particularly terrorism.

III. MACROECONOMIC OUTLOOK AND RISKS

10. Economic activity is expected to remain steady in 2018 given a favorable international climate and an internal social environment conducive to PNDES implementation, in spite of the security situation that the government is striving to control. Growth should therefore reach a rate of at least 6 percent. Stronger growth would be underpinned by strong agricultural production as a result of scaled up irrigation efforts, strengthened support for producers, expansion of agricultural centers (agro-poles), and continued incentive pricing for producers. Furthermore, the medium-term growth outlook would be buoyed by the vitality of the extractive industries with the entry into production of the Hounde and SEMAFO BOUNGOU gold mines, combined with improved gold prices. Momentum is expected to be maintained in telecommunications, transportation, and financial services with continued reforms to improve the business climate, host international events, and enhance financial inclusion.

11. Inflation is expected to remain moderate and below the WAEMU criterion of 3 percent annually. Higher agricultural production should hold back consumer prices increases while an upward movement in world oil prices could put pressure on domestic energy prices.

12. This economic outlook is subject to risks, particularly in relation to security, the vulnerability of agriculture to climatic variations, persistent social tensions, low mobilization of internal resources, difficulties absorbing external resources, and volatility in commodity prices.

13. This context calls for mitigation measures to minimize the effects of these risks on growth prospects. Key related measures include: (i) continued actions to boost internal and border security; (ii) modernization of the agricultural sector to limit the impact of climatic variations on production; (iii) ongoing efforts to increase revenue mobilization and rationalize current expenditure in order to free up resources for growth-generating investment projects; (iv) improved efficiency and execution of public investments; and (v) enhanced social dialogue, guaranteeing a climate conducive to sustained growth over the medium and long term.

IV. ECONOMIC AND FINANCIAL PROGRAM FOR 2018-2020

A. Objectives of the New ECF-Supported Program

14. The aim of the new ECF-supported program is to maintain macroeconomic stability through a credible fiscal policy and to strengthen the basis for sustained, inclusive growth in keeping with the objectives set forth in Burkina Faso's development strategy (PNDES). Fiscal policy is anchored on the consolidation of the overall fiscal deficit to no more 3 percent GDP by 2019, as established by the WAEMU convergence criterion on fiscal deficits. At the same time, the government has undertaken to achieve the PNDES objectives as soon as possible. The government is cognizant of the challenges posed by these ambitious plans given the resource constraints it faces. To overcome them, the government plans to: (i) create fiscal space to boost public investment in priority sectors;

(ii) improve the efficiency and execution of public investment; (iii) strengthen public financial management; (iv) improve energy sector performance; (v) enhance economic diversification and promote financial inclusion; (vi) reduce poverty and inequality; (vii) combat corruption; and (viii) improve macroeconomic statistics.

B. Macroeconomic Stability Through Credible Fiscal Policy

Initial 2018 Budget

15. The National Assembly has adopted the initial 2018 budget. Within this framework, the government will continue the priority actions initiated in 2016 to implement the PNDES with a view to transforming the structure of the economy, reviving local production, and protecting and supporting vulnerable groups through the social safety net program and the program for the economic and social empowerment of youth and women. Furthermore, with regard to the regional and national context marked by the resurgence of terrorism, special focus will be placed on building the operational capacities of the defense and security forces, both in terms of equipment and human capacity. Particular focus will be placed on the increased mobilization of internal resources to create sufficient fiscal space for financing public investment expenditure.

16. In the budget, revenues and grants total CFAF 2012 billion. The total amount of revenues in 2018 is expected to be CFAF 1,757 billion, up 26.5 percent compared to 2017, due to the implementation of reforms by the relevant administrations. This implies that revenues would reach 22.3 percent of GDP, up 2.6 percentage points compared to 2017.

17. These recovery forecasts distinguish, on the one hand, between revenue generated through government modernization reforms and the effects of economic growth (historical trend projection), in the amount of CFAF 1,654 billion, and, on the other hand, decisive action to generate additional revenue (CFAF 107 billion) in the 2018 budget.

18. Current measures that will boost revenue in 2018 include:

- continued clearance of outstanding unpaid taxes through the implementation of an enforced collection strategy (notifications to third-party holders (*avis à tiers détenteur* – ATD), seizure of movable and immovable property, administrative closures);
- continued computerization of tax services (electronic procedures, digitization, etc.) to increase productivity of operational services and combat tax fraud;
- continued implementation of standardized invoicing through training and on-site visits to monitor implementation;

- implementation of the measures contained in the General Tax Code; continued consolidation of the segmentation of enterprises to improve management of the large and medium-size enterprise taxpayer portfolio;
- continued implementation of reforms to modernize the Customs Administration;
- fulfillment of the obligation to connect all licensed customs brokers to ASYCUDA World, and an annual review of all licenses granted to brokers with a view to bringing the profession up to par; and
- extension of the platform of the Virtual Liaison System for Import and Export Operations (*Système de liaison virtuelle pour les operations d'importation et d'exportation* – SYLVIE) to public administrations (national public health laboratory, veterinary and phytosanitary services);

19. The government will implement the following key reforms:

Administrative Measures

- monitored use of standardized invoicing by all taxpayers to reduce false billing and safeguard VAT collections;
- census of taxpayers using modern (computer-based) management tools to geolocate them for 2018,
- implementation of electronic procedures to allow taxpayers to file their income tax returns online and pay their taxes electronically (promotion of modern means of payment) as of January 1, 2018;
- computerization of the tax audit chain to facilitate selection of files based on risk analysis enabling more than 1,000 files to be audited per year, with a much higher rate of return;
- enhanced tracking of deficiencies and recovery action;
- geotracking of goods in transit;
- use of scanners installed in major customs clearance offices in Ouagadougou and Bobo-Dioulasso;

Fiscal Policy Measures

- improved surveillance of state- and privately-owned land to build a database containing land information so that action can be taken to improve the yield of any land tax; and

- creation of new departments: Customs Cooperation Directorate (*Direction de la coopération douanière*), Regional South-Central Customs Directorate (*Direction régionale des douanes du centre sud*), division of the Bobo Gare (Bobo Inter) Customs Office (*Bureau des douanes*) into three offices (road, railway, and hydrocarbon);

- as part of the adoption of the General Tax Code, the following measures came into effect on January 1, 2018:

  - a single rate of 45 percent on tobacco instead of the two separate rates of 30 percent and 40 percent on products classified as "low-end" and "standard" and on products classified as "luxury," respectively;

  - an increase in the flat fee for registering contracts financed with external resources. The amounts will now range from CFAF 25,000 to CFAF 1,000,000 depending on the value of the contract submitted for registration, compared to the CFAF 10,000 flat fee previously in place.

