International Monetary Fund

Burkina Faso and the IMF

Press Release:
IMF Executive Board Completes Sixth Review Under the ECF Arrangement, Approves US$6 Million Disbursement, and Concludes 2016 Article IV Consultation with Burkina Faso
December 16, 2016

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

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

November 30, 2016

Letter of Intent

MINISTRY OF ECONOMY,
FINANCE, AND DEVELOPMENT

GENERAL SECRETARIAT

DIRECTORATE GENERAL
OF COOPERATION

Ouagadougou, November 30, 2016

N°2016______/MINEFID/SG/DGCOOP

Minister of Economy, Finance, and Development
to
Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street NW
Washington DC 20431 (USA)

Madame Managing Director,

The government remains committed to implementing the 2013-16 economic and social program supported by the Extended Credit Facility (ECF) of the International Monetary Fund (IMF). Despite a particularly difficult start to 2016 in terms of the security situation, which undermined the achievement of strong economic growth, the government was able to implement the key reforms planned. In particular, the adoption of two supplementary budgets helped strengthen the tools at the government's disposal to execute the program and safeguard poverty-reducing social expenditures. Thus, monitoring of budget execution at end-September 2016 showed excellent tax revenue performance, which was above the program threshold for the first time since end-2013. Acceleration of the execution of public investment projects, which remained at 50 percent of the budget at end-September, owing essentially to the late adoption of the budget, will be facilitated by measures aimed at streamlining the government procurement process adopted in July 2016.

Burkina Faso adopted its national economic and social development plan (PNDES) on July 20, 2016, as the instrument defining the strategic guidelines for economic and social development for the period 2016-20. The PNDES revolves around three strategic pillars: (i) institutional reform and modernization of public administration, (ii) human capital development, and (iii) boosting key sectors for supporting growth and employment.

The draft 2017 budget law was prepared closely in line with the strategic pillars of the PNDES, and focuses on investment in backbone road infrastructure and energy projects, agricultural transformation, youth employment, combating poverty, and improving the well-being of women. To achieve these objectives, the government plans to continue the efforts already being made by the revenue administrations. The planned measures, which include the roll out of a standardized VAT invoice for large and medium-sized enterprises as of January 1, 2017, reestablishing the electronic interface between the tax and customs administrations, strengthening provisions related to transfer pricing, and the implementation of a project to collect fiscal-relevant data from large retailers and shopping centers that deliver cashier's receipts are expected to increase revenue by more than one percentage point of GDP.

Non-interest recurrent spending is expected to decline as a share of GDP as a result of the efforts made to curb the government's rate of expenditure and measures taken to contain the public wage bill. In addition, measures aimed at improving investment budget execution will be put in place by end-2016. These include (i) the drawing up of a list of priority investment projects to be included in the 2017 budget law amounting to at least 80 percent of the total amount included in the budget, and (ii) the reorganization and adoption of the budget calendar to advance the preparation of the public investment program.

We also plan to seize the opportunity of continuing low oil prices to pursue the reforms being undertaken in the energy sector. In particular, the measures adopted in June 2016 that paved the way for a flexible oil purchase price structure between SONABEL and SONABHY have already had a positive impact on SONABEL's financial position and have also reduced the need for government subsidies in 2016. As regards SONABEL, the planned investments to facilitate energy imports from neighboring countries and support the development of solar energy will help the company to continue lowering its production costs and increase electricity generation. So as to avoid the accumulation of new government contingent liabilities vis-à-vis SONABHY in the event of an upturn in world oil prices, we are also considering to gradually implement the automatic adjustment mechanism for hydrocarbon prices in the domestic market.

The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic and financial situation in 2016, sets out the economic and financial policies that the government intends to implement over the rest of the year, and establishes the benchmarks and reforms for end-December 2016. It also explains the country's balance of payments financing needs.

All continuous and end-June performance criteria and indicative quantitative benchmarks were met, most by wide margins. Most of the structural benchmarks were also met on time, except for transmission of the financial position of the publicly-owned hydrocarbons company (SONABHY), which was implemented with a delay. With regard to the requirement that large and medium-sized enterprises must use the standardized invoice, a contractor has been identified and the contract will be signed by end-November. The July 2016 benchmark concerning the payment of an initial amount of CFAF 5 billion to clear the arrears of the state-owned power company (SONABEL) was met on time, and a second payment of CFAF 35 billion planned for 2017 has also already been made. Moreover, with respect to the repayment of capital gains owed to the State, an amount of CFAF 14.7 billion has been transferred by SONABHY to an account at the BCEAO.

Efforts are underway to implement the benchmark set for November 2016 concerning combating fraud in the transport of fuel but there has been some delay. We are committed to finalizing to make all the trucks tamper-proof and to putting in place a system of seals and electronic signage at the borders with Benin and Niger by end-December 2016.

In view of this performance in an environment that remains difficult, we request the completion of the sixth review under the ECF arrangement as well as the disbursement of Special Drawing Rights (SDRs) in the amount of 4.47 million.

To ensure continuity, the government would also like to request an extension of the current program by nine months and an augmentation of SDR 4.47 million to be disbursed upon completion of a seventh review. The current Fund arrangement under the Extended Credit Facility expires in December 2016. The government has already started thinking about the direction of its future collaboration with the Fund. In that regard, a seventh review will take place in June 2017 concomitantly with the request for a new agreement. The objectives of this seventh review have been outlined in the attached MEFP along with the quantitative criteria and benchmarks as well as the structural benchmarks for end-December 2017. Based on the loan agreements signed in 2016, we will reach the non-concessional debt ceiling by end-December 2016. In order to support rapid implementation of the PNDES and based on our investment program for 2017, we are requesting an increase in the ceiling of 125 billion CFA francs through the remainder of the program. We have also become aware that about CFAF 90 billion in programmed budget support for 2016 may not be disbursed by the end of the year. As a precaution, we are thus requesting an increase in the program adjuster for net domestic financing from CFAF 65 billion to CFAF 90 billion.

The government believes that the measures presented in the MEFP will serve to achieve the economic and social objectives of its program. It is determined nonetheless to take any further measures that may prove necessary to this end. The government will consult with the IMF before adopting such measures, and before modifying the policies provided in the MEFP, in accordance with applicable IMF policies. Furthermore, the government will provide the IMF with information on implementation of the agreed measures and program execution, as provided in the attached revised Technical Memorandum of Understanding or at the request of the IMF.

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

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 For the Sixth Review of the Extended Credit Facility (ECF)

I. INTRODUCTION

1. This Memorandum provides an update on the Burkina Faso economic and financial program supported by the International Monetary Fund's (IMF) Extended Credit Facility (ECF) arrangement for 2016-17. This program aims to preserve macroeconomic stability and strengthen the basis for sustained and inclusive growth, in line with the country's development strategy, the National Economic and Social Development Plan (*Plan National de Développement Économique et Social* – PNDES), which replaces the Strategy for Accelerated Growth and Sustainable Development (*Stratégie de croissance accélérée et de développement durable* – SCADD). This Memorandum describes recent economic developments and takes stock of the quantitative performance and indicative criteria and structural benchmarks at end-June 2016. In addition, in light of the Government's request to extend the program by nine months, it also sets out performance criteria and structural benchmarks at end-2016 and the main economic policy framework for 2017.

