

Document of
The World Bank

Report No. 31342-BF

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A

**PROPOSED CREDIT IN THE AMOUNT OF SDR 30.6 MILLION
(US\$46.1 MILLION EQUIVALENT)**

AND A

**PROPOSED GRANT IN THE AMOUNT OF SDR 9.3 MILLION
(US\$13.9 MILLION EQUIVALENT)**

TO

BURKINA FASO

FOR A

FIFTH POVERTY REDUCTION SUPPORT OPERATION

April 7, 2005

**Poverty Reduction and Economic Management 4
Country Department 15
Africa Region**

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

BURKINA FASO - GOVERNMENT FISCAL YEAR
January, 1 – December, 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of March 31, 2005)

Currency Unit = CFA Franc (CFAF)
US\$1.00 = CFA508

Weights and Measures
Metric System

ABBREVIATION AND ACRONYMS

AAP	HIPC Accountability Assessment and Action Plan
AFD	French Development Agency
AfDB	African Development Bank
ARTEL	Telecommunication Regulatory Agency
BCEAO	Central Bank of West African States
CAS	Country Assistance Strategy
CAS-PR	Country Assistance Strategy Progress Report
CFAA	Country Financial Accountability Assessment
CFAF	Franc of the African Financial Community
CID	Computerized Expenditure Circuit
CIE	Government Integrated Accounting Software
COGES	Health Management Committee
CONAGESE	National Council for Environmental Management
CPAR	Country Procurement Assessment Report
CSPS	Community Health Centers
CRA	Regional Agriculture Chambers
DAAF	Directorate of Administrative and Financial Affairs
DCMP	Central Directorate for Public Procurement
DEP	Directorate for Planning and Studies
DGB	Directorate General for the Budget
DGE	Directorate General for the Environment
DGCCOP	Directorate General for International Cooperation
DGTCP	Directorate General of the Treasury and Public Accounts
DHS	Demography and Health Survey
DSA	Debt Sustainability Analysis
EMP	Environmental Management Plan
ENEP	Teachers Training Colleges
EU	European Union
FASOCOTON	Private Cotton Company
GDP	Gross Domestic Product
GNP	Gross National Product
GTZ	German Cooperation for Technical Cooperation
HIPC	Heavily Indebted Poor Countries
ICR	Implementation Completion Report
IDA	International Development Association
IFC	International Finance Corporation
IGE	General State Inspectorate

FOR OFFICIAL USE ONLY

IGF	General Finance Inspectorate
IMF	International Monetary Fund
INSD	National Institute of Statistics and Demography
JSAN	Joint Staff Advisory Note
LDP	Letter of Development Policy
MDGs	Millennium Development Goals
MEBA	Ministry of Basic Education
MEDEV	Ministry of Economy and Development
MFB	Ministry of Finance and Budget
MOH	Ministry of Health
MTEF	Medium-Term Expenditure Framework
ONAPAD	National Poverty and Development Observatory
ONATEL	National Telecommunication Company
OPA	Producer Organization
PAMS	Poverty Analysis Macroeconomic Simulator
PAP	Priority Action Plan
PDDEB	Ten-year Basic Education Development Plan
PER	Public Expenditure Review
PNDS	National Health Care Development Plan
PNDSA	National Program for the Development of Agricultural Services
PNGT	National Program for the Management of Territory
PRGB	Budget Management Reform Plan
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper Progress Report
PRSP-PR	Poverty Reduction Strategy Paper Progress Report
ROSC	Report on the Observance of Standards and Codes
SAL/C	Structural Adjustment Loan/Credit
SECAL/C	Sectoral Adjustment Loan/Credit
SDR	Special Drawing Rights
SIGASPE	Budget Payroll Management System
SOCOMA	Private Cotton Company
SOFITEX	Largest Private Cotton Company
SONABEL	National Electricity Company
SONABHY	National Petroleum Product Distribution Company
SP-PPF	Permanent Secretariat for the Supervision of Financial Policies and Programs
STC-PDES	Technical Secretariat for the Coordination of Social and Economic Development
TOD	Decentralization Laws
TOFE	Government Financial Operation Table
UNDP	United Nations Development Program
WAEMU	West African Economic and Monetary Union
WHO	World Health Organization

Vice President:	Gobind T. Nankani
Country Director:	A. David Craig
Sector Director:	Paula Donovan
Sector Manager:	Robert R. Blake
Task Team Leader:	Abdoulaye Seck

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not be otherwise disclosed without World Bank authorization.

BURKINA FASO
FIFTH POVERTY REDUCTION SUPPORT OPERATION

TABLE OF CONTENTS

	Page No.
FIFTH POVERTY REDUCTION SUPPORT OPERATION.....	VI
OPERATION AND PROGRAM SUMMARY	VI
I. INTRODUCTION.....	1
II. COUNTRY CONTEXT.....	1
RECENT ECONOMIC DEVELOPMENTS IN BURKINA FASO	2
POVERTY DYNAMICS	5
MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY	6
III. BURKINA FASO'S SECOND FULL PRSP	10
THE STRATEGY	10
PRSP IMPLEMENTATION IN 2003-2004	11
IV. BANK SUPPORT TO THE PRSP.....	13
LINK TO CAS.....	13
COLLABORATION WITH THE IMF AND OTHER DONORS	13
RELATIONSHIP TO OTHER BANK OPERATIONS.....	15
LESSONS LEARNED.....	15
ANALYTICAL UNDERPINNINGS.....	18
V. THE PROPOSED POVERTY REDUCTION SUPPORT OPERATION.....	20
PRSC-5 DESCRIPTION	20
PROPOSED FRAMEWORK FOR PRSC-6 AND THE NEXT SERIES OF PRSC	50
VI. PRSC 5 IMPLEMENTATION	52
POVERTY AND SOCIAL IMPACTS	52
SUPERVISION	53
FIDUCIARY ASPECTS.....	53
DISBURSEMENT AND AUDITING	54
ENVIRONMENTAL AND NATURAL RESOURCES ASPECTS.....	54
RISKS AND RISK MITIGATION.....	55

ANNEXES

ANNEX 1: LETTER OF DEVELOPMENT POLICY.....	57
ANNEX 2: GOVERNMENT POLICY AND OVERALL DEVELOPMENT PROGRAM	65
ANNEX 3: PRSC POLICY MATRIX.....	78
ANNEX 4: PROGRESS MADE BEFORE PRSC-5	89
ANNEX 5: KEY REFORM MEASURES IMPLEMENTED UNDER THE FIRST PRSC PROGRAM	96
ANNEX 6: KEY OUTCOMES ENVISAGED UNDER PRSC 1-3 (2001-03) AND RESULTS.....	100
ANNEX 7: FUND RELATIONS NOTE	102
ANNEX 8: ECONOMIC INDICATORS	104
ANNEX 9: SOCIAL INDICATORS.....	105
ANNEX 10: RECENT COTTON PRICES DEVELOPMENTS	106
ANNEX 11: OIL PRICES DEVELOPMENTS AND POVERTY.....	111
ANNEX 12: UNIFIED FRAMEWORK FOR BUDGET SUPPORT	113
ANNEX 13: ENVIRONMENTAL ASSESSMENT	124
ANNEX 14: COUNTRY AT A GLANCE.....	130

LIST OF BOXES

BOX 1: OPERATIONALIZE PRO-POOR GROWTH STRATEGY IN BURKINA FASO.....	36
BOX 2: SUMMARY OF THE NEW DECENTRALIZATION	49
BOX 3: GENDER-RESPONSIVE BUDGET ACTION PLAN.....	51

LIST OF TABLES

TABLE 1: GROWTH AND PRICES.....	3
TABLE 2: GOVERNMENT FINANCIAL OPERATIONS IN 2004-05.....	4
TABLE 3: POVERTY AND INEQUALITY. POVERTY AND INEQUALITY DYNAMICS	6
TABLE 4: FINANCING REQUIREMENTS 2003-2006.....	8
TABLE 5: BURKINA FASO - NPV OF DEBT TO EXPORTS RATIO	9
TABLE 6: PERFORMANCE UNDER SELECTED PRSP INDICATORS IN HEALTH AND EDUCATION	12
TABLE 7: PRIOR ACTIONS FOR PRSC-5	22
TABLE 8: PROPOSED TRIGGERS FOR PRSC 6.....	50

LIST OF FIGURES:

FIGURE 1: THE PRSC PROGRAM AND AAA UNDERPINNINGS.....	23
---	----

The PRSC-5 was prepared by an IDA team consisting of: Abdoulaye Seck, Abdoulaye Touré, Aguiratou Savadogo-Tinto, Asha Ayong, Beloué Ido, Bintou Sogododo, Boubker Abisourour, Célestin Bado, Daniel Moreau, Eavan O'Halloram, Emmanuel Diarra, Emmanuel Nikiéma, Ephraim Kebede, Eustache Ouayoro, Francois G. Le Gall; Francois Nankobogo, Gaston Sorgho, Georges Tiemoko Kam, Glauca Ferreira, Hélène Grandvoinet, Hélène Bertaud, Ibrahim Nébié, Ilhem Baghdadli, Issouf Samaké, Judite Fernandes, Kadiatou Toure, Kofi Amponsah, Kwawu Mensan Gaba, Mamadou Yaro, Midou Ibrahima, Miguel Saponara, Moukim Temourov, Nadege Leboucq, Olivier Durand, Patrick Labaste, Pierre Kamano, Remi Kini, Safaa El Tayeb El Kogali, Siaka Coulibaly, Suzanne Rayaisse, Sybille Crystal, Tim Johnston, Tonia Marek, Virginie Vaselopoulos, Wolfgang Chadab. Peer reviewers are Satu K. J. Kahkonen (ECSPE) and Jan Walliser (OPCCE). Advisors include A. David Craig, Ellen Goldstein, Robert R. Blake. The PRSC team worked closely with an IMF team headed by William S. Rogers and with EU and bilateral donors in the budget support group for Burkina Faso.

FIFTH POVERTY REDUCTION SUPPORT OPERATION

OPERATION AND PROGRAM SUMMARY

Borrower	Burkina Faso
Implementing Agencies	The Ministry of Finance and Budget (MFB) coordinates the implementation, in close association with several line ministries.
Amount	SDR39.9 million, US\$60 million equivalent, of which SDR 30.6 million (USD\$46.1 million) from the credit, and SDR 9.3 million (USD\$13.9) from the grant.
Terms	IDA terms with a forty-year maturity, including a grace period of ten years.
Schedule of disbursement	Single tranche of SDR 39.9 million, US\$60 million equivalent to be released upon effectiveness, expected in June 2005.
Description	<p>The proposed Poverty Reduction Support Operation (PRSC-5) is the second in a series of operations supporting the implementation of the revised PRSP for the period 2004-2006. The revised PRSP has four strategic pillars: (i) accelerating broad-based growth; (ii) promoting access to social services; (iii) increasing employment and income-generating activities for the poor; and (iv) promoting good governance. As did PRSC-4, PRSC-5 supports the PRSP implementation under three components consistent with the four pillars of the PRSP: (i) growth and employment creation; (ii) human resource development; and (iii) good governance. Under the growth and employment creation component, PRSC-5 supports reforms in the cotton, rural sector, telecommunication sector, energy sector, and the labor market. The objective is to lower factor costs, increase productivity and favor new investments. The second component includes policies in the education, health, social protection, and water sectors to build infrastructure, lower the cost of services, and improve service quality. The third component encompasses policy measures to strengthen budget formulation, execution, procurement, and control, public sector performance, decentralization, and environmental management. The proposed operation is an integral part of the Bank's strategy presented in the 2000 CAS and updated in the 2003 CAS progress report.</p>
Benefits	<p>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 percent 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 some key MDGs, namely, increase school enrollment and literacy rates, reduce child and maternal mortality, increase access to safe water, and strengthen the</p>

sustainability of development efforts.

Risks

The risks for the operation arise from the country's weak institutional capacity, still fragile fiduciary progress, natural disasters (drought, locust invasions), commodity prices and currency shocks, and regional instability. Risks for program implementation remain due to important capacity constraints in conceiving, executing, monitoring, and evaluating government programs, particularly decentralization and programs budgeting. Fiduciary risks have been reduced significantly through reforms under previous PRSCs, but some residual risk remains due to the limited capacity of ex-post control agencies in verifying the application of laws and regulations governing public expenditure, especially as regards procurement contracts. Burkina Faso's vulnerability to external shocks, notably the fluctuation of export and import prices, or the drift in the exchange rate between the dollar and the Euro to which the CFAF is pegged at a fixed exchange rate, could undermine macroeconomic growth and stability, and threaten the achievement of program objectives. Regional instability is related to the political crisis in Côte d'Ivoire where several hundred thousands of Burkinabé live, and a significant humanitarian, social and economic crisis is possible if the political situation then worsens. The different risks are mitigated under the credit through the approval of two Bank projects to address the institutional 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; the willingness of the external community to deliver additional credit as needed; and regional initiatives to solve the political crisis in Côte d'Ivoire.

Operation ID Number

P078995

**IDA PROGRAM DOCUMENT FOR A
FIFTH PROPOSED POVERTY REDUCTION OPERATION
TO BURKINA FASO**

I. INTRODUCTION

1. This program document proposes a fifth Poverty Reduction Support Operation (PRSC-5) for Burkina Faso, to be presented to the Executive Board on April 28, 2005. PRSC-5 – for a total amount of US\$60 million – would be the second in a series of three single-tranche PRSCs that supports the implementation of the revised full PRSP in 2004-2006. The new PRSP, formally adopted by the Government of Burkina Faso in November 2004, identifies the framework for government policies during 2004-2006. The PRSP and its Joint Staff Advisory Note (JSAN) are considered by the Executive Board jointly with the PRSC-5.

2. PRSC-5 focuses on key measures to attain the government's foremost objectives under four PRSP pillars—accelerating equitable growth; improving social service delivery; increasing employment and income generating activities for the poor; and promoting good governance. These measures are organized under three components consistent with the four PRSP pillars: growth and employment creation; human resource development; and good governance. PRSC-5 is an integral part of the March 2003 CAS progress report which updates the 2000 CAS for an interim period of 18 months ending in FY05. A new CAS to be considered by the Executive Directors in June 2005 will define Bank support for the revised PRSP during FY06-09.

II. COUNTRY CONTEXT

3. Burkina Faso is a landlocked country of about 12 million inhabitants with a narrow natural resource base. Per capita income is less than US\$250 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. Other recurrent external shocks include rainfall conditions in the Sahel zone and its adverse effects on agricultural production; and lack of predictability of donor resources.

