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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 35.5 MILLION
(US$50 MILLION EQUIVALENT)

AND A PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 35.5 MILLION
(US$50 MILLION EQUIVALENT)

TO

BURKINA FASO

FOR A

FOURTH GROWTH AND COMPETITIVENESS OPERATION

March 6, 2015

Global Practice -- Macroeconomics and Fiscal Management, GMFDR
Country Department: AFCF2
Africa Region

BURKINA FASO - FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate as of January 31, 2015**)**

Currency Unit = CFA Franc (CFAF)
US$1.00 = CFAF 566.055

WEIGHTS AND MEASURES
Metric System

ABBREVIATION AND ACRONYMS

AAA	Analytical and Advisory Activities
ACDP	Agricultural Competitiveness and Diversification Project
ADMDP	Agriculture Diversification and Market Development Project
AfDB	African Development Bank
AICB	Inter-professional Association of Cotton Farmers of Burkina Faso (*Association Interprofessionnelle des Cotonculteurs du Burkina*)
ASCE	High Authority for State Oversight *(Autorité Supérieure de Contrôle de l'Etat)*
BCEAO	Central Bank of West African States *(Banque Centrale des Etats de l'Afrique de l'Ouest)*
CAMC-O	Commercial Arbitration, Mediation and Conciliation Center of Ouagadougou
CAS	Country Assistance Strategy
CEDP	Competitiveness and Enterprise Development Project
CEFORE	Business Registration Center *(Centre de Formalités des Entreprises)*
CEM	Country Economic Memorandum
CFAA	Country Financial Accountability Assessment
CGAB	Multi-Donor Budget Support Group *(Cadre Général d'Organisation des Appuis Budgétaires)*
CGCT	General Code for Local Government (*Code Général des Collectivités Territoriales)*
CID	Computerized Expenditure Circuit
CNT	National Transition Council *(Conseil National de Transition)*
CPAR	Country Procurement Assessment Report
CPI	Consumer Price Index
CPIA	Country Poverty and Institutional Assessment
CPS	Country Partnership Strategy
CSLP	Strategic Framework for the Fight against Poverty *(Cadre stratégique de la Lutte contre la Pauvreté)*
DCIM	Joint Inter-Ministerial Expenditures *(Dépenses Communes Interministérielles)*
DCMP	Central Directorate for Public Procurement *(Direction Centrale des Marchés Publics)*
DeMPA	Debt Management Performance Assessment
DGB	Directorate General for the Budget (*Direction Générale du Budget*)
DGCF	General Directorate for Financial Control *(Direction Générale du Contrôle Financier)*

DGE	Investment Grant *(Dotation Générale à l'Equipement)*
DGF	Operation Grant *(Dotation Générale au Fonctionnement)*
DGMP	General Directorate for Procurement Contracts *(Direction Générale des Marchés Publics)*
DGTCP	General Directorate of the Treasury and Public Accounts (*Direction Générale du Trésor et de la Comptabilité Publique*)
DP	Development Partners
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
DTIS	Diagnostic Trade Integration Study
ECF	Extended Credit Facility
EITI	Extractive Industries Transparency Initiative
ESW	Economic and Sector Work
FAARF	Support Fund for Women's Income-Generating Activities *(Fonds d'Appui Aux Activités Rémunératrices des Femmes)*
FDI	Foreign Direct Investment
FMDL	Local development mining fund *(Fonds Minier de Développement Loca)l*
GDP	Gross Domestic Product
GoBF	Government of Burkina Faso
GPC	Cotton Producers' Cooperative *(Groupement des Producteurs de Coton)*
HACLC	High Authority for the Fight against Corruption *(Haute Autorité de Coordination de la Lutte contre la Corruption)*
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICT	Information and Communication Technologies
IDA	International Development Association
IFRS	International Financial Reporting Standards
IGE	General State Inspectorate *(Inspection Générale de l'Etat)*
IGF	General Finance Inspectorate *(Inspection Générale des Finances)*
IMF	International Monetary Fund
LDP	Letter of Development Policy
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MEB	Micro-Enterprise Bank
MEBF	National Business Association *(Maison de l'Entreprise du Burkina Faso)*
MEF	Ministry of Economy and Finance (*Ministère de l'Economie et des Finances*)
MFI	Microfinance Institution
MID	Ministry of Infrastructure and Regional Integration (*Ministere des Infrastrutures et du Désenclavement*)
MOE	Ministry of Environment
MoU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
NPV	Net Present Value
ODA	Official Development Assistance
OHADA	Organization for the Harmonization of Business Law in Africa *(Organisation pour l'Harmonisation en Afrique du Droit des Affaires)*
PAF	Performance Assessment Framework
PAFASP	Agricultural Diversification and Market Development Project *(Projet d'Appui aux Filières Agro-Sylvo-Pastorale)*
PACDE	Competitiveness and Enterprise Development Project *(Projet d'Appui à la Compétitivité et au Développement des entreprises)*

PADSEM	Mining Development Support Project *(Projet d'Appui au Développement du Secteur Minier)*
PDSMA	Strategic Plan for the Modernization of the Administration *(Plan de Développement Stratégique pour la Modernisation de l'Administration)*
PAP	Priority Action Plan
PAST	Three-Year Public Financial Management Action Plan *(Plan d'Actions Sectoriel Triennal)*
PEFA	Public Expenditure and Financial Assessment
PER	Public Expenditure Review
PFM	Public Financial Management
PNGT	Community-Based Rural Development Project *(Programme National de Gestion des Terroirs)*
POSEF	Country's Economic and Finance Sector Policy *(Politique du Secteur de l'Economie et des Finances)*
PPP	Public-Private Partnerships
PRFTTAO	West Africa Regional Transport and Transit Facilitation Program *(Programme Régional de Facilitation des Transports et du Transit Routiers en Afrique de l'Ouest)*
PRGB	Budget Management Reform Plan (*Programme de Renforcement de la Gestion Budgétaire*)
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSG	Poverty Reduction Support Grant
PRSP	Poverty Reduction Strategy Paper
SCADD	Strategy for Accelerated Growth and Sustainable Development (*Stratégie de Croissance Accélérée et de Développement Durable*)
SME	Small and Medium Enterprises
SNAT	National Land Planning Scheme (*Schéma National d'Aménagement du Territoire)*
SOCOMA	Gourma Area Cotton Company *(Société Cotonnière du Gourma)*
SOFITEX	Burkina Fibers and Textile Company *(Société burkinabè des fibres textiles)*
SONABEL	State-owned electricity provider *(Société Nationale d'électricité du Burkina Faso)*
SONABHY	Public oil importing company *(Société Nationale des Hydrocarbures)*
SORT	Systematic Operations Risk-rating Tool
SRFP	Strategy for Strengthening Public Financial Management (*Stratégie de Renforcement des Finances Publiques*)
SSA	Sub-Saharan Africa
SSN	Social Safety Nets
TOFE	Consolidated Operations of the Central Government *(Tableau des Opérations Financières de l'Etat)*
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union

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BURKINA FASO

FOURTH GROWTH AND COMPETITIVENESS CREDIT (GCC- 4)

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SUMMARY OF PROPOSED CREDIT AND GRANT PROGRAM

BURKINA FASO

FOURTH GROWTH AND COMPETITIVENSS CREDIT (GCC-4)

Borrower:	Government of Burkina Faso.
Implementing Agency:	Ministry of Economy and Finance (MEF).
Financing Data:	**Amounts:** An IDA grant in the amount of SDR 35.5 million (US$50 million equivalent) and an IDA credit in the amount of SDR 35.5 million (US$50 million equivalent) on standard IDA terms (38-year maturity and 6-year grace period).
Operation Type:	Fourth in a programmatic series of four development policy operations; single-tranche disbursement.
Pillars of the Operation and Program Development Objectives:	The Program Development Objectives (PDOs) are to enhance the Government's ability to: (a) reduce costs in the agriculture and transport sectors; (b) improve transparency and accountability in public resource mobilization and management; and (c) reduce vulnerability to shocks.

Results Indicators:	***Objectives, Indicators and Targets at end Program 2015***	***Baseline (2011)***
	Reduce costs in the agriculture and transport sectors	
	Capitalization of the Input Fund is at least CFAF 10 billion.	*0*
	Average waiting time for customs clearance at Ouaga Inter is reduced by 50 percent.	*4 days*
	The number of certified professionals in the trucking industry and the ratio between trucking companies and individuals are both increased by 10 percent by 2015.	*0*
	Improve transparency and accountability in public resource mobilization and management	
	Fiscal revenues generated by the mining sector are increased to 4 percent of GDP.	*3 percent of GDP*
	The number of mining companies submitting validated data for EITI reports is increased from 0 to 6.	*0*
	Burkina Faso's score in the Transparency International Corruption Perceptions Index is increased to 40 or higher (0 for highly corrupt and 100 for very clean).	*38 in 2012*
	The number of physical spot checks for contracts subject to competitive bidding is increased by 50 percent.	*200*
	Reduce vulnerability to shocks	
	Decentralized fiscal transfers are increased to 5 percent of the national budget.	*3.7 percent*
	The Support Fund for Women's Income-Generating Activities (FAARF) reaches more than 80,000 beneficiaries nationwide, with a total loan portfolio of more than CFAF 5 billion.	*70,000 beneficiaries; loan portfolio of CFAF 4.3 billion*
	The national food reserve and emergency food stocks are increased to at least 50,000 and 25,000 tons, respectively.	*35,000 tons and 5,000 tons.*

Overall Risk:	Substantial
Climate and disaster risks:	*(i) Are there short and long term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)? Yes: X No* *If yes, (ii) summarize briefly these risks in the risk section and what resilience measures may help address them?* As a landlocked and semi-arid Sahelian country, Burkina Faso is subject to vulnerability caused by disaster and risks from flood or droughts, deteriorating natural resources, food insecurity and malnutrition. Climatic shocks represent a serious threat to Burkina. The proposed operation mitigates these risks by supporting measures designed to directly address food security and by promoting broader improvements in agricultural productivity.
Operation ID:	P151275

IDA PROGRAM DOCUMENT FOR A PROPOSED FOURTH GROWTH AND COMPETITIVENSS CREDIT TO BURKINA FASO

1. INTRODUCTION AND COUNTRY CONTEXT

1.1. **This program document proposes the fourth and last operation in a programmatic series of Growth and Competitiveness Credits designed to support the Government of Burkina Faso initially during the 2012-2014 period, and extended to 2015.** The proposed Fourth Growth and Competitiveness Credit (GCC-4) is a single-tranche disbursement of US$100 million equivalent, 50 percent in the form of an IDA grant and 50 percent as an IDA credit provided on standard IDA terms. The GCC-4 builds on the past GCCs while realigning the focus to support the new Transitional Government's key priorities. The operation remains consistent with Burkina Faso's second Poverty Reduction Strategy (PRS2)—the Strategy for Accelerated Growth and Sustainable Development (*Stratégie pour la Croissance Accélérée et le Développement Durable*, or SCADD)—adopted on March 16, 2011. While the Transitional Government has reaffirmed its commitment to implementation of the SCADD, its new priority areas are: (a) defense and national security; (b) justice sector reform; (c) political, economic and administrative governance; and (d) social service delivery. The GCC-4 is fully consistent with the Bank's twin goals of ending extreme poverty by 2030 and promoting shared prosperity by increasing the incomes of the poorest 40 percent of the population. It is also in line with the objectives of the Bank's FY2013-16 Country Partnership Strategy (CPS) for Burkina Faso, approved by the Bank's Board of Executive Directors on September 19, 2013. The GCC-4 is expected to account for a significant share of the overall budget support provided to Burkina Faso by its development partners (DPs).

1.2. **The deterioration of the political and security situation since 2011 culminated in widespread protests that led to the ouster of President Blaise Compaore in October 2014, marking a historic turning point for the country.** The period of unrest began with an army mutiny, followed by a series of protest marches and strikes that jeopardized the country's longstanding stability. Municipal and legislative elections held in December 2012 brought about a new distribution of roles between the opposition and the president's ruling coalition, which won a slim majority of seats in the legislature. However, President Compaore's plan to eliminate presidential term limits, which would have allowed him to run again in November 2015, sparked substantial controversy. In January 2014, 75 officials from the president's own party resigned in protest. In late October 2014, unprecedented public protests across the country, which culminated with the burning of the National Assembly, ultimately forced the president and his Government to step down. Vandalism, loss of lives and property damage in major cities were reported. The Constitution was suspended. A Charter was established, a new president and a Transitional Government were appointed, and a National Transition Council was installed to oversee new elections scheduled to take place in November 2015.

1.3. **The October 2014 political crisis reflected the public's discontent and accumulated grievances over Burkina Faso's development outcomes.** The critical issues include the high cost of living; regional disparities in basic social services; unequal redistribution of resources; youth unemployment; and perceived lack of accountability, impunity and monopolization of political power. The political crisis underscored the importance of responding to citizens' demands for good governance.

1.4. **A low-income landlocked country in a volatile region, Burkina Faso faces significant structural economic vulnerabilities; yet despite its constraints, the country has built an impressive record of economic stability**. Burkina Faso—or simply "Burkina," as it is referred to locally—has maintained this record in the face of serious and unpredictable shocks ranging from recurrent droughts to conflict in neighboring countries, to the recent domestic political turmoil, which is discussed in greater detail below. In the face of these difficulties, the country's substantial gold reserves and vibrant cotton sector have supported relatively robust growth rates. However, the economy remains highly sensitive and vulnerable to internal and external shocks. Conflicts in neighboring countries, combined with unfavorable weather and global decrease in commodity prices, have led to an erratic growth path. The real GDP growth rate rose from 5 percent in 2011 to 9 percent in 2012, and then fell to 6.6 percent in 2013. On average, Burkina's GDP has grown at 6 percent over the past 10 years. Agriculture and services have been the primary drivers of recent growth, with the mining sector making an increasingly strong contribution. Yet the continued decline in cotton and gold prices, exacerbated by the political uprising in October, resulted in 5 percent GDP growth in 2014, down from 2013 and below both the 3-year average of 6.8 percent and the IMF forecast. Burkina's GNI per capita (Atlas method) increased from US$660 in 2012 to US$670 in 2013. Burkina has received significant aid flows over the last decade and was classified as a strong performer in recent Country Policy and Institutional Assessments (CPIAs), scoring 3.8 on a 6-point scale in both 2012 and 2013.

1.5. **Even with its reputation for sound macroeconomic management, however, Burkina has not experienced broad-based, private sector-led growth or widespread employment creation and poverty reduction.** The persistence of high poverty levels raises serious questions regarding the effectiveness of Burkina's growth model in advancing the Government's development objectives. Moreover, the economy appears to have faltered in the wake of last year's political crisis. While growth rates are expected to recover, transforming economic growth into widespread income generation, broad-based poverty reduction, and sustained improvements in food security and basic social indicators will remain among the country's most pressing policy challenges. These issues will be particularly important in the context of an anticipated slowdown in private and public investments and continuing population growth, which may offset a modest rebound in gold and cotton prices.

1.6. **The design of the GCC series follows the three key themes of the Africa Strategy—employment, resilience, and governance—and this fourth and last operation will reinforce the policy program pursued under the previous GCCs.** The policies supported by the series focus on gradually removing obstacles to employment growth in Burkina's private sector, with particular attention devoted to agriculture, the country's primary source of employment and a critical safeguard against food insecurity. The series supports accelerated poverty reduction through stronger, more inclusive growth; increasingly effective and responsive governance; and greater economic resilience. The series is structured around three pillars. Pillar 1 focuses on reducing costs in the agriculture and transport sectors to contribute to private sector growth. Pillar 2 is devoted to improving governance and enhancing public resource mobilization and management. Pillar 3 concentrates on reducing vulnerability to shocks.

1.7. **The proposed GCC-4 has been prepared in line with good practice principles for budget support operations, and the actions supported under each of its three strategic pillars are designed to help advance the Government key's priorities.** Actions supported under Pillar 1 will promote private sector-led growth by improving the functioning of the agricultural input market; facilitating increased trade flows by reducing the cost of cross-border trade; and incentivizing private investment in the transport sector. Under Pillar 2, the GCC-4 supports measures to increase resource mobilization and transparency in the mining sector, enhance the effectiveness and accountability of the judicial system, and consolidate key reforms in public financial management. Actions under Pillar 3 aim at strengthening the resilience of the economy by improving local communities' capacity for social service provision; expanding access to credit, especially for women; and reinforcing national food security and food crisis preparedness.

1.8. **The reforms supported by the proposed fourth GCC operation aim at creating a dynamic and diversified private sector capable of transforming high growth rates into broad-based improvements in income earning opportunities.** A better-functioning agricultural input market and expanded credit access will each have a direct pro-poor growth impact, while reduced transportation and transaction costs for international trade will have positive effects on the economy as a whole. The regulatory and governance reforms supported by the operation will further improve business conditions in the private sector. All of the main policy areas supported by the GCC series—agriculture, mining, transportation, public financial management, decentralized social-service provision, and judicial reform—are playing an important role in catalyzing private sector development.

1.9. **The GCC series is closely aligned with the reform agenda set forth in the Government's SCADD.** The SCADD was designed around an ambitious growth target of 10 percent per year between 2011 and 2015. It focuses on addressing vulnerability through the structural transformation and diversification of the economy, with the ultimate objective of broadening the impact of growth on employment and income. The SCADD's emphasis on private sector-led growth, structural improvements in the investment climate, and the development of the rural economy, continues to be reflected in the design of this fourth GCC operation.

1.10. **It is notable that the ongoing political transition has not had a negative impact on the country's commitment to the reform program.** The determination of the Transitional Government to address systemic governance issues, as well as the grievances raised by the protest movement, may support a rapid return to economic stability and political normalcy. Further, the country's new political context presents an opportunity to accelerate the implementation of critical reforms supported under the proposed operation. While the process of preparing for the 2015 elections, which will include presidential, legislative and local contests, constitutes a risk and warrants close monitoring, the current political stability and the commitment of the Transitional Government to the reform agenda are adequate conditions for moving forward with the proposed operation.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS IN BURKINA FASO

2.1. **Following a long period of relatively robust growth, a combination of unfavorable external market conditions for gold and cotton, as well as weakening investor confidence linked to political uncertainty, have slowed the expansion of Burkina's economy**. From 2000 to 2012, sound macroeconomic management, combined with favorable prices for cotton and gold, resulted in strong economic growth, with GDP growth averaging 6 percent per year, driven primarily by agriculture and services, and increasingly by the mining sector.

2.2. **Despite the slowdown in investment caused by the global financial crisis, growth in Burkina accelerated to an average of 6.8 percent between 2012 and 2014, supported by robust mineral output and a significant increase in gold prices; by strong growth in the service sector; and by higher agricultural output**. However, a violent conflict in neighboring Mali, which pushed more than 100,000 refugees across the Burkinabe border, exacerbated domestic food insecurity and, along with political instability, contributed to decline in real GDP growth from a peak of 9 percent in 2012 to 6.6 percent in 2013 and 5 percent in 2014—well below the IMF forecast of 6.7 percent.

2.3. **Growth has also failed to meet expectations as a result of falling gold and cotton prices and flat agricultural output, leading to a sharp decline in export revenues; and because of serious uncertainty regarding the political situation.** Import values and investments fell by around 13 and 6 percent, respectively, between 2013 and 2014. On the other hand, declining oil prices have helped to contain the cost of petroleum subsidies. The economic growth of 5 percent in 2014 was driven by an increase in cotton and cereal production combined with a rise in mining output to 37 metric tons, up from 32 metric tons in 2013. Relatively good rainfall and successful government interventions in the agriculture sector, including donor-supported food security programs involving subsidized sales and free distribution to vulnerable households, all contributed to a sharp decrease in food prices in 2014. As a result, the annual average inflation rate fell to -0.4 percent in 2014 (from 0.5 percent in 2013 and 3.8 percent in 2012), well below the West African Economic and Monetary Union (WAEMU) target of 3 percent.

2.4. **Burkina's fiscal deficit diminished sharply in 2014 to 1.3 percent, from 3.5 percent of GDP in 2013, not as a result of performance but reflecting an economic downturn and a slowdown in public expenditures, marginally exacerbated by the political upheaval in October.** Early in 2014, Burkina faced a decline in fiscal revenue collection as gold and cotton prices fell and the political situation destabilized. Overall tax revenues stood at 15.3 percent of GDP in 2014, down from 16.7 percent in 2013. Meanwhile, a decrease in energy subsidies, facilitated by a 50 percent drop in oil prices, and limited investment expenditures, helped contain the fiscal deficit to 1.3 percent of GDP in 2014, despite a slight rise in the wage bill following the adoption of new social policies in 2013. This level of fiscal deficit is well below the target of 3 percent agreed upon with the IMF and down sharply from the 3.5 percent observed in the previous year.

Table 2.1: Selected Economic and Financial Indicators, 2012-2016

	2012	2013	2014		2015	2016
			1st review	Est.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)					
GDP and prices						
GDP at constant prices	9.0	6.6	6.7	5.0	5.0	6.0
GDP deflator	4.6	-0.8	1.1	-0.5	2.2	1.8
Consumer prices (annual average)	3.8	0.5	1.5	-0.4	0.9	1.7
Consumer prices (end of period)	1.7	0.1	2.0	0.5	1.7	1.7
Money and credit						
Net domestic assets (banking system) [1]	16.1	19.6	15.4	14.1	13.4	18.2
Credit to the government (banking system) [1]	-2.7	5.3	4.0	1.7	-1.4	1.9
Credit to the private sector	24.1	26.3	15.1	20.9	15.1	19.1
Broad money (M3)	15.9	11.3	14.3	10.7	13.3	15.5
External sector						
Exports (f.o.b.; valued in CFA francs)	12.7	-3.3	-0.9	-3.9	2.7	6.5
Imports (f.o.b.; valued in CFA francs)	19.8	5.5	2.5	-12.8	4.5	10.1
Terms of trade	11.5	-13.7	-4.0	-4.8	5.5	1.2
Real effective exchange rate	-0.7	1.8	...	...	...	...
CFAF/US$ (annual average)	510.2	493.9	...	...	...	...
	(Percent of GDP, unless otherwise indicated)					
Central government finances						
Current revenue	17.7	18.8	19.3	17.2	17.7	18.0
Of which: tax revenue	15.8	16.7	17.3	15.3	16.1	16.3
Total expenditure and net lending	25.8	27.8	27.8	22.5	23.8	25.7
Of which: current expenditure	14.7	13.8	14.7	13.8	14.4	14.2
Overall fiscal balance, excl. grants (commitments)	-8.1	-9.0	-8.4	-5.3	-6.1	-7.7
Overall fiscal balance, incl. grants (commitments)	-3.1	-3.5	-3.1	-1.3	-1.4	-3.2
Memorandum items:						
Nominal GDP (CFAF billion)	5,629	5,948	6,413	6,213	6,670	7,197
Nominal GDP per capita (US$)	670	711	...	...	...	...
Gold price (US$/oz.)	1,669	1,411	1,327	1,266	1,205	1,212
Gold price (000 CFAF/KG) [2]	27,397	22,423	20,452	20,091	22,503	22,633
Petroleum spot price (000 CFAF/ton) [2]	403	387	375.7	357.5	228.6	255.7

Source: IMF staff provisional estimates and projections.