  - rules against the manipulation of transfer prices conforming with international best practices;

  - a tax on non-biodegradable plastic packaging and bags to support the implementation of law no. 017-2014/AN of May 20, 2014 prohibiting the production, import, marketing, and distribution of non-biodegradable plastic packaging and bags. The proceeds from the tax will be used to build up the Environmental Response Fund (*Fonds d'intervention pour l'environnement* – FIE);

  - the elimination of the tax reduction on the reinvestment of profits for greater control over applicable tax exemptions;

  - the modification of the tax mechanism applicable to gains from the disposal of mining securities to offset the schemes designed to avoid the tax on gains from the disposal of mining securities;

  - the elimination of the VAT exemption on fixed and mobile telephones;

  - the partial taxation of judicial documents, previously fully exempt, including documents relating to the civil status and marital arrangements of individuals, to the application of social security regulations, to orders, seizures, and sales intended to collect fines and financial penalties for public accountants, to voter registration and electoral operations, to the enforcement of laws concerning the organization of collective liability clearance procedures, to documents prepared at the request of the public prosecutor not falling under civil law (in criminal matters), and exclusively to the protection of wards of the nation;

- an increase in the minimum registration tax from CFAF 4,000 to CFAF 6,000; and

- the renewal of special measure to facilitate operations relating to change of ownership or usufruct of immovable property for residential use belonging to natural or legal persons governed by private law, whose value does not exceed CFAF 10,000,000. For transfers of immovable property meeting the latter condition, the respective fixed fees of CFAF 300,000 and CFAF 500,000 will still be collected for bare land and built-up land in Ouagadougou and Bobo-Dioulasso. These costs are reduced by a third for land in communes where regional capitals are located, other than Ouagadougou and Bobo-Dioulasso, and by half for land in other communes.

20. The government also intends to take the following measures:

- review documents on informal sector taxation and comprehensive taxes (*impôts synthétiques*);
- add three new control levels to field 44 (*champs 44)*: nomenclature, value, and origin;
- activate the SYLVIE / ASYCUDA World modules for the management of exemptions and in-bound clearance areas and warehouses by December 2018;
- outsource the evaluation of used vehicles less than 10 years old and public works vehicles entrusted to the Automotive Vehicle Control Centre (Centre de Contrôle des Véhicules Automobiles – CCVA);
- select licensed experts with expertise in vehicles more than 10 years old imported into Burkina Faso;
- interconnect Burkina Faso’s customs computer systems with those of neighboring countries (Togo);
- increase anti-fraud efforts using a new risk analysis tool, the Computerized Customs Dispute Management System (*Système de gestion informatisée du contentieux douaniers* – SYGICOD);
- computerize in-bond warehouses in collaboration with the chamber of commerce; and

- increase efforts to combat the fraudulent import of motorcycles.

Project and program grants total CFAF 255 billion, down 1.35 percent of GDP compared to 2017.

21. With respect to expenditure, the overall amount budgeted for 2018 is CFAF 2,435 billion, including CFAF 805 billion in domestically-financed investments, compared to an outturn of CFAF 2,180 billion in 2017. This increase of 11.7 percent in total expenditure is the result of an increase of domestically-financed investment expenditure of 19.3 percent of GDP in 2018, coupled with an increase in current spending of by 5.1 percent for a total of CFAF 1,328 billion in 2018, compared to CFAF 1,264 billion in 2017. Total expenditure is estimated to account for 30.8 percent of GDP, up 0.9 percentage points from 2017.

22. The overall deficit is estimated to be 5 percent of GDP, down 3.2 percentage points from 2017. The 2018 deficit level is justified by the government's willingness to continue to implement public investments over the period consistent with PNDES, while continuing to preserve Burkina Faso's capacity to meet the regional fiscal deficit criterion of 3 percent of GDP by 2019.

V. FISCAL FRAMEWORK UNDER THE ECF-SUPPORTED PROGRAM

23. The government is determined to maintain the overall deficit at a level not exceeding 5 percent of GDP in 2018, in accordance with its WAEMU commitment to achieve an overall fiscal deficit of no more than 3 percent of GDP in 2019 and beyond. To maintain a prudent approach vis-à-vis fulfilling the revenue assumptions in the initial 2018 budget, the government has approved a list of expenditures totaling CFAF 264 billion, the execution of which will not commence prior to the mid-term budget execution evaluation. The Minister of Finance, following the approval of the Cabinet Council, has taken the precaution of freezing all items on the delayed spending list from execution. If the mid-term evaluation of budget execution points to additional resources in excess of the program target, the government will consider unblocking the highest-priority projects from the delayed list, in consultation with IMF staff.

A. Debt Policy

24. The government will continue with a prudent debt policy to maintain its moderate risk of external debt distress. To that end, it plans to give preference to grants and concessional financing, while continuing to make use of the regional financial market. The government is also mindful of the need to monitor and contain the accumulation of contingent liabilities.

25. It also plans to make reasonable use of PPPs to implement investment. In this context, the government pledges to not undertake pre-financing arrangements and to record supplier credit agreements in the budget and debt statistics in accordance with the best practices described in the recent IMF technical assistance report on PPP fiscal risk management. The government is pursuing two supplier credit-financed projects (hospital and bypass road for Ouagadougou). They could be financed by supplementary resources, namely resources generated from efforts to collect outstanding unpaid taxes and the streamlining of tax exemptions. To the extent that these projects will be executed in 2018, and that these supplementary resources are available, the government will ensure that they fit within the overall deficit target of 5 percent of GDP.