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

A. Recent macroeconomic developments

2. After a slowdown in economic growth to 4.0 percent in 2015, compared to 4.2 percent in 2014, economic activity picked up in the first half of 2016 and the outlook for the year is positive. Growth stood at 4.7 percent in the first quarter, reflecting the impact of the January terrorist attacks, and reached 8.3 percent in the second quarter of 2016 (year on year), borne up by a strong recovery in the tertiary sector. The key economic indicators reflect this generally favorable situation:

- Inflation was down 0.4 percent year-on-year at end-September 2016. The deceleration in the general price level since July is due to drops in food prices, notably of unprocessed cereals and vegetables. Average annual inflation stood at 0.6 percent at end-September, compared with 0.7 percent the previous month.
- The rate of growth in credit to the private sector seems to have begun a weak recovery, though it lags behind the uptick in economic activity. After slumping to 3.9 percent in April it recovered to 6.3 percent in September, which was still much slower than the average for the preceding three years (17.4 percent). The slowdown in lending to the economy at end-July relative to previous years is largely explained by the sluggishness in economic activity at the beginning of the year and the drop in the oil price, which led to an improvement in SONABHY's cash flow. At the same time, banks continued to

accumulate foreign assets, which came to CFAF 902.9 billion in June 2016. The increase in banks' net foreign assets appears to be due principally to the rise in their outstanding subscriptions for government securities issued by other WAEMU countries.

- The current account is expected to improve in 2016 —thanks to new gold production and rising gold and cotton prices —from a deficit of 8 percent in 2015 to one of 7.6 percent. In 2016, imports of goods are expected to increase to CFAF 1,661.9 billion a year-on-year rise of 7.9 percent, chiefly attributable to imports of capital and intermediate goods. Exports of goods would reach CFAF 1,501.1 billion in 2016, up 7.4 percent year on year, mainly on the strength of gold exports. By contrast, sales of cotton fiber are down, in spite of the expected 7.6 percent rise in the average price.

B. Program Implementation

3. Program implementation remains sound. All continuous and end-June quantitative criteria were met, as were the indicative targets (Table 1).

- As regards quantitative performance criteria, the ceiling on net domestic financing was largely met, mainly because of a gap in budget execution in investment projects. In fact, net domestic financing rose to CFAF 22.6 billion, against a cap of CFAF 111 billion. The other quantitative benchmarks were also largely met. Non-concessional loans amounted to CFAF 205 billion at end-June, on a cumulative basis since 2013.
- The indicative targets at end-March and end-June 2016 were also met, including the government deficit ceiling and the government revenue floor. Significantly, the latter benchmark was met for the first time since 2013.

4. Six of the eight structural benchmarks were met at end-June 2016 (Table 2). They included (i) producing the quarterly activity reports of the Investigations and Intelligence Directorate (*Direction des enquêtes et de renseignement* – DGR), (ii) consolidating the segmentation of enterprises, particularly by putting into effect the new organization chart of the Directorate General of Taxation (*Direction générale des impôts* – DGI), (iii) cross-checking taxpayers between the DGI and the Directorate General of Customs (*Direction générale des douanes* – DGD) using the unique taxpayer identification number, starting with big taxpayers, and producing quarterly reports on the results and actions taken, (iv) providing a monthly forecast of customs receipts by customs office on an annual and a monthly basis and comparing actual receipts with the forecasts, (v) keeping active field 44 for input of references from inspection notices for all customs declarations, and (vi) submitting the domestic debt audit report for the Council of Ministers to adopt its recommendations.

5. The audited annual accounts of SONABHY and SONABEL as at end-2015 were produced and the two companies' first quarterly reports were released, albeit three months late in the case of SONABHY. However, the effective adoption of the standardized invoice by large and medium-sized enterprises did not take place on schedule. Indeed, the procurement procedure has been restarted twice following objections by tenderers. In spite of that, a new tender procedure is now well advanced and the contract with the provider will be signed by November 30, as a result of which the standardized invoice will be effectively adopted by large and medium-sized enterprises starting on January 1, 2017 at the latest.

6. As regards the benchmarks to be implemented between June and December, in July 2016 SONABHY made a first special dividend payment of CFAF 5 billion to the Government to pay down SONABEL's debt. The measure, to be jointly carried out by the DGD and SONABHY, in order to limit the leakages during hydrocarbon transport, is under way but delayed. The securing of all trucks and the introduction of a system of electronic tags and seals on borders with Benin and Niger will be completed by December 2016.

III. IMPLEMENTATION OF THE NEW DEVELOPMENT MODEL FOR 2016-2020

7. On July 20, 2016, Burkina Faso adopted the National Economic and Social Development Plan (*Plan National de Développement Économique et Social* – PNDES), which sets out strategic guidelines for economic and social development for the period 2016–2020. The PNDES replaces the Strategy for Accelerated Growth and Sustainable Development (*Stratégie de croissance accélérée et de développement durable* – SCADD) and draws on the program "Building with the People a Democratic, Economically and Socially Progressive, Free and Just Burkina Faso" (*Bâtir avec le peuple un Burkina Faso de démocratie, de progrès économique et social, de liberté et de justice*) devised by Roch Marc Christian Kaboré, President of Faso, the "Burkina 2025" vision and international commitments (the African Union's Agenda 2063 and the Sustainable Development Goals) for which Burkina Faso has signed up. The overall objective of the PNDES is to structurally transform the Burkina Faso economy into one of strong, sustainable, resilient and inclusive growth that creates decent jobs for all and brings an improvement in social well-being.

8. Designed in line with the principles of results-based management (RBM), the PNDES is built on three strategic pillars, with their respective strategic objectives and expected outcomes. Those pillars are: (i) institutional reform and administrative modernization, (ii) development of human capital, and (iii) stimulation of sectors that are drivers of economic growth and job creation.

9. The overall cost of implementing the PNDES is estimated at CFAF 15,395.4 billion, which comes to an average annual cost of CFAF 3,079.1 billion. Domestic resources will provide 63.8 percent (CFAF 9,825.2 billion) of the funding, with the other 36.2 percent (CFAF 5,570.2 billion) coming from other sources. The share allotted for investment spending will be 54.6 percent, amounting to CFAF 8,408.2 billion for the period overall, or CFAF 1,681.6 billion per year.

10. The PNDES will be financed by means of a strategy to mobilize domestic and external resources, focusing on new and innovative methods, in addition to the use of traditional official development assistance (ODA). As regards innovative forms of financing, they may include national tax systems, the issuance of government securities, voluntary contributions and lotteries, methods of mobilizing Burkinabè funds from abroad, bonds guaranteed by donor countries sold on the financial market, allocations from funds generated by the sale of emission quotas, public-private partnerships, subsidized loans, crowd-funding, and popular shareholding, among others.

In the context of the mobilization of these funds, a donor roundtable (named Conference of Burkina Faso's partners for the financing of the PNDES) will be held on December 7-8, 2016, in Paris, with the World Bank as the lead of the technical and financial partners. The next major steps in implementing the PNDES include setting up a monitoring and evaluation mechanism, conducting a strategic environmental assessment, and developing a communication strategy to strengthen ownership of the Plan.