1 Percent of beginning-of-period broad money

2 Shown only in the Projections Note for the purpose of clarifying the sources of terms of trade changes in 2015

2.5. **Unfavorable international gold prices have slowed activity in the mining sector, which further reduced tax collection from CFAF 1,117.4 billion in 2013 to CFAF 1,070 billion.** Although the Government was ambitious in mobilizing budget support at end 2014, requirements for that support were not achieved in a timely manner. Private firms deferred investments early in 2014 in anticipation of the political crisis. Revenues collected by the General Directorate for Taxes (*Direction Générale des Impots*) declined by about 2 and 4 percent in the first and second quarters of the year, respectively, compared to the same period in 2013. Additional revenues were lost due to the outbreak of Ebola in the region, leading to the cancelation of several important events, including the International Ouagadougou Craft Fair (*Salon International de l'Artisanat de Ouagadougou*), the Tour du Faso bicycle race, and the African Union Heads of State Summit. In addition, the October demonstrations resulted in an estimated US$400 million worth of damage to public and private assets. This has reduced the private sector's capacity to pay taxes.

2.6. **Revenue shortfalls were even more severe at the General Directorate for Customs (*Direction Générale des Douanes*).** A decline in capital goods imports, most importantly from the mining companies due to the decrease in gold prices and exacerbated by the uncertain political situation and a rising incidence of customs fraud, led to a decline in tax collection by the customs service. Customs services are supported by COTECNA (an international firm specialized in imports and exports control), which is responsible for authenticating a third of all imports; without customs oversight on this volume of goods, customs payments may be underestimated.

2.7. **Collections by the Tax General Directorate fell during the height of the political unrest (end October 2014), which contributed to a decline of more than 12 percent in tax revenue collection for the whole year.** In the aftermath of the political crisis, only priority expenditures (including salaries, public debt payments, and certain international commitments) were being executed. Other expenditures have been temporarily frozen by the Transitional Government. The 2014 fiscal deficit was equal to 1.3 percent of GDP, well below the 10-year average of 3.2 percent. In light of the country's atypical political circumstances, the National Transition Council (*Conseil National de la Transition*, CNT, the parliament), adopted a revised 2014 budget in January 2015.

Table 2.2: Consolidated Operations of the Central Government, 2012-2016

	2012	2013	2014		2015	2016
		Act.	1st Review	Est.	Proj.	Proj.
	(In percent of GDP)					
Total revenue and grants	22.7	24.2	25.5	21.2	22.4	22.4
Total revenue	17.7	18.8	19.9	17.2	17.7	18.0
Tax revenue [1]	15.8	16.7	17.8	15.3	16.1	16.3
Nontax revenue [2]	1.9	2.1	2.1	1.9	1.6	1.7
Grants	4.9	5.5	5.5	4.0	4.7	4.5
Project	2.0	3.5	3.5	2.4	2.7	2.5
Program	2.9	2.0	2.0	1.6	2.0	2.0
Expenditure and net lending [3]	25.8	27.8	28.6	22.5	23.8	25.7
Current expenditure	14.7	13.8	15.2	13.8	14.4	14.2
Wages and salaries	5.9	6.0	7.1	7.1	7.0	6.9
Goods and services	2.1	2.0	1.9	1.7	1.8	1.8
Interest payments	0.7	0.6	0.5	0.6	0.6	0.6
Current transfers	5.9	5.2	5.7	4.3	4.9	4.9
Investment expenditure	11.1	14.4	13.3	8.8	9.5	11.5
Domestically financed	7.2	10.0	8.2	5.6	5.3	7.3
Externally financed	3.9	4.5	5.1	3.2	4.2	4.2
Net lending	0.0	-0.4	0.2	-0.1	0.0	0.0
Overall balance [3]	-3.1	-3.5	-3.2	-1.3	-1.4	-3.2
Financing	2.7	2.7	3.1	1.1	0.9	2.3
Foreign financing	1.5	0.6	2.0	0.8	1.4	1.4
Project loans	1.9	1.0	1.6	0.9	1.5	1.7
Program loans	0.0	0.0	0.9	0.4	0.4	0.1
Domestic financing	1.1	2.2	1.1	0.3	-0.5	0.8
Central bank	0.0	1.3	0.9	-0.6	-0.5	0.5
Commercial banks [4]	-0.7	0.3	0.4	1.1	-0.5	0.1
Nonbank financing	1.9	0.6	-0.2	-0.2	0.0	0.2
Financing gap	0.0	0.0	0.1	0.0	0.5	1.0

[1] 2015 projection includes measures for: automation of imported vehicle control, improved control of merchandise at ports of arrival, guichet electronique, marquage des produits petroliers,facture normalise, new thresholds for companies to pay VAT.
[2] 2014 includes several one-offs such as large dividend payments and fines.
[3] Commitment ("*engagement*") basis.
[4] Includes amortization of 2014 December Treasury Bill issuance of FCFA 30 billion

2.8. **Current spending in 2014 remained at 14.4 percent of GDP, up from 13.8 percent in 2013, as a result of a huge increase in the wage bill following settlements with unions initiated by the former Government.** Beginning in the last quarter of 2013 and in addition to social measures adopted in 2012, the previous Administration adopted measures designed to support job creation, promote gender equity, and increase food and fuel subsidies. In addition to the social transfer system adopted in September 2013, new spending equal to 0.6 percent of GDP was approved in March 2014, with another 0.3 percent allocated to voter registration efforts. Meanwhile, the national electric utility, SONABEL (Société Nationale d'Electricité du Burkina Faso), launched an unprecedented effort to expand generation capacity to meet growing demand. Even in a context of lower oil prices, fuel subsidies continue to be a burden on the national budget. The state-owned electricity provider (SONABEL) will require roughly CFAF 63 billion (US$126 million) in subsidies (including CFAF 52 billion in arrears to be paid to the public oil importing company *(SONABHY - Société Nationale des Hydrocarbures)* for the 2011 to 2014 fuel delivery) to keep pace with energy demand through 2015. While these expenses have been contained at levels compatible with the revenue trends, remaining arrears amounting to roughly CFAF 70 billion need to be addressed. The automatic adjustment mechanism for fuel prices, which had been in place for many years, has been suspended. In response to trade unions' demands for a decrease in fuel prices following the significant decrease in oil prices on the international market, the Government announced a 5 percent reduction in retail fuel prices in January 2015.

2.9. **The impact of higher current expenditure on the deficit has been offset by lower investment expenditure.** Revenues have fallen short of projections, and grants decreased from 5.5 percent of GDP in 2013 to 4 percent in 2014. Preventive measures to combat Ebola might further increase current expenditures, but spending adjustments have helped keep the fiscal deficit under the IMF parameters. In December 2014, the Government issued one seven-year, CFAF 30 billion Treasury bond and one 90-day, CFAF 30 billion Treasury bill. These financial operations were discussed with the IMF mission in December 2014. The revised budget has been reviewed and adopted by the National Transition Council, which retroactively authorized the higher wage bill. However, a Reconciliation Law will still be needed to deal with spending realignment.

2.10. **Monetary and exchange rate policies remain unchanged, with a fixed CFAF-euro parity and stable interest rates; but reserves from the Central Bank continued to shift sharply in 2014.** As of end-December 2014, international reserves had decreased to CFAF -57.4 billion from CFAF 45.2 billion in 2013. The failure of some commercial banks to comply with foreign exchange requirements resulted in a sharp decline in international reserves in 2013, and this trend continued during 2014 as a result of loosening enforcement of surrender requirements. However, commercial bank reserves grew by about 8 percent between 2013 and 2014. Broad money supply grew by 10.7 percent in 2014 against 11.3 percent 2013. In the same vein, credit to the private sector decreased by 5 percentage points, falling from 26.3 percent in 2013 to 20.9 percent in 2014. However, Burkina's banking sector remains healthy, and the Central Bank has taken steps to reinforce compliance with regional prudential norms. Annual inflation was moderately negative in 2014 at about -0.4 percent, well under the West Africa Economic and Monetary Union (WAEMU) target reflecting various non-monetary factors. Inflation is projected to remain contained at 0.9 percent in 2015.

Table 2.3: The Balance of Payments, 2012-16

	2012	2013	2014		2015	2016
			1st review	Est.	Proj.	Proj.
			(CFAF billions)			
Current account	-255.9	-416.1	-462.5	-370.5	-397.8	-488.9
Trade balance	-79.5	-195.9	-246.1	-59.9	-83.8	-135.3
Exports of goods	1276.3	1234.7	1223.5	1187.1	1218.7	1298.5
Of which: cotton	167.2	217.0	236.4	239.2	188.6	204.0
gold	974.1	872.7	827.9	785.9	880.2	938.4
Imports of goods	-1355.8	-1430.6	-1469.6	-1247.0	-1302.6	-1433.8
Of which: oil	-398.6	-449.5	-452.9	-378.9	-287.2	-348.8
Of which: food	-124.7	-129.3	-120.9	-111.7	-117.4	-126.3
Of which: public investment	-500.0	-610.3	-626.6	-431.6	-498.5	-632.2
Services, net	-407.6	-421.4	-433.6	-489.8	-519.7	-557.2
Income, net	-39.1	-33.9	-29.1	-30.1	-42.3	-44.6
Current transfers	270.3	235.1	246.3	209.2	248.1	248.1
Of which: Official transfers, net	194.5	157.7	167.3	130.3	168.5	168.0
Capital account	137.8	231.4	243.0	175.3	191.4	185.3
Project grants	111.6	205.2	216.8	149.1	180.1	178.1
Financial account	109.6	39.3	190.3	130.2	174.2	166.2
Direct investment	130.9	78.3	84.4	81.8	87.8	95.7
Portfolio investment	16.7	10.0	10.0	5.0	10.0	**4.0**
Other investment	-37.9	-49.0	95.9	43.4	76.4	66.5
Long-term investment	-38.9	-54.0	90.9	38.4	71.4	61.6
Project loans	105.5	60.5	97.4	55.5	100.0	124.2
Program loans	1.8	0.0	53.3	24.0	27.5	10.5
Amortization of public loans (excl. IMF)	-21.2	-27.5	-27.3	-27.8	-36.2	-32.2
Other private	-124.9	-86.9	-32.5	-13.3	-19.9	-41.0
Short-term investment	1.0	5.0	5.0	5.0	5.0	5.0
Errors and omissions	5.8	1.5	0.0	0.0	0.0	0.0
Overall balance	-2.7	-144.0	-29.2	-65.1	-32.2	-137.5
Financing	2.7	144.0	22.2	65.1	2.0	66.4
Net change in foreign assets of the central bank	41.4	188.7	22.2	**102.6**	2.0	66.4
Of which: gross official reserves	-20.7	211.5	32.8	104.1	12.9	77.9
IMF net financing	34.6	1.0	-10.6	-1.6	-11.0	-11.5
Disbursements	38.3	4.8	0.0	3.8	0.0	0.0
Repayments (excluding charges)	-3.7	-3.8	-10.6	-5.4	-11.0	-11.5
Net foreign assets of commercial banks	-38.7	-44.8	0.0	-37.5	0.0	0.0
Financing Gap	0.0	0.0	7.0	0.0	30.3	71.1
			(Percent of GDP)			
Memorandum items:						
Trade balance (– = deficit)	-1.4	-3.3	-3.8	-1.0	-1.3	-1.9
Exports of goods	22.7	20.8	19.1	19.1	18.3	18.0
Imports of goods	-24.1	-24.1	-22.9	-20.1	-19.5	-19.9
Current account (– = deficit)	-4.5	-7.0	-7.2	-6.0	-6.0	-6.8

2.11. **The low cotton and gold prices in 2014 led to a slight decrease in export revenues, despite the increase in volume of other mineral exports, including manganese and zinc.** Commodities continue to dominate the export mix. Gold and cotton together account for nearly 90 percent of exports. Cotton exports increased despite falling prices. A relatively strong harvest, with cotton yield of more than 600,000 metric tons, partially compensated for the 10 percent decrease in gold exports in 2014 due to declining demand. The resulting decline in gold prices, in turn, is discouraging exploration, and has already resulted in layoffs of 510 workers at nine mining companies. Despite recent labor protests, the companies are performing well, and recent discoveries of high-grade gold will further bolster the importance of minerals exports. Rising production volumes for manganese and zinc have contributed to greater optimism regarding the sector's projected export performance over the medium term. In addition, the revised Mining Code is expected to improve the tax regime applicable to mining companies and to provide more revenues for the national budget as well as the local communities where these companies are operating. Meanwhile, cotton exports are projected to grow steadily over the near term, supported by Government incentives, including the Input Fund.

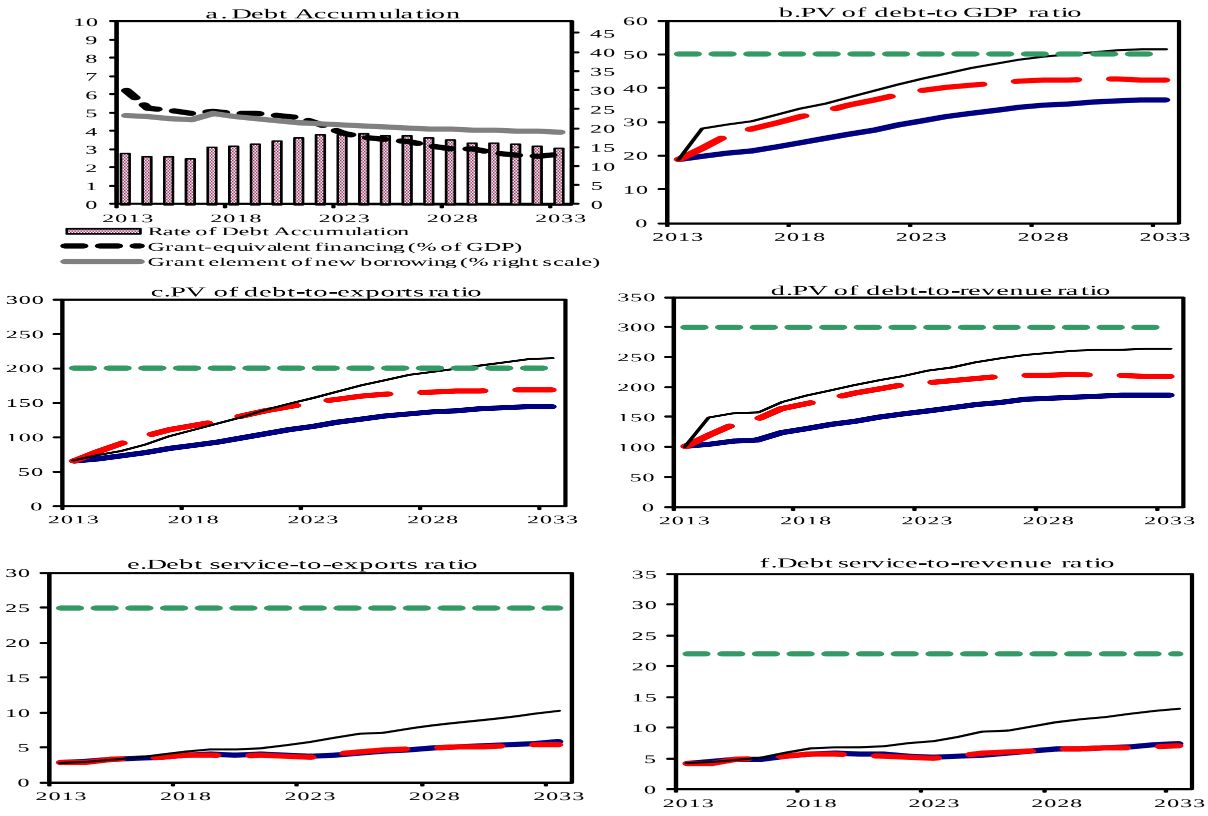
2.12. **A rapidly rising population and substantial income inequality have limited the antipoverty effects of Burkina's recent growth; however, improvements have been observed in nonmonetary poverty and human development indicators (HDIs).** Burkina's annual population growth rate is currently 3.1 percent. Figures from the National Institute of Statistics and Demography indicate a headcount poverty rate of 46.7 percent in 2009, down marginally from 51.0 percent in 2003. This decline was higher in rural areas than in urban centers, reflecting the impact of increasing cotton productivity and safety nets, such as free school lunch programs and boutiques for food at subsidized price. In addition, several nonmonetary poverty and human development indicators have improved in recent decades. The gross enrollment rate for primary school increased from 57 percent in 2005 to 81 percent in 2013. Infant and under-five mortality rates have declined substantially, from 81 deaths per 1,000 live births in 2003 to 65 in 2010. Finally, the share of the population owning basic durable goods such as a radio, television, car, bicycle, motorbike, or refrigerator increased from 66 percent in 1998 to 71 percent in 2003 and reached 78 percent in 2010.

2.13. **Burkina Faso's vulnerability to shocks, particularly weather-related disruptions in the agriculture sector, continues to affect the welfare of its people.** About 20 percent of the population suffers from chronic poverty and food insecurity. The scope and coverage of the existing social safety nets (SSN) is limited, and most interventions are small in scale, temporary, and financed by external and *ad hoc* resources. Excluding fuel subsidies, spending on SSN programs amounted to an average of about 0.6 percent of GDP during 2005-09. Food transfers, free school lunch programs, and the food boutiques at subsidized prices remain the main form of social support in Burkina, accounting for 69 percent of total SSN spending and over 80 percent of all estimated SSN beneficiaries in 2009.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

2.14. **Growth is expected to remain relatively positive at 5 percent in 2015 and then increase to 6 percent in 2016, in line with historical averages, following a recovery of commodity prices, abatement of the Ebola situation and return to normalcy after the presidential and parliamentary elections.** However, both the economy and the public finances will remain highly sensitive to changes in commodity prices and further changes in the political context. The current period of political transition brings with it inherent uncertainties that may negatively affect foreign investment. Meanwhile, public investment may continue to be constrained by the underperformance of tax and customs revenues, the higher wage bill, and election expenses. However, the expected solid performance of the agriculture and service sectors, supported by the ongoing mining boom, is expected to sustain positive economic growth. Following relatively modest growth in 2015, the economy is projected to rebound back to its historical pattern in 2016, on the strength of rising commodities prices, the return of political stability, increased foreign investment, and containment of the Ebola epidemic. Growth will be driven by agricultural production, especially cotton, along with the mining and service sectors. Medium-term forecasts assume that agricultural production will benefit from the continued implementation of measures to support higher productivity, and cotton production will be boosted by the Input Fund and complementary initiatives targeted to producers. Favorable gold prices and robust output performance, coupled with recent remarkable discoveries of very high-grade gold, are also expected to contribute to growth, as is a projected increase in value added in the manganese sector.

Figure 2.1: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013–2014[1]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Terms shock and in figure f. to a Terms shock

2.15. **The current account balance deteriorated in 2014 and will continue in this vein for the next two years.** The current account deficit (including grants) is estimated to average 6 percent of GDP between 2014 and 2016, lower than its level in 2013 as a result of lower imports. In fact, the current account deficit is expected to deteriorate as a result of lower exports (continued decline in cotton prices and higher imported food prices). Average oil prices fell in 2014 to US$96.2 per barrel, down from US$104.5 per barrel the previous two years. Oil prices are forecast to average $53.2 per barrel in 2015. The decrease in oil prices, though temporary, will benefit Burkina, as it imports more than 70 percent of its energy. However, the favorable fiscal effects of oil prices will be somewhat offset by the decline in gold and cotton prices. A modest recovery in gold prices, to around US$1200-US$1300 per ounce, is expected to sustain a rebound in exports, while cotton prices will decline sharply as production outstrips demand in a context of large Chinese inventories. These factors will tend to stabilize the current account deficit compared to previous years.

2.16. **Prudent fiscal policy is expected to contain the fiscal deficit at levels that can be financed without threatening debt sustainability**. Over the medium term, and despite the increase in the wage bill in 2014, current spending should remain stable, in line with projections of sufficient domestic revenues and foreign aid inflows to finance the increases in investments planned under the SCADD. Like other WAEMU countries, Burkina adheres to a relatively conservative set of fiscal parameters. A combination of increased domestic revenues, moderate spending, and efficient public financial management measures is expected to contain the fiscal deficit. Following the latest public expenditure and financial accountability (PEFA) assessment conducted in 2013, public financial policies have been updated to include new administrative incentives for tax collection offices, and to reflect the implementation of the Virtual Linkages System for Imports and Exports (*Système de Liaison Virtuelle des Importations et Exportations*) by the customs service. In addition, new sanctions will be established to discourage the mismanagement of public funds. Based on realistic projections for both domestic and external revenues, the Government will increase investment expenditures to be consistent with SCADD and medium-term budget objectives. However, the fiscal deficit should remain roughly at 3 percent of GDP through 2016. Pro-poor expenditures will continue to be protected. While the wage bill is expected to remain stable around 7 percent of GDP over the medium term, investment expenditures will increase slightly in 2015 and 2016 after the slowdown in 2014, to finance infrastructure and address the needs of vulnerable populations, especially in rural areas.

2.17. **Burkina is at moderate risk of debt distress.** This status is unchanged from 2013, and Burkina's debt indicators remain within the parameters of the joint IMF-World Bank Debt Sustainability Framework established in June 2014. A new debt sustainability analysis (DSA) was prepared in the context of the 2014 Article IV consultation and the first review under the IMF's three-year extended credit facility (ECF). The DSA reflects various changes that have occurred since 2013, including: (a) new borrowing, both concessional and non-concessional; (b) lower discount rates; (c) higher debt distress thresholds associated with the country's move to an institutional performance rating of "strong" based on its rising three-year country poverty and institutional assessment (CPIA) average; and (d) the use of end-2013 debt data.