26. In the context of shrinking concessional resources, use of non-concessional financing will be reserved for critical projects with a strong and guaranteed economic return. The program includes a non-concessional financing ceiling amounting CFAF 200 billion in 2018.

27. For 2018, the deficit will be covered by government securities issuances on the regional financial market and a combination of concessional and non-concessional borrowing. Other sources of financing, be it new international issuances or a sukuk, could be explored in the context of future reviews of the program.

B. Creation of Fiscal Space for Priority Public Investment

28. To achieve its ambitious fiscal objectives over the medium term, the government will continue to step up its fiscal reforms, on both the revenue and expenditure sides. Limiting subsidies, particularly to the energy sector, is another important element in creating and preserving fiscal space.

Revenue Mobilization

29. The revenue mobilization ambitions are based on: (i) the implementation of strategic plans developed by the Directorate General of Taxation (*Direction générale des impôts* – DGI) and the Directorate General of Customs (*Direction Générale des Douanes* – DGD); (ii) the implementation of the General Tax Code (*Code Général des Impôts* – CGI); (iii) the strengthening of tax administration and tax policy reforms; and (iv) the modernization of agency management. The specific measures currently underway and planned for 2018 are described above. In designing tax policy measures, we will draw on the recommendations of the technical assistance on tax policy provided by the IMF in January 2018.

Wage Bill Control in 2018–2020

30. The government is working to control the wage bill to increase the fiscal space for investment expenditure. Given the increasing weight of personnel costs in the state budget, it is imperative that strong measures be taken to limit the pace of this upward momentum. This will also involve:

- ✓ negotiating a truce with social partners for the next three years to reduce the rate at which the wage bill is increasing;
- ✓ streamlining the incidence of statutory integration by putting in place a comprehensive envelope that, going forward, will be used as a basis for determining the personnel ceilings for recruitment per ministry based on the intake capacity of professional training bodies and in keeping with PNDES priorities to reduce the toll of the public service on public

finances;

- ✓ continuing payroll reorganization operations (automated control of temporary and permanent departures, appointment document containing the identity and identification number of outgoing officials);
- ✓ continuing to decentralize wage processing in to improve the quality of staff controls and streamline the components of remuneration; and
- ✓ ensuring continued biometric enrollment to prevent duplication of payment orders due to multiple registrations.

Moreover, we have requested technical assistance on public service reform from the World Bank.

C. Improved Investment Efficiency and Execution

31. The government is committed to reforms aimed at improving the selection, evaluation, and execution of public investment in accordance with the recommendations of the April 2017 Public Investment Management Assessment (PIMA) report and previous missions. The Ministry of Finance has created a list of priority investment projects that will enable better prioritization of investment plans in light of existing budgetary constraints. The government will pursue initiatives to improve the transparency of the process for public tendering, notably by putting in place an online platform where request for offers and bids, are published. Furthermore, the government will prepare a technical guide to standardize the methodology for performing cost-benefit analyses for all projects with a contract value of CFAF 1 billion and whose objectives are in line with the PNDES. These analyses will be used more systematically for investment projects for which contracts will be signed during the 2018 and 2019 budgets.

32. Management of the budgetary implications and risks of PPPs will be enhanced. The legal and regulatory framework will be improved and will consider WAEMU directives on PPPs. A gateway process giving the Minister of Finance the responsibility and authority to validate projects will be established in accordance with the recommendations of the November 2017 IMF technical assistance mission on PPP-related risks. This validation could take place at key stages of the PPP process, including before projects are included in the Public Investment Program (PIP) and again before a contract is signed. Moreover, the government will outline, in the 2019–2021 Multiyear Budget and Economic Programming Paper (*Document de Programmation Budgétaire et Economique Pluriannuelle* – DPBEP) the PPP contracts it plans to sign in the near term and the PPP contracts that have already been signed, as well as their budgetary implications. In the 2019 initial budget, PPPs will be subject to commitment authorizations under law no. 073-2015/CNT of November 6, 2015.

33. The Ministry of Finance will develop and regularly update a database identifying PPPs, as recommended by the technical assistance mission. The creation of this database is a structural benchmark under the program and will include information on the contract type, the total cost, the payments made, and the schedule of remaining payments, amortization, and interest.

34. We wish to ensure that every PPP that is signed is consistent with macroeconomic stability and medium-term debt sustainability. To this end, we will transmit to IMF staff the results of the analyses of budgetary risks of the projects to be completed as well as analyses of their potential effects on Burkina Faso's debt sustainability.

D. Enhanced Public Financial Management

35. To guarantee the effectiveness of the VAT system, the government has committed to eliminating lengthy delays, which are affecting the processing and payment of VAT refunds. To that end, we have agreed to eliminate during the ECF-supported program period the stock of certified refunds more than 30 days past due. To monitor the progress of this indicator, the government will produce a table of VAT refund processing times by taxpayer type according to risk and the credit application date, with quarterly updates.

36. The government will continue to strengthen its public financial management procedures and systems. It plans to continue implementing the program budget system that came into effect in 2017. Over the next few years, the process will be consolidated through the management of any noted deficiencies and ongoing capacity-building among programming and implementation entities.

37. The government will continue to monitor the transparency of budgetary procedures. It will also publish budget execution reports, which will be available on the Ministry of Finance website (regularly within 15 days of being adopted by the Council of Ministers), in addition to publishing draft budget laws and the budget execution law (loi de règlement).

38. Cash flow management will be modernized and optimized with the establishment of a Single Treasury Account (STA). The government undertakes to develop and adopt an STA system, with assistance and coordination with the BCEAO. BCEAO inactive accounts, excluding project accounts, opened by government accountants were closed at end-December 2017. The government has promised to close those accounts opened with commercial banks by end-April 2018. The BCEAO also plans to close accounts that have been inactive for at least five years.