IV. ECONOMIC AND FINANCIAL PROGRAM FOR THE 2016-2017 PERIOD

A. Macroeconomic framework

11. Real GDP growth is expected to reach 5.4 percent in 2016, a gain of 1.4 percentage points over 2015. Taking into account the relatively low oil prices, the strong performance of gold and cotton prices, as well as favorable rainfall, the recovery should extend to all sectors. The primary sector is expected to rebound with an increase in value added of 3.8 percent in 2016 after contracting by 1.2 percent in 2015, mainly due to the recovery in agricultural output. In addition, the sustained activity in the secondary sector (+4.1 percent) and services (+5.2 percent) should consolidate the momentum of economic activity. The secondary sector should benefit from the stability of mining activity, the ongoing socio-economic infrastructure investment projects and the solid performance of the energy sub-sector underpinning the recovery in manufacturing activity. As for the services sector, it is expected to benefit from the upturn in telecommunications, financial services, and to a lesser extent non-market services in connection with government transfers. Under a more optimistic scenario, cereal production could rebound by 8 percent (6 percent in the baseline scenario), which would boost growth to 5.9 percent.

12. Growth in credit to the private sector is expected to remain weak at 9.4 percent, below the growth rates of 20 to 25 percent in recent years before the political transition. Net foreign assets, on the other hand, could see a rise of around 15 percent, resulting in growth in money supply of 13.3 percent in 2016 compared to 2015.

13. Annual inflation is expected to remain moderate, at 0.7 percent at end-2016. These developments appear to be the result of the sharp decline in "food and non-alcoholic beverages" based on the expected good harvests and the decline in transportation prices. It also reflects the decline in oil prices recorded over the year.

14. With regard to 2017, growth should continue to strengthen to reach between 6 and 7 percent. The likely main factors contributing to this performance are mining, with the entry into operation of two new gold mines, bringing the number of operating industrial mines to ten (10), as well as the implementation of a full year of the public investment program in the areas of energy, roads, irrigation schemes, telecommunications infrastructure, etc. In the medium term, growth could remain at around 6.5-7 percent, driven by the implementation of the PNDES, particularly as energy supply improves. The strengthening of activity would be sustained by the momentum in all the sectors set to benefit from the investment activities envisaged. Thus, the secondary sector would experience the greatest increase in value added due to the expansion of mining activity associated with a gold production increase of at least 41 tons of gold in 2017 — projected to surpass 46 tons from 2018 — and the start-up of operations at the manganese mine in 2020. Added to this is the increased investment, particularly in energy infrastructure with the aim of gradually improving energy supply to manufacturing and transport infrastructure, both of which should boost the recovery in construction and public works. The consolidation of measures in the agro-sylvo-pastoral area through the further operationalization of growth poles (Bagré, Samendenni-Sourou, Sahel) and vigorous activity in services are expected to help strengthen economic activity over the period. Inflation should remain moderate (following developments in import prices) and below the WAEMU 3 percent threshold, while credit to the private sector is expected to pick up again. To help the private sector to perform in full its role as a driver of growth as implementation of the PNDES moves forward, the Government intends, among other things, to continue its policy of clearing the domestic debt, strengthening measures for improving the business climate and securing investment, and accelerating the pace of the reforms initiated in 2016 in order to speed up and boost efficiency in spending.

15. The PNDES envisages an even more optimistic scenario that would see growth of 8.4 percent in 2017 and 8.2 percent on average in the period from 2018 to 2020. This scenario assumes a significant level of public investment to support the structural transformation of the economy. In such a context, the acceleration in economic growth would result from consolidation of activity in services, gradual enhancement of the industrial fabric especially in manufacturing, expansion in mining and increased productivity in the primary sector.

16. These positive scenarios, however, involve a number of risks, both external and internal, which are significant and could have an adverse impact on growth. They include a possible deterioration of the security situation in the region, a fall in gold and cotton prices, an oil price increase, poor rainfall resulting in lower agricultural output, a prolonged recession in Europe and less favorable financial conditions in the regional market. The internal risks include a deterioration of the social climate leading to an increase in wages and transfers at the expense of investment and persistent bottlenecks in implementation or absorption capacity, or both, which could slow budget execution. In addition, there is a potential financial risk associated with the weak mobilization of both internal and external resources to finance the PNDES and muted ownership by stakeholders in the national development process. However, to minimize such risks, a number of mitigation measures have been identified:

- Improve information and security systems and strengthen military and security cooperation,
- Promote a peaceful political environment and equitable justice,
- Take steps to boost mobilization of domestic resources and control certain categories of expenditure,
- Diversify the export base with a focus on processing basic local goods,
- Establish an appropriate institutional framework for steering and monitoring the PNDES.

B. Fiscal Policy

2016 Budget

17. As regards public finances, a second supplementary budget law (*Loi de Finances Rectificative* – LFR) was passed by the National Assembly on July 21, 2016. The LFR takes into account on the one hand, new needs that have emerged after adoption of the first LFR and on the other, the prospects of new resources. In addition, for urgent expenses the Council of Ministers had issued a decree authorizing advances for their execution pending regularization by the second LFR. Those expenses are related, among other things, to the organization of the municipal elections in May 2016 and the clearance of student catering arrears.

18. It should be recalled that the first LFR took into account both the new configuration of the government in the wake of the presidential and legislative elections on November 29, 2015, and the impact of the government's measures to revive economic activity and appease the social climate.

- In line with the objectives, total revenue (excluding grants) is expected to improve to 18.3 percent of GDP, almost back to the levels before the decline in 2014 and 2015. The return to a calm political climate helps promote more productive revenue collection. However, lower retail fuel prices — that led to lower taxable bases for those products — and strikes by IT workers — resulting in connection interruptions throughout the country — have contributed to a significant decline in performance of the Customs administration in the third quarter. To reduce the lag in relation to forecasts, about 2,600 manual records are being reprocessed to be re-entered into the ASYCUDA information system to take account of related liquidations in customs revenues. Tax reforms and measures to strengthen business capacity during the year will also help to broaden the tax base and meet targets. These measures include: (i) intensification of control and recovery actions; (ii) the adoption of a strategy to improve communication with taxpayers and raise their awareness of the importance of tax compliance; (iii) continued segmentation to better control taxpayer categories and improve their contribution; (iv) activation of field 44 of ASYCUDA WORLD for mandatory input of references of the COTECNA inspection certificate; (v) control of warehouses and final destination of goods; (vii) completion of the project on the Virtual Liaison System for Import and Export Operations (*Système de liaison virtuelle pour les opérations d'importation et d'exportation* – SYLVIE); (viii) satellite tracking of goods in transit; (ix) monitoring of tax and customs clauses in public contracts financed with self-generated resources; installation and operation of the new Ouagadougou road scanner; and (x) a stepping-up of actions to combat fraud. Non-tax revenues also benefited from special dividends from SONABHY, in the amount of about 0.5 percent of GDP.
- Current expenditure is expected to rise from 14.6 percent to 15.2 percent of GDP (compared with the first LFR), particularly as a result of a higher wage bill, which should now increase to 7.4 percent of GDP in 2016 (versus 7.2 percent in the LFR and 6 percent

in 2013), and current transfers, which are expected to reach 5.1 percent of GDP in 2016 (compared with 4.7 percent in the LFR and 5.3 percent in 2013). The increased wage bill is mainly due to the impact of Law 081 on the status of civil servants. This law ends the two-tier system for public servants. Thus, the Government has opted to harmonize wages by aligning staff with contractors. The law allows staff and contractors to be placed in a new category, classification and scale. The financial impact of the implementation of Law 081, in terms of new expenditures (linked to the implementation of the new salary grid and the regularization of pending promotions) is estimated at CFAF 29.096 billion, of which CFAF 20.83 billion are linked to implementation of the new salary grid and CFAF 8.266 billion are linked to regularization of pending promotions. However, the financial impact of the implementation of the law 081 on the 2016 budget amounts to CFAF 25.89 billion.

