



BURKINA FASO

December 2016

2016 ARTICLE IV CONSULTATION, SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY, AND REQUESTS FOR MODIFICATION OF A PERFORMANCE CRITERION, EXTENSION OF THE ARRANGEMENT AND AUGMENTATION OF ACCESS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BURKINA FASO

In the context of the 2016 Article IV Consultation, Sixth Review under the Extended Credit Facility Arrangement, and Requests for Modification of a Performance Criterion, Extension of the Arrangement and Augmentation of Access, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its December 16, 2016 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 16, 2016, following discussions that ended on October 29, 2016, with the officials of Burkina Faso on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 30, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Burkina Faso.

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

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

Technical Memorandum of Understanding*
Selected Issues

*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2016 Article IV Consultation with Burkina Faso

On December 16, 2016, the Executive Board of the International Monetary Fund concluded the 2016 Article IV Consultation with Burkina Faso.¹ The Board also completed the sixth Review of Burkina Faso's economic performance under a three-year program supported by the IMF's Extended Credit Facility (ECF) arrangement; a [press release](#) on this was issued separately.

Economic activity started to rebound in 2016, after two years of weak growth. The January terrorist attacks and delays in approving the budget weighed on activity in the early part of 2016, but activity has rebounded and real GDP growth is now projected at 5.4 percent, improving from 4.0 percent in 2015. The recovery is being led by the coming on stream of two new gold mines and a sharp projected rebound in agricultural output in late 2016-early 2017, after three disappointing years. Inflation continued to decline and is expected to remain subdued at 0.6 percent at end-year. Private sector credit growth remained weak in 2015 at 7.0 percent, and is only expected to gradually recover to 9.4 percent in 2016. The government approved an ambitious five-year national economic and social development plan (PNDES) in July. The plan aims at transforming the economy to achieve strong, sustainable and resilient growth that will create jobs and raise living standards.

The recovery is expected to consolidate in 2017 with growth being projected to rise to 6.1 percent as domestic and external conditions remain supportive. In particular, a scaled up public infrastructure investment program, a supportive monetary stance, higher agricultural output and continued low international prices for energy imports should assist the recovery. Implementation of the authorities' PNDES will lead to an increase in public investment, notably aimed at closing energy and transport infrastructure gaps. In that context, the fiscal deficit is set to widen to 3.6 percent of GDP.

Program performance remains strong and the authorities have advanced important reforms to create the conditions for sustained medium-term economic performance and poverty reduction.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Reforms include, most notably, actions to improve tax administration, broaden the tax base, and improve the management and financial health of the publicly-owned energy utilities. In addition, the authorities have embarked upon a comprehensive five-year development agenda to tackle growth bottlenecks and support job-rich, poverty-reducing, sustainable growth, which focuses on increasing physical and human capital, improving the business environment, expanding financial access, and lower the cost of energy.

Executive Board Assessment²

Executive Directors welcomed the authorities' continued strong performance under their Fund-supported program and the improving economic outlook after two years of weaker growth. Looking ahead, Directors emphasized that sustaining higher economic growth rates will require sound policies that create fiscal space to sustainably and gradually scale up public investment and address infrastructure gaps, and ambitious structural reforms that will reduce barriers to higher and more inclusive growth.

Directors welcomed the progress made in 2016 in mobilizing higher domestic revenue. They noted that, in addition to continued enhancements in tax and customs administration, efforts to expand the tax base will be needed to achieve revenue objectives. Directors welcomed the envisaged measures to protect the tax base from transfer pricing practices, particularly in the mining sector. They agreed that containing recurrent spending, particularly the wage bill, will also be necessary to create adequate fiscal space for key public investment projects. Directors recommended continuing with ongoing reforms in the energy and cotton sector to avoid the buildup of contingent liabilities and the need for subsidies.

Directors welcomed the authorities' comprehensive National Economic and Social Development Plan. They emphasized the importance of careful prioritization and sequencing of public investment projects, as well as effective implementation of measures to improve absorptive capacity. In particular, Directors cautioned against a too rapid increase in public investment that would negatively impact its efficiency and debt sustainability. They recommended further improvements in public financial and debt management, and noted that a Public Investment Management Assessment could help identify bottlenecks and improve the rate of execution of the investment budget.

Directors encouraged the authorities to continue improving the competitiveness of the economy. They welcomed the authorities' focus on alleviating infrastructure bottlenecks, fostering more dynamism in the agricultural sector, and enabling the financial sector to better support the real economy. Directors noted that recent reforms in the energy sector have improved the financial

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

health of the state-owned energy companies and that these successes should be consolidated and built upon to support critical investments to increase electricity supply.

It is expected that the next Article IV consultation with Burkina Faso will take place in accordance with the Executive Board decision on the consultation cycles for members with Fund arrangements.

Burkina Faso: Selected Economic Indicators, 2013–2018							
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	Prel. <u>2016</u>	Proj. <u>2017</u>	Proj. <u>2018</u>
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
GDP at constant prices	6.5	5.7	4.2	4.0	5.4	6.1	6.3
GDP deflator	5.8	-2.1	-0.9	3.7	1.9	2.0	2.0
Consumer prices (eop)	1.7	0.1	-0.1	1.3	0.6	2.0	2.0
Exchange rate (eop, depreciation -)							
CFAF per US dollar	-0.5	4.3	-11.1	-13.4	3.1	0.7	0.5
Real effective exchange rate	0.7	-1.7	4.1	6.5	...	...	...
Money and credit							
Private sector credit	24.1	26.3	18.9	7.0	9.4	12.9	14.7
Broad money	15.9	11.3	11.9	19.9	13.3	18.4	15.9
Net domestic assets (banking system)	16.1	19.6	20.0	7.3	9.6	14.9	12.7
Credit to the government (banking system)	-2.7	5.3	4.9	1.8	1.2	5.8	2.9
Central government finances (percent of GDP)							
Current revenue	17.5	19.0	17.5	15.9	18.3	18.9	19.3
Total expenditure and net lending	25.5	28.0	23.6	21.5	24.5	26.5	26.8
Primary balance	-2.4	-3.0	-1.1	-1.5	-1.8	-2.7	-2.8
Overall fiscal balance, incl. grants	-3.1	-3.6	-1.9	-2.1	-2.5	-3.6	-3.5
Total Public Debt	28.3	29.3	30.6	32.5	31.7	32.6	32.9
Public External Debt	22.6	21.9	22.0	23.8	23.2	22.4	22.3
External sector							
Exports (f.o.b.; valued in CFAF)	0.5	15.9	4.0	2.3	7.4	17.2	8.0
Imports (f.o.b.; valued in CFAF)	19.8	21.3	-9.3	3.3	7.9	13.8	9.6
Terms of trade	11.1	-12.8	-5.5	13.3	8.7	...	...
Current Account (percent of GDP)	-7.0	-11.3	-8.1	-8.0	-7.6	-6.7	-6.5
Memorandum items							
Nominal GDP (US\$ billion)	11.2	11.9	12.3	11.1	12.0	13.1	14.3
Nominal GDP per capita (US\$)	677.1	706.4	707.8	619.9	651.6	692.5	734.4
Sources: Burkinabè authorities; IMF staff estimates.							



BURKINA FASO

November 30, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION, SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR MODIFICATION OF A PERFORMANCE CRITERION, EXTENSION OF THE ARRANGEMENT AND AUGMENTATION OF ACCESS

EXECUTIVE SUMMARY

Context. Growth is projected at 5.4 percent for 2016 and 6.1 percent for 2017, owing to higher gold production and a rebound in agriculture and services. The authorities have published their National Economic and Social Development Plan (PNDES), which envisages an ambitious scaling up of investment over the next 5 years. Given limited financing and absorption capacity, staff recommends a more gradual approach, consistent with medium-term debt sustainability.

Risks. External conditions (oil and commodity prices, easy regional monetary policy, positive spillovers from Côte d'Ivoire, abundant rainfall) are exceptionally favorable but could easily reverse. On the domestic side, remaining security concerns, social pressures that could lead to higher wages and transfers at the expense of investment, inadequate resource mobilization or capacity bottlenecks could hamper PNDES implementation.

Policy recommendations:

- Carefully prioritize, sequence and monitor implementation of public investments, focusing on critical infrastructure projects.
- Sustain reforms to mobilize domestic revenue, including by expanding the tax base
- Implement a strategy to curb the growth of the wage bill. Perform job audits to support recruitment and retrenchment decisions as well as performance-based pay.
- Support structural transformation by continuing with energy reforms to boost electricity supply, implementing an agricultural diversification strategy and enhancing the population's access to financial services.

Program performance and status. Program implementation remains strong. All quantitative performance criteria and indicative targets have been met, as well as most structural benchmarks. The 4th/5th ECF reviews were approved on June 10, 2016. The current ECF arrangement expires on December 26, 2016, but the authorities are requesting a small augmentation of 3.7 percent of quota and a nine-months extension of the current arrangement to allow for the disbursement of re-phased amounts.

Approved By
**Anne-Marie Gulde
 and Peter Allum**

Discussions were held in Ouagadougou during October 18-29, 2016. The staff team comprised Corinne Deléchat (head), Liam O’Sullivan, Trevor Lessard (all AFR), Frederico Lima (FAD) and Daniela Comini (STA) aided by Mame Astou Diouf (Resident Representative) and Bamory Ouattara. HQ assistance was provided by Nadia Margevich and Shirin Nikaein Towfighian. The mission met with Prime Minister Thiéba, Economy, Finance and Development Minister Coulibaly/Sori, Mining and Energy Minister Dissa, Civil Service, Labor and Social Protection Minister Sawadogo, Mr. Charles Ki-Zerbo, National Director of the Central Bank of West African States, members of parliament and other senior officials, private sector representatives, and development partners.

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BACKGROUND AND RECENT DEVELOPMENTS

A. A New Strategy to Boost Growth in the Medium Term

1. The government approved an ambitious five-year national economic and social development plan (PNDES) in July 2016 (Box 1). Following two years of subdued growth (estimated at about 4 percent in 2014-15), the new government is under pressure to deliver rapid and tangible improvements in living standards. The plan's total estimated cost is US\$26 billion or 225 percent of 2016 GDP over 2016-20, of which over half or US\$14.2 billion would be dedicated to priority investments. The authorities intend to seek official and private financing for a list of about 80 PNDES projects totaling US\$10½ billion at a roundtable scheduled for December 7-8, 2016 in Paris.

Box 1. Burkina Faso: The New National Development Strategy (PNDES)

The government approved an ambitious five-year national economic and social development plan (PNDES) in July 2016. The plan aims at structurally transforming the Burkinabe economy, to achieve strong, sustainable resilient and inclusive growth that will create jobs and raise living standards. The plan is based on three strategic axes: (i) economic governance; (ii) human capital development; and (iii) structural transformation of the economy and private sector development.

The plan aims at reaching a number of key objectives by 2020:

- Achieve annual growth rates of about 7.7 percent over 2016-200 and create 50,000 jobs per year.
- Reduce the poverty rate from 40.1 percent in 2014 to below 35 percent by 2020.
- Lower the population growth rate from 3.1 percent in 2006 to 2.7 percent by 2020.

The PNDES envisages that public investment would increase from 9 to 17 percent of GDP in 2017 and remain elevated thereafter. The plan thus

foresees a rapid increase in growth, to 8.4 percent in 2017, under optimistic assumptions for mining and agricultural production, and remaining above 8 percent through 2019, well above the 2003-13 historical average of 6.1 percent. The increase in investment spending would also result in a significant widening of the fiscal deficit, to 7 percent of GDP on average in 2017-19. The debt-to-GDP ratio would rise by 10 percentage points of GDP, to 43.9 percent of GDP by 2019, which would not be consistent with medium-term debt sustainability.

The plan's priority investment projects are heavily tilted towards physical infrastructure, mainly energy, road and water management (Box 1 Table 1). Energy projects account for over a quarter of the total cost, followed by road and water and sanitation. Lack of adequate electricity supply is a major growth bottleneck and funding this key sector is essential to unlock the country's growth potential.

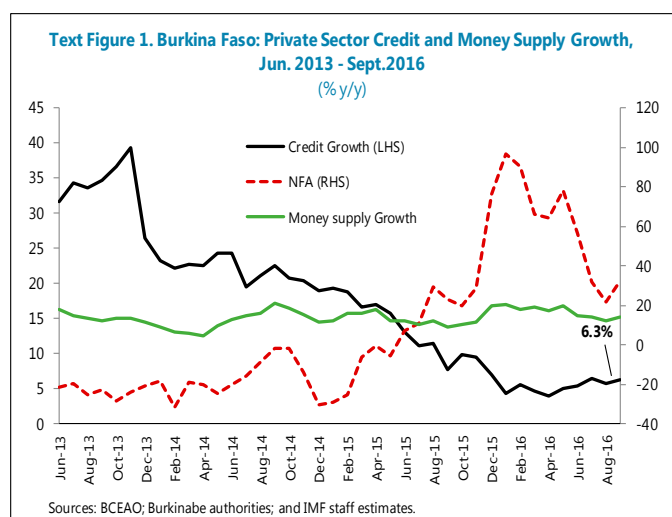
Box 1 Table 1. Burkina Faso: Priority Investments in the National Plan for Social and Economic Development, 2016-20

Strategic Axes and Objectives	Cost		
	billions of CFAF	percent of 2016 GDP	percent of total cost
Reform Institutions and Modernize the State			
Economic Governance	926.0	14.1	14.5
Develop Human Capital			
Health	468.2	7.1	7.3
Education and Research	517.2	7.9	8.1
Employment	459.9	7.0	7.2
Water and Sanitation	772.9	11.8	12.1
Boost Priority Sectors for Economic Development and Job Creation			
Agriculture	272.8	4.2	4.3
Manufacturing	239.2	3.6	3.8
Services	129.0	2.0	2.0
Energy	1,695.4	25.8	26.6
Roads	806.6	12.3	12.7
Environment and Natural Resource:	87.0	1.3	1.4
Total cost	6,374	83.0	

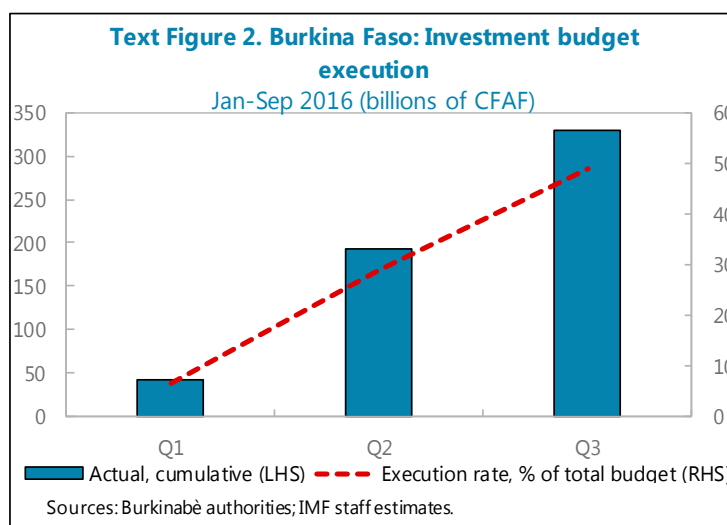
Sources: Burkinabè authorities and IMF staff calculations.

2. Recent incidents highlight remaining political and security risks, though the overall situation is calm. On October 8 the security forces foiled a coup attempt by former presidential guard soldiers who were also aiming to free the leaders of the September 2015 coup. Sporadic terrorist attacks at the borders with Mali and Niger continue. In response, the authorities are stepping up security.

3. Economic activity has started to rebound in the second quarter of 2016. The January terrorist attacks and the delays in approving the 2016 budget weighed on activity in Q1 but output rebounded at 8.3 percent in Q2 (y/y). Real GDP growth is now projected at 5.4 percent for the year. The recovery is led by services (+11.3 percent), and followed by the secondary sector (+4.8 percent), boosted by the onset of production of two new gold mines. Abundant rainfall is expected to lead to a sharp rebound in agricultural output in late 2016-early 2017 after three disappointing years. Inflation continued to decline, to 0.4 percent at end-September (y/y), driven by transport and energy prices, and is expected to remain subdued at 0.6 percent in at end-year (Figure 1, Table 1). Private sector credit growth reached its lowest level in years at 3.9 percent in April (y/y), and has since only slowly picked up, reaching 6.3 percent in September. At the same time, banks' holdings of net foreign assets increased by 43 percent as of July 2016 (y/y), resulting in broadly stable money growth during the period. (Text Figure 1, Table 3, MEFP ¶12).



4. Fiscal policy implementation is broadly in line with the revised budget. Revenue collection was on target overall, though internet outages during the third quarter led to a sharp decline in customs revenue, which were 4 percent below target as of end-September, following a very strong first half of the year. Recurrent spending ran slightly above budget, owing to an additional CFAF 26 billion in expenses related to the implementation of the new civil servants' employment framework and other public sector wage agreements (MEFP ¶18). The 2016 budget was



revised a second time in July 2016 to include about 1 percentage point of GDP in additional revenue compared with the program. About half of this increase was due to one-off dividend payments from the state-owned hydrocarbon importer, SONABHY, and the remainder was reflected in a lower deficit. Public investment budget execution stood at only 50 percent as of end-September despite an acceleration in the pace of execution (Text Figure 2). The overall 2016 deficit is now projected at 2.5 percent of GDP, compared with 3 percent of GDP at the time of the 4th/5th ECF review (Figure 3, Tables 2a-2b, MEFP ¶19).

5. The current account deficit is projected to narrow only slightly from 8 to 7.7 percent of GDP, given large intermediary goods' imports. Ongoing mining construction and higher public investment are expected to lead to a 7.9 percent increase in imports in 2016, only partially offset by the increased values of gold exports resulting from the recovery in gold prices. Mining investment and the return to political stability are also driving a projected rebound in FDI inflows, to 2.5 percent of GDP compared with 2 percent of GDP in 2015 (Figure 2, Table 4, MEFP ¶12).

6. Program performance remains strong.

- All continuous and end-June quantitative performance criteria and indicative targets were met, most by wide margins. Non-concessional borrowing amounted to CFAF 205 billion in June and is expected to reach CFAF 229 billion by end-December, close to the CFAF 230 billion program ceiling (Appendix Table 1, MEFP ¶15).
- Six end-June structural benchmarks (SBs) were met on time, and one was implemented with delay (transmission of quarterly financial accounts of the hydrocarbon company, SONABHY). Progress is being made on the final SB, implementation of standardized VAT invoicing for large and medium enterprises, and it is expected to be implemented by January 1st, 2017 (MEFP ¶15).
- The July benchmark to transfer CFAF 5 billion in windfall profits from SONABHY to the state electricity utility (SONABEL) was met, and the authorities have completed in advance the second transfer of CFAF 35 billion from SONABHY to SONABEL, thereby clearing CFAF 40 billion in arrears, out of a total of CFAF 66 billion. The authorities have requested to reprogram the November benchmark on control of fuel losses during transport owing to delays in securing the electronic tracking equipment. The bolting of manholes on all trucks and installation of seals and electronic tracking equipment along the Benin and Niger corridor will be implemented by December 2016, with the full deployment to be finalized in the first quarter of 2017 (Appendix Tables 2-3, MEFP ¶16).

POLICY DISCUSSIONS

7. Policy discussions focused on near-term challenges and a medium-term policy framework to support PNDES objectives. The immediate challenge is to overcome deep-seated bottlenecks and accelerate execution of public investment, while tilting the composition of the budget away from recurrent expenditure and towards productive investment in human and physical capital. At the same time, inadequate energy supply, lack of economic diversification and low access to credit are hindering private sector development and job creation. Accordingly, the Article IV

consultation's two policy themes were how to create fiscal space to enable a sustainable scaling up of public investment, and how to support structural transformation and inclusive growth. The mission organized an outreach event to present analytical background work on investment scaling up, options to contain the wage bill and the drivers of financial inclusion in Burkina Faso. The event allowed for a frank exchange of views with a broad cross-section of the administration.

8. Previous Article IV discussions focused on similar issues and the authorities have made progress in implementing past recommendations in spite of disruptions associated with the political transition. Positive outcomes include continued reduction in inequality and poverty, the adoption of the 2015 Mining Code, and implementation of external audit recommendations by the two state-owned energy companies (Table 9).

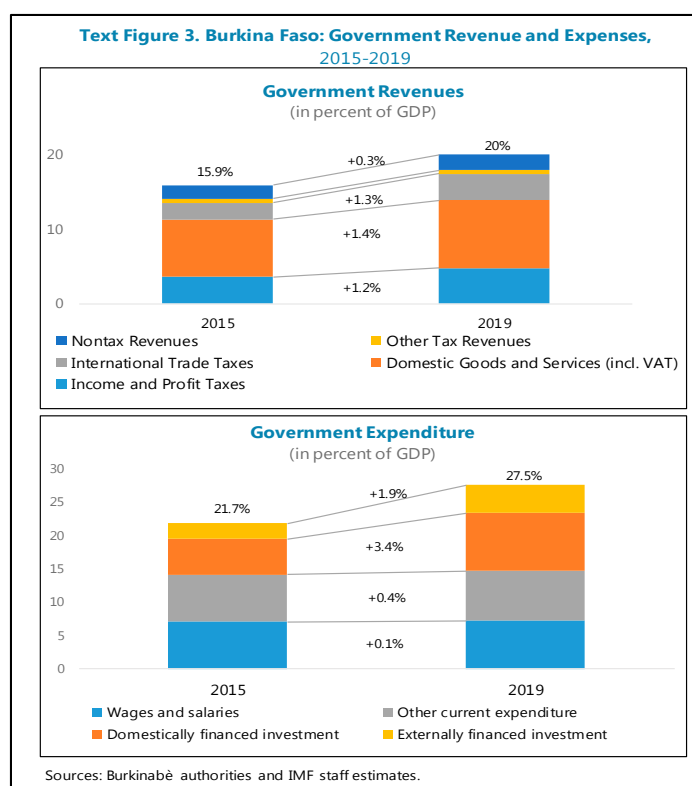
A. Outlook and Risks

Outlook

9. The recovery is expected to gather strength in the near term, with growth reaching 6.1 percent in 2017 and remaining at potential at about 6.5 percent over the medium term.

Favorable agricultural prospects, the coming on stream of two new mining projects and higher construction and services activity linked to the public investment program would consolidate the recovery in 2017. Going forward, medium-term growth projections in the range of 6½ percent are supported by the expected improvements in energy supply and new mining operations including, gradually, the Tambao manganese project (Text Table 1, MEFP ¶14).

10. The baseline fiscal framework envisages a moderate widening of the deficit to about 3.5 percent of GDP over the medium term to support a gradual scaling up of investment. For 2017, staff's baseline is aligned with the draft budget's revenue, recurrent spending and externally-financed investment projections. However, the draft budget also envisages a nearly 2½-fold increase in domestically-financed investment, from 5.2 to 12.4 percent of GDP, predicated on optimistic assumptions about budget support, and implies a 1½ percent of GDP financing gap. Staff noted that, based on discussions with development partners, current budget support commitments for 2017 were about a third of the budgeted amount (CFAF 110 billion compared with



CFAF 336 billion in the budget). This constrains domestically-financed investment to about 7.3 percent of GDP, still a 2 percentage points increase from 2016. In this baseline scenario, the overall deficit would widen to 3.6 percent of GDP in 2017. Over the medium term, efforts to raise domestic revenue and contain recurrent spending would open up fiscal space for public investment, which would reach 13 percent of GDP by 2019 (Text Figure 3).

11. At the authorities' request, staff prepared an alternative scenario including higher investment based on additional donor financing and measures to enhance execution capacity.

The authorities indicated that they expected new official and private commitments to fund the PNDES in the context of the December 7-8 donor round table in Paris and of the new IDA18 envelope. Staff and the authorities also agreed that higher public investment execution rates should be possible based on measures already taken, including the timely adoption of the 2017 budget, the announcement of all public tenders by November and the careful selection and close monitoring of key infrastructure projects (MEFP ¶134). The alternative scenario thus assumes that investment would return to its 2013 level and increase by an additional 2 percentage points, financed by higher budget support (mostly grants) in line with historical averages of about 3 percent of GDP.¹ In this scenario, the overall deficit would widen to about 4 percent of GDP in 2017 with a small remaining financing gap, but would converge to the WAEMU convergence criterion of 3 percent of GDP by 2019. Boosted by higher infrastructure investment, real GDP growth would increase to 6.8 percent in 2017 and about 7 percent in the medium term (Text Table 1, Table 1a).

Text Table 1. Burkina Faso: Baseline and Alternative Scenarios (2016–19)							
	2016	2017		2018		2019	
	Proj.	Baseline	Scen.	Baseline	Scen.	Baseline	Scen.
(Annual percentage change, unless otherwise indicated)							
GDP at constant prices	5.4	6.1	6.8	6.3	7.0	6.5	7.0
Consumer prices (annual average)	0.7	1.5	1.5	2.0	2.0	2.0	2.0
Credit to the private sector	9.4	12.9	14.0	14.7	15.4	15.4	18.0
Terms of trade	8.7	0.4	0.4	1.9	2.0	0.2	0.2
(Percent of GDP, unless otherwise indicated)							
Current Account	-7.6	-6.7	-7.2	-6.5	-7.4	-6.8	-7.6
Overall fiscal balance, incl. grants (commitments)	-2.5	-3.6	-4.2	-3.5	-3.5	-3.5	-3.0
Total public debt	31.7	32.6	33.0	32.9	33.2	33.1	32.7
Sources: Burkinabè authorities; and IMF staff estimates and projections.							

12. Both scenarios would be consistent with medium-term debt sustainability. Debt sustainability analysis (DSA) results indicate that public debt would remain sustainable, with the public external debt-to-GDP ratio increasing by less than 2 percentage points of GDP between 2015

¹ The investment scaling up included in staff's alternative scenario is an increase of about 5 percentage points of GDP in 2017, compared with an increase of 7.6 percentage points in the authorities' PNDES. The implications of the full investment scaling up envisaged in the PNDES are discussed in Box 4.

and 2019. The risk of debt distress would remain moderate as the debt-to-GDP ratio would breach the threshold under the historical scenario and most extreme shock in 2033. Under the alternative scenario, Burkina Faso's debt sustainability improves slightly as increases in GDP, revenues, and exports offset additional borrowing over the medium term. The risk of debt distress would remain moderate as the breaches of relevant thresholds occur at similar points than under the baseline scenario.² Nonetheless, the favorable outcome in the alternative scenario depends on several assumptions for which there are downside risks. Specifically, the scenario depends on success in mobilizing additional domestic revenues, access to significant new grant financing, and a high growth impact from infrastructure spending. Results would be less positive with use of costly domestic or external non-concessional debt financing and if capacity bottlenecks were to undercut the growth impact of new infrastructure spending.

13. Like the rest of the region, Burkina Faso is benefiting from the confluence of favorable external conditions, but risks of reversal are high. The exceptional alignment of low oil prices, firmer gold and cotton prices, easy ECB monetary policy and the euro depreciation, together with abundant rainfall, support the positive short-term outlook. Since the end of the political crisis there, rapid growth in Côte d'Ivoire is also generating positive spillovers given strong trade, FDI and remittance linkages (Box 2). Given Burkina Faso's narrow production and export base, the impact of a reversal of any of these positive external factors would be magnified. Further terrorist attacks would undermine confidence and investment. In addition, a crowding out of the regional debt market by larger issuances from Côte d'Ivoire and/or Senegal could make it more difficult and expensive for the government to issue domestic debt. Domestic risks are also significant. Social pressures could lead to higher wages and transfers at the expense of investment, and inadequate resource mobilization or absorption capacity could hamper execution of the public investment program (Table 6).

Authorities' views

14. Given existing budget support commitments, the authorities agreed that domestically-financed investment would be limited to the amounts presented in staff's baseline scenario, implying an overall deficit of 3.6 percent of GDP in 2017. They also indicated that they would pursue investment in amounts larger than programmed only if additional concessional financing could be identified, along the lines of the alternative scenario with the deficit expanding to no more than 4 percent of GDP in 2017, but returning to 3 percent by 2019 (MEFP ¶28). They however emphasized that new investments financed under Public-Private Partnerships (PPPs) could bring growth closer to the rates envisaged in the PNDES (see Box 1) with moderate budgetary implications. They took note of the external risks associated with reversals in the favorable terms of trade and financing conditions (MEFP ¶29). They also indicated that they have taken a number of measures to mitigate domestic risks, including improving security and intelligence systems, enhancing social cohesion and making the justice system work for all. Moreover, they are determined to continue

² Burkina Faso owes a small amount of pre-HIPC Initiative arrears to non-Paris Club creditors which continue to be deemed away under the revised arrears policy for official creditors, as the underlying Paris Club agreement was adequately representative and the authorities make best efforts to resolve the arrears.

efforts aimed at mobilizing domestic resources and containing recurrent spending, diversifying the economy primarily through transformation of agricultural products, and establishing a solid institutional mechanism to track implementation of the PNDES (MEFP ¶16).