2.18. **According to the new DSA, Burkina would not breach its debt distress thresholds under the baseline scenario, and only a slight breach is anticipated under two standardized stress tests.** Worsening external (and fiscal) balances, as well as more conservative assumptions regarding the terms of financing, are offset by: (a) the higher discount rate; (b) lower initial nominal external debt levels than those assumed in the 2013 exercise; and (c) an assumed increase in the share of domestic financing. In the baseline scenario, all debt ratios remain below their risk tolerance thresholds, with the threshold for the present value (PV) of debt to exports breached in only one of the standardized stress tests. On this basis, the risk rating remains "moderate" and near the cusp of "low." The authorities and World Bank and IMF staff are continuing to discuss options for technical assistance to address the debt management capacity constraints identified in various diagnostic reports.

2.19. **The authorities' request for an increase in the non-concessional external debt ceiling specified in its extended credit facility arrangement was approved by the IMF in June 2014 and incorporated into the program.** This request was based on projected returns on investment projects, the limited domestic and concessional external resources available to the Government, and the consistency of new borrowing with external debt sustainability. The World Bank has carried out a debt management profile assessment (DEMPA) mission, with the objective of helping the Government further improve its debt management capacity. The IMF team has been working closely with the DEMPA mission team to provide technical assistance for Burkina on specific issues related to debt management.

2.20. **Overall, Burkina's macroeconomic framework is judged to be appropriate despite the exposure to commodities price changes over the short to medium term.** Burkina is expected to maintain economic stability through prudent fiscal policies and strong donor assistance. It will, however, continue to face challenges in promoting inclusive growth and employment, stemming from its landlocked geography, small domestic market, and reliance on commodity exports. Despite the adoption of new social assistance policies, Burkina still faces considerable obstacles to sustainable poverty reduction. The country's business environment ranked poorly among Sub-Saharan African (SSA) countries in both 2013 and 2014. However, the recent reform of business licensing procedures could accelerate private sector-led job creation.

2.21. **Significant poverty-related challenges will persist over the medium and long term.** While the national poverty headcount rate has fallen slightly, decreasing by 4.3 percentage points between 2003 and 2009, the overall poverty incidence remains very high. Under current conditions, the poverty rate of 35 percent envisioned in the Millennium Development Goals (MDGs) is unlikely to be reached by 2015. Consequently, the achievement of the extreme-poverty MDG for 2030 cannot be considered plausible. However, the country and its development partners are making a concerted effort to both accelerate growth rates and strengthen the relationship between growth and poverty reduction. The budget for pro-poor spending (encompassing basic education, health, water and sanitation, the social safety net, and rural development) increased from 5.3 percent of GDP in 2006 to 7.6 percent in 2011 and is projected to reach 7.8 percent by 2015. The impact of this additional spending would be greatly enhanced through complementary reforms targeting the key areas of agricultural productivity, transportation and trade costs, sustainable mining sector practices, and access to credit by female entrepreneurs. In this context, the GCC-4 outlines a reform program designed to further the Government's development agenda and accelerate the pace of poverty reduction in Burkina.

2.3 IMF RELATIONS

2.22. **The macroeconomic analysis underpinning the GCC-4 was updated in December 2014, followed by an IMF mission during the same period.** Discussions of the new ECF-supported program approved by the IMF on July 3, 2014 were resumed following the December 2014 IMF mission, and the objectives of the program are largely unchanged. It is aimed at consolidating macroeconomic stability, improving growth prospects, and intensifying efforts to reduce poverty in line with the objectives of the SCADD. Through the ECF, the Government is implementing measures to reinforce the economy's resilience against various shocks, while also promoting inclusive growth and accelerated poverty reduction. IMF and IDA staffs are assisting the authorities in implementing the SCADD and providing technical assistance on resource mobilization and budget management. The Bank has also been collaborating with the IMF through a Joint Management Action Plan (JMAP). The Bank staff provided detailed inputs to the IMF team in areas where the Bank is the primary agency, including the agriculture, mining, energy, and water and sanitation sectors, as well as good governance and public administrative reform. The Bank team participated in discussions between the IMF and the authorities regarding the reviews under the ECF-supported program. The last review, begun in October 2014, was interrupted by political unrest. The review's preliminary findings were updated in December 2014 and have informed the macroeconomic assessment underpinning the proposed operation. In addition, a joint IMF-World Bank DSA was prepared in June 2014.

3. THE GOVERNMENT'S PROGRAM

3.1. **The Government's program is summarized in its Poverty Reduction Strategy Paper, the SCADD, but the focus has been realigned by the Transitional Government, taking into consideration the post-crisis context.** This strategy, which covers the years 2011-15, was formally adopted by the former Government's Council of Ministers on March 16, 2011. It aims at double-digit GDP growth and a simultaneous decline in the poverty rate to 35 percent by end-2015. It also includes measures designed to support increased public and private investment, and outlines specific steps to address the country's rapid population growth. While it focuses on accelerating progress towards achievement of the MDGs and broader improvements in poverty indicators, the SCADD's main objective is sustained economic growth. The SCADD program is based on four strategic axes: (a) promoting growth and reducing economic vulnerability; (b) investing in human capital and social protection to increase economic resilience; (c) improving governance and enhancing the efficiency of the public sector; and (d) addressing cross-cutting priorities, such as gender, demography, and the Government's capacity to implement development policies and programs.

3.2. **The SCADD identifies employment creation as the central economic challenge facing Burkina Faso.** The strategy works to increase employment by supporting economic diversification, boosting investment in infrastructure and the energy sector, and sustaining the pace of progress on the structural reform agenda. The strategy also includes a set of measures designed to enhance the business and investment climate. It does not propose public works programs or any deep changes in labor market regulations. The SCADD acknowledges the serious challenges posed by governance reform, especially in terms of ensuring the openness, transparency and accountability of government agencies and operations. It defines good governance not merely as a political issue, but as strategically crucial to economic growth and achievement of the Government's development objectives. The SCADD provides a candid assessment of the importance of strengthening the rule of law, advancing the process of fiscal decentralization, and ensuring accountability in the civil service. It also emphasizes the need to reinforce internal and external controls as essential measures to curb corruption in public institutions, and it highlights the key roles played by an independent and responsive judiciary and by widespread access to information by the public.

3.3. **The SCADD is the successor to an earlier series of Poverty Reduction Strategy Papers.** From 2000-2010, the Government implemented the Strategic Framework for the Fight against Poverty (*Cadre Stratégique de la Lutte contre la Pauvreté* – CSLP*)*. The CSLP was not a single medium-term strategy, but rather a set of three 3-year plans executed in succession. Economic growth was moderately robust during the CSLP period, with GDP expanding at an annual average of 5 percent—and this was before gold rose to become the nation's top export. Under the CSLP, important achievements were made in Public Financial Management (PFM), public infrastructure investment, and the provision of basic social services, and the Government demonstrated a credible commitment to executing the measures set forth in its strategic plans. This commitment was recognized by the cooperating partners involved in developing the monitoring and evaluation framework for the CSLP, and the SCADD builds on important lessons learned during its implementation. The SCADD itself was developed through an extensive consultative process and is informed by a large body of analytical work.

3.4. **A joint staff advisory note (JSAN), prepared in August 2011 by the IMF and World Bank teams, broadly endorsed the policy agenda adopted under the SCADD, though its economic growth targets were viewed as excessively ambitious.** An economic growth rate averaging more than 10 percent during 2011-15, as envisioned in the SCADD, would have significantly exceeded Bank and IMF forecasts. Staff noted that it would take time for the impact of growth-enhancing programs to become apparent, and that existing impediments to growth could not be addressed overnight. The JSAN also recommended that the authorities be selective and define priorities that are compatible with implementation capacity, private sector participation and available financing. A performance review of the SCADD undertaken in 2014 revealed that structural reforms designed to improve productivity and resilience in agriculture, combined with increased spending on poverty reduction and food security programs, had boosted overall growth rates, though growth continued to remain below the SCADD's double-digit targets.

4. THE PROPOSED FOURTH DEVELOPMENT POLICY OPERATION

4.1 OPERATIONAL OVERVIEW AND LINKS TO THE GOVERNMENT'S PROGRAM

4.1. **The proposed operation will be the fourth and final in a programmatic series of DPOs launched in May 2012, the overarching objective of which is to support implementation of the Government's Poverty Reduction Strategy Paper, the SCADD.** The GCC-4 focuses its support on two of the SCADD's four strategic axes: (a) promoting growth and reducing economic vulnerability; and (b) improving governance and enhancing the efficiency of the public sector. The primary goal of the GCC series has been to accelerate broad-based, private sector-led growth as the engine of employment creation and poverty reduction. The GCC-4 builds upon previous reforms in the cotton sector, trade and transportation policy, public financial management, and mining sector transparency. It also introduces actions in new policy areas: facilitating judicial reform, strengthening social services, and reinforcing food security. The operation remains fully consistent with the country's development program agenda. The Transitional Government has reaffirmed its commitment to implementing the SCADD, and it will focus its efforts on four priority policy areas: (a) defense and national security; (b) justice sector reform; (c) political, economic and administrative governance; and (d) social services delivery. In addition, the Transitional Government will begin implementing measures for the transposition of the current WAEMU directives on PFM during the first quarter of 2015.

4.2. **The Program Development Objectives (PDOs) of the proposed operation are to enhance the Government's ability to: (a) reduce costs in the agriculture and transport sectors; (b) improve the transparency and accountability in public resource mobilization and management; and (c) reduce vulnerability to shocks.** These reforms are in line with the Bank's

CPS for 2013-2016 and reflect the Government's priorities, as set forth in the SCADD, for reducing poverty and promoting sustainable growth. The design of the GCC-4 is predicated on established good practice principles for development policy operations, and is fully consistent with the objectives of the Government's program. Pillar 1 of the GCC-4 encompasses two intermediate goals linked to broad economic growth: (a) greater improvement in the agricultural input market; and (b) improved formalization in the overland transport sector. Intermediate goals under Pillar 2 focus on good governance and include: (a) greater transparency in the mobilization and management of mining sector fiscal revenues; (b) improved functioning of the justice sector and anticorruption tools; and (c) enhanced PFM systems. Pillar 3 concentrates on reinforcing economic resilience and reducing vulnerability to both macro and microeconomic shocks; its intermediate goals are: (a) an improved system of transfers for decentralized social service provision; (b) increased access of women to microfinance, and improved oversight of microfinance institutions; and (c) increased response capacity of the food security system in impoverished and vulnerable areas. The GCC series advances the Bank's twin goals of reducing extreme poverty and boosting shared prosperity through its support for programs targeting vulnerable groups, and for reforms designed to build the institutional conditions necessary for robust private sector growth. The GCC-4 supports good governance initiatives designed to improve transparency in public resource management, alleviate constraints on the business and investment climate, and enhance social service delivery to the poor and underserved.

4.3. **The preparation of the GCC series has been informed by lessons learned from previous DPOs, and the GCC-4 by the conclusions of the Country Assistance Strategy (CAS) completion report for FY 2010-12.** One important lesson from recent DPOs in Burkina Faso is that in the absence of broad-based economic growth and job creation, macroeconomic stability and social programs will not be capable of generating the strong positive impact on poverty indicators necessary to achieve the Government's development objectives. For this reason, the GCC-4 is built around a commitment to cross-cutting reforms designed to promote increasingly robust private sector development, build greater resilience to shocks in labor-intensive sectors (especially agriculture and agro-industry), and ensure that the fiscal benefits from the exploitation of natural resources are well managed and widely shared, including equitable transfers to local communities affected by resource extraction. A second lesson is that the supported reforms must be selective and strategic in scope, but ambitious in depth. Selectivity has been a key guiding principle in the preparation of this operation. The determination of specific DPO-supported measures was made in close collaboration with the Government, taking into account the major constraints to private sector growth, good governance and public resource management, as well as opportunities to accelerate the decentralization of public services and enhance social protections for vulnerable groups. The GCC series has focused on the sectors with the greatest potential for growth and poverty reduction, including mining, agriculture and international trade, as well as the critical cross-cutting areas of PFM and the protection of vulnerable groups. Another important lesson from previous DPOs involves the potentially negative effects of providing financing that is not fully synchronized with the government budget. Consequently, the GCC-4 is designed to closely coincide with the beginning of the budget cycle, ensuring that its resources are properly aligned with the government's annual expenditures.

4.4. **More specifically, lessons learned from the three previous operations in this series have largely informed the design of the GCC-4**. These include: (a) greater realism to better take into account what can be achieved in a context of limited capacity and political transition; (b) the need for stronger political commitment and leadership for in-depth reforms such as anticorruption, and for good governance in the emerging mining sector; and (c) sustained follow-up of prior actions that can have cascading effects on the proposed operation.

4.5. **The proposed operation focuses on addressing a limited set of obstacles that have created bottlenecks to private sector job creation.** These include volatile input prices in the labor-intensive cotton sector, and high transportation and transaction costs for cross-border trade. Targeted actions in these policy areas will be complemented by ambitious governance reforms with far-reaching impacts on economic growth and competitiveness, including measures to improve justice sector performance and efficiency and accountability in PFM.

4.6. **Continuing progress in each of the major policy areas supported by the GCC series—agriculture, mining, transportation, PFM, decentralized social-service provision, and judicial sector reform—will help to catalyze private sector growth.** The GCC-4 consolidates and builds on the policy reforms pursued under previous operations in the series. These operations have contributed to improving economic competitiveness and resilience, enhancing governance, and boosting PFM efficiency. While these operations have had a positive development impact, the Government has experienced significant challenges in the implementation of some major reforms. These obstacles, along with changing circumstances and evolving priorities, have prompted the revision of certain operational triggers and prior actions.

Table 4.1: Preliminary Results of the GCC Series by Strategic Pillar, as of December 31, 2014

Pillar 1: Reduce costs in the agriculture and transport sectors
• An agricultural Input Fund has been established with an initial capitalization of CFAF 10 billion to help reducing the cost of imported inputs. • Incentives have been adopted to promote investment in the tanker-truck fleet.
Pillar 2: Improve the transparency and accountability in public resource mobilization and management
• Transparency in the management of mining-sector revenues is now in line with Extractive Industries Transparency Initiative (EITI) requirements, and the second EITI report has been published. • The Court of Accounts has been established and 15 judges were appointed to replace retired staff, improving judicial oversight of the public finances. • Financial controllers have been appointed in all line ministries and public agencies. • A wide range of justice-sector statistics is now disclosed on time, and there is increased public awareness of procedures for dispute mediation.
Pillar 3: Reduce Vulnerability to Shocks
• The implementation of recommendations from the audit report of microfinance institutions has helped to strengthen sectoral oversight. • The scaling-up of the Support Fund for Women's Income-Generating Activities (FAARF) has helped to improve access to finance for women, and the number of active borrowers continues to increase. • Decentralization is proceeding apace, and at least 4 percent of budget expenditures have been transferred to local communities. • The establishment of an early warning system for food crises, improved drought preparedness, and a combination of subsidized sales and free distribution of food to vulnerable areas has reinforced food security.

4.7. **The GCC-4 provides an opportunity to address key difficulties encountered in their implementation.** The proposed operation will accelerate pro-poor growth in the agriculture sector by improving the functioning of the input market, expanding access to credit, and reducing the costs of domestic commerce and international trade These objectives are supported by a number of complementary projects, including: the Competitiveness and Enterprise Development Project (PACDE); the Mining Development Support Project (PADSEM); the Agricultural Diversification and Market Development Project (PAFASP); the Agricultural Productivity and Food Security Project (PAPSA); the Strategic Plan for the Modernization of the Administration (PDSMA); and the Community-Based Rural Development Project (PNGT).

Table 4.2: Changes in GCC-4 Triggers and Prior Actions

Original GCC4 Trigger	Rationale for Revision	New Proposed Prior Action
The queuing system *("tour de role")* for freight trucks is eliminated. **(Trigger #2)**	The government has opted to create freight exchanges ("bourses de frets") rather than abandoning the tour de role, which continues to be used at customs-clearance points in Lome, Abidjan, Tema and Accra. The government is assessing the relevance and legal validity of a prospective Ministerial Decree governing cross-border transit protocols with a view to developing a more regionally tailored approach. To strengthen the expected outcomes of policy reforms in the transport sector the government has developed a legal framework for licensing overland transport operators, as part of a trade-facilitation DPO between Burkina Faso and Côte d'Ivoire	Formalization in the trucking industry is enhanced through the adoption of a legal framework for licensing overland transport operators.
A local development fund financed by a share of mining revenues is established, with resources from the fund allocated to regions and communities where mining companies operate. **(Trigger #3)**	Following significant disagreements between the government and the Chamber of Mines, the draft Mining Code adopted by the Cabinet and submitted to the National Assembly in October 2013 has been withdrawn. Consequently, the local development fund linked to the code could not be established. The Bank and IMF teams have provided comments and suggestions, and a new draft Mining Code has been prepared, which includes the local development fund. The new version was adopted by the Council of Ministers on February 18, 2015 and submitted to the National Transition Council (CNT) on February 23, 2015.	A revised draft of the Mining Code, which provides for the creation of a local development fund financed by a share of mining revenues, is submitted to the National Transition Council (CNT); resources from the fund are allocated to regions and communities where mining companies operate.
A draft Anticorruption Law designed to strengthen penalties for bribery, tighten regulations on gift-giving to public officials, and more precisely and comprehensively define both the nature of corrupt practices and the sanctions against them is submitted to National Assembly. **(GCC-3 Prior Action #5)**	The draft Anticorruption Law was adopted by the Cabinet on October 15, 2014 and submitted to the National Assembly. However, the draft was withdrawn after concerns were raised regarding the scope of the input used to develop it. A new version was subsequently prepared through a more broadly consultative approach involving the active participation of civil society. This version was adopted by the Council of Ministers on January 7, 2015 and was submitted to the National Transition Council (CNT) on January 20, 2015.	A draft Anticorruption Law designed to strengthen penalties for bribery, tighten regulations on gifts to public officials, and more precisely and comprehensively define both the nature of corrupt practices and the sanctions against them is submitted to National Transition Council (CNT).

Original GCC4 Trigger	Rationale for Revision	New Proposed Prior Action
An audit of public procurement from 2010 to 2012 is completed, and recommendations to improve procurement procedures are adopted. **(Trigger #5)**	This prior action has been delayed, but it has not been dropped. The government believes that the timeframe for bidding on audit contracts will be too long to get the final approved audit reports. Instead, the government has adopted a parallel approach, focusing its efforts on greater transparency in public procurement and implementing WAEMU recommendations to improve investment-budget execution by increasing thresholds for public procurement.	A revised legal framework for public procurement is adopted and prior-review thresholds for procurement are increased at least by 25 percent.

4.2 PRIOR ACTIONS, ANALYTICAL UNDERPINNINGS AND RESULTS INDICATORS

4.8. **Extensive analytical work underpins each of the policy areas covered by the proposed GCC-4.** Recent studies undertaken by the Bank, the Government of Burkina Faso and its other development partners including IMF and EU, have played a fundamental role in the operation's design. The table below describes its eight prior actions and summarizes the analytical basis for each.

Table 4.3: GCC-4 Prior Actions and Analytical Underpinnings

GCC-4 Prior Actions	Analytical Underpinnings
Pillar 1: Reduce costs in the agriculture and transport sectors	
1. Multiple private sector-operated open markets for the sale of fertilizer and other agricultural inputs to farmers are piloted.	*2010 Public Expenditure Review (PER); 2010 Country Economic Memorandum (CEM) "Promoting Growth, Competitiveness and Diversification"* Cotton producers in Sub-Saharan Africa (SSA) are highly sensitive to fertilizer prices: in Burkina, a 10 percent increase in fertilizer prices is estimated to reduce producer profits by 18 percent. A joint mission by the Bank and the French Development Agency in July 2012 found that well-functioning private markets could allow producers to save 13 percent on the cost of imported inputs.
2. Formalization in the trucking industry is enhanced through the adoption of a legal framework for licensing overland transport operators.	*2010 PER; "Burkina Faso: Policy Priorities to Boost Competitiveness"; 2010 CEM; 2008 United Nations Conference on Trade and Development (UNCTAD) "World Investment Report" and Assessment of the renewal trucking fleet through tax exemption (World Bank (2014).* A landlocked country, Burkina's international trade corridors are among the costliest and slowest in the world, and investment in its transportation infrastructure has failed to keep pace with growing demand. The insufficient professionalism among truckers and the prevalence of informality add to the high cost of overland shipping to and from neighboring countries, diminishing Burkina's export competitiveness and raising import prices. The professionalization of the industry would also result in diminishing the number of informal transport operators, which would result in improved safety, efficiency, monitoring and eventually better revenue collection by the State.
Pillar 2: Improve the transparency and accountability in public resource mobilization and management	
3. A revised draft of the Mining Code is resubmitted to the National Transition Council (CNT); including the creation of a local development mining fund financed by a share of mining revenues, and resources from	*2010 CEM; World Bank (2011) "Burkina Faso: The Mining Sector and Business Enterprise Development;" and IMF and European Union analytical work on the fiscal impact of revising the Mining Code.* *World Bank (2014) "Mining firms social accounting study Burkina Faso''*

GCC-4 Prior Actions	Analytical Underpinnings
the fund are allocated to regions and communities where mining companies operate.	There is considerable potential to boost employment and income by strengthening supply-chain linkages between local firms and mining companies, while important welfare gains could be achieved by mandating a more equitable distribution of mining-sector revenues. In this context, a set of revisions has been proposed to the 2003 Mining Code designed to (a) streamline fiscal processes in the mining sector; (b) improve regulations related to local community development in mining regions; and (c) direct a share of mining sector revenues to local community development funds.
4. A draft Anticorruption Law designed to strengthen penalties for bribery, tighten regulations on gift-giving to public officials, and more precisely and comprehensively define both the nature of corrupt practices and the sanctions against them is submitted to National Transition Council (CNT).	*"Review of the Justice Sector in Burkina Faso," World Bank, 2013; "The State of Corruption in Burkina Faso: 2011 Report," National Anticorruption Action Network, 2011* In 2011 a survey by Burkina Faso's National Anticorruption Action Network indicated that 90 percent of respondents believed that corruption was on the rise. While the investigation of corrupt practices by domestic authorities has improved, with reports now published by both the Court of Accounts and the High Authority for State Oversight, effective sanctions against corruption remain limited. This is the result of inadequacies in the legal framework and a lack of judicial expertise in prosecuting and adjudicating bribery, graft and misuse of public funds.
5. Measures are adopted to improve the functioning of the Superior Council of the Magistracy, including an increase of its number of elected members.	*World Bank (2013) "Review of the Justice Sector in Burkina Faso;" and National Anticorruption Action Network (2011) "The State of Corruption in Burkina Faso: 2011 Report"* In a 2011 survey by Burkina's National Anticorruption Action Network, 90 percent of respondents reported that corruption was on the rise. While the investigation of corrupt practices by domestic authorities has improved, with reports now published by both the Court of Accounts and the High Authority for State Oversight, effective sanctions against corruption remain limited. This is the result of inadequacies in the legal framework and a lack of judicial expertise in prosecuting and adjudicating bribery, graft and misuse of public funds. In addition, the Superior Council of the Magistracy requires greater independence in order to effectively fulfill its role in the Justice Sector.
6. Revised procurement legal framework is adopted and thresholds are increased.	*The Government of Burkina Faso (2007) "Strategy for Strengthening Public Financial Management;" 2010 PER; 2007 and 2013 PEFA* According to both Bank analytical work and the government's own PFM strategy, strengthening internal and external PFM controls would enhance efficiency and transparency in the use of public resources. Budget execution would be greatly improved by increasing thresholds for prior review in public procurement and by greater delegation of authority in line with the recommendations of the 2013 PEFA assessment.
Pillar 3: Reduce Vulnerability to Shocks	
7. Transfers to local communities are increased to 5 percent of total budgeted expenditures; local governments have sufficient funds to fulfill the mandates established under the General Code for Local Communities.	*2010 PER; German Society for International Cooperation (2012) "Decentralization in Burkina Faso"* The extent of fiscal decentralization in Burkina Faso is relatively low compared with the world average. The current level of financial transfers from the central government to local authorities inhibits the effective functioning of local public administrations and slows improvements in social-service delivery.
8. All microfinance institutions, including the Support Fund for Women's Income-Generating Activities (FAARF), will perform annual audits and provide accurate	*Canadian International Development Agency and Ministry of Economy and Finance (2010) "Strategy and Action Plan for Financial Sector Development"* One of the key challenges in the financial sector has been a lack of funding for small and medium enterprises. In addition, there are

GCC-4 Prior Actions	Analytical Underpinnings
monthly statements to the relevant authorities.	significant gender inequalities in access to finance, which limit female entrepreneurship. The FAARF was established to address these issues, and continuing to expand its operations will have positive impacts on economic growth and the distribution of income.
9. Measures are implemented to promote greater involvement by private firms in strategic food-import and distribution systems.	*International Food Policy Research Institute (2012) "Case Studies of Strategic Food Reserves in Four Countries: Ethiopia, Kenya, Malawi, and Mali;" 2010 PER* Successful food-reserve systems rely on a number of key factors. Adequate institutional design is necessary to ensure the overall responsiveness and effectiveness of interventions. Sufficient stock levels, both for strategic and emergency food reserves, are essential both to manage chronic food insecurity and provide large-scale relief during a food crisis. Finally, thorough integration with social safety nets is key to effective preventative action and to the long-term alleviation of food insecurity.