- Investment spending is expected to increase from 7.6 to 9.4 percent of GDP following the integration of new projects such as the Sahel growth pole; the financing project adapted to family agriculture, the operationalization of the standardized invoice, the IDB-WAEMU project and the ecosystem-based adaptation project.

19. The overall fiscal deficit (cash basis) is projected at 2.5 percent of GDP in 2016, down slightly compared to 2015. This deficit should be financed by net external resources of CFAF 124.7 billion and by domestic financing (excluding depreciation), including CFAF 165 billion in bonds and CFAF 303.5 billion in treasury bills. This amount in bond issues would entail an over-funding, resulting in an accumulation of CFAF 114.3 billion in deposits on the Treasury's account at the BCEAO, in the event of disbursement of all the budget support committed for. The reason for this accumulation is the desire to ensure sufficient liquidity to execute the budget through year-end, given the uncertainties related to the disbursement of budgetary support (the budget includes CFAF 139.7 billion in budget support—program grants and loans—of which only CFAF 39.9 billion had been disbursed at end-September), and to start 2017.

20. Monitoring of budget execution at end September 2016 indicates an excellent performance in domestic revenues, which reached 98 percent of projections, including the special dividend already received. Current expenditures are in line with projections, but investment spending remains below 77 percent of the targets for end-September and 50 percent of the annual budget. Accelerating execution of public investment projects by year-end should be made possible by the measures designed to ease implementation of development projects, programs and activities, which were voted through by the National Assembly in July 2016. Those measures relate primarily to (i) raising public procurement thresholds, (ii) shortening the competition time frame in public procurement tenders, public service license contracts and public-private partnerships, (iii) reducing the approval time for contracts, (iv) eliminating double review of contracts financed with external resources, and (v) the relaxation of the conditions for the approval of the decisions of award commissions, contract selection, public service licensees and private partners.

2017 Budget

21. The draft budget law (*projet de loi de finances*) for fiscal year 2017 was developed based on the priorities and fiscal policy choices made by the Government. Those priorities have been identified in connection with the strategic pillars of the PNDES. Particular emphasis was placed on structural reforms and investment in sectors such as:

- Infrastructure through paving of roads, construction of rural roads and maintenance of paved and unpaved roads,
- Agriculture, on the one hand by promoting the processing of local goods, and on the other by supporting rural areas with the introduction of new tailored financing structures. By the same token, it is also worth noting that subsidies to the cotton sector for boosting the competitiveness of our producers were beefed up,
- Promotion of youth employment through adequate funding structures to encourage self-employment for young people,
- The fight against poverty and the advancement of women in general, and of maternal and child health, in particular.

22. With regard to fiscal receipts, the budget forecasts CFAF 1,438 billion in domestic revenue, an increase of 12 percent compared to 2016. The DGI and DGD are considering a number of reforms and concrete measures to achieve these objectives.

23. For the DGD that will involve:

- Continuing the implementation of the SYLVIE system and the connection of authorized customs agents to the computerized customs system. For 2017, the customs administration will ensure the connection to the electronic platform of all the public administrations that issue certificates and attestations.
- Implementing the COTEC project in 2017. This will make it possible to improve customs clearance activities on used vehicles and thereby increase customs revenues.
- As part of the interconnections of our IT system with that of neighboring countries, the project with Togo is advanced and could be launched in 2017. This interconnection will allow better tracking of the all merchandises declared in transit from the Port of Togo to Burkina Faso.
- Strengthening the control of operations in the mining sector through the development of a standard protocol for the installation of customs posts at mining sites.
- Ensuring application of the regulations on scanners, in particular by making the scanning of shipments of goods transported by truck mandatory. Restoring the electronic

interface between the DGD and DGI databases to facilitate cross-checks and thwart fraud.

- Implementing the fourth phase of satellite monitoring.
- Implementing the anti-smuggling plan for motorcycles.

24. For the DGI the emphasis will be on new tax provisions to combat fraud and tax evasion and improve recovery, including:

- Effective operationalization of the standardized invoice to combat fraud in VAT invoicing (see above),
- Implementation of the project "Fiscal data collection" targeted at large retailers and shopping centers that deliver cashier's receipts. The project aims to install at these enterprises equipment that would collect data from cash registers and transmit them to the revenue administration's servers. This project is at the brainstorming stage, and would require an agreement with enterprises, and eventually legal changes to render using the proposed equipment mandatory.
- Legal recognition of the unique financial ID (*identifiant financier unique* – IFU) as well as the obligation for banks and financial institutions to include the IFU among the elements for identifying holders of commercial and professional accounts,
- Development and implementation of a land registry, for tax purposes,
- Measures to protect the corporation tax base by strengthening transfer pricing provisions, in particular the stipulation that will be introduced for corporation tax that the turnover of companies selling products listed on a stock exchange must not be less than that determined from the market prices on the day when the sales were made. This is to combat fraudulent hedging contracts. Better limitations are also provided for on the deduction of head office costs, which will affect all forms of establishment of foreign enterprises in Burkina Faso (subsidiaries, branches, representative offices, and any other form of permanent establishment),
- Continued computerization of tax services along with strengthening of new functionalities and better interconnection of software through development of interfaces.

25. Extraordinary revenue (program grants and project grants) amount to CFAF 307.5 billion, including CFAF 77.9 billion for program grants, based on announcements and commitments made by partners as at end-October 2016. However, those announcements do not take into account additional resources that could be raised during and after the Partners' Conference.

26. The level of recurrent expenditure excluding interest payments will decline by about 0.5 percentage points of GDP, reflecting the Government's efforts to create fiscal space for investment. Personnel costs will increase by around 6 percent in nominal terms, mainly due to the impact of Law 081 on the wage bill, albeit mitigated by new measures to contain the payroll and staff. The streamlining of the wage management system, the decentralization of the processing cycle and the reorganization of the payroll should, in time, make it possible to regulate the workforce and reduce undue payments. Aside from these measures, the Government has taken strong action to improve the level of mobilization of internal resources, in particular tax revenue, in order to improve the wage bill-to-tax revenue ratio. Operating expenditures are also contained in real terms through measures taken to cut State costs. Such measures include reducing the communication costs of ministers and presidents of institutions, regulating the use of State vehicles, terminating certain administrative leases, and reducing water, electricity and telephone use. Transfer expenditures are also seeing a slight decline in real terms, from 5.1 percent of GDP in 2016 to 4.6 percent in 2017. These expenditures include a subsidy to the cotton sector in the amount of CFAF 20 billion.