Box 2. Burkina Faso: Spillovers from Côte d'Ivoire

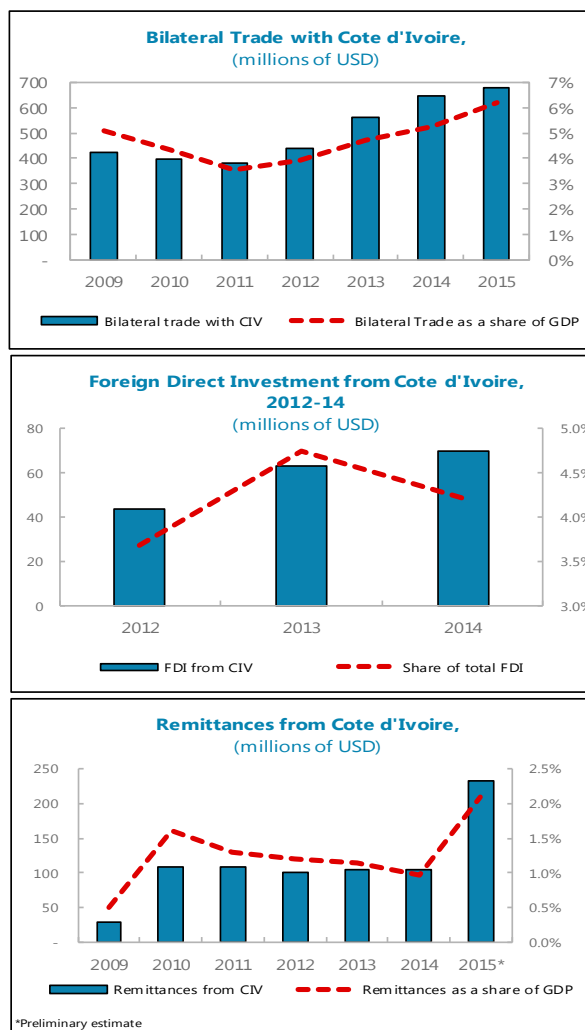
Burkina Faso has significant economic linkages with Côte d'Ivoire. Bilateral trade represented about 15 percent of total trade flows in 2015, and remittances from Côte d'Ivoire between 60 and 80 percent of the total in 2010-15. Electricity imports from Côte d'Ivoire already constitute 30-35 percent of Burkina Faso's consumption, with plans for further expansion in the context of the West Africa Power Pool project.

Bilateral trade has been growing in recent years. Most of Burkina Faso's imports and exports also transit through the port of Abidjan, with goods transported via road and railroad. FDI from Cote d'Ivoire has also been increasing.

With about 3 million Burkinabè residing in Côte d'Ivoire, remittances flows are significant. Remittance flows from Côte d'Ivoire have grown steadily since 2009 and represented over 2 percent of GDP in 2015.

Official statistics likely underestimate the actual size of flows between Burkina Faso and Côte d'Ivoire. Informal trade and remittance flows are also likely to be significant but are not captured in official data. The Fund is implementing a WAEMU-wide project to enhance external sector statistics, funded by Japan, which should help enhance the accuracy of official data.

Box 2 Figure 1. Burkina Faso: Linkages with Côte d'Ivoire, 2009-15



Sources: Direction of Trade Statistics, Conseil Burkinabè de Chargeurs (CBC), Coordinated Direct Investment Survey (CDIS), World Bank Migration and Remittances Data; and IMF staff calculations.

B. Policy Theme #1: Creating Fiscal Space to Sustainably Scale Up Investment

Near-Term Fiscal Policy Challenges

15. Sustaining improvements in revenue mobilization and investment execution while containing recurrent spending are critical to attaining the 2016 budget objectives (Text Table 2).

The customs administration is committed to registering and processing all manual customs declarations prepared during internet shortages to make up most of the third quarter shortfall by end-year (new SB, MEFP ¶18). Staff noted that the potential revenue shortfall could amount to CFAF 21 billion or about 0.3 percent of GDP. Staff also indicated that specific, short-term measures to contain further wage bill pressures would be important to keep recurrent spending within budget (MEFP ¶35). Finally, staff and the authorities discussed measures to sustain the acceleration in investment execution. The authorities were confident that the procurement reforms adopted in July 2016, in particular the higher thresholds for public procurement contracts, the adoption of streamlined procedures and the elimination of domestic reviews of foreign-financed investments would support full execution of the 2016 investment budget (MEFP ¶20).

	2016		2017		
	4th/5th Review	Revised Budget (Proj.)	Draft Budget	Baseline	Scenario
	(percent of GDP)				
Total revenue and grants	21.1	22.0	26.6	22.9	24.6
Total revenue	17.3	18.3	18.9	18.9	18.7
Tax revenue	15.6	16.0	17.2	17.2	17.1
Nontax revenue	1.7	2.3	1.6	1.6	1.6
Grants	3.8	3.8	7.7	4.0	5.9
Project	2.9	2.7	3.0	3.0	3.6
Program	0.9	1.1	4.7	1.0	2.2
Expenditure and net lending	24.2	24.5	31.6	26.5	28.8
Current expenditure	14.6	15.2	14.7	14.7	14.6
Wages and salaries	7.2	7.4	7.2	7.2	7.2
Goods and services	2.0	2.0	1.9	1.9	1.9
Interest payments	0.7	0.7	0.9	0.9	0.9
Current transfers	4.7	5.1	4.6	4.6	4.6
Investment expenditure	9.6	9.4	16.9	11.8	14.2
Domestically financed	5.5	5.3	12.4	7.3	9.2
Externally financed	4.1	4.1	4.5	4.5	5.1
Overall balance	-3.1	-2.5	-5.0	-3.6	-4.2
Financing	2.8	2.3	3.5	3.5	3.7
Foreign financing	1.4	1.8	1.3	1.3	1.5
Drawings	1.8	2.3	1.9	1.9	2.1
Project loans	1.3	1.4	1.5	1.5	1.4
Program loans	0.5	0.9	0.4	0.4	0.6
Amortization (excl. IMF)	-0.4	-0.5	-0.6	-0.6	-0.6
Domestic financing	1.4	0.5	2.2	2.2	2.2
Financing gap	0.3	0.3	1.5	0.0	0.5
Of which: IMF disbursements	0.3	0.3	0.0	0.0	0.0

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

16. Delays in budget support disbursements could complicate budget execution toward the end of the year. An amount of up to CFAF 89 billion (1.3 percent of GDP) of budget support is at risk of not being disbursed by the end of the year. In their efforts to ensure adequate liquidity to conclude 2016 and to start implementing the 2017 budget, the authorities have issued T-bills and bonds in the local and regional markets in excess of 2016 financing needs by CFAF 114 billion. This liquidity could compensate for the temporary budget support shortfall, but at a higher interest cost. As a precaution, the authorities are requesting an increase in the program adjuster for net domestic financing from CFAF 65 billion to CFAF 90 billion so that this key performance criterion would not be missed if the programmed budget support doesn't materialize.

17. The 2017 budget reflects the authorities' goal to expand fiscal space for priority investments.

- Domestic revenues are projected to reach 18.9 percent of GDP, a 1.2 percentage point of GDP increase compared with 2016 (excluding one-off dividends).** The full-year implementation of the new tax policy measures, standardized VAT invoicing, and further modernization of the tax and customs administration would support the recovery of revenue to its 2013 level (Text Table 3). In particular, on-time implementation of standardized VAT invoicing for large and medium enterprises by January 1st, 2017 is key to support higher VAT revenue. Progress on the operationalization of the single tax identification number via banking operations, and continued cross-checks of taxpayer information between the tax and customs administrations, helped by the interconnection of the tax and customs databases (new SB) are also critical. Regarding customs, greater computerization of procedures, together with new efforts to fight smuggling, would support higher revenue collection (MEFP ¶18, 23-24).

Standardized VAT invoicing for large and medium firms	0.22
Increased risk-based controls at the Tax Investigations and Intelligence Directorate	0.07
Consolidation of segmentation process for medium-sized enterprises	0.20
Reducing fraud through electronic sharing of taxpayer database information between DGI and DGD	0.07
Introduction of requirement to use unique Tax Identification Number on banking transactions	0.13
New policy measures: (i) reduction in certain tax exemptions; (ii) new stamp duties; (iii) increased tax rate for certain alcoholic beverages and tobacco	0.19
Supervision of taxpayers using the single taxpayer identification number to cross-check information between tax offices	0.09
Virtual Liaison System for Import and Export operations (SYLVIE)	0.07
Addressing fraud in the market for motorcycles imports	0.04
GPS tracking system and customs scanners	0.03
Additional revenues from tolls	0.004
Total	1.1
Sources: Burkinabè authorities and IMF staff estimates.	

- Recurrent spending would decline somewhat on account of measures to streamline transfers and contain pressures on the wage bill.** The authorities intend to continue to rationalize payroll and recruitment management and to conduct regular payroll audits to eliminate ghost workers.³ Expenditure on goods and services would decline slightly owing to measures to limit utility and transport bills of State bodies. Transfers would benefit from a reduction in energy subsidies driven by low world prices and ongoing energy sector reforms, as well as a reduction in other categories of transfers (MEFP ¶26). Staff cautioned that more specific measures to contain the wage bill would be needed to overcome the permanent base effects associated with the 2016 wage increases.

18. The 2017 fiscal program could however accommodate a larger investment plan than envisaged in the baseline scenario, provided additional budget support financing becomes available. Staff noted that existing budget support commitments amounted to only 1.4 percent of GDP, less than half of their 2010-13 average of 3 percent of GDP (Text Table 4). On this basis, domestically-financed investment would be limited to about 7.3 percent of GDP. However, provided budget support financing increases back to historical averages and the measures taken to increase

³ The authorities already completed an administrative census in 2012, and adopted biometric enrolment since 2013. Efforts to reconcile biometric and payroll databases took place in 2013 and again in 2015, which allowed to identify ghost workers and other undue payments.

absorption capacity are resolutely implemented, staff considers that the authorities could execute at least an additional 1½-2 percentage points of GDP in investment, as described in staff's alternative scenario, while maintaining medium-term debt sustainability (see Debt Sustainability Analysis). Staff analyzed a preliminary list of priority projects covering about 80 percent of planned investment spending to be executed in 2017 (Box 3). Provided careful prioritization, sequencing and monitoring, staff agreed that investment execution rates could be higher. In particular, the authorities should focus on the largest infrastructure projects, which comprise the majority of planned investment spending and are most likely to have a positive impact on growth. They could also review whether some related projects (large and small) could be consolidated to reduce the strain on limited resources and capacity.

	<u>2016</u>		<u>2017</u>
	<u>Commitments</u>	<u>Disbursed 1/</u>	<u>Commitments</u>
Total	139.9	39.9	110.4
World Bank	88.6	0.0	32.3
EU	35.1	35.1	49.4
AfDB	0.0	0.0	16.4
Others	16.2	4.8	12.3

Sources: Burkinabè authorities and donor agencies.
1/ As of September 30, 2016.

19. Further improvements in budget and Treasury management are warranted to prevent the recurrence of domestic arrears. Cash management has improved, with reported domestic arrears stemming from pending payments eliminated by March 2016. Nonetheless, the full 2015 annual audit report (June SB) identified non-trivial domestic arrears of about 1.1 percent of GDP. These include amounts due on mostly valid contracts and procurement procedures (about 0.5 percent of GDP) but which were not executed within the fiscal year, and another category of "irregular" arrears, where not all procedures have been followed (about 0.6 percent of GDP). The authorities noted that they aim at gradually regularizing legitimate arrears and have allocated an amount of about CFAF 18 billion in the 2016 budget to that effect. They will conduct a careful review of "irregular" arrears and decide on their treatment on a case-by-case basis (new SB), and are committed to implementing the remaining audit recommendations (MEFP 137).

Structural Policies to Unlock Fiscal Space

Boosting Domestic Revenue

20. The authorities are considering options to maximize domestic revenue mobilization over the medium term, including the establishment of a semi-autonomous revenue authority (SARA). Drawing on regional experience, the authorities hope to obtain efficiency gains by merging the customs and tax administrations into a single entity with greater management autonomy. Staff noted that the experience with SARAs appeared to have been most positive when existing institutional structures were deficient, for example due to political capture, low staff morale or a lack of information exchange between tax and customs administrations. However, in Burkina Faso's case, the customs and tax administration are making significant progress in recovering the ground lost during the transition and are in the midst of comprehensive reforms, including plans to establish a land registry to optimize property tax collection, the review of the tax code in 2017, and the interconnection of SYDONIA with neighboring countries. Given the ambitious revenue objectives for 2017 onwards, it would be important to maintain this momentum before considering deeper

structural changes. Staff also cautioned that such a reform entails significant costs, and that careful preparation would be essential to successfully transition to a new administrative structure.

Box 3. Burkina Faso: The 2017 Budget’s Investment Program

The PNDES sets forth an ambitious scaling up of public investment in Burkina Faso between 2016 and 2020. This box provides an analysis of investment projects financed with domestic resources. The analysis is based on a list of 258 priority investment projects identified by the authorities and included in the 2017 proposed budget law.

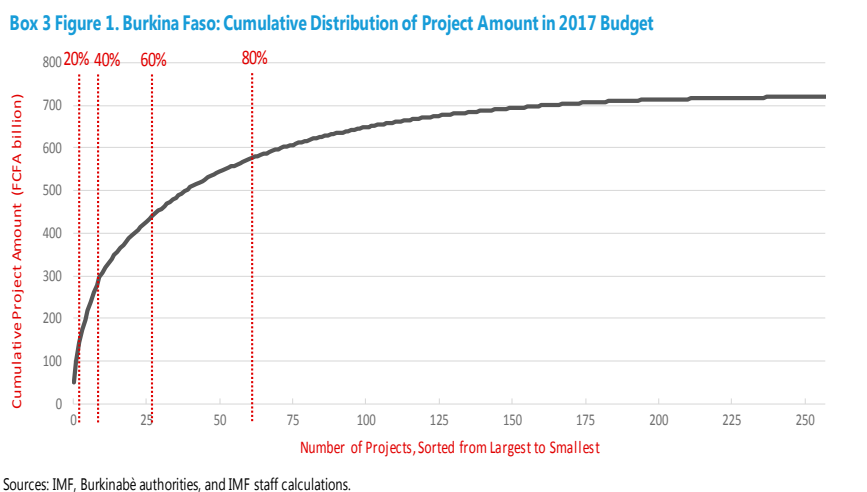
The majority of investment projects concern physical infrastructure, and the most represented sectors are roads (35 percent), water and agriculture (18 percent) and education and IT (15 percent). Over three-quarters of public investment by project amount target the construction or renovation of physical infrastructure, and thus can be expected to have a rapid impact on growth. The remaining projects would be more readily classified as current expenditure (e.g., youth employment programs) or as intergovernmental transfers, even if they could be construed as increasing capital in a broad sense. Despite some projects targeting dams or solar panel installations in government buildings, large energy infrastructure projects are notably absent from this list, as they tend to be financed with external resources (see Box 1).

The 15 largest projects account for half of 2017 domestically-financed investment. Box 3 Figure 1 shows the cumulative distribution of investment projects after sorting them from largest to smallest. A few large projects account for most of planned domestic public investment. At the same time, there are many smaller projects that collectively represent only a small fraction of planned investment.

Box 3 Table 1. Burkina Faso: Domestically-Financed Priority Public Investment, 2017-2019

	2017	2018	2019
Total Project Amount (in billion CFAF)	719	837	814
of which: physical infrastructure	545	658	572
Number of Projects	258	221	186
of which: physical infrastructure	142	119	95
By Sector			
Road infrastructure (rural roads, highways, ...)	35%	32%	34%
Water and agriculture (dams, irrigation, water systems, ...)	18%	17%	19%
Education and IT (classrooms, university buildings, ...)	15%	16%	18%
Energy (solar panels, electrification)	5%	4%	4%
Airport infrastructure	4%	11%	4%

Sources: IMF, Burkina authorities, and IMF staff calculations.



Sources: IMF, Burkina authorities, and IMF staff calculations.

21. If managed efficiently, natural resource revenue can be an important source of investment financing. A recent FAD technical assistance mission on transfer pricing policy identified a series of measures designed to increase the mining tax base. The authorities are considering these recommendations as they draft the implementing regulations to the 2015 Mining Code, the 2017 budget law, and consequential amendments to the general tax code (Text Table 5).

Text Table 5. Burkina Faso: Transfer Pricing Policy	
Key TA Recommendations	Measures Adopted by Authorities
Improving transparency: <ul style="list-style-type: none"> • Publish mining feasibility studies and conventions with mining companies • Publish balance sheets and financial statements of all domestic companies. • Implement transfer pricing documentation requirements for the multinational group (“master file”) and local entities (“local file”). 	The mining code requires the publication of mining conventions in the official journal. Ensure effective implementation of publication requirement for listed companies and their subsidiaries.
Strengthening the arm’s length principle: <ul style="list-style-type: none"> • Define the notion of related enterprises and extend the application of the arm’s length principle to domestic transactions and transactions involving a tax haven/non-cooperative jurisdiction. 	To be considered in new tax code project (to be adopted in 2017).
Strengthening the tax base, e.g.: <ul style="list-style-type: none"> • Use the comparable uncontrolled price method for commodities and the cost-plus method for intermediary goods and services. • Limiting financial charges to 30% of gross operating income. • Imposing a limit on the deductibility of carry-over losses (e.g. to 50-60 percent of current-year income). • Limiting deductibility of brand royalties to 5 percent of turnover. 	Pricing rules for of primary / intermediate goods are part of the 2017 budget law. The other measures will be considered in new tax code.

Authorities’ views

22. The authorities are fully committed to creating additional fiscal space for investment spending through higher domestic revenue mobilization. In this regard, they will carefully weigh the costs and benefits of establishing a single revenue authority. They also agreed that ongoing reforms, in particular those aiming at strengthening the organization and systems of the tax administration ought to be fully implemented before a new organizational structure could be considered. They welcomed the Fund’s technical assistance on transfer pricing, noting that they

intended to implement most of the recommendations in 2017, and looked forward to forward to further Fund support in the context of the tax code revision.

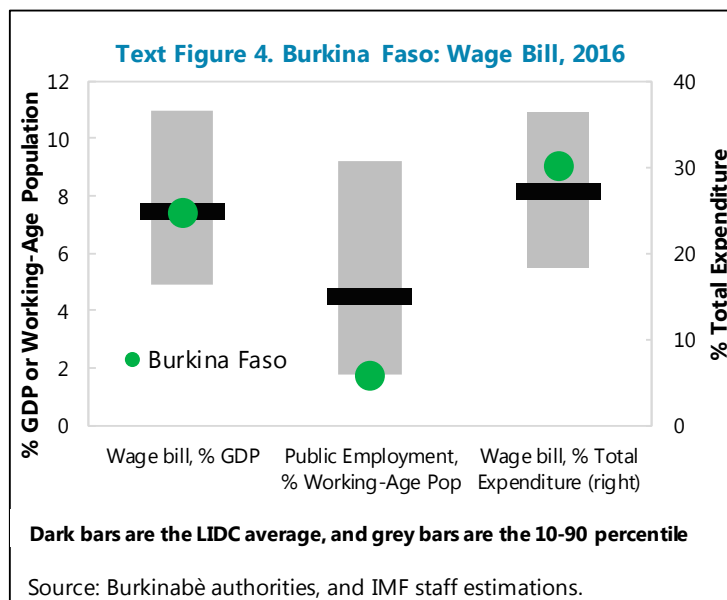
Tilting Spending Composition towards Investment

23. Scaling-up public investment while maintaining project quality and debt sustainability will require sustained efforts to strengthen project planning and implementation capacity.

Staff's model-based analysis of the investment scaling up envisaged in the PNDES shows that the size of the increase in investment could lead to a significant drop in efficiency as absorption capacity constraints become binding. Furthermore, with limited availability of concessional financing, the additional investment would have to be financed by resorting to higher domestic and non-concessional external borrowing, which would not be consistent with medium-term debt sustainability (Box 4, and Selected Issues Paper). In this context, reforms to address remaining bottlenecks in the capacity to design, budget and execute investment projects are paramount to ensuring that higher volumes of investment could be implemented without compromising quality and cost-effectiveness. The authorities should however be mindful of the risks related to fast-track procedures adopted to accelerate execution of public investment, particularly as regards complex PPP projects. The resort to exceptional procurement procedures such as single sourcing should also be discouraged as it could lead to poor project quality and/or high cost.

24. The authorities should design a medium-term strategy to contain the wage bill, while addressing short-term pressures.

Staff noted that, while the size of the civil service was below that of other LICs, the wage bill was on par or slightly higher (Text Figure 4 and Box 5). Overall, this correlates with the generally high quality of public employees and a well-functioning administration. Nonetheless, given future pressures on public employment related to planned investments, notably in health and education, staff noted that it would be important to contain wage bill growth by considering structural reforms targeting employment. These could include encouraging mobility within the administration, rationalizing hiring and eliminating sectoral overlap. Aligning public sector pay with productivity would also be important, for example through performance-based salary components or rationalizing allowances. As a first step, job audits could be conducted to provide a basis for future recruitments/retranchments, as well as for aligning pay with performance.



25. Enhancing Debt Management Capacity. A key priority would be for the government to provide additional resources to the debt office to develop its capacity to effectively manage simultaneous increases in external and domestic borrowing, as well as the contingent liabilities arising from public-private partnerships (MEFP ¶132). The authorities should also seek assistance in preparing an integrated medium-term debt strategy to support PNDES implementation.

Authorities' views

26. The authorities recognize the importance of rebalancing expenditure in favor of the capital budget and are taking steps to enhance investment efficiency and contain the wage bill. The authorities have started to implement the recommendations from a recent FAD mission, including the preparation of a new procurement code with World Bank support, and the reorganization of the budget calendar to better integrate the investment plan in the overall budget (new SB, MEFP ¶134). They noted that the move to program budgeting would support implementation of multi-year investment projects. In addition, they are requesting a Public Investment Management Assessment (PIMA) for early 2017, in order to prepare a detailed action plan to further improve project selection and monitor their implementation, as well as a framework for managing PPPs (MEFP ¶133). On procurement, they noted their commitment to respecting the WAEMU standard of limiting the resort to exceptional procedures to no more than 15 percent of the total value of public contracts (MEFP ¶134). They also reiterated a separate request for capacity building in managing contingent liabilities arising from PPPs, and noted that they would be preparing a standard PPP contract ahead of the donor roundtable. They welcomed staff's suggestions to contain the wage bill and indicated their openness to considering further medium term reforms along these lines (MEFP ¶135).

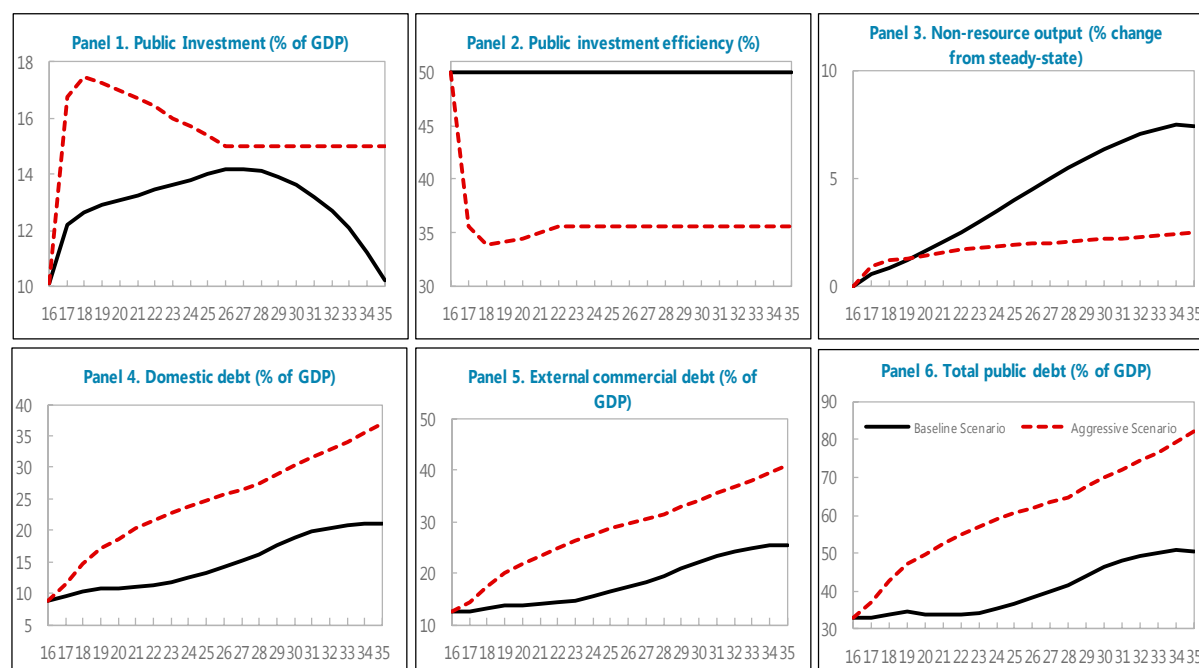
Box 4. Burkina Faso: Scaling Up Public Investment and Investment Efficiency

This box presents key implications of a large and rapid increase in public investment on public debt, in the presence of absorption capacity constraints, using a general equilibrium model (DIGNAR).¹

The analysis compared staff’s baseline scenario with a scenario associated with full implementation of the PNDES’ investment objectives for 2017-19. Given the size of the envisaged investment scaling up in the PNDES, which is about twice as large for 2017 as under staff’s more optimistic alternative scenario, investment efficiency (initially calibrated at 50 percent based on the average for LICs) is assumed to drop in the PNDES scenario as a result of capacity constraints relating to the lack of complementary infrastructure, insufficient provision for maintenance and supply bottlenecks. GDP growth is consequently lower than in the baseline due to lower productivity in both the traded and nontraded sectors resulting from the relatively lower increments to the public capital stock.

Given limited availability of external concessional financing, residual financing for the PNDES scaling up is assumed by the model to occur on non-concessional terms, which results in a marked increase in total public debt, beyond the WAEMU ceiling of 70 percent of GDP by 2030. This is different from staff’s baseline and alternative scenarios, where the higher investment is financed by additional budget support, and where efficiency remains at about 50 percent supported by the implementation of measures to address absorption capacity constraints. The scaling-up scenario is also characterized by lower welfare levels (proxied by the growth rate of private consumption) and lower private investment, as the public investment crowds out available resources.

Box 4 Figure 1. Burkina Faso: DIGNAR Model Simulation Results



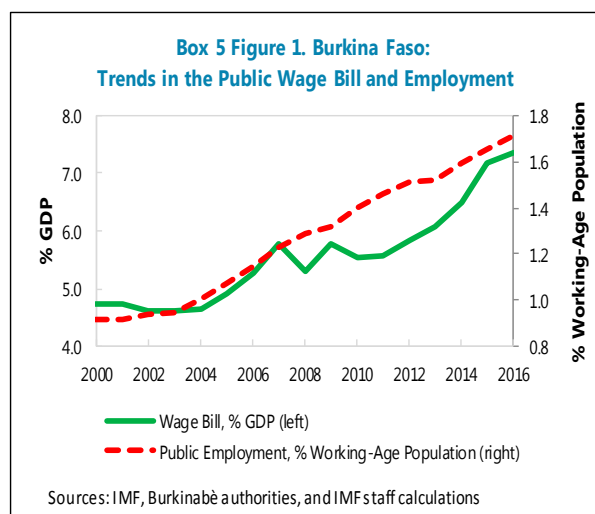
Source: IMF staff estimates.

1. The model is described in Melina, G. and Y. Xiong (2013) ‘Natural Gas, Public Investment and Debt Sustainability in Mozambique’, IMF Working Paper 13/261. Washington, D.C.: International Monetary Fund. The DIGNAR simulation results described here were generated in collaboration with the IMF Research Department. The DIGNAR model has been developed at the IMF with support from DFID.

Box 5. Burkina Faso: Evolution of the Wage Bill

The public wage bill has grown faster than nominal GDP since 2000, driven by a large increase in public employment. The public wage bill grew

from 4.7 percent of GDP in 2000 to 7.4 percent of GDP in 2016. This increase was matched by a steady increase in public employment from 0.9 to 1.7 percent in the working-age population over the same period, which was most pronounced in the education, security and health sectors. The increase in public employment contributed to increase the wage bill ratio by 3.6 percent of GDP over the period, while the average level of public sector compensation declined by -0.9 percent of GDP. Nonetheless, public sector compensation remains somewhat higher than in peer countries.



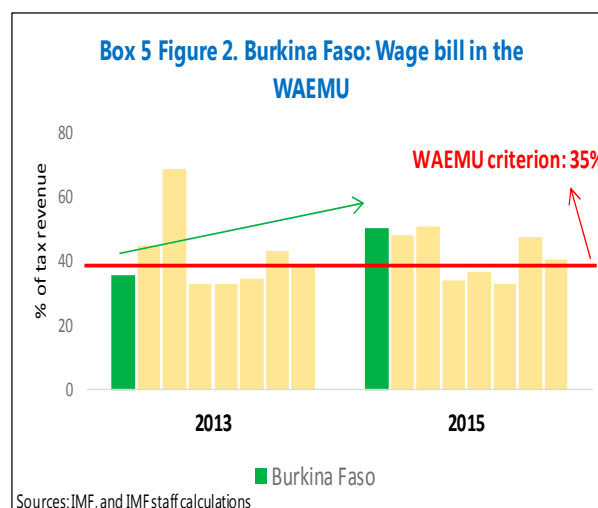
Wage bill sustainability indicators worsened

during the transition years due to slow revenue growth and pressures to increase public sector wages, but are now beginning to recover. The wage bill as a share of total tax revenue worsened from 35.8

percent in 2013 to 50.4 percent in 2015, as tax collections slowed down due to lower output growth and political disruption. Furthermore, the new civil service code adopted in November 2015 (Law 81) introduced a revised wage grid, and incorporated contractual staff as permanent civil servants. The implementation of the new code, and of other sector-specific wage agreements (e.g., with the judiciary), permanently increased the wage bill by an estimated 0.4 percent of GDP in 2016.