Pillar 1. Reduce costs in the agriculture and transport sectors

(a) Greater improvement in the agricultural input market

Challenges

4.9. **In recent years, volatility in agricultural input prices has posed a serious challenge for producers.** While prices for some inputs, such as seeds and pesticides, have been fairly stable, fertilizer prices have fluctuated wildly, quadrupling in 2008, falling briefly in 2009, and then increasing by more than 30 percent in 2011 and 2012. For the past 8 years the Government and cotton companies have used subsidies to protect cotton farmers against input price volatility, but this policy has come at a high fiscal cost. In order to bring 2012-13 input prices down to 2011-12 levels, the Government provided US$20 million in public subsidies (0.5 percent of GDP) on top of the US$25 million in private subsidies provided by cotton processing companies. Under this system, the cotton processing companies individually purchase fertilizer imports, which they then sell to farmers (on credit) at a fixed price. This price is jointly determined by the Inter-professional Association of Cotton Farmers of Burkina Faso (*Association Inter-professionnelle des Coton-culteurs du Burkina* – AICB) and the Government. Any difference between the fixed price offered to farmers and the import price paid by processors is financed by a mix of public and private subsidies.

4.10. **The rising fiscal burden imposed by fertilizer subsidies underscores the urgent need to develop alternative price support mechanisms for agricultural inputs.** The Input Fund, which was set up under the GCC-3, provides a guarantee to cotton companies for fertilizer procurement through their respective commercial banks, and fertilizer imports follow a competitive bidding process. The Fund is secured by a dedicated account in a commercial bank. The legal and financial structure of the Input Fund is already in place, and five banks have pledged their support to the initiative. The Fund was originally intended to become operational in time for the 2014-15 agricultural season, but it was delayed. An assessment report is now being discussed by stakeholders, who are working to operationalize the Fund for the upcoming season.

Reforms and medium-term objectives

4.11. **The GCC-4 builds upon measures launched under previous operations by supporting the initial capitalization of the Input Fund and further elaborating its governance structure**. The Government has provided CFAF 10 billion for the initial capitalization of the Fund, which is governed by an association that includes representatives from the National Cotton Farmers' Union and the AICB. The Input Fund is not used to purchase inputs directly; instead, an agent bank that is not involved in direct lending to cotton farmers has been contracted to manage the Fund's transactions.

4.12. **The annual operations of the Fund can be broken down into four discrete steps.** First, the agent bank informs each cotton company of the amount of the guarantee that is available to support the purchase of fertilizer for the coming season. Then, a commercial bank representing each cotton company informs the agent bank of the volume, duration and terms of the letters of credit it is issuing to cover fertilizer procurement for the cotton companies. Next, the commercial banks provide their letters of credit to their respective cotton companies to enable them to import fertilizer. Finally, through their commercial banks, the cotton companies provide credit to farmers to buy fertilizer. The Input Fund is required to produce annual certified accounts, which will be audited. The guarantee covers risks related to catastrophic events such as floods, droughts and other natural disasters. Should the guarantee fund prove insufficient to cover losses, the government would intervene to recapitalize the fund, and additional remedial actions could also be taken, such as rescheduling the repayment of farmers' input credits. The aim is for the Input Fund to serve as a model for similar programs outside the cotton sector, leading to lower input prices for farmers, more accessible input supply, more extensive variety in fertilizer types, and greater diversification of agricultural production.

Prior Action for GCC-4*:*

- *Multiple private sector-operated open markets for the sale of fertilizer and other agricultural inputs to farmers are piloted.*

<u>*Expected Results:*</u> *The initial capitalization of the Input Fund reaches at least CFAF 10 billion; The capitalization of the stabilization fund is at least CFAF 6 billion; and Improved fertilizer distribution to cotton farmers is increased by 30,000 tons.*

(b) Improved formalization in the overland transport sector

Challenges

4.13. **As a landlocked country, Burkina faces high structural transportation costs, and the atomization of the transport industry by a large number of "artisans" (non-professional truckers) discourages investment by formal transport companies in fleet renewal and increases the cost of imports.** Trade and transport operations between Burkina and its coastal neighbors are, therefore, among the costliest and slowest in the world. The supply side is characterized by a non-professional truckers owning one truck and earning their living from various activities, one of which is transport. This makes them high-risk clients for the banks. In addition, new trucks are very expensive (CFAF 80-100 million, with interest rates between 9 and 12 percent). Domestic importers pay a 28 percent markup over the FOB price, far above both the world average of 6 percent and the SSA average of 10 percent. The three main transit corridors linking Burkina to the coast are via Tema (Ghana), Lome (Togo), and Abidjan (Côte d'Ivoire), all of which are characterized by frequent delays, high informal costs, large profit markups, and poor quality of both public infrastructure and private transport services. Time-consuming administrative procedures at border crossings are among the main causes of delays. The GCC-3 supported the implementation of measures to streamline customs administration.

4.14. **The GCC-4 would complement a set of key reforms that are currently being implemented with the support of the West Africa Regional Transport and Transit Facilitation Program (PRFTTAO) for the Tema-Ouagadougou-Bamako corridor.** These reforms are designed to link the customs systems of Ghana, Burkina and Mali, introduce a tracking mechanism, and computerize a number of customs operations that are currently performed manually. The proposed operation would also advance the objectives of the regional DPO for trade facilitation between Burkina and Côte d'Ivoire.

4.15. **Most cargo entering Burkina Faso has to be cleared at Ouaga Inter, the formal customs clearance yard in Ouagadougou.** Recent estimates indicate that more than 50 percent of informal costs along the critical Tema-Ouagadougou transit corridor are incurred at Ouaga Inter. Long waiting times for standard customs procedures increase import costs, discourage certain types of import businesses and encourage corruption in the customs service. In March 2013, a private firm contracted by the Government completed a thorough audit of Ouaga Inter. It recommended measures to enhance the efficiency and integrity of customs clearance procedures, and the GCC-3 supported administrative reforms based on those recommendations.

4.16. **Under the GCC3, the Government has passed legislation waving import taxes on cargo trucks to promote increased investment in the quality of the nation's trucking fleet.** Fleet renewal, combined with other measures including professionalization of the industry, will further reduce transportation costs and ease pressure on road infrastructure caused by axle overloading. However, despite the legislation waiving import taxes on cargo trucks to promote renewal of the fleet, the expected outcome has not yet been achieved. The professionalization of the industry would also help to decrease the number of informal transport operators, which would result in improved safety, efficiency, monitoring and eventually better revenue collection by the State.

4.17. **In 2014, the Government adopted a presidential decree aimed at formalizing the freight transport industry in Burkina.** The introduction of qualitative criteria (as opposed to quantitative "entry quotas") represents an important step towards formalization of the road transport industry. The decree requires applicants to satisfy two criteria in order to obtain an operating license: (a) registration with the Trade Registrar *(Registre de Commerce et du Credit Mobilier)* under the category of "transport activity"; (b) proof of good financial standing; and (c) professional capability, which must be proven by transport company staff and managers at all levels.

4.18. **Although it is too early to gauge the impact of the decree, it is expected to dramatically decrease the size of the informal transportation sector.** A greater degree of formalization will generate important benefits for export firms of all sizes. Formalization is also expected to boost revenue collection and improve oversight of the transport sector.

Reforms and medium-term objectives

4.19. **The GCC series has supported the Government's reform agenda by strengthening customs administration and introducing qualitative criteria for entering the trucking profession.** The goal is to improve the efficiency of customs clearance processes, reduce transaction costs for private firms and consumers, and curb corruption in the customs service by enhancing transparency and encouraging adherence to legal norms. These reforms are aligned with the regional DPO between Burkina Faso and Côte d'Ivoire.

Prior Actions for GCC-4:

- *Adoption and implementation/enforcing of a legal framework for licensing road transport operators.*

<u>*Expected results:*</u> *An annual increase of 10 percent in the number of certified professionals in the trucking industry and in the ratio between trucking companies and individuals; Average waiting time for customs clearance in Ouaga Inter reduced by 50 percent.*

Pillar 2. Improve the transparency and accountability in public resource mobilization and management

(a) Greater transparency in the mobilization and management of mining sector fiscal revenues

Challenges

4.20. **In 2009, mineral resources, led by gold production, overtook cotton to become Burkina's leading export.** Fiscal and legal reforms in the mining sector have attracted large volumes of foreign direct investment, particularly in the gold subsector. Gold production has since grown steadily, from 811,000 ounces in 2010 to more than 1.5 million ounces in 2013. The country recently opened its largest mine to date, Essakane, which alone produces 337,000 ounces of gold per year. Nine mining companies are operating in the country, including firms focused on manganese and zinc. The formal mining industry generated close to 6,000 direct jobs in 2013, and its expansion has helped Burkina achieve an average real GDP growth rate of more than 6 percent since 2006. Despite a modest decline in gold prices, Burkina earned more than US$384 million from the mining sector in 2013, up from US$254 million in 2011, and the Government's goal is to join the ranks of SSA's top mineral producers, alongside South Africa and Ghana. Burkina is currently the third largest site for gold exploration in Africa.

4.21. **Despite its rapid rise to prominence, the mining sector's fiscal contribution has had limited impact on Burkina's economic and social development.** The growth of the mining sector has boosted the Government's revenues by about 3.2 percent of GDP from 2010 to 2013, and has significantly accelerated the growth of the service sector. However, its development has also entailed considerable costs. The mining industry strains the nation's infrastructure, particularly the already fragile road system, and it causes an inevitable degree of environmental damage. Tax revenues can help to offset these costs, but fiscal incentives and exemptions included in the 2003 Mining Code could be improved, relative to other WAEMU countries, to increase the amount of income derived from the sector. The impact of mining on employment creation is diminished by its capital-intensive nature, and the sector's linkages with the broader economy are relatively weak due to its heavy reliance on imports. Mining can also have serious negative repercussions for local communities affected by the industry, and at present the externalities it generates are not adequately compensated. Finally, physical inspections and verification of the quality and volume of mining exports reported by the Customs Administration, the Ministry of Mines, and the Ministry of Finance could be improved to contain fraud and provide more accurate data on the sector.

Reforms and medium-term objectives

4.22. **The proposed operation supports the Government's reform efforts in the mining sector, where its priority objectives include increasing public revenue inflows, enhancing transparency, and ensuring that the sector has a broad-based impact on economic development.** The goal of these reforms is to promote continued exploration by world-class mining companies, while also making sure that the sector contributes an equitable share of its revenues to the public finances. Increased transparency in contract allocation and revenue and output reporting will help to sustain Burkina's recently achieved compliance with EITI. Key steps in the EITI compliance process were supported by the GCC-2. The GCC-3 focused on revising the Mining Code to address fiscal considerations and environmental concerns, as well as establishing a Local Development Fund for affected communities. The IMF has provided technical assistance on these revisions further to an analytical work done by the Bank and European Union, with a view to increasing the share of mining revenues collected by the Government from 40 to 53.3 percent. The proposed boost in public revenue is derived from a reversion to the common tax rate for income and securities, as well as the creation of a preferred dividend to the government as a shareholder. As mentioned in its recent analytical work named "Mining tax system in Burkina" published in July 2013, IMF is convinced that these measures will not increase the operating costs of mining companies and will keep their profitability unchanged.

4.23. **On December 9, 2013, the Chamber of Mines sent a letter to National Assembly listing 21 outstanding issues related to the draft Mining Code, which was then under review**. In light of these concerns, the Government decided to withdraw the draft Mining Code pending further evaluation, and to improve analytical underpinnings and the consultative process. The Bank offered to provide technical assistance to support the revision process which resulted in a revised draft that was submitted to the CNT. The Local Development Fund established by the Mining Code is to be financed by 0.5 percent of mining firms' net profits and, initially, 15 percent of government royalties. A development framework for mining-affected communities is being completed by December 2015 under the Bank's Mining Governance Support Project (MGSP). The proposed GCC-4 will complement these efforts by providing technical assistance on the governance structure of the Local Development Fund, including resource management, participation and transparency mechanisms, and eligibility criteria for financing. The Transitional Government has committed itself to determining how the mining revenues will be allocated to the communities by adopting regulations once the Mining Code is passed.

Prior actions for GCC-4:

- *A revised draft of the Mining Code is resubmitted to the National Transition Council (CNT), which provides for the creation of a local development fund financed by a share of mining revenues; resources from the fund are allocated to regions and communities where mining companies operate.*

<u>*Expected Results*</u>*: Public revenues generated by the mining sector are increased to 4 percent of GDP; the number of mining companies submitting validated data for EITI reports is increased from 0 to 6.*

(b) Improved functioning of the justice sector and anticorruption tools

Challenges

4.24. **Burkina's justice system suffers from a number of serious systemic weaknesses.** While important reforms have been undertaken since 2000, including the Ministry of Justice's adoption of a National Justice Sector Policy (2010-19) and Triennial Action Plan, the justice sector is widely perceived to be in need of further reform. Judicial processes are compromised by patronage and weak administrative capacity. The limited autonomy of judges, coupled with inadequate resources, hinders the efficiency and efficacy of the justice system, while a lack of transparency supports a culture of impunity and underperformance. Access to justice by vulnerable groups is constrained by a variety of factors, including corruption and a lack of trust in the system. Over the last five years, Burkina has ranked at or above the regional average for corruption indicators. A recent parliamentary investigation into procurement processes, together with a review of the annual reports of the Court of Accounts, has demonstrated the persistence and prevalence of corruption in the public administration.

Reforms and medium-term objectives

4.25. **Over the last decade, the Government's commitment to fighting corruption and increasing the independence of the judiciary has yielded mixed results.** In 2000, the Government adopted the National Policy on Good Governance, and in 2006 it ratified the United Nations Convention against Corruption (UNCAC) and adopted a National Anti-Corruption Policy. With donor support, the Government's commitment to fighting corruption has promoted important PFM reforms and strengthened institutional oversight mechanisms, including capacity-building programs at the Court of Accounts and the establishment of the High Authority for State Oversight (*Autorité Supérieure de Contrôle de l'Etat* – ASCE). However, while the investigation of corruption has improved, with reports now published on an annual basis, sanctions for corruption remain limited.

4.26. **The adoption of more robust laws to enhance officials' accountability for the use of public resources is critical to advancing anticorruption efforts, which have broad public support.** A draft Anticorruption Law was developed and submitted to National Assembly on October 7, 2013, as a prior action for the GCC-3. However, the draft was subsequently withdrawn after several members of the National Assembly raised concerns regarding the need for broader input, including consultation with the National Anticorruption Network (*Réseau National de Lutte Anti-Corruption* – RENLAC), which together with the National Assembly's own anticorruption organization (*Réseau Burkindi*), had initiated the draft Anticorruption Law in collaboration with ASCE. The Government subsequently revised the draft law in consultation with RENLAC, and the new draft was adopted by the Council of Ministers on January 7, 2015. Comments and suggestions provided by the Bank, including the importance of complying with international anticorruption agreements, were incorporated into the revised version.

4.27. **To promote greater judicial independence, the Government is attempting to strengthen the authority and autonomy of the Superior Council of the Magistracy.** Through the Triennial Action Plan for National Justice Sector Policy (2010-19), adopted by the Council of Ministers on January 22, 2014, the Government will progressively increase the independence of the Superior

Council of the Magistracy. The GCC-4 supports this effort, which will enhance the justice sector's capacity for internal oversight.

Prior actions for GCC-4:

- *A draft Anticorruption Law designed to strengthen penalties for bribery, tighten regulations on gift-giving to public officials, and more precisely and comprehensively define both the nature of corrupt practices and the sanctions against them is submitted to National Transition Council (CNT).*
- *Measures are adopted to improve the functioning of the Superior Council of the Magistracy (CSM), including an increase in its number of elected members.*

Expected results: Burkina Faso's score in the Transparency International Corruption Perceptions Index is increased from 38 in 2012 to 40 or higher in 2016.
Number of CSM elected members per grade increased by 50 percent; A 20 percent decrease in the time required to obtain a court ruling (to 584 days); A 20 percent reduction in the time needed to enforce contracts (to 372 days;) and Percent of judgments written down in commercial courts at list 75 percent.

(c) Enhanced PFM systems

Challenges

4.28. **Burkina has implemented a number of key PFM reforms, and efforts to build on the success of recent initiatives are expected to yield positive results.** Overall, Burkina scores relatively high on PFM indicators, and the country has shown improvement in this area over the last decade, as evidenced by the 2014 PEFA assessment. The budget is now adequately credible due to significant reforms in its preparation and execution, including measures designed to strengthen budget-Treasury linkages, improvements in reporting and internal audit mechanisms, and procurement reforms. Since 2000, a medium-term expenditure framework (MTEF), supported by the active involvement of line ministries, has played a major role in determining budget allocations. The allocation process now uses rules-based criteria that promote pro-poor spending. The Government is continuing to improve PFM through the implementation of its Economic and Financial Sector Policy (*Politique Sectorielle de l'Economie et des Finances* – POSEF). The goals of the POSEF include: (a) improving budget programming; (b) strengthening budget execution; (c) publishing budget-related information; (d) aligning expenditures on initially approved line items with the priorities of the SCADD; (e) increasing the share of expenditures allocated to priority sectors; (f) strengthening oversight by the Court of Accounts; and (g) strengthening risk-based audit mechanisms under the supervision of ASCE.

Reforms and medium-term objectives

4.29. **The GCC-4 supports the Government's efforts to further improve the transparency of public resource management, which will generate important welfare benefits.** Burkina already has a relatively solid PFM system, and further reforms will consolidate the process of improving budget execution, enhancing service delivery, and accelerating poverty reduction through a stronger focus on pro-poor expenditures. Burkina will need to comply with its regional commitments, including the six WAEMU directives related to PFM. These directives concern: (a) budget laws, (b) transparency rules, (c) government accounting practices, (d) budget classifications, (e) the central government's chart of accounts, and (f) the central government's operations summary table. The authorities have reiterated their commitment to WAEMU principles, and efforts have been made to internalize these guidelines. Three committees were established to finalize the draft text of the Transparency Code, which was adopted on April 23, 2013, and the Government is preparing additional draft laws for submission to the National Assembly. In 2013, at the request of WAEMU, the World Bank conducted a study on the execution of the investment budget. This report revealed that the execution rate had decreased form 58.6 percent in 2010 to 31.8 percent in 2012, and concluded that the number of steps, ex ante controls, clearances and signatures required to undertake any project were too numerous, often duplicative and led to significant delays and inefficiencies in procurement and budget execution. The report's key recommendations included increasing the prior-review thresholds applied to procurement. The GCC-3 supported improvements in PFM controls through the appointment of dedicated financial controllers in each ministry and national public institution. As the proposed GCC-4 aims at furthering compliance with WAEMU directives and increasing efficiency in public procurement, the reform of procurement methods is included as a prior action.

