

**PROGRAM INFORMATION DOCUMENT (PID)**  
**APPRAISAL STAGE**

Report No.: AB1476

<b>Operation Name</b>	Poverty Reduction Support Credit (5)
<b>Region</b>	AFRICA
<b>Sector</b>	General public administration sector (35%); Health (20%); Other industry (15%); General agriculture, fishing and forestry sector (15%); Primary education (15%)
<b>Project ID</b>	P078995
<b>Borrower(s)</b>	BURKINA FASO
<b>Implementing Agency</b>	Ministry of Finances and Budget
<b>Date PID Prepared</b>	March 21, 2005
<b>Date of Appraisal Authorization</b>	March 15, 2005
<b>Date of Board Approval</b>	May 3, 2005

### **1. Country and Sector Background**

Burkina Faso is a landlocked country of about 12 million inhabitants with a narrow natural resource base. Per capita income is about US\$300 and social indicators compare poorly to the average in Sub-Saharan Africa: in 2003 literacy rate was about 20 percent and life expectancy at birth was 43 years, compared to, respectively, 35 percent and 46 years for Sub-Saharan Africa. According to the 2003 household survey, poverty is widespread with 46 percent of the population below the national poverty line. Rural poverty accounts for 95 percent of national poverty. In 2004, the sizeable fall in international cotton prices, high oil prices, a locust invasion, and political instability in the neighboring Cote d'Ivoire were key reminders of Burkina's vulnerability to external shocks.

Burkina Faso was among the first countries in Sub Saharan Africa to present a full PRSP in 2000, and one of the few to have completed a full revised PRSP. Since 2000, there has been significant progress in implementing the PRSP, as laid out in three PRSP progress reports to date. Burkina is also among the first countries to reach the HIPC completion point. However, despite these gains and the track record, there remain important challenges that need to be addressed so as to devise strategies that help to attain the MDGs

### **2. Operation Objectives**

PRSC-5 supports PRSP objectives of: (i) raising growth and equity in a stable macroeconomic environment, in order to reduce the incidence of poverty; (ii) increasing access to and quality of basic social services; (iii) improving employment and income opportunities for the poor; and (iv) improving governance with a particular emphasis on public sector management and budget management reforms.

Prior actions under the growth and employment creation component include the liberalization of the cotton sector and changes in the legal and regulatory framework for the electricity sector, as well other measures related to improving the investment climate (labor market, regulatory framework). These measures aims to lower factor costs, increase productivity and favor new investments. Prior actions related to increase access to social services include the adoption of a MTEF for the health sector, in line with the MDGs, and the preparation of a system of subsidies for obstetrical emergencies. The Government has also continued to implement the policy of free vaccination. Prior actions related to improving governance encompass the adoption of a budget for 2005 consistent with the PRSP objectives, the strengthening of local governance through the implementation of an integrated accounting software, and procurement reform for leasing and concessions contracts. Overall, Burkina has maintained a strong pace in implementing the reform program under PRSC-5.

### **3. Rationale for Bank Involvement**

The proposed poverty reduction support operation (PRSC-5) is the second in a series of three annual operations supporting the implementation of the revised PRSP in 2004-2006 in Burkina Faso, in line with the Bank's 2003 CAS progress report. The new CAS (FY06-09) in preparation also aims to support the implementation of the revised full PRSP.

Against the backdrop of the difficult initial conditions and environment, Burkina Faso has demonstrated great resilience and remarkable track record of sound policy implementation. The political environment in Burkina Faso has remained stable, and the country has made considerable progress in macroeconomic stabilization under three successive programs supported under the IMF's Poverty Reduction and Growth Facility (PRGF). A fourth PRGF is implementing well too. The growth rate of gross domestic product (GDP) has averaged 5.8 percent between 1994 and 2003, relative to population growth rate which stood at about 2.5 percent. Burkina's economic growth remained strong in 2004 at 4.8 percent. Consequent to good fiscal discipline, Burkina has managed to realize a stable macroeconomic environment with low inflation.

Achievements under the previous PRSCs are positive as illustrated by an 8 percent reduction of poverty incidence between 1998 and 2003. In addition, the newly revised PRSP builds on the achievements of the first PRSP while improving the latter on several dimensions: it is grounded on a stronger participatory basis, has a more effective M&E system, and benefits from improved donor coordination through the adoption of a unified budget support framework.