Public employment is likely to continue growing due to strong public investment in education and health, and political pressures to tackle urban youth underemployment. At current

levels of public compensation, an increase in the ratio of public employment to working-age population to 2.4%, which is likely to be attained within the next 10 years based on historical trend, would increase the wage bill ratio to 10.3 percent of GDP, far above the 6.5 percent criterion adopted by the WAEMU countries. Implementation of measures to moderate wage bill growth, stronger output growth and efforts to boost revenue mobilization would improve sustainability indicators gradually, and bring them in line with the WAEMU convergence criteria. The Selected Issues Paper also discusses selected country experiences with public employment and compensation reforms for Burkina Faso and policy options.



C. Policy Theme #2: Supporting Structural Transformation and Inclusive Growth

Continuing with Energy Sector Reforms to Boost Electricity Supply

27. Pursuing ongoing reforms to improve transparency in the energy sector and eliminate the build-up of contingent liabilities would create fiscal space for higher investment in electricity supply.

The financial positions of both SONABHY and SONABEL have benefitted respectively from recent developments in international oil price trends, the clearing of two-thirds of SONABEL's arrears to SONABHY, and supply price reforms agreed in the context of the 4th/5th ECF reviews (MEFP ¶5,38). However, cross-liabilities

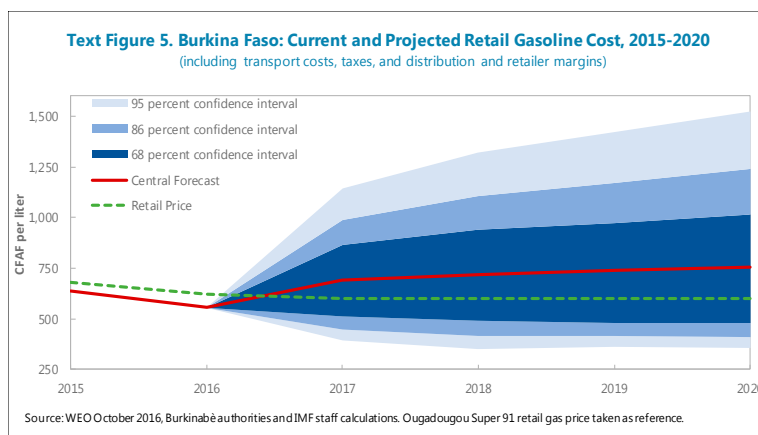
between the state and both companies remain significant (Text Table 6). Staff thus made a number of recommendations to ensure the sustainability of reforms in the sector.

- **The tripartite committee that was recently put in place should assess options to clear remaining balances including unpaid subsidies.**
- **External committees to monitor implementation of both companies' performance contracts should be promptly established, as recommended by the 2014 audit (MEFP ¶39-42).**
- **Some flexibility in domestic pump prices would help minimize future subsidies.** Domestic pump prices are currently slightly above average production cost, and no immediate adjustment in prices is foreseen (Text Figure 5). However, a small increase in oil prices (expected in the current WEO projection) would again trigger the need for a state subsidy at the current sale price. Staff emphasized that the adjustment

Text Table 6. Burkina Faso: Financial Interlinkages in the Energy Sector, 2016
(CFAF billions)

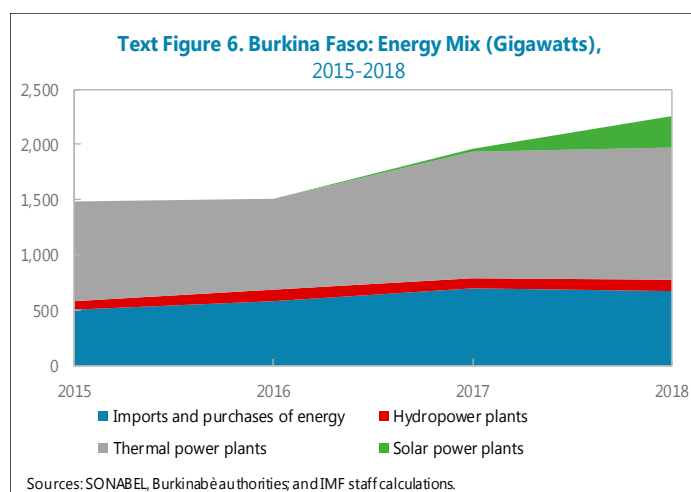
	SONABHY	Central Government	SONABEL
Profit and Loss 2016	-15,000	n.a.	-4,400
Net Transfers to the State Owned Enterprises	-13,651	-36,529	50,180
<i>In percentage of government expenditure</i>	-0.79%	2.12%	2.91%
Explicit subsidies	4,500	-45,000	40,500
Market oriented (Oil and Gas)	4,500	-45,000	40,500
Investment subsidies	0	-10,000	10,000
Income taxes and others	-6,460	6,780	-320
Dividends	-11,691	11,691	0
Memo Items:			
Outstanding Payments as of end-2016	-42,095	81,646	-39,551
Hydrocarbon and Electricity Bills	-26,600		26,600
Subsidies	-15,495	81,646	-66,151

Sources: Burkinabè authorities; SONABHY, SONABEL and IMF staff estimates.



mechanism should ensure that tariffs remain consistent with cost-recovery in order to maintain the financial viability of the energy sector and to reduce future outlays on subsidies.

- The PNDES should prioritize critical energy production projects and seek donor support to help cover the energy deficit.** The authorities' strategy to expand electricity supply while reducing production costs relies on three main pillars, for which they are seeking external official and private funding: (i) increase domestic thermal generation and move from diesel to less costly heavy fuel oil; (ii) significantly scale up renewable energy generation, with the first solar power plant set to start operating in mid-2017; and (iii) expand cheaper energy imports from neighboring countries in the context of the West African Power Pool (Text Figure 6). It would be important for the government to ensure adequate resources to fund the national counterpart to these projects, to enhance SONABEL's capacity to implement the new projects. Given the lack of expertise in structuring and managing contractual arrangements with independent power producers (IPPs), the immediate priority should be to develop a unified, transparent framework which limits state contingent liabilities.



Authorities' views

28. The authorities reiterated that improving energy supply lies at the core of their development strategy. They noted that the external monitoring committees for SONABHY and SONABEL would be operational shortly, and that they are working towards activating the automatic fuel price adjustment mechanism that had been approved in 2013. At the time, its implementation had been frozen in the context of high oil prices and social tensions. They noted that the success of this measure hinged on social acceptance and understanding of increased price flexibility, and that they would prepare a communication plan by the end of the year (new SB, MEFP ¶144). Increasing the reliance on solar power would help to gradually lower SONABEL's production costs, and they planned to establish a new renewable energies' agency to help set standards and regulations for the sector (MEFP ¶145).

Boosting competitiveness to support economic diversification

29. Although price competitiveness has improved, serious structural obstacles stand in the way of economic diversification and private sector development. Price competitiveness developments have been relatively favorable in light of recent trends in the real effective exchange rate and commodity prices. The real effective exchange rate depreciated by 18 percent between March 2014 and October 2016, mostly driven by the depreciation of the euro against major currencies, in the context of low inflation in Burkina Faso and trading partners. The external stability

assessment using EBA-lite methodologies finds that the current account and real effective exchange rates are broadly in line with fundamentals (Annex 1). The overall business environment and governance compare favorably with peers, but inadequate energy supply, poor contract enforcement, and the lack of access to credit, mostly in the informal and rural sectors, remain among the most binding growth constraints.

30. A medium-term strategy to increase value-added in cotton production while also moving to other high-value agricultural products is urgently needed to protect rural incomes and reduce future calls on the budget. The cotton sector is the main source of agricultural employment, and the agricultural sector accounts for 15 percent of GDP. However, staff noted that long-term world price trends remain unfavorable, in spite of the recent uptick. Already the cotton price stabilization fund has practically run out of resources and, while withdrawals are not foreseen for the current or subsequent campaign, the authorities and cotton producers ought to agree on a strategy to recapitalize the fund over the medium term. The size of producer subsidies would continue to grow rapidly (CFAF 20 billion in the 2017 budget). Thus, staff noted that implementing a strategy to increase value-added in the sector and, ultimately, branch out to other high-value agricultural exports was a matter of urgency.

Authorities' views

31. The authorities agreed that lack of economic diversification was a source of external vulnerability and an obstacle to inclusive and sustainable growth. They pointed out that the PNDES emphasizes investments in water management projects, fertilizers, insurance mechanisms, to boost agricultural productivity and support diversification toward high potential agricultural products such as soy, sesame, shea butter, etc. They also noted that the PNDES has defined specific objectives in terms of electricity supply, access to credit, and improvements in transport and telecommunication infrastructures, as well as in the area of governance and quality of institutions.

Boosting credit to the private sector and expanding access to financial services

32. While there are no concerns about financial stability, weak credit growth and high lending concentration raise questions regarding the ability of the financial sector to support private sector development. Private credit growth is projected to reach 9.4 percent in 2016 and to average only about 14 percent in 2017-19, well below historical rates of 20-25 percent. The banking system is sound, relatively profitable and well-capitalized, but credit is highly concentrated to a small number of clients and a few sectors of the economy (Table 5). Going forward, in terms of macro-financial linkages, staff sees risks that the macroeconomic context could continue to affect both the quality and the quantity of credit to the economy. Specifically, the planned investment scaling up could lead to further concentration and crowd out availability of loanable funds through two channels: (i) the financing of contracts to implement public investment projects remains a major driver of the demand for credit (lending for construction and public works already accounts for over a quarter of total lending); and (ii) continued accumulation of government bonds given the PNDES' objective to increasing domestic financing.

33. To mitigate these risks, staff recommended to urgently address the underlying structural, cost and information barriers to deeper and broader access to credit (Box 6). Easier access by financial institutions to credit information, which currently still requires clients' consent, as well as the establishment of a collateral registry, vertical integration of more agricultural sub-sectors following the model of the cotton industry, and developing rural insurance schemes would all help lower banks' perceptions of credit risk for small and medium enterprises and agriculture. The authorities should also look to successful examples in East Africa to develop a regulatory framework that would allow the development of mobile banking services to their full potential.

Box 6. Burkina Faso: Financial Inclusion

Lack of financial access is an important bottleneck to growth and poverty reduction. Only about 15 percent of the population has a bank account and a much smaller share is using that account to save or borrow from a financial institution. Similarly, utilization of mobile banking services remains very low, despite the large number of cell phone subscribers.

As in the rest of the WAEMU and SSA, individuals' access to credit varies according to key demographic characteristics. Women are almost 30 percent less likely than men to hold a bank account, and differences in access based on education or income are much larger. Nearly three-quarters of respondents indicated their lack of bank account was involuntary so there seems to be considerable unmet demand, mainly due to structural barriers such as lack of income but also cost, distance, documentation requirements, etc. Given low access to formal bank credit, the use of informal arrangements such as reliance on borrowing from family and friends remains predominant.

The regional and national authorities are making efforts to enhance financial inclusion. Recent initiatives include the following:

- Regionally, the Council of Ministers for the WAEMU adopted a financial inclusion strategy for 2016-20. The strategy revolves around five pillars, including promoting effective regulatory and legal frameworks, strengthening the microfinance sector, and strengthening financial literacy. Identifying adequate financing for the strategy and effective monitoring will be the key ingredients to its success.
- The authorities will finalize a national financial inclusion strategy in 2017. This will be an opportunity to consolidate the various financial inclusion and microfinance initiatives and to prioritize the key reforms that will facilitate improved financial access.

Box 6. Figure 1. Burkina Faso: Financial Inclusion, 2011–14



Authorities' views

34. The authorities had a more sanguine view than staff regarding the pick-up of credit growth and highlighted that their new financial inclusion strategies would address a number of staff's recommendations. They noted that credit tended to lag growth in the region and did not see potential private sector crowding out given the low base. The authorities also indicated that the recent establishment of commercial courts could help facilitate settlements of claims and realization of guarantees, which would also promote credit. They highlighted efforts already made to reduce the documentation requirements, costs and fees related to banking services, including the elimination of fees to open an account. The new regional and national financial inclusion strategies envisage financial literacy and education programs to promote access to financial services broadly defined, also including microfinance institutions. They were not considering establishing a collateral registry at the moment, and indicated that the current mobile banking regulations requiring ownership of a bank account to use mobile services were intended to protect users.

D. Statistical Issues

35. The quality of national statistics is adequate for surveillance purposes, but there is a lack of high-frequency indicators to monitor economic activity. Staff noted in particular that monthly trade data and quarterly financial stability indicators could be made available with shorter lags. The authorities are producing quarterly GDP estimates but these are subject to frequent and significant revisions. Most importantly, staff regretted the further delays in adopting a new base year for the annual national accounts, given that the current base year (1999) and related sector weights do not reflect the current structure of the economy. Staff welcomed the completion of the informal sector survey, but emphasized that it would be important to start the survey on the informal gold sector before the end of the year (new SB) to ensure that its findings could inform the rebasing exercise, which is expected to be completed by 2018, with 2015 as the new base year (MEFP ¶146).

PROGRAM MONITORING AND RISKS

36. The current ECF arrangement expires in December 2016 and the authorities are requesting a small augmentation of access and a 9-month extension to allow for disbursement of rephrased amounts. Based on the authorities' strong commitment to continue with ongoing reforms, staff proposes to add an additional disbursement of SDR 4.47 million (3.7 percent of quota) at the time of the proposed 7th review (Tables 7-8). The authorities have expressed their intention to request a successor arrangement in the first half of 2017, once remaining external financing needs following the December donor round-table are firmed up. Staff and the authorities have initiated a joint review of performance under the current arrangement to inform program design (Annex 2).

37. Staff and the authorities agreed on a set of program targets for the 7th ECF review. New quantitative performance criteria and indicative targets in line with the revised macro-framework are presented in Appendix Table 1 (MEFP ¶147). These include an increase in the ceiling on non-concessional borrowing (continuous performance criterion) by an amount of CFAF 125 billion or about 1½ percent of GDP until the end of the program to allow for loan conventions on key

investment projects already in the pipeline to be signed (Appendix Table 2). The bulk of these planned new loans would be from the Islamic Development Bank (IsDB) and the African Development Bank (AfDB) and on very soft terms. Based on historic disbursement rates, the DSA rating would not be affected by this new borrowing. New structural benchmarks focus on measures to accelerate investment, boost revenue, continue with energy sector reforms and support the rebasing of national accounts (Appendix Table 3, MEFP ¶46).

38. Program risks. Given the strong performance so far and the authorities' commitment to the program, risks of slippages through end-2016 and 2017 are relatively small. Possible budget support disbursement delays are mitigated by the availability of a sizeable cash buffer given frontloaded domestic financing. The outlook is less certain for the medium term, as the pressures to rapidly ramp up domestic and external borrowing may derail macroeconomic stability.

STAFF APPRAISAL

39. The macroeconomic outlook is improving after 2 years of weaker growth attributable to sociopolitical tensions and weak commodity prices. Growth is expected to recover to 5.4 percent in 2016 and remain in the range of 6-7 percent for the period of the PNDES on the strength of increased agricultural output and mining activity, and improved investment budget execution leading to a narrowing of the infrastructure gap. Achieving this level of growth will however require that the composition of spending is tilted further towards the capital budget to create the fiscal space necessary for the PNDES to be properly implemented. In this regard, there are three critical policy areas for the authorities to monitor carefully, as indicated below.

40. First, domestic revenue mobilization has increased significantly in 2016 but the challenge going forward will be to ensure that this progress is maintained. In the short term, resolute and timely implementation of planned tax and customs administration measures including the standardized VAT invoicing and enhanced coordination between the tax and customs services would be essential to reach the revenue objectives. Over the medium term, these efforts need to be bolstered by policy measures to increase the tax base and protect it from the effects of transfer pricing practices in the mining sector. Staff welcomes the authorities' intention to revise the tax code in 2017 and stands ready to support the authorities in this and other revenue reforms.

41. Second, containing recurrent spending will be critical to ensuring adequate fiscal space for key investment projects to be implemented. There are significant pressures to increase recurrent spending in the wake of the sociopolitical events of the past two years. In addition, the planned investments in the social sectors but also physical infrastructure will generate significant recurrent costs over time, which need to be considered in medium-term budgets. The sustainability of the public wage bill is a particular concern in light of recent decisions to increase both salaries and employment levels and staff encourages the authorities to implement reforms that would contain its further growth. The authorities should also take the necessary steps to ensure that any buildup of contingent liabilities arising from subsidies in the energy and cotton sectors is avoided and that no new arrears are accumulated.

42. Third, careful prioritization and sequencing of public investment projects, together with measures to address remaining absorption capacity constraints are key to ensure the success of a gradual scaling up strategy. Staff's analysis has sought to demonstrate the risks involved in a too rapid and massive increase in public investment. At the same time, provided measures to address remaining absorption capacity constraints are implemented and additional financing is made available, the authorities could execute a somewhat higher volume of investment than currently envisaged in the baseline scenario. The authorities are determined to build on recent reforms in the area of procurement and count on the PIMA mission to provide further recommendations to accelerate investment execution while maintaining quality and cost-effectiveness.

43. Inadequate electricity supply remains a key growth bottleneck and staff welcomes continued progress with energy sector reforms. In particular, recent advances in improving the financial situation of the two energy state companies should be consolidated to ensure the sustainability of these reforms. As a result of careful management of the windfall arising from the fall in international oil prices, the state electricity company is now practically covering its recurrent costs and is in a position to implement critical investments to improve electricity supply going forward, including in renewable energies. Ensuring adequate funding for these key projects, including from the government's budget, will be essential to the success of the government's development strategy.

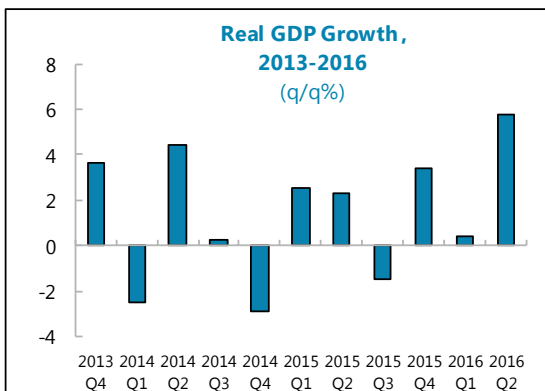
44. The authorities are encouraged to pursue efforts to address fundamental barriers that limit the overall competitiveness of the economy. Priority areas include alleviating infrastructure bottlenecks, increasing productivity and value-added in the agricultural sector, diversifying the economy, and enabling the financial sector to better support inclusive growth. While the REER is broadly in equilibrium, the export base remains narrow, and the economy vulnerable to terms of trade shocks. In addition to removing energy and transport infrastructure bottlenecks, structural competitiveness indicators highlight that reforms to the justice system for more reliable contract enforcement and trade facilitation measures could be prioritized. Enhancing access to financial services is essential to support economic diversification and structural transformation. The authorities' financial inclusion strategies recognize existing challenges. Inasmuch as possible, efforts should focus on addressing underlying structural, cost and information barriers to a broader distribution of credit in the economy.

45. The authorities' performance under the ECF-supported program remains strong with all continuous and end-June program targets met and all but two structural benchmarks completed on time. On that basis, and given the strength of policy commitments going forward, staff supports the completion of the 6th review of the current ECF-supported program. Staff also supports the authorities' request for a 9-month extension and a 3.7 percent of quota augmentation of access under the current ECF arrangement, and for the modification of the continuous performance criterion on non-concessional borrowing.

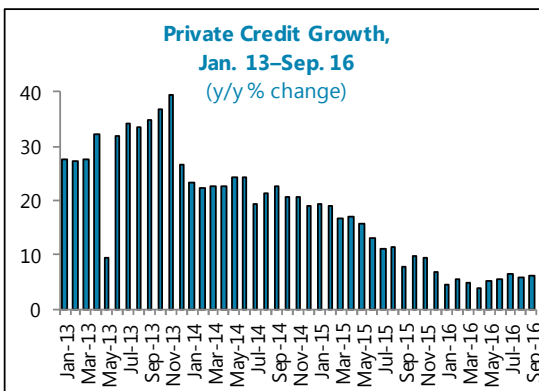
46. Staff recommends that the next Article IV Consultation for Burkina Faso be held on the 24-month cycle.

Figure 1. Burkina Faso: Recent Economic Developments, 2011–16

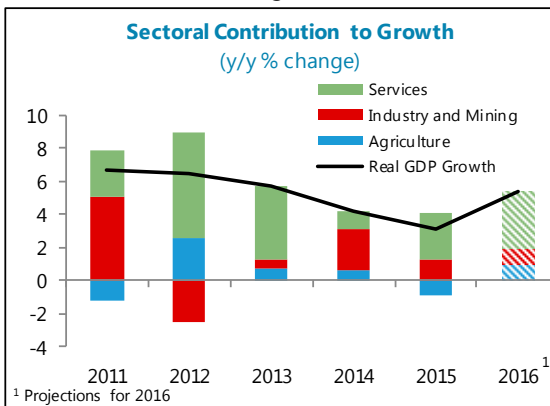
After a slow start of the year activity started to rebound in Q2...



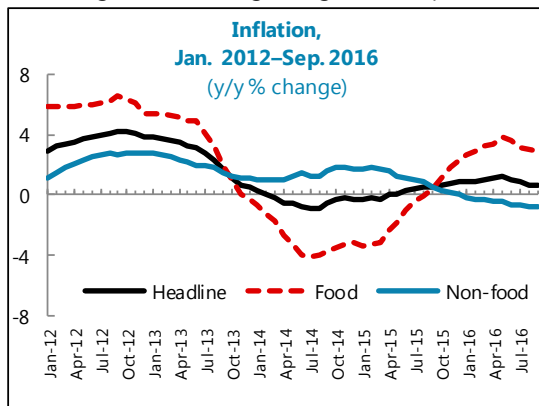
...and private credit growth ticked up.



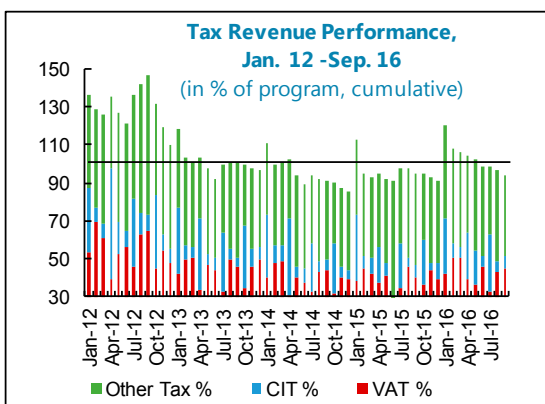
Services are projected to make the largest contribution to growth in 2016.



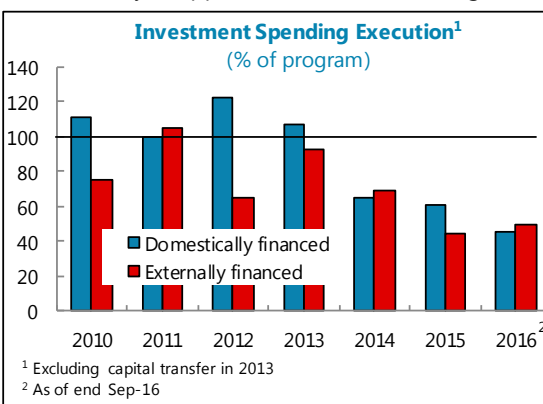
Inflation remained subdued in 2015 but started rising in 2016 owing to higher food prices.



Tax revenues started to recover in early 2016...



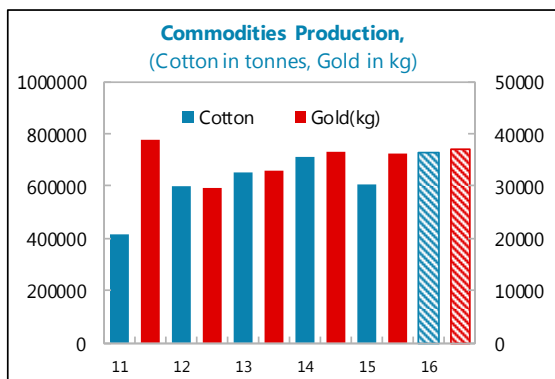
...But public investment execution suffered from the delayed approval of the revised budget.



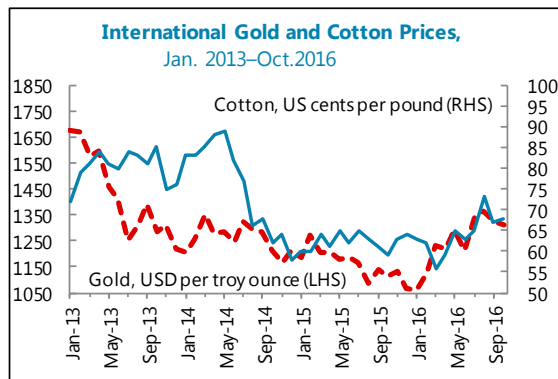
Source: Burkinabè authorities; and IMF staff calculations.

Figure 2. Burkina Faso: Real and External Developments, 2011–16¹

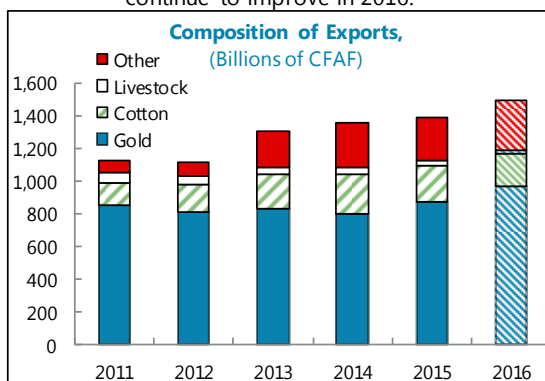
Cotton production is expected to recover in 2016 thanks to abundant rainfall...



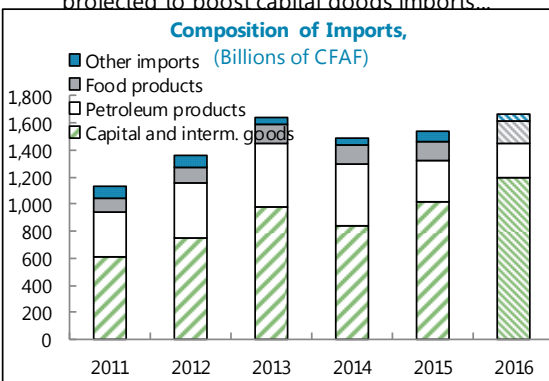
...while higher cotton and gold prices should boost exports.



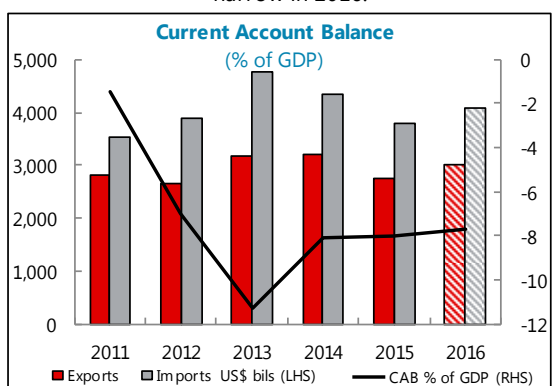
Prospects for cotton and gold exports should thus continue to improve in 2016.



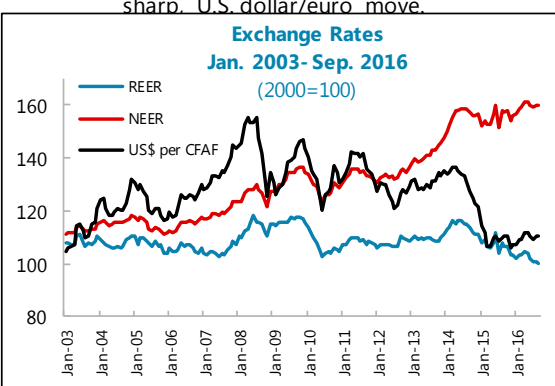
However, mining and public investment are projected to boost capital goods imports...



...so that the current account deficit would only slightly narrow in 2016.



The real effective exchange rate continued on the depreciation trend started in 2014, driven by the sharp, U.S. dollar/euro move.