Prior action for GCC-4:

- *A revised legal framework for procurement is adopted, and prior-review thresholds are increased at least by 25 percent.*

<u>Expected results:</u> *Greater transparency and accountability in PFM is achieved; the average execution rate of the line ministries' investment budgets is increased by more than 50 percent; and the number of physical spot checks of contracts subject to competitive bidding increased by 50 percent.*

Pillar 3. Reduce Vulnerability to Shocks

(a) Improve system of transfers for decentralized social service provision

Challenges

4.30. **Fiscal and administrative decentralization has been a challenge in Burkina Faso.** The Government reached a major milestone in 2004 with the adoption of the General Code for Local Governments (*Code Général des Collectivités Territoriales* – CGCT). However, overall progress on the decentralization agenda has been slow. Of the eleven competencies identified in the CGCT as properly devolving to local governments, only four were initially transferred to urban municipalities. In 2010, less than 4 percent of the state's total financial resources were transferred to local governments. A combination of administrative constraints, opaque intergovernmental fiscal flows, and limited mechanisms for citizen participation have contributed to weak local governance capacity and slowed the implementation of decentralization reforms. In addition, the lack of qualified civil servants at the local level is a major obstacle to strengthening local administrative capacity. To address this constraint, the Government has decided to hire a thousand new civil servants for positions in local government. In order to further strengthen its decentralization policy framework, in September 2014 the Government prepared a draft multiyear budget for 2015-2017. This draft budget includes a performance monitoring framework for budget execution. The expected implementation of the WAEMU directives for PFM will facilitate the implementation of this instrument.

Reforms and medium-term objectives

4.31. **The overall goal of decentralization is to empower local communities to improve public service delivery.** Fiscal decentralization typically precedes administrative decentralization, as the government must allocate sufficient resources to local authorities to enable them to effectively deliver basic public services. Municipal governments also require greater autonomy in determining expenditures on wages and operational costs, as well as a strong capacity to mobilize local revenue. The GCC-1 and subsequent operations supported improvements in the legal framework for administrative decentralization. The GCC-4 builds on these efforts by supporting increased fiscal transfers to local communities. The proposed operation also complements Bank support to the decentralization agenda provided through the Local Government Support Project, which works to enhance central government policies for effective fiscal and administrative decentralized service delivery; and through the Agriculture Diversification and Market Development Project, which aims to increase the competitiveness of selected agricultural subsectors that target national and local markets.

Prior action for GCC-4:
- *Transfers to local communities are increased to 5 percent of the national budget.*

<u>Expected results</u>*: 5 percent of the national budget is transferred to local governments under the Budget Law, and the administrative capacity of local governments is strengthened by the recruitment of qualified civil servants.*

(b) Increased access by women to microfinance, and improved oversight of microfinance institutions

Challenges

4.32. **The microfinance sector in Burkina is growing, but entrepreneurs in general, and women in particular, still face significant constraints.** Burkina has more than 10 major microfinance networks, and this number is increasing. However, existing microfinance institutions (MFIs) are typically small, and the sector accounts for less than 10 percent of the country's total financial capital. MFIs are able to provide only a fraction of the credit demanded by small and medium enterprises, especially in rural areas. On average, the total amount of loans provided by MFIs is about US$188.5 million to 194,870 borrowers. The deposits stand at US$260.3 million by 1.3 million depositors. Of more than six million Burkinabe households, only 10 percent have access to microfinance, and applicants are frequently unable to provide adequate collateral. Most MFIs in Burkina are fragile and depend on subsidies from donors to sustain their low interest rates. The small scale, low capitalization, and limited sustainability of the microfinance sector constrain access to financing for female-owned businesses, which are often marginalized by both traditional banks and MFIs.

4.33. **In 1990, a dedicated fund for female entrepreneurs was established, and though it initially suffered serious limitations, its effectiveness has progressively improved over the past two decades.** The Support Fund for Women's Income-Generating Activities (*Fonds d'Appui Aux Activités Rémunératrices des Femmes* – FAARF) was poorly designed, insufficiently capitalized, and inadequate to meet the needs of female entrepreneurs. Its limitations effectively confined women to low-income activities and mandated inflexible methods of repayment.

However, the FAARF has proven to be a very dynamic organization. Its capitalization expanded from US$660,000 in 1991 to US$5,695,000 in 2012, while its geographic coverage increased from a single province to 43 provinces over a period of about 20 years. It initially operated in just 17 villages, but now serves more than 3,000, and its current loan portfolio is close to CFAF 4 billion. Loans average about CFAF 100,000 (US$200) for individuals and CFAF 1.3-1.5 million (US$2,700-3,100) for groups. Its average annual interest rate conforms to international standards at about 27 percent. Repayment schedules are between 6 and 12 months, with a loan recovery rate of 96.3 percent. The GCC-3 supported the continued expansion of FAARF coverage and further increases in the number of beneficiaries.

Reforms and medium-term objectives

4.34. **The priority objectives for microfinance reform are to ensure that the sector is well regulated, adequately capitalized, and sustainable and that it reaches a large target population, particularly female entrepreneurs.** The GCG-4 promotes reforms designed to strengthen the legal framework for microfinance. It focuses on building the capacity of policymakers to more effectively monitor and regulate the sector, broadening the coverage of MFIs and raising public awareness about the opportunities offered by microfinance. The adoption of a National Microfinance Strategy was a prior action for the GCC-2. An action plan has been developed to strengthen MFI management and supervision in order to rationalize institutional operations and improve service quality. The GCC-3 supported scaling-up of FAARF operations, while the proposed GCC-4 will promote improvements in the regulatory environment for MFIs.

Prior action for GCC-4:

- *All microfinance institutions, including the Support Fund for Women's Income-Generating Activities (FAARF), perform annual audits and provide accurate statements to the relevant authorities.*

Expected results: The number of active FAARF borrowers' increases by at least 10 percent; FAARF-linked institutions reach more than 80,000 beneficiaries nationwide, and their total loan portfolio exceeds CFAF 5 billion; the Annual Financial Reporting Sheets of microfinance institutions are made available each year no later than July.

(c) Increased response capacity of the food security system in impoverished and vulnerable areas

Challenges

4.35. **The food security situation in Burkina has improved, but significant challenges remain.** After recovering from a food crisis in 2011 caused by inadequate rainfall, the country faced a potential second crisis in 2012. However, this risk was mitigated by strong and sustained Government efforts to reinforce food security and food crisis preparedness. An estimated 10 percent or more of Burkina's population suffers from chronic food insecurity, primarily due to widespread reliance on rain-fed agriculture and compounded by the high structural cost of food imports. The Government has developed a solid institutional framework to address food security, established an early warning system to identify vulnerable populations, and designed a food crisis response program, at a total cost of close to CFAF 65 billion (1.7 percent of GDP). Its development partners spent another CFAF 40 billion in 2012 alone. The population now has easier access to strategic grain reserves, the early warning system is more comprehensive, and a program has been launched to provide subsidized food in food-deficient areas.

4.36. **The Government continues to rebuild its national food reserves and emergency food stocks, and its food security policies are efficiently targeting vulnerable populations.** Burkina's food reserves were used effectively to combat the recent crisis, and its emergency food stocks are now being replenished. Over the longer term, Burkina is working to increase the total size of both its food reserves and its emergency stocks. The national food reserve ("*stock normal*") currently amounts to 50,000 tons, and it is augmented by an emergency stock ("*stock d'intervention*") of 5,000 tons. In 2012, the Government purchased food from surplus areas and sold it to deficit areas at subsidized prices, as well as drawing on its reserves to further hedge against food insecurity. In total, the Government distributed close to 9,000 tons of food free to vulnerable populations. The institutional framework for food security, which is composed of several agencies working in concert, has proven responsive and reliable. In accordance with international best practices, it specifically targets vulnerable households rather than establishing a universal food subsidy.

Reforms and medium-term objectives

4.37. **The Government's policy agenda aims to better integrate food security and food crisis preparedness into the national development strategy.** Its near-term objectives include further enhancing its early warning systems for food insecurity and its crisis response mechanisms. Over the longer term, the Government is working to increase the response capacity of the food security system and enhance the precision of its targeting. These efforts are outlined in the National Plan for the Organization and Coordination of Emergency Relief and Recovery (*Plan National d'Organisation et de Coordination des Secours d'Urgence et de Réhabilitation* – PNOCSUR). The GCC-1 focused on strengthening the legal and institutional framework for food security. The GCC-2 supported the physical stocking of food in government warehouses in targeted regions. The GCC-3 supported the goal of fully stocking all warehouses in the country with adequate food supplies, as well as building the capacity of crisis response systems and increasing the budgets of responsible agencies. The proposed GCC-4 focuses on increasing private sector participation in the food distribution system. The procurement process was launched in April but has since been delayed. The National Authority for Procurement Regulation (*Autorité de Régulation des Marches Publics* – ARMP) is now finalizing its contracts with private firms, which have agreed to deliver on their commitments before end-December 2014.

Prior action for GCC-4:
- *Measures are implemented to promote greater involvement by private firms in strategic food import and distribution systems.*

<u>*Expected results:*</u> *The national food reserve and emergency food stocks are increased to at least 50,000 tons and 25,000 tons, respectively.*

Table 4.4: Prior Actions for the GCC-4

Prior Actions	Implementation Status/Evidence
1. Multiple private sector-operated open markets for the sale of fertilizer and other agricultural inputs to farmers are piloted.	**Implemented** Evidence: Contracts signed with cotton firms to acquire fertilizer and other inputs have been approved by the Minister of Agriculture and the Minister of the Budget (June 2014).
2. Formalization in the trucking industry is enhanced through the adoption of a legal framework for licensing overland transport operators.	**Implemented** Evidence: A decree defining qualitative criteria for access to the profession has been signed (July 2, 2014), and has been amended on January 27, 2015 to comply with the WAEMU legislation.
3. A revised draft of the mining code is resubmitted to the National Transition Council (CNT); including the creation of a local development mining fund financed by a share of mining revenues, and resources from the fund are allocated to regions and communities where mining companies operate.	**Implemented** Evidence: The Bank has provided comments and feedback on the draft mining code, which was adopted by the Cabinet on October 15, 2014 and submitted to the National Assembly. A revised draft was adopted by the Council of Ministers on February 18, 2015 and submitted to the CNT on February 23, 2015.
4. A draft anticorruption law designed to strengthen penalties for bribery, tighten regulations on gift-giving to public officials, and more precisely and comprehensively define both the nature of corrupt practices and the sanctions against them is submitted to National Transition Council (CNT).	**Implemented** Evidence: The Bank has provided comments and suggestions on the draft anticorruption law, which was adopted by the Council of Ministers on January 7, 2015 and was submitted to the CNT on January 20, 2015.
5. Measures are adopted to improve the functioning of the Superior Council of the Magistracy, including an increase in its number of elected members.	**Implemented** Evidence: A letter acknowledging the submission of the draft law related to the Superior Council of the Magistracy to National Assembly has been received (June 28, 2014).
6. A revised legal framework for procurement is adopted, and prior-review thresholds are increased at least by 25 percent.	**Implemented** Evidence: A ministerial decree reforming procurement methods and increasing prior-reviews thresholds has been signed (July 2, 2014).
7. Transfers to local communities are increased to 5 percent of the national budget; local governments have sufficient funds to fulfill the mandates established under the General Code for Local Communities.	**Implemented** Evidence: The 2014 Financial Management Law allocates 5 percent of total budgeted expenditures to local communities.
8. All microfinance institutions, including the Support Fund for Women's Income-Generating Activities (FAARF), perform annual audits and provide accurate statements to the relevant authorities.	**Implemented** Evidence: The consolidated certified financial reports of FAARF-affiliated microfinance institutions have been sent to the government (July 2014).
9. Measures are implemented to promote greater involvement by private firms in strategic food-import and distribution systems.	**Implemented** Evidence: Contracts have been signed with five private operators for 30 000 tons cereals to complete the national food reserve (50,000 tons) and for the emergency food stocks (25,000 tons). Copies of these contracts have been submitted to the Bank on December 31, 2014.

4.3 Link to the CPS and Other World Bank Group Operations

4.38. **The proposed fourth operation in the GCC programmatic series is an integral part of the Bank's assistance to Burkina Faso under the IDA/IFC/MIGA Country Partnership Strategy (CPS) for FY2013-16.** The CPS, discussed by the Board on September 19, 2013, is fully aligned with the SCADD. Its objectives include: (a) promoting inclusive and sustainable economic growth; (b) enhancing governance and improving the efficiency of social service delivery; and (c) reducing social, economic, and environmental vulnerabilities. To reinforce these three strategic objectives, the CPS encompasses two cross-cutting themes: governance and gender equity. The CPS identifies the GCC series as a critical instrument in complementarity with technical and financial support from IFC to support the SCADD's implementation. The proposed DPO advances the Government's development goals by supporting deeper, more rapid poverty reduction through broad-based growth, stronger governance and greater economic resilience. As described above, the programmatic series is structured around three strategic pillars: (a) catalyzing private sector growth and employment creation; (b) improving governance and enhancing public resource management; and (c) increasing economic resilience and reducing vulnerability to shocks. This design reflects the strategic objectives of the CPS and the overarching themes of the Africa Strategy: employment, resilience and good governance.

4.39. **The GCC series is an important complement to other IDA and IFC investment projects.** Reforms under Pillar 1 of the proposed operation are linked to activities supported by the Bagré Growth Pole Project, approved in FY2011, which seeks to promote private sector investment and improve the framework for public-private partnerships with financial support from IFC amounting to $US10 million The project attempts to harness economies of scale and synergies between sectors by developing a critical mass of investments in selected growth poles. Overall, IFC is supportive to this pillar with various projects including microfinance, solar energy, banking as well as mining companies. The Youth Employment Project, approved on May 23, 2013, will also benefit from these reforms. The GCC series complements the objectives of the ongoing Agriculture Diversification and Market Development Project, which promotes the growth of agricultural and livestock value chains. Objectives under Pillar 2 are aligned with the Local Government Support Project, approved on November 1, 2011, which seeks to support fiscal and administrative decentralization in 6 of the 13 regions of Burkina Faso. Also closely linked to Pillar 2, the Mineral Development Support Project, approved in March 2012, promotes key mining sector reforms, administrative capacity building, and measures to extend the benefits of the sector to local communities. Finally, under Pillar 3, the Reproductive Health Project, approved in December 2011, which addresses issues related to population growth and seeks to improve the livelihoods of poor and vulnerable households, IFC support to innovative solutions in health sector, are linked to GCC-supported reforms in the areas of women's economic empowerment and the protection of vulnerable groups, especially in food-insecure regions.

4.4 CONSULTATIONS AND COLLABORATION WITH OTHER DEVELOPMENT PARTNERS

4.40. **Consultations:** The design of the GCC series is based around the objectives of the SCADD, which was developed through an inclusive participatory process. Consultations were held with civil society organizations, members of academia, private sector firms and representatives of Burkina's development partners; and a dedicated website was established to solicit input from the public. The SCADD was also informed by various studies of socioeconomic conditions in Burkina and its drivers of economic growth. During the design phase of the GCC series, Bank staff took advantage of the consultative process and undertook several substantive discussions with stakeholders involved in defining the reform agenda.

4.41. **Collaboration with other development partners:** Deeper budget support coordination was initiated following the adoption of the first 3-year strategy under the Poverty Reduction Strategy Framework in 2000, which encouraged aid harmonization and the use of country systems.

The GCC series was developed and deployed in coordination with the other members of the Multi-Donor Budget Support Group (*Cadre Général d'Organisation des Appuis Budgétaires* – CGAB). It will continue to be implemented within the framework of the CGAB, which has been in place since 2005. Together, the CGAB accounts for more than 80 percent of total development aid to Burkina. Its budget support framework has been updated over time to facilitate a more focused and flexible approach, and it will continue to underpin donor coordination.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACTS

5.1. **The proposed operation is expected to have a direct positive impact on poverty reduction.** It is designed to address critical obstacles to broad-based growth, poverty reduction and economic resilience by targeting a select set of priority reforms across a wide range of sectors. While all policy reforms entail change, none of those supported by the proposed operation is expected to have a significant negative impact on the interests of any particular group. Direct beneficiaries of the proposed operation include farmers, importers, communities in mining regions, female entrepreneurs, and communities vulnerable to food insecurity. *The adequate capitalization of the Input Fund* will be beneficial to farmers and will lead to greater productivity. *Stronger flows of resources to decentralized communities and a good institutional framework for microcredit* will help protect the poor during periods of vulnerability. *The new Mining Code* will help reduce the perceived inequities in benefit sharing among mining companies, the government and the population. *The setting up of the Local Development Fund* constitutes an opportunity to better channel mining revenues to local communities. This will have a positive impact on the poor in these communities. *The Anticorruption Law and PFM reform measures* are expected to lead to greater executive accountability and budget transparency, which will help to reduce fiduciary risks and to improve public resources management. It will contribute to reducing corruption and political capture, which are detrimental to the poorest. The new framework for food security, which allowed for *the creation of National Security Stock and the Emergency Stock*, will address distributional issues and famine response and contribute to greater food security for poor people. In addition, the administrative decentralization, anticorruption and PFM reform measures supported by the proposed operation are expected to have positive direct and indirect impacts on all Burkinabe citizens through increased efficiency, transparency, responsiveness and accountability in the public sector.

5.2. **GCC-supported improvements in the efficiency of international transport and trade should generate broadly positive welfare effects by reducing import prices faced by consumers and import-reliant firms.** However, at least one possible adverse impact could arise from the transport sector reforms, as truckers with inadequate capital to upgrade their vehicles may leave the industry. Also, compensatory measures designed to assist in vehicle upgrades or in shifting displaced truckers to other transit corridors are being planned.

5.3. **Although the Government has made important strides in combating poverty, much more could be done to speed the pace of poverty reduction.** The results of a recent poverty assessment conducted jointly by the Bank and the National Statistics Institute indicate a moderate decline in overall poverty. The national poverty headcount rate was estimated to have fallen from 51 percent in 2003 to 46.7 percent in 2009. Poverty incidence remains heavily concentrated in rural areas, where average poverty rates are more than double those of urban centers. In addition, many rural communities face serious threats from drought or erratic rainfall. An empirical analysis conducted by the poverty team using microeconomic data shows that about two thirds of the nation's poor, or about 31 percent of the total population, suffer from chronic poverty. Moreover, around 26 percent of the non-poor population, or 14 percent of the total population, are dangerously close to the poverty line. Based on self-reported indicators, more than 20 percent of the population was subject to severe food insecurity in 2009.

5.2 ENVIRONMENTAL ASPECTS

5.4. **The majority of the activities supported by the proposed operation are expected to have neutral or positive effects on Burkina's environment.** Indeed, several supported actions are expected to have directly positive environmental impacts. The establishment of a Local Development Fund financed by a share of mining revenues will help to offset the environmental damage of Burkina's extractive industries. The promotion of greater involvement by private firms in strategic food import and distribution systems will help to protect the rural population against food crises, obviating the need for unsustainable hunting and foraging. Finally, increased professionalism in the trucking industry is expected to cut marginal pollutant emissions by increasing operational efficiency in overland transport.

5.5. **However, some of the supported actions may have mixed environmental consequences.** While facilitating the use of chemical fertilizers may potentially damage groundwater quality, it will also likely reduce the use of biomass ash as a fertilizer substitute. This can yield important ecological benefits by reducing pollution from black carbon and particulate matter and discouraging deforestation or the destruction of scrub brush in rangelands. On balance, the opening of agricultural input markets is expected to have a marginally positive environmental impact. The growth of the mining sector entails an inherent degree of environmental damage, and mitigating this effect is an explicit objective of the revised Mining Code. New mining regulations will require that environmental impact assessments be conducted before any new resource extraction project or related activity is approved. Finally, the National Environmental Agency, which oversees all projects expected to have adverse environmental and social impacts, has the capacity to conduct high-quality environmental assessments.

5.6. **A strong institutional focus on environmental quality, including the close monitoring of policies' environment impacts, is an integral part of the Government's new legal and institutional framework for environmental protection**. This framework, established at both the national and regional levels, provides further assurance that the policy actions implemented under the GCC-4 will conform to sound environmental protection standards. IDA is currently providing technical assistance to the authorities on mitigating and adapting to climate change. Two climate change-related trust-funded projects (the Burkina Faso Disaster Risk Management Project and the Emergency Livestock Feed Access Project) are underway, and a new project (the Forest Investment Program) is ready for implementation. One of the key objectives of the Burkina Faso Disaster Risk Management Project is to reduce the necessity of resorting to unsustainable hunting and foraging during food crises. The Emergency Livestock Feed Access Project, which is being implemented through the Project Coordination Unit of the IDA-financed Agricultural Productivity and Food Security Project, is intended to reduce pressures on pasturelands, support soil conservation, and encourage the regeneration of biodiversity. The Forest Investment Program is expected to mitigate and manage the impact of climate change on Burkina's forests, including population pressures related to food production. GCC-4 actions in the areas of agricultural production and food security are well aligned with the objectives of these IDA projects.

5.3 PFM, Disbursement and Auditing Aspects

5.7. **The Bank considers the overall implementation of the Government's PFM reform program to be satisfactory.** The 2013 and 2010 PEFA assessments showed clear progress toward comprehensiveness and transparency of the budget, policy-based budgeting and internal controls; as well as the compliance of the budget preparation, approval and amendment procedures with good practices. The country's PFM system provides reasonable assurance that fiduciary risks would be maintained at substantial level and could be mitigated through the implementation of appropriate measures. Fiduciary arrangements were reviewed by the Bank in the context of the GCC-2 and the GCC-3 preparation processes. The GCC-4 builds on the achievements of the previous operations by supporting measures to enhance policy-based budgeting and budget transparency. The PFM reform program (*Programme de Réforme de la Gestion Budgétaire* – PRGB), has been updated with the support of most of the donors in the Multi-Donor Budget Support Group (*(Cadre Général d'Organisation des Appuis Budgétaires* –CGAB), based on the findings of various PFM diagnostics. To complement the national PEFA, a targeted PEFA for the Ouagadougou municipality was completed in June 2010 and its action plan is being implementing. The estimation and collection of tax arrears has been identified as a key PFM weakness. The Bank is working closely with the authorities to prepare a sound medium-term debt strategy. Regarding budget transparency, most of the information related to annual budgets, quarterly budget execution reports, mid-year budget reviews, and annual settlement laws is available online at www.dgb.gov.bf.