39. The government will continue its efforts to clear irregular domestic debt. In January 2017, the government approved a scheme to clear irregular domestic debt at end-December 2017. The process was initiated in February 2017, and in March 2017 a circular was issued that invited ministerial departments to assume irregular domestic debt payments following approval from the Council of Ministers based on a certain number of the following minimal documents: (i) an invoice; (ii) a bank statement (*Relevé d'Identité Bancaire* – RIB), (iii) a memorandum of understanding; and (iv) a document attesting to the service rendered.

40. The reimbursement of Treasury assets currently held by SONAPOST is underway. A recent audit report prepared by the BCEAO identified SONAPOST commitments to the Treasury in the amount of CFAF 108.4 billion and suggested improvements to governance. The first tranche of CFAF 34.2 billion was paid in February 2017. A balance repayment agreement will be agreed on between the Ministry of Finance and the Ministry of Digital Economy and Post Office Development (Ministère de l'économie numérique et des postes) by April 2018.

41. The government plans to get the Deposit and Consignment Office (Caisse des dépôts et de consignations), created by law no. 023/AN of May 9, 2017, up and running by providing it with sufficient capital and ensuring that its institutional, regulatory, and governance structure is in line with international best practices. After the development of the business plan currently underway is finished, the next step will be to conduct actuarial studies.

E. Improved Energy Sector Performance

42. The implementation of the memorandum of understanding between the state, SONABEL, and SONABHY helped clear cross-debt between the three entities. SONABEL has been ensuring compliance with its current commitments to SONABHY since 2016. Nonetheless, SONABEL's past outstanding claims, spread over 10 years, are being negotiated for securitization to financial institutions to partly restore SONABHY's cash flow.

43. Since the subsidy arrears owed to SONABHY total CFAF 72.4 billion, the government first settled CFAF 36.5 billion on October 10, 2017, with the balance being cleared on October 20, 2017. Payment arrears owed to SONABEL and relating to overdue government invoices and asset stripping, as well as balancing subsidy arrears, were all settled by the country's authorities to the tune of CFAF 15.7 billion.

Pump Price Adjustment Mechanism

44. Hydrocarbon subsidies financed by the government continue to put a strain on government finances and crowd out much needed public investment and priority social spending. Maintaining fixed fuel prices at the pump cost the government CFAF 23 billion in the first half of 2017 and the bill could get higher given current international oil prices. To assist in achieving the objective of reducing government fuel subsidies, the government will conduct a mission to neighboring countries to learn from the experience of others how to effectively apply an automatic fuel price adjustment mechanism. Afterward, a study will be completed with a view to understanding the effects of various fuel adjustment mechanisms on the poorest and most vulnerable members of society and what measures can be taken to mitigate the effects on these members of society. The government will also launch a campaign to raise public awareness of the need for more flexible pump fuel prices. In the case where pump fuel subsidies exceed CFAF 25 billion, the government will adjust prices to limit the impact of fuel price increases on the budget.

45. In addition, a thorough independent audit of SONABHY's activities and financial situation, including accounting practices and financial statements, will be conducted. This audit will be used as a basis for recommendations to improve the performance of the fuel supply company, improve its accounting practices, and clarify its financial situation vis-à-vis the government. The audit report will be shared with the partners concerned. An independent external auditor will be recruited by end-April 2018 so that the audit is finished by end-June 2018.

F. Structural Reforms to Promote Financial Inclusion and Diversification

Cotton and Other Agricultural Sectors

46. The replenishment of the smoothing fund (*fonds de lissage*) and the operationalization of the cotton input fund (*fonds intrants coton*) have helped strengthen the financial health of the cotton sector. In addition, the government, in coordination with cotton producers and cotton companies, plans to continue providing strategic support to increase cotton quality and productivity as well as foster diversification. A study is being conducted to propose alternatives for greater sector resilience to exogenous shocks, particularly by improving sector management tools and exploring strategies for increasing the value-added of cotton, especially local fiber processing. The results of this strategic study, expected before end-March 2018, will help consolidate the sector's gains and strengthen management tools such as the smoothing and cotton input funds.

47. As for other agricultural sectors, the authorities of Burkina Faso are seeking to develop a more market-oriented, productive, and resilient agro-sylvo-pastoral, fisheries, and wildlife sector. To do this, the government has taken major action with respect to: (i) the implementation of an innovative incubator of agricultural entrepreneurs in rural promotion centers (centres de promotion rurale – CPR) and in the multipurpose agricultural center (*centre agricole polyvalent* – CAP–Matroukou); (ii) the establishment of agricultural equipment and materials manufacturing units; and (iii) the promotion and development of innovative mechanisms providing access to agricultural credit, such as agricultural insurance, agricultural storage, and warehouse receipt system (*warrantage*). Furthermore, a request for authorization to create an agricultural bank was filed with the banking commission, and major reforms have been undertaken, including the current adoption by the Council of Ministers of a bill laying down an agro-sylvo-pastoral, fisheries, and wildlife code with a view to improving business in the agricultural sector.

Mining Sector

48. The mining sector in Burkina Faso is comprised primarily of gold and zinc, as manganese mining prospects are still uncertain. However, persistent security problems in the northern part of the country, where most of the large mines are located, pose a threat to gold mining and exploration. To secure mining investment, the government plans to build up the operational capacity and resources of the National Board for Securing Mining Sites (Office national de sécurisation des sites miniers – ONASSIM).

49. With respect to non-industrial mining operations, the results of the national survey on the small-scale ('artisanal') gold mining sector revealed that in 2016, artisanal gold mining accounted for 140,196 workers on a total of 448 operating artisanal gold production sites. The annual output from small-scale gold mining was preliminarily estimated to be 9.5 tons of gold in 2016. To reduce recurring conflicts of interest between artisanal producers and industrial mines, the government is planning to create a National Agency for the Supervision of Artisanal and Semi-mechanized Mining Operations (Agence nationale d'encadrement des exploitations minières artisanales et semimécanisées – ANEEMAS), responsible for coordinating, regulating, and supervising the activities of small-scale miners (orpailleurs).