27. Investment spending is expected to see a significant increase, mainly driven by investments financed domestically, which would rise from CFAF 371.9 billion in 2016 to between CFAF 560 billion and CFAF 700 billion in 2017. Investments financed with external resources will grow to a lesser extent, from CFAF 288.6 billion in 2016 to between CFAF 340.8 billion and CFAF 391 billion in 2017.

28. The financing of the budget is provided by CFAF 100.8 billion in external financing—including CFAF 42.8 billion in amortization—and CFAF 168.5 billion in internal financing, including CFAF 300 billion in bonds. Despite this, there remains a financing requirement of CFAF 3.7 billion in the baseline scenario, which could be covered by increased access under the ECF arrangement. Based on current budget support commitments, the overall deficit would expand to 3.6 percent of GDP in 2017. However, additional financing, mostly in the form of grants, identified at the December donor conference and beyond could allow for higher investment spending and the deficit could expand up to 4 percent of GDP.

C. Debt Policy

29. The Government's debt policy aims to maintain a "moderate" risk of debt distress in terms of the debt sustainability analysis based on a variety of indicators (including the ratios of government debt to GDP, to tax revenue, and to exports) and diverse risk scenarios. Our portfolio of PNDES projects includes structuring investments in the energy, road and hydro-agriculture infrastructure, and telecommunications sectors. The chosen financing strategy will continue to focus on concessional grants and financing and continued use of the regional financial market at gradually longer maturities. Actions aimed at developing public-private partnerships (PPP's) will be pursued in a prudent manner in order to avoid the accumulation of contingent risks and liabilities for the State. The use of non-concessional financing is envisaged but on terms more favorable than market conditions such as Islamic finance.

30. For 2016, the total amount of concessional and non-concessional loans signed and to be signed will amount to CFAF 217.15 billion, including CFAF 68.8 billion in non-concessional loans and CFAF 32.1 billion in concessional loans (Text Table 1).

Text Table 1. Loans Signed and To-Be Signed in 2016

Project	Donor	Sector	Amount (CFAF billions)	Terms	Type
Economic governance and citizen involvement project (signed April 15, 2016)	WB	Governance	18.6	Interest rate: 0.75% Term: 40 years Grace period: 10 years	Concessional
Transport and urban infrastructure development project (signed July 7, 2016)		Transport	57.6	Interest rate: 0.75% Term: 40 years Grace period: 10 years	Concessional
Project for construction and asphalting of national road between Guiba and Garango (signed May 17, 2016)	IsDB	Agricultural development	29.6	Interest rate: 2.5% Term: 11 years Grace period: 4 years	Non-concessional
Agricultural Development Project of Pensa and Liptougou (signed May 17, 2016)			8.6	Interest rate: 2.5% Term: 19 years Grace period: 4 years	Non-concessional
			3	Interest rate: 1.5% Term: 25 years Grace period: 7 years	Concessional
Soum Agricultural Development Project (NANORO) (signed May 17, 2016)		Hydro-agricultural development	10.8	Interest rate: 1.5% Term: 20 years Grace period: 5 years	Non-concessional
			6.3	Interest rate: 1.5% Term: 25 years Grace period: 7 years	Concessional
Electrification of the periurban district of Ouaga and Bobo (to be signed in November 2016)		Energy	16.9	Interest rate: 2% Term: 20 years Grace period: 10 years	Non-concessional
			5.9	Interest rate: 1.5% Term: 25 years Grace period: 7 years	Concessional

Text Table 1. Loans Signed and To-Be Signed in 2016 (concluded)					
Project for the recovery and distribution of surface water in the central plateau (signed September 26, 2016)	**WADB**	Rural development	10	Interest rate: 3.6% Term: 18 years Grace period: 5 years	Concessional
Electrification of the periurban district of Ouaga and Bobo (signed October 18, 2016)	**AfDB**	Energy	19.9	Interest rate: 2% Term: 20 years Grace period: 10 years	Concessional
Electric interconnection project "Zano-Koupela" (to be signed in December 2016)	**OFID**	Energy	7.7	Interest rate: 1.25% Administrative fees: 1% Term: 20 years Grace period: 5 years	Non-concessional
Supply of drinking water to Bobo-Dioulasso (signed April 5, 2016)	**AFD**	Water	19.7	Interest rate: 1.25% Term: 20 years Grace period: 06 years	Concessional
Drinking water supply project for the populations displaced due to the construction of Donsin airport (signed November 10, 2016)	**Belgium**	Water	2.5	Interest rate: 0% Term: 30 years Grace period: 10 years	Concessional
GRAND TOTAL			**217.15**		

31. For 2017, we have preliminarily identified an amount of CFAF 520 billion in non-concessional and concessional loans (Text Table 2).

32. With regard to interventions on the regional bond market, there are two objectives: on one hand, to continue to extend the maturity of the bonds to a period of 1 to 2 years for treasury bills and 7 years for bonds and, on the other hand, to improve planning and monitoring of these operations in order to control the timing of reimbursements and refinancing needs, and reduce costs.

33. In order to accompany the implementation of the PNDES while preserving the sustainability of public debt in the medium term, actions to strengthen the capacity of the public debt management will be carried out. The aim is to eventually create a modern debt management unit capable of performing front, middle and back office functions as well as monitoring and improving implementation of the debt management strategy in the medium term. Sufficient qualified staff and close cooperation between DGTCP and DGCOOP will be required to manage the external and regional/domestic debt as well as the PPP portfolio in an integrated manner. As part of the strengthening of debt management capacity, the following is envisaged: (i) improve debt management tools (DSA, MTDS, etc.); and (ii) strengthen staff in terms of both quantity and quality through training, particularly in managing the risks associated with conditional debt.

Text Table 2. List of Projects to be Submitted for Concessional and Non-Concessional Loans in 2017

Project	Sector	Amount (CFAF billions)	Observations
Hydro-agricultural development project - Dangoumana	Hydro-agricultural	33.780	IsDB incl. 44 billion non-concessional
Drinking water supply networks project - Koupèla and Pouytenga	Water and sanitation	12.300	
Integrated rural development project - Sanguié	Rural development	12.420	
Promotion of Innovation for Sustainable Development project	Research	8.136	
WESSA hydroelectric and hydro-agricultural dam	Energy	110.4	India - concessional
Back Bon project		76.2	Partial financing
Gounguin-Fada-Frontière project - Niger	Transport	128.39	ADB incl. 80 billion non-concessionnal; JAPAN; EU; WAEMU.
Sahel irrigation project	Agriculture	18	IDA
Transportation sector technical assistance	Transport	12	
Livestock project	Agriculture	18	
Project for construction and asphalting of national road No.23 (Ouahigouya-Djibo)	Transport	14.45	
Drilling project	Water	26	Russia non-concessional
Sustainable Development project for the city of Ouagadougou	Sanitation	50	AFD /Concessional
TOTAL		520.076 billion	

D. Structural Reforms

In the Area of Public Finance

34. The implementation of the PNDES-backed investment program poses many challenges, in particular that of ensuring that the quality of investment planning and execution does not suffer as a result of a significant increase in the volume of investments. Following the measures adopted in July 2016, the Government submitted a new procurement code to the National Assembly. The code's implementation will aim at complying with the WAEMU standard on the use of special procedures in public procurement management. The IMF's Fiscal Affairs Department will conduct a Public Investment Management Assessment (PIMA) in early 2017 to identify priority measures and prepare an action plan prioritizing the measures needed to improve the execution of the investment budget.