5.8. **The Government is in the process of aligning its PFM systems with current WAEMU directives.** The Government has adopted the WAEMU Transparency Code and is working on a strategy to align its national legislation with WAEMU's six new PFM directives. Alignment with those directives will ensure convergence of the system with international standards of public finance. Expected outcomes of this comprehensive reform included realistic and sustainable budget forecasts; overall spending amounts determined on the basis of a multi-year budget and economic planning; resources allocated more logically in order to achieve objectives; and better accountability from main authorizing officers (ministers and presidents of institutions). The updated safeguards assessment of the regional Central Bank (*Banque Centrale des Etats de l'Afrique de l'Ouest* – BCEAO) issued by the IMF in March 2010 confirmed that the institution has maintained key controls at the operational level. IMF noted that its overall governance framework should be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight, including over audit mechanisms and financial statements. However, this assessment was carried out five years ago and needs to be update. In addition, international financial reporting standards (IFMS) should be fully implemented, as they have been by other central banks. The flow-of-funds arrangements between the BCEAO and Burkina Faso's Treasury have been reviewed based on an annual audit funded by the CGAB. The team concluded that current arrangements are adequate, with fiduciary risks remaining within acceptable levels. However, the team also recommended that the information systems of these two institutions be linked, so as to minimize delays and discrepancies in reporting and eliminate the need for time-consuming reconciliations. The 2012 audit report of the joint account currently used by all donors revealed only minor reconciliation issues that could be addressed by an improvement of the donor reporting system and regular reconciliations of balance sheets.

5.9. **The proposed operation would consist of a single-tranche disbursement of SDR 71 million (US$100 million equivalent), provided on standard grant and credit terms, to be made available upon effectiveness and disbursed following satisfactory implementation of the development policy program.** The operation would follow IDA's standard disbursement procedures for development policy operations and would not be linked to specific expenditures. Once the financing agreement becomes effective, and upon receipt of a withdrawal application, and provided IDA is satisfied with the program being carried out by the Government and with the appropriateness of the country's macroeconomic policy framework, the proceeds of the grant will be deposited by IDA into an account designated by the Government of Burkina Faso at the BCEAO, where they will form part of the country's foreign exchange reserves. The Government will credit the local currency equivalent in its budget using the prevailing exchange rate. As a due diligence measure, IDA will obtain confirmation from the Government that the sum of the proceeds has been accounted for in the country's budget management system, including an indication of the exchange rate applied and the date of transfer. Confirmation will be expected within 30 days of disbursement. If, after being deposited in this account, the proceeds are used for excluded expenditures as defined in the Financing Agreement, IDA will require the Recipient to refund directly to IDA an amount equal to the amount of the payment promptly upon notice. Amounts refunded to the Bank upon such a request will be canceled. No dedicated account is required. The closing date of operation will be December 31, 2015.

5.4 MONITORING AND EVALUATION

5.10. **The Ministry of Economy and Finance (MEF) is the designated implementing agency and has been responsible for the overall execution of the measures outlined in the GCC series.** The MEF has experience in coordinating and implementing development policy operations, which has been demonstrated by its successful execution of the previous operations in the series. As with previous operations, the institutional arrangements for the preparation and execution of the GCC-4 are within the established framework of the CGAB and in line with the SCADD performance matrix. Day-to-day monitoring of the program will be the responsibility of the General Unit in Charge of Cooperation. Its oversight will be incorporated into the ongoing policy reform dialogue, including regular discussions with the IMF and other development partners. The main technical responsibility for implementing the PFM reforms will remain with the Budget and Treasury departments. Sector-specific reforms will be implemented by the respective technical departments in the sector ministries, with overall coordination provided by the MEF. A results matrix that tracks the four operations in the series will provide concrete indicators and empirical benchmarks to monitor progress and enable evaluation following the end of the program in June 2015. Regarding monitoring and evaluation (M&E) by the Government, development partners have noted during annual reviews of the SCADD's performance matrix that further measures are required to improve the timeliness and quality of data, and the Government's M&E system is currently being upgraded. A Continued Multisectoral Census (*Enquête Multisectorielle Continue*) was launched by the Government early in 2014 to assess poverty trends. The results of this census, which is being supported by the Bank, will be published in 2015 to facilitate the overall assessment of the SCADD.

6. SUMMARY OF RISKS AND RISK MITIGATION

6.1. **The overall risk rating for the proposed operation is substantial**. The risk ratings in Table 6.1: follow the four-point rating scale from low (L), to medium (M), substantial (S), and high (H). Four main areas of risk could jeopardize the expected outcomes of the operation. These are: *(a) Political and governance risks (S), (b) Macroeconomic risks (S), (c) Environmental and social risks (S), and (d) Institutional capacity for implementation and sustainability (M).* A description of these risk ratings and accompanying mitigation measures are elaborated below.

Table 6.1: Systematic Operations Risk-rating Tool (SORT)

Risk categories	**Rating (H, S, M, or L)**
1. Political and governance	S
2. Macroeconomic	S
3. Sector strategies and policies	L
4. Technical design of project or program	L
5. Institutional capacity for implementation and sustainability	M
6. Fiduciary	L
7. Environmental and social	S
8. Stakeholders	L
Overall	**S**

6.2. **Political and governance risks (S):** The political situation has stabilized following the ouster of former President Blaise Compaore, and new elections are scheduled for November 2015. In the interim, the efficacy of the Transitional Government will be essential to the successful implementation of the reforms supported by the proposed operation. Though substantial uncertainty remains, there is reason for cautious optimism, and opposition political parties have expressed confidence in fairness of the upcoming elections. The GCC-4 will contribute to mitigating political economy risks by following the Bank's good practice principles for promoting transparent decision making and sound policy processes.

6.3. **Macroeconomic risks (S):** Burkina Faso is vulnerable to unanticipated production and/or price shocks in its most important export sectors, cotton and gold. In addition, an increase in oil imports or a rise in oil prices may put pressure on the balance of payments. In the context of the upcoming elections, the country may face increased fiscal pressures arising from demands by public sector unions and/or arrears generated by unauthorized budgetary spending in previous years. The GCC-4 will address these issues in close cooperation with IMF team through its focus on PFM reform. The operation is designed to mitigate fiscal risks by supporting measures designed to expand production in the cotton sector and enhance the revenue impact of the mining industry. It also supports broad improvements in competiveness and diversification by reducing transportation and trade costs and by facilitating widespread credit access. Effective implementation of these reforms will significantly attenuate Burkina's macroeconomic vulnerabilities. A continued commitment to transparency and accountability, underpinned by compliance with the EITI standard, will reinforce safeguards against the mismanagement of mining revenues. The GCC-4 also supports further mining sector reforms designed to increase public revenues, heighten transparency, and enhance the sector's contribution to economic development. However, the revised Mining Code, which establishes the Local Development Fund, does not sufficiently incorporate the guiding principles of the governance framework. The Transitional Government opted to leave those principles out of the Code and instead include them in Fund regulations. There appears to be a risk inherent with sharing significant funds with local communities without the appropriate governance framework. Nevertheless, through the ongoing Mining Development Support Project (PADSEM), the Bank will contribute to mitigating this risk by providing technical assistance for preparation of the regulations.

6.4. **Environmental and social risks (S):** Climatic shocks represent a serious threat to Burkina's agriculture sector, both food crops and cotton production, and consequently to rural livelihoods and food security. As a landlocked country in the environmentally vulnerable Sahel region, Burkina Faso suffers from an extreme and variable climate, with the possibility of both flooding and drought occurring within a few months of each other. Weather-related shocks may affect the pace of reform implementation. The proposed operation mitigates these risks by supporting measures designed to directly address food security and by promoting broader improvements in agricultural productivity. In addition, the Bank team has initiated discussions regarding agriculture insurance and other policy options designed to increase resilience in the rural economy.

6.5. **Institutional capacity for implementation and sustainability (M):** Lack of capacity at the local level may delay the implementation of some measures supported by this operation, including improvements in local public service delivery through decentralized budgeting and local capacity building. To address this risk, the Bank will increase its engagement at the technical level to ensure that the reforms implemented under this operation prove sustainable over the long term.

Annex 1: Policy Matrix and Results Framework

Prior Actions				Results Framework: Indicator		
GCG-1 (May, 2012)	**GCG-2 (February, 2013)**	**GCC/G-3 (September, 2013)**	**GCC/G-4 (September 2014)**	**Baseline December 2011**	**Expected Outcomes (End Program 2015)**	**Implementing agency**
Pillar 1: Reduce costs in the agriculture and transport sectors *Greater efficiency in the agricultural input market; and improved formalization in the overland transport sector.*						
1. Application, for the Cotton Seasons 2011-2012 and 2012-2013, of a producer price formula, based on international cotton prices, designed to ensure that cotton farmers are paid an appropriate price; and capitalization of the Cotton Price Stabilization Fund in an amount of at least seven billion CFAF (7,000,000,000).	1. Creation, operationalization and capitalization of the Input Fund based on the manual prepared by the producer association AICB and associated legal documents. (Capitalization of at least 10 billion CFAF).	1. The agricultural Input Fund becomes operational in time for the 2014-15 agricultural season.	1. Multiple private sector-operated open markets for the sale of fertilizer and other inputs to farmers are piloted.	Capitalization of the stabilization fund is at least CFAF 5 billion. Capitalization of Input Fund is 0. Private sector purchases and distributes 0 tons of fertilizer for non-cotton agricultural production.	Capitalization of the stabilization fund is at least CFAF 6 billion. Capitalization of the Input Fund is at least CFAF.10 billion Improved fertilizer distribution to the private sector increased by 30,000 tons.	Ministry of Finance AICB – Inter-professional Association of Cotton Farmers of Burkina Faso Ministry of Agriculture
2. Continued involvement of the private sector in the fertilizer distribution process, by the issuance of invitations to private suppliers to bid on at least 6,900 metric tons of fertilizer to be purchased by the Recipient for distribution to rice and maize producers.						

Prior Actions				Results Framework: Indicator		
GCG-1 (May, 2012)	**GCG-2 (February, 2013)**	**GCC/G-3 (September, 2013)**	**GCC/G-4 (September 2014)**	**Baseline December 2011**	**Expected Outcomes (End Program 2015)**	**Implementing agency**
		2. An audit of customs-clearance procedures in Ouagadougou is completed, and recommendations to improve customs administration are adopted. 3. Support the renewal of the trucking fleet through an extension of effectiveness of deadline of the 2012 Decree for exemption of imports of trucks towards December 31, 2013.	2. Professionalism in the trucking industry is enhanced through the adoption and implementation/enforcing a legal framework for licensing road transport operators.	Customs clearances times in Ouaga Inter take an average of 4 days.	Average waiting time for customs clearance in Ouaga Inter reduced by 50 percent. Annual increase of 10 percent in the Number of certified professionals and Ratio between trucking companies / individuals	Ministry of Transport Ministry of Transport
Pillar 2: Improve the transparency and accountability in public resource mobilization and management *Greater transparency in the mobilization and management of the mining sector fiscal revenues; Improved functioning of the justice sector and anticorruption tools; and Enhanced PFM systems*						
3. Adoption by the Recipient of a mechanism of monthly reporting of consolidated data on mining revenues designed to ensure better coordination between the Recipient's Ministries responsible for finance and for mining, so as to improve collection of public revenues generated by mining activities in the country; and issuance of said data for the last quarter of FY 2011.	2. Public dissemination of the second EITI report, that provides comprehensive statements on mining revenues collected in 2010 (licenses, royalties, income tax, etc.) from all operating mines (materiality decided by the EITI multi-stakeholder group).	4. A revised Mining Code reflecting international best practices for managing the fiscal, environmental and social impacts of the natural resource sector is submitted to National Assembly.	3. A revised Draft of the Mining Code is resubmitted to the National Assembly; including the creation of a local development mining fund financed by a share of mining revenues, and resources from the fund are allocated to regions and communities where mining companies operate.	Public revenues generated by the mining sector are 3 percent of GDP. Number of mining companies submitting validated data for EITI reports is 0.	Public revenues generated by the mining sector are increased to 4 percent of GDP. The number of mining companies submitting validated data for EITI reports is increased from 0 to 6.	Ministry of Finance Treasury Ministry of Mines

Prior Actions				Results Framework: Indicator		
GCG-1 (May, 2012)	**GCG-2 (February, 2013)**	**GCC/G-3 (September, 2013)**	**GCC/G-4 (September 2014)**	**Baseline December 2011**	**Expected Outcomes (End Program 2015)**	**Implementing agency**
4. Submission to National Assembly of a law designed to establish a suitable regulatory and legal framework for the promotion of mediation as an alternative dispute resolution mechanism.	3. Adoption of a ministerial order to formalize both the process for the collection and publication of statistics of the Recipient's courts and the procedural manual for collecting statistics, including statistics on average time required for a final disposition, backlog rates, average time for written judgments and average time for formal enforcement of judgments.	5. A draft Anticorruption Law designed to strengthen penalties for bribery, tighten regulations on gift-giving to public officials, and more precisely and comprehensively define both the nature of corrupt practices and the sanctions against them is submitted to National Assembly.	4. A Draft Anticorruption Law designed to strengthen penalties for bribery, tighten regulations on gift-giving to public officials, and more precisely and comprehensively define both the nature of corrupt practices and the sanctions against them is submitted to National Transition Council (CNT). 5. Measures are adopted to improve the functioning of the Superior Council of the Magistracy, including an increase of its number of elected members.	Burkina Faso's score in Transparency International's Corruption Perceptions Index (38 on a maximum of 100 'Very clean' in 2012). Two (2) CSM elected members per grade. Average time for case processing (time from filing to disposition) is 2 years (730 days). Average time to enforce a contract is 466 days.	Burkina Faso's score in the Transparency International Corruption Perceptions Index is increased to 40 or higher. Number of CSM elected members per grade increased by 50 percent. A 20 percent decrease in the time required to obtain a court ruling (to 584 days). A 20 percent reduction in the time needed to enforce contracts (to 372 days).	Ministry of Justice

Prior Actions				Results Framework: Indicator		
GCG-1 (May, 2012)	**GCG-2 (February, 2013)**	**GCC/G-3 (September, 2013)**	**GCC/G-4 (September 2014)**	**Baseline December 2011**	**Expected Outcomes (End Program 2015)**	**Implementing agency**
5. Publication of statistics covering the period FY 2010 and FY 2011 on the activities of the Recipient's courts of first instance (*tribunaux de grande instance*), including average time required for a final disposition, rate of case disposition, annual budget allocation, and percentage of judgments rendered in writing.	4. Adoption of a national mechanism to monitor corruption trends and evaluate anti-corruption reform efforts by the semi-autonomous agency ASCE through the annual collation and analysis of sectoral data, audit information (from the ASCE and the Cour des Comptes) and surveys produced by the state and civil society.			Percent of judgments written down in commercial courts is 111 out of 173, or 64 percent.	Percent of judgments written down in commercial courts is at list 75 percent.	
7. Devolution, on a pilot basis, of budget and expenditure management to the Recipient's line ministries, through the establishment and operationalization of budget oversight and verification units in the Recipient's ministries responsible for agriculture, health, infrastructure, secondary and higher education, and justice.		6. A financial controller is appointed for each ministry and each national public administrative institution.	7. The decrees increasing the Procurement methods and prior reviews thresholds are increased are adopted.	Average execution rates by line ministries average less than 30 percent for the investment budget. Number of physical spot checks of contracts subject to competitive bidding is 200.	The average execution rate of the line ministries' investment budgets is increased by more than 50 percent. Number of physical spot checks of contracts subject to competitive bidding increased by 50 percent.	Ministry of Finance

Prior Actions				Results Framework: Indicator		
GCG-1 (May, 2012)	**GCG-2 (February, 2013)**	**GCC/G-3 (September, 2013)**	**GCC/G-4 (September 2014)**	**Baseline December 2011**	**Expected Outcomes (End Program 2015)**	**Implementing agency**
8. Approval by the Recipient's high judicial council (*Conseil Supérieur de la Magistrature*) of the nomination of qualified and experienced members to the Recipient's court of accounts (*Cour des Comptes*) so as to enable the full staffing of said court.						
Pillar 3: Reduce Vulnerability *Improved funding transfers for decentralized social-service provision; Increased women access to microfinance and improved oversight of microfinance institutions; and Increased response capacity of the food security system in impoverished and vulnerable areas.*						
8. Adoption of a regulatory framework for the organization of municipalities to further the predictability of intergovernmental transfers and afford enhanced capacity of local government.t	6. Increase resource transfers to local collectivities to 4 percent of national budget to ensure local governments have sufficient funds to fulfill mandates as established per the General Code for Local Communities (*Code Général des Collectivités Territoriales*).	7. Transfers to local communities are increased to 4 percent of budgeted expenditure; local governments have sufficient funds to fulfill mandates established by the General Code for Local Communities.	8. Transfers to local communities are increased to 5 percent of budgeted expenditure.	Transfer to decentralized resources is 3.7 percent of budget.	5 percent of the national budget is transferred to local governments under the Budget Law.	Ministry of Territorial Administration, Decentralizatio n and Security (MATDS).

Prior Actions				Results Framework: Indicator		
GCG-1 (May, 2012)	**GCG-2 (February, 2013)**	**GCC/G-3 (September, 2013)**	**GCC/G-4 (September 2014)**	**Baseline December 2011**	**Expected Outcomes (End Program 2015)**	**Implementing agency**
9. Adoption of a national strategy for the period FY 2012 through FY 2016, designed to promote the economic and financially sound development of microfinance throughout the Recipient's territory, targeted to groups underserved by financial intermediaries.	7. Support to female microfinance by scaling up the women's fund (FAARF) to include financing of business creation and working capital.	8. Improve access to finance for women by expanding the Support Fund for Women's Income-Generating Activities (FAARF).	9. All microfinance institutions will perform annual audits and provide accurate monthly statements to the relevant authorities.	Number of active borrowers is 70,000.	Number of active borrowers increased by at least 10 percent. The Support Fund for Women's Income-Generating Activities (FAARF) reaches more than 80,000 beneficiaries nationwide, with a total loan portfolio of more than CFAF 5 billion. The Annual Financial Reporting Sheets of microfinance institutions are made available each year no later than July.	Ministry of Finance Ministry of Women's Promotion
10. Adoption of a regulatory framework to strengthen and rationalize the Recipient's institutional arrangements for food security so as to ensure adequate food reserves and an efficient and effective response in the event of food shortages.	8. Implementation of PNOCSUR plan approved by CM to adequately stock warehouses in food-deficit parts of the country and feed vulnerable populations to ensure effective response to food crisis.	9. The PNOCSUR plan is implemented, ensuring that government warehouses are adequately stocked and that national agencies have sufficient capacity to address the needs of vulnerable populations and respond effectively to future food crises.	10. Measures to promote greater involvement by private firms in strategic food-import and distribution systems are implemented.	Minimum food stock in the reserves is 35,000 and minimum intervention stock is 5,000. Number of fully replenished warehouses in food-deficit areas is 0.	The national food reserve and emergency food stocks are increase to at least 50,000 and 25,000 tons, respectively.	

Annex 2: Letter of Development Policy

MINISTERE DE L'ECONOMIE
ET DE FINANCES

SECRETARIAT GENERAL

DIRECTION GENERALE
DE LA COOPERATION

N°2015/00420/MEF/SG/DGCOOP/DSPF

BURKINA FASO
Unité - Progrès - Justice

Ouagadougou, le 25 FEV 2015

LE MINISTRE

A

Monsieur Jim Yong KIM
Président de la Banque Mondiale
1818, H Street, WASHINGTON DC, 20433 (USA)

<u>Objet :</u> Lettre de politique de développement.

Monsieur le Président,

La présente Lettre de politique de développement (LPD) retrace l'évolution récente de la situation économique et sociale du Burkina Faso sur la base des données disponibles à fin octobre 2014 ainsi que les tendances de l'économie en 2014 suite aux échanges avec la mission du Fonds Monétaire International (FMI) en début décembre 2014. Elle aborde aussi la situation de mise en œuvre de la Stratégie de Croissance Accélérée et de Développement Durable (SCADD) et sa matrice de performances 2014-2016 validée conjointement par le Gouvernement et les partenaires techniques et financiers le 16 juillet 2013 et les perspectives pour les prochaines années. Elle reflète les domaines prioritaires identifiés par le gouvernement de transition au regard du nouveau contexte du Burkina Faso à la suite de la crise sociopolitique d'octobre 2014.

La lettre met également un accent sur les reformes prioritaires du Gouvernement que la Banque mondiale soutient à travers la mise en œuvre du quatrième Crédit d'appui à la Croissance et à la Compétitivité (CCC4).

1. EVOLUTION RECENTE DE LA SITUATION ECONOMIQUE

1. L'activité économique s'est déroulée dans un contexte relativement difficile par rapport à 2013 expliqué par l'attentisme des investisseurs privés en raison d'une perception d'instabilité sociopolitique et par une baisse du volume des importations. Au cours de l'année 2014, l'activité économique au Burkina Faso a été affectée par la forte baisse des cours internationaux des matières premières (or et coton) ainsi que par les effets de la psychose du risque sanitaire lié à

la maladie à virus Ebola dans la région qui ont eu un impact sur le secteur des services. En effet, le report du sommet de l'Union Africaine sur l'emploi à Ouagadougou et celui des manifestations à caractère international tels que le SIAO et le SITHO constitueraient un important manque à gagner pour les secteurs de l'hôtellerie et du tourisme. Cet environnement, conjugué avec la crise sociopolitique que le pays a traversé au cours du second semestre 2014, a eu un effet sur le niveau de recouvrement des recettes induisant ainsi une contraction des dépenses d'investissement sur ressources propres.

2. Dans ce contexte, le taux de croissance réel du PIB attendu ressortirait autour de 5% en 2014 soit une baisse de 1,6 point de croissance par rapport à 2013 (6,6%). La contribution des secteurs à la croissance du PIB serait de 1,1%, pour le secteur primaire, 0,8% pour le secteur secondaire et 3,1% pour le secteur tertiaire. Le PIB courant s'établirait à 6698,8 milliards de FCFA en 2014 contre 6363,5 milliards de FCFA en 2013. Au total, les secteurs primaire et tertiaire seraient les principaux moteurs de cette croissance avec des poids respectifs de 31,2% et 38, 3%.

3. Le taux d'inflation annuelle est projeté à -0,5% en 2014 contre 0,5% en 2013. La bonne tenue de la production céréalière pendant la campagne agricole 2013/2014 et la poursuite des mesures gouvernementales contre la vie chère (vente des céréales à prix social dans les zones déficitaires, contrôle des prix des produits de grande consommation, installation de boutiques témoins etc.) ont contribué à la maîtrise de l'inflation qui s'est maintenue en dessous de la norme communautaire.

