Burkina Faso and the IMF

Press Release:
IMF Executive Board Completes Seventh and Final Review Under the Extended Credit Facility Arrangement for Burkina Faso and Approves US$6.2 Million Disbursement
July 14, 2017

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

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

June 23, 2017

Letter of Intent

MINISTRY OF ECONOMY,
FINANCE, AND DEVELOPMENT

GENERAL SECRETARIAT

DIRECTORATE GENERAL
OF COOPERATION
N°2017______/MINEFID/SG/DGCOOP

Ouagadougou, June 23, 2017

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

SUBJECT: LETTER OF INTENT CONCERNING ECONOMIC AND FINANCIAL POLICIES

Madame Managing Director:

1. The Government of Burkina Faso has pursued the implementation of the measures called for in its economic program supported by the arrangement under the Extended Credit Facility (ECF) of the International Monetary Fund (IMF) for the period 2013-2017, which expires at the end of September 2017. During this period, we have been able to reduce economic vulnerabilities and long-term structural rigidities that are a barrier to strong and sustainable growth. We have maintained macroeconomic stability through fiscal responsibility while successfully managing a peaceful political transition after the previous administration was removed by a popular insurrection. During this time, we have strengthened tax administration and revenue collection, public financial management, and made reforms to the energy sector to place it on a more sustainable footing

2. In July 2016, the government adopted a new national economic and social development plan (*Plan National de Développement Économique et Social* – PNDES). The overall objective of the PNDES is to structurally transform the Burkina Faso economy to ensure strong, sustainable, resilient, and inclusive growth that conducive to creating decent jobs for all and brings an improvement in social well-being.

3. The macroeconomic framework remains broadly unchanged and the government has reaffirmed its commitments to the policies and reforms described in this letter of intent. Based on the satisfactory implementation of the program, we request the completion of the seventh review under the ECF arrangement and the release of the final disbursement equivalent to SDR 4.47. million.

RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

Recent Developments

4. Economic activity in Burkina Faso picked up in 2016, with real GDP growth estimated at 5.9 percent, exceeding the average annual rate of about 4.1 percent during 2014-2015. The economic recovery was driven by favorable rainfall, as well as beneficial external economic conditions marked by a rise in prices for export commodities (gold, cotton, and zinc) and relatively low oil prices. The recovery occurred despite a challenging security environment, with a terrorist attack in Ouagadougou in January 2016 and incursions by jihadists in the northern part of the country, and social tensions. Inflation remains low, at -0.2 percent in 2016, compared to 0.9 percent in 2015, owing to a moderation in food prices resulting from abundant harvests, improvements in distribution networks, and a decline in transport prices because of lower pump prices. The current account deficit narrowed somewhat in 2016 to around 7 percent of GDP. Increases in gold and cotton production led to an increase in exports, while higher economic growth and public investment drove up imports.

5. Fiscal policy implementation improved in 2016, but fell somewhat short of our ambitious targets. The strong recovery in revenue collections reflected a normalization in tax collection after the temporary decline observed during the political transition. Tax revenue increased by 1.1 percentage point of GDP in 2016, to 15.3 percent, driven by large increases in corporate income and value-added tax collections. In addition, overall revenue was boosted by some individual transactions, including a payment of 35 billion FCAF from the state-owned oil importer, SONABHY, for capital gains realized in the first half of 2016. Mining revenue rebounded and increased to 2.7 percent of GDP. Nonetheless, overall revenue excluding grants remained 57 billion FCAF (0.7 percent of GDP) below target for 2016.

6. Current spending reached 15.8 percent of GDP in 2016, an increase of 1.7 percentage points compared to 2015. This increase was mainly due to the financial impact of Law 081 which aimed to harmonize the remuneration of civil servants and contractors at the central government level (increase of 0.7 percentage points of GDP), as well as the upgrading of the remuneration of officials of public institutions (increase of 0.3 percentage points of GDP). Thus, changes in the government wage bill accounted for almost half of the increase in current expenditure. Domestically-financed investment spending remained broadly constant in nominal terms, at about FCFA of 346 billion, but declined to 4.9 percent of GDP from 5.3 percent the year before. The execution rate for this spending of 95 percent was in line with the historical average despite delays in passing the first supplementary budget in the first half of 2016.

7. The overall deficit on a commitment basis was 3.2 percent of GDP. This was slightly higher than the 2.5 percent of GDP projected during the sixth review and largely due to lower than expected tax collections in the last quarter of the year.