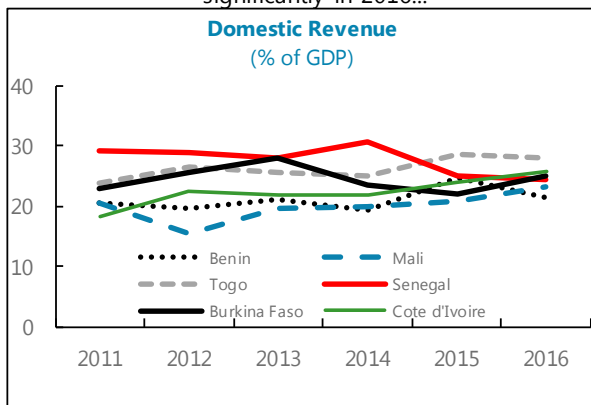


Sources: Burkinabè authorities; and IMF staff calculations.

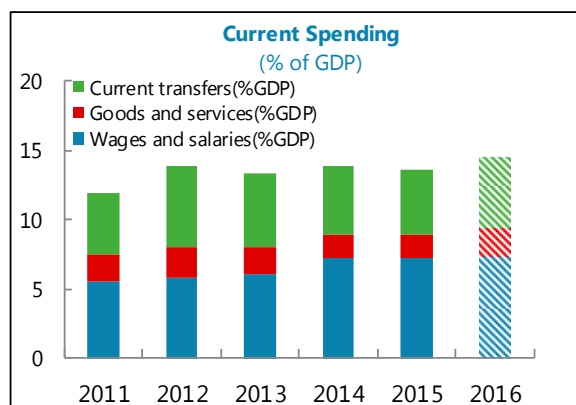
¹Annual data for 2016 are projections.

Figure 3. Burkina Faso: Fiscal Developments, 2011–16

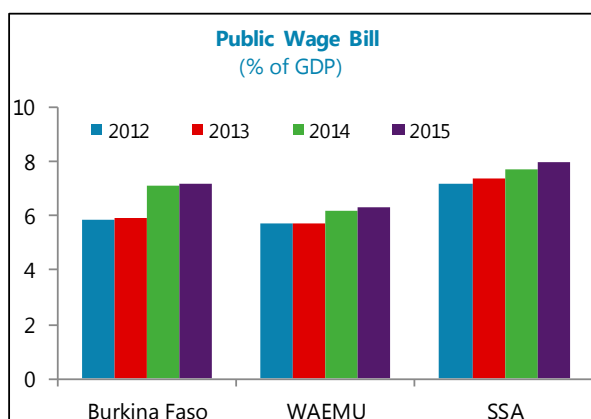
Domestic revenue is projected to recover significantly in 2016...



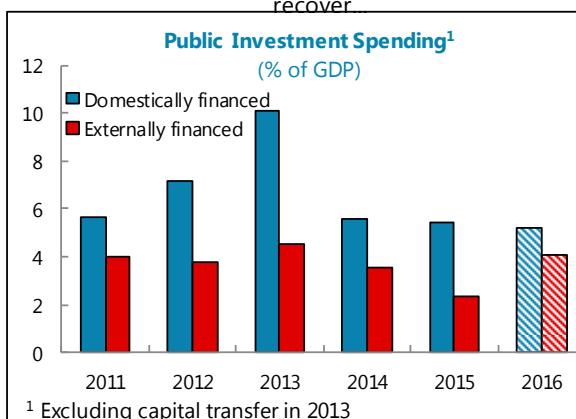
...while current spending is trending up...



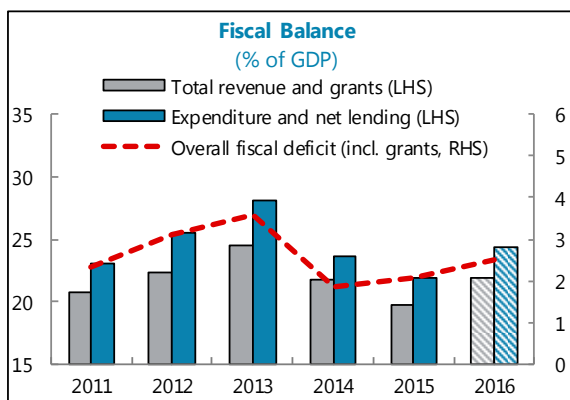
...owing to an expanding wage bill.



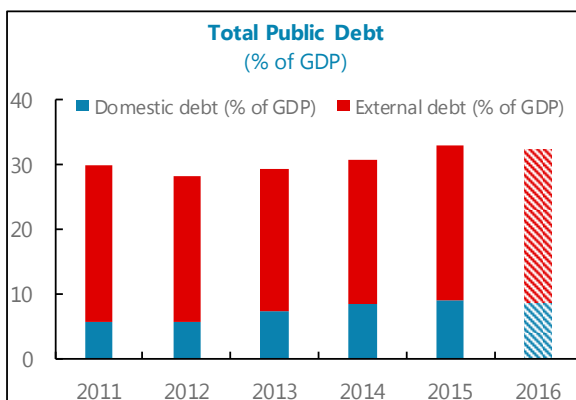
However, investment spending should start to recover



...and the fiscal deficit will expand only modestly...



...so that public debt remains low.



Sources: Burkinabè authorities; and IMF staff calculations.

¹Annual data for 2016 are projections.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 2013–21 (Baseline)

	2013	2014	2015	2016		2017		2018	2019	2020	2021
	Act.	Act.	Est.	4th/5th Rev	Proj.	4th/5th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)											
GDP and prices											
GDP at constant prices	5.7	4.2	4.0	5.2	5.4	5.9	6.1	6.3	6.5	6.5	6.5
GDP deflator	-2.1	-0.9	3.7	2.6	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Consumer prices (annual average)	0.5	-0.3	0.9	1.6	0.7	2.0	1.5	2.0	2.0	2.0	2.0
Consumer prices (end of period)	0.1	-0.1	1.3	1.6	0.6	2.0	2.0	2.0	2.0	2.0	2.0
Money and credit											
Net domestic assets (banking system) ¹	19.6	20.0	7.3	11.3	9.6	11.8	14.9	12.7	13.1	13.2	18.4
Credit to the government (banking system) ¹	5.3	4.9	1.8	4.5	1.2	3.4	5.8	2.9	2.8	2.1	2.5
Credit to the private sector	26.3	18.9	7.0	9.9	9.4	12.0	12.9	14.7	15.4	16.7	22.6
Broad money (M3)	11.3	11.9	19.9	13.9	13.3	14.9	18.4	15.9	15.3	10.3	12.9
Private sector credit/GDP	25.3	29.1	28.9	29.7	29.5	30.8	30.7	32.5	34.5	37.1	41.8
External sector											
Exports (f.o.b.; valued in CFA francs)	15.9	4.0	2.3	7.1	7.4	9.8	17.2	8.0	6.5	6.9	6.3
Imports (f.o.b.; valued in CFA francs)	21.3	-9.3	3.3	1.6	7.9	13.2	13.8	9.6	9.4	9.0	8.2
Terms of trade	-12.8	-5.5	13.3	8.2	8.7	-2.9	0.4	1.9	0.2	-0.1	-0.3
Current Account (percent of GDP)	-11.3	-8.1	-8.0	-5.9	-7.6	-5.3	-6.7	-6.5	-6.8	-7.0	-7.1
Real effective exchange rate	1.7	4.1	-6.5	...	...	...	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)											
Central government finances											
Current revenue	19.0	17.5	15.9	17.3	18.3	17.8	18.9	19.3	20.0	20.1	20.2
<i>Of which: tax revenue</i>	16.8	15.5	14.1	15.6	16.0	16.0	17.2	17.6	17.9	18.0	18.1
Total expenditure and net lending	28.0	23.6	21.5	24.2	24.5	25.3	26.5	26.8	27.5	27.3	27.5
<i>Of which: current expenditure</i>	13.9	14.6	14.1	14.6	15.2	15.1	14.7	14.6	14.6	14.5	14.6
Overall fiscal balance, excl. grants (commitments)	-9.1	-6.1	-5.6	-6.9	-6.3	-7.5	-7.6	-7.5	-7.5	-7.3	-7.3
Overall fiscal balance, incl. grants (commitments)	-3.6	-1.9	-2.1	-3.1	-2.5	-3.0	-3.6	-3.5	-3.5	-3.5	-3.5
Total Public Debt	29.3	30.6	32.5	34.6	31.7	36.2	32.6	32.9	33.1	33.7	34.5
Public external debt	21.9	22.0	23.8	23.6	23.2	23.1	22.4	22.3	22.1	22.5	23.0
Central government domestic debt	7.4	8.6	8.7	11.0	8.6	13.1	10.2	10.6	11.0	11.2	11.5
Memorandum items:											
Nominal GDP (CFAF billion)	5,896	6,086	6,565	7,024	7,049	7,587	7,629	8,274	8,985	9,764	10,602
Nominal GDP per capita (US\$)	706	708	620	646	652	684	692	734	781	833	878

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

¹Percent of beginning-of-period broad money.

Table 1a. Burkina Faso: Selected Economic and Financial Indicators, 2013–21 (Alternative Scenario)

	2013	2014	2015	2016		2017		2018	2019	2020	2021
	Act.	Act.	Est.	4th/5th Rev	Proj.	4th/5th Rev	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)											
GDP and prices											
GDP at constant prices	5.7	4.2	4.0	5.2	5.4	5.9	6.8	7.0	7.0	7.1	7.2
GDP deflator	-2.1	-0.9	3.7	2.6	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Consumer prices (annual average)	0.5	-0.3	0.9	1.6	0.7	2.0	1.5	2.0	2.0	2.0	2.0
Consumer prices (end of period)	0.1	-0.1	1.3	1.6	0.6	2.0	2.0	2.0	2.0	2.0	2.0
Money and credit											
Net domestic assets (banking system) ¹	19.6	20.0	7.3	11.3	9.6	11.8	15.6	13.5	13.7	13.7	14.6
Credit to the government (banking system) ¹	5.3	4.9	1.8	4.5	1.2	3.4	5.8	3.1	1.7	1.3	1.4
Credit to the private sector	26.3	18.9	7.0	9.9	9.4	12.0	14.0	15.4	18.0	18.4	18.3
Broad money (M3)	11.3	11.9	19.9	13.9	13.3	14.9	19.1	16.6	15.9	10.8	9.3
Private sector credit/GDP	25.3	29.1	28.9	29.7	29.5	30.8	30.8	32.5	35.2	38.1	41.2
External sector											
Exports (f.o.b.; valued in CFA francs)	15.9	4.0	2.3	7.1	7.4	9.8	17.2	8.0	9.2	7.4	7.9
Imports (f.o.b.; valued in CFA francs)	21.3	-9.3	3.3	1.6	7.9	13.2	22.0	8.5	8.8	9.2	9.7
Terms of trade	-12.8	-5.5	13.3	8.2	8.7	-2.9	0.4	2.0	0.2	-0.1	-0.3
Current Account (percent of GDP)	-11.3	-8.1	-8.0	-5.9	-7.6	-5.3	-7.2	-7.4	-7.6	-7.7	-7.8
Real effective exchange rate	1.7	4.1	-6.5	...	...	...	...	...	...	...	...
(Percent of GDP, unless otherwise indicated)											
Central government finances											
Current revenue	19.0	17.5	15.9	17.3	18.3	17.8	18.7	19.2	20.0	20.1	20.2
<i>Of which:</i> tax revenue	16.8	15.5	14.1	15.6	16.0	16.0	17.1	17.5	17.9	18.0	18.1
Total expenditure and net lending	28.0	23.6	21.5	24.2	24.5	25.3	28.8	27.4	27.0	26.9	27.0
<i>Of which:</i> current expenditure	13.9	14.6	14.1	14.6	15.2	15.1	14.6	14.6	14.6	14.5	14.6
Overall fiscal balance, excl. grants (commitments)	-9.1	-6.1	-5.6	-6.9	-6.3	-7.5	-10.1	-8.1	-7.0	-6.8	-6.8
Overall fiscal balance, incl. grants (commitments)	-3.6	-1.9	-2.1	-3.1	-2.5	-3.0	-4.2	-3.5	-3.0	-3.0	-3.0
Total Public Debt	29.3	30.6	32.5	34.6	31.7	36.2	33.0	33.2	32.7	32.8	32.9
Public external debt	21.9	22.0	23.8	23.6	23.2	23.1	22.8	22.6	22.3	22.6	22.9
Central government domestic debt	7.4	8.6	8.7	11.0	8.6	13.1	10.2	10.6	10.5	10.2	10.0
Memorandum items:											
Nominal GDP (CFAF billion)	5,896	6,086	6,565	7,024	7,049	7,587	7,676	8,377	9,146	9,987	10,919
Nominal GDP per capita (US\$)	706	708	620	646	652	684	697	743	795	852	905

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

¹ Percent of beginning-of-period broad money.

Table 2a. Burkina Faso: Consolidated Operations of the Central Government, 2013–19
(CFAF billions)

	2013	2014	2015	2016		2017		2018	2019
	Act.	Act.	Act.	4th/5th	Proj.	Budget	Proj.	Proj.	Proj.
	(CFAF billions)								
Total revenue and grants	1441.7	1321.1	1277.7	1481.7	1551.7	1745.8	1745.8	1929.3	2155.9
Total revenue	1117.4	1064.7	1047.7	1215.3	1286.8	1438.3	1438.3	1598.4	1796.5
Tax revenue	992.6	940.7	929.0	1092.5	1127.3	1315.5	1315.5	1456.1	1607.8
<i>Of which: Gold Mining CIT</i>	49.4	50.0	25.4	25.4	23.0	42.4	42.4	44.5	51.4
Nontax revenue ¹	124.8	124.0	118.7	122.8	159.5	122.8	122.8	142.3	188.7
<i>Of which: Royalties from gold</i>	33.6	32.0	31.4	35.2	44.9	43.5	43.5	46.4	46.4
Grants	324.4	256.4	230.0	266.4	264.9	307.5	307.5	331.0	359.4
Project	205.2	157.5	105.2	200.2	187.3	229.6	229.6	223.4	242.6
Program	119.1	98.9	124.8	66.2	77.6	77.9	77.9	107.6	116.8
Expenditure and net lending²	1652.6	1434.5	1411.6	1698.3	1730.5	2407.9	2018.8	2215.7	2468.1
Current expenditure	818.9	886.7	923.2	1028.8	1070.1	1117.9	1117.9	1205.1	1309.0
Wages and salaries	355.5	437.3	468.5	507.9	519.1	550.8	550.8	595.8	646.9
Goods and services	118.6	102.4	109.4	139.9	140.3	145.3	145.3	173.8	188.7
Interest payments	34.7	44.0	43.8	49.5	49.0	67.6	67.6	55.0	60.1
Domestic	21.9	29.3	27.9	27.8	32.0	47.7	47.7	31.6	32.1
External	12.8	14.7	15.9	21.7	17.0	19.9	19.9	23.4	27.9
Current transfers	310.1	303.0	301.5	331.4	361.7	354.2	354.2	380.6	413.3
Investment expenditure	858.4	554.1	501.0	672.4	660.5	1290.0	900.9	1010.6	1159.1
Domestically financed	592.7	338.4	349.4	383.8	371.9	949.2	560.1	653.7	781.7
Externally financed	265.7	215.7	151.6	288.6	288.6	340.8	340.8	356.9	377.4
Net lending	-24.8	-6.2	-12.6	-2.9	0.0	0.0	0.0	0.0	0.0
Overall balance²	-210.8	-113.4	-133.9	-216.6	-178.9	-662.1	-273.0	-286.4	-312.2
Cash basis adjustment	50.8	75.9	-89.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-160.0	-37.5	-223.1	-216.6	-178.9	-662.1	-273.0	-286.4	-312.2
Financing	162.5	42.0	220.8	197.9	160.1	269.3	269.3	286.4	312.2
Foreign financing	34.4	51.4	89.2	99.3	124.7	100.8	100.8	170.5	177.2
Drawings	60.5	82.2	122.1	126.8	163.4	143.7	143.7	216.2	224.6
Project loans	60.5	58.2	46.4	88.4	101.3	111.2	111.2	133.5	134.8
Program loans	0.0	24.0	75.7	38.4	62.1	32.5	32.5	82.7	89.9
Amortization (excl. IMF)	-26.0	-30.8	-32.9	-27.5	-38.7	-42.8	-42.8	-45.8	-47.5
Domestic financing	128.1	-9.4	131.7	98.6	35.4	168.5	168.5	115.9	135.0
Bank financing	92.4	-34.7	84.8	117.2	30.8	170.9	170.9	100.9	115.0
Central bank	75.8	-58.5	-4.4	-79.7	-124.9	-112.2	-112.2	-147.1	-115.0
Commercial banks	16.7	23.8	89.2	196.9	155.7	283.1	283.1	248.0	230.0
Nonbank financing	35.7	25.3	46.9	-18.6	4.6	-2.4	-2.4	15.0	20.0
Errors and Omissions	-2.5	-4.5	2.3						
Financing gap	0.0	0.0	0.0	18.7	18.7	392.8	3.7	0.0	0.0
<i>Of which: IMF disbursements</i>	0.0	0.0	0.0	18.7	18.7	3.7	3.7	0.0	
<i>Memorandum items:</i>									
Mining revenue	183.1	168.6	156.2	153.2	153.2	196.2	196.2	207.5	220.9
Overall Balance excl. mining revenue	-343.1	-282.0	-290.1	-369.8	-332.1	-858.3	-469.2	-493.8	-533.1

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

¹ 2014 includes several one-offs such as large dividend payments and fines.

² Commitment ("engagement") basis.

Table 2b. Burkina Faso: Consolidated Operations of the Central Government, 2013–19
(In percent of GDP)

	2013	2014	2015	2016		2017		2018	2019
	Act.	Act.	Act.	4th/5th Review	Proj.	Budget	Proj.	Proj.	Proj.
(In percent of GDP)									
Total revenue and grants	24.5	21.7	19.5	21.1	22.0	22.9	22.9	23.3	24.0
Total revenue	19.0	17.5	16.0	17.3	18.3	18.9	18.9	19.3	20.0
Tax revenue	16.8	15.5	14.2	15.6	16.0	17.2	17.2	17.6	17.9
<i>Of which: Gold Mining CIT</i>	0.8	0.8	0.4	0.4	0.3	0.6	0.6	0.5	0.6
Nontax revenue ¹	2.1	2.0	1.8	1.7	2.3	1.6	1.6	1.7	2.1
<i>Of which: Royalties from gold</i>	0.6	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.5
Grants	5.5	4.2	3.5	3.8	3.8	4.0	4.0	4.0	4.0
Project	3.5	2.6	1.6	2.9	2.7	3.0	3.0	2.7	2.7
Program	2.0	1.6	1.9	0.9	1.1	1.0	1.0	1.3	1.3
Expenditure and net lending²	28.0	23.6	21.5	24.2	24.5	31.6	26.5	26.8	27.5
Current expenditure	13.9	14.6	14.1	14.6	15.2	14.7	14.7	14.6	14.6
Wages and salaries	6.0	7.2	7.1	7.2	7.4	7.2	7.2	7.2	7.2
Goods and services	2.0	1.7	1.7	2.0	2.0	1.9	1.9	2.1	2.1
Interest payments	0.6	0.7	0.7	0.7	0.7	0.9	0.9	0.7	0.7
Domestic	0.4	0.5	0.4	0.4	0.5	0.6	0.6	0.4	0.4
External	0.2	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.3
Current transfers	5.3	5.0	4.6	4.7	5.1	4.6	4.6	4.6	4.6
Investment expenditure	14.6	9.1	7.6	9.6	9.4	16.9	11.8	12.2	12.9
Domestically financed	10.1	5.6	5.3	5.5	5.3	12.4	7.3	7.9	8.7
Externally financed	4.5	3.5	2.3	4.1	4.1	4.5	4.5	4.3	4.2
Net lending	-0.4	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance²	-3.6	-1.9	-2.0	-3.1	-2.5	-8.7	-3.6	-3.5	-3.5
Cash basis adjustment	0.9	1.2	-1.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-2.7	-0.6	-3.4	-3.1	-2.5	-8.7	-3.6	-3.5	-3.5
Financing	2.8	0.7	3.4	2.8	2.3	3.5	3.5	3.5	3.5
Foreign financing	0.6	0.8	1.4	1.4	1.8	1.3	1.3	2.1	2.0
Drawings	1.0	1.4	1.9	1.8	2.3	1.9	1.9	2.6	2.5
Project loans	1.0	1.0	0.7	1.3	1.4	1.5	1.5	1.6	1.5
Program loans	0.0	0.4	1.2	0.5	0.9	0.4	0.4	1.0	1.0
Amortization (excl. IMF)	-0.4	-0.5	-0.5	-0.4	-0.5	-0.6	-0.6	-0.6	-0.5
Domestic financing	2.2	-0.2	2.0	1.4	0.5	2.2	2.2	1.4	1.5
Bank financing	1.6	-0.6	2.0	1.7	0.4	2.2	2.2	1.2	1.3
Central bank	1.3	-1.0	-0.1	-1.1	-1.8	-1.5	-1.5	-1.8	-1.3
Commercial banks	0.3	0.4	1.4	2.8	2.2	3.7	3.7	3.0	2.6
Nonbank financing	0.6	0.4	0.7	-0.3	0.1	0.0	0.0	0.2	0.2
Errors and Omissions	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.3	0.3	5.1	0.0	0.0	0.0
<i>Of which: IMF disbursements</i>	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>									
Mining Revenue	3.1	2.8	2.4	2.2	2.2	2.6	2.6	2.5	2.5
Overall Balance excl. mining revenue	-5.8	-4.6	-4.4	-5.3	-4.7	-11.3	-6.2	-6.0	-5.9
Nominal GDP (CFAF billions)	5,896	6,086	6,565	7,024	7,049	7,629	7,629	8,274	8,985

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

¹2014 includes several one-offs such as large dividend payments and fines.

²Commitment ("engagement") basis.

Table 3. Burkina Faso: Monetary Survey, 2013–19

	2013	2014	2015	2016		2017	2018	2019
	Act.	Act.	Proj.	4th/5th rev.	Proj.	Proj.	Proj.	Proj.
	(CFAF Billions)							
Net foreign assets	534.9	377.1	651.9	719.5	749.1	851.2	961.8	1051.6
BCEAO	45.2	-127.8	-144.3	-72.5	-42.8	62.0	182.0	281.2
Assets	297.7	140.8	157.1	216.7	246.4	336.5	436.7	516.5
Liabilities	252.5	268.6	301.4	289.2	289.2	274.5	254.6	235.3
Commercial banks	489.7	504.9	796.2	792.0	792.0	789.1	779.7	770.4
Net domestic assets	1402.3	1789.6	1946.8	2239.5	2195.5	2634.4	3078.8	3607.2
Net domestic credit	1540.5	1912.8	2088.3	2381.0	2286.1	2724.9	3169.3	3697.8
Net credit to government	44.2	139.0	178.8	296.0	209.6	380.6	481.5	596.5
Treasury	79.8	45.6	146.2	263.4	177.0	348.0	448.9	563.9
BCEAO	79.2	20.7	16.3	-63.4	-108.6	-220.8	-367.9	-482.8
Commercial banks	0.6	24.9	129.9	326.8	285.6	568.7	816.7	1046.7
Other central government	-35.7	93.4	32.6	32.6	32.6	32.6	32.6	32.6
<i>Of which: project deposits</i>	-209.4	-208.4	-231.5	-231.5	-231.5	-231.5	-231.5	-231.5
Credit to the economy	1492.3	1773.8	1897.5	2085.0	2076.4	2344.4	2687.8	3101.3
Other	1479.7	1719.6	1855.9	2039.2	2030.8	2292.7	2628.4	3032.5
Other items (net)	-138.1	-123.2	-141.5	-141.5	-90.5	-90.5	-90.5	-90.5
Broad money	1937.2	2166.8	2598.7	2959.0	2944.6	3485.6	4040.5	4658.8
<i>Of which: Priv. deposits in comm. banks</i>	1628.2	1771.9	2103.2	2354.3	2341.6	2820.3	3311.3	3858.5
	(Annual % change, unless otherwise indicated)							
<i>Memorandum items:</i>								
Net foreign assets	-21.2	-29.5	72.9	10.4	14.9	13.6	13.0	9.3
Net domestic assets 1	19.6	20.0	7.3	11.3	9.6	14.9	12.7	13.1
Net credit to government 1	5.3	4.9	1.8	4.5	1.2	5.8	2.9	2.8
Credit to the private sector	26.3	18.9	7.0	9.9	9.4	12.9	14.7	15.4
Money supply	11.3	11.9	19.9	13.9	13.3	18.4	15.9	15.3

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

¹ Annual change as a percentage of broad money from 12 months earlier.

Table 4. Burkina Faso: Balance of Payments, 2013–21

	2013	2014	2015	2016		2017	2018	2019	2020	2021
	Act.	Est.	Prel.	4th/5th rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(CFAF billions)									
Current account	-664.8	-488.5	-527.2	-412.0	-539.2	-513.9	-540.8	-614.1	-684.8	-753.1
Trade balance	-329.1	-123.9	-142.6	-41.2	-160.8	-130.6	-171.7	-243.2	-307.8	-374.5
Exports of goods	1315.1	1367.0	1397.8	1503.0	1501.1	1759.8	1899.9	2024.2	2164.4	2301.0
Of which: cotton	215.3	237.1	213.4	198.1	198.1	261.1	272.8	280.0	284.9	290.5
gold	824.5	804.8	875.8	971.1	968.9	1132.2	1225.3	1314.8	1380.6	1458.8
Imports of goods	-1644.2	-1490.9	-1540.4	-1544.2	-1661.9	-1890.4	-2071.6	-2267.4	-2472.2	-2675.5
Of which: oil	-468.0	-451.4	-299.0	-237.5	-257.9	-333.8	-377.7	-419.0	-465.8	-512.0
Of which: food	-144.2	-135.1	-150.0	-159.5	-159.5	-177.4	-193.9	-212.5	-231.8	-251.1
Of which: public investment	-610.3	-436.0	-394.7	-491.1	-481.9	-643.2	-751.6	-866.0	-936.2	-1027.1
Services, net	-459.4	-423.2	-458.7	-448.8	-476.2	-505.2	-531.2	-559.0	-588.4	-618.8
Income, net	-93.3	-177.5	-197.4	-138.8	-136.9	-135.0	-133.6	-132.7	-132.4	-132.8
Current transfers	216.9	236.1	271.6	216.9	234.6	256.9	295.7	320.8	343.9	372.9
Of which: Official transfers, net	128.2	112.0	140.4	93.0	101.5	121.0	149.2	162.6	172.9	188.3
Capital account	238.4	200.2	153.8	212.2	253.4	234.6	228.4	247.6	249.1	270.1
Project grants	205.2	157.5	105.2	200.2	187.3	229.6	223.4	242.6	244.1	265.1
Financial account	282.9	163.5	654.9	248.6	400.4	305.8	394.9	423.2	312.4	296.1
Direct investment	213.4	141.6	128.8	145.4	179.7	196.4	215.2	236.0	259.0	284.1
Portfolio investment	6.9	-86.2	3.0	4.0	7.9	8.6	9.3	10.1	11.0	11.9
Other investment	62.6	108.0	523.1	99.2	212.8	100.8	170.4	177.1	42.4	0.1
Long-term investment	57.6	103.0	518.1	94.3	207.8	95.8	165.5	172.2	37.5	-4.8
Project loans	60.5	58.2	46.4	88.4	101.3	111.2	133.5	134.8	166.0	180.2
Program loans	0.0	24.0	75.7	38.4	62.1	32.5	82.7	89.9	118.4	117.7
Amortization of public loans (excl. IMF)	-27.5	-30.8	-32.9	-27.5	-38.7	-42.8	-45.8	-47.5	-46.9	-52.7
Other private	24.6	51.6	428.9	-5.0	83.1	-5.0	-5.0	-5.0	-200.0	-250.0
Short-term investment	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.9	4.9	4.9
Errors and omissions	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-144.0	-124.9	281.5	48.8	114.6	26.5	82.6	56.8	-123.3	-187.0
Financing	144.0	124.9	-281.5	-67.5	-133.3	-30.2	-82.6	-56.8	123.3	187.0
Net change in foreign assets of the central bank	188.7	140.1	9.8	-71.8	-137.5	-33.0	-92.0	-66.1	114.1	177.9
Of which: gross official reserves	211.5	141.6	5.9	-59.6	-125.4	-18.3	-72.1	-46.8	127.7	189.8
IMF net financing	1.0	-1.6	3.9	-12.2	-12.1	-14.8	-19.8	-19.3	-13.6	-11.9
Disbursements	4.8	3.8	15.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments (excluding charges)	-3.8	-5.4	-11.7	-12.2	-12.1	-14.8	-19.8	-19.3	-13.6	-11.9
Net foreign assets of commercial banks	-44.8	-15.2	-291.3	4.2	4.2	2.8	9.4	9.3	9.2	9.1
Financing Gap	0.0	0.0	0.0	18.7	18.7	3.7	0.0	0.0	0.0	0.0
Of which: IMF disbursements	0.0	0.0	0.0	18.7	18.7					
Memorandum items:	(Percent of GDP)									
Trade balance (goods)	-5.6	-2.0	-2.2	-0.6	-2.3	-1.7	-2.1	-2.7	-3.2	-3.5
Trade balance (goods and services)	-13.4	-9.0	-9.2	-7.0	-9.0	-8.3	-8.5	-8.9	-9.2	-9.4
Exports of goods	22.3	22.5	21.3	21.4	21.3	23.1	23.0	22.5	22.2	21.7
Imports of goods	-27.9	-24.5	-23.5	-22.0	-23.6	-24.8	-25.0	-25.2	-25.3	-25.2
Current account (- = deficit)	-11.3	-8.0	-8.0	-5.9	-7.6	-6.7	-6.5	-6.8	-7.0	-7.1
GDP at current prices (CFAF billions)	5,896	6,086	6,565	7,024	7,049	7,629	8,274	8,985	9,764	10,602
FDI inflows	3.6	2.3	2.0	2.1	2.5	2.6	2.6	2.6	2.7	2.7

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

Table 5. Burkina Faso: Selected Financial Soundness Indicators

	(in percent)									
	Dec-11	Dec-12	Dec-13	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Capital Adequacy										
Reg. capital to risk-weighted assets	11.7	12.4	10.2	11.4	11.2	11.4	11.6	11.1	11.3	10.6
Asset Quality										
Gross NPLs / Total loans	13.5	10.3	9.9	8.6	9.7	9.9	10.9	9.2	10.3	10.2
Provisions / NPLs	64.4	67.7	62.6	64.9	62.3	61.2	61.3	65.8	66.0	67.0
Loan Concentration										
5 largest clients / equity	103.0	157.9	108.4	158.4	169.5	178.5	132.4	169.8	151.5	157.3
By Sector: (share of total)										
Agriculture	3.4	1.8	3.3	2.8	2.2	2.2	2.1	1.9	1.8	1.5
Extractive Industries	1.9	1.0	1.1	2.0	1.6	1.3	1.7	2.3	1.9	1.5
Manufacturing	12.2	9.8	13.9	16.1	15.8	17.5	15.5	15.3	13.5	17.2
Electricity, gas, water	1.8	1.9	1.3	1.3	1.5	1.0	1.3	1.0	1.1	1.0
Buildings/Public Works	18.0	13.2	14.6	13.6	14.0	15.8	14.5	16.7	18.6	17.7
Commercial (restaurants, hotels)	29.3	38.3	33.2	26.0	28.9	27.3	27.5	27.5	28.1	26.9
Transportation/communication	9.9	9.6	11.7	9.5	9.5	10.6	11.5	8.5	9.8	9.7
Insurance, real estate, business servi	4.4	3.9	3.4	3.7	3.2	3.1	3.0	3.0	2.8	3.3
Other	19.2	20.6	17.5	25.1	23.4	21.4	22.9	23.2	22.3	21.3
Profitability										
Return on average assets (after tax)	1.9	2.0	1.7	1.5	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	1.3	-	-
Liquidity										
Loans to deposits	83.4	82.1	87.7	99.8	104.9	96.0	105.3	110.0	104.4	107.4
Liquid assets / total assets	33.9	34.8	34.7	34.8	35.3	34.1	36.5	37.9	38.9	39.4

Sources: Central bank (BCEAO) authorities and IMF staff estimates.