4. 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 managed to realize a stable macroeconomic environment with low inflation. 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 long-term the MDGs.

5. The year 2005 may test further the capacity of the Burkinabé authorities. Presidential elections are scheduled for November 2005. The incumbent President, in power since 1987 and previously elected in 1991 and 1998, is expected to present himself for a new 5-year term.¹ In addition, the political situation in neighboring Cote d'Ivoire should be monitored carefully as a key element of Burkina's external environment in 2005. Lastly, developments in the cotton sector and international oil prices are also expected to have key impact on Burkina's development path in 2005. The country has been hit hard by a large decline in its terms of trade, and should the negative trend continue, government's ability to pursue PRSP implementation will be overwhelmed.

RECENT ECONOMIC DEVELOPMENTS IN BURKINA FASO

Growth and Prices

6. Burkina Faso faced several external shocks in 2004, which had an adverse effect on its economic performance: a commodity price shock; natural disasters as a locust invasion and a mild drought; regional instability and; a large appreciation of its currency against the US dollar. Prices of cotton – Burkina's main export commodity – fell by about 30.0 percent in 2004, while oil prices rose by 31.0 percent during the same period. Developments in the cotton and oil sectors are discussed in more detail in annexes 8 and 9, respectively. The locust invasion and a mild drought also took a toll on the agriculture sector which was stagnant in 2004, after increasing by 10.7 percent in 2003.

7. The protracted political and economic crisis in neighboring Côte d'Ivoire continues to strain the Burkinabé economy through frequent cut off of the supply lines, higher transportation costs, loss of markets, and lower workers remittances. In September 2004, renewed tensions in Côte d'Ivoire temporarily halted power supply to Bobo Dioulasso, the second largest city of Burkina Faso. Importing power from Côte d'Ivoire is the main element of the government strategy for reducing electricity costs in Burkina, and the latter development underlined Burkina's vulnerability to its external environment. Lastly, the CFAF, the local currency, appreciated by about 7.1 percent, compounding the domestic impact of downward trend in international cotton prices. Table 1 summarizes the main impact of these adverse shocks on growth and key prices.

¹ Revisions to the constitution in 2000 reduced the presidential term from 7 to 5 years and limit the President to two 5-year terms.

Table 1: Growth and Prices

	2002	2003	2004 1/	2004 2/	2005 1/	2005 2/
GDP Growth	5.2	8.0	5.2	4.8	5.3	3.5
Inflation	2.3	2.0	1.9	-0.8	2.0	1.8
Nominal exchange rate (CFAF/US\$) 3/	-4.9	-16.6	..	-7.1	..	..
Real Effective Exchange Rate (REER)	5.2	3.7				
Terms of Trade			4.3	-2.7	2.1	-11.6

Source: Burkina Faso authorities and IMF staff.

1/ Before the external shocks. See EBS/04/34, March 05, 2004. IMF Financial Program

2/ After the external shocks. See EBS/04/[178], December 22, 2004. IMF Financial Program

3/ IMF International Financial Statistics

8. Real GDP grew by 4.8 percent in 2004, in contrast to the initial projection of 5.3 percent. The relatively muted impact of external adverse shocks is due to several factors. First, most of the shocks occurred in the second half of the year and their impact will take full effect only in 2005. Second, since the first outbreak of the crisis in Cote d'Ivoire in late 2002, Burkina Faso has made several adjustments: liberalizing transports; opening up new markets and new supply lines in Togo, Ghana and Benin. Third, cotton production reached a record level of 540 thousand tons following the producers' production decision on the basis of favorable price announcement made in the first quarter 2004, before the collapse of international prices. The secondary sector and the services sector (transport) benefited from a strong demand resulting from the exceptional cereal production (+17 percent) and cotton production (+23 percent) in late 2003. These two sectors grew at the rates of 6.9 percent and 6.8 percent, respectively.

9. Inflation measured by changes in the consumer price index was -0.8 percent, which was realized as a result of several factors: prudent fiscal and monetary policies, the decline in food prices following the record cereal harvest in the end of 2003, and the appreciation of the currency against the dollar which lowered the prices of dollar-priced imported goods. The low inflation level helped Burkina Faso to mitigate the impact on the real effective exchange rate of the appreciation of the CFAF against the US dollar. The CFAF appreciated by 7.1 percent against the dollar in 2004, and by about 30 percent since 2002, but the REER appreciated at a lower pace. Despite unfavorable effects on the external sectors, overall Burkina was still able to maintain most of the competitiveness gained with the devaluation of the CFAF in 1994. As a result of the large swings in international cotton and oil prices, terms of trade deteriorated by 2.7 percent, in contrast to initially projected improvement of 4.3 percent.

Fiscal Development

10. The 2004 budget was executed broadly in line with the financial program agreed with the IMF² as the fiscal impact of the adverse external shocks remained relatively limited. In September 2004, the parliament adopted a supplementary budget to take into account spending related to the organization of international summits and major investments in the infrastructure and transport sectors including the purchase of a new presidential plane. The total additional spending was financed by a reduction in other expenditure items, excluding

² EBS/04/34, March 5, 2004. IMF Staff report.

basic education, health and agriculture sectors. The Government received additional grant financing that offset a lower than expected domestic financing. The remaining gap of CFAF3 billion in the 2004 financial program was covered by an accumulation of commitments not paid: in late 2004, the Government increased commitments on priority capital projects linked to the HIPC debt relief. The slow pace of project execution led to a lower than programmed reduction in treasury commitments (CFAF8 billion instead of CFAF11 billion).

Table 2: Government Financial Operations in 2004-05
(In billions of CFA francs, unless otherwise indicated)

	2004	2004	2005	2005
	1/	Prel.	1/	2/
Total revenue and grants 2/	470.0	479.3	544.2	477.9
Revenue 2/	345.6	345.6	391.2	377.9
Tax revenue	319.3	319.3	361.3	349.9
Nontax revenue	26.3	26.3	29.9	28.0
Grants	124.4	133.7	153.0	100.0
Expenditure and net lending	597.5	597.5	647.0	643.0
Current expenditures	300.7	297.1	337.8	337.6
Capital expenditure	299.8	303.4	316.2	312.4
Net lending	-3.0	-3.0	-7.0	-7.0
Overall Balance (commitment basis)	-127.5	-118.3	-102.8	-165.1
Excluding grants	-251.9	-252.0	-255.8	-265.0
Cash basis adjustment	-30.0	-27.0	-7.0	-10.0
Overall Balance (cash basis including grants)	-157.5	-145.3	-109.8	-175.1
Financing	152.3	145.3	26.9	93.9
Foreign financing	132.6	132.3	24.5	85.0
Domestic financing	19.7	13.0	2.4	8.9
Financing gap 3/	5.2	0.0	82.9	81.2
Identified possible financing				81.2
Of which: Grants				37.3
Loans				43.9
Residual financing gap				0.0
	In percent of GDP			
Total revenue and grants	17.9	17.7	19.3	16.8
Of which: Tax Revenue	12.2	11.8	12.8	12.3
Expenditure and net lending	22.8	22.1	23.0	22.6
Of which: Current expenditure	11.5	11.0	12.0	11.8
Capital expenditure	11.4	11.2	11.2	11.0
Overall balance (commitment basis, excluding grants)	-9.6	-9.3	-9.1	-9.3
Basic balance 4/	-2.9	-2.8	-3.0	-3.0
Memorandum item: GDP (in billions of CFAF)	2,624	2,706	2,819	2,851

Source: Burkinaabè authorities and IMF staff projections.

1/ EBS/04/34, March 05, 2004. IMF Financial Program

2/ EBS/04/178, December 22, 2004. IMF Financial Program

3/ Before World Bank program lending and IMF disbursements in 2005.

4/ Revenue excluding grants minus expenditure excluding foreign-financed capital spending.

External Developments

11. The increase in exports, including cotton exports (from 4.8 percent of GDP in 2003 to 6.0 percent of GDP in 2004), was partially offset by higher import growth, comprising the rise in oil imports (from 3.1 percent to 3.8 percent of GDP). The balance of services also deteriorated because of higher transportation cost following the disruption of the Cote d'Ivoire

supply lines and the opening of longer and more expensive routes to Togo, Ghana and Benin. As a result, the current account deficit (excluding grants) slightly deteriorated from 11.0 percent of GDP in 2003 to 11.6 percent of GDP in 2004. Foreign financing as a share of GDP has remained stable, resulting in an overall surplus of 0.4 percent of GDP in 2004, down from 1.0 percent of GDP in 2003. Nevertheless Burkina was still able to contribute to the accumulation of international reserves at the BCEAO (the regional Central Bank).

Monetary Developments.

12. Burkina Faso is a member of the Zone Franc and monetary policy is implemented by a regional Central Bank consistent with the peg to the Euro. Prudent monetary policies have resulted in a good record of low inflation, including -0.8 percent in 2004. Money supply increased by 8.5 percent in 2004 as a result of an increase of 2.0 percent in net foreign assets and of 6.5 percent in net domestic assets. The latter was mostly driven by an increase of the credit to the private sector, reflecting the strong economic growth in 2003 and 2004, notably the rise of crop credits as a result of record cotton production.

POVERTY DYNAMICS

13. On the basis of a comparable welfare indicator, Burkina Faso experienced a substantial reduction in poverty, without significant changes in inequality, between 1998 and 2003 (Table 3 below). This is in line with output growth as well as non-monetary poverty indicators, such as literacy rates and health indicators. The poverty headcount went down from an estimated 54.6 percent in 1998 to 46.4 percent in 2003, and both the poverty gap and its severity declined. The reduction in poverty was more pronounced in rural areas, where the headcount fell from 61.1 percent in 1998 to 52.4 percent in 2003. The reduction of poverty in urban areas was substantially smaller, and not statistically significant. Inequality remained unchanged between the two surveys (Gini Index of 0.444), and was systematically higher in urban (0.484) than in rural areas (0.376). The findings as regards the variation in poverty hold for a broad range of plausible poverty lines, as evidenced by stochastic dominance tests.

14. The results above differ from past official accounts of poverty trends in Burkina Faso. Main sources for measuring the level of poverty in Burkina Faso are the three priority surveys conducted in 1994, 1998, and 2003. As for other countries, Burkina Faso has improved the design of these surveys over time, and placed efforts in generating an improved poverty profile based on the most recent and reliable information. However, apparently innocuous changes in survey design, such as the change in the recall period, has triggered substantial and spurious changes in reported consumption, and has led to issues of comparability. In addition, the change in the timing of the survey has had a substantial impact on poverty trends given the large differences in consumption in the lean (pre-harvest) and the post-harvest seasons.

15. In order to lay the foundation for consistent analysis of the poverty dynamics, World Bank staff worked with the Burkinabé authorities to review the comparability of survey features and construct a comparable aggregate of household consumption for 1998 and 2003 to measure changes in poverty over time. The construction of comparable welfare measures for evaluating poverty dynamics, taking into account the changes in survey design, is

³ Changes in monetary aggregates are measured as annual changes in percent of stock of M2 of 12 months earlier

presented in detail in a Poverty Assessment report⁴. The Poverty Assessment report summarizes the normative choices made in constructing the comparable welfare indicator and presents the rationale for these choices. Similar conclusions on poverty dynamics were found in a country case study on Burkina Faso as part of the “Operationalising Pro-Poor Growth (OPPG)” work program, a joint initiative of AFD, MBZ, GTZ, KfW, DFID and the World Bank. The latter study estimates that poverty headcount has declined from 61.8 percent to 47.2 percent between 1998 and 2003.

Table 3: Poverty and Inequality. Poverty and Inequality Dynamics

	National		Rural		Urban	
	<i>Estimate</i>	<i>Std. Err.</i>	<i>Estimate</i>	<i>Std. Err.</i>	<i>Estimate</i>	<i>Std. Err.</i>
Poverty Headcount						
1998	54.6%	1.1%	61.1%	1.1%	22.4%	1.9%
2003	46.4%	1.2%	52.4%	1.3%	19.2%	1.7%
Poverty Gap						
1998	0.183	0.005	0.208	0.005	0.057	0.006
2003	0.153	0.005	0.176	0.006	0.051	0.005
Square Poverty Gap						
1998	0.082	0.003	0.094	0.003	0.022	0.003
2003	0.068	0.003	0.079	0.004	0.019	0.002
Gini Index						
1998	0.444	0.013	0.349	0.011	0.499	0.027
2003	0.444	0.011	0.376	0.012	0.484	0.013

Note: Standard errors take into account the survey design. The poverty gap measures the average percentage distance of the expenditure of the poor from the poverty line. The square poverty gap or poverty severity measures the average squared percentage distance of the poor from the poverty line.

MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

Growth and Prices Outlook

16. Major determinants of the economic outcome in 2005 are international cotton and oil prices. Current indications are that low cotton prices along with high oil prices may cause the terms of trade to fall by 11.6 percent in 2005. This will mark a significant decline in the terms of trade since 2002. This is a significant external adverse shock as the total cost of the terms of trade deterioration in 2005 alone would be equivalent to more than [2] percent of GDP. In addition, the pass through of international cotton prices into domestic producer prices could result in a disaffection of cotton growers and a collapse of cotton production with trickle down effects on the secondary and services (transport) beyond the year 2005. On the basis of the aforementioned breakdown, the originally projected real growth rate of 5.3 percent in 2005 has been revised downward by the authorities to 3.5 percent.

17. Inflation is projected to rise in 2005 because of the inflationary pressures from higher oil prices and a rebound in food prices after the decline which resulted from a record cereal production at end-2003. However, with the maintenance of sound fiscal policy, price increase will remain modest at 1.8 percent, consistent with the inflation in the Euro zone. The low

⁴ Burkina Faso. Poverty Assessment. Report No. 29743-BUR. July 30, 2004

inflation will limit the appreciation of the real effective exchange rate despite a further appreciation of the CFAF against the US dollar. Nevertheless, if the slide in the exchange rate with the US dollar continues, the decline in competitiveness will hamper growth prospects in the tradable sector and may discourage potential investors.