4. Le déficit de la balance commerciale se situerait en 2014 à 256,2 milliards de FCFA contre 328,8 milliards de FCFA en 2013 soit une baisse 3,8%. Cette évolution s'expliquerait par une baisse plus importante des importations (-158,5 milliards de FCFA) par rapport à celle des exportations (-85,9 milliards de FCFA). En effet, les importations atteindraient 1485,6 milliards de FCFA en 2014 contre 1644,2 milliards de FCFA en 2013. Quant aux exportations, elles passeraient de 11315,3 milliards de FCFA en 2013 à 1229,4 milliards de FCFA en 2014.Toutefois, le déficit courant de la balance des paiements s'améliorerait en 2014, ressortant à 595,7 milliards de FCFA contre 667,76 milliards de FCFA en 2013.

5. Concernant la situation monétaire du Burkina Faso, à fin octobre 2014, elle a été caractérisée par une diminution de la masse monétaire de 110,8 milliards avec une position net du gouvernement qui passerait de -132,9 milliards de FCFA en 2013 à -61,7 milliards de FCFA en 2014 et le crédit à l'économie de 975,5 milliards de FCFA en 2013 à 1085,5 milliards de FCFA en 2014. Quant à la situation des avoirs extérieurs nets elle connaîtrait une amélioration comparativement à 2013 en se situant à 1103 milliards de FCFA contre 952,1 milliards de FCFA.

6. Au titre des finances publiques, la performance des régies de recettes serait en deçà des attentes et se situerait à 1070,4 milliards de FCFA contre un objectif de 1238,3 milliards de FCFA attendu à fin décembre 2014, provoquant une accumulation d'instance de paiement accentuée par les évènements sociopolitiques que le pays a traversé en octobre 2014. Cette contre-performance serait liée à la baisse du volume des importations de marchandises, l'inefficacité du mode de recouvrement par Avis à Tiers Détenteurs (ATD) émis auprès des banques et des particuliers, l'incivisme et la fraude fiscale. A cela, s'ajoutent les difficultés liées

à l’application tardive de certaines mesures qui devraient normalement contribuer à l’atteinte des objectifs des recettes de 2014, notamment le système automatisé de dédouanement des véhicules automobiles, le suivi satellitaire des marchandises en transit, l’installation des scanners et le rétablissement de la Taxe sur les Produits Pétroliers (TPP).

7. En ce qui concerne les dons, ils seraient mobilisés à hauteur de 246,5 milliards de FCFA à fin décembre 2014 contre une prévision de 343,7 milliards de FCFA. Cette contreperformance s’expliquerait principalement par le non décaissement de certains appuis budgétaires initialement prévus en 2014.

8. En matière d’exécution des dépenses, on note tout d’abord, la mise en œuvre des conclusions de l'étude sur la réforme des procédures et des responsabilités des acteurs intervenant dans l'exécution des dépenses publiques. A cet effet, les dossiers de dépenses du budget 2014 sont traités conformément aux nouveaux textes (points de contrôle, nomenclature des pièces justificatives, référentiel des délais). De plus, cette réforme a entraîné la réorganisation du système d’information notamment le Circuit Informatisé de la Dépense (CID) en permettant que la liquidation informatique des dépenses au niveau de l’ordonnateur entraîne automatiquement l’émission du mandat de paiement. Aussi, dans le cadre de la poursuite de la réforme de la gestion salariale et administrative du personnel de l'Etat, les négociations gouvernement syndicats ont permis de relire la grille indemnitaire qui a été adoptée en Conseil des ministres en mars 2014.

9. A fin décembre 2014, les dépenses courantes seraient exécutées à hauteur de 854,9 milliards de FCFA essentiellement tirées par les dépenses de personnel suite à la revalorisation des éléments de rémunération salariale et aux effectifs additionnels des agents publics. S’agissant des dépenses d’investissement, elles se situeraient à 549,0 milliards de FCFA à fin décembre 2014 dont 348,0 milliards de FCFA au titre des dépenses d’investissement sur ressources propres.

10. A fin décembre 2014, si les objectifs de recouvrement des recettes se réalisent, le déficit budgétaire (dons y compris), ressortirait à 1,9% du PIB. Il serait financé par des apports extérieurs nets de 127,6 milliards de FCFA, ce qui permettrait à l’Etat de se désengager vis-à-vis de ses créanciers intérieurs à hauteur de 48,7 milliards de FCFA.

2. SITUATION DE MISE EN ŒUVRE DE LA STRATEGIE DECROISSANCEACCELEREE ET DE DEVELOPPEMENT DURABLE

11. Du dernier rapport annuel de performance issu de la revue SCADD tenue en avril 2014, il ressort que le niveau de réalisation des mesures et de l’atteinte des cibles des indicateurs est globalement satisfaisant avec un taux de réalisation des mesures de 66,67% et un taux d’atteinte des cibles des indicateurs de 63,27.

12. Le Gouvernement a poursuivi au cours de l’année 2014 le processus de promotion des pôles de croissance, des filières, des niches et grappes d’entreprises. La mise en œuvre du projet pilote «Pôle de croissance de Bagré» s’est poursuivie avec l’approche partenariat public-privé retenue pour envoyer un signal fort aux investisseurs potentiels sur les garanties qui entourent le projet. Pour cela une société d’économie mixte a été créée avec un capital d’un milliard

détenu à 38% par le secteur privé. Dans le cadre de la poursuite du développement des pôles de croissance, des assises nationales sur le pôle de croissance du Sahel ont été réalisées en vue de permettre une meilleure préparation du projet. Un fonds de préparation a été mis en place pour d'une part, la conduite des études de sauvegardes et des études socioéconomiques nécessaires à une bonne conception du projet et d'autre part, la mise en œuvre d'une stratégie de communication ainsi qu'à l'animation du dispositif de préparation.

13. Aussi, dans le cadre de la recherche d'une croissance pro-pauvre, des actions ont été menées dans le sens de la consolidation des filets sociaux à travers la création d'emplois par le biais des travaux de haute intensité en main d'œuvre (HIMO) et le lancement du projet emploi des jeunes et développement des compétences (PEJDC).

14. Concernant la loi de finances, gestion 2014, il convient de noter que son objectif principal est de favoriser une croissance soutenue sous l'impulsion de l'ensemble des secteurs et de la mise en œuvre des pôles de croissance. Elle prend également en charge la dimension de croissance inclusive et partagée par la mise en œuvre des mesures sociales visant notamment la création d'emplois et de revenus et l'amélioration des conditions de vie des populations vulnérables.

15. Le budget de l'Etat 2014 a été bâti autour des domaines stratégiques suivants : (a) le renforcement des piliers de la croissance; (b) la consolidation des acquis sociaux; (c) la promotion de la gouvernance administrative, locale, économique et du civisme et (d) le renforcement de la défense du territoire national et de la sécurité intérieure. Pour mettre en œuvre ces objectifs, les efforts de mobilisation des recettes propres se sont poursuivis dans l'optique d'une prise en charge plus accrue des investissements et des transferts au profit des groupes vulnérables.

A. Développement des piliers de la croissance accélérée

16. Après l'élaboration en 2013 d'un programme de projets Partenariat public-privé (PPP), répertoire de projets dont la mise en œuvre contribuerait à la réalisation des objectifs de la SCADD, et l'adoption du décret d'application de la loi n° 020/2013/AN du 23 mai 2013, portant régime juridique du PPP au Burkina Faso, le bilan à mi-parcours en 2014 fait ressortir la réalisation de plusieurs mesures ou actions dont (a) l'adoption du programme de projets Partenariat public-privé (PPP), et (b) la prise de textes créant les commissions PPP et régissant la sélection des partenaires privés dans le cadre de la mise en œuvre de la stratégie de développement du PPP au Burkina Faso.

17. Dans le sous-secteur de l'agriculture, des acquis notables, visant à l'accroissement durable et la diversification de l'offre des produits agricoles, ont été obtenus. Ils ont porté sur la facilitation de l'accès aux intrants et aux équipements agricoles, la promotion de la gestion durable de la fertilité des terres agricoles et sur la recherche-développement en matière de productions végétales, en vue de contribuer à l'augmentation de la productivité agricole, tout en assurant la restauration de la fertilité des sols. Ainsi, on note la réalisation et la réhabilitation des aménagements hydro agricoles; la révision des règles d'utilisation de l'eau agricole; le renforcement du dispositif de coordination de la sécurité alimentaire; la construction de

magasins de stockage d'intrants agricoles et de produits agro-pastoraux; l'acquisition de tracteurs agricoles et de matériel accessoire; la mise en œuvre de l'opération 100 000 charrues.

18. La production céréalière de la campagne agricole 2014-2015 serait de 4 636 070 tonnes, en baisse de 4,8% par rapport à la campagne 2013-2014. Cette baisse s'expliquerait par l'installation difficile de la saison hivernale et un important stock paysan de céréales invendu qui ont conduit à un abandon des cultures céréalières au profit de celles de rente (coton, sésame).Toutefois, les autres cultures vivrières ont connu une progression de 8,1%. Concernant la production de coton, elle enregistrerait un niveau de 690 800 tonnes pour la campagne 2014-2015 soit une hausse de 6,2% par rapport à la campagne 2013-2014. Cependant, les prix aux producteurs ont connu une baisse en se situant à 225 FCFA/kg.

19. S'agissant de la production industrielle de l'or, elle devrait se situer à 36 473,8 kg en 2014 contre 32 958,9 kg en 2013 soit une hausse de 10% contre 7,9% en 2013. Cette évolution s'expliquerait par un accroissement de la production dû à une montée en régime de certaines sociétés minières.

20. Concernant l'énergie, la construction de la troisième tranche de 36 MW de la centrale de Komsilga et d'un poste 90kV/33kVa été achevée, ainsi que l'extension de la centrale de la barre 90kV de Zagtouli. Les travaux d'installation des équipements et les essais ont été achevés et mise en service en juillet 2014.

B. Consolidation du Capital Humain et Promotion de la Protection Sociale

21. En matière de consolidation du capital humain et de promotion de la protection sociale, la mise en œuvre des nombreuses actions ont permis de financer de nombreux microprojets et de former plusieurs jeunes. Concernant l'éducation, l'enseignement et la formation techniques et professionnels, les mesures et actions réalisées ont portées sur l'élaboration d'un programme pluriannuel des transferts aux communes pour la réalisation des infrastructures scolaires; la réduction des disparités dans les acquis scolaires; l'élaboration d'un guide méthodologique d'élaboration des documents de planification dans le domaine de l'éducation; la dotation aux élèves de manuels scolaires et de vivres; la poursuite de la phase pilote de l'enseignement des droits humains au primaire; la réalisation et l'équipement de nouveaux Collèges d'enseignement général (CEG).

22. Au niveau de la santé et de la nutrition, la couverture des prestations sanitaires et leurs effets se sont améliorés, au regard de la progression de nombreux indicateurs. En matière de protection sociale, la mise en œuvre des mesures et actions a permis de satisfaire les besoins essentiels des populations victimes de crises et de catastrophes et de réduire les effets de la vie chère. En plus de la consolidation des filets sociaux, les mesures sociales d'urgence adoptées par le Gouvernement en septembre 2013, et reconduites en avril 2014, ont visé le renforcement de la solidarité nationale, le relèvement du pouvoir d'achat des populations, la lutte contre le chômage et le sous-emploi, notamment des jeunes, et le soutien aux groupes vulnérables.

C. Renforcement de la gouvernance

23. Le renforcement de la gouvernance a concerné ses dimensions économique, politique, administrative et locale. En matière de gouvernance économique, le système de gestion des

finances publiques a connu la réalisation de la troisième évaluation selon la méthodologie PEFA. Concernant le domaine de la lutte contre la corruption, le Gouvernement a adopté et soumis au Conseil National de la Transition (CNT) un projet de loi portant prévention et répression de la corruption au Burkina Faso.

24. Dans le domaine de la gouvernance politique, les mesures et actions réalisées ont portées sur l'opérationnalisation du fonds d'assistance judiciaire; l'élaboration d'un plan de recrutement du personnel du ministère de la justice; l'élaboration du Plan d'action prioritaire (PAP) de la Politique nationale de justice (PNJ); l'élaboration et à la diffusion du rapport annuel sur la justice; l'élaboration du budget-programme du ministère de la justice; la production de l'annuaire et du tableau de bord statistiques 2013 du ministère de la justice; l'organisation d'une campagne de sensibilisation sur la corruption à l'endroit des acteurs de la justice et de la société civile; l'adoption du projet de loi portant protection de l'enfant; l'adoption des avant-projets de lois organiques sur le Conseil supérieur de la magistrature CSM et du statut de la magistrature; l'élaboration d'un avant-projet de loi portant réglementation pénitentiaire; l'introduction des modules de droits humains dans les programmes de formation des élèves enseignants des premières années des Écoles nationales des enseignants du primaire (ENEP) et des élèves encadreurs pédagogiques de l'Université de Koudougou (UK).

25. Concernant la gouvernance locale, elle a été marquée par la réalisation de l'évaluation globale de l'exercice des compétences et de la gestion des ressources transférées de l'État aux communes dans les domaines du préscolaire, de l'enseignement primaire, de la santé et de l'approvisionnement en eau potable, permettant d'avoir une meilleure visibilité de ces transferts et de déterminer les goulots d'étranglement à leur effectivité. La part du budget de l’Etat transférée aux collectivités territoriales est passée de 4,44% en 2013, pour une cible de 4% à 5,62% en 2014, pour une cible de 5%. Les mesures et actions réalisées ont porté également sur la réalisation de campagnes d'information et de sensibilisation à l'endroit des acteurs locaux de la décentralisation; la diffusion des bonnes pratiques en matière de décentralisation, la mise à la disposition des collectivités territoriales de personnel de l'État nécessaire à l'exercice des compétences transférées et l'extension de la mise en place des plans d'Organisation des secours (ORSEC) dans les régions et leur appropriation; l'acquisition de 500 tenues au profit de la police municipale dans la région du Centre.

26. Quant à la prise en compte des priorités transversales dans les politiques et programmes de développement, elle a été caractérisée par l'adoption de la Politique Nationale du Développement Durable (PNDD), du projet de loi d'orientation sur le développement durable et de l'avant-projet de loi du Stratégie Nationale d’Aménagement et de Développement Durable du Territoire (SNADDT).

2. PERSPECTIVES POUR 2015

27. L’activité économique en 2015 enregistrerait une croissance de 5,0% comme en 2014. Cette performance serait expliquée par l’ensemble des secteurs. L’inflation devrait demeurer dans la limite de la norme communautaire de 3% en se situant à 1,4% sous l’hypothèse d’une bonne pluviosité, de la poursuite des mesures gouvernementales de lutte contre la vie chère et d’une orientation favorable du prix du baril de pétrole.

28. Le solde des opérations financières de l’Etat afficherait un déficit global base engagement de 287,6 milliards de FCFA en 2015, représentant 4,2% du PIB, expliqué par une révision à la baisse des ambitions de mobilisation des ressources propres.

29. Les échanges extérieurs au titre de l’année 2015 seraient marqués par une amélioration de la balance des transactions courantes qui passerait de -8,9% du PIB en 2014 à -8,6% en 2015. Pour les années 2016 et 2017, le déficit du solde courant devrait s’améliorer et se situer respectivement à -6,4% et -6,3% du PIB. Le solde global ressortiraient excédentaire de 57,6 milliards de FCFA en 2015. Toutefois, plusieurs facteurs de risque pourraient entraver la réalisation de ces performances. Il s’agit essentiellement de la vulnérabilité de l’agriculture aux aléas climatiques; de l’orientation défavorable des cours des matières premières exportées, notamment l’or, le coton et le manganèse; de la dégradation de la situation sociopolitique; de la persistance de l’attentisme des investisseurs privés, en raison d’une perception d’instabilité sociopolitique; de la persistance des effets de la maladie à fièvre Ebola.

30. C’est dans ce contexte que le Gouvernement entend poursuivre la mise en œuvre de la Stratégie de croissance accélérée et de développement durable (SCADD) en vue de renforcer la résilience de l’économie aux différents chocs tout en favorisant une croissance inclusive et la réduction de la pauvreté.

31. La gestion des finances publiques sera caractérisée par un renforcement des acquis engrangés en matière de mobilisation de ressources intérieures et extérieures ainsi que par l’amélioration de la qualité des dépenses d’investissement aussi bien sur ressources propres que sur ressources extérieures.

32. Dans le cadre de la mobilisation des ressources intérieures, plusieurs actions significatives viseront à consolider et à améliorer les efforts faits en matière de recouvrement des recettes fiscales. Les plus importantes sont la révision du code minier. Ce nouveau code minier a pour but, notamment, d'aligner le système de l'impôt sur l'exploitation minière avec les meilleures pratiques internationales, et le renforcement de la modernisation des administrations fiscale et douanière. Aussi, il doit permettre la mise en place d’un Fonds de développement social au profit des communes où opèrent les sociétés minières.

33. En matière de mobilisation de ressources extérieures, il s’agira de continuer à prioriser la recherche de financements concessionnels tout en n’excluant pas la possibilité pour certains projets à rentabilité très élevée, de recourir à des financements non concessionnels. Aussi, le Gouvernement veillera au suivi des engagements et recommandations pris lors de la table ronde des bailleurs de fonds pour le financement de la SCADD.

34. En matière d’exécution des dépenses budgétaires, les interventions seront orientées vers des reformes prioritaires en matière de gouvernance et des investissements structurants ayant des effets d’entrainement pour avoir un impact important sur le reste de l’économie. Elles concerneront également la consolidation des acquis sociaux par le renforcement des actions en faveur des couches vulnérables. Ainsi, les projets phares qui maintiendront les investissements à un niveau élevé seront notamment le pôle de croissance de Bagré, le Programme de Développement Intégré de Samandeni (PDIS), le renforcement des infrastructures électriques, routières et universitaires, la construction de l’aéroport de Donsin ainsi que le projet

d’électrification rurale. Aussi, le Gouvernement envisage de poursuivre la préparation du pôle de croissance du sahel, l’opérationnalisation des dispositifs du Programme National du Secteur Rural (PNSR) et du plan d’actions de la sécurité alimentaire, l’opérationnalisation de l’assurance maladie universelle, le processus d’implantation du budget-programme, l’amélioration du recouvrement des recettes et du cadre règlementaire des marchés publics. Pour rendre les performances macroéconomiques profitables à la population en général et aux ménages vulnérables en particulier, les actions du Gouvernement seront également orientées vers la promotion d’une croissance inclusive et partagée à travers le démarrage effectif des activités de deux projets que sont le Projet emploi des jeunes et développement des compétences, et le Projet filets sociaux.

35. Le Gouvernement reste convaincu qu’avec le soutien de ses partenaires notamment la Banque mondiale à travers la 4ème opération du programme d’appui à la croissance et à la compétitivité (CCC4), la mise en œuvre satisfaisante des réformes politiques en matière de gouvernance, la conduite d’une transition politique apaisée et la réalisation des actions prioritaires de la SCADD contribueront à consolider la stabilité sociale et le cadre macro-économique et à soutenir une croissance économique inclusive, nécessaire pour une réduction significative et durable de la pauvreté au Burkina Faso.

36. Vous renouvelant la gratitude du Gouvernement et du peuple burkinabé, je vous prie de croire, **Monsieur le Président**, en l’assurance de ma considération distinguée.

Jean Gustave SANON

Unofficial Translation

MINISTRY OF ECONOMY AND FINANCE

GENERAL SECRETARIAT

DIRECTORATE GENERAL FOR COOPERATION

No. 2015/______________/MEF/SG/DGCOOP/DSPF/PP

The Minister

To

Mr. Jim Yong KIM
President of the World Bank
1818 H Street
Washington DC, 20433
United States of America

Subject: Letter of Development Policy

Mr. President,

This Letter of Development Policy (LDP) outlines recent economic and social developments in Burkina Faso as well as 2014 economic trends. It also reviews the implementation status of the Strategy for Accelerated Growth and Sustainable Development (*Stratégie de Croissance Accélérée et de Développement Durable* SCADD) and its 2014-2016 performance matrix, jointly validated by the Government and its technical and financial partners on July 16, 2013, and the outlook for the years ahead.

The LDP also focuses on the Government's priority reforms, supported by the World Bank through implementation of the Fourth Growth and Competitiveness Credit Project (*Crédit d'appui à la Croissance et à la Compétitivité* CCC4).

3. RECENT ECONOMIC DEVELOPMENTS

1. Economic activity took place in a relatively difficult context compared to 2013, a situation attributable to the wait-and-see attitude adopted by private investors owing to the perception of social and political instability, as well as a decline in the volume of imports. In 2014, economic

activity in Burkina Faso was impacted by the sharp drop in international commodity prices (gold and cotton) and the psychological effects of health risks linked to the Ebola virus in the region, which took a toll on the services sector. The postponement of the African Union Summit on Employment in Ouagadougou and of such international events as the Ouagadougou International Crafts Fair (SIAO) and the Ouagadougou International Tourism and Hotel Fair (SITHO) are expected to have a significant impact on the hotel and tourism sectors. This climate, coupled with the sociopolitical crisis faced by the country during the second half of 2014, affected the volume of revenue collected, leading to a decline in government-funded capital expenditure.

2. In this context, the projected real GDP growth rate for 2014 is roughly 5 percent, a decline of 1.6 percent relative to 2013 (6.6 percent). Sector contribution to GDP growth is projected at 1.1 percent for the primary sector, 0.8 percent for the secondary sector, and 3.1 percent for the tertiary sector. Current 2014 GDP is estimated at CFAF 6,698.8 billion versus CFAF 6,363.5 billion in 2013. Overall, it is projected that the primary and tertiary sectors will be the main engines of this growth (31.2 percent and 38.3 percent, respectively).

3. The 2014 estimated annual inflation rate is -0.5 percent versus 0.5 percent in 2013. High grain production during the 2013-2014 agricultural season and continued implementation by the Government of measures to address the high cost of living (sale of grain at subsidized prices in areas facing shortages, price controls on major consumer products, setting up of shops selling foodstuff at subsidized prices (*boutiques témoins*, etc.) are thought to have kept the lid on inflation, which remained below the Community average.

4. The 2014 balance of trade deficit is estimated at CFAF 256.2 billion compared to 328.8 billion in 2013 (a decline of 3.8 percent). This could be attributable to a greater decline in imports (CFAF -158.5 billion) relative to exports (CFAF -85.9 billion). In fact, 2014 imports are projected at CFAF 1,485.6 billion compared to CFAF 1,644.2 billion in 2013. Exports are estimated to have decreased from CFAF 1,315.3 billion in 2013 to CFAF 1,229.4 billion in 2014. However, the current account balance of payments deficit is projected to have improved in 2014—CFAF 595.7 billion versus CFAF 667.76 billion in 2013.