Table 6. Burkina Faso: Risk Assessment Matrix¹

Sources	Likelihood	Potential Impact	Policies to Minimize Impact
External			
Rise in populism contributes to structurally weak growth in key advanced and emerging markets and sharp growth slowdown in China. Lower growth in Cote d'Ivoire	Medium	Slow growth in advanced and emerging economies might hit the Burkinabè economy via low prices and demand for key exports (gold and cotton), deteriorating the current account. A slowdown in neighboring Cote d'Ivoire could negatively impact export demand and remittances flows.	Accumulate and preserve adequate international reserve buffers. Diversify economic structure and export markets.
Domestic			
Continuing terrorist attacks	Medium	Economic growth would remain relatively depressed, as investors are discouraged and productive public investment is diverted into security spending.	Accelerate efforts to restore and strengthen functional security services following the political transition.
Pressures for higher recurrent spending	High	An accumulation of pent-up demand for higher social and infrastructure spending which could destabilize budget sustainability.	Limit spending proposals to priority areas, particularly as regards recurrent spending. Ensure that domestic revenue mobilization increases in step with spending plans.
Delays in PFM reforms	Medium–High	Ineffective public spending could also compromise the recovery process by adding to growth constraints, particularly in the energy sector. Recurrence of build-up in arrears.	Encourage necessary reforms to improve PFM to guarantee benefits of oil price windfall.
<p>¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.</p>			

Table 7. Burkina Faso: Indicators of Capacity to Repay the Fund, 2015–28¹

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Actual	Projections												
Fund obligations based on existing and prospective credit														
(In millions of SDRs)														
Principal	14.1	6.3	17.8	24.2	23.6	19.0	21.2	18.7	12.4	10.9	7.8	3.7	0.5	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Total obligations based on existing and prospective credit														
In millions of SDRs														
In billions of CFAF	11.7	5.2	14.5	19.7	19.4	15.6	17.3	15.3	10.1	8.9	6.4	3.0	0.4	0.0
In percent of government revenue	1.1	0.4	1.0	1.2	1.1	0.8	0.8	0.7	0.4	0.3	0.2	0.1	0.0	0.0
In percent of exports of goods and services	0.7	0.3	0.7	0.9	0.8	0.6	0.6	0.5	0.3	0.3	0.2	0.1	0.0	0.0
In percent of debt service ²	10.4	4.4	10.8	12.4	11.3	9.1	9.3	7.9	5.0	3.9	2.5	1.0	0.3	0.0
In percent of GDP	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
In percent of quota	11.7	5.2	14.8	20.1	19.9	16.0	17.7	15.7	10.4	9.1	6.5	3.1	0.4	0.0
Outstanding IMF credit														
In millions of SDRs														
In billions of CFAF	121.3	127.5	115.8	95.9	76.4	60.7	43.6	28.5	18.4	9.6	3.3	0.4	0.0	0.0
In percent of government revenue	11.6	9.9	8.1	6.0	4.3	3.1	2.0	1.2	0.7	0.3	0.1	0.0	0.0	0.0
In percent of exports of goods and services	7.4	7.2	5.7	4.3	3.2	2.4	1.6	1.0	0.6	0.3	0.1	0.0	0.0	0.0
In percent of debt service ²	107.7	107.0	85.6	60.3	44.5	35.4	23.4	14.7	9.1	4.3	1.3	0.1	0.0	0.0
In percent of GDP	1.8	1.8	1.5	1.2	0.9	0.6	0.4	0.2	0.1	0.1	0.0	0.0	0.0	0.0
In percent of quota	121.8	128.9	117.8	97.8	78.2	62.4	44.8	29.2	18.9	9.9	3.4	0.4	0.0	0.0
Net use of IMF credit (millions of SDRs)														
Disbursements	23.0	23.0	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	3.0
Repayments and repurchases	14.1	6.3	17.8	24.2	23.6	19.0	21.2	18.7	12.4	10.9	7.8	3.7	0.5	0.0
<i>Memorandum items:</i>														
Nominal GDP (in billions of CFAF)	6564.6	7049.4	7628.7	8274.5	8985.2	9763.5	10602.3	11483.5	12441.3	13478.9	14603.8	15818.8	17131.5	18549.8
Exports of goods and services (in billions of CFAF)	1634.9	1767.2	2042.1	2206.1	2356.7	2525.7	2693.4	2998.5	3189.3	3404.0	3695.8	4024.2	4352.6	4654.5
Government revenue (in billions of CFAF)	1047.7	1286.8	1438.3	1598.4	1796.5	1961.9	2141.0	2319.0	2561.6	2789.3	3036.1	3352.6	3630.8	3931.4
Debt service (in billions of CFAF) ^{2,3}	112.6	119.1	135.3	159.0	171.9	171.6	186.4	193.8	201.5	225.6	256.9	297.1	129.1	147.0
CFAF/SDR (period average)	827.1	821.3	816.2	814.6	812.4	808.8	809.6	809.6	809.6	809.6	809.6	809.6	809.6	809.6

Sources: IMF staff estimates and projections.

¹ Includes proposed extension and augmentation of access.

² Total debt service includes IMF repurchases and repayments.

³ Includes state-owned enterprises debt.

Table 8. Burkina Faso: Schedule of Disbursements Under ECF Arrangement 2013–17

Amount	Availability date	Conditions for disbursement¹
SDR 2.55 million	December 27, 2013	Following Executive Board Approval of successor ECF arrangement
SDR 2.55 million	May 15, 2014	Observance of the performance criteria for end-December 2013, and completion of the first review under the arrangement
SDR 4.11 million	December 1, 2014	Observance of the performance criteria for end-June 2014, and completion of the second review under the arrangement
SDR 18.92 million	May 15, 2015	Observance of the performance criteria for end-December 2014, and completion of the third review under the arrangement
SDR 14.10 million	December 1, 2015	Observance of the performance criteria for end-June 2015 and end-December 2015, and completion of the fourth and fifth review under the arrangement
SDR 4.47 million	May 16, 2016	Observance of the performance criteria for end-June 2015 and end-December 2015, and completion of the fourth and fifth review under the arrangement
SDR 4.47 million	December 1, 2016	Observance of the performance criteria for end-June 2016, and completion of the sixth review under the arrangement
SDR 4.47 million	May 15, 2017	Observance of the performance criteria for end-December 2016, and completion of the seventh 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 9. Burkina Faso: Status of Article IV Policy Recommendations

Policy Area	Recommendation	Outturn
Natural resource revenue management	Taking account of the sharp increase in gold mining revenues in the previous five years, Burkina Faso looked to be on course to reach the threshold for resource dependency, raising the prospect of introducing fiscal rules to manage the influx of additional mining tax receipts.	The emphasis on natural resource revenue management as an initial program objective was predicated on an assumption that Burkina Faso would soon become a resource dependent economy. While this still remains a likely outcome over the medium term, developments since 2014 in terms of both gold production volumes and prices have meant that discussions on a fiscal rule have not proceeded with the same urgency as originally anticipated. Nevertheless, the passage of the new mining code in 2015 is a critical institutional development which will benefit the long term development of the sector and the economy.
Improved investment budget execution	Achieving the country's long-term development objectives would require significant public investment in the energy, transport and telecommunications sectors and much-improved performance in budget execution through streamlined procedures and revised procurement rules.	Low investment budget execution was partly the result of the macroeconomic management response of the authorities to exogenous shocks and the accompanying decline in domestic revenues. This sharp curtailment of investment spending meant that imports declined in parallel and pressure on the external sector was averted as the current account deficit declined from 11 percent of GDP in 2013 to 8 percent in 2014. Both fiscal and external stability were maintained but at the cost of severe import and investment spending compression.
Inclusive growth	The program aimed to consolidate the country's impressive recent track record on economic growth while achieving wider distributional equity through support for employment, particularly among the young, and addressing social needs based on the objectives defined under the SCADD.	Overall performance under the strategy has been somewhat unsatisfactory, due in large part to the difficult political environment. Growth did not accelerate as projected and remained on average at 5.5 percent over 2011-2015, well below the anticipated 10 percent. However, despite the volatile environment, a number of actions have been initiated, including the development of the Bagré growth pole, along with other initiatives to promote pro-poor growth through the development of value chains in agriculture as well as the implementation of a plan to strengthen resilience and support vulnerable populations. Despite the lower-than-envisaged growth rates, poverty declined from 47 percent in 2009 to 40 percent in 2014, and the Gini coefficient was reduced from 0.4 to 0.35, and there has been good progress in human capital development and social protection.
Enhanced energy supply and reduced contingent liabilities	The energy sector had become the main binding constraint to economic growth and would require reforms to the two public enterprises in the sector, both to enhance energy supplies and contain sharply rising contingent liabilities for the treasury.	In response to the sharp deterioration in financial liabilities, the authorities proposed to carry out external audits of both companies which found that the combination of variable cost structures and fixed revenue flows led to chronic financial shortfalls and persistent under-investment in the sector. The reports recommended that performance contracts be established for both SONABHY and SONABEL and that a technical memorandum also needs to be drawn up between SONABHY, SONABEL and the State, covering financial and logistical operations between the two companies, including outstanding debts and establishing rules covering the supply, payment and subsidization of delivered goods. These recommendations have since been implemented. There have been recent important reforms in the relationship between SONABHY and SONABEL which should result in both significantly improved electricity supplies and reduced contingent liabilities going forward.

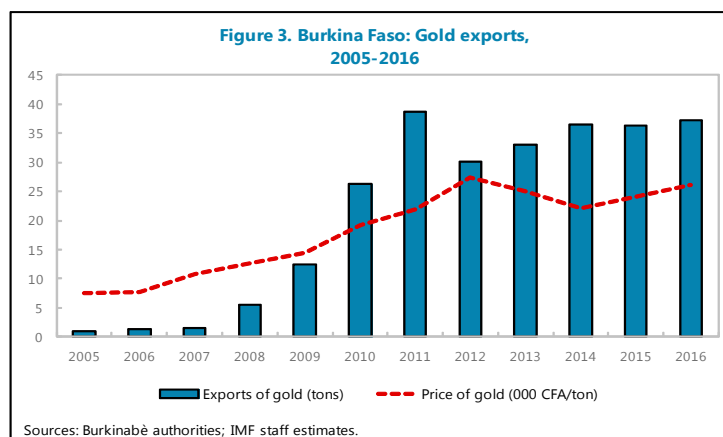
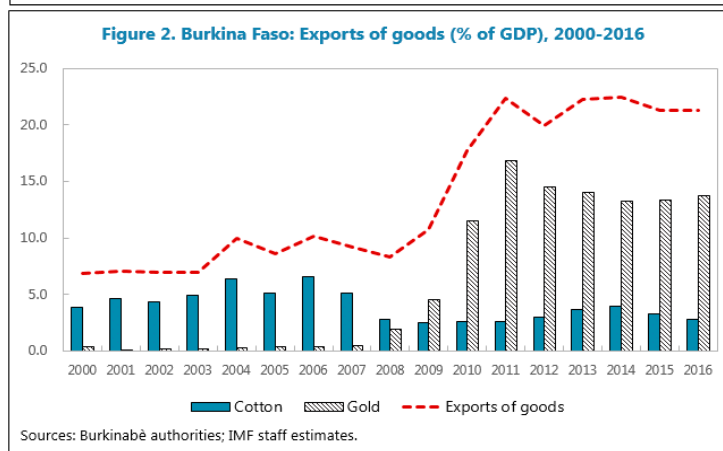
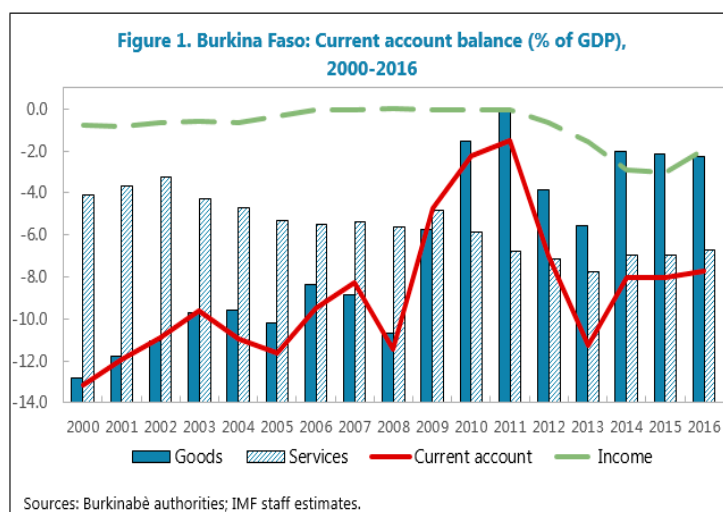
Annex I. External Stability Assessment

Burkina Faso's current account is mainly determined by gold exports, and by imports of capital and intermediate goods. The deficit in most current account components is partially offset by the surplus in private and public transfers. There is no indication of current account disequilibria or real effective exchange rate misalignment. The analysis of qualitative indicators highlights a number of issues that, if addressed, would improve the country's competitiveness.

A. Balance of payments

1. Burkina Faso's current account deficit decreased from 2008 onwards, mainly driven by higher gold exports. The current account deficit averaged 10.8 percent of GDP in period 2000-2008 and fell to an annual average of 6 percent of GDP in period 2009-2015. The trade in goods deficit that averaged 10.3 percent of GDP in period 2000-2008 declined to an average of 3 percent of GDP in period 2009-2015 (Figure 1).

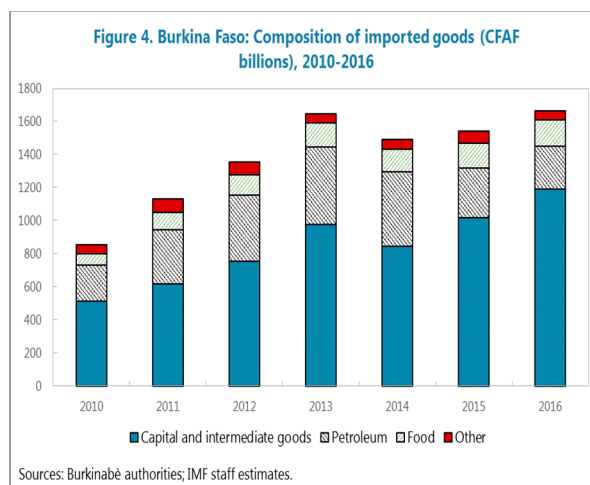
2. The composition of exports also changed markedly starting in 2008. From 1992 to 2005 cotton represented 59.3 percent of total exports of goods. In 2007 cotton still accounted for 55.7 percent of the exported goods, however in the following years gold became the main export commodity, spurred by a taxation code designed to attract international investors and high international gold prices (Figure 2). The industrial exploitation of Burkina's gold mines and the related boom in exports started in 2008, and stabilized around 61 percent of the value of exported goods and 35 tons in period 2013-2015 (Figure 3). There is room for increasing regional trade, since, excluding gold, WAEMU partners absorb only 24 percent of Burkina's exports, with Cote d'Ivoire taking 9 percent and Togo 7 percent. A further 6 percent goes to



Ghana. Oil seeds and edible fruits and nuts represent 92 percent of the exported agricultural products excluding cotton.

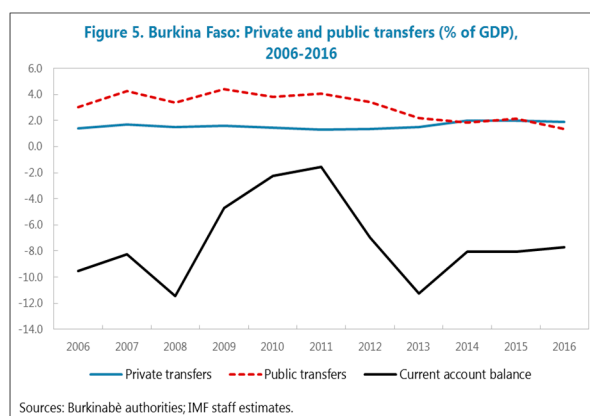
3. The share of intermediary and capital goods in total imports has been increasing, reflecting higher public and private investment.

This share is projected to reach 71 percent in 2016 (Figure 4). While the volumes of the imported petroleum products grew by more than 3 percent a year in 2013-16, the value of these imports decreased in 2015 and 2016, thanks to the sharp decrease in oil price. Looking at the geographic distribution of imports, 11 percent come from China, 9 percent from France and 8.4 percent from Cote d'Ivoire. Overall, the WAEMU partners provide only 14.8 percent of total imports.



4. Surpluses in net private and public transfers have always compensated part of the current account deficit.

Public current transfers amounted to an average of 3.8 percent of GDP in 2006-12 and declined to an average of 1.9 percent of GDP in 2013-16 (Figure 5). At the same time inflows of private transfers, consisting mostly of worker's remittances from Côte d'Ivoire, Ghana and Europe, increased from 1.3 percent of GDP in 2006-12 to 2.9 percent of GDP in 2013-15.



5. In 2016 the current account deficit is projected to narrow slightly, from 8 to 7.6 percent of GDP.

Over the period 2017-21, the current account deficit is expected to remain moderate, at around 6.8 percent of GDP and to eventually stabilize around its long-term projected average of about 6 percent of GDP by 2022. Exports of goods are projected to increase in 2017, due to the start of operations of two new gold mines and the rebound of cotton's exports, linked to the abundant rainfall of 2016. Exports might receive a further boost in the following years, when the existing large deposit of manganese of Tambao will start production.

6. Foreign direct investment is mostly directed toward the mining sector.

Mining activities are generally 90 percent owned by non-residents, generating important inflows of direct investment in the mine-development period, and outflows of income when the mine becomes fully operational. In 2014-15, likely related to the uncertain political situation, outflows of dividends climbed to almost 4 percent of GDP, from an average of about 0.7 percent in 2008-13. Canada is by far the largest foreign investor, controlling at the end of 2015 almost 46 percent of the total FDI stocks; other important foreign investors are France (12 percent), Morocco (6 percent) and Côte d'Ivoire (4 percent).

B. Reserves and external debt

7. Regional gross international reserves coverage in WAEMU declined substantially since 2010 when it stood at 6.6 month of extra-regional imports, and stabilized at around 4.8 months of imports in 2014-15. At the end of 2015 regional gross reserves covered about 63 percent of regional broad money and 80 percent of short term debt.¹

8. Burkina Faso gross external debt is low, at 23 percent of GDP at the end of 2015, and below that of most of the other WAEMU countries. World Bank Quarterly External Debt Statistics (QEDS) show that gross external debt is all related to government and almost totally made of long term loans, most of which are from multilateral institutions, on highly concessional terms.

Table 1. Burkina Faso: External Debt (% of GDP), 2012-2016

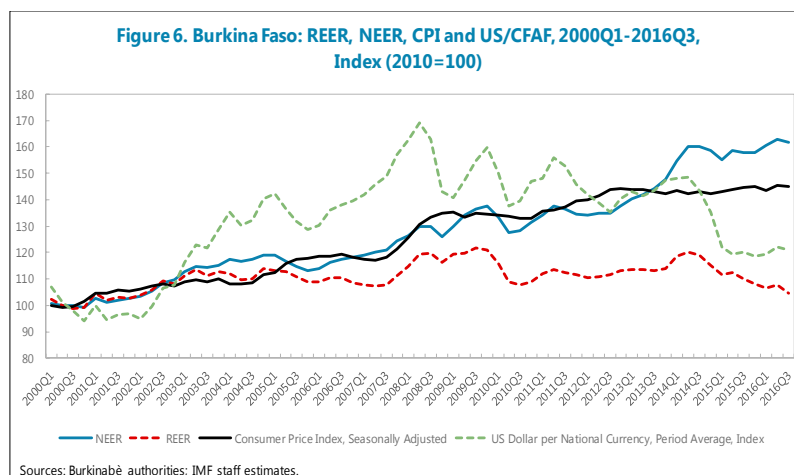
	2012	2013	2014	2015	2016
Benin	15.4	16.8	20.1	21.0	20.8
Burkina Faso	22.6	21.9	22.0	23.8	23.2
Cote d'Ivoire	28.0	26.4	28.1	33.0	31.2
Guinea-Bissau	26.6	25.4	26.6	27.3	25.6
Mali	21.3	20.8	24.5	28.7	29.3
Niger	16.7	17.6	22.1	30.0	32.7
Senegal	30.4	32.4	40.1	39.8	42.8
Togo	17.6	20.1	26.9	30.1	30.0
WAEMU	24.6	24.7	25.2	30.4	30.3

Sources: Burkinabè authorities and IMF staff estimates.

C. Exchange rate developments

9. Burkina Faso's real effective exchange rate (REER) declined by 6.5 percent in 2015, reflecting the depreciation of the euro against major currencies (Figure 6). The REER has remained broadly stable between 2000 and 2016, with shifts mainly following those of the euro/dollar exchange rate. The gap between the REER and the nominal effective exchange rate (NEER) increased after 2011 reflecting higher inflation in Burkina Faso than in its main partners, particularly in November 2011–November 2012 and June–December 2015.

10. The terms of trade deteriorated by more than 5 percent a year in 2013-15, mainly due to the decline in gold and cotton prices, only partially compensated by the low



¹ See IMF Country report No. 16/96, *West African Economic and Monetary Union*, page 26.

petroleum prices. In 2016 terms of trade rebounded following the sharp increase in gold prices and the historically low prices of fossil fuels (Figure 7).

D. Assessment of the external position

11. The External Balance Assessment (EBA) provides a current account benchmark based on the country fundamentals relative to the rest of the world. Burkina Faso's current account position is assessed using the EBA-lite methodology.² EBA-lite includes 3 different models that can be used either separately or in conjunction to perform a positive or a normative analysis of the current account with the ultimate purpose of assessing the misalignment of the exchange rate. To assess Burkina's current account we used the EBA-lite current account (CA) and REER Index (IREER) models. In the CA model, the approach suggests that the REER was overvalued by 14 percent in 2015 (Figure 8 and Table 2), mainly reflecting an overvaluation of the euro suggested by the same model. The overvaluation is projected to be fully unwound in 2016, given the improvement in terms of trade. The IREER model provides similar results, signaling an 8 percent REER overvaluation in 2015 and a much smaller one (2 percent) in 2016. The findings are broadly consistent with the WAEMU exchange rate assessment results.³ Given Burkina Faso's monetary arrangement, whereby reserves are pooled for all WAEMU countries, the ES approach is

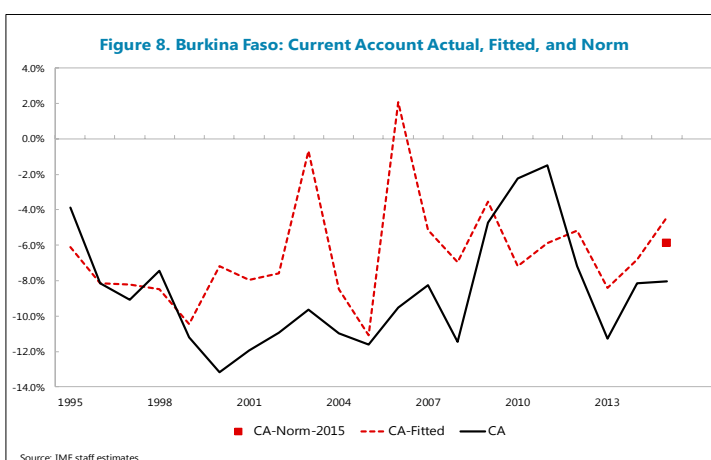
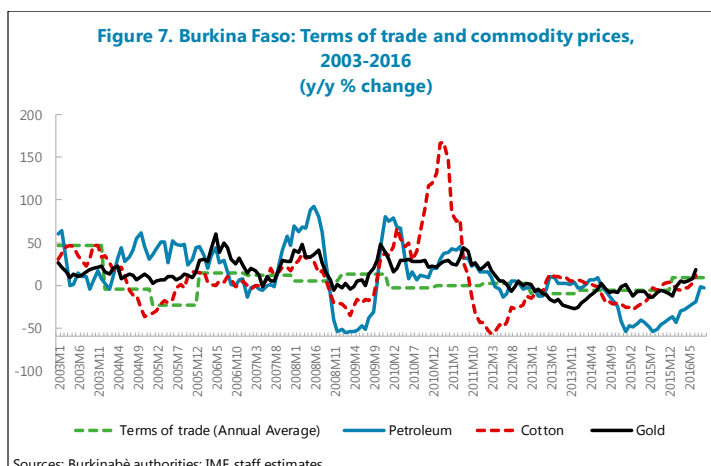


Table 2. Burkina Faso: Summary of EBA-Lite Findings
(in percent of GDP, unless otherwise stated)

		2014	2015	2016
(1)	Current account actual	-8.1	-8.0	-7.6(*)
(2)	Current account fitted	-6.8	-4.4	-6.5
(3)	Policy Gap	1.4	1.4	1.4
(4)=(2)-(3)	Current account norm	-8.2	-5.9	-7.9
(5)=(1)-(4)	Current Account gap	0.1	-2.2	0.3
(6)	Elasticity of CA to REER (ratio)	-0.16	-0.15	-0.16
(7)=(5)/(6)	Real Exchange rate gap (percent)	-0.6	14	-2.1
(8)	REER gap from IREER model	14	8	2

Source: IMF staff estimations. (*) Staff baseline projection

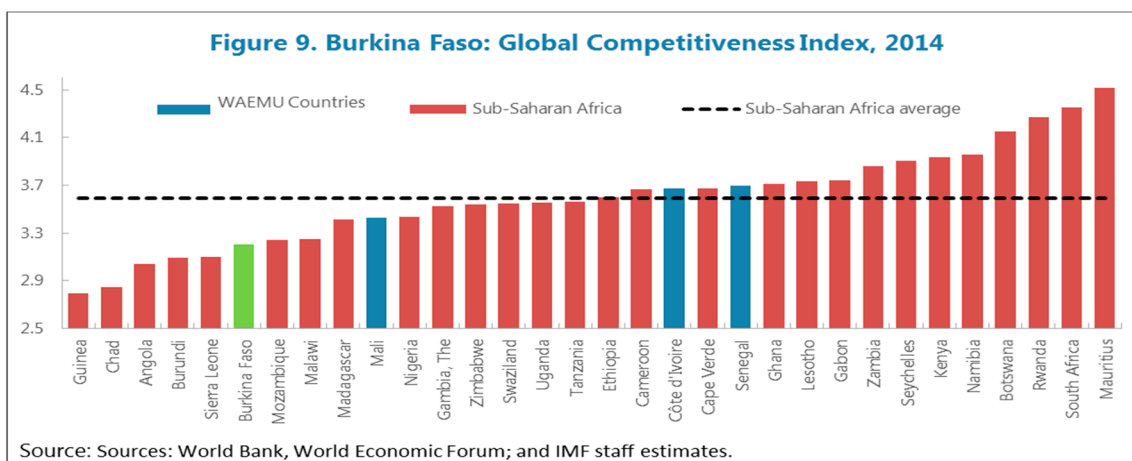
² IMF Policy Paper, *Methodological note on EBA-lite*, February 2016

³ See IMF Country report No. 16/96, *West African Economic and Monetary Union*, page 8.

best used to assess the WAEMU-wide NFA position.