18. Sustaining high growth rates in the medium-term will crucially depend on raising productivity and investment rates. In their draft PRSP for 2004-06, the authorities target more than 6 percent growth in 2004-06 to significantly reduce income poverty in the medium term. However, these growth rates will be difficult to attain without significant increases in productivity, especially in the rural sector, and will require higher private sector investment rates. Recently, growth in the primary sector has been driven to a large extent by the expansion of agricultural surfaces in light of improved rainfall, as exemplified by the development of cotton production that resulted predominantly from larger surface areas. These growth rates cannot be sustained over time unless they are accompanied by mechanization and higher fertilizer use to increase productivity and maintain soil fertility. Overall, the economy would need to generate higher investment rates to accelerate growth, and given the already high share of government investment, these higher rates would need to come from more private investment activity.

2005 Budget and Financing Requirements

19. The National Assembly approved the 2005 budget in December 2004. Overall, the budget reflects the priorities of the PRSP and respects the MTEF allocations for PRSP priority sectors. Budget allocations for key ministries such as basic education, health, agriculture and infrastructure, match or exceed those in the base case of the MTEF. The budget includes appropriations for increased subsidies to SONABEL because of higher oil prices and subsidies, for butane and lamp oil, and for fertilizers in the cotton sector to offset higher transportation cost. It does not include any support to the price mechanism in the cotton sector.

20. Residual financing requirements of CFAF89.8 billion for 2005 (Table 4) would be covered by the proposed fifth PRSC (CFAF30.1 billion), disbursements under the IMF's PRGF (CFAF8.6 billion), and program support by other multilateral and bilateral donors for a total of CFAF49.9 billion, including the European Union (EU), the African Development Bank (AfDB), France, Netherlands, Sweden, and Switzerland.

Table 4: Financing Requirements 2003-2006

(In billions of CFA francs)

	2003	2004	2005	2006
	Actual	Preliminary	1/	1/
Overall Balance (commitment basis), excluding grants	-205.7	-252.0	-265.0	-292.4
Cash Basis Adjustment	-16.1	-27.0	-10.0	-7.0
Overall Balance (cash basis), excluding grants	-221.8	-279.0	-275.0	-299.4
Projects Grants	61.8	84.8	93.3	161.2
Programs Grants	71.6	48.8	6.7	0.0
Overall Balance (cash basis), excluding grants	-88.5	-145.3	-175.1	-138.2
Financing	88.5	145.3	93.9	12.5
Financing	72.4	118.3	83.9	5.5
Foreign financing	83.0	132.3	85.0	13.3
Drawing	84.7	132.9	87.1	19.8
Of which: Project loans	72.6	90.0	87.1	19.8
Program aid	12.1	42.9	0.0	0.0
Amortization due	-26.3	-32.6	-33.0	-31.3
HIPC relief	24.7	32.0	30.9	24.8
Domestic Financing	6.3	13.0	8.9	-0.8
Bank Financing	10.4	9.8	15.7	14.0
Central Bank	5.4	7.7	13.1	10.0
Commercial Banks	5.0	2.1	2.7	4.0
Non-bank financing	-4.1	3.2	-6.8	-14.8
Cash basis adjustment	-16.1	-27.0	-10.0	-7.0
Change in payments arrears	0.0	0.0	0.0	0.0
Errors and omissions	-0.8	0.0	0.0	0.0
Residual financial Gap 2/	0.0	0.0	81.2	125.7
Identify possible financing			81.2	
Of which: Grants			37.3	
Loans			43.9	

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

1/ EBS/04/178, December 22, 2004. IMF Financial Program.

2/ Before IMF financing and World Bank development policy lending

3. External and Monetary Projections

21. The trade deficit is expected to widen on account of higher oil costs and declining export revenues for cotton after the fall in international prices. After taking into account the grants and the balance of services and income, the current account deficit may also widen from a surplus of 0.4 percent of GDP in 2004 to a deficit of 2.9 percent of GDP in 2005. The current account deficit would be fully financed by foreign disbursements, debt relief under the HIPC Initiative, private capital inflows, and by drawing down international reserves. Money supply will increase by 4.5 percent, in line with increase in the nominal GDP. Credit to the private sector will expand twice as fast as credit to the government.

4. External Debt Indicators After HIPC Debt Relief

22. Burkina Faso reached its completion point under the original and enhanced HIPC Initiatives in July 2000 and March 2002 respectively and was accorded expected to receive debt relief of US\$195 million and US\$229 million in NPV terms respectively. An additional US\$129 million in NPV terms was approved as topping up assistance at the second completion point. Creditors holding 76 percent of Burkina Faso's debt have started to provide enhanced HIPC relief. Of seven non-Paris Club creditors, Kuwait and Saudi Arabia have

agreed to provide debt relief in amounts lower than envisaged under the HIPC Initiative. ECOWAS has indicated that it will not provide its share of assistance. Financing assurances for topping up have been obtained from the World Bank, the IMF, the AfDB, BADEA, BOAD, the IsDB, the OPEC Fund, the EU, and Paris Club creditors.

23. At end-2004 the updated NPV of debt-to exports ratio increased to 207 percent, relative to 150 percent at end-2001, above the level of 192.5 percent projected at the time of completion point. The increase is mainly due to higher world interest reference rates, the depreciation of the US dollar against the Euro, and the incidence of the extensive fall in international cotton prices. During the discussions for the review of the PRGF in November 2004, the authorities stress the increased difficulty of reaching the MDG goals while relying on budget restraint alone to offset the impact of these exogenous adverse shocks on the debt profile. The external vulnerability and the narrow resource base imply that Burkina Faso will depend on considerable external assistance for the foreseeable future. Grant or highly concessional financing will ensure that Burkina Faso's debt levels will remain sustainable but, given the limits to international assistance in the long term, it will be important that this support is used to lay the foundation for long-term economic development, including expanding the export base.

Table 5: Burkina Faso - NPV of Debt to Exports Ratio

	2003	2004	2005	2006	2007	2008	2009	2010	2015	2020
Completion point projections	190.3	192.5	195.3	192.3	189.4	186.1	184	181.4	155.7	118.3
Baseline projections	218.6	207.1	189	198.9	199.4	190.6	182	179.9	158.5	139.6
Stress test: Exports grow at 4% in contrast of 11% in the baseline scenario	218.6	227.8	216.6	236.8	243.3	247.3	252.5	259.1	298.3	345.6

Source: IMF Report 05/95

Adequacy of the macroeconomic framework

24. The macroeconomic framework is adequate for the purposes of the proposed PRSC 5. This assessment is based on the solid track record of growth and low inflation. Real GDP growth increased to more than 5 percent on average during 2003-2004, up from 4.7 percent during the 1996-2002 period and 3.5 percent per year during the 1990-95 period. Inflation was kept below 3 percent in the past several years. Fiscal policy improved generally, with the overall fiscal deficit contained at a level consistent with existing flows of concessional financing. The Government has systematically protected priority spending when resources level were inadequate. Monetary policy is being implemented by a supranational Central Bank. As explained above, Burkina's external debt is expected to be sustainable over the medium term.

25. In completing the second and third reviews of Burkina Faso's economic performance under a SDR24.08 million (about US\$35.5 million) Poverty Reduction and Growth Facility (PRGF) arrangement, the IMF noted that macroeconomic management remains strong and the authorities have established a good basis for coping with the external shocks that emerged during the second half of the year 2004. The three-year PRGF arrangement was approved on June 11, 2003, by the Executive Board of the International Monetary Fund (IMF) to support

the government's economic reform program for 2003-06. The first review was successfully completed on March 19, 2004. Since 1993, Burkina Faso has satisfactorily implemented four PRGF-supported programs associated with the conduct of sound macroeconomic policies and significant structural reforms.

III. BURKINA FASO'S SECOND FULL PRSP

26. The revised PRSP was adopted by the government of Burkina Faso in November 2004. It builds on the achievements under the first PRSP, and further improves the quality of the poverty reduction strategy by strengthening the participatory base, introducing a regional dimension, and designing a Monitoring and Evaluation (M&E) system that addresses the issues identified in the first PRSP. The logical framework of the revised PRSP, including a description of the policies and programs to be implemented in 2004-2006, is presented in annex 2. The revised PRSP, its accompanying Priority Action Plan (PAP), the 2004 PRSP progress report prepared by the authorities, and a Joint Staff Advisory Note (JSAN) prepared by the staff of the IMF and the Bank are presented to the Executive Directors in parallel with the proposed PRSC-5. The JSAN presents in more detail the strengths of the revised PRSP, and outlines the steps and policy directions needed to help the authorities address gaps in the poverty strategy.

THE STRATEGY

27. The second PRSP builds on the same four pillars as the original PRSP: (i) accelerate equitable growth; (ii) ensure that the poor have access to basic social services; (iii) expand opportunities for employment and income-generating activities for the poor; and (iv) promote good governance. Under the first pillar, government's program is to ensure macroeconomic stability, increase the competitiveness of the economy and reduce factor costs, provide support to productive sectors and accelerate development in rural areas where the majority of poor live. Under the second pillar, government aims at improving the access and quality of education, health and nutrition, potable water and sanitation, housing and social protection. Under the third pillar, public programs will seek to reduce the vulnerability of agricultural activities, modernize agriculture, provide support to producers' organizations, increase and diversify rural income, and open up rural areas. Under the fourth pillar, governance issues would be tackled along four dimensions: political, administrative, and economic and decentralization. The proposed operation will support the implementation of all four pillars.

28. The new PRSP expands the number of priority sectors which now include – in addition to health, education, and rural development which were listed in the first PRSP - food security, access to potable water, HIV/AIDS, environment, development of small and medium enterprises and industries, including small-scale mining, security, and ICT programs. The expanded list of priority sectors – a result of the large consultations during the revision of the PRSP – poses new challenges for the financing of the strategy and the government's capacity to implement it.

PRSP IMPLEMENTATION IN 2003-2004

29. The fourth PRSP progress report provides a comprehensive assessment of PRSP outcomes in 2003-2004. Overall, the PRSP implementation has remained satisfactory in Burkina Faso as illustrated by the 8 percent reduction of poverty headcount in 2003 compared to 1998.

30. Under the first and third PRSP pillars (creating the conditions for sustained growth and employment opportunities), the government has maintained a stable macroeconomic environment and has implemented reforms to improve the investment climate. In 2003, both inflation and growth targets were reached. Real GDP growth was 8.0 percent, compared to a PRSP target of 6.5 percent, and inflation was 2.0 percent, within the PRSP ceiling of 3 percent. In 2004, real GDP growth was short of the PRSP target (4.8 percent instead of 6.0 percent) but the achievement is commendable given the sharp decline in the terms of trade for Burkina. Inflation in 2004 was -0.8 percent. The cotton sector was opened to private investors in 2004. The sector of the retail distribution of petroleum was opened to two new operators, and it has become more competitive. The government liquidated seven public enterprises in 2003. It reduced the delay to process payment of services and goods delivered by the private sector from 75 days in 2001 to 48 days in 2003.

31. In the education sector, the implementation of the ten-year basic education development plan (PDDEB) has allowed the training of 5,000 teachers and the hiring of 2,550 for the school year 2003/2004. The government continued to implement the mechanism to subsidize school supplies in the 20 provinces with the lowest school enrolment rates. It also continued to waive school fees for girls. However, there were delays in some areas, notably in school construction and the transfer of responsibilities of hiring teachers to the decentralized levels (region). The objective of the PDDEB to build about 2,300 classrooms each year was not achieved in 2002/2003 (1000 classrooms) and in 2003/2004 (2000 classrooms).

32. With regard to health, after a worsening trend in the 1990s, most key health indicators improved from 1999 to 2003, as did most service coverage indicators. Use of key preventative and curative services increased, including child vaccination coverage (BCG 72% to 81% , and DTCP3 from 41% to 57%), antenatal care (CPN2 from 55% to 64%), and average number of new contacts per year (0.21 in 2000 to 0.32 in 2003). The percentage of men using condoms during their most recent high-risk sexual contact increased from 59% to 69% from 1999 to 2003, and the HIV prevalence rate among young women (aged 15-24) attending urban antenatal clinics declined from 3.9% in 2001 to 1.9% in 2003. But child malnutrition has not improved despite the apparent decline in rural poverty. While malnutrition has multiple causes, and improvements in nutrition indicators can lag per capita income improvements, further analysis is necessary to better understand trends and propose appropriate interventions.

33. Infant and under-five mortality rates decreased during the 1998-2003 period, in part due to increased coverage of primary health services. This is a particularly important trend reversal for infant and under-five mortality rates, which had deteriorated between 1993 and 1998.⁵ In 2003, the infant mortality rate reached 83, and the under-five mortality rate 184 deaths per 1,000 live births. Nonetheless, despite these decreases, infant and child mortality

⁵ DHS and official statistics differ starkly in absolute mortality rates but both show the same trend.

rates remain among the highest in the world, and are higher than for the average of low-income countries. This reversal alone and a continuation of the current trend would likely not be sufficient to meet the mortality MDGs by 2015. Significant improvements have also been made in increasing the supply of drinking water, and almost 70 percent of the population have now access to safe water, compared to 42 percent in 1998, putting Burkina Faso on track for the respective MDG.

Table 6: Performance under Selected PRSP Indicators in Health and Education
(In percent, unless otherwise indicated)

	2001		2002		2003		2004	
	Target	Actual	Target	Actual	Target	Actual	Target	Actuals
Health								
Share of infants (0-11 months) vaccinated against:							N/a	N/a
- BCG (Tuberculosis)	80.0	84.0	83.0	90.4	90.5	86.3	91.0	110.5
- DCT/Polio (Diphtheria, cholera and tetanus)	60.0	64.0	65.0	69.1	70.0	78.3	80.0	88.4
- Measles	60.0	65.0	65.0	64.1	70.0	71.1	80.0	78.3
- Yellow fever/	60.0	52.0	65.0	61.4	70.0	66.3	80.0	76.0
New contacts per person and year at primary facilities (ratio)	0.220	0.216	0.230	0.270	0.300	0.320		
Proportion of health facilities meeting personnel standards	75.0	74.4	80.0	76.6	78.0	76.8	80.0	N/a
Education								
Gross enrollment rate	45.0	45.8	48.0	47.5	52.0	52.2	N/a	N/a
- for girls	38.0	38.4	41.0	41.0	46.0	46.3	N/a	N/a
- in the 20 provinces with the lowest enrollment rates	31.0	29.4	33.0	32.9	38.0	37.6	N/a	N/a
Gross admission rate (CP1) /	42.0	46.9	47.0	52.9	49.0	66.0	N/a	N/a
- for girls	37.0	40.6	38.0	45.4	46.0	61.5	N/a	N/a
- in the 20 provinces with the lowest enrollment rates	32.0	35.9	33.0	43.2	42.0	52.4	N/a	N/a
Grade repetition rate (CP1)	11.0	12.3	9.0	9.7	7.0	N/a	N/a	N/a

Source: Ministry of Basic Education, and Ministry of Health, Burkina Faso. DEB-MEBA: Indicateurs sectoriels, synthèse des données statistiques de l'éducation de base 2003-2004. Annuaire statistiques du Ministère de la Santé 2001-2003.