50. With the completion of this survey, the government has committed to assessing historical artisanal gold production using 2016 results, based on which it will incorporate the revised production levels into the national accounts (structural benchmark). This will take place at the same time as changes to the base year for national account statistics by end-2018.

Financial Inclusion

51. Financial inclusion is one of the government's top priorities. One of the PNDES objectives is to bring the broader banking services utilization rates to 35 percent by 2020. In that respect, the government has undertaken to develop a National Inclusive Finance Strategy (*Stratégie nationale de finance* inclusive – SNFI) according to the Making Access to Financial Services Possible (MAP) approach. This approach is based on an exhaustive analysis of offer, demand, and the regulatory context to identify key factors that could either prevent or promote better financial inclusion to the benefit of the national economy.

52. With a view to developing the Strategy, a FinScope survey of 5,076 households from around the country established demand for financial products and services in Burkina Faso. A survey on the offer of financial products and services is being conducted, with results expected by end-November 2018.

53. Development of the SNFI is on the horizon. The Strategy should be available by early 2018, and effective implementation of the action plan should begin as of January 2018. It will take into account the regional financial inclusion strategy established by the BCEAO. The government has committed to finding the funding needed to implement the financial inclusion strategy, in collaboration with its partners, once it has been adopted and released to the public.

G. Poverty Reduction

54. As part of efforts to reduce social inequalities, a number of actions were carried out to improve, on the one hand, the living conditions of children and, on the other hand, solidarity and humanitarian crisis and disaster management mechanisms. Adolescents, including 1,922 girls, received trades training (vegetable growing, sewing, weaving, and feedlot operations) as socio-economic promotion for struggling families. The same actions will be taken for the rest of the PNDES period.

55. Under the Social Safety Net Project (Projet Filet Sociaux), 15,000 recipients (women who are from poor households, who are pregnant, nursing, or raising children under 15, as well as households affected by or vulnerable to food insecurity or shocks) already received transfers totaling CFAF 3.84 billion. In the west central part of the country, 15,000 recipients were identified, with a current digital payment of CFAF 100 million. At the end of the project, the total number of recipients would be 72,000.

56. Under component 3 of the Support Program for the Development of Local Economies (Programme d'appui au développement des économies locales – PADEL) entitled "Promoting the financial and social inclusion of populations" (*Promotion de l'inclusion financière et sociale des populations*), 10,000 vulnerable households in the Sahel region are tapped to receive cash transfers in 2017. The list of recipients is being worked through so that a transfer can be made before end-2017, at a rate of CFAF 30,000 per household per quarter. In terms of outlook, approximately 251,000 vulnerable households should receive cash transfers over the remaining PADEL implementation period (2018–2020). In 2018, the cash transfer will be extended to vulnerable households in six (6) new regions, and the final six will be covered in 2019.

57. Furthermore, universal health insurance continues to be put in place through the implementation of an institutional and legal framework. Eight (8) pieces of enabling legislation were developed for the procedure to create the National Universal Health Insurance Fund (*Caisse nationale d'assurance maladie universelle* – CNAMU). With respect to the empowerment of women and youth employment, the government funded micro-projects, held entrepreneurship training, and continued to implement the high labor-intensity (*haute intensité de main d'œuvre* – HIMO) program. To promote the socioprofessional integration of young graduates and young tradespeople, the government funded innovative projects with strong growth potential through the "Burkina Startup" program. This program is funded by the Burkinabè Social and Economic Development Fund (*Fonds Burkinabè de Développement Économique et Social* – FBDES), with CFAF 10 billion in assistance. The program will run for five years (2017–2021) and is expected to create 10,000 direct jobs and 100 startups per year. By the end of the five-year period, 500 startups will have been created.

H. Fight Against Corruption (ASCE-LC)

58. Burkina Faso has made a firm commitment to promote good governance and fight corruption. To rise to this challenge, the legal and institutional arrangement for combatting corruption was strengthened through the adoption of law no. 004-2015/CNT on the prevention and suppression of corruption in Burkina Faso. Action will also be taken to align the regime governing the disclosure of assets with international best practices, particularly by strengthening its framework and implementation. To that end, it will establish a paperless process for the disclosure of assets for those covered by the law and will create a searchable database (online reporting and consultation for those designated under the law) (new structural benchmark). We are also determined to increase compliance with obligations by imposing dissuasive or proportionate penalties on nondisclosure or misrepresentation. To raise public awareness of this law, a strategy is being developed to publicize the law jointly with civil society, in this case, the National Anti-Corruption Network (*Réseau national de lutte anti-corruption* – REN-LAC). Furthermore, members of the steering committee in charge of issuing an opinion on the management of the Comptroller General and guiding the actions of the Higher State Supervision and Anti-Corruption Authority (*Autorité supérieure de contrôle d'Etat et de lutte contre la corruption* – ASCE-LC) were identified following a background check and will soon be appointed. The supervision system is being restructured as a result of the transition to the program budget, the implementation of WAEMU guidelines on internal audit and control, and the desire to promote a new philosophy based on planning, prevention, results, and performance. Lastly, the government has made a commitment to make available to the ASCE-LC the financial resources it needs to fulfill its mandate.

I. Improved Macroeconomic Data and Monitoring

59. The government continues its work to update the base year for national accounts. Data from the national informal sector and employment survey are available and will be integrated into the accounts of the new base year in accordance with the 2008 SNA. The same applies to small-scale gold mining survey data. The work currently underway seeks to incorporate the data collected and studies conducted with a view to synthesizing the national accounts for the new base year in accordance with the 2008 SNA. Preliminary results are expected in the first quarter of 2018, pending consolidation, and the 2016 accounts, by end-2018.