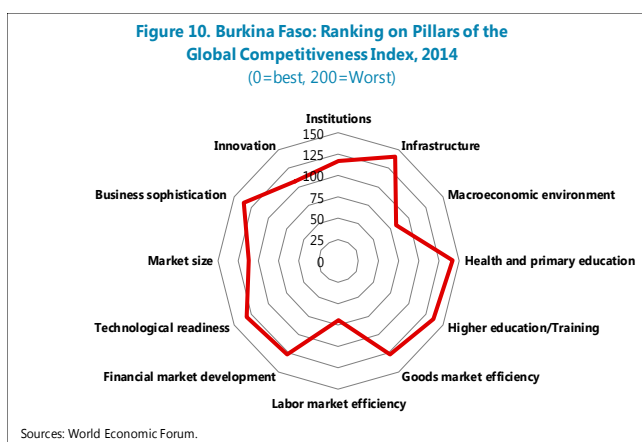
E. Structural competitiveness

12. Structural competitiveness indicators suggest that there is significant room for improving Burkina Faso’s standing. Burkina Faso has to overcome the obstacles of being a relatively small, landlocked economy at least 500 miles away from the closest major port and with a narrow export base. In the 2014-15 edition of *The Global Competitiveness Report* produced by the World Economic Forum Burkina Faso ranked 135th out of the 144 countries considered (Figure 9). This reflected perceived weakness in a number of subcategories, most notably in the quality of the infrastructure and electricity supply, in the enrollment in all levels of education and in the access to financing. The country ranked much better in terms of macroeconomic environment (83rd) and labor market efficiency (70th) (Figure 10).



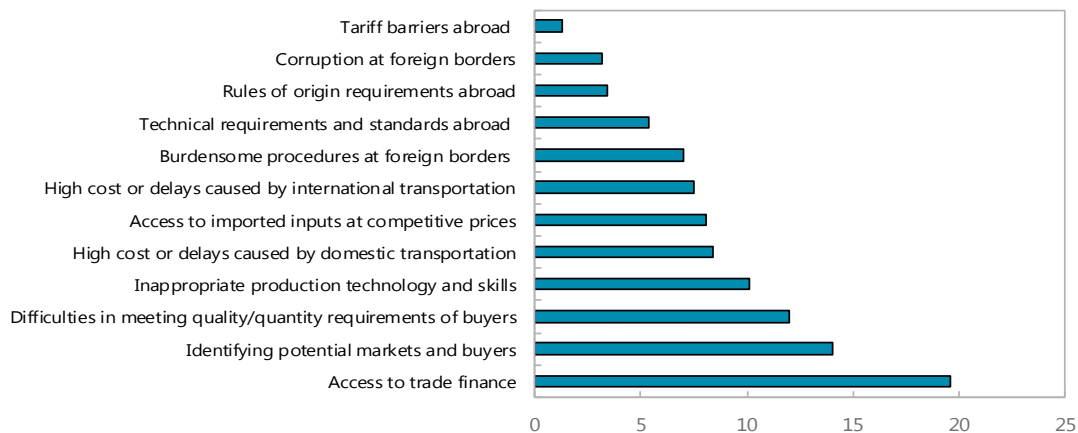
13. Burkina Faso also ranks poorly in the *Global Enabling Trade Report*, where it is listed 133rd out of 138 countries.

According to the operators interviewed, the most significant factors hindering exports were the access to trade financing, the difficulty in identifying potential markets and buyers, and the difficulties in meeting the quality and quantity requirements of the buyers (Figure 11.1). The organization of producers in sectoral networks similar to the structure of the cotton sector might be the way to overcome many of the problems denounced by the operators.



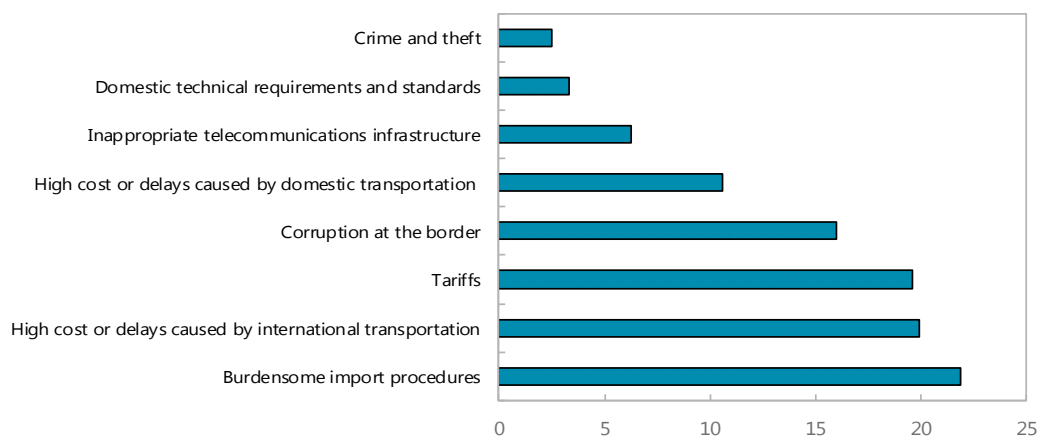
The most problematic factors limiting imports were the burdensome import procedures, the high costs and transportation delays and the tariffs at the port of entrance (Figure 11.2). The data related to Burkina’s external trade show the very limited role played by the regional market, likely due to the high costs and inadequacy of land transportation infrastructure, the low availability of regional air transportation and the heavy administrative procedures.

Figure 11.1 Burkina Faso: Perceived most problematic factors for exporting



Source: World Economic Forum, Global Enabling Trade Report, 2014.

Figure 11.2 Burkina Faso: Perceived most problematic factors for importing



Source: World Economic Forum, Global Enabling Trade Report, 2014.

14. Burkina Faso has a privileged access to large markets that could be better exploited.

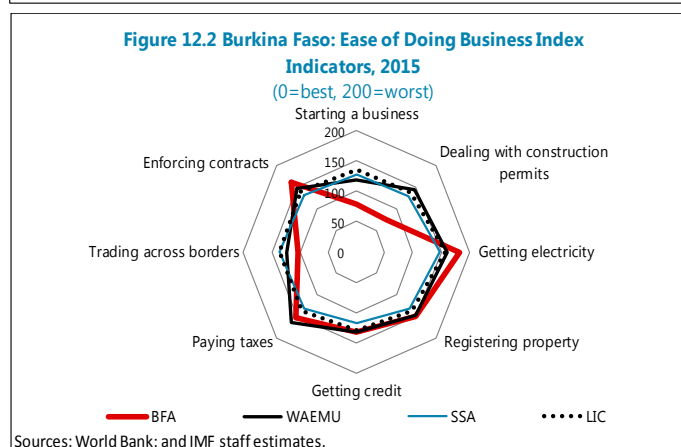
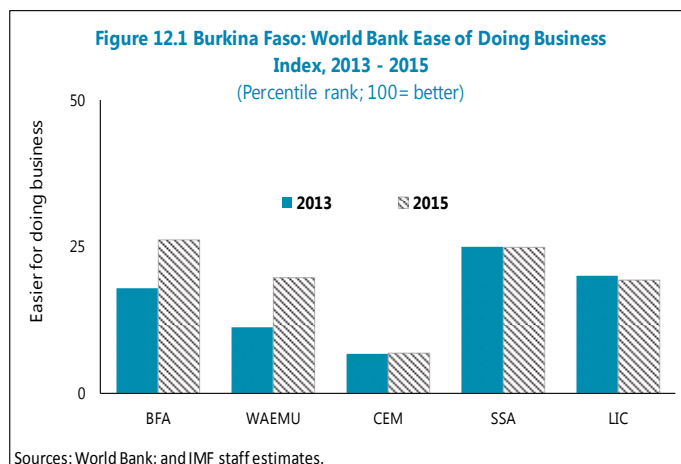
The Cotonou convention and the Everything But Arms agreements allow for duty free and quota free exports to all the European Union countries. The African Growth and Opportunity Act (AGOA) gives a similar privileged access to the United States market. Agricultural products and manufactured goods with local value added can also freely circulate among the members of the WAEMU and ECOWAS. While the regional markets might be easier to exploit than the demanding European or American ones, Burkina Faso is relatively close to Europe, which might provide interesting opportunities to diversify the agricultural production and move upwards in the value added chain, e.g. in the area of prepackaged fresh tropical fruits and juices. A railway built during the colonial era covers the 783 miles between Abidjan and Ouagadougou, and plays a key role as regards to the carriage of goods. Its modernization might give a major push to the trade development of the area.

15. The business climate has improved, but remains challenging. According to the 2016 World Bank's *Ease of Doing Business* survey, Burkina Faso ranks 143rd out of the 189 surveyed

countries, in line with the average for sub-Saharan Africa and performing better than other WAEMU countries (Figure 12.1). The ranking of Burkina Faso in this survey has continued to improve since 2010. The country gained 6 places from 2015 to 2016 thanks to a sharp improvement in the indicator related to "Starting a business"; this was determined by a reduction from 1 million to 5 thousand CFA of the paid-in minimum capital of limited companies. According to the respondents, getting electricity remains the most challenging constrain for companies willing to set up business in Burkina Faso. "Enforcing contracts" and "Paying taxes" continue to be more cumbersome in Burkina Faso than in other countries of the region (Figure 12.2). The Worldwide Governance Indicators (WGI)⁴ related to "Control of Corruption" and "Government Effectiveness" shows Burkina Faso ranking respectively at the 111th and 143rd place out of the 209 countries considered in

2015, better positioned than all the other WAEMU members except Senegal.

16. Burkina Faso's CPIA⁵ rating is higher than its peers'. Burkina Faso scores 3.6 (out of 6) in 2015, performing better than the SSA's (3.2) and WAEMU (3.3) average. Burkina Faso is strong in terms of economic management and policies for social inclusion but needs to improve the financial sector, the social protection and labor market regulations and the extent to which private economic activity is facilitated by an effective legal system in which property and contract rights are reliably respected and enforced (Table 3).



⁴ The Worldwide Governance Indicators (WGI) are produced by the Brookings Institution and World Bank and are available at <http://info.worldbank.org/governance/wgi/#home>

⁵ <http://datatopics.worldbank.org/cpia/country/burkina-faso>

Table 3. Burkina Faso: Country and Policy Institutional Assessment, 2015

	Burkina Faso		WAEMU	SSA
	2012	2015	2015	
Economic Management	4.2	3.8	3.6	3.3
Macroeconomic Management	4.5	4.0	3.8	3.4
Fiscal Policy	4.0	3.5	3.3	3.1
Debt Policy	4.0	4.0	3.6	3.3
Structural Policies	3.5	3.5	3.4	3.2
Trade	4.0	4.0	4.1	3.7
Financial Sector	3.0	3.0	2.9	2.9
Business Regulatory Environment	3.5	3.5	3.3	3.1
Policies for Social Inclusion and Equity	3.7	3.6	3.2	3.2
Gender equality	3.5	3.5	2.9	3.2
Equity of Public Resource Use	4.0	4.0	3.4	3.3
Building Human Resources	3.5	3.5	3.4	3.5
Social Protection and Labor	3.5	3.0	2.8	2.9
Policies and Institutions for Environment Sustainability	4.0	4.0	3.4	3.2
Public Sector Management and Institutions	3.7	3.5	3.1	3.0
Property Rights and Rule-Based Governance	3.5	3.0	2.8	2.8
Quality of Budgetary and Financial Management	4.5	4.0	3.2	3.1
Efficiency of Revenue Mobilization	3.5	3.5	3.4	3.4
Quality of Public Administration	3.5	3.5	2.9	2.8
Transparency, Accountability and Corruption in Public Sector	3.5	3.5	3.0	2.7
Overall CPIA Score	3.8	3.6	3.3	3.2

Source: World Bank, Country Policy and Institutional Assessment 2015.

Annex II. Lessons from Recent Program Engagement

1. The ongoing ECF-supported program is coming to term. This annex seeks to evaluate program performance relative to its principal objectives while recognizing that the difficulties caused by major shifts in the sociopolitical context in the program period rendered some of these objectives somewhat obsolete. This document reflects the staff's perspective, but it also includes the authorities' views canvassed in the course of the 2016 Article IV Consultation. Lessons drawn from this assessment could inform future Fund engagement with Burkina Faso.

2. The ongoing program established initial objectives in the following areas after a period of prior consultation with stakeholders:

- *Natural resource revenue management:* taking account of the sharp increase in gold mining revenues in the previous five years, Burkina Faso looked to be on course to reach the threshold for resource dependency, raising the prospect of introducing fiscal rules to manage the influx of additional mining tax receipts.
- *Inclusive growth:* the program aimed to consolidate the country's impressive recent track record on economic growth while achieving wider distributional equity through support for employment, particularly among the young, and addressing social needs based on the objectives defined under the SCADD.
- *Improved investment budget execution:* achieving the country's long-term development objectives would require significant public investment in the energy, transport and telecommunications sectors and much-improved performance in budget execution through streamlined procedures and revised procurement rules.
- *Enhanced energy supplies and reduced contingent liabilities:* the energy sector had become the main binding constraint to economic growth and would require reforms to the two public enterprises in the sector, both to enhance energy supplies and contain sharply rising contingent liabilities for the treasury.

3. Significant progress was achieved against these objectives over the program period bearing in mind that their individual relevance shifted somewhat in response to exogenous developments.

- The need for a fiscal rule was to some extent obviated by the decline in gold prices and production from 2014 onwards. Nonetheless, the new mining code was approved by the transition parliament in 2015 and provides for an enhanced fiscal contribution from the mining sector by increasing the tax base while maintaining the attractiveness of the country to potential investors.
- Inclusive growth objectives were certainly impaired by the downturn in growth performance in 2014-15 as a result of political upheaval, shocks to commodity prices and the spillover from the Ebola crisis in the region. Notwithstanding the difficult environment, the implementation of the SCADD ensured that many of the key social objectives were reached nonetheless and social spending was broadly maintained at program levels.

- Investment budget execution however remained significantly below expectations, partly as a result of the imperative to maintain fiscal and macroeconomic sustainability through the downturn in the absence of sufficient available financing.
- Prospects for the energy sector have begun to improve significantly as a result of recent declines in international oil prices and a set of important reforms agreed to ensure that electricity supplies increase while contingent liabilities for the treasury are largely eliminated.

The outturns for the key macroeconomic and financial indicators are compared with the initial projections at the time of program approval in Figure 1.

4. The program was anchored on the efficient implementation of prudent fiscal policy.

The medium-term macroeconomic framework aimed to contain the deficit at around 3 percent of GDP while providing space for higher social and investment spending. The program framework targeted current spending adjustment, which would be complemented by modestly-growing domestic revenues and financing. At the time of the first review, government revenues were projected to reach 19.3 percent of GDP in each of the years 2014-16. By mid-2014 however, it became apparent that slowing growth and falling gold prices were beginning to negatively impact revenues. The loss of revenues was characterized in three principal ways.

- Significant problems emerged at the level of revenue and customs administration. The popular insurrection resulted in a long service interruption and the onset of widespread tax avoidance practices.
- The decline in gold prices began to affect royalties' receipts in 2014, and while corporate taxes took somewhat longer to show the effects of softer prices, it was nonetheless already clear that 2015 tax receipts from the mining sector would be well below initial forecasts.
- The downturn in growth began to impact indirect taxes (principally VAT), particularly in the 4th quarter of 2014. Overall by the end of 2014, domestic revenues reached 17.3 percent of GDP, 2 percentage points of GDP below the levels projected at the time of the first review before falling by a further 1.2 percent of GDP in 2015.

5. The authorities meantime were under considerable pressure to maintain recurrent spending (including the wage bill) at budgeted levels. In response to the decline in available resources and also reflecting financing constraints in the regional bond market, they cut investment spending sharply to leave the deficit at 1.8 percent of GDP on a commitment basis. Financing conditions eased somewhat in 2015 and as a result the authorities took a more expansionary policy approach with the deficit increasing to 3.4 percent of GDP on a cash basis.

6. The initial program's quantitative performance criteria included ceilings on general government net domestic financing, external non-concessional borrowing and the accumulation of external arrears. While the ceiling on net domestic financing was never breached as a performance criterion, it was breached once as an indicative target. The limit on non-concessional external borrowing was initially set at CFAF 150 billion and has since been increased twice, to CFAF 200 billion and CFAF 230 billion respectively to meet urgent infrastructural

investment needs. There have been no breaches of this criterion nor of the zero limit on the accumulation of external arrears.

7. The program also established quantitative indicative targets for the ceiling on the fiscal deficit, a floor on government revenues and on social spending and a zero ceiling on the accumulation of domestic arrears. There have been no breaches of the deficit ceiling thus far in the implementation of the program but this result is due at least in part to the compression of investment spending undertaken in response to increasing pressures on the treasury position. These pressures arose directly from the sharp decline in revenues resulting from deteriorating gold prices and economic growth performance from the beginning of 2014. As a direct result, revenue targets were missed throughout 2014-15, and by considerable margins (almost 1 percent of GDP as regards the end-December 2015 target). Poverty spending targets were likewise universally missed in 2014 but the downward revision of the targets in 2015 enabled them to be met throughout 2015, albeit on occasion by narrow margins. Following an FAD mission in April 2015, coinciding with the combined second and third program reviews, and resulting in the identification of an internal arrears issue, it was decided to monitor the accumulation of domestic arrears via structural benchmarks requiring quarterly reporting on the issue and to set aside the quantitative indicator.

8. The definition of structural benchmarks was largely in line with the stated objectives of the program with consistent emphasis on energy sector and public investment budget execution reforms. The real sector was also targeted (mining and cotton) by way of reforms fostering inclusive growth. Revenue administration was also frequently identified in defining program benchmarks. The track record of the authorities in meeting benchmarks was exemplary in the initial stages of the program but lagged somewhat in the period of political instability, especially in the areas of revenue administration and the energy sector. The emphasis in defining benchmarks has also shifted in response to evolving needs with increasing emphasis being placed on revenue administration in response to the sharp decline in receipts in 2014-15. Overall performance in meeting benchmarks is summarized in Table 1.

Table 1. Burkina Faso: Program Performance - Structural Benchmarks

Area of Reform	Number of Benchmarks	% of Benchmarks Met on Schedule
Inclusive Growth	5	100%
Energy Sector	11	63%
PFM/Budget Execution	8	86%
Revenue Administration	14	63%
SONAPOST	3	0%

Source: IMF estimates

Lessons learned/Main achievements under the ECF-supported program

9. One of the principal advantages of the ECF-supported program was its flexible structure, in particular the potential to combine reviews and modify objectives in response to evolving conditions. This flexibility was demonstrated in 2 main ways.

- The program was implemented by 3 different governments through a popular uprising, a transition administration and an attempted coup d'état without ever being derailed.
- The initial objective of better managing natural resources wealth and improve spending efficiency adapted to a new context of lower growth and declining revenues: the structural

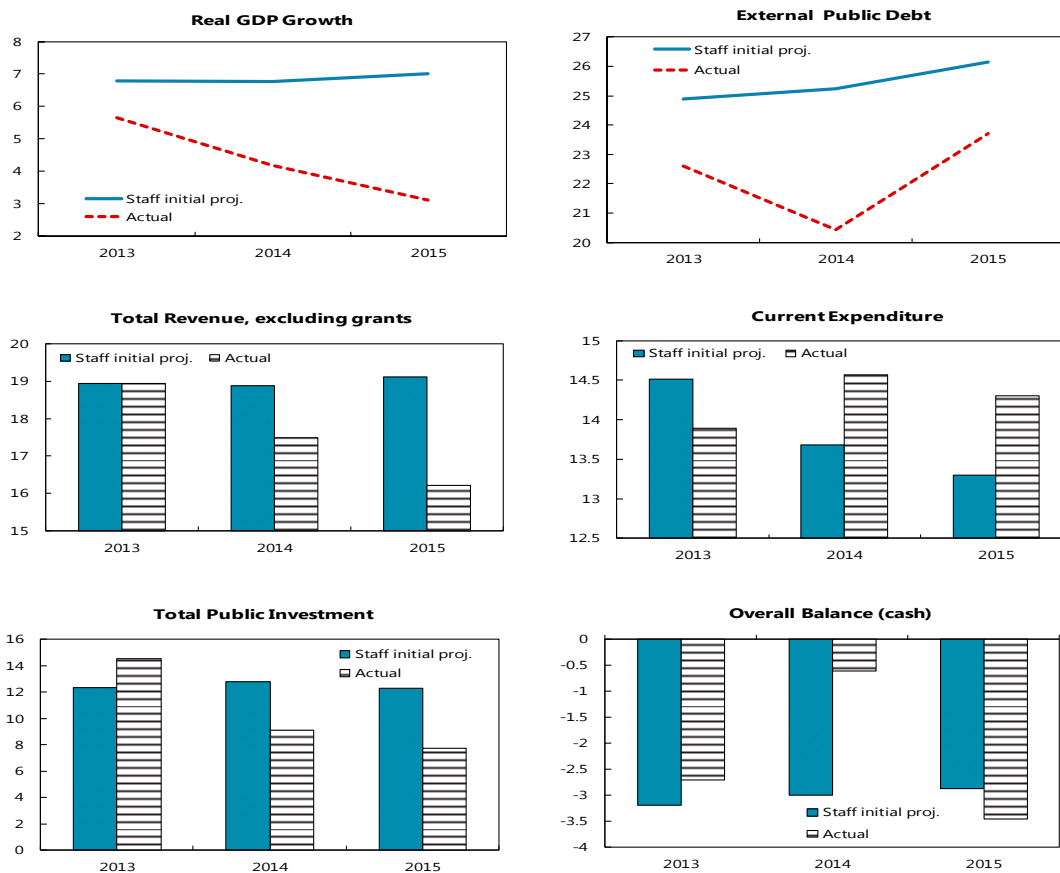
reforms to be implemented didn't need to change drastically in response to the evolving context.

10. The program was also quite successful in the area of curbing contingent liabilities which had become a major issue for program implementation by 2013, arising mainly in the energy sector but also from the cotton farming stabilization fund.

- *Energy sector reform:* the program brought about significant reforms in the sense of modifying the price paid by SONABEL for fuel inputs and in introducing a clearance plan on its arrears to SONABHY. Both these measures will greatly enhance financial sustainability in the electricity sector which should boost supplies in the medium term at the same time as significantly reducing contingent liabilities on the treasury.
- *Cotton sector:* the program has consistently monitored prospective contingent liabilities arising from the cotton sector income stabilization fund, emphasizing that a strategy to reduce the reliance on state subsidies for the cotton sector in the context of persistently falling prices is urgently needed.

Figure 1. Burkina Faso: Macroeconomic Performance (Projection versus Actual), 2013–15

(in percent of GDP, unless indicated otherwise)



Sources: Burkinabe authorities; and IMF staff estimates.

Appendix I. Letter of Intent

**MINISTRY OF ECONOMY,
FINANCE, AND DEVELOPMENT**

Ouagadougou, November 30, 2016

GENERAL SECRETARIAT

**DIRECTORATE GENERAL
OF COOPERATION**

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 overfunding, 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 asphaltting 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 asphaltting 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 authorizations (*ordonnancement 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'Etat* – 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 carrousel 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			Met	Dec.			Met	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	Quarterly 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.⁹ 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.¹⁰ 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 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

⁹ 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>

¹⁰ 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.

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
<u>Public Finance</u>			
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/DG D/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/MI NEFID	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/MI NEFID	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)

<i>The consolidated balance sheet of monetary institutions</i>			
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
<i>Balance of Payments</i>			
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
<i>Real Sector</i>			
Provisional national accounts; and any revision of the national accounts	MINEFID	Annual	2 weeks
Disaggregated monthly consumer price indices	MINEFID	Monthly	2 weeks
<i>Structural Reforms and Other Data</i>			
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



BURKINA FASO

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION,
SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY
ARRANGEMENT, AND REQUESTS FOR MODIFICATION OF A
PERFORMANCE CRITERION, EXTENSION OF THE
ARRANGEMENT AND AUGMENTATION OF ACCESS—
INFORMATIONAL ANNEX

Prepared By

African Department

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RELATIONS WITH THE FUND

(As of October 31, 2016)

Membership Status Joined: May 02, 1963

General Resources Account

	SDR Million	%Quota
<u>Quota</u>	120.40	100.00
<u>Fund holdings of currency (Exchange Rate)</u>	97.64	81.10
<u>Reserve Tranche Position</u>	22.76	18.92

SDR Department

	SDR Million	%Allocation
<u>Net cumulative allocation</u>	57.58	100.00
<u>Holdings</u>	12.87	22.34

Outstanding Purchases and Loans

	SDR Million	%Quota
<u>ECF Arrangements</u>	156.04	129.6

Latest Financial Arrangements

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ECF	Dec 27, 2013	Dec 26, 2016	51.17	46.70
ECF	Jun 14, 2010	Dec 23, 2013	82.27	82.27
ECF	Apr 23, 2007	Apr 22, 2010	48.16	47.16

Projected Payments to the Fund¹

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

	Forthcoming				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<u>Principal</u>	5.30	17.80	24.15	23.63	19.03
<u>Charges/Interest</u>	0.01	0.06	0.06	0.06	0.06
Total	5.31	17.86	24.21	23.69	19.09

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative

	<u>Original</u> <u>Framework</u>	<u>Enhanced</u> <u>Framework</u>	<u>Total</u>
Commitment of HIPC assistance			
Decision point date	Sep 1997	Jul 2000	
Assistance committed by all creditors (US\$ Million) ²	229.00	324.15	
Of which: IMF assistance (US\$ million) (SDR equivalent in millions)	21.70	35.88	
Completion point date	Jul 2000	Apr 2002	

Disbursement of IMF assistance (SDR Million)

Assistance disbursed to the member	16.30	27.67	43.97
Interim assistance	--	4.15	4.15
Completion point balance	16.30	23.52	39.82
Additional disbursement of interest income ³	--	2.01	2.01
Total disbursements	16.30	29.68	45.98

Implementation of Multilateral Debt Relief Initiative (MDRI)

I. MDRI-eligible debt (SDR Million) ⁴	62.12
Financed by: MDRI Trust	57.06
Remaining HIPC resources	5.06
II. Debt Relief by Facility (SDR Million)	

Eligible Debt

<u>Delivery</u> <u>Date</u>	<u>GRA</u>	<u>PRGT</u>	<u>Total</u>
January 2006	N/A	62.12	62.12

² Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added. Burkina Faso owes a small amount of pre-HIPC Initiative arrears to non-Paris Club creditors which continue to be deemed away under the revised arrears policy for official creditors, as the underlying Paris Club agreement was adequately representative and the authorities make best efforts to resolve the arrears.

³ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

⁴ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Safeguards Assessments

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAMU). The latest assessment of the BCEAO was completed on December 13, 2013. The assessment found that the bank continued to have a strong control environment and has, with the implementation of the 2010 Institutional Reform of the WAEMU, enhanced its governance framework. Specifically, an audit committee was established to oversee the audit and financial reporting processes, transparency has increased with more timely publication of the audited financial statements, and the BCEAO is committed to IFRS implementation by end-2014. The assessment also identified some limitations in the external audit process and recommended that steps be taken to ensure the adequacy of the mechanism through selection of a second experienced audit firm to conduct joint audits. All recommendations from the assessment have been implemented.

Exchange System

Burkina Faso is a member of the West African Economic and Monetary Union (WAEMU). The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = €1.

The authorities confirmed that Burkina Faso had not imposed measures that could give rise to exchange restrictions subject to Fund jurisdiction. They will inform the Fund, if any such measure is introduced. Burkina Faso maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. External sustainability, competitiveness and exchange rate issues and were also discussed in the report "WAEMU: Common Policies of Member Countries" (Country Report No. 16/96 of April 1, 2016).

Article IV Consultations

Burkina Faso is on a 24-month consultation cycle. Discussions took place in Ouagadougou during October 18-29, 2016 for the 2016 Article IV Consultation and the Sixth Review under the Extended Credit Facility. The latest Article IV consultation was completed by the Executive Board on July 3, 2014 (Country Report No.14/215).

Financial Sector Assessment Program (FSAP) and Report on the Observance of Standards and Codes (ROSC) Participation

A joint team of the World Bank and the International Monetary Fund conducted a mission under the FSAP program in 2008. A regional FSAP for the WAEMU was undertaken in 2007. A ROSC on the data module was published in 2002.