35. The other priority actions envisaged to accelerate the implementation of our investment program are as follows:

- Reorganizing the budgetary calendar to advance the preparation of the public investment program and adopt a permanent circular on the budget calendar.
- Facilitating project monitoring by preparing a list of the major investment projects, representing at least 80 percent of the total investment volume under the 2017 initial budget law (LFI). The list will include the name and description of each project, its total cost, its method of financing, and its readiness/implementation status, in addition to the expected completion date in the case of multi-year projects.
- Switching to the program budget from January 2017 will eventually lead to a more decentralized, efficient and prompt budget management. However, the switch also presents challenges in terms of (i) strengthening stakeholders' capacities in relation to the changes introduced by the Organic Law on the Laws of Finance (*Loi Organique relative aux Lois des Finances* – LOLF) adopted in November 2015; (ii) adapting the information system for the preparation, execution and reporting of accounts; (iii) practical arrangements for decentralizing expenditure authoritizations (*ordonnnancement des dépenses*); and (iv) appointing Program Officers (*Responsables de programme* – RP).

36. With regard to payroll management, we will take steps to contain growth in both the wage bill and the workforce so as to return to a wage bill-to-tax revenue ratio of approximately 35 percent by 2019 (WAEMU convergence criterion).

37. We continued improving cash management and eliminated the arrears arising from an accumulation of pending payments at end-March 2016. We intend to continue to prepare quarterly reports thereon. Concerning treasury assets frozen in the postal accounts, the final report of the audit commissioned by the Minister in charge of Finance and conducted by the BCEAO is available. The minister in charge of postal services was notified by the Ministry of the Economy, Finance and Development (*Ministère de l'Economie, des Finances et du Développement* – MINEFID) in order to implement the recommendations of the audit mission that apply both to the governance of SONAPOST and the reimbursement of the treasury holdings on its books. The report proposed a schedule for repaying these holdings to the Treasury by 2019.

38. The annual report of the national anti-corruption authority (*Autorité supérieure de contrôle d'Eta*t – ASCE) on the domestic debt nevertheless identified government debts in terms of domestic debt for a total of CFAF 197 billion, including CFAF 75.9 billion for ministries and institutions. This latter amount includes FCFA 35.9 billion in "regular" debts, resulting from contracts in compliance with the procedures in effect but that have not been implemented within the time frame initially envisaged. We are in the process of gradually regularizing these debts and have entered an amount of CFAF 30 billion in the 2016 budget. As for the "irregular" debts of CFA 39.3 billion for which the proper procedures have not all been followed, a strategy for their progressive validation will be adopted, subject to verification of the corresponding amounts. A provisional amount of CFAF 30 billion is included in the 2017 budget for that purpose. It is also envisaged to implement the other main recommendations of the ASCE audit, including:

- Streamline cash management and, in particular, the gradual closure of deposit accounts,
- Include in the State budget appropriations in order to deal with the inability of universities to honor the maturities of their loans endorsed by the State,
- Avoid the use of state-owned enterprises to finance the activities of the State,
- Formalize by a contract or agreement any services performed by state-owned enterprises for the benefit of the State prior to any commencement of performance and respect the commitments entered into through such contracts or agreements,
- Review the budgetary procedures related to the follow-up of the expenditure cycle in order to avoid the accumulation of new arrears and, in particular, to ensure strict compliance with the rules governing the management of imprest accounts,
- Adopt a text that regulates and rationalizes consumption of fuel and lubricants in public administration.

Improve energy supply and control contingent liabilities in the sector

39. One of the main objectives of the PNDES is to meet the challenge of rapidly improving energy coverage in order to facilitate growth in the coming years. Reforms will be implemented to further improve relations between the State, SONABHY and SONABEL, and to ensure the sustainability of the energy sector – taking advantage of the current enabling environment created by still relatively low oil prices. At end-September 2016, payments due to SONABEL totaled CFAF 42 billion, those due to SONABHY came to CFAF 39.5 billion, and the arrears of subsidies owed by the State to the two companies amounted to CFAF 81.6 billion.

40. The Government intends to continue implementing the main recommendations of the SONABHY and SONABEL external audits in order to ensure more efficient financial management and reduced operating costs. Efforts to enhance transparency will also continue. The cash position of the two companies will continue to be shared quarterly (summary balance sheet and cash position), as will summaries of their financial statements after each reporting period. As regards implementation of the performance contracts, the following progress has been made for 2016, and a number of actions are planned for 2017.

41. With regard to SONABHY, the statutory members of the external committee for follow-up of the performance contract have been appointed but have not been able to meet. Nevertheless, the internal monitoring committee was able to examine the status of the contract-plan's implementation, which can be summarized, among other things, as follows:

- The level of execution of the construction of the Péni oil depot was estimated at 77 percent at end-September 2016,
- Construction and opening of two new gas bottle filling carrousels at the beginning of 2016 at the Bingo depot,
- Signing of the SONABHY/SONABEL Supply Agreement on September 16, 2016,
- Deduction of financial expenses due by the State on the capital gains to be repaid in respect of the first half of 2016.

42. For SONABEL, the inter-ministerial committee for monitoring and evaluation of the performance contract is currently being set up. Indeed, the representatives of the various ministries have just been appointed to the committee. The internal monitoring and evaluation committee of SONABEL was set up on June 20, 2016. The forthcoming appointment of the missing members of the inter-ministerial committee, including its Chair, will enable monitoring and evaluation of the performance contract to begin.

43. Implementation of the Memorandum of Understanding between the Government of Burkina Faso, SONABEL and SONABHY on financial relations and pricing of the transfer of hydrocarbons to SONABEL, in particular the point concerning coverage of part of the debt of SONABEL with SONABHY, had the following effects on the financial situation of SONABEL:

- A decrease in operating liabilities vis-à-vis SONABHY of CFAF 40 billion, resulting in an improvement in the creditworthiness of the company,
- An increase in SONABEL's equity by that amount and, consequently, an improvement in its financial structure.
- The fall in fuel prices allows SONABEL to honor SONABHY's invoices at the new rates within the contractual deadlines. Other operating liabilities and other short-term liabilities are regularly paid on the scheduled dates.
- Regarding the Government's commitments to clear CFAF 40 billion of SONABEL's debts to SONABHY, in July SONABHY transferred CFAF 5 billion in dividends from 2015 and CFAF 35 billion of capital gains realized during the first half of 2016.

44. The Government's strategy is to increase the share of renewable and imported energy in the energy mix and to reduce the use of diesel fuel for heavy fuel oil, which should help to lower SONABEL's production costs. To that end, the Government decided to create the National Agency for Renewable Energies and Energy Efficiency (*Agence Nationale des Energies Renouvelables et de l'Efficacité Energétique* – ANEREE), which has the following roles:

- Monitoring, supervising and promoting the renewable energy (RE) and energy efficiency (EE) market,
- Establishing a National Strategy for the Promotion of Energy Efficiency,
- Supporting, enhancing and piloting projects of national scope,
- Bringing together the private sector, NGOs, and technical and financial partners,

- Performing commercial services and other public service missions in the RE and EE field, and
- Supporting research, innovation and training in the RE and EE field.