5. Burkina Faso's money supply decreased by CFAF 110.8 billion, with a projected shift in the Government's net position from CFAF -132.9 billion in 2013 to CFAF -61.7 billion in 2014, and credit to the economy, from CFAF 975.5 billion in 2013 to CFAF 1,085.5 billion in 2014. An improvement in net foreign assets is expected relative to 2013— CFAF 1,103 billion compared to CFAF 952.1 billion.

6. In the area of public finances, the performance of the revenue collection entities is expected to fall short of expectations (CFAF 1,070.4 billion versus a target of CFAF 1,238.3 billion by end-December 2014). This poor performance could be linked to the decline in imports, inefficient collection methods involving third party notices to banks and individuals, a lack of tax compliance, and tax fraud. Added to this are the difficulties stemming from the delayed application of a number of measures that should, under normal conditions, contribute to achievement of the 2014 earnings targets, in particular the computerized customs clearance system for vehicles, the satellite-based tracking of in-transit goods, the installation of scanners, the reintroduction of the tax on petroleum products, and the sociopolitical events of October 30-31, 2014.

7. A projected amount of CFAF 246.5 billion in grants is expected to be mobilized by end-December 2014, against a forecast of CFAF 343.7 billion. This weak performance would be attributable mainly to the non-disbursement of some of the budgetary assistance initially forecast for 2014.

8. With regard to expenditure execution, we note first the implementation of the conclusions of the study on reform of the procedures and the responsibilities of public expenditure execution actors. In this regard, the expenditure documents related to the 2014 budget have been processed in accordance with the new legislation (check points, nomenclature for supporting documentation, wait time benchmarks). In addition, this reform has resulted in the reorganization of the information system, in particular the computerized expenditure circuit, by allowing the electronic payment of expenditures by authorizing officers to automatically generate a payment order. Also, in the context of ongoing reform of the wage and administrative management of government employees, government trade union negotiations have facilitated a revision of the salary matrix, which was adopted at a Council of Ministers meeting in March 2014.

9. As of end-December 2014, current expenditure execution is expected to be CFAF 854.9 billion, led essentially by personnel expenditures following the readjustment of wage factors and higher numbers of public service employees. Capital expenditure projections as of end-December 2014 stand at CFAF 549.0 billion, with CFAF 348.0 billion falling into the government-funded capital expenditure category.

10. If revenue collection objectives are met by end-December 2014, the budget deficit (including grants) should be 1.9 percent of GDP and is expected to be funded by net foreign assistance of CFAF 127.6 billion, which would release the State from its obligation of CFAF 48.7 billion to its domestic creditors.

4. IMPLEMENTATION STATUS OF THE STRATEGY FOR ACCELERATED GROWTH AND SUSTAINABLE DEVELOPMENT

11. The most recent annual performance report, based on an April 2014 review of the SCADD, shows a satisfactory level of implementation of measures and achievement of indicator targets, (66.67 percent and 63.27 percent, respectively).

12. In 2014, the Government continued to promote growth poles, subsectors, niches, and enterprise clusters. Implementation of the Bagré Growth Pole pilot project has continued, using a public-private partnership approach aimed at sending a strong signal to potential investors related to the project's guarantees. To this end, a semi-public company was created with 38 percent of its capital (CFAF one billion) held by the private sector. In the context of the continued development of growth poles, national conferences have been held on the Sahel Growth Pole, with the aim of facilitating better project preparation. A preparatory fund has been established for the purpose of conducting the safeguard and socioeconomic studies needed for sound project design as well as the implementation of a communication strategy and activities related to the preparatory mechanism.

13. Also, in the context of pro-poor growth, actions have been taken to strengthen safety nets through the creation of highly labor-intensive jobs and the launching of the Youth

Employment and Skills Development Project (*Projet emploi des jeunes et développement des compétences* PEJDC).

14. It should be noted that the primary objective of the 2014 budget law is to promote sustained growth led by all sectors and the implementation of growth poles. It also focuses on inclusive and shared growth through the implementation of social measures aimed primarily at job creation and revenue generation and at improving the living conditions of the vulnerable population groups.

15. The 2014 State budget revolves around the following strategic areas: (a) bolstering the pillars of growth; (b) strengthening social progress; (c) promoting administrative, local, and economic governance as well as civic-mindedness; and (d) improving homeland defense and domestic security. To implement these objectives, efforts to mobilize the Government's own revenue continued, with the aim of boosting investment and transfers to vulnerable groups.

A. Developing the Accelerated Growth Pillars

16. Following the 2013 preparation of a public-private partnership (PPP) projects program involving a series of projects which, when implemented, is expected to contribute to achievement of the SCADD objectives, and the adoption of the implementing decree to Law No. 020/2013/AN of May 23, 2013 on the legal system for PPPs in Burkina Faso, the 2014 mid-term evaluation led to identification of several measures or actions including (a) the adoption of the public-private partnership projects program and (b) the adoption of provisions establishing PPP committees and governing the selection of private partners in the context of implementation of the PPP development strategy in Burkina Faso.

17. In the agricultural subsector, noteworthy progress targeting the sustainable increase in and diversification of the supply of agricultural products was made. This progress involved facilitating access to agricultural inputs and equipment, promoting the sustainable management of the fertility of agricultural land, and conducting research and development focused on crop production, with the aim of helping boost agricultural productivity while ensuring the restoration of soil fertility. Consequently, hydroagricultural facilities were set up and rehabilitated, the rules governing water use for agricultural purposes were revised, the food security coordination mechanism was strengthened, warehouses for agricultural inputs and agropastoral products were built, agricultural tractors and related materials were purchased, and 100,000 plows were put into operation.

18. Grain production during the 2014-2015 agricultural season is estimated at 4,636,070 metric tons, a 4.8 percent decline relative to the 2013-2014 season. This decline could be attributable to the unfavorable weather during the cooler months and a significant quantity of unsold grain by farmers, which led to a shift from grain production to more profitable crops (cotton and sesame). However, production of the other food crops increased by 8.1 percent. Cotton production for the 2014-2015 season is estimated at 690,800 metric tons (a 6.2 percent increase relative to the 2013-2014 season). However, producer prices have fallen to CFAF 225 per kg.

19. Estimates of industrial gold production stand at 36,473.8 kg in 2014 compared to 32,958.9 kg in 2013 (a 10 percent increase versus 7.9 percent in 2013). This trend could be explained by the increase in gold production, despite the decline in international gold prices.

20. In the case of energy, construction of the third 36 MW segment of the Komsilga plant and a 90kV/33kV substation has been completed, along with the extension of the Zagtouli substation 90kV line. Installation of the equipment and tests were completed in July 2014, with deployment taking place that same month.

B. Strengthening Human Capital and Promoting Social Protection

21. With regard to strengthening human capital and promoting social protection, the implementation of a host of measures facilitated the funding of numerous microprojects as well as youth training. In the field of technical and vocational education, teaching, and training, the measures adopted and actions taken have focused on the preparation of a multiyear program of transfers to the communes for purposes of educational infrastructure, reduction in learning outcome disparities, preparation of a methodological guide on drafting education planning documents, provision of textbooks and meals to students, continuation of the pilot phase of human rights instruction in primary schools, and the establishment and outfitting of new middle schools (*Collèges d'enseignement général* CEG).

22. In the area of health and nutrition, the delivery of health services and their effects have improved, given the upward trend in a host of indicators. With regard to social protection, the implementation of measures and actions have made it possible to meet the basic needs of the population groups that have faced crises and disasters and to reduce the impact of the high cost of living. In addition to strengthening safety nets, the social emergency measures adopted by the Government in September 2013, which resumed in April 2014, have mainly targeted expanding government support for citizens, increasing the purchasing power of the people, addressing unemployment and underemployment, particularly among young people, and supporting vulnerable groups.

C. Strengthening Governance

23. Strengthened governance has focused on the economic, political, administrative, and local areas. In the area of economic governance, the public finance management system has conducted the third evaluation using the PEFA methodology. To combat corruption, the Government has approved and submitted a draft law to the National Transition Council on the prevention and elimination of corruption in Burkina Faso.

24. In the area of political governance, the measures adopted and actions taken have focused on the operationalization of the legal assistance fund, the preparation of a recruitment plan for personnel in the Ministry of Justice, the drafting of the Priority Action Plan (PAP) related to the national justice policy, the preparation and distribution of the annual justice report, the preparation of the Ministry of Justice's program-budget, the production of the Ministry of Justice's 2013 yearbook and statistical performance scorecard, the organization of an awareness-building campaign on corruption targeting justice system officials and civil society, the adoption of the draft law on the protection of children, the adoption of preliminary draft organic laws on the Supreme Judicial Council and the status of the judiciary, the preparation of a preliminary draft law regulating the prison system, the introduction of human rights modules in the programs for beginner students receiving teacher training at the National Colleges for Primary School Teachers (*Écoles nationales des enseignants du primaire* ENEP) and students being trained as pedagogical supervisors at the University of Koudougou (UK).

25. Local governance actions include the overall assessment of the exercise of the authority and management of the resources transferred from the State to communes in the preschool, primary school, and health and potable water supply areas, which allow for greater transparency regarding these transfers and identification of the bottlenecks impeding their effectiveness. The share of the budget transferred to local and regional governments rose from 4.44 percent in 2013 (the target was 4 percent) to 5.62 percent in 2014, (the target was 5 percent). The measures adopted and actions taken have also focused on information and awareness-building campaigns targeting local decentralization actors, disseminating good practices related to decentralization, providing local and regional governments with central government staff needed to exercise the authority transferred, extending implementation of the Disaster Contingency Plan (ORSEC) in the regions and fostering ownership of this plan, and purchasing 500 uniforms for the municipal police in the *Centre* region.

26. The inclusion of cross-cutting priorities in development policies and programs is reflected in the adoption of the National Sustainable Development Policy [*Politique Nationale du Développement Durable* PNDD], the draft framework law on sustainable development, and the preliminary draft of the law on the National Strategy for Territorial Planning and Sustainable Development (*Stratégie Nationale d'Aménagement et de Développement Durable du Territoire* SNADDT).

3. PROSPECTS FOR 2015

27. As in 2014, economic activity is projected to increase by 5 percent in 2015, led by all sectors. Inflation, projected to be 1.4 percent, should remain within the 3 percent Community standard, based on the assumption of good rainfall, the continuation of government measures to curb the high cost of living, and favorable oil prices.

28. The government accounts balance is expected to post an overall deficit (based on commitments) of CFAF 287.6 billion in 2015, representing 4.2 percent of GDP, as a result of lower expectations regarding the mobilization of its own resources.

29. In the foreign trade area, an improvement is projected in the current account balance (from -8.9 percent of GDP in 2014 to -8.6 percent in 2015). For 2016 and 2017, the current account deficit is expected to improve (-6.4 percent and -6.3 percent of GDP, respectively). The overall balance is expected to post a surplus of CFAF 57.6 billion in 2015. However, several risk factors could weaken this performance. These include primarily the vulnerability of agriculture to climate events, low commodity prices, particularly for gold, cotton, and manganese, a deterioration of the sociopolitical situation, a continued wait-and-see attitude on the part of private investors owing to perceived sociopolitical instability, and the continuing effects of the Ebola virus.

30. It is in this context that the Government intends to continue implementation of the Strategy for Accelerated Growth and Sustainable Development (SCADD) in order to make the economy more resilient to various shocks while promoting inclusive growth and poverty reduction.

31. With regard to public finance management, the progress made in the area of domestic and external resource mobilization will be strengthened and the quality of capital expenditure will be improved using both government and external resources.

32. In the context of the mobilization of domestic resources, several major activities will target the strengthening and improvement of the work done to collect tax revenue. The most significant pertains to the revision of the mining code. This new mining code is aimed, in particular, at aligning the tax system for mining operations with international best practices and at stepping up efforts to modernize the tax and customs administrations. Also, this code should pave the way for the establishment of a social development fund to benefit the communes in which mining companies operate.

33. In mobilizing external resources, priority will continue to be given to seeking concessional financing while not ruling out the possibility, in the case of a number of highly profitable projects, of recourse to non-concessional financing. Also, the Government will ensure the monitoring of the commitments and recommendations made at the round table of donors on the financing of the SCADD, in particular the continued organization of sectoral round tables and private investor forums.

34. In the area of budget expenditure execution, interventions will be oriented toward governance-related priority reforms and major investments that produce a significant knock-on effect that can be felt throughout the economy, the consolidation of social progress by strengthening activities that benefit the social sectors, and the continuation of social measures. Consequently, the key projects that will keep investments at a high level include the Bagré growth pole, the Samandeni Integrated Development Program (*Programme de Développement Intégré de Samandeni* PDIS), the strengthening of electricity, road, and university infrastructure, the construction of the Donsin airport, and the rural electrification project. Also, the Government intends to continue preparations related to the Sahel Growth Pole, application of the PNSR measures and the food security action plan, implementation of universal health care, establishment of the program-budget, and improvement in revenue collection and the public procurement regulatory framework. To ensure that macroeconomic performance benefits the population in general and vulnerable households in particular, the actions of the Government will also be oriented toward the promotion of inclusive and shared growth by launching activities related to two projects—the Youth Employment and Skills Development Project and the Safety Net Project.

35. The Government remains confident that with the support of its partners, in particular the World Bank through the Fourth Growth and Competitiveness Credit Project (CCC4), the satisfactory implementation of governance policy reforms, the accomplishment of a peaceful political transition, and the execution of the SCADD's priority actions will help strengthen social stability and the macroeconomic framework and support more inclusive economic growth, which is necessary to achieve significant and sustainable poverty reduction in Burkina Faso.

36. **Mr. President**, I would like to express to you once more the gratitude of the Government and people of Burkina Faso.

Very truly yours,

Jean Gustave SANON

Annex 3: IMF Relations Note

IMF Staff Concludes Visit to Burkina Faso

1. A 3-year ECF arrangement was approved by the IMF Executive Board on December 27, 2013. The 1st review of the arrangement was approved on July 3, 2014. Due to the political events of end-October and subsequent government transition, the 2nd review (for which Board consideration had been scheduled for December 2014) has been delayed. Following verification that the transition government was recognized by the international community as the legitimate government of Burkina Faso and at the request of the authorities and development partners, IMF staff visited Ouagadougou from December 13-19 to help the government put together a draft 2015 budget, to do an updated assessment of recent macroeconomic developments, to discuss key forward-looking policy intentions, and to solicit the transition government's wishes about future program engagement with the IMF. The findings of those discussions are summarized in an IMF staff assessment letter, dated February 12, 2015. The transition government signaled that it would prefer to continue the ECF arrangement already underway. Pending discussions within the IMF staff and an assessment of the new authorities' technical capacity, IMF staff tentatively plans to return to Ouagadougou in March 2015 to continue discussions on program engagement. A potential option would be to maintain the current ECF arrangement, combining the 2nd and 3rd reviews.

2. The Bank has also collaborated with the IMF through a Joint Management Action Plan (JMAP). The Bank staff has provided detailed inputs to the IMF team in areas where the Bank is the primary agency, including the agricultural, mining, energy, and water and sanitation sectors, as well as good governance and public administration reform. In addition, a joint IMF-World Bank DSA was prepared in June 2014, and a preparation of a new joint DSA is in initial stages.

BURKINA FASO - ASSESSMENT LETTER FOR DEVELOPMENT PARTNERS

February 12, 2015

This letter provides an IMF staff assessment of Burkina Faso's recent macroeconomic performance and outlook, based on information available through end-December, 2014. In light of the change in government, an IMF team visited Burkina Faso from December 13-19, 2014 to discuss recent developments, the outlook and policies, and program engagement with the Fund. A mission will return to Ouagadougou in March to discuss options for program engagement, including possible continuation of the current ECF arrangement.

Recent Economic Developments

1. **The policy environment became more challenging in 2014, due to external factors and domestic political events.** Growth and revenues were impacted since mid-2014 by lower commodity price, the regional impact of the Ebola crisis elsewhere, and political uncertainty. The political situation culminated in large-scale demonstrations, which led to the resignation of former President Compaore and his government, and establishment of a transition government until elections scheduled for fall in 2015. Growth estimates for 2014 and projections for 2015 have been adjusted down to 5 percent. The slowdown is supported by available higher frequency data, including imports, VAT revenues, and private credit growth. Headline inflation was negative through November, driven by lower food prices, and estimates for annual inflation and the GDP deflator in 2014 are slightly negative.

2. **Lower revenues, budget support delays and higher wage outlays compelled a significant contraction of investment spending in 2014.** In sharp contrast with recent years, revenues were only 80 percent of projected amounts, due to: the impact of Ebola on services, particularly tourism; lower-than-projected gold prices; and the impact on revenue collection of the political events in Q4. Delays in budget support similarly affected the resource envelope, forcing large spending compression compared to the program. Due to market conditions, net domestic financing could not be increased to compensate for the shortfalls. At the same time, a large hike in the public wage bill, which had been agreed in the first half of the year by the previous government, had to be financed by reductions in other spending categories. Domestically-financed investment spending was reduced by some 2.6 percentage points of GDP compared to the program. Execution of externally-financed investment spending was also lower: the estimated resulting fiscal deficit was 1.3 percent of GDP, less than half of the previous year.

3. **The current account deficit is estimated to have narrowed in 2014, reflecting various factors.** The main factor was lower imports related to public investment spending and mining investment, as well as lower fuel prices. Gold exports dropped from the previous year, based on lower prices and unchanged volumes. Cotton exports increased even though prices dropped, since the harvest was strong and a large share of the crop had been pre-sold. The improvement in the current account was mitigated by lower project grants and lower than anticipated external financing, leaving the overall balance roughly in line with expectations and a modest drawdown of imputed international reserves.

Macroeconomic Policy Commitments and Near Term Outlook

4. **In light of resource constraints and risks to the outlook going forward, the transition government will continue a prudent fiscal stance in 2015.** The fiscal deficit was set at 1.4 percent of

GDP, in line with the forecast resource envelope. The latter was established taking into account realistic revenue forecasts (17.2 percent of GDP), revenue administration measures (0.5 percent of GDP), existing external grants and financing (5.1 percent of GDP) as well as additional program financing and grants by development partners (1.0 percent of GDP). Given sizeable domestic debt coming due in 2015, net domestic financing is assumed to be -0.5 percent of GDP (before IMF onlending). Due to resource constraints, a downward adjustment in spending, primarily domestically-financed investment, was needed —albeit mitigated somewhat by savings realized due to lower energy subsidies and a delay of further real increases in public wages implied by the 2014 agreement. In contrast to the national development plan and program objectives, the overall level of investment spending in 2014–2015 will drop substantially in real terms relative to 2012–2013, with implications for medium-term growth potential.

5. **Revenue administration measures are based on several reforms underway by Customs and Internal Revenue services.** These include: moving pre-shipment inspections to ports; satellite tracking of goods; improved tax compliance by public suppliers; new valuation procedures for used vehicles; introduction of standard invoicing; fixed taxes for real estate (to improve compliance); and reducing thresholds for mandatory VAT payment.

6. **The authorities are encouraged to continue seeking additional resources to restore investment spending.** In particular, the authorities are encouraged to identify potential modest savings related to lower international fuel prices. Although retail fuel prices were lowered by 5 percent in mid-January—Burkina Faso’s retail prices were higher than peer countries in the region—there may be modest scope (after US$ appreciation) to recuperate modest windfalls. Audits of public energy enterprises should produce reform options to further increase potential resources.

7. **The authorities have expressed a strong commitment to improve budget transparency and coherence between budget planning and execution.** The 2015 budget passed by the National Transition Committee (CNT) in late December was fully financed, sharing the responsibility for difficult decisions about spending composition in light of binding resource constraints. The CNT passed a supplemental budget for 2014 providing retroactive authority for spending already undertaken related to the public wage increase implemented by Cabinet decree in early 2014. Finally, the authorities are working on consolidating central government accounts to ensure timely payment of obligations and reduce the “float,” i.e., spending commitments where verification and payment are pending, which has increased in recent years (to be verified by final 2014 data). An upcoming FAD TA mission on Treasury management will examine whether arrears may be involved.

8. **These policies should set a solid foundation for the incoming government after elections in fall, 2015, with external factors projected to improve in 2016.** Weakening of the exchange rate against the US$, combined with improving international gold prices, should help buoy export competitiveness. Limiting increases of the real public wage bill—while allowing for hiring of teachers and health workers—and reduction of energy subsidy needs should allow increased investment spending. In addition, the impact of the Ebola outbreak elsewhere in the region should gradually abate. These factors, as well as a stable democratic political transition, should bring growth back toward medium-term trends, although growth potential will be affected by lower investment in 2014–2015.

Risks to the Outlook

9. **Exogenous shocks from further declines in commodity prices, a more profound impact of the Ebola crisis, or weather shocks are possible.** Gold prices are on the rise, but reversal of sentiment and continued declines in cotton prices pose a risk. There have been no Ebola cases so far, and the authorities have implemented a comprehensive prevention program. However, a longer or broader outbreak would further impact growth and revenues, and require more prevention spending. Weather shocks are an ongoing risk.

10. **Broad changes have been made at ministerial and director general levels**. The new officials have extensive technical experience, and the government's plans to strengthen public finance management will be supported by technical assistance. However, staffing changes pose a risk to the smooth implementation of the intended reform program, and it will be important that commitments under the ECF arrangement be reaffirmed/solidified.

11. **Political stability hinges on the transition government orchestrating a peaceful transfer of power and democratic elections.** With an internationally-recognized government in place, risks are diminished but there is nonetheless significant uncertainty leading up to the 2015 elections. Regional security issues are also an increasing concern.

Relations with the Fund

12. **The transition authorities expressed a strong preference to continue the ECF arrangement approved in December 2013.** The 1st review of the arrangement was approved on July 3, 2014, but the 2nd review (for which Board consideration had been scheduled for December 2014) was delayed by the political events in late 2014. Staff will return to Ouagadougou in early March to discuss options for program engagement, including possible continuation of the current ECF arrangement. Backward-looking quantitative targets and structural benchmarks have been mostly observed. As for forward-looking policy intentions, the authorities have affirmed their commitment to broad program objectives and technical capacity, in theory, appears to be sufficient.

Annex 4: Country Map