Technical Assistance

Subject	TA provider	Date
Macroeconomics Analysis and Forecasting	AFRITAC West I	November 2016
Tax Policy	FAD	September 2016
Long-term advisor in public financial management	FAD	August 2016
Macroeconomics Analysis and Forecasting	AFRITAC West I	April 2016
Commitment authorizations / Payment appropriations	AFRITAC West I	April 2016
PFM / Program budgeting	AFRITAC West I	April 2016
Customs controls	AFRITAC West I	April 2016
Revenue administration: strengthening the medium-size enterprises unit	AFRITAC West I	March 2016
Implementation of the GFSM 2001-14	STA	May 2015
Improvement in issuance practices	AFRITAC West I	April 2015
Customs administration	AFRITAC West I	April 2015
PFM / Expenditure controls	AFRITAC West I	April 2015
Quarterly national accounts and provisional estimates	STA	April 2015
Automated risk management	AFRITAC West I	March 2015
Customs administration	AFRITAC West I	March 2015
Tax administration/Modernisation de l'administration fiscale	AFRITAC West I	March 2015
Tax administration/Modernisation de l'administration fiscale	AFRITAC West I	March 2015
Cash Management and Budget Execution	FAD	March 2015
Seminar on Budget Nomenclature	AFRITAC West I	February 2015
Macroeconomic Analysis and Forecasting Needs Assessment	AFRITAC West I	February 2015
Quarterly national accounts and provisional estimates	STA	February 2015
Revenue administration: medium-size enterprises unit	AFRITAC West/FAD	September 2014
Program budgets	AFRITAC West I	June 2014
Program-based budgeting	AFRITAC West I	June 2014
PFM TA mission to Burkina Faso	AFRITAC West I	June 2014
PFM (WAEMU)	AFRITAC West I	June 2014
Program-based budgeting	AFRITAC West I	June 2014
Review of the Implementation of the WAEMU Harmonized Public Financial Management Framework	FAD	April 2014
Medium Term Budgeting	FAD	February 2014
Review the Implementation of PFM Reforms	FAD	February 2014
Finalize Preparation of the New Audit Manual	FAD	February 2014
Real Sector Statistics and National Accounts	STA	September 2013
Mining Sector Fiscal Regime	FAD	July 2013
PFM Training for Court of Accounts	FAD	July 2013
Review of Progress of the Strategy to Implement the WAEMU Harmonized PFM Framework	FAD	April 2013

Report on the Government Finance Statistics Mission	AFRITAC West I	April 2013
Real Sector Statistics	STA	April 2013
Program Budgeting	AFRITAC West I	February 2013
Customs Administration	AFRITAC West I	January 2013

Resident Representative

Ms. Mame Astou Diouf was appointed Resident Representative to Burkina Faso in September 2016 and has been stationed in Ouagadougou since that time.

JOINT MANAGEMENT ACTION PLAN IMPLEMENTATION

Title	Products	Mission	Delivery
A. Mutual information on relevant work programs			
Bank work program in the next 12 months	Programs and projects		
	• Budget Support – Energy and Fiscal Management Development Policy Operation		Dec-16
	• Regional Budget support to Burkina Faso and Côte d'Ivoire (Regional Trade Facilitation and Competitiveness Credit Program)		Dec-16
	• Local Government Support Project Phase 2		Jul-17
	• Transport Sector modernization and trade facilitation		Dec-16
	• Support to the National Biodiversity Program		Dec-16
	• E-Government Project		Feb-17
	• Additional Financing to Electricity sector support project		Mar-17
	• Livestock sector development support project		Mar-17
	• Additional Financing to Bagre growth pole project		Apr-17
	Technical assistance and Economic and Sector Work (ESW)		
	• TA – The Jobs agenda in Burkina Faso		May-17
	• TA- Improving solid waste management		Mar-17
	• TA – Social protection (vulnerability analysis, mapping, strengthening institutions and systems, strengthening social protection programs for resilience)		Dec-17
	• ESW – Study on agro-processing opportunities		Jun-17
IMF-supported program			
IMF work in the next 12 months	• Seventh ECF review	March 2017	May-17
	• Implementation of new debt policy, as needed		
	• Work at a national and regional level, on fiscal		

	rule to manage natural resource revenues		
	<ul style="list-style-type: none"> Analysis of regional energy needs 		
	Technical assistance		
	<ul style="list-style-type: none"> GFSM 2001 		
	<ul style="list-style-type: none"> BPM 6 		
	<ul style="list-style-type: none"> Follow up TA on mining taxation 		
	<ul style="list-style-type: none"> TA on program budgeting 		
	<ul style="list-style-type: none"> TA on National Accounts (quarterly and base year) 		
	<ul style="list-style-type: none"> TA on National Accounts (quarterly and base year) 		
	<ul style="list-style-type: none"> TA on public procurement 	To be determined	
B. Mutual requests			
Fund request	<ul style="list-style-type: none"> TA on public procurement TA on judiciary sector Work on energy sector Artisanal mining issues (child work, environment, etc). 	To be determined	
Bank request	<ul style="list-style-type: none"> Regular updates of medium-term macro projections Fund Relation Note (for budget support operations) 		
	<ul style="list-style-type: none"> Regular updates on energy SOEs financial situation 		
C. Agreement on joint products and missions			
Joint product	<ul style="list-style-type: none"> Follow up TA on debt management (Bank lead) 		

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. The data categories most affected are the national accounts and price statistics. Burkina Faso is receiving technical assistance (TA) from the IMF on an ongoing basis, which is being partially financed by Japan.

National accounts: Annual GDP estimates are compiled by economic activity, by institutional sector accounts and by expenditure categories at current and constant prices (1999=100). Data quality is affected by the scarcity of suitable sources and deficiencies in statistical practices. Weaknesses include: coverage of the informal sector (due to limited, out of date surveys, and a failure of small enterprises to submit accounting statements or tax declarations); private household consumption data, which is not adequately validated with supply-use tables and updated household budget-consumption surveys; and delayed rebasing of NA. The national informal sector and employment survey was delayed to 2015 as a result of the 2014 popular uprising. Data were collected at end 2015. Data cleaning work has begun and is now completed. Work on the survey on the informal gold sector is expected to start before the

end of the year and its findings will inform the rebasing exercise, which is expected to be completed by 2018. The new base year will be 2015.

Price statistics: The CPI (2008=100) only covers African households in the capital; it excludes various types of purchased goods and services, and services of owner-occupied dwellings and prices of unavailable products are presumed unchanged for up to three months rather than imputed from recorded prices changes of closely related products. The producer price index and the wholesale price index are neither compiled nor envisaged due to budgetary constraints.

Government finance statistics: A committee oversees the compilation of government finance statistics, strengthening coordination among fiscal agencies. The provision of expenditure data has also improved with the adoption of functional presentation of expenditure. The remaining areas for improvement include mainly the extension of the TOFE coverage to the general government and basing its compilation on the Treasury ledger.

Monetary finance statistics: Most of the problems in monetary statistics are not specific to Burkina Faso but affect all member countries of the WAEMU. The BCEAO has encountered difficulties in estimating currency in circulation in each WAEMU member country due to large backlogs of unsorted banknotes held by the central bank in its various national agencies.

Balance of Payments: The informal cross-border trade in goods is not estimated and could be large. Information on remittances should be improved. Consistency between balance of payments (BOP) and international investment position (IIP) should be checked. External debt statistics as reported to QEDS cover only public debt.

II. Data Standards and Quality

Burkina Faso participates in the General Data Dissemination Standard since December 28, 2001. A data ROSC visited Burkina Faso during May 8-21, 2003.

III. Reporting to STA

Balance of payments (BOP): The BCEAO's National Direction located in Ouagadougou is compiling annual BOP, IIP and CDIS data for Burkina and reporting them to STA. The reported BOP and IIP data are in line with the BPM 6 format. Burkina Faso participates in the Coordinated Direct Investment Survey (CDIS) and reports to STA annual direct investment data by partner country. The reported CDIS data are based on an annual survey of transactions, crosschecked with the annual Financial Reports of the companies, as available in BCEAO. The BCEAO does not provide any metadata (describing the methodology used for data collection) in relation to any of the datasets reported to STA.

Government Finances: Since October 2010, annual data and quarterly data covering the budget of the central government are reported to STA for publication in International Financial Statistics and the Government Finance Statistics yearbook. The latest reported data cover 2014. The BCEAO reports monetary data to STA with a lag of at most three months.

Burkina Faso: Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of data ⁶	Frequency of reporting ⁷	Frequency of publication ⁷	Memo Items: ⁸	
						Data quality – methodological soundness ⁹	Data quality – accuracy and reliability ¹⁰
Exchange Rates	Current	Current	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	2/2016	4/2016	M	M	M		
Reserve/Base Money	2/2016	4/2016	M	M	M	LO, LO, LNO, O	LO, O, O, O, O
Broad Money	2/2016	4/2016	M	M	M		
Central Bank Balance Sheet	2/2016	4/2016	M	M	M		
Consolidated Balance Sheet of the Banking System	2/2016	4/2016	M	M	M		
Interest Rates ²	3/2016	4/2016	M	M	M		
Consumer Price Index	3/2016	4/2016	M	M	M	O, LNO, O, O	LNO, O, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	12/2014	10/2015	I	I	I	O, LO, O, O	O, LO, O, O, LNO
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	12/2016	3/2016	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	12/2015	3/2016	A	A	A		

Burkina Faso: Table of Common Indicators Required for Surveillance (concluded)

External Current Account Balance	2014	3/2016	A	A	A	O, O, O, O	LO, O, LO, O, O
Exports and Imports of Goods and Services	2014	3/2016	A	A	A		
GDP/GNP	2013	5/2015	A	A	A	LO, LNO, LNO, LO	LNO, LNO, LO, LO, LNO
International Investment Position ⁶	2014	1/2016	A	A	A		

^{1/} Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

^{2/} Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

^{3/} Foreign, domestic bank, and domestic nonbank financing.

^{4/} The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

^{5/} Including currency and maturity composition.

^{6/} Includes external gross financial asset and liability positions vis-à-vis nonresidents.

^{7/} Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

^{8/} These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

^{9/} Reflects the assessment provided in the data ROSC or the Substantive Update (published on March 10, 2004, and based on the findings of the mission that took place during May 8-21, 2003) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording, respectively, are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

^{10/} Same as footnote 9 except referring to international standards concerning, respectively, source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.



BURKINA FASO

November 30, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION, SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR MODIFICATION OF A PERFORMANCE CRITERION, EXTENSION OF THE ARRANGEMENT AND AUGMENTATION OF ACCESS—DEBT SUSTAINABILITY ANALYSIS

Approved By
Anne-Marie Gulde
and **Peter Allum (IMF)**
and **Paloma Anos-
Casero (IDA)**

Prepared jointly by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

This joint World Bank/IMF Debt Sustainability Analysis (DSA) has been prepared in the context of the 6th Review under the program supported by the IMF's Extended Credit Facility (ECF). It is based on new end-2015 debt data. The major change since the last DSA update in June 2016 is the updated CPIA rating, which places Burkina Faso into the medium-strength policies and institutions category and results in lower debt sustainability thresholds. Nonetheless, Burkina Faso remains at moderate risk of debt distress, as higher WEO projections for gold and cotton prices and improved prospects for domestic gold production have improved the export and current account paths.¹

¹ Burkina Faso's three-year average CPIA score is 3.68, which yields a policy performance category of medium.

BACKGROUND AND UNDERLYING DSA ASSUMPTIONS

1. Burkina Faso's nominal stock of debt as of end-2015 was 32.5 percent of GDP (Text Table 1). This is in line with the estimates from the 4th/5th ECF Review (32.2 percent) and the 2014 DSA (31.2 percent). The composition of debt has continued to shift slowly towards domestic debt as external support has not kept pace with GDP growth and there has been a pronounced increase in domestic borrowing during the period of political uncertainty. External debt still comprised approximately 73 percent of the total debt stock at end-2015, down slightly from 75 percent in 2013.

Text Table 1. Burkina Faso: Public Debt Stock (2013–15)

	<i>(percent of GDP)</i>			
	2013	2014	2015	Percent (2015)
Public Debt	29.3	30.6	32.5	100
External Debt	21.9	22.0	23.8	73.2
Domestic Debt	7.4	8.6	8.7	26.8
<i>Memorandum items:</i>				
Overall Fiscal balance	-3.6	-1.9	-2.1	
GDP Growth	5.7	4.2	4.0	

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

2. The most important change since the June 2016 DSA update is the incorporation of updated CPIA ratings that now run until 2015. While Burkina Faso has consistently been assessed as having strong policy and institutional frameworks through 2013, the popular uprising and political transition in 2014 and 2015 have led to some deterioration in this overall assessment. The annual CPIA rating declined from 3.77 in 2013 to 3.61 in 2015, with the rolling three-year average declining from 3.77 at the time of the last joint DSA to 3.67 in the current DSA (Text Table 2). It must be noted that the transition authorities were able to maintain macroeconomic stability under difficult circumstances, and that the political transition ended successfully. Peaceful and fair elections were held in November 2015 and a new government was in place by early 2016, with political stability maintained since then. Against this background, policies and institutions are expected to improve, which should translate into higher CPIA ratings going forward.

Text Table 2. Burkina Faso: CPIA Rating, 2010–2015

	2010	2011	2012	2013	2014	2015	Average 2011-2013	2014 DSA Policy Performance Rating*	Average 2013-15	Current DSA Policy Performance Rating*		
<i>CPIA Rating</i>												
Burkina Faso	3.78	3.77	3.77	3.77	3.65	3.61	3.77	→ Strong	3.68	→ Medium		
Burkina Faso CPIA score							CPIA Assessment	PV of External debt to:			PV of external debt expressed as percent of:	
								GDP	Exports	Revenues	Exports	Revenues
Current DSA							Weak	30	100	200	15	18
2014 A-IV, 4th/5th ECF Review							Medium	40	150	250	20	20
							Strong	50	200	300	25	22

*The DSF uses the CPIA index to classify countries into one of three policy performance categories according to the strength of their policies and institutions. Countries with a CPIA score less than or equal to 3.25 are considered to have weak policies and institutions. Those with a CPIA score greater than 3.25 and less than 3.75 have medium policies and institutions. Countries with a CPIA score greater than or equal to 3.75 have strong policies and institutions.

Source: World Bank.

3. Text Table 3 and Box 1 summarize the main differences in macroeconomic assumptions between the previous full DSA (2014), the June 2016 DSA update for the 4th/5th ECF Review and the current DSA. The most significant changes come from the volatility in the international price of gold, Burkina Faso's primary export. While gold price forecasts remain below the estimates for the 2014 DSA, they have meaningfully rebounded from their end-2015 lows and are on a higher trajectory than at the time of the 4th/5th ECF review. Real GDP growth is projected to remain broadly similar to previous projections and to converge to about 6 percent over the long term.

Text Table 3. Burkina Faso: Changes in Assumptions for Current DSA compared with April 2014 and 4th/5th ECF Review DSAs

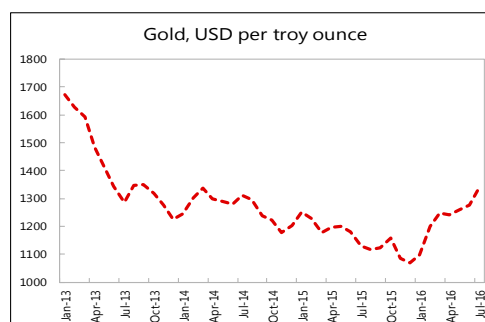
		2015	2016	2017	2018	2019	2020	2025	2030
Gold (USD/ounce)	↑ Current DSA (WEO)	1160	1282	1357	1374	1391	1404	1404	1404
	4th/5th ECF Review DSA	1160	1219	1231	1234	1243	1255	1255	1255
	2014 AIV DSA	1343	1370	1398	1438	1487	1487	1487	1487
Cotton Prices (cts/lb)	↑ Current DSA (WEO)	70	74	79	78	78	78	78	78
	4th/5th ECF Review DSA	70	58	59	62	62	62	62	62
	2014 AIV DSA	79	78	72	68	58	58	58	58
Exports of goods (% of GDP)	↑ Current DSA	21.3	21.3	23.1	23.0	22.5	22.2	21.6	20.8
	4th/5th ECF Review DSA	21.6	21.4	21.7	21.9	21.8	20.3	17.3	14.9
	2014 AIV DSA	18.3	17.9	17.2	17.2	16.6	16.3	15.1	15.6
Real GDP Growth (y/y)	↑ Current DSA	4.0	5.4	6.1	6.3	6.5	6.5	6.2	6.0
	4th/5th ECF Review DSA	4.0	5.2	5.9	6.1	6.2	6.0	6.0	6.0
	2014 AIV DSA	6.8	7.0	6.8	6.7	6.6	6.4	6.2	6.0
Current Account (% of GDP)	↓ Current DSA	-8.0	-7.6	-6.7	-6.5	-6.8	-7.0	-5.4	-4.8
	4th/5th ECF Review DSA	-6.4	-5.9	-5.3	-5.7	-6.0	-8.0	-10.1	-7.4
	2014 AIV DSA	-7.0	-7.0	-7.0	-7.1	-7.2	-7.5	-7.6	-7.4
Overall Fiscal balance (% of GDP)	↓ Current DSA	-2.1	-2.5	-3.6	-3.5	-3.5	-3.5	-4.5	-4.5
	4th/5th ECF Review DSA	-2.1	-3.1	-3.0	-3.0	-3.0	-3.1	-5.2	-6.4
	2014 AIV DSA	-3.1	-3.0	-3.6	-3.8	-4.0	-4.0	-5.9	-6.1

Sources: IMF staff estimates and projections. World Economic Outlook, October, 2016.

Box 1. Burkina Faso: Macroeconomic Assumptions Underlying the DSA

Gold and cotton prices have continued to recover since the last DSA. WEO gold price projections have rebounded 25 percent since their end-2015 lows and approximately 8 percent when compared to the previous DSA. Cotton price projections have also improved since the previous DSA, with 2016 prices about 28 percent higher in the current DSA.

Gold production is expected to rise steadily over the medium term as new mines start operating. The coming on stream of new gold mines and upward revisions in estimated gold reserves have led to an improved outlook for the sector. Nevertheless, mining revenues are inherently volatile and subject to uncertainties regarding both volume and prices.



GDP growth assumptions are somewhat higher than the baseline forecast during the 4th/5th ECF review, largely resulting from an expected rebound in agricultural output, improved prospects in the gold sector, and a significant scaling up of public investment.

The overall fiscal deficit (including grants) has increased slightly in the near term and is based on relatively stable, but higher recurrent spending levels, but also a planned scaling up in domestically financed public investment to tackle high infrastructure needs. The authorities are committed to improve domestic revenue mobilization and to moderate recurrent spending to increase available fiscal space that can be devoted to more growth-friendly spending and investment. Domestic revenue is expected to reach about 20 percent of GDP in 2019, from 15.9 percent in 2015. This along with upwardly revised assumptions on gold revenue mitigate the increase in expenditures and lead to only moderately higher deficits through to 2020.

Debt composition: Domestic debt is assumed to continue to increase consistently throughout the forecast horizon, reflecting the authorities' efforts to deepen the domestic financial market and to continue to tap into the regional market. The remainder of the deficit is financed via external debt, but on less generous terms to reflect some non-concessional financing and a cautious assumption about the availability of concessional financing going forward.

The current account deficit is forecast to continue shrinking from the unusually high level of 11.3 percent of GDP in 2013 and eventually stabilize around its long-run expected average of about 5-6 percent by 2022. Nevertheless, upside and downside risks to the current account are high and mainly relate to the evolution of international commodity, hydrocarbon, and mineral prices.

4. This DSA assumes continued modest use of non-concessional financing over the forecast horizon. Text Table 4 depicts the authorities' non-concessional borrowing plan for 2016. If all the planned loan conventions are signed within the year, non-concessional borrowing should rise to close to the program ceiling of CFAF 230 million.

5. The DSA includes both already-contracted and anticipated borrowing on a disbursement basis. The authorities have reiterated their ongoing commitment to rely as much as

Text Table 4. Burkina Faso: Planned Concessional and Non-Concessional Borrowing 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 asphaltting 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 Ouagadougou and Bobo Dioulasso (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	
Project for the recovery and distribution of surface water in the	WADB	Rural development	10	Interest rate: 3.6% Term: 18 years	Concessional

central plateau (signed September 26, 2016)				Grace period: 5 years	
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		
<i>*Concessional based on 35 percent grant element threshold for being classified as concessional financing.</i>					

possible on available concessional financing, but, in light of limited concessional resources, this DSA includes an assumption that nonconcessional borrowing will be continued, at modest levels, through the DSA horizon. Consistent with this and the conservative assumption of less concessional financing going forward, the grant element of new borrowing is assumed to decrease gradually over the forecast horizon. For 2017 it is assumed the authorities investment plans are constrained by a lack of available affordable financing, thereby reducing public investment, the government deficit, and gross borrowing requirements compared to the PNDES and the authorities draft 2017 budget.

6. Strengthening debt management capacity will be essential to ensure that the planned investment scaling up remains consistent with medium-term debt sustainability. The capacity of the debt office to oversee the build up of external and domestic debt, as well as contingent liabilities related to public-private partnerships implied by the government's investment program needs to be urgently strengthened. In particular, the authorities are invited to seek support to design and implement a comprehensive debt management strategy, and to provide additional resources to the debt office.

DSA RESULTS

A. External Debt

7. Compared with the previous DSA update, the DSA results are mainly affected by the use of lower thresholds, though Burkina Faso remains at moderate risk of debt distress. A less pessimistic external environment, in particular more favorable price projections for commodity exports, along with the prospects of increased gold production help offset the additional borrowing caused by a looser fiscal stance. Thus the baseline debt profile remains similar to that projected at the time of the 4th/5th ECF review, and remains below all risk thresholds. There are however several threshold breaches in the alternative scenarios caused by the move to the lower DSA thresholds.

8. In particular, under the standardized stress tests, the debt-to-exports ratio breaches the debt distress threshold in 2031 under the historical scenario and 2026 under the most extreme scenario. The breach is wider than that under the 2014 DSA as the risk threshold for the debt-to-exports ratio is revised from 200 to 150 percent under the current DSA, consistent with the change in Burkina Faso's CPIA rating. The volatility and sensitivity of exports can be largely attributed to the volatility of gold prices in international markets, which is exacerbated by Burkina Faso's narrow export base.

B. Total Public Debt DSA Results

9. The current DSA assumes continued increases in domestic financing, consistent with the desire to deepen the domestic financial market and further tapping regional markets. The region benefits from the ECB's easy monetary stance and financing terms are historically fairly favorable. In addition, the authorities continue to extend the maturities of domestic and regional borrowing and are gradually working towards a goal of issuances of up to 6 years on regional bonds in 2017. However, the projected increase in domestic debt remains modest. Nonetheless, in the current environment of weak private sector credit growth, larger public debt issuances by the authorities could further limit the availability of loanable funds and thus hamper private sector development. The public debt-to-GDP ratio slowly rises over time and is estimated to peak at 50.9 percent of GDP in 2036.

C. An Alternative Scenario

Staff and the authorities collaborated to develop an alternative scenario that is more optimistic than the baseline, but still constrained by the level of available financing and implementation capacity (Text Table 5). The alternative scenario begins in 2017 with a more optimistic assumption on external financial support, which includes higher grants and concessional financing amounting to 1.9 percent of GDP. The increase is predicated on a successful December 7-8 round table in Paris and potentially higher commitments by development partners during 2017. Domestically-financed investment is increased to 9.2 percent of GDP, up from 7.3 percent in the baseline. GDP growth in 2017 rises to 6.8 percent, compared with 6.1 percent in the baseline, and over the medium term trends at 7 percent versus 6.5 percent in the baseline. Steps taken by the

authorities to boost project execution in 2017, including streamlining and acceleration of procurement processes, as well as close monitoring of the largest infrastructure projects, are expected to facilitate the large increase in public investment.

Text Table 5. Burkina Faso: Baseline and Alternative Scenarios (2016–19)

	2016	2017		2018		2019	
	Proj.	Baseline	Scen.	Baseline	Scen.	Baseline	Scen.
	(Annual percentage change, unless otherwise indicated)						
GDP at constant prices	5.4	6.1	6.8	6.3	7.0	6.5	7.0
Consumer prices (annual average)	0.7	1.5	1.5	2.0	2.0	2.0	2.0
Credit to the private sector	9.4	12.9	14.0	14.7	15.4	15.4	18.0
Terms of trade	8.7	0.4	0.4	1.9	2.0	0.2	0.2
	(Percent of GDP, unless otherwise indicated)						
Current Account	-7.6	-6.7	-7.2	-6.5	-7.4	-6.8	-7.6
Overall fiscal balance, incl. grants (commitments)	-2.5	-3.6	-4.2	-3.5	-3.5	-3.5	-3.0
Total public debt	31.7	32.6	33.0	32.9	33.2	33.1	32.7

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

10. Under the alternative scenario, Burkina Faso’s debt sustainability improves slightly as increases in GDP, revenues, and exports offset additional borrowing over the medium term.

The additional external support is assumed to consist mostly of grants and highly concessional borrowing, resulting in a very moderate impact on the present value of debt. The alternative scenario maintains the same assumptions as in the baseline regarding investment efficiency and growth multipliers, taking into account the authorities’ efforts to improve investment execution and prioritization. Furthermore, PNDES priority investments are heavily tilted towards filling key physical infrastructure gaps, in particular in the energy sector, and are thus anticipated to have a positive growth impact. Figure 1b plots the evolution of key debt sustainability indicators under the alternative scenario. A caveat on the analysis remains that changes to key assumptions on the terms and volume of additional financing, as well as the execution capacity during a scaling up of public investment, can alter the results. In this regard other tools are better equipped to investigate the long-term fiscal and debt sustainability implications of investment scaling up episodes, in particular the debt-investment-growth nexus. The analysis in the Selected Issues Paper on scaling up public investment makes use of the DIGNAR² model to better capture the impact of higher capital spending on growth, execution efficiency, fiscal space and debt sustainability.

CONCLUSION

11. The DSA results indicate that Burkina Faso’s risk of debt distress remains “moderate.”

The baseline scenario shows no breach of debt distress thresholds for any of the indicators, despite a reduction in the thresholds compared to the last DSA due to a change in Burkina Faso’s CPIA categorization, but there are meaningful and sustained breaches under shock scenarios, which, taken together, form the basis of maintaining a debt distress rating of ‘moderate’. Going forward, the

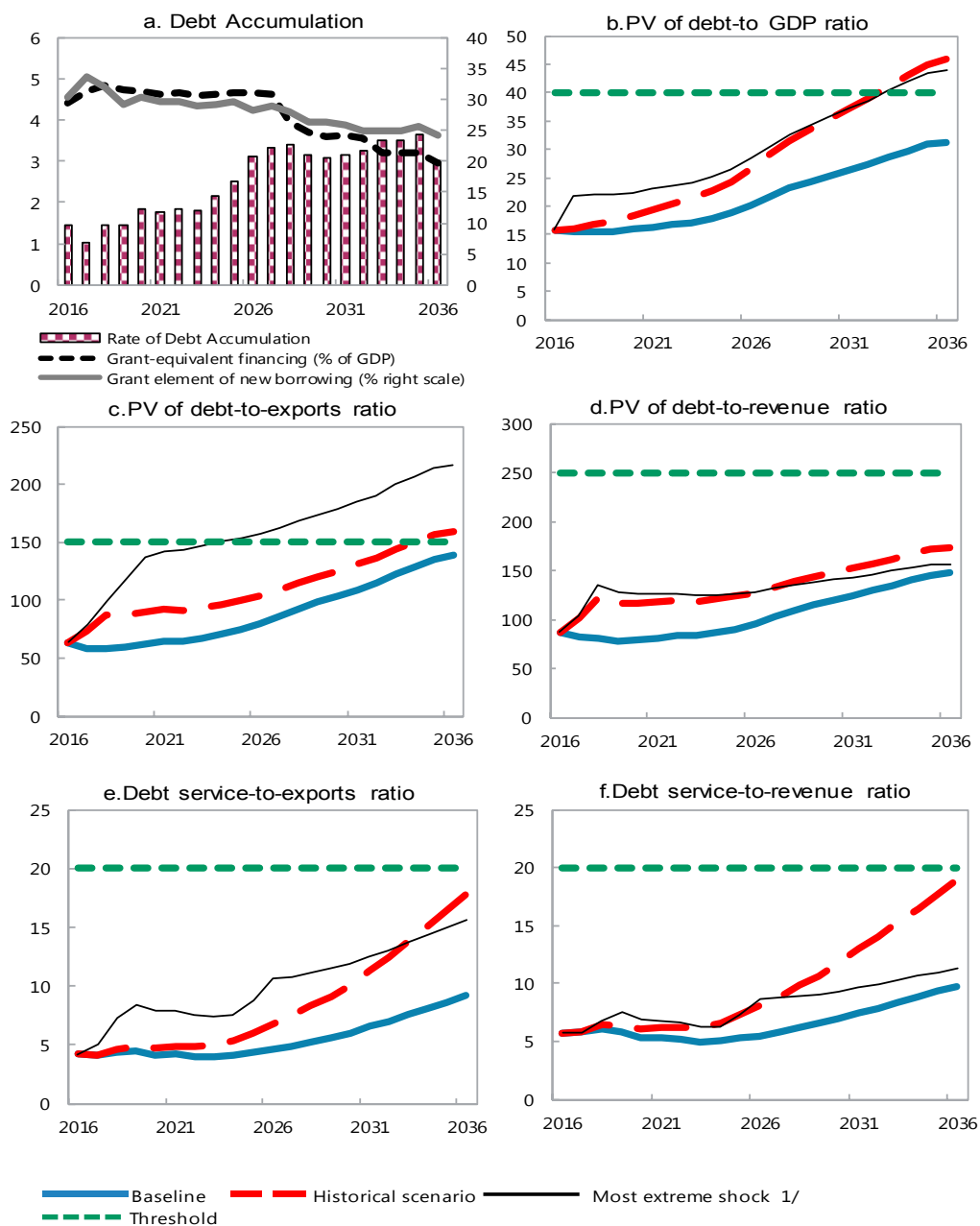
² Debt Investment, Growth and Natural Resources (DIGNAR) model developed by Melina, Yang and Zanna (2014) <http://www.imf.org/external/pubs/ft/wp/2014/wp1450.pdf>.

return to political stability ought to lead to improvements in the CPIA ratings. Nonetheless, even in staff's relatively conservative baseline scenario, there are risks associated with steadily rising external and public debt levels. A reversal of the favorable external conditions including domestic and regional financing terms and availability would raise the costs of domestic debt, and a terms of trade shock would affect the current account and fiscal deficits. Other shocks (weather, security) could lead growth or revenue collection to underperform and would lead to a more rapid debt accumulation.