Program Implementation

8. Performance under the seventh and final review of the ECF-supported program has continued to be satisfactory despite implementation taking place in a challenging security environment, particularly in the northern part of the country, and in a difficult social context marked by social unrest and public sector labor disruptions. The government continued with its reform plan, which has served to consolidate macroeconomic stability and promote the recovery of economic activity.

9. All the quantitative performance criteria and the structural benchmarks for end-December 2016 have been achieved, some of the latter with minor delays (Tables 1 and 2). Two indicative quantitative criteria, relating to the ceiling on the deficit and the floor on revenue collection, were missed by a small margin. Of the nine structural benchmarks for the review, six were fully achieved as of December 31, and two were met with minor delays. After several postponements since 2014, the standardized (VAT) invoicing became effective as of February 21, 2017. This difficult reform will help to support our efforts at revenue collection and the fight against corruption.

MACROECONOMIC OUTLOOK AND RISKS

10. The economic outlook for 2017 and beyond is generally positive. We anticipate that real GDP growth could exceed the projected 6.4 percent, due to rising activity in the agricultural, mining, construction, and service sectors. Economic activity should also be supported by an intensification of public investment in transportation, energy, and telecommunications infrastructure. The largest projects planned within the framework of the PNDES will be subject to a higher level of scrutiny to ensure their proper execution. The service sector will benefit from the continuing advancement of telecommunications and the development of financial services with the spread of electronic payments and the deepening of financial inclusion. Over the medium-term, annual growth should firm around 7.3 percent. Inflation should remain moderate and well below the WAEMU criterion of 3 percent per year, underpinned by the pegged exchange rate regime and relatively stable prices.

11. The growth and inflation projections are subject to both domestic and external risks. The principal domestic risks are related to the unstable security situation outside of the capital and ongoing social tensions. Climate risk is ever-present in Burkina Faso, given the heavy dependence of agriculture on rainfall and desertification due to suboptimal agricultural methods. There are also some regional and global risks, including the tightening of financing conditions in WAEMU regional markets, as well as international markets more generally.

MACROECONOMIC AND STRUCTURAL POLICIES GOING FORWARD

Objectives

12. The key objectives of our economic policies going forward are to: (i) maintain macroeconomic stability through a credible and sustainable fiscal policy; (ii) create fiscal space to support public investment; (iii) improve public investment efficiency and execution; (iv) strengthen public financial management; (v) improve energy sector efficiency; and (vi) promote economic diversification and inclusive growth.

Fiscal Policy

13. The government is committed to the implementation of the PNDES, as well as to the WAEMU convergence process. In this context, the government has prepared a medium-term fiscal framework for 2018-2020. In addition to revising some fiscal policy targets for 2017, this document lays out the parameters for the preparation of the 2018 budget. The document also reiterates our commitment to achieving an overall fiscal deficit of below than 3 percent of GDP in 2019, consistent with the WAEMU fiscal deficit convergence criterion. Considering that 2017 is a pivotal year for the 2016-2020 PNDES - the year in which the implementation of the plan was launched - the government intends to accelerate public investment. The resulting budget deficit would amount to 5.5 percent of GDP. We recognize that this acceleration in public investment is very ambitious. We are committed to taking the actions necessary to overcome any slippages that may arise. To this end, we will make every effort to strengthen our design and implementation capacities for public investment and will accelerate the implementation of other reforms, including the mobilization of additional resources, both internal and external. A supplementary budget will be submitted to Parliament in September 2017 which will make necessary adjustments in the event that resource mobilization and public investment execution are below targets.

14. Fiscal policy will aim to increase the government's fiscal space to pursue priority investment projects. In this regard, the government is committed to strengthening domestic revenue mobilization to meet the WAEMU criterion for the ratio of the wage bill to domestic tax revenue. Investments will specifically focus on priority sectors in accordance with the PNDES.

15. The government will continue to pursue a prudent debt policy to maintain a moderate level of risk of debt distress. In this context, we intend to give preference to grants and concessional financing while continuing moderate recourse to the regional financial market. While public-private partnerships (PPPs) can be an instrument to support the goals of the PNDES, they also come with risks, and therefore capacity development activities related to PPPs will be stepped up to minimize the risks arising from PPP financing. Recourse to non-concessional financing remains an option of last resort and only for projects of the highest priority that have a proven economic return. The government will also continue to strengthen debt management. The government is committed to adequately staffing the Debt Management Department (DDP). The government already developed a medium-term debt management strategy in 2016 to support the implementation of the PNDES; this strategy is currently being updated.