VI. PROGRAM ARRANGEMENTS

60. The new ECF arrangement will run for three years, with semi-annual reviews, and the first two reviews will take place on or after December 15, 2018 and June 15, 2019, respectively. Program results will be assessed against Tables 1 and 2 in accordance with the Technical Memorandum of Understanding, which sets out the quantitative criteria and requirements for reporting data to IMF staff.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for ECF Arrangement, 2018

(CFAF billions)

	2018*		
	June	Sept.**	Dec.
	Prog.	Prog.	Prog.
Quantitative Performance Criteria			
Ceiling on net domestic financing of the government 1/	200	263	263
Ceiling on the amount of nonconcessional external debt contracted or guaranteed by the government 1/ 2/	200	200	200
Ceiling on the accumulation of external payment arrears by the government 3/	0	0	0
Ceiling on the guaranteeing of new domestic loans to suppliers and contractors by the government 3/	0	0	0
Ceiling on new bank pre-financing for public investments by the government 3/	0	0	0
Indicative Targets			
Ceiling on the accumulation of domestic arrears by the government 3/	0	0	0
Ceiling on the overall fiscal deficit including grants 1/	236	316	395
Floor on government revenue 1/	692	1,087	1,553
Floor on poverty-reducing current social expenditures 1/	88	132	176
Ceiling on the stock of certified and unpaid VAT refunds older than 30 days 1/	55	55	55
Ceiling on the value of PPPs contracted 1/	200	200	200
Memorandum Item			
Ceiling on the amount of concessional external debt contracted or guaranteed by the government 1/	550	550	550

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

* Indicative targets for March 2018 have not been included due to its close proximity to the approval of the ECF arrangement.

** Indicative Target, except for continuous performance criteria.

1/ Cumulative from January 1, 2018.

2/ The limit is not tied to specific projects.

3/ To be observed continuously.

Table 2. Burkina Faso: Structural Conditionality

Benchmark	Objective	Completion Date
Prior Actions		
The extraordinary measures to accelerate PPP project implementation put in place will terminate in January 2018.	Reinforce project selection	Prior Action
Implement the following revenue mobilization measures: -institute a tax on capital gains on the sale of corporate securities. -institute a tax on non biodegradable plastic bags. -apply a uniform and increased tax on tobacco of 45 percent. -raise the standard duty on the registration of externally financed contracts.	Strengthen fiscal management	Prior action
Begin implementation of the communication plan for a flexible fuel price mechanism by publishing an article on the costs of fuel subsidies. Also, conduct two outreach sessions with stakeholders.	Reduce rigidities in the economy, increase fiscal space and reduce fiscal costs associated with fuel subsidies	Prior Action
Identify a list of public investment projects amounting to at least CFAF 264 billion that are in the 2018 budget that will be frozen.	Safeguard public finances	Prior Action
Public Financial Management		
Approve a repayment plan for the reimbursement by SONAPOST of Treasury assets held in the postal accounts (MINEFID, SONAPOST).	Improve cash management	April 2018
Create a database of all existing formal sovereign guarantees, which includes information on the beneficiary, underlying contract, date of signature, date of expiration and budget implications.	Improve budget transparency and mitigate fiscal risks	April 2018
Create a database of all projects signed or planned as PPP, prefinancing or supplier credits agreements. The database will include information on the type of contract, total cost, payments made and due, as well as interest payments.	Improve budget transparency and mitigate fiscal risks	April 2018
Establish a limit on the amount of PPPs that can be contracted by the Government.	Improve budget transparency and mitigate fiscal risks	April 2018

Table 2. Burkina Faso: Structural Conditionality (concluded)

Benchmark	Objective	Completion Date
Include as an Annex to the 2019 Budget law an analysis of the costs-benefits of the ten largest investment projects, including PPP projects.	Improve budget transparency and mitigate fiscal risks	December 2018
Develop and adopt a framework for transitioning to a single treasury account.	Improve treasury management	December, 2018
Complete a study on automatic fuel price mechanisms and the effectiveness of measures to mitigate the effects of flexible fuel prices on the poorest and most vulnerable.	Improve quality of public expenditures	September, 2018
Expenditure Policy		
Appoint an independent external auditor to conduct an audit of SONABHY's operations, financial position, and accounting practices.	Reduce fiscal risks and eliminate fiscal costs associated with subsidies	April 2018
Improving Macroeconomic Statistics and Forecasting		
Complete the revision of national accounts statistics to the new base year, and disseminate the revised series.	Improve the accuracy of national statistics.	December, 2018
Integrate the results of the artisanal gold study into the system of national accounts and revise the base year.	Improve the accuracy of national statistics.	December, 2018
Improve Governance		
Proceed with the dematerialization of asset declarations of government officials and those covered by the law, by instituting online submisisons, and create a searchable database	Improve governance and improve the fight against corruption	December, 2018

Attachment II. Technical Memorandum of Understanding

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

CONDITIONALITY

2. The quantitative performance criteria and indicative targets for end-June 2018 and end-December 2018 are provided in Table 1 of the MEFP. The structural benchmarks set forth in the program are presented in Table 2 of the MEFP.

DEFINITIONS

3. **Government.** Unless otherwise indicated, the term "government" means the central government of Burkina Faso and does not include local governments, the central bank, or any other public or government-owned entity with autonomous legal status not included in the table detailing the financial operations of the state (TOFE).

4. **Definition of debt.** The definition of debt is set out in IMF Executive Board Decision No. 15688-(14/107), Point 8, as published on the IMF website. The term "debt" will be understood to mean all current, i.e. not contingent, liabilities, 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 various forms; the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, 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, i.e., contracts where the supplier permits the obligor to defer payments after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, 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.

Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on a contractual obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

5. Debt guarantees. A government debt guarantee means an explicit legal obligation to service a debt in the event of nonpayment by the borrower (through payment in cash or in kind).

6. Debt concessionality. A debt is considered concessional if it includes a grant element of at least 35 percent.[1] The present value (PV) of debt at the time it is contracted is calculated by discounting the borrower's future debt service payments on the debt.[2] The discount rates used is 5 percent.

7. External debt. External debt is defined as debt contracted or serviced in a currency other than the CFA franc. The relevant performance criteria apply to the external debt of the government, public enterprises that receive government transfers, and other public entities in which the government holds more than 50 percent of the capital, and any private debt for which the government has extended guarantees that constitute a contingent liability for the government.