34. In the area of governance, PRSP implementation resulted in improvements in budget formulation, execution, and control, and laid the groundwork for the deconcentration and decentralization of public services. The PER (FY04) shows that priority spending has risen under the PRSP and priority sectors have been protected to a much larger extent than in the past from budget cuts. Treasury accounts balances are now available on a monthly basis, and the budget execution reports through 2003 have been evaluated by the Supreme Audit Court and the National Assembly. In addition to public expenditure reforms, the government reinforced governance aspects by establishing a High Authority for the Coordination of the Fight against Corruption in 2002 that became operational in 2003.

IV. BANK SUPPORT TO THE PRSP

LINK TO CAS

35. The proposed PRSC-5 is part of the base case lending scenario of the March 2003 CAS Progress Report (CAS-PR). The CAS-PR assesses the progress made in implementing the PRSP and the FY01-03 CAS⁶, and confirms that the strategy set out in the latter remains appropriate, while proposing an extension of this strategy for the next 12-18 months to cover the period until the PRSP is updated and a new CAS is prepared. The central objective of the CAS and its progress report is to support the Government's efforts to achieve sustained high growth rates, to reduce the high incidence of income poverty, and to improve the nutrition, health, and education of rural inhabitants, the poorest segment of the population. More predominantly, the CAS seeks to help the Government reduce the poverty headcount ratio by at least 2 percentage points per year during 2000-2005, focusing on the four strategic areas specified in the PRSP: (i) accelerating broad-based growth; (ii) ensuring that the poor have access to basic social services; (iii) increasing employment and income-generating activities for the poor; and (iv) promoting good governance. Overall, the progress achieved on implementing the CAS and the CAS-PR has been satisfactory⁷. PRSC-5 is also fully aligned with the new CAS that will be reviewed by the Executive Directors in June 2005, and that will provide support to the PRSP implementation in FY06-09.

COLLABORATION WITH THE IMF AND OTHER DONORS

Collaboration with the IMF

36. IDA partnership with the IMF in Burkina Faso's development strategy has been excellent over the past few years. The Bank and Fund Boards endorsed the PRSP in June 2000, as well as the first (December 2001), second (November 2002), and third (March 2004) annual progress reports. Bank and IMF staff executed joint work on HIPC, PER, CFAA and the PRSP. IDA and IMF staffs have continued to carry out joint missions at least twice a year for macroeconomic policy dialogue with the Government. The effectiveness of the policy changes under the PRSCs presumes that the macroeconomic situation remains consistent with the medium-term macroeconomic program articulated in the PRSP. Parts of the PRSP, especially those with significant macroeconomic implications are incorporated in a parallel Poverty Reduction and Growth Facility (PRGF).

37. The Bank used the analytical work, developed by the IMF's Africa Technical Assistance Center (AFRITAC), to define some of the measures under the PRSCs, pertaining to the monitoring of external assistance. The IMF has relied on the Bank experts in the areas of privatization of the energy and telecommunications sectors and removal of administrative obstacles to the creation of enterprises and private investment. IMF and Bank staffs have worked jointly in the cotton sector, with IMF staff focusing on the impact of the sector on government finances and the banking sector, while Bank staff took the lead on the sector's structural reform agenda under the series of PRSCs.

⁶ Burkina Faso. Country Assistance Strategy. Report No. 21285-BUR. November 3, 2000.

⁷ Burkina Faso. Country Assistance Strategy Progress Report. Report No. 25458-BUR. March 12, 2003.

Bank-Fund Collaboration in Specific Areas

38. **Cotton sector and energy sector.** The Bank and Fund staffs jointly follow developments in the cotton sector because of its importance for macroeconomic aggregates and rural incomes. The Fund staff focuses on the overall financial management of the cotton sector in order to limit spillover effects for government finances and the banking sector. The Bank is supporting the government's structural reform agenda in the sector under a series of PRSCs. These reforms aim at creating a more competitive environment for the sector. In that context, two private operators have signed concession agreements in 2004 and have begun operations. The cotton sector reform is safeguarding the historical achievements of a prudent financial management and the involvement of producer organizations in decision-making processes, including the setting of producer prices.

39. **Public finance management and good governance.** The Bank and the Fund closely collaborate in supporting the government's reforms in the areas of public finance management and good governance. Important elements of the reform program are enshrined in the government's own action plan for the improvement of budget management and incorporate the main recommendations of the HIPC Assessment and Action Plan prepared jointly by Bank and Fund staff. Recently, the Bank's PRSC focused on the creation and operationalization of the Auditor General Office, resumption of regular submissions of budget audit laws to the Auditor General Office and the National Assembly, and revisions of procurement laws and regulations. The Bank's PRSC is also supporting extensions of the computerized expenditure circuit to deconcentrate budget execution and, together with sector-specific projects, is assisting with the preparation for the political decentralization. The PRGF-supported program included measures to ensure the effectiveness of the Auditor General Office, and the Fund has given technical assistance in the area of tax and customs administration. Both the Bank and Fund staffs have followed jointly the government's anticorruption policies, including the creation of the High Authority to Fight Corruption. The Fund is focusing its support under the PRGF on tax administration and tax reform issues while the Bank is supporting expenditure management and control reform under the PRSCs.

Collaboration with Other Donors

40. Burkina Faso enjoys broad donor support, primarily due to its political stability and a solid track record of strong policy performance. A large number of bilateral and multilateral aid agencies and a significant number of local and international NGOs provide aid flows estimated at 13 percent of GDP (about the same as government revenue). In the past few years, some 90 percent of annual public investment program was externally financed. To improve the coordination of aid, the government and the donors initiated a conditionality reform exercise in 1997. This was intended to help build a consensus on a common set of performance indicators to be used as a basis for decisions regarding disbursement of financial assistance, preferably in the form of budget support. As an outcome of this exercise, as well as a series of follow-up donor meetings, donors agreed to provide more support through budgetary assistance and to better streamline their operations around the PRSP. The PRSCs have been part of that concerted effort to provide a larger part of assistance through programmatic support with a view to enhance ownership and reinforce the country's capacity.

41. The update of the PRSP in late 2003 allowed the government to give further impetus to the coordination of donor support by deepening the policy content of the strategy and strengthening the evaluation and monitoring framework to achieve common buy-in from all donors. In particular, the updated PRSP is accompanied by a Priority Action Plan, a set of measures and results indicators providing a unique framework to assess progress made in implementing policies and achieving results. In June 2004, the Government took the lead and established a task force to formally define the relationship between the emerging enhanced budget support group and the government in the context of a revised memorandum of understanding (MOU).

42. The revised MOU was signed in January 2005 by the Government, the Bank, the African Development Bank and all former members of the SBC-CSLP group. The framework is centered on the government's priority action plan (PAP) that accompanies the revised PRSP. All donors providing budget support will draw their disbursement criteria from the PAP measures and indicators as well as the assessment of the adequacy of the macroeconomic framework. The new framework overcomes the previous conflict between policy-based disbursement criteria used by the World Bank and the African Development Bank and indicator-based criteria used by bilateral donors by placing them under a unique and coherent framework. The proposed PRSC-5 is aligned with the revised donor harmonization framework. The new MOU is presented in annex 7.

RELATIONSHIP TO OTHER BANK OPERATIONS

43. The linkages to other Bank operations are discussed in the description of the policy areas for this proposed operation. In summary, the CAS and the CAS-PR recognized the PRSCs as the main instrument of the Bank for providing support to the implementation of the PRSP, but they also stated that complementarity of efforts between programmatic support and investment lending was key to making efficient use of Bank resources. As an illustration, in the education sector, the PRSC is the primary instrument for the discussion of the national education budget and its link with the PRSP as well as long-term priorities, while the Bank-financed Basic Education Project targets investment and capacity building for the ten-year basic education development plan. Thus, the investment project lays the foundation for increasing the resource flow through the budget in the latter part of the ten-year plan. In the health sector, the PRSCs have become the main instrument for the health policy dialogue with the authorities, with the expectation that the funds provided under the PRSC could serve as an effective substitute for the continuation of the performance based contracting of health districts under the closed IDA Health and Nutrition Project.

LESSONS LEARNED

Lessons from the Implementation of the First Series of PRSCs

44. The Implementation Completion Report (ICR) of the first series of three annual PRSCs was prepared in December 2004⁸. The ICR observed that the PRSC series has greatly reinforced the importance of the budget and the country's own engagement in the success of government policies. The PRSCs have steadily strengthened the focus on the budget as the

⁸ Burkina Faso. Implementation Completion Report of PRSC-3. Report No. 30330-BUR. December 29, 2004.

main instrument for PRSP implementation and have clarified the government's own role in defining a programmatic agenda to achieve its objectives. The importance of the MTEF in formulating the government's budget has grown substantially. Moreover, expenditure systems were expanded and controls were reinforced. In the social sectors, the PRSCs have resulted in a process of reorientation to program budgets to translate priorities expressed in long-term sectoral programs into budgetary allocations. PRSCs also successfully supported a number of cross-cutting reforms. These reforms included the application of deconcentration policies in budget and personnel management, which are part of the policies to improve social service delivery. In the cotton sector, the opening of two zones for private investors involved several ministerial departments in setting up the new regulatory framework and defining the roles of the new and old stakeholders.

45. Despite these achievements, the ICR noted that a number of challenges remain for the PRSC instrument. In particular, a further reinforcement of capacity is necessary to underpin the move to program budgets and ensure that the latter are closely aligned with the executed administrative budget and fully integrated in the evaluation and monitoring mechanism of each ministry's planning department.

46. Other challenges – discussed below – are reflected in the design of PRSC-5, notably the continuous emphasis on growth and employment creation, the improvement of PRSC-related sectoral dialogue through the development of sectoral MTEF for the health and education sectors for 2005-2007 (a trigger for the proposed operation in the case of health sector), and alignment with the budget cycle as disbursement under PRSC-5 is planned at around the government's mid-fiscal year. Furthermore the Bank is addressing the issue of capacity and shortcomings in the M&E system by adopting and implementing companion projects of statistical capacity building and public sector capacity building. Lastly, the proposed operation and future PRSCs will operate within the unified framework budgetary support, an assurance for greater harmonization and reduced transaction costs.

47. **Stimulating growth.** The PRSC series has addressed issues regarding service delivery and public sector performance. However, Burkina Faso faces difficulties in attracting private investment as a result of low skill levels and high costs of production factors. The growth agenda of the PRSP should therefore be an additional important area for support under future PRSCs. The shift of emphasis has started with PRSC-4, and is being pursued under the proposed operation.

48. **Improving the PRSC-related sectoral dialogue.** There is currently no specific sectoral investment operation in the health sector (except for the multi-sectoral HIV/AIDS project) and initially the ownership of the PRSC-supported reform program by the Ministry of Health was weak. The transition from project to programmatic support was difficult because of the required changes in instruments and the new focus on the budget. The Bank's PRSC team, with the health experts taking the lead, has attempted to advance the dialogue through greater involvement in health sector budget discussions, in particular the design of program budgets. In particular, the preparation of a MTEF for the health sector in line with the Government's health development plan (PNDS) and the MDGs – a trigger for this proposed operation – was fulfilled.

49. **Aligning budget support with the budget cycle.** The time necessary for policy implementation and complicated government credit approval procedures have hampered the alignment of the first series of three annual PRSCs with the budget cycle. The implementation of reform measures under the first series of PRSCs took about 12 months and all credits were approved in the months of July-August. As a result of time-consuming approval procedures on the side of the government, they were often not disbursed until October-November, toward the end of the government's budget year. Bank resources have hence not been able to alleviate the beginning-of-year cash shortages that are constraining investment spending. The Government and Bank staffs have already taken corrective measures and PRSC-4 was approved in May and disbursed in July. The proposed PRSC-5 will follow a similar timetable closer to the budget cycle and PRSP implementation.

50. **Reinforcing capacity.** The capacity of the administration to formulate and execute programs remains weak. The preparation and implementation of program budgets can only advance further if the capacity of the civil service is improved. In this respect, the Bank has prepared a PER in fiscal year 2004 to give guidance for further improvements in the budget process, especially as regards program budgets. In the area of public sector management, the Bank approved a capacity building project in fiscal year 2005 to accompany and complement future PRSCs. The project aims at giving technical assistance for capacity assessment, establishing a work program, streamlining public administration, modernizing personnel management, enhancing the poverty focus of expenditure, and strengthening policy formulation. In the statistical area, the Bank finances a statistical capacity building credit (STATCAP).

51. **Improving the link between policy actions and the monitoring and evaluation framework.** The link between PRSC measures and the PRSP impact indicators was at times tenuous as a result of certain weaknesses of the 2000 PRSP, which did not include a matrix of policy actions and only contained a narrow set of indicators. In preparing the revised full PRSP, the government undertook a substantial body of work as part of the UNDP-financed Poverty Observatory (ONAPAD) to improve PRSP indicators. ONAPAD's enhanced indicator list was discussed with the donor community and was a first step for establishing the monitoring framework of the revised PRSP. With the revised PRSP, the government integrated objectives and government policies by preparing a Priority Action Plan, a matrix of costed policy actions and intermediate outputs that are linked with PRSP outcome and impact indicators. In addition, the PAP is expected to adjust to any potential changes in the strategy and priority deemed necessary in the APR, thus ensuring coherence between policy actions and the M&E framework. The recently adopted capacity building project will also give the means to reinforce the capacity of planning directorates (DEP) to evaluate policy outcomes and make more effective use of available poverty statistics and result indicators under the PRSP process.

52. **Staying the course.** The move from project-aid to budgetary support is a major transition. It is important to recognize the magnitude of these changes and time should be given to government and donors to adapt to this environment. Budget support undoubtedly constitutes a desirable mode of external assistance, but patience is required as the necessary adjustments are being made for greater effectiveness. Government should increase accountability and transparency in public resources management. Donors must also accept that the government is in the driver seat, which implies some loss of control.

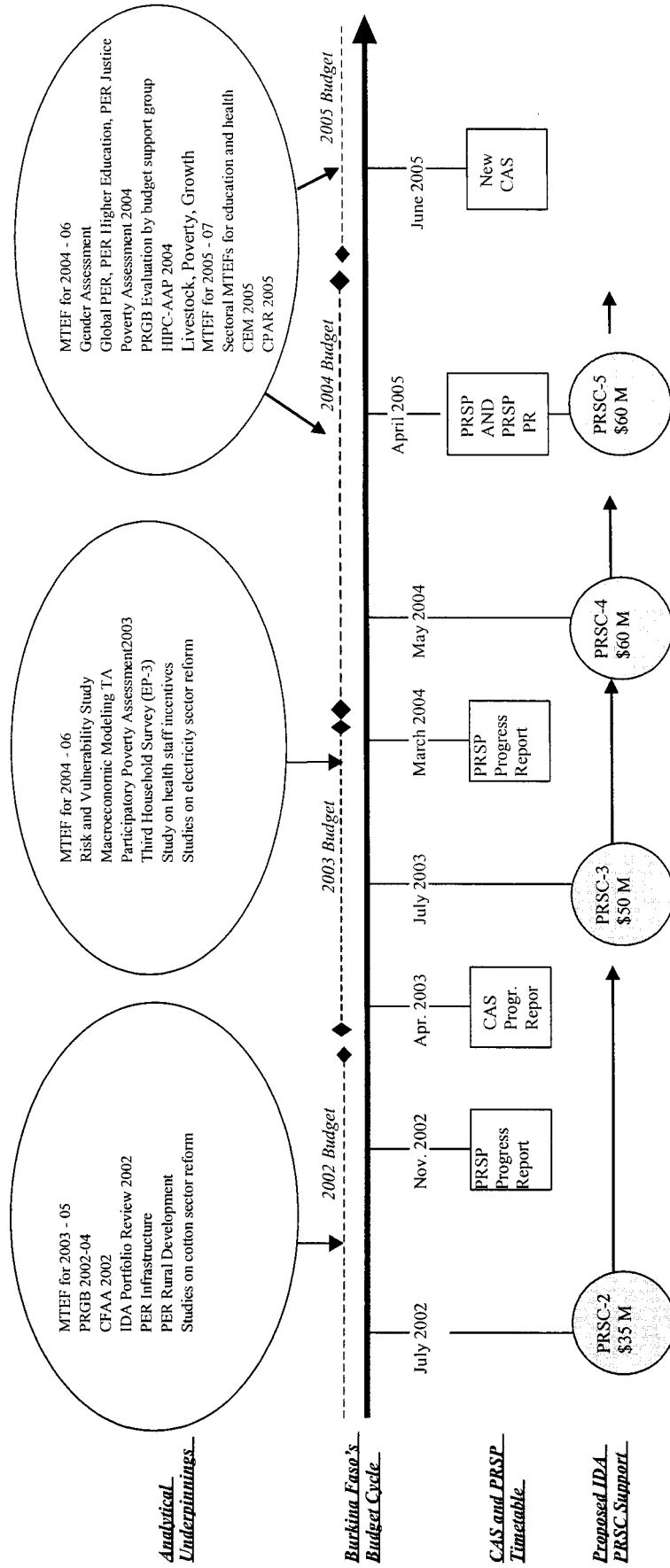
53. **Improving inter-ministerial coordination.** The quality of program coordination at the central level was adversely affected by the split of the previous Ministry of Finances, Budget, Economy and Development, into two separate ministries. As a first step to improve coordination, PRSCs implementation should be monitored by a committee including high level representatives of the Ministry of Finances and Budget, the Ministry of Economy and Development, and Ministries and public institutions under the sectoral coverage of the PRSCs.

ANALYTICAL UNDERPINNINGS

54. The PRSP process and the series of PRSCs continue to benefit from a variety of analytical work. Several analytical reports were completed in FY01-FY03, including sectoral public expenditure reviews (infrastructure, rural development); household surveys; a participatory poverty assessment; a competitiveness and economic growth report; a Country Procurement Assessment Report (CPAR); a Country Financial Accountability Assessment (CFAA); a joint Bank-IMF HIPC Accountability Assessment and Action Plan (AAP); a study on health personnel incentives; and studies on electricity sector reform. This series of analytical work has been instrumental in the design of PRSP and the PRSCs. For instance, the Government has successfully used the comprehensive analysis of shortcomings of public expenditure management systems in these reports to design its own detailed action plan to improve budget management (PRGB). The PRGB, adopted by the Council of Ministers in July 2002, lays out key measures, a timetable for their implementation and performance indicators. Implementation of the PRGB is a key element of the recently agreed Unified Framework for budget support.

55. The Bank has also continued its technical assistance in macroeconomic modeling in 2003-05, in collaboration with the German technical assistance agency (GTZ). Several members of the Burkinabè PRSP team were trained in using the model PAMS. To support the process of revising the PRSP, a Bank team used the model PAMS to undertake economic simulations to assess the links between macroeconomic policies and poverty levels and evaluate the impact of different growth paths on poverty levels. The Government will use the tool in the future to analyze the consequences of different policy actions on growth and poverty reduction.

Figure 1: The PRSC Program and AAA Underpinnings



56. Recently completed works include a public expenditure review (FY04); a poverty assessment (FY05); a risk and vulnerability assessment (FY04); an investment climate study by FIAS (FY04); a pro-poor growth study (FY05); a gender assessment (FY04), a Health and Demographic Survey (FY05). In addition, the Bank and the IMF worked jointly with the IMF to update the Accountability Assessment and Action Plan (AAP) on the tracking of poverty expenditure under the Heavily Indebted Poor Country (HIPC) Initiative was prepared (FY05).

57. A new country procurement assessment report (CPAR) is planned in FY05. A country economic memorandum (CEM) and an Integrated Framework study are scheduled in FY06. On the request of the Government of Burkina Faso, the World Bank is also conducting a labor market study in 2005-06. The main purpose of the study is to deepen the understanding of the causes and consequences of poor employment performance in Burkina Faso, with particular attention to the linkages between policy, growth, job creation and poverty reduction. The study to be conducted by Burkinabé and Bank teams would help the Government revise its existing employment strategy by placing employment at the heart of the fight against poverty.

V. THE PROPOSED POVERTY REDUCTION SUPPORT OPERATION

PRSC-5 DESCRIPTION

Rationale for and Objectives

58. 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 2000 CAS and the 2003 CAS progress report. 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.

59. PRSC-5 will support PRSP objectives of : (i) raising growth and equity in a stable macroeconomic environment, 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.

Scope

60. The proposed PRSC-5 has three components consistent with the four PRSP objectives: (i) growth and employment creation; (ii) human resource development; and (iii) good governance.

61. Under the growth and employment creation component, the proposed operation supports reforms in the rural, telecommunication, and energy sectors as well as on investment

climate (labor market, regulatory framework) to lower factor costs, increase productivity and favor new investments.

62. The second component includes policies in the education, health, social protection and water infrastructure, to lower the cost of services, increase access, improve service quality, and reinforce monitoring and evaluation.

63. The third component encompasses policy measures to strengthen budget formulation, budget execution, procurement, budget management and ex-post control, public sector reform and decentralization, and environmental management.

64. Annex 3 presents the medium term objectives of PRSC-5, the policy actions to be undertaken, and the monitoring and evaluation framework, comprised of the base year indicators, the benchmarks, and a description of the various institutions in charge of implementing the M&E system. Annex 4 presents the measures implemented under the PRSC-5 framework. Table 7 below summarizes the status of the prior actions for PRSC-5. Overall, Burkina has maintained a strong pace in reforms even if the progress was partial on two triggers. In addition to measures agreed under PRSC-5, it is worth mentioning that the unmet trigger of PRSC-4 as regards to the implementation of governorates was fulfilled in August 2004.

Benefits

65. 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, and 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.

Table 7: Prior Actions for PRSC-5

Policy Area	Original PRSC-5 measures	Measures implemented before PRSC-5
Macroeconomic Framework	Maintain a stable macroeconomic framework during the program period	Trigger fulfilled as specified. Real GDP growth was 4.8 percent, and inflation was low in 2004. On February 2, 2005, the IMF's Executive Board completed the second and third reviews of the arrangement under the IMF PRGF
FIRST COMPONENT: GROWTH AND EMPLOYMENT CREATION		
A. Rural sector Reinforce the competitiveness of agricultural and agro-food sectors	Transfer of assets of SOFITEX in the central and eastern zone and begin of activities of the two new operators	Trigger fulfilled as specified. SOFITEX, the previous public monopoly has transferred its assets in the Central and Eastern zone to two new operators which have an 8-year exclusivity to develop their zones, after which the government will decide on the renewal of the exclusivity at its sole discretion. FASOCOTON and SOCOMA have already begun their activities. SOFITEX retains the control of the Western zone. Other bidders included firms from the US, Singapore, France, Switzerland and Burkina Faso. The liberalization contributes to an improvement of public finance management by shifting a significant part of the cotton sector's financial risk from SOFITEX, the former monopoly in which the government has a 35 percent stake, to the new private companies. More efficient organization of operations is also expected through decentralization: before the liberalization, all production units had to report to SOFITEX's headquarters in Bobo Douloussou in Western Burkina; it is expected that proximity of the decision center to the producers and the ginning units will increase efficiency by reducing the decision-making time and by speeding up some functions such as maintenance. The liberalization also increases the ginning capacity of the sector and employment. For instance, SOCOMA will upgrade an existing cotton ginning plant, thus increasing capacity from 23,000 million tones (Mt) to 35,000 Mt in the first year of operations. In addition, SOCOMA will construct a new ginning unit by end of year 2. This 45,000 Mt unit will be designed to have its capacity expanded to 55,000 Mt on a need basis. The new companies have retained all workers employed from SOFITEX, and it is estimated that SOCOMA will hire an additional 130 workers. In December 2004, the Executive Directors approved MIGA's Management proposal to offer Development Agro-Industries Sud S.A (DAGRIS) guarantees covering its EURO 12.3 million equity investment and EURO 12.3 million shareholder loan to SOCOMA, as well as its EURO 15.2 million loan guarantee to BCIA-B (a commercial bank) for a loan of the same amount to SOCOMA. MIGA's gross and net exposure under is EUR49 million (US\$ 65.3million) and EUR44.5 million (US\$ 59.3million), respectively.
B. Energy sector Private sector participation in the energy and petroleum sectors	Adopt the changes to the regulatory and legal framework in line with the electricity sector strategy	Trigger fulfilled as specified. The government commissioned a study on the new regulatory framework. The latter was completed and the report was validated by the Government in a workshop in October 2004. The draft new regulatory framework and the draft new legislation (yet to be enacted by Parliament) has been adopted by a Decree of the Council of Ministers on March 23, 2005. A regulatory agency will be created by decree following the enactment of the law by Parliament.
SECOND COMPONENT: HUMAN RESOURCE DEVELOPMENT		
A. Health Increase efficiency in use of resources	Elaborate a sectoral MTEF for 2005-07, in line with PNDS objectives and MDGs	Trigger fulfilled as specified. A task force has been working for over a year, with support from a Bank-financed consultant. The team made a successful presentation in December 2004 of the draft health MTEF to all the central and regional Directors of the MOH, and received a strong overall endorsement with some specific comments for improvements. The team signed a memorandum with the GTZ macroeconomic modeling TA project to help improve/streamline the spreadsheet model, and the link to the macroeconomic model. A revised draft MTEF was presented to donors on February 18, 2005. The new draft MTEF is comprehensive. It was finalized by a task force that visited Bamako in March 2005 to benefit from Mali's experience in that area. The MTEF is ready to feed into the 2006 budget discussions.
	Develop a system of subsidies for obstetrical emergencies	Triggers fulfilled as specified. The main objective is to reduce maternal mortality and morbidity through a significant reduction in the costs of delivery and emergency obstetrical services. A workshop on the National Strategy to Substitute Emergency Obstetric Care in Burkina took place in February 2005. The workshop was the final step towards the adoption of the national strategy. It was organized by DSF (Direction de la Santé de la Famille) with support of main donors involved in

Policy Area	Original PRSC-5 measures	Measures implemented before PRSC-5
		<p>reproductive health in Burkina. While the Bank financed the local consultant to draft the strategy, UNICEF financed the full cost of the workshop. Technical assistance was also provided by WHO, UNFPA, and the French Cooperation. The workshop was attended by a wide range of stakeholders (more than fifty participants) including government officials, donors, civil society, various health professional associations and a representative from the National Assembly. Participants discussed various aspects of the strategy for subsidizing emergency obstetrical care. The workshop provided answers to various questions and feedback to various scenarios suggested in the supporting document. The workshop mainly helped specify the following: (i) the form of subsidy to be developed, (ii) the level of subsidy for the three major service provision categories (normal birthing, dystrophic birthing and major surgical interventions), and (iii) the methods for country-wide coverage which will be achieved by phases of service packages. The final report was prepared in March 2005.</p>
THIRD COMPONENT: GOOD GOVERNANCE		
A. Budget: Formulation	<p>Adopt the draft budget for 2005 on the basis of sectoral ceilings of the 2005-07 MTEF and in line with the priorities of the PRSP</p>	<p>Trigger fulfilled as specified. The government adopted the 2005 draft budget in line with the sectoral ceilings of the MTEF 2005-07 and the priorities of the PRSP. The MTEF was prepared and discussed in April 2004 at the launch of the budget cycle preparation. Within the overall ceiling set under the MTEF, the authorities significantly increased the allocation for non-wages recurrent expenditures in priority sectors, including health (+36%), social action and national solidarity (+1%), basic education (+7%), secondary and higher education (+6%), and rural development (+5%).</p>
B. Budget: Execution	<p>Satisfactory implementation of actions for the treatment and monitoring of externally financed investment spending based on the AFRITAC report:</p> <ul style="list-style-type: none"> - Clarify the roles of different departments and establish procedures and supporting documentation for DGCOOP, DGTCP, DGB, DCCF, and DGEF - Constitute a project database - Verify the table of credit and grant agreements 	<p>Trigger mostly implemented. The government has constituted a project database and has verified the table of credit and grant agreement. On September 15, 2004 the government adopted a memorandum (circulaire No 2004-207/MFB/CAB) clarifying the role of all agencies involved in the management of external debt. A similar effort for grants financing is being complicated by the weaker control the Government has on this category of financing due to the procedures of several donors. A workshop held on September 21, 2004 reviewed the feasibility of using the debt software SYGADE as the instrument for the monitoring of all external financing, including grants. A workshop held on March 17, 2005 adopted that option. This workshop will also determine the options for the monitoring of externally-financed projects. The government is taking steps to ensure that the new system will be operational by the appraisal of the next PRSC.</p>
C. Budget: Procurement	<p>Adopt a decree for the regulation of concession and leasing contracts to ensure best international practice in this area</p>	<p>Trigger fulfilled as specified. The new decree was signed on January 31, 2005.</p>
D. Budget management and ex post control	<p>Satisfactory implementation of the action plan for the creation of a government property accounting system:</p> <ul style="list-style-type: none"> - Purchase software - Train agents in procedures and the new software - Begin the physical verification of government property 	<p>Trigger partially implemented. The bidding process for the procurement of the necessary software is in the terminal phase of publication of the results. Personnel training in government property accounting procedures and software, and a scheduled physical inventory of State moveable assets were delayed by a complaint filed with the settlements committee by one of the bidder after the publication of the results of the evaluation. The dispute was settled, the contract definitively awarded, and these activities will now take place. However, in view of the passage of responsibilities to local authorities in the framework of decentralization, the Government conducted a physical inventory of State assets to be transferred in the areas of basic and preschool education, health, sport, entertainment, culture, and tourism.</p>
	<p>Finalize the software for the integrated accounting system for local communities (CICL)</p>	<p>Trigger fulfilled as specified. The software for the integrated accounting system for local communities (CICL) was finalized. It is already operational in three pilot communities (Ouahigouya, Koudbougou and fad N'Gourma) and will be deployed in 2005 in 10 other sites which have power supply. The measure will help increase accountability in the management of public resources.</p>

Policy Areas

66. The policies supported by PRSC-5 and their implementation status are described in annex 4 under the following headings: (i) growth and employment creation; (ii) human resource development; and (iii) good governance.

1. Growth and Employment Creation

67. The Government has realized that accelerating economic growth is critical for poverty reduction. In 2001, it commissioned a comprehensive study of competitiveness and long-term sources of growth in Burkina Faso that identified several major constraints to growth including: (i) weak infrastructure, high input costs; and (iii) the limited size of the formal private sector. The PRSC-5 supports key policies aiming at reducing constraints for growth and investment and promoting employment creation, notably in rural areas. With a view to make progress toward income-poverty MDGs, these measures would help to direct some of the growing income to rural areas and support new investment in urban and semi-urban areas.

a. Cotton Sector

Description

68. The cotton sector in Burkina Faso encompasses about 200,000 producers, and is a major source of income for about 17 percent of the population. Cotton production increased sharply during the last five years, from 276 thousands tons in 2000/01 to over 560 thousands tons in 2004/05. The sector now represents about 6 percent of GDP and 60 to 70 percent of exports earnings.

Challenges

69. A higher impact of the cotton sector on growth and poverty reduction is constrained by several issues including the extreme volatility and declining trend of international cotton price and issues related to land availability and poor soil fertility.

70. Cotton prices are volatile, creating uncertainties for producers, ginners, merchants, financial institutions and governments. The volatility is due to many factors, ranging from weather changes in cotton producing regions to government policies. Subsidies paid to producers in the US, Europe and China increase global supply and depress cotton prices. Adjusted for inflation, cotton prices have declined steadily and they collapsed in 2001/02 to their lowest level ever. The elimination of these subsidies would allow producers in West and Central Africa to better use their comparative advantage, promote growth, and reduce poverty.

71. To mitigate the impact of price volatility, cotton stakeholders have established a two-stage mechanism for the determination of seed cotton producer paid. First, a base price is announced before planting. The base price is relatively stable: in the revised multi-year agreement between the ginning companies and the producers, it is set at CFAF175 until 2007/2008. Second, this base price is supplemented by a bonus equivalent to 50 percent of the net profits – if any – of the previous agricultural campaign.

72. Another challenge for the cotton sector is land availability and soil fertility. The recent increase in production was driven mostly by the expansion of surfaces as yields remain stable at about 1 ton of seed cotton per hectare, and this may not be sustainable. There are concerns that in some regions, this extensive mode of production has contributed to soil degradation to the point they are no longer suitable for agricultural production. In several other regions, the expansion of surfaces may not be possible other than on marginal lands with poor fertility.

Government Actions

73. The Government of Burkina Faso has supported the development of cotton sector by allowing a private management and the participation of farmers, promoting liberalization and providing targeted support to increase yields.

74. The Government is a shareholder in SOFITEX – the previous monopoly until the liberalization in 2004 – but has allowed the company to be privately managed. As a result, SOFITEX has maintained a prudent management and a rational commercial policy, balancing the use of spot sales and term contracts, and keeping production costs low. SOFITEX was able to well manage the impact of the sharp decline in cotton prices since mid-2001, and has not needed public subsidies in the past few years. SOFITEX has also made considerable efforts to improve the quality of inputs and intensify agricultural extension services, resulting in a high quality of raw cotton. In 2001, the International Cotton Advisory Committee (ICAC) ranked Burkina Faso 4th worldwide as regards quality of cotton fiber, with more than 80 percent of the production corresponding to the highest standard. In early 1999, the Government transferred 30 percent of the shares of SOFITEX to UNPCB, the producer organization, thus becoming a minority shareholder (35 percent), along with DAGRIS – a French company – (34 percent), and a commercial bank (1 percent).

75. The Government of Burkina Faso has also promoted increased liberalization in the cotton sector. Since 2004, two new private ginning companies, SOCOMA and FASOCOTON are active alongside with SOFITEX. The liberalization of transport services has also led to the entry of more efficient private transporters, including foreigners, and the diversification of supply and export routes. The fertilizer market was also liberalized with about ten competing companies. The Government has been encouraging the use of fertilizers – to prevent a decline in yields – by providing limited subsidies in the range of CFAF2-3 billion.

Bank's Assessment and Recommendation

76. Policies spearheaded by the Government of Burkina Faso have been instrumental in transforming the country into a leader in cotton production in Sub-Saharan Africa. To consolidate progress, these policies should be pursued, notably the liberalization of the sector, the participation of producers in the management of the sector, a prudent pricing mechanism for seed cotton and increased productivity.

77. The liberalization of the cotton sector should be strengthened by putting in place the right incentives to foster the efficiency of cotton companies, and minimize costs. This could be achieved by eliminating the monopoly of one company that supplies 80 percent of the market and expanding the scope for competition between the three existing companies. As a result, public competitive bidding has not resulted in low fertilizers price. The pesticides

segment is also controlled by a monopoly. Reforms are still needed in that area to promote more efficiency and reduce costs. Existing national or regional antitrust policies should be used to investigate possible collusion practices.

78. Farmers participation in the cotton sector management, a unique arrangement in the sub-region, has helped to improve the overall efficiency of the sector. However, there is considerable scope for increasing the effectiveness of farmers participation by strengthening their capacity. In addition, the participation of producers in the capital of the new ginning companies is yet to be finalized. Financing should be identified for UNPCB to acquire its shares in SOCOMA (20 percent) and FASOCOTON (10 percent).

79. Cotton stakeholders need to maintain a prudent pricing mechanism for seed cotton. A key element for that is that the base price should not be guaranteed and should not be set at a level inconsistent with trends in international cotton prices and exchange rates between the Euro and the dollar.

80. A more intensive production scheme should be encouraged as an alternative to the expansion of surfaces. Yields could be improved by a more efficient fertilizers and pesticides markets, the adoption of new technology, mechanization, new varieties of cotton, and the possibility of small-scale irrigation.

Measures supported by the proposed PRSC-5

81. PRSC-5 has supported the liberalization of the cotton sector through the transfer of the assets of SOFITEX in the central and eastern zone to two new private companies. The transfer was finalized in September 2004. Subsequent PRSCs will support the creation of a new inter-professional association for the cotton sector as well as the definition of the regulatory framework governing the sector. In that context, a series of analytical work and thematic reports are underway that will provide inputs in designing the policy agenda for the next series of PRSCs.

a. Agriculture Sector

Description

82. Agriculture remains the dominant sector of economic activity in Burkina Faso, accounting for about 30 percent of GDP, providing employment and income to more than 80 percent of the rural population, and generating 60 to 70 percent of export earnings. Faster agriculture growth will have several beneficial effects: on poverty reduction: through an increase in rural producers' incomes; improved trade balance through higher exports earnings and reduced food imports; improved equity because agriculture is the main income source for food-crop producers, the poorest group in Burkina Faso, and more than 90 percent of the poor live in rural areas; on overall economic growth through positive externalities and spillovers on non-farm sectors and jobs (transport, trade, food industries etc). Box 1 of this report outlines the findings of a report on operationalizing pro-poor growth strategy in Burkina Faso, emphasizing the key role for the agriculture sector.

Challenges

83. In the revised full PRSP (PRSP-2), including Box 6, the Government discusses the determinant of poverty in rural areas of Burkina Faso, focusing on the constraints to stronger agriculture growth:

84. Water resources are scarce. Rainfall is low and irregular and poses a serious risk for farmers. Analysis of rainfall over the last thirty years shows that the trend has been downward at many weather stations. Rainfall is often unevenly spread over successive years or in the course of a single rainy season. This situation pushes them to adopt extensive farming techniques that contribute to soil depletion. In addition, PRSP-2 notes a report on water resources that stresses the lowering of the water table and the danger of intensive use of groundwater. The difficulties of water management have hindered the development of irrigated agricultural, severely limiting possibility of crop diversification;

85. Human capital development is low and production methods are archaic. The high illiteracy rate in rural areas hinders efforts to disseminate new technologies. The proportion of farms with plows and draft animals is under 27 percent. The low level of mechanization contributes to the low level of net per capita income per hectare. Experiences in few villages have shown that yields per hectare when animal traction is provided by a pair of oxen are nearly twice as high as with manual tilling.

86. Infrastructures and support services (transport, storage, processing, marketing, and agricultural extensions) are inadequate, and inputs costs are high. The weak network of passable rural roads, especially during the rainy season, poses a major constraint for the development of commercialized, modern agriculture, given the importance of timely deliveries of seeds and fertilizers. A study on facilitating trade of agricultural products, carried out in 1999 by Logistics Consulting Group of Denmark, indicated that the share of transit cost in CIF cost price ranged from 25 percent to 88 percent for main agricultural products. The rate of fertilizer is low, with an average of 9 kg/hectare versus more than 50 kg/hectare in LDCs and 100 Kg/hectare in Asian countries.

87. Soil fertility is becoming a serious issue. According to PRSP-2, population pressures have shortened fallow periods which are no longer adequate to ensure renewal of soil fertility. PRSP-2 also notes that signs of land degradation and soil depletion are very visible in the north and central regions, and there are pockets of fairly severe land degradation in the west and southwest regions (including the cotton areas), where most of the country's agricultural land reserves are located. In severely degraded areas, the combination of soil depletion, poverty, and food insecurity is creating a vicious cycle.

88. Rural farmers are not well integrated to markets. A reason is that the great majority of farmers engages in subsistence farming and grows very few cash crops. Therefore, they sell little agricultural produce (only 15 percent of the grain crop is commercialized) and purchase little fertilizer and agricultural equipment. However, PRSP-2 also indicates that producing surplus requires the existence of markets for such surplus and access to these markets (roads). PRSP-2 points to the strong price fluctuations within and between years for agricultural products as evidence of imperfect markets. PRSP-2 and Box 1 of this report suggest that a price stabilization mechanism could support the development of crop production. The JSAN

of PRSP-2 warns on such suggestions and encourages the development of efficient MIS (market information system).

89. Land access is limited and the security of land tenure is poor. The land institutional framework is deficient and there is virtually no rural land register, leading to problem of land ownerships rights. PRSP-2 indicates that growing population, domestic migration and increase of livestock herds are exacerbating the competition for land with frequent conflicts and insecurity of land tenure. Despite existing laws, including the Agrarian and Land Tenure Reorganization, access to land for poor and women is still a distant hope.

90. Gender bias limit women access to land, production equipment, productive assets, financing and extension services. Women are less educated and have a heavy workload that prevents them to develop their own productive activities.

Government Actions

91. Government programs to ensure sustainable rural development are based on more intense cropping, protection of natural resources, and correction of gender inequalities. These programs – described in PRSP-2 – focus on seven strategic goals: (i) reducing the vulnerability of agricultural activity, (ii) more intensive and more modern farming, (iii) raising and diversifying rural incomes, (iv) reducing the isolation of rural areas, (v) supporting producer associations and collective infrastructures, (vi) improving living and working conditions for rural women.

Bank's assessment and recommendation

92. The Government's strategy to pursue the divestiture of productive and marketing activities, while strengthening its role in providing support and advice to private operators (extension, research and development, information on market conditions) and undertaking efforts to develop sector-related infrastructure (transport, water etc) and improve the quality of human resources (basic education, technical and commercial extension) addresses issues that are relevant (see JSAN of PRSP-2).

93. Burkina Faso can realize substantial gains with respect to growth in productivity and agricultural output by reducing transport costs and improving services, by implementing water management and irrigation techniques, by better educating the labor force.

94. Government's strategy to support professionalization of the agricultural sector through a legal framework conducive to the emergence of agricultural professional organization based on an approach that involves the participation of producer representatives seems also adequate.

Measures to be undertaken as part of the PRSCs and overall Bank support

95. PRSC-5 is complementing several Bank-financed investment projects for agriculture development. The ongoing Community Based Rural Development Project aims at reducing poverty and promoting sustainable development in rural areas. It builds local capacity to plan and implement rural development projects, accelerating the pace of public transfers for decentralized rural development, and supporting implementation of the country's

decentralization framework. The Second National Agricultural Services Development Project that closed in December 2004 provided assistance to: (i) agricultural and farmers' incomes; (ii) improved natural resource management; and (iii) the promotion and empowering of farmers' organizations. The Private Irrigation LIL supports provision of the demand-driven services necessary for the development of an efficient, sustainable small irrigation subsector in Burkina Faso.

96. The GEF Partnership for Natural Ecosystem Management Project focuses on providing support to rural communities in protected areas which have demonstrated commitment and willingness to engage in large-scale conservation. It aims to strengthen the capacity of these communities, the forest/wildlife administration and the private sector to generate revenues from conservation activities. The GEF Sahel Integrated Lowland Ecosystem Management focuses on the conservation and efficient use of natural assets across the entire rural domain. It provides support to strengthen rural communities' capacity in assessing, planning and managing their natural resources and local development, and empower them for decision making and dialogue with Government and other partners.

97. A Rural Intensification and Market Diversification Project currently under preparation will focus on improving the rural sector commodities' productivity and competitiveness on local regional and international markets, promoting efficient supply chains, capacity building to professional organizations and private operators, and improving rural financial and market institutions. The objectives of the ongoing Transport Sector Project include lowering transport costs and improving mobility for the rural population. The project concentrates on rural roads as the rural economy is the main source of income and employment for 80 percent of the population

98. **Under PRSC-5, the Government has prepared a text consolidating and harmonizing the principles and rules of the execution of missions transferred or delegated to regional agricultural chambers (CAR), producers professional organizations (OPA), the inter-professions, and the private sector, including the modalities and conditions for such as transfer:** the new text aims limiting the State to supervisory functions and transfer other functions to other stakeholders in the sector. The text clarifies the roles and responsibilities for agricultural development. It is expected that the larger role of producers will improve the economic performance of the sector.

99. **The Government has finalized the institutional audit of the Ministry of Agriculture, Water, and Fisheries (MAHRH):** The implementation of the audit recommendations will help improve the efficiency and quality of basic services of the Ministry.

100. **The Government has continued the implement actions plans for cereals:** The action plans aims at creating favorable conditions for improving the profitability of cereals production, a key element for food security, poverty reduction (cereal is grown by the poorest producers), and for agricultural diversification.

101. In the next PRSCs, starting with PRSC-6, the Government will follow up on the measures undertaken during PRSC-5, and will adopt new measures to enhance growth prospects in the rural sector. The measures that are envisioned include:

102. **Adopt the texts on the principles and rules on the execution of missions transferred or delegated to CRA, OPA, inter-professions, and the private sector.**

103. **Reduce vulnerability of agricultural activity through the building of manure pits and hydro-agricultural installations.** A joint study by the Ministry for the Environment and the Center for Economic and Social Research and Documentation (CEDRES) at the University of Ouagadougou has shown that soil restoration and fertilization with stone cordons and organic manure has a positive impact on agricultural productivity. Organic manure is also more accessible to the poor than chemical fertilizers. Future PRSCs will also support ongoing government programs on small irrigation systems and rural water systems.

104. **Improve access to rural areas through the building of rural roads and the maintenance of departmental roads:**

105. **Elaborate an action plan to implement the recommendations of the institutional audit of the Ministry of Agriculture, Water, and Fisheries (MAHRH), in consultations with stakeholders, including the private sector, and begin its implementation.**

106. **Implement action plans for cereals, cowpeas, and oilseed.** Specific actions are the definition of standards and labels for oilseeds products (sesame, cashew nut, shea) and cowpeas streams.

107. **Support the emergence of professional exporters within the Oilseed Council of Burkina Faso and the actors of the cowpeas streams.**

108. **Begin implementation of an action plan for fruits and vegetables:**

c. Livestock Sector

Description

109. The livestock sector represents about 12 percent of the GDP and slightly more than 10 percent of exports earnings. Livestock provides incomes (partially or totally) for 86 percent of the population. The most vulnerable producers and socioeconomic groups of the sector represent the largest contributors to the sector. Smallholders are producing about 95% of total meat production, 95% of total milk and 60% of eggs. It is also among these smallholders groups that the highest potentialities for improvement are found. Financially and economically, the sector is performing well both on local market and on export. Indirect contribution includes exports of hides and skins, food industry, animal traction and organic fertilizers for the agricultural sector. The sector has the potential to play a major role in the diversification of the economy, exports growth, food security and poverty reduction.

Challenges

110. Despite its relatively good performance, the livestock sector is facing a number of issues among which the more important are: (i) a deteriorating security in access and sustainable use of pastoral resources and increased difficulties for pastoralists to access

agriculture land; (ii) inequities and difficulties in accessing feed and inputs; (iii) a preoccupying animal health situation and a high risk of emergence of major epizootic and zoonotic diseases despite recent improvements; (iv) a lack of genetic resources management; (v) a lack of public sector capacity in providing an attractive environment and in adapting to new challenges and priorities such as poverty reduction, decentralization and private sector development; (vi) a weak structure, organization and capacity of an associative sector; (vii) a lack of appropriate mechanism to prevent, and efficiently manage, external shocks such as animal diseases or pests (locust), droughts, or economic breakdown.

111. Projections are showing an increasing gap between domestic demand and supply in animal products. Growing urbanization and rising per capita incomes, with a target of 4 percent annual growth, has led to stronger domestic demand, coming on top of export demand. Supply has not coped well with the rising demand, and live cattle exports have declined steadily since 1995, despite the rise in market prices observed in neighboring Côte d'Ivoire and Ghana. The average carcass weights stand at 110 kg for cattle, 9 kg for sheep, and 8 kg for goats. Average milk yield stands at 110 liters per 180-day lactation and per cow. These performances are lower than the potential performances and lower than the possibilities for improvements. Closing the supply gap will require: increased productivity per hectare (extensive system) or per animal (intensive system) through improved nutrition, improved breed and animal diseases control. In addition to the quantity issues, of equal importance are the food safety aspects for both domestic and export market (sub-regional, regional and , in the longer-term, international) with the required condition, for the latter, to comply with the sanitary and phytosanitary standards of WTO based on OIE (live animals) and Codex Alimentarius (Animal products) recommendations.

112. An important gap is also predictable at the level of the pastoral resources availability. Increased difficulties on resource access together with good marketing prospect will undoubtedly act as a catalyst for further intensification, but will also have, if no appropriate measures are taken, collateral impacts such as: (i) increased severity of poverty among vulnerable groups (mainly pastoralists and short-cycle species producers, shepherds, women and children, small actors of marketing chains); (ii) reduction of the comparative advantages of locally produced animal products; (iii) increased sanitary risks; (iv) increased natural resources degradation.

Government Actions

113. Government's specific strategy for the livestock sector is described in the PAPISE – a national framework for livestock action plan and investment programs prepared by the Ministry on Animal Resources in 2000 – and in the revised full PRSP. The Government has set the following objectives to stimulate development of the livestock sector and produce maximum socioeconomic benefits: (i) increasing productivity by emphasizing improvements in genetics, feeding, healthcare, and rational herd management for each species (ii) achieving substantial growth of livestock production by adapting to the agricultural and ecological areas and promoting choices with regard to these areas and production systems that are appropriate to resources; (iii) improving and controlling the quality and wholesomeness of animal products and products of animal origin sold on markets; (iv) developing mixed farming through optimum management of natural resources and an increase in animal and plant yields;

(v) promoting professional skills of players through greater support for training and the establishment of breeders' associations, particularly for women.

114. Recent activities implemented by the authorities have aimed at reducing the vulnerability of livestock raising: (i) a center for African swine fever was established in the province of Kompienga; (ii) 23 percent of cows were vaccinated against contagious bovine pleuropneumonia; (iii) 5 percent of poultry were vaccinated against avian pseudoplague; (iv) 8 new cattle raising zones and pasture areas covering more than 200,000 hectares were instituted. In 2003, with a view to improving planning of production activities, the Ministry of Animal Resources undertook the second national livestock survey (ENEC II).

Bank's Assessment and Recommendations

115. The PAPISE was not well integrated into the 2000 PRSP and as a result did not generate interest among major donors. In addition, the PAPISE did not include key aspects, notably: (i) a description of the current and potential contribution of the sector to poverty reduction; (ii) a description of the current and potential access to market for animal and their products; (iii) the economic performance, the competitiveness and the perspective for growth for the main livestock streams; (iv) the access to, and sustainable management of, pastoral resources; and (v) the respective roles and functions of the public, associative and private actors of the sector

116. While the PAPISE was experiencing these issues, the Bank was actively promoting what is now ALive (African LIVEstock, a regional multi-stakeholders partnership on the livestock sector in Sub-Saharan Africa) and had just completed in Mauritania a comprehensive livestock study with a new approach, the **IEPC** (French acronym for '*Initiative Elevage-Pauvreté-Croissance*') – a highly participative and comprehensive livestock study - that was attracting interest from both the Government of Mauritania (the study recommendations were integrated into the PRSP and in various national policies and strategies) and Donors (EU and GTZ used the findings and recommendations of the study to finance their investments). This is in that context that the MRA requested in 2002 the support from the Bank for the implementation of an IEPC in Burkina Faso.

117. The IEPC – now completed – recommends to focus on seven major priorities: (i) assure a sustainable growth of locally produced animal products with a priority to be given to short-cycle species, small-scale milk production and to production systems less consumer of space, having positive impact on increasing off take; (ii) secure animals nutritional needs; (iii) secure sustainable access to resources including access to agricultural land for pastoralist; (iv) preserve and improve competitiveness of products and marketing chains; (v) assure sanitary, safety and marketing quality of animal products and inputs; (vi) protect household and vulnerable socioeconomic groups against majors risks and the risk of having their vulnerabilities increased; and (vii) assure to producers and others actors of the sector an efficient delivery of services coherent with the objective of poverty reduction. In fact, the preparation of the revised full PRSP (PRSP-2) benefited from the findings of IEPC

118. Considering the current dynamics, individual potentialities, and the social and economic perspectives of the different production systems, the action plan proposes activities organized around six components targeting the following specific objectives: (i) strengthening

of the public services capacity; (ii) strengthening of the associative and private services delivery; (iii) improvement of the social and economic environment; (iv) improvement of the access to financial services (credit and financial products); (v) improvement of the infrastructures and equipment for marketing and processing, animal feed production and pastoral hydraulics; and (vi) strengthening of the prevention and management capacity for the major shocks (diseases, climate, and others).

119. Recent Bank supports to the livestock sector include the Second National Agricultural Services Development Project (PNDSA-2 completed December 2004). An Agro-pastoral Products Diversification, Intensification and Market Competitiveness Project (PAFASP) is in preparation. PNDSA-2 supported two specific elements: (i) the so-called specialized systems of production, extensive pastoral and semi-intensive poultry and pigs systems; and (ii) the animal health service delivery system with support to both public and private sectors. The results was rather positive in terms of supporting the stakeholders in rethinking and refining their policy on critical issues such as the institutional partnership between the public and the private sectors, the vulnerability aspects of the sector, the competitiveness of the different systems and streams, the access to land and water and the controversial issue of pastoral resource management.

120. The PAFASP will include livestock activities built on the IECP action plan, under the three proposed components: support to market-related equipment and infrastructure; capacity building and support services; support to institutional strengthening with a matrix defining the needs and activities for the main streams (red meat, milk, sheep, goat, pigs, poultry meat and eggs, apiculture, inputs).

Measures to be undertaken as part of the PRSCs

121. The PRSCs are providing support to the livestock sector by complementing PNDSA-2 and PAFASP, mainly through the operationalization of the IEPC, with a number of measures ranging from the adoption and implementation of an action plan to increase the efficiency of the MRA, the promotion of poultry and meat exports (definition of standards, label, conditioning, and training of professional exporters), and increased protection against the Newcastle disease and the contagious bovine pleuro-pneumonia.

Reforms in the Telecommunication and energy sectors:

122. Government involvement in commercial activities through public enterprises (PE) is one of the cause of low access to and high cost of infrastructure services in Burkina Faso. The Government is still involved in 11 large-scale enterprises that are fully owned by the State, including all public utilities. State-owned enterprises suffer from insufficient equity due to the limited fiscal capacity of the State to contribute to investment needs, limiting the capacity to expand services. In addition, management teams within the PE sector lack incentives to improve efficiency. However, electricity supply is also constrained by the small scale and scattered production in Burkina. To achieve its growth and poverty reduction objectives, the Government of Burkina has rightly embarked to rolling back government intervention, improving its overall business environment as well as the quality of its infrastructure, and ensuring the maturation of its indigenous private sector while attracting supplemental foreign direct investment.

a. Telecommunication

123. Despite the positive impact in the provision of mobile services due to the liberalization measures taken by the government, the population still has limited access to telecommunications services. Rural and remote communities (where 80 percent of the population lives) have a telecommunication penetration ratio of less than 0.25 lines per 1,000 people. Exclusivity over basic telephone services. To lower factor costs and entice investments in the sector, the government will pursue the privatization of the telecommunications operator. A first attempt to bring ONATEL to the point of sale was not successful because pre-qualified bidders did not find favorable the terms of the privatization. In July, the government revised the terms of the privatisation but progress has been slow since then. Under PRSC-5, the Bank has supported government efforts to further improve the terms of the privatization by providing for an outright majority to potential bidders. On March 16, 2005, the Government agreed to that suggestion and the privatization is being resumed with the State now keeping a minority share of 23 percent

b. Energy

124. The electricity network is inadequate (servicing only 9 percent of households) and electricity prices are high compared with neighboring countries with similar GDP size and smaller populations. This is due to a number of factors, including the high cost of generation due to an inadequate power system planning and the poor performance of the "Societe Nationale Burkinabe d'Electricite" (SONABEL), which is responsible for electricity production and distribution. Per capita consumption is 22kwh in Burkina Faso, compared with 100 kWh in Cameroon, 200 kWh in Senegal and 270 kWh in Cote d'Ivoire. The average tariff is higher than in neighboring countries, i.e. about 23 cents per kWh for industrial consumption and 21 cents per kWh for households, while these tariffs are at least 50 percent lower even in neighboring Togo and Benin.

125. To reduce electricity production costs and tariffs, and reduce the cost of petroleum products, the government has adopted a legal and regulatory environment for introducing private participation in the energy sector, and bring additional production capacity into the power sector. A private partner will be selected for the management of the electricity sector, and the petroleum distribution company will be partially opened for private participation. The work on the power line interconnecting Ouagadougou with Bobo-Dioulasso and Côte d'Ivoire will begin in 2005 and is expected to be completed in early 2007. PRSC-5 supports these measures in complementing the IDA's competitiveness and enterprise development project and the energy reform project.

Investment Climate and Labor Market Reforms

126. The Government has started to address some issues pertaining to business environment by reducing the formalities needed to register a business. To create a company in Burkina Faso, a small entrepreneur currently has to fulfill numerous steps and pay fees of up to 20 percent of its capital before it can start business activities. FIAS has assisted the Government in simplifying and reducing the number of registration procedures. Before the FIAS technical support, 15 administrative procedures were required to register a company. With the leadership of the Ministry of Commerce, the administrative procedures to set up a company were reduced to 8, and administrative requirements to operate as a merchant were reduced from 11 to 9. Moreover, six administrative procedures were simplified in terms of documentation required or the level of decision-making. Despite this progress, a recent survey on the cost of doing business in Burkina Faso shows that there is still a large number of issues that need to be addressed in order to have an enhanced business-friendly environment. Moreover, other important issues such as those pertaining to administrative barriers to investment, to the improvement of the services provided by the one-stop shop center (guichet unique) and other private sector-support organizations still need to be addressed.

127. With the support of PRSC-5, the government has taken a variety of actions to improve labor markets, cut red tap, and strengthen the business environment. The government revised the labor law in September 2004 to reduce labour costs. It is preparing a comparative study on labor laws and regulation that will result in the alignment of the practices in Burkina with international standards. Moreover, the government has reviewed a variety of texts to facilitate commerce and reduce administrative hurdles. In particular, the government has provided adequate resources to the one stop service center for new investors. It has also strengthened Fasonorm and training to the staff of the Trade point. The regulation for wholesale and external commerce was also reviewed to streamline it.

Box 1: Operationalize Pro-poor Growth Strategy in Burkina Faso

Much has been written in the past 15 years on what should be done in Burkina Faso to accelerate social and economic development and most of the advice given has still its legitimacy. However, past studies were less focused on pro-poor growth and the distributional impact of policy reforms, set seldom priorities and were based on a biased ex-post poverty assessment.

We think that Burkina Faso's development in the next 10 years should be based on rural development, because, first of all, still most of the poor are situated in rural areas. In addition, indirect growth effects through growth in other sectors were found to be very low at least at this stage. Our analysis also shows that rural growth is more pro-poor within itself than growth in other sectors, i.e. growth in the food-crop sector transfers best into higher household income of households employed in that sector. Finally, agricultural development has also positive effects on the urban (informal) poor, since it decreases prices of food staples mainly consumed by the poor, it increases the demand for locally (informal) produced goods and decreases the pressure of rural-urban migration on informal wages.

Rural development policies should not only address cotton farmers but also and especially food crop farmers and livestock producers. The most critical point in fostering broad-based rural development is to further invest in agricultural production but with more emphasize on staples as well as non-farm income activities to diversify rural incomes to further reduce the income risk of farmers and to invest even more than currently done in rural infrastructure to integrate markets. Policies could also consider to temporarily and cautiously stabilize prices of certain products the poor produce and consume or to subsidize agricultural investments and inputs. But, even if we think the country's development cannot solely be based on cotton exports, a reduction of the cotton subsidies in the U.S.A., China and the E.U. can make a non-negligible contribution to a further poverty reduction in Burkina Faso.

For urban areas, where the challenge is to prevent a further increase of poverty, likewise we consider investment in infrastructure and measures which reduce the risk of those engaged in the informal sector as the most important issues in the next years. Long term policies should aim to increase the formal secondary sector by developing value chains and by creating the appropriate legal framework, which makes the transition from the informal to the formal sector more beneficial for urban enterprises. Investments in education and health should be pursued and even intensified, but they should not crowd out investment in productive infrastructure. Infrastructure is a prerequisite for private investment and without private investments the return to increased human capital as well as the demand for social infrastructure will be low.

Of course, our suggestions might raise the question how these investments could be financed. However, we think that a more efficient system of taxation and redistribution and a reallocation of investments should deliberate non-negligible resources, i.e. existing resources (including the current level of foreign aid) if better allocated should allow to improve productive public infrastructure. In addition, a further effort has to be made to use the HIPC resources more efficiently. In the past, resources could not be absorbed because of missing investment projects and institutions being too weak to realize the existing ones.

Finally, the elaboration of this study has prominently shown how important reliable National Accounts and household survey data are. The current data availability is surely much better than in many other Sub-Saharan African countries, but it is worth to improve the data quality on all levels.

Source:

2. Human Resource Development

128. Under the human resource development component, the government has pursued sectoral policies in education, health, social protection and water management to accelerate progress toward the education, maternal and child mortality, and water-related MDGs

a. Education

Description

129. Despite significant progress in recent years, educational attainment in Burkina Faso remains low, and the country faces enormous challenges as it strives to achieve universal primary education by 2015. Education in Burkina Faso is characterized by low enrollment rates in primary and secondary education, high illiteracy rate among the adults, and persistent regional and gender inequalities in educational attainment.

130. The primary school enrollment rate in Burkina Faso increased from 35 to 52 percent between 1994 and 2004, but it still remains one of the lowest in SSA. Enrollment in secondary education in Burkina Faso is also very low, with large differences across gender, location and income groups. On average, just 16 percent of children of the secondary school age attend schools. The 2003 household survey shows that literacy rate was as low as 32.3 percent in 2003. The situation is even more severe in rural areas where only one out of five men and only one out of fourteen women are literate.

131. **Poor quality of education:** academic achievement is also low: standardized tests of learning achievements show that only 25% of sixth-grade students perform at that level in French and mathematics. In addition, students lack appropriate pedagogical materials. Despite the efforts made in the past years to ensure one textbook for 2 students and to reduce the cost of teaching materials, only 40% and 22% of students have one textbook for their own use in reading and mathematics, respectively.

132. **The efficiency of the Education System is poor:** With the poor quality of education at all levels resources are wasted due to the high repetition rates and drop out rates within the system. At an average repetition rate of 18 percent at the primary level, the actual cost of educating a student through the six years of primary is 3.5 times more than what it would be had there been no repetition. Similarly, educating a student at the lower secondary level (BEPC) costs 4.4 times, and at the upper secondary (BAC) it is 3 times.

Challenges

133. A key issue in the sector is the financial sustainability of expanded services given the existing cost structure of primary education. Teachers costs are relatively high, and represent several time the GDP per capita. School construction costs are also a key issue to the financial sustainability of the program. The Government is already channeling a large share of public resources to the education sector. In addition, the sector is already highly dependant on external assistance and Burkina Faso is one of the countries that were selected under the fast track initiative of the EFA to receive additional funds. In that context, although measures to improve efficiency and access could increase intake to some extent, the government would not be financially able to meet the investment and costs required by the targeted enrollment rate of 70% unless lowering construction and teachers costs. As part of the latter effort, the Government opted to expand community schools where teachers are recruited by communities on contract and paid (with public financing) less than civil service teachers.

134. As stated above, the relatively high construction costs as well as the lack of local capacity to build classrooms stand in the way of rapid expansion of the supply of primary

education. This is a real obstacle the Government is attempting to address by involving NGOs in school construction.

Government Actions

135. The Government's strategy for the development of the education sector is outlined in its Education Policy Letter of May 2, 2001 (see Annex 13 of Project Appraisal Document of the Basic Education Project, Report No 22618-BUR). Under the Education Policy Letter, basic education is maintained as a national priority. The enrollment effort is pursued and intensified to reach an enrollment rate of 70% and an adult literacy rate of 40% by year 2011 and to improve both the quality and cost-effectiveness of education. As outlined in the Education Policy Letter, the MEBA prepared a Ten-year Plan for Basic Education (*Plan Decennal de Developpement de l'Education de Base*). The Ten-Year Plan presents specific objectives and programs and outlines implementation arrangements and time frames.

136. The main development objective of Phase I of the Ten Year Program is to lay the foundation for accelerating the development of basic education, while ensuring adequate quality and financial sustainability. The first phase is involving communities and NGOs to develop programs to: (i) increase access to basic education by intervening on both the supply and demand side; (ii) improve the school-learning environment by offering programs and instructional materials ; (iii) strengthen capacity for decentralization and budgetary support by strengthening financial and procurement management and monitoring the education system.; (iv) continue to increase the public resource effort to finance basic education according to the HIPC targets, and improve the equity and cost-effectiveness of the expenditure by increasing non-salary expenditure.

137. Key program targets and monitoring indicators of the first phase of the Program were developed and adopted during the SPA (Special Program for Africa) exercise on reformulated conditionality led by European Union in Burkina Faso in 2000. They are described in Annex 1 of the Project Appraisal Document of the Basic Education Project (Report No 22618-BUR). They include indicators of access, quality, and management of basic education. They have been retained by the Ministry of Basic Education and the donor community as stretched targets to motivate the Government to do as much as possible.

Bank's Assessment and Recommendation.

138. The overall performance of the education system has been improving slowly but steadily during the past five years, but the challenge still remains in terms of coverage, quality and efficiency. Over half the school age children are out of school. Those who are enrolled are receiving low quality education, resulting in high repetition rates and large waste of the limited resources available for the sector. There are also serious inequities in coverage between urban and rural areas, between boys and between the poor and rich. While the current sectoral strategies and action plans highlight some of these issues, it is important to ensure budget allocation, execution and management need to be better geared towards better education outcomes. The following are the key recommendations:

139. **Improve budget planning and execution.** Further improvements in budget planning and execution may include the following: (i) make the entire education sector a priority sector, not only basic education; (ii) *greater involvement of the regional departments* in the budget

planning process to ensure their needs are reflected in the budget; (iii) *greater transparency in budget discussions* through the disclosure of information and larger participation of the relevant departments in the center and the regions; (iv) *simplification of procurement procedures and credit-related regulations in MESSRS* to avoid unnecessary delays in budget execution; (v) address *constraints with donor-financed projects, possibly by simplifying and unifying disbursement procedures*.

140. **Improve budget decentralization and monitoring, and the efficiency of resource allocations within the sector.** Given the success of the delegated credit system under MEBA, budget decentralization could be further improved by: (i) *extending the delegated credit system to secondary and higher education*. (ii) *reinforcing the capacity of both MEBA and MESSRS at the regional and provincial levels* to manage the implementation of provincial action plans for improved planning, execution and monitoring of budgets, through greater skill development and a simplified system of budget management and monitoring of results; (iii) *Strengthening the accountability of the schools and EPAs* through a system of information recording, and audits to ensure appropriate use of funds; (iv) *Improve the efficiency and equity of resource allocations within the sector through: better management of recruitment and deployment of teachers and inspectors*.

141. **Improve the quality of education.** It is necessary to strictly apply the measure regarding sub-cycles and extend it if possible to the first grade of secondary education. While the system is in place, it needs to be strengthened. Sufficient financing should be made available for school-based activities to improve quality, and teaching and learning hours should be increased.

142. **Better integrate primary and secondary education.** An emerging issue, as enrollments in primary are rising, is greater pressure on lower secondary. The education system needs to address this in a timely manner not only in terms of the financing needs, but also in terms of management and organization of the sector as a whole.

143. **Scale up the Public-private partnership.** Such approach was piloted in secondary education under the Post Primary Education Project and was quite successful (see ICR of the PEPP, Report No 31668-BUR). It may also be worthwhile to study whether the approach could be applied to primary education.

Actions to be undertaken as part of the PRSCs

144. PRSC support to the education sector in Burkina Faso is complementary of the Basic Education Project which remains the main instrument for Bank's assistance to the implementation of the Government's Basic Education Ten-Year Program (PDDEB). The Basic Education Project also aims at building the capacity of the Ministry of Basic Education (MEBA) with particular attention to the areas of financial management, budgeting, procurement, monitoring, evaluation and donor coordination, to prepare for a shift from project to programmatic support.

145. **Finalize the sectoral MTEF, including secondary education including the resources to attain the PDDEB objectives and MDGs:** In principle, the education sector is

has been implementing a program-based budgeting since 2001. In practice, these program budgets are not comprehensive: for example, personnel expenditures are not reflected in the program budget for the basic education. In addition, the link with MDG and PDDEB objective is tenuous and they lack a consistent medium-term framework. As part of PRSC-5, the Government has finalized a MTEF for the basic education sector, and has completed a PER for the secondary education sector. These elements will serve as a basis to complete the MTEF covering both level of education.

146. Continue the policy of subsidizing schooling in the 20 provinces with the lowest school enrollment rates: The ability of a household to pay for education determines if a child from that household goes to school or not. For poor families, the costs of education can be a critical deterrent to participation in education. Demand factors are also important. According to the 1998 Priority Survey, 24% of people aged 7-24 do not attend school due to its high cost. Although fees are not mandatory for primary education in Burkina, the cost of supplies and other expenditures weigh heavily, as do the opportunity costs, particularly for poor families where children contribute importantly to the family economy. It is estimated that children contribute to between 5 and 35 percent of the total household consumption.

147. Prepare a study on effective teaching hours: The study was carried out. It shows that effective teaching hours are 660 hours on average, and compares poorly to the short-term objective of 800 hours and the medium term objective of 900 hours. An action plan is being prepared to follow up on the short-term recommendation of 800 teaching/learning hours. Improving teaching hours will be the best way to improve the quality of education at low cost.

148. Evaluate the execution of expenditure and the availability of school materials using existing administrative statistics and INSD tracking surveys prepared for PRSP monitoring: The annual tracking survey has been prepared since 2002 to ensure that resources reach front-line services providers. The 2004 tracking survey report from INSD is available. It shows a significant increase of resources to education facilities at the decentralized level in 2003.

149. The next PRSCs will provide support to Government actions in the following areas:

150. Strengthen the program budget for the sector and finalize the sectoral MTEF, including secondary education including the resources to attain the PDDEB objectives and MDGs.

151. Update the PDDEB: The first phase of this ten-year program will be completed in 2005. The Government will work with local stakeholders and the donor community to draw lessons from the implementation of the first phase and design the second phase of the program for 2006-2010

152. Introduce Delegated Credits for the secondary education: the delegated credit mechanism introduced to MEBA is a positive development that makes local actors accountable and enhances the transparency of the budgeting process, as well as the efficiency of the supply of educational services. For secondary education, the resources for decentralized units (DRES) come in the form of a budget allocation for equipment expenditures within the Appropriations Law, and they are managed at the central level. The centralized ordering

system poses many problems with delivery to the site. The equipment often arrives late because the DRES has no budget for transportation, and often these materials are dispatched with significant loss or damage.

153. Continue the policy of subsidizing schooling in the 20 provinces with the lowest school enrolment rates.

154. Adopt and implement an action plan to increase teaching hours: This action is a follow up to the measure undertaken under PRSC-5, and will help improve the quality of education.

b. Health

Description

155. Communicable diseases are the main causes of morbidity and mortality. Malaria alone accounts for one-third of child deaths, followed by diarrhea disease (12 percent), and acute respiratory infections (11 percent). Burkina Faso has one of the highest HIV prevalence rates in West Africa, with an estimated 4 percent of adults infected nationally in 2003, with higher rates in urban areas. HIV/AIDS has contributed to the reemergence of tuberculosis and other opportunistic infections. While vaccination coverage has improved since the late 1990s, the past few years have seen a resurgence of epidemics