### **4. Financing**

The financing of US\$60 million equivalent – of which US\$13.9 million of grants – will be disbursed immediately upon effectiveness.

### **5. Institutional and Implementation Arrangements**

The ministry of finance and budget (MFB) will be responsible for overall implementation of the proposed PRSC-5. The Secretary of the Permanent Secretariat for the Monitoring of Financial Programs and Policies (SP-PPF) in the MFB will lead the government technical team with representatives of the Ministries of Finance and Budget; Economy and Development; Health; Basic Education and Literacy; Secondary Education, Higher Education and Scientific Research; Environment and Living Conditions; Agriculture, Water and Fisheries; Commerce, Enterprise Development, and Artisanry; Energy and Mines; Decentralization; and representatives of public enterprises.

Bank's supervision effort will be aligned with the government-led monitoring and evaluation system underpinning the revised PRSP, the Priority Action Plan, and the Unified Framework for Budgetary Support (UFBS). The specific benchmarks and outcomes to be monitored under PRSC-5 are extracted from the government overall development program, thus providing significant benefits in reducing transaction costs for the Government.

### **6. Benefits and Risks**

The proposed operation would support the Government to pursue its policy objectives laid out in the revised PRSP and its accompanying Priority Action Plan (PAP) within a structured macroeconomic framework by providing sound financing for the execution of the government's 2005 budget. It would also provide the incentives to implement key economic, social and institutional reform to strengthen the overall performance of the economy and contribute to poverty alleviation. Over the period 2004-2006, it is expected that the reform program under the series of three annual PRSCs (PRSC-4, PRSC-5 and forthcoming PRSC-6) would help the government in achieving a 6 percentage points reduction of

poverty incidence, increase private sector participation in the cotton, telecommunication and energy sectors thus accelerating growth through higher investment and improved competitiveness. It would also help the government in making progress toward reaching the MDGs, namely, increase school enrollment and literacy rates, reduce child and maternal mortality, increase access to safe water, and strengthen the sustainability of development efforts.

The risks for the operation arise from the country's weak capacity, still fragile fiduciary progress, natural disasters (drought, locust invasions), commodity prices and currency shocks, and regional instability. The different risks are mitigated under the credit through the approval of two Bank projects to address the capacity issue; the integration in the reform program of key fiduciary reforms; the approval of a project to help prevent and fight locust invasion, and Bank readiness to provide further financial support when needed; a strong track record of the government in adapting to external shocks through adjustment of non-priority expenditure, an independent monetary policy with a strong record of low inflation, and willingness of the external community to deliver additional credit as needed; and regional initiatives to solve the political crisis in the sub-region, notably in Côte d'Ivoire.

## **7. Poverty and Social Impacts and Environment Aspects**

It is expected that the reform program supported by PRSC-5 would improve the living conditions of the poorest segment of the population. Drawing from the findings of the Risk and Vulnerability Assessment Report<sup>1</sup>, PRSC-5 is introducing social protection measures (OVC) in the policy matrix of the series of PRSCs. A critical analytical underpinning for the proposed PRSC-5 is also the Poverty Assessment (PA) which exploits the household data from 1998 and 2003 data to study the links between growth and poverty in 1998-2003 and under possible future growth paths and – based on this analytical foundation – explore options to enhance the poverty impact of growth, and respond to macroeconomic shocks.

The Bank has determined that the policies supported by the proposed PRSC-5 are not likely to cause significant effects on Burkina's environment and natural resources. The potential environmental and social impacts of the series of PRSC-4-6 stem from its sectoral coverage, but these impacts should not be extensive; nor will they be irreversible. In addition, there is a close and direct link between PRSC-5 and the sectoral investment projects as regards compliance with environmental and social safeguards, and all these accompanying sectoral investment operations have their own environmental management plans (EMPs) formulated to offset the main environmental and social impacts identified during their evaluation. These sectoral EMPs are the basis to guarantee compliance with Bank requirements and policies, and can be found in the Environmental Assessments (EAs) of the respective projects.

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<sup>1</sup> Burkina Faso. Risks and Vulnerability Assessment. Report No. 28144-BUR. January 30, 2004.

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