45. The measures adopted in June 2016 aiming at a flexible structure of the hydrocarbons purchase price agreed by SONABEL with SONABHY have already had a positive impact on the financial situation of SONABEL and reduced the SONABEL's government subsidy needs for 2016. As far as SONABEL is concerned, the investments planned to facilitate energy imports from neighboring countries as well as those in the area of solar energy will enable it to continue reducing its production costs and improve energy supply, which may ultimately facilitate a revision of electricity tariffs with a view to reducing them and making them more progressive. In order to avert further accumulations of contingent liabilities to SONABHY in the event of rising world oil prices, the gradual implementation of the automatic mechanism for adjusting hydrocarbon prices in the domestic market is envisaged. A communication plan aimed at explaining the rationale for this measure and the proposed mechanism, which will aim at ensuring that pump prices remain consistent with cost-recovery, will be prepared by end-December 2016.

Cotton sector and diversification of agriculture

46. The Government wishes to restore the viability of the cotton price smoothing fund. The smoothing fund no longer has sufficient resources to function. The available balance will be CFAF 2,076,167,969 when all three cotton companies have completed the repayment of CFAF 3.54/kg of seed cotton as a rebate for the 2015/2016 season due to the implementation of the resolution adopted at the General Assembly of the Inter-professional Cotton Association of Burkina (*Association interprofessionnelle du coton du Burkina* – AICB) on April 20, 2016, which took account of the exceptional support for the purchase price of seed cotton afforded by the Burkinabe Government. The need to refinance the smoothing fund is acute in the medium term. According to the recommendations of the study (carried out in December 2014) to consolidate the mechanism and identify options for strengthening the financial resources of the smoothing fund, a government subsidy of CFAF 23 billion is needed to give the fund the strategic reserve it lacked at the outset and allow it to play its full role. Current forecasts indicate that world prices should remain within the smoothing corridor for the 2016-17 season, but the preparation of a replenishment strategy involving all relevant stakeholders is urgent given the long-term unfavorable trend of world prices. This unfavorable development is also likely to lead to a rapid increase in government subsidy requirements. For 2017, the Government has allocated a subsidy of CFAF 35 per kilogram of seed cotton in the LFI, or about CFAF 20 billion on the basis of a production target of 700,000 metric tons of seed cotton, to support the purchase price floor of seed cotton to producers. However, the long-term negative outlook for the cotton sector makes it imperative to have a strategy to improve value added in the sector as well as agricultural diversification outside the cotton sector. This strategy is an important plank of our PNDES.

Improved Macroeconomic Monitoring

47. The Government supports the update of the base year for national accounts. The national informal sector and employment survey has been carried out and the data are being analyzed. The Government is also undertaking the study on gold panning, which is scheduled to start before the end of December 2016; the findings of this study are expected to improve the analyses for the base year update. Specific studies are also being carried out to improve the estimation of national accounts. The new base year of the national accounts will be 2015 and the compilation work will be carried out in 2017 in both the 1993 SNA and 2008 SNA.

V. PROGRAM ARRANGEMENTS

48. Considering the extension of the current program, the Government intends to take all the necessary measures to achieve the objectives and criteria, as presented in Tables 1 and 3 of this Memorandum. The program will be examined in keeping with the Technical Memorandum of Understanding (TMU), which defines the quantitative performance criteria and requirements regarding data reporting to Fund staff. The seventh and final review of the program is expected to take place on or after May 15, 2017.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for ECF Arrangement, September 2015–December 2016

(CFAF billions, cumulative from beginning of year; unless otherwise indicated)

	2015								2016							
	Sept.[6]				Dec.				Mar.[6]		Jun.				Sept.[6]	Dec.
	Proj.	Adj. Prog.	Act.		Proj.	Adj. Prog.	Act.		Prog.	Proj.	Prog.	Adj. Prog.	Proj.		Prog.	Prog.
Quantitative Performance Criteria																
Ceiling on net domestic financing of central government[1]	150.7	164.8	114.6	Met	149.2	152.1	147.5	Met	56.3	56.3	111.0	164.8	22.6	Met	87.4	64.7
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by government[2, 3]	200	200	n.a.	n.a	200	200	159.9	Met	200	200	230	230	205	Met	205	355
Accumulation of external arrears[2]	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0	0.0	0.0	0.0	0.0	Met	0	0
Indicative targets																
Ceiling on domestic financing outside central government[4]	22	22	-48	Met	29	29	-60.8	Met	15	15	22	22	-24	Met	35	50
Ceiling on the overall fiscal deficit including grants	179.5	155.3	54.0	Met	163.7	171.5	133.9	Met	82.4	82.4	164.8	194.0	63.7	Met	170.2	203.9
Floor on Government revenue	800	800	773	Not Met	1137	1137	1048	Not Met	268	268	565	565	610	Met	900	1262
Floor on Poverty-reducing social expenditures[5]	327	327	327	Met	436	436	437	Met	118	118	199	199	255	Met	371	506
Memorandum Item																
Ceiling on the amount of new concessional external debt contracted or guaranteed by government[2, 3]	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	200	256	256	266	n.a.	266	350

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

[1] Defined in the TMU on a PNG basis prior to June 2015, and including on-lending of prospective IMF disbursements.

[2] To be observed continuously.

[3] The limit is not tied to specific projects.

[4] From June 2015 onwards, as defined in the TMU.

[5] 90 percent of budget amount.

[6] Indicative Target, except for continuous performance criteria.

Table 2. Burkina Faso: Structural Benchmarks for Sixth Review Under the ECF

Measure	**Explanation**	**Completion date** (end of month)	**Comments**
The Investigations and Intelligence Directorate will produce quarterly reports on its activities. **(DGI)**	Improve tax revenue by increasing the number and quality of tax audits	Quaterly reports as of June 2016	**Met.**
Consolidate enterprise segmentation by, in particular, implementing the new DGI structures allowing to control the tax base in the central part of the country. **(DGI)**	Optimize tax revenue by broadening the tax base	June 2016	**Met.**
Implement regulations requiring large and medium-sized enterprises to use the standardized invoice by end-June 2016 to improve the traceability of transactions performed by taxpayers as concerns VAT. (**DGI**)	Improve tax revenue	June 2016	**Not met.** Expected to be met by January 2017.
Monitor taxpayers between DGI and DGD by using the tax identification number, starting with large taxpayers, and produce quarterly reports on the results and actions taken. **(DGI, DGD)**	Improve tax revenue from tax information cross-checking	Quarterly reports as of June 2016	**Met.** The first report was completed in June.
Provide monthly customs revenue forecasts by customs post on an annualized basis and a report on accomplishments vis-à-vis forecasts on a monthly basis. **(DGD)**	Improve monitoring of the impact of scanner installation, tracking system, SYLVIE operationalization	June 2016	**Met.** Data are transmitted monthly on an ongoing basis.
Keep field 44 enabled for input of references from inspection notices for all customs declarations. **(DGD)**	Improve customs revenue	June 2016	**Met.**
Submit the domestic debt audit report for adoption of recommendations by the Council of Ministers. **(DGTCP)**	Improve cashflow management and budget execution	June 2016	**Met.** The report was submitted to the Council of Ministers in June
Install a sealed valve and tagging system for tanker trucks transporting hydrocarbons **(DGD)** and, at the same time, bolt down domed manholes on tanker trucks. **(SONABHY)**	Control hydrocarbon losses during transport	November 2016	**Reprogrammed for December 2016.**
Produce audited annual accounts for 2015 and quarterly financial reports summarizing the financial and cashflow position as at May 2016. **(SONABHY and SONABEL)**	Improve transparency and management of energy sector enterprises	June 2016	**Not met.** Audited accounts were received for both companies, as well as SONABEL's quarterly report. SONABHY report was received on September 12, 2016
Transfer special dividend from SONABHY to the government to clear SONABEL arrears. First transfer of CFAF 5 billion due in July 2016.	Improve the financial sustainability of SONABEL	July 2016	**Met.**