Authorities' Views

12. The authorities generally concurred with the DSA results and noted that the change in CPIA score, and associated DSA thresholds, comes at an inopportune time given their ambitious medium-term development strategy. The authorities felt that the deterioration in Burkina Faso's CPIA score was a result of the political transition of 2014-15. Going forward, they noted that the return to political stability in a fair and free election, together with their comprehensive structural reform agenda ought to lead to fairly rapid improvements in their CPIA ratings. The authorities also emphasized their strong track record of macroeconomic management, with prudent deficits and a relatively low level of indebtedness. Given the high expectations from the population for swift reforms, the authorities saw the necessity to utilize some fiscal space to finance public investment and catalyze sustainable economic growth. They nevertheless reiterated their commitment to maintaining prudent debt levels and keep their assessed level of debt distress at a 'moderate' rating. The authorities maintained that the more optimistic alternative scenario better reflects the likely path of the economy and have an expectation that this can even be exceeded, provided additional external support, along with improvements in public investment execution, in line with the PNDES' objectives.

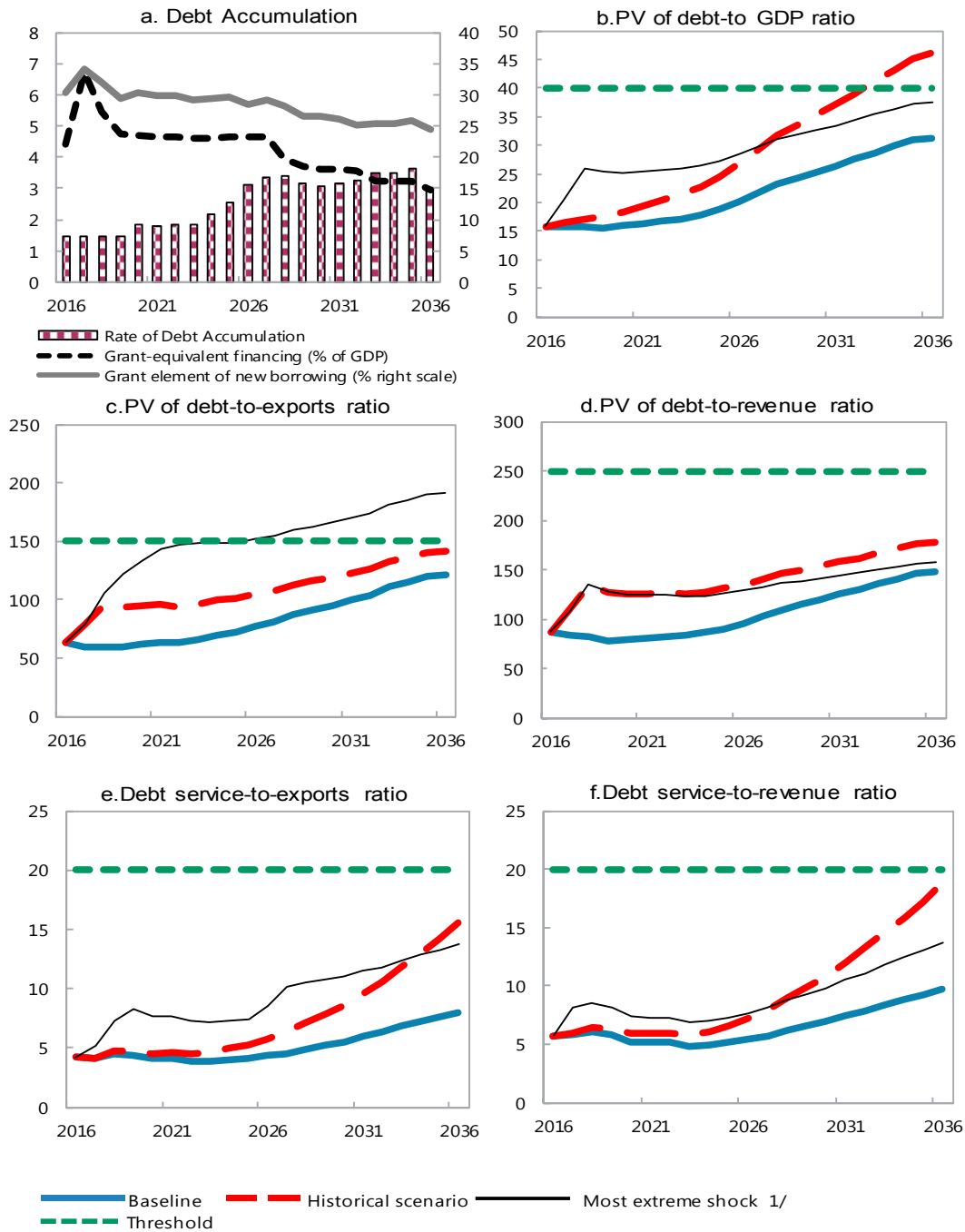
Figure 1a. Burkina Faso: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2016–36¹ (Baseline Scenario)



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a Exports shock

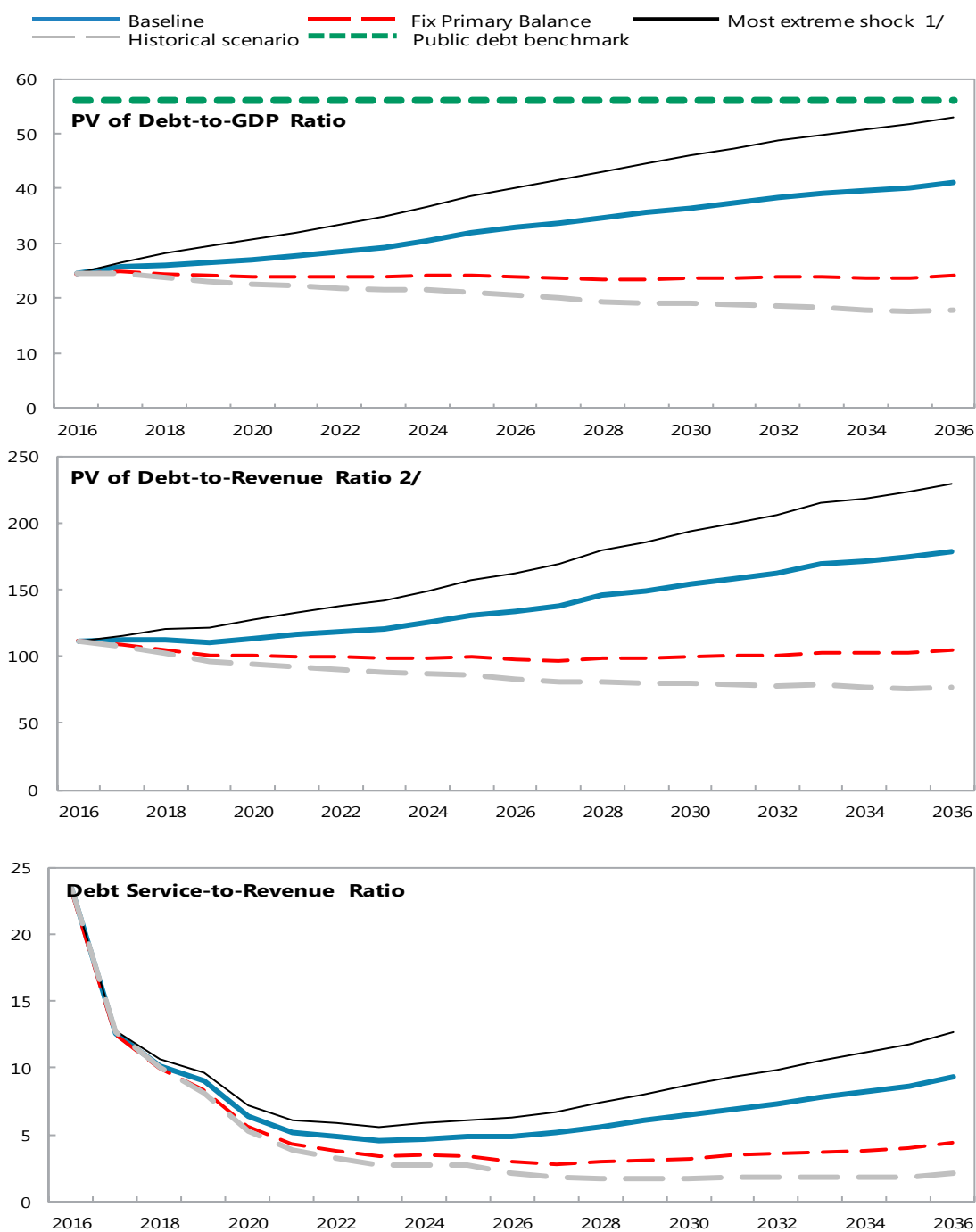
Figure 1b. Burkina Faso: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2016–36¹ (*Alternative Scenario*)



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b, it corresponds to a Combination shock; in c, to a Exports shock; in d, to a Exports shock; in e, to a Exports shock and in figure f, to a One-time depreciation shock

Figure 2. Burkina Faso: Indicators of Public Debt Under Alternative Scenarios, 2016–36¹



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.

2/ Revenues are defined inclusive of grants.

Table 2. Burkina Faso: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013–36
(Percent of GDP, unless otherwise indicated)

	Actual			Average ^{5/}	Standard Deviation ^{5/}	Estimate						Projections			
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	29.3	30.6	32.5			31.7	32.6	32.9	33.1	33.7	34.5		40.3	50.9	
<i>of which: foreign-currency denominated</i>	21.9	22.0	23.8			23.2	22.4	22.3	22.1	22.5	23.0		27.7	41.1	
Change in public sector debt	1.0	1.3	1.9			-0.8	0.8	0.3	0.2	0.6	0.7		1.5	0.9	
Identified debt-creating flows	1.7	3.3	2.6			-0.4	1.0	0.8	0.7	0.8	0.9		1.5	0.7	
Primary deficit	3.1	1.3	1.6	1.1	6.5	1.9	2.9	2.9	2.9	2.9	3.0	2.7	3.8	3.4	3.5
Revenue and grants	24.5	21.7	19.4			22.0	22.9	23.3	24.0	23.9	24.0		24.6	23.0	
<i>of which: grants</i>	5.5	4.2	3.5			3.8	4.0	4.0	4.0	3.8	3.8		3.4	1.9	
Primary (noninterest) expenditure	27.5	23.0	20.9			23.9	25.8	26.2	26.9	26.8	27.0		28.4	26.5	
Automatic debt dynamics	-1.4	2.1	1.1			-2.2	-1.9	-2.1	-2.2	-2.2	-2.1		-2.3	-2.7	
Contribution from interest rate/growth differential	-0.4	-0.3	-1.7			-1.5	-1.7	-2.0	-2.1	-2.1	-2.1		-2.3	-2.7	
<i>of which: contribution from average real interest rate</i>	1.1	0.9	-0.5			0.1	0.1	0.0	-0.1	-0.1	-0.1		-0.1	0.1	
<i>of which: contribution from real GDP growth</i>	-1.5	-1.2	-1.2			-1.7	-1.8	-1.9	-2.0	-2.0	-2.0		-2.3	-2.8	
Contribution from real exchange rate depreciation	-0.9	2.4	2.8			-0.7	-0.1	-0.1	-0.2	0.0	0.0		...	...
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.7	-2.0	-0.7			-0.4	-0.2	-0.5	-0.5	-0.2	-0.1		0.0	0.2	
Other Sustainability Indicators															
PV of public sector debt			24.8			24.4	25.7	26.2	26.6	27.1	27.8		32.8	41.1	
<i>of which: foreign-currency denominated</i>	...	...	16.1			15.9	15.5	15.6	15.6	16.0	16.4		20.1	31.2
<i>of which: external</i>	...	...	16.1			15.9	15.5	15.6	15.6	16.0	16.4		20.1	31.2
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	4.9	3.6	4.1			7.0	5.8	5.3	5.1	4.5	4.2		5.1	5.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	128.0			111.0	112.3	112.3	110.8	113.5	116.0		133.4	178.2
PV of public sector debt-to-revenue ratio (in percent)	...	...	156.3			133.9	136.3	135.6	133.0	135.0	137.9		154.8	193.8
<i>of which: external 3/</i>	...	...	101.2			86.9	82.4	80.7	77.8	79.4	81.0		95.0	147.2
Debt service-to-revenue and grants ratio (in percent) 4/	7.5	11.0	13.2			23.3	12.6	10.2	9.0	6.4	5.2		5.0	9.3	
Debt service-to-revenue ratio (in percent) 4/	9.6	13.7	16.1			28.1	15.3	12.3	10.8	7.6	6.2		5.7	10.1	
Primary deficit that stabilizes the debt-to-GDP ratio	2.1	0.0	-0.3			2.6	2.0	2.5	2.7	2.4	2.2		2.4	2.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.7	4.2	4.0	5.5	1.6	5.4	6.1	6.3	6.5	6.5	6.5	6.2	6.2	6.0	6.1
Average nominal interest rate on forex debt (in percent)	1.0	1.0	0.9	1.0	0.2	1.4	1.5	1.7	1.8	2.0	2.1	1.8	2.5	2.8	2.6
Average real interest rate on domestic debt (in percent)	7.3	6.6	0.8	2.8	3.9	2.8	2.8	0.4	-0.3	-1.1	-1.2	0.6	-1.6	-1.2	-1.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.3	11.1	13.4	1.2	8.6	-3.1
Inflation rate (GDP deflator, in percent)	-2.1	-0.9	3.7	3.0	3.6	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.2	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	16.5	-13.1	-5.1	-0.1	7.2	20.1	14.5	8.2	9.4	6.2	7.0	10.9	7.2	5.5	6.0
Grant element of new external borrowing (in percent)	32.0	30.9	30.5	29.2	30.3	29.7	30.4	28.3	24.1	...

Sources: Country authorities; and staff estimates and projections.

1/ Central Government Gross Debt.

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

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 3. Burkina Faso: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36

(Percent)

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of debt-to GDP ratio								
Baseline	16	15	15	15	16	16	20	31
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016–2036 1/	16	17	18	19	20	22	27	46
A2. New public sector loans on less favorable terms in 2016–2036 2	16	16	17	17	18	19	27	46
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017–2018	16	16	16	16	17	17	21	33
B2. Export value growth at historical average minus one standard deviation in 2017–2018 3/	16	20	26	25	25	25	27	33
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017–2018	16	17	19	19	19	20	24	38
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017–2018 4/	16	17	18	18	18	18	22	32
B5. Combination of B1–B4 using one-half standard deviation shocks	16	19	24	23	24	24	27	37
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	16	22	22	22	22	23	28	44
PV of debt-to-exports ratio								
Baseline	63	58	58	59	61	64	79	138
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016–2036 1/	63	62	67	72	79	85	137	159
A2. New public sector loans on less favorable terms in 2016–2036 2	63	60	63	66	71	76	105	203
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017–2018	63	58	58	59	61	64	79	138
B2. Export value growth at historical average minus one standard deviation in 2017–2018 3/	63	92	144	143	144	147	157	216
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017–2018	63	58	58	59	61	64	79	138
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017–2018 4/	63	62	68	68	70	73	86	140
B5. Combination of B1–B4 using one-half standard deviation shocks	63	73	87	87	89	92	104	159
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	63	58	58	59	61	64	79	138
PV of debt-to-revenue ratio								
Baseline	87	82	80	77	79	81	95	147
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016–2036 1/	87	88	93	95	101	107	127	173
A2. New public sector loans on less favorable terms in 2016–2036 2	87	85	86	86	91	96	126	217
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017–2018	87	84	84	81	83	84	100	154
B2. Export value growth at historical average minus one standard deviation in 2017–2018 3/	87	104	135	128	126	126	128	156
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017–2018	87	91	97	94	96	98	115	178
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017–2018 4/	87	88	93	90	90	91	103	149
B5. Combination of B1–B4 using one-half standard deviation shocks	87	101	123	117	117	118	127	173
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	87	116	113	110	111	114	134	208

Table 3. Burkina Faso: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36 (concluded)

(Percent)

Debt service-to-exports ratio								
Baseline	4	4	4	4	4	4	5	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	4	4	5	5	5	5	7	18
A2. New public sector loans on less favorable terms in 2016-2036 2	4	4	4	4	4	4	6	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	4	4	4	4	4	4	5	9
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	4	5	7	8	8	8	11	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	4	4	4	4	4	4	5	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	4	4	5	5	4	4	5	9
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	5	6	5	5	7	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	4	4	4	4	4	4	5	9
Debt service-to-revenue ratio								
Baseline	6	6	6	6	5	5	5	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	6	6	6	6	6	6	8	19
A2. New public sector loans on less favorable terms in 2016-2036 2	6	6	6	6	6	6	7	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	6	6	6	6	6	6	6	10
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	6	6	7	7	7	7	9	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	6	6	7	7	6	6	7	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	6	6	6	6	6	6	6	10
B5. Combination of B1-B4 using one-half standard deviation shocks	6	6	7	8	7	7	8	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	6	8	9	8	7	7	8	14
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24	24	24	24	24	24	24	24

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 4. Burkina Faso: Sensitivity Analysis for Key Indicators of Public Debt, 2016–36

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	24	26	26	27	27	28	33	41
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	24	24	23	23	22	21	18
A2. Primary balance is unchanged from 2016	24	25	25	24	24	24	24	24
A3. Permanently lower GDP growth 1/	24	26	26	27	28	29	37	53
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017–20	24	27	28	29	31	32	40	53
B2. Primary balance is at historical average minus one standard deviations in 2017–201	24	29	33	33	33	34	38	44
B3. Combination of B1–B2 using one half standard deviation shocks	24	27	29	30	31	32	39	49
B4. One-time 30 percent real depreciation in 2017	24	32	32	32	31	32	35	42
B5. 10 percent of GDP increase in other debt-creating flows in 2017	24	33	34	33	34	34	38	44
PV of Debt-to-Revenue Ratio 2/								
Baseline	112	112	112	111	113	116	134	178
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	112	107	102	96	94	92	83	77
A2. Primary balance is unchanged from 2016	112	109	105	101	100	100	97	105
A3. Permanently lower GDP growth 1/	112	113	113	113	117	121	148	230
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017–20	112	116	121	122	127	133	162	229
B2. Primary balance is at historical average minus one standard deviations in 2017–201	112	128	143	139	140	141	154	191
B3. Combination of B1–B2 using one half standard deviation shocks	112	118	124	124	128	132	157	214
B4. One-time 30 percent real depreciation in 2017	112	139	136	131	132	132	143	182
B5. 10 percent of GDP increase in other debt-creating flows in 2017	112	146	144	139	141	142	155	192
Debt Service-to-Revenue Ratio 2/								
Baseline	23	13	10	9	6	5	5	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	23	13	10	8	5	4	2	2
A2. Primary balance is unchanged from 2016	23	13	10	8	6	4	3	4
A3. Permanently lower GDP growth 1/	23	13	10	9	7	5	6	12
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017–20	23	13	11	10	7	6	6	13
B2. Primary balance is at historical average minus one standard deviations in 2017–201	23	13	11	12	9	6	6	11
B3. Combination of B1–B2 using one half standard deviation shocks	23	13	11	10	7	6	6	12
B4. One-time 30 percent real depreciation in 2017	23	14	12	11	9	7	7	15
B5. 10 percent of GDP increase in other debt-creating flows in 2017	23	13	11	14	7	6	7	11

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

**Statement by Mr. Sembene, Executive Director for Burkina Faso and
Mr. Nguema-Affane, Senior Advisor to the Executive Director
December 16, 2016**

Our Burkinabe authorities are thankful to Management and staff for Fund's continued program engagement with Burkina Faso as well as the constructive policy discussions that have been maintained with them. The staff report gives a good account of these discussions, which focused on addressing the countries' infrastructure investment needs to foster higher growth and structural transformation of the economy.

The Burkinabe authorities have continued to implement their Fund-supported program satisfactorily amid a challenging domestic and external context. All end-June 2016 quantitative performance criteria and indicative benchmarks were met, most by wide margins. At the same time, most of the structural benchmarks were met. This continued progress shows the authorities' commitment to maintain macroeconomic stability and strengthen the foundations of growth in accordance with the national development plan.

Recent Economic Developments and Performance under the ECF arrangement

Economic activity picked up in 2016, following two years of weak growth. Preliminary estimates indicate that while growth in the first quarter was negatively impacted by the January terrorist attacks, it reached about 8.3 percent in the second quarter of 2016.

Overall, economic growth is projected to reach about 5.4 percent this year, driven by a strong recovery in the services and the production of the two new gold mines. Inflation declined at end-September 2016 on account of lower transport and energy prices and is expected to be contained below 1 percent at end-2016. The overall fiscal deficit is projected at 2.5 percent of GDP in 2016, slightly below its 2015 level. The current account balance is projected to improve this year, notably as a result of gold production and higher gold and cotton prices.

Program implementation remains strong, as noted in the staff report. All quantitative performance criteria and indicative benchmarks were met, most by wide margins. In the fiscal sector, the overall fiscal deficit at end-June 2016 was met with a wide margin as total revenue overperformance more than offset spending overruns caused by the implementation of the new civil servants' employment framework and other public wage agreements.

On the structural front, six of the eight end-June 2016 structural benchmarks were met in a timely manner. In addition, the SONABHY's quarterly financial report was transmitted as expected—albeit with delay. While the use of a standardized invoice by large and medium-sized enterprises did not take place as scheduled, progress is being made on this front and expected to be completed by early 2017, as noted by staff.

As regard benchmarks set for the second half of 2016, the July 2016 benchmark concerning the payment by SONABHY to the government to clear the arrears of the state-owned power company, SONABEL was met as scheduled, and a second payment 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. The authorities are requesting that the benchmark concerning combating fraud in the transport of fuel initially set for November 2016 be reprogrammed for end-December 2016, due to delays in its implementation.

As a result of the implementation of the program's structural measures, significant inroads were made toward the program objectives of improving revenue mobilization, public financial management, and transparency and the financial position of publicly-owned energy sector enterprises.

Program for the remainder of 2016 and beyond

The authorities remain committed to implementing their economic and social program supported by the ECF. For the remainder of the program period, continued focus will be made on preserving macroeconomic stability and promoting sustained and inclusive growth, in line with the country's PNDES. The authorities expect growth to be higher in 2017 with notably the implementation of the larger investment program envisaged in the PNDES, and the expected rebound in the agricultural output following abundant rainfall in 2016.

The draft 2017 budget, which is consistent with the PNDES, is geared notably towards creating fiscal space to increase public investment while preserving social expenditure and maintaining debt sustainability. In this regard, the efforts already being made by the revenue administrations will be pursued to increase mobilization of domestic revenue. The authorities intend to implement the recommendations of the Fund technical assistance mission on transfer pricing in 2017, and look to forward to further Fund support in the context of the tax code revision. Recurrent spending is expected to decline as a share of GDP, notably as a result of lower oil subsidies and measures taken to contain growth in both the wage bill and the workforce with the objective to return to a wage bill-to-tax revenue ratio of approximately 35 percent by 2019, which is a WAEMU convergence criterion. Fiscal reforms to improve cash management and accelerate the implementation of the investment program will be pursued.

Steps will be taken to further strengthen public financial management, building on recent reform measures implemented on this front. These include measures to ease implementation of development projects, programs and activities that were adopted by the National Assembly in July 2016 and which 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. Following the adoption of these measures, a new procurement code was submitted to the National Assembly with the aim of complying with the WAEMU standard on the use of special procedures in public procurement management. Going forward, the authorities have requested a Public Investment Management Assessment (PIMA) in early 2017, to identify priority measures to improve the execution of the investment budget.

While Public debt remains sustainable with the debt sustainability analysis showing that Burkina Faso remains at a moderate risk of debt distress, the authorities are determined to continue strengthening debt management. In this regard, they will particularly seek to improve planning and monitoring of interventions in the regional markets and extend maturity of securities. A strategy to validate ‘irregular’ domestic debts identified in the annual report of the national anti-corruption authority will be adopted, upon verification of the corresponding amounts. The External Stability Assessment reported in Annex I shows that Burkina Faso’s CPIA rating is higher than its peers, illustrating the relative strength of the country’s policies and institutions. In this light, we encourage staff to continue working closely with the authorities strengthen institutional and debt management capacities further, notably with a view to improving the country’s debt distress rating.

The authorities plan to take advantage of continued low oil prices to pursue the reforms being undertaken in the energy sector. They will continue implementing the main recommendations of the SONABEL and SONABHY external audits, to ensure more efficient financial management and reduced operating costs. 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. To avoid the accumulation of new government contingent liabilities vis-à-vis SONABHY in the event of an upturn in world oil prices, the authorities are also considering to gradually implement the automatic adjustment mechanism for hydrocarbon prices in the domestic market.

The authorities will pursue reforms to improve the competitiveness of the economy as envisaged in the PNDES. In particular, the authorities will finalize a national financial inclusion strategy in 2017. This will provide an opportunity to consolidate the various financial inclusion and microfinance initiatives and to prioritize the key reforms that will facilitate improved access to financial services. While the banking system remains sound, relatively profitable and well-capitalized, vulnerabilities related weak credit growth and credit concentration need to be addressed. Against this background, ongoing efforts to promote financial sector development and stability will thus be sustained in close collaboration with the BCEAO.

Request for Access Augmentation and Future Engagement with the Fund

In July 2016, the authorities adopted a new national development plan (*Plan National*

de Développement Economique et Social, PNDES), which sets out strategic guidelines for economic and social development for the period 2016-2020. The PNDES draws on the presidential program, the “Burkina 2025” vision, and regional and global initiatives such as the African Union’s Agenda 2063 and the Sustainable Development Goals. The overall objective of the PNDES is to structurally transform the Burkina Faso economy into one of the strong, sustainable, resilient and inclusive growth that creates decent jobs for all and brings an improvement in social well-being. The plan is built on three strategic pillars: (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. The plan envisages a notable increase in public investment to upgrade energy, transportation, and water management infrastructure. The plan also includes a strategy to improve value added in the cotton sector as well as agricultural diversification outside the cotton sector, to reduce the country’s external vulnerability.

To mobilize the financing needed for the PNDES a donor roundtable was held in Paris on December 7-8, 2016, with the World Bank acting as the lead of the technical and financial partners.¹ Significant donors’ pledges were received on that occasion, demonstrating the interest of the country’s partners in assisting the authorities in the implementation of their development plan. The Burkinabe authorities greatly appreciated the contribution of the Fund at this event.

In order to support the PNDES and ensure continuity, the Burkinabe authorities are requesting an extension of the program by nine months until September 2017 and an augmentation of SDR 4.47 million to be disbursed upon completion of a seventh review in June 2017. The authorities have expressed an interest in a successor arrangement which is likely to be requested at the time of the seventh review of the current arrangement.

Conclusion

Our Burkinabe authorities have continued to implement the ECF-supported program satisfactorily. Despite a difficult security situation in early 2016, the government managed to keep the program on track. 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. Going forward, the authorities are committed to implementing prudent policies in the context of the newly adopted PNDES, which notably envisages a scaling-up of public investment.

In light of the good progress made in the implementation of the program, they are requesting the completion of the sixth review under the ECF as well as the modification of the performance criterion on non-concessional borrowing, an extension of the current arrangement by nine months until September 2017, and an augmentation of access under the current arrangement that will be disbursed at the time of the seventh review. We would appreciate Directors’ favorable consideration of the authorities’ requests.

¹ More information on the PNDES and the donors conference is available at <https://www.pndes2020.com/english/>