QUANTITATIVE PERFORMANCE CRITERIA

8. The quantitative performance criteria for 2018 are as follows:

(i) a ceiling on net domestic financing of the Government;

(ii) a ceiling on the contracting or guarantee of non-concessional external debt by the government;

(iii) a ceiling on the non-accumulation of payment arrears on external debt service;

(iv) a ceiling on the guaranteeing of domestic loans to suppliers and contractors;

(v) a ceiling on the guaranteeing of bank pre-financing of public investments.

A. Net Domestic Financing of the Government

9. Net domestic financing is defined as the sum of (i) net bank credit to the Government, including net bank credit to the Government as defined below vis-à-vis the national banking

[1] This IMF webpage provides a tool to compute the grant element in a large range of financial arrangements: http://www.imf.org/external/np/pdr/conc/calculator

[2] The calculation of the concessionality takes into account all aspects of the debt contract, including the date of payment, the grace period, the schedule, the commissions and management fees.

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

Adjustment

10. The cumulative ceiling on net domestic financing will be adjusted upward in the amount by which external program support to central government falls short of the amount projected, in the event the external program assistance is lower than programmed, up to a maximum of CFAF 80 billion. The shortfall will be calculated in relation to the projections in Table 1 below. The ceiling will not be adjusted downward in the event the external program assistance is higher than programmed.

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

	End-June 2018	End-December 2018
Program grants and loans	80	153
(Of which program grants)	(44)	(97)

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

B. New Nonconcessional External Debt Contracted or Guaranteed by the Government

12. The government undertakes not to contract or guarantee any non-concessional external debt beyond the ceiling indicated in MEFP Table 1. This performance criterion applies to external debt as defined in paragraph 7 of this memorandum. It utilizes the concept of concessionality as defined in paragraph 6 of this memorandum. This performance criterion also applies to any private debt guaranteed by the government that constitutes a contingent government debt as defined in paragraphs 4 to 7 of this memorandum. For the purpose of this performance criterion, "government" shall include the central government of Burkina Faso, public enterprises that receive government transfers, local governments, and other public sector entities (including public administrative, professional, scientific and technical agencies). However, this performance criterion will not apply to Government bills and bonds issued in CFA francs on the WAEMU regional market, to suppliers' normal short-term credits, or to IMF loans. It is measured on a cumulative basis from the date of the IMF Executive Board's approval of the ECF arrangement, and no adjustment factor will apply.

Reporting deadlines

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

C. Non-accumulation of New External Payment Arrears by the Government

14. External payment arrears are external payments due but unpaid. Under the program the government agrees not to accumulate external payment arrears on its debt, except arrears arising from external payment obligations being renegotiated with creditors, including bilateral non-Paris Club creditors. Non-accumulation of new external arrears by the government is a performance criterion to be observed continuously.

D. Guaranteeing of New Domestic Loans to Suppliers and Contractors by the Government

15. The government undertakes to not provide new financial guarantees for domestic loans to its suppliers or contractors. This performance criterion shall be observed continuously. For this performance criterion, "government" includes the central government, institutions of an industrial or commercial nature (EPIC), public administrative agencies (EPA), public scientific and technical institutes, public vocational establishments, public health agencies, local authorities, public enterprises, national corporations, semi-public corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

E. Guaranteeing of New Bank Pre-Financing for Public Investments by the Government

16. The government undertakes not to guarantee new bank pre-financing for public investments. In a pre-financing arrangement, a private company granted a public works contract by the government obtains a loan from a domestic commercial bank or a group of commercial banks. The Ministry of Finance guarantees this loan and, at the same time, signs an unconditional and irrevocable substitution of debtor agreement to service all principle and interest. For this criterion, government includes the central government, institutions of an industrial or commercial nature (EPIC), public administrative agencies (EPA), public scientific and technical institutes, public vocational establishments, public health agencies, local authorities, public enterprises, national corporations, semi-public corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies. This performance criterion shall be observed continuously.

QUANTITATIVE INDICATIVE TARGETS

17. The program also includes quantitative indicative targets for:

(i) the accumulation of domestic arrears;

(ii) the overall fiscal deficit (commitment basis, grants included);

(iii) total government revenue;

(iv) poverty-reducing current social expenditures;

(v) value added tax refunds; and

(vi) public-private partnerships.

A. Accumulation of Domestic Arrears by the Government

18. The government will not accumulate payment arrears on domestic obligations during the program period. For this indicative target, a "domestic obligation" is one serviced in CFA francs, but it excludes government liabilities to local governments or any other public or government-owned entity with autonomous legal status not included in the table detailing the financial operations of the state (TOFE), except the central bank. Except in cases where the terms and conditions of the transaction stipulate a longer period, payments are deemed to be in arrears in keeping with the following definition:

(i) Debt unpaid for more than 30 days after the due date stipulated in the agreement between the parties (creditor/debtor).

(ii) Wages or pensions unpaid 90 days after their due date.

(iii) Payments for goods and services rendered received more than 90 days after processing of the supporting documents submitted by suppliers.

B. Overall Fiscal Deficit Including Grants

Definition

19. For the program, the overall deficit including grants is valued on a commitment basis. It is defined as the sum of the government's net foreign and domestic financing, measured from the financing side, plus a cash basis adjustment. Net foreign financing is the sum of new foreign borrowing less amortization. Government net domestic financing is defined in paragraphs 9 and 10 above. The cash basis adjustment is defined as the sum of: (i) the total change in unauthorized expenditure commitments, (ii) the change in pending bills, and (iii) the change in Government deposits.

Adjustment

20. The ceiling on the overall fiscal deficit will be adjusted upward in the amount by which actual external program grants to central government falls short of the amount projected, up to a maximum of CFAF 80 billion. The shortfall will be calculated in relation to the projections in Table 1 above. The ceiling will not be adjusted downward should actual external program grant assistance be higher than projected.

C. Government Revenue

Definition

21. Government revenue is valued on a cash basis. It includes all tax and non-tax revenue collected by the Directorate General of Taxation, the Directorate General of Customs, the Burkinabè Treasury, and other government revenue collection units. It also includes revenue from treasury checks.