Table 3. Burkina Faso: Structural Benchmarks for the 7th ECF Review			
Benchmark	**Objective**	**Date of Implementation**	**Comment**
Reorganize the budget calendar to advance the preparation of the public investment program and adopt a standing circular on the budget schedule.	Improve investment budget execution	December 2016	
Reestablish the electronic interface between the tax and customs databases to reduce the incidence of fraud (DGI/DGD).	Increase revenue mobilization	December 2016	
Finalize the bolting down of domed manholes on all trucks transporting hydrocarbons (SONABHY) and install the seals and electronic signage along the Benin and Niger corridors (DGD).	Limit fuel loss during transport	December 2016	Originally scheduled for November 2016
Establish a permanent mechanism for data sharing by the DGI and COTECNA to verify corporate tax declarations (DGI).	Increase revenue mobilization by broadening the base	December 2016	
Enter 2,600 manual files in the ASYCUDA system to take account of payments in customs revenues.	Avoid tariff revenue losses resulting from breakdowns in IT systems in the third quarter of 2016	December 2016	
Adopt a strategy to address "irregular" domestic debts in keeping with the ASCE report and list the measures taken concerning the implementation of the other recommendations made by the ASCE, as well as the most up-to-date "regular" and "irregular" domestic debt balances.	Improve fiscal management	December 2016	
Prepare a communication plan explaining the rationale for the gradual implementation of the automatic pump price adjustment mechanism for gasoline and the proposed implementation method, which will help ensure that pump prices remain consistent with cost-recovery.	Limit government fuel price subsidies	December 2016	
Launch the survey on the gold panning sector (INSD).	Improve the quality of the national accounts and statistics on artisanal gold exports	December 2016	

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) in 2016. 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 2016 are provided in Table 1 of the MEFP. The structural benchmarks set forth in the program are presented in Tables 2 and 3 of the MEFP.

DEFINITIONS

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

4. **Definition of debt.** For the purposes of the relevant performance criteria, the definition of debt is set out in IMF Executive Board Decision No. 15688-(14/107), Point 8, as published on the IMF website.

5. **Debt guarantees.** For the purposes of the relevant performance criteria, a government debt guarantee means an explicit legal obligation to service a debt in the event of nonpayment by the borrower (through payment in cash or in kind).

6. **Debt concessionality.** For the purposes of the relevant performance criteria, a debt is considered concessional if it includes a grant element of at least 35 percent.[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 5.0 percent.

7. **External debt.** For the purposes of the relevant performance criteria, external debt is defined as debt contracted or serviced in a currency other than the CFA franc. This definition also applies to debt among WAEMU countries. The relevant performance criteria apply to the external

[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 concessionnality takes into account all aspects of the debt contract, including the date of payment, the grace period, the schedule, the commissions and management fees.

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 revised quantitative performance criteria proposed for 2015 are as follows: (i) a ceiling on net domestic financing of the Treasury defined below in paragraph 9 and 10; (ii) a ceiling on the contracting or guarantee of nonconcessional external debt by the government, as defined in paragraphs 4 to 7, and (iii) a ceiling on the non-accumulation of payment arrears on external debt service.

A. Net Domestic Financing of the Treasury

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

Adjustment

10. The cumulative ceiling on net domestic financing will be adjusted upward in the amount by which external program support to central government, excluding project grants and project loans, falls short of the amount projected, in the event the external program assistance is lower than programmed, up to a maximum of CFAF 90 billion. The shortfall will be calculated in reference to the projections in Table 1 below. The ceiling will not be adjusted downward in the event the external program assistance is higher than programmed.

Table 1. Projected External Program Assistance (Cumulative, CFAF Billions)		
	End-September 2016	End-December 2016
Grants and loans	39.9	139.7

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. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

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

Reporting deadlines

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

Performance criterion

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 obligations being renegotiated with external creditors, including bilateral non-Paris Club creditors. No accumulation of new external arrears by the government is a performance criterion, to be observed continuously.

Reporting deadlines

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

OTHER QUANTITATIVE INDICATIVE TARGETS

16. The program also includes indicative targets for the ceiling on net domestic financing beyond the Treasury, the overall deficit (commitment basis, grants included) as defined in paragraph 18 below; total government revenue; poverty-reducing social expenditures.

A. Ceiling on Net Domestic Financing beyond the Treasury

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

B. Overall Deficit Including Grants

Definition

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

Adjustment

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

19. The ceiling on the overall fiscal deficit, including grants, will be adjusted downward in the amount equivalent to the difference between projected and actual project loans in the event the actual figures are lower than projected. The overall fiscal deficit, including grants, will be adjusted upward in the amount equivalent to the difference between projected and actual project loans in the event the actual figures are higher than projected. The difference in the amount will be calculated in reference to the projections in Table 2 below.

Table 2. Projected External Program Grants and Project Loans
(Cumulative, CFAF billions)

	End-September 2016	End-December 2016
Grants	39.9	77.6
Project loans	71.8	101.3

C. Total Government Revenue

Definition

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

D. Poverty-Reducing Social Expenditures Definition

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

E. Non-accumulation of Domestic Payment Arrears

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

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

Additional Information for Program Monitoring

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

Table 3. 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 treasury bonds and bills)	MINEFID/ BCEAO	Monthly	6 weeks
A quarterly report on the consistency of the net position of the Treasury 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.	MINEFID/DGD/DGI	Quarterly	6 weeks
Data on implementation of the public investment program, including details on financing sources	MINEFID	Quarterly	6 weeks
The stock of external debt, external debt service, external debt contracted, and external debt repayment	MINEFID	Quarterly	6 weeks
Social poverty-reducing expenditures in table format	MINEFID	Monthly	6 weeks
Petroleum product prices, consumption and taxes, including: (i) the price structure for the month concerned;; (ii) detailed calculation of the price structure, from the f.o.b-MED price to the retail price; (iii) volumes purchased and distributed for consumption by the petroleum distributor (SONABHY); with a distinction made between retail and industry sales; and (iv) a breakdown of tax revenue from petroleum products — customs duties, tax on petroleum products (TPP) and value-added tax (VAT) — and subsidies unpaid	MINEFID	Monthly	4 weeks

Table 3. 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)	MINEFID	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 'Field 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

Table 3. Summary of Data Reporting Requirements (concluded)			
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
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