Fiscal Space to Support Priority Public Investment

16. The achievement of the ambitious medium-term fiscal goals will require substantial fiscal reforms, on both the revenue and expenditure sides. It will also involve the creation of fiscal space by improving the financial sustainability of the energy sector, including by limiting subsidies and risks from contingent liabilities to the government budget.

17. The 2017 budget law contains new provisions to combat fraud and tax evasion to enhance revenue mobilization, including: (i) steps to combat transfer pricing, in particular the lowering of selling prices for mining products or raw materials by using stock market quotations;

and limits on the deduction of overhead costs; (ii) the attachment of additional documents to requests for the reimbursement of VAT credits with the aim of ensuring that the transactions actually have taken place; (iii) modification of the third-party notification procedures to compel financial structures and any third parties to comply with the instructions of the DGI; (iv) establishment of a legal requirement that a unique financial identification number (IFU) must be assigned, and making it mandatory for banks and financial institutions to include the IFU in identification documents for commercial and professional account holders; (v) elimination of exemptions from registration fees for deeds and transfers granted to semi-public companies in order to ensure equal treatment with other commercial companies. Additional measures are planned for the 2018 budget law, drawing on TA provided by the IMF and other international partners.

18. The government is working to control the wage bill. Preparatory studies have begun to review the compensation system to make it more effective, considering inputs from all stakeholders. The government will also prepare a list of job profiles and associated remunerations that can serve as the starting point for a functional review of the civil service. A streamlining of operating expenses is also under way, to promote a more efficient use of vehicles and consumables within the administration.

Investment Efficiency and Execution

19. Reforms will be undertaken to improve public investment selection, appraisal, and execution. To improve the quality and the execution of the capital budget in the program, the government has prepared a list of the highest priority PNDES projects. The government will also ensure that technical reviews and risk analyses of all major priority projects are undertaken and intends to prepare guidelines on how ex-ante project evaluations (including cost-benefit, cost-efficiency, and risk analysis) should be undertaken. In addition, the government will make efforts to improve the assessment of budgetary risks, notably those arising from investments by SOEs and through PPPs.

Public Financial Management

20. The government will continue to strengthen its public financial management systems and procedures. The government is in the process of transitioning to program budgeting. This new budget management approach should enable Burkina Faso to better integrate public investment in a multiyear approach, secure investment funding, and make the government budget a genuine tool for achieving public policy objectives. Cash flow management will be modernized and optimized with the implementation of a single treasury account (CUT). The government will continue with its efforts to improve the management of payment arrears.

Energy Sector Efficiency

21. Considerable progress has been achieved in regularizing the financial relations between SONABEL, SONABHY, and the government. The implementation of the Memorandum of Understanding among the three parties, together with the decline in fuel prices, has helped SONABEL pay its liabilities to SONABHY in a timely fashion. Longer-term, a change in the electricity mix is required to bring electricity costs down. This will involve developing renewable energies and improving import capacity, as well as greater electricity imports from surplus countries in the region. The government is working closely with the World Bank to develop financing schemes, including PPPs, in the electricity sector.

22. To limit budgetary risk from needed subsidies in the future, the government will consider introducing an automatic price adjustment mechanism for retail gasoline and diesel. However, since fuel is a strategic input that can have a significant impact on investment, prices and the cost of living, a preliminary study will be conducted, that will be followed by a communication campaign for the chosen option with a goal being to protect the poorest.

Economic Diversification and Financial Inclusion

23. The replenishment of the cotton smoothing and inputs funds has helped to strengthen the financial health of the cotton sector. In addition, the government, coordinating with cotton producers and societies, intends to continue strategic support to the sector to maintain and advance diversification. A study is under way to propose alternative measures to make the sector more resilient to exogenous shocks, by considering improvements in the management tools used in the sector and exploring strategic opportunities for increasing value-added.

24. Measures are also planned for supporting the development of other agricultural sectors through the continuation and reinforcement of growth poles (Bagré, Samendéni, Sourou, and Sahel), as well as the intensification of actions to promote water management, and to provide assistance and consulting support to rural areas. The PNDES also envisages efforts to support agricultural entrepreneurs in their efforts to secure much needed improvements in access to credit.

25. The development of the mining sector in Burkina Faso is based largely on gold and zinc, as the prospects for manganese production are still unclear. With the aim of ensuring the security of mining investments, the government intends to boost the operational capacities and resources of the National Office for the Security of Mining Sites (ONASSIM). With the completion of the national survey on artisanal gold production, and to reduce the recurring conflicts of interests between the artisanal gold producers and industrial mines, the government is planning to operationalize the Agence nationale d'encadrement des exploitations minières artisanales et semi-mécanisées (ANEEMAS) to coordinate, regulate, and supervise the activities of small artisanal miners in the country.

26. Financial inclusion is a key government priority. One of the objectives of the PNDES is to raise the bank account penetration rate to 35 percent by 2020. To this end, the government has undertaken the drafting of a National Financial Inclusion Strategy following the Making Access to Financial Services Possible (MAP) approach. This approach is based on a comprehensive analysis of demand, supply, and the regulatory environment to identify the main factors that could either hinder or encourage broader financial inclusion. Due consideration is being given to the regional financial inclusion strategy developed by the BCEAO.

27. The government favors the development of microfinance and mobile banking. Regarding microfinance, the government will assist in efforts to consolidate the sector, improve its solvency, and address weaknesses in IT frameworks that have hindered expansion of the sector. Concerning mobile banking, the government is considering the appropriate regulatory framework for the sector.

Poverty Reduction

28. Reducing extreme poverty and supporting the most vulnerable in society is central to the PNDES. The government recognizes that there is a need to develop both preventative and social protection programs. With respect to the latter, positive results have been achieved through the existing cash transfer program, which, with the assistance of the World Bank, currently reaches 40,000 households in four regions. Going forward, we plan is to expand the coverage nationwide to cover 400,000 households that live in extreme poverty with the assistance of key development partners. Expansion will require significant improvements in the level of financial inclusion so that transfers can be made efficiently through the financial system.

Improved macroeconomic data and monitoring

29. The processing of the employment and informal sector survey data is continuing. In addition, a survey of gold panning was launched in January 2017. It is aimed at providing an assessment of the production of artisanal and semi-mechanized gold-mining units, their value added, and the output of activities directly linked to them. The new base year of the national accounts will be 2015 and the compilation work will be carried out in 2017.

CONCLUSION

30. Based on the achievements to date and in view of the strength of our commitment to sound economic and structural policies going forward, we request that the IMF Executive Board complete the seventh review under the current ECF arrangement and disburse the remaining tranche in the equivalent of SDR 4.47 million.

31. To support the implementation of the PNDES in the period ahead, the government intends to request IMF technical and financial assistance through a new three-year ECF arrangement after the current economic and financial program expires. In the interim, Burkina Faso will continue its consultation and policy dialogue with the Fund.

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

Sincerely

/s/

Hadizatou Rosine Coulibaly/Sori

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

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

	2016		
	Dec.		
	Prog.	Prel.	Status
Quantitative Performance Criteria			
Ceiling on net domestic financing of central government	64.7	31.8	Met
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by government (1) (2)	355	220.4	Met
Ceiling on accumulation of external arrears (1)	0	0	Met
Indicative Targets			
Ceiling on domestic financing outside central government	50	-48.4	Met
Ceiling on the overall fiscal deficit including grants	184.4	224.6	Not Met
Floor on government revenue	1262	1230.5	Not Met
Floor on poverty-reducing social expenditures (3)	506	560.9	Met
Memorandum Item			
Ceiling on the amount of new concessional external debt contracted or guaranteed by government (1) (2)	350	173.1	Met

Sources: Burkinabè authorities; and IMF staff estimates.

(1) To be observed continuously.

(2) The limit is not tied to specific projects.

(3) 90 percent of budget amount.

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

Benchmark	Objective	Completion Date	Status
The Investigations and Intelligence Directorate will produce quarterly reports on its activities	Improve the tax revenue by increasing the number and qualify of tax audits	Quarterly reports as of June 2016	Met
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	Met
Reestablish the electronic interface between the tax and customs databases to reduce the incidence of fraud (DGI/DGD).	Increase revenue mobilization	December 2016	Met
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	Implemented with delay
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	Met
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	Met
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	Met
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	Met
Launch the survey on the gold panning sector (INSD).	Improve the quality of the national accounts and statistics on artisanal gold exports	December 2016	Implemented with delay