D. Poverty-Reducing Current Social Expenditures

Definition

22. Social spending is the sum of current expenditure included in the social spending program as defined in the budget. This social spending program is defined as the sum of budget programs or parts of programs that target poor households and: (i) ensure access to basic social services; (ii) promote access to health services and nutrition programs; (iii) fight against HIV/AIDS; (iv) promote access to drinkable water; (v) improve living conditions, including environment and sanitation; or (vi) ensure social protection. Within these programs or parts of programs, only budget lines classified as social spending are retained.

E. Certified and unpaid VAT refunds older than 30 days

Definition

23. For the program, the stock of value added tax (VAT) refund claims that have been certified but remain unpaid for more than 30 days is comprised of signed tax refund amounts. The 30-day period starts from the date of signature of the tax refund certificate by the Director General of Taxes.

F. Public Private Partnerships

Definition

24. A public-private partnership is defined as a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. It excludes pre-financing and supplier credit arrangements.

Additional Information for Program Monitoring

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

Table 2. Summary of Data Reporting Requirements

Information	Institution Responsible	Data Frequency	Reporting Frequency
Public Finance			
The government flow-of-funds table (TOFE) and the customary appendix tables; (if data on actual investment financed by external grants and loans are not available in time, a linear estimate of execution based on the annual projections will be used)	Ministry of Economy, Finance and Development (MINEFID)	Monthly	6 weeks
Domestic budgetary financing (net bank credit to the government and stock of unredeemed government bonds and bills)	MINEFID/ BCEAO	Monthly	6 weeks
A quarterly report on the consistency of the net position of the Government in monetary statistics with the data from the TOFE on net domestic financing of the banking sector.	MINEFID/ BCEAO	Quarterly	8 weeks
Monthly data on the execution rates by the customs office relative to monthly forecasts.	MINEFID/ DGD	Monthly	6 weeks
A quarterly report on the outcomes and actions undertaken to put in place a better control and supervision of taxpayers using the single taxpayer identification number to cross-check information between DGI and DGD, starting with large taxpayers.	DGD/DGI	Quarterly	6 weeks
Data on implementation of the public investment program, including details on financing sources	DGB/DGTCP	Quarterly	6 weeks
The stock of external debt, external debt service, external debt contracted, and external debt repayment	DGTCP	Quarterly	6 weeks
Social poverty-reducing expenditures in table format	DGTCP	Monthly	6 weeks
Petroleum product prices, consumption and taxes, including: (i) the price structure for the month concerned;; (ii) detailed calculation of the price structure, from the fob-MED price to the retail price; (iii) volumes purchased and distributed for consumption by the petroleum distributor (SONABHY); with a distinction made between retail and industry sales; and (iv) a breakdown of tax revenue from petroleum products — customs duties, tax on petroleum products (TPP) and value-added tax (VAT) — and subsidies unpaid	SONABHY/ DGTCP	Monthly	4 weeks

Table 2. Summary of Data Reporting Requirements (continued)			
A quarterly summary report of monthly data of SONABHY's accounts including gains and/or losses from the buying and selling of hydrocarbon products by type of product, cash flows position and income statement, taking into account all received subsidies and Government securities issued or sold in the banking system or else.	SONABHY/ MINEFID	Quarterly	6 weeks
A quarterly summary report of monthly data of SONABEL's accounts including its cash flows position and income statement, and taking into account all received subsidies and project grants and loans from the technical and financial partners.	SONABEL/ MINEFID	Quarterly	6 weeks
A monthly statement of the accounts with the treasury, broken out by major category (administrative services, state enterprises, joint public-private enterprises, public administrative enterprises, international organizations, private depositors, and others)	DGTCP	Monthly	6 weeks
A quarterly activity report from the Investigation and Intelligence Directorate including taxpayer controls across DGI and DGD using the unique taxpayer identification number, beginning with large taxpayers.	DGI/DGD	Quarterly	6 weeks
Provide monthly customs revenue projections (on an annualized basis) by customs post, and report on monthly outcomes compared to projections.	DGD	Monthly	6 weeks
Keep 'Champ 44' enabled for input of references from inspection notices for all customs declarations.	DGD		Continuous
Provide monthly DGI revenue projections (on an annualized basis) by type, and report on monthly outcomes compared to projections.	DGI	Monthly	6 months
Provide monthly DGTCP revenue projections (on an annualized basis) by type, and report on monthly outcomes compared to projections.	DGTCP	Monthly	6 months
A quarterly summary report of VAT refunds, including transfers received from the ACCT, cumulative amount paid since the beginning of the year, the stock of certified refund claims (Régisseur d'avance), and total VAT refund claims being processed (DGE, DLC)	DGI	Quarterly	3 months
A monthly update of the PPP and sovereign guarantee databases	DGCOOP/ MINEFID		4 weeks
The consolidated balance sheet of monetary institutions			
The consolidated balance sheet of monetary institutions	NDs of the BCEAO	Monthly	6 weeks
The monetary survey: provisional data	BCEAO	Monthly	6 weeks
The monetary survey: final data	BCEAO	Monthly	10 weeks

Table 2. Summary of Data Reporting Requirements (concluded)			
The lending and borrowing interest rates	BCEAO	Monthly	6 weeks
The standard bank supervision indicators for banks and nonbank financial institutions	BCEAO	Monthly	6 weeks
Balance of Payments			
Preliminary annual balance of payments data	BCEAO	Annual	9 months
Foreign trade statistics	INSD/ MINEFID	Monthly	3 months
Any revision of balance of payments data (including services, private transfers, official transfers, and capital transactions)	BCEAO	As they occur	2 weeks
Real Sector			
Provisional national accounts; and any revision of the national accounts	MINEFID	Annual	2 weeks
Disaggregated monthly consumer price indices	MINEFID	Monthly	2 weeks
Structural Reforms and Other Data			
Any study or official report on Burkina Faso's economy, on the date published, or the date of entry into force.	MINEFID		2 weeks
Any decision, order, law, decree, ordinance, or circular having economic or financial implications, on the date published, or the date of entry into force.	MINEFID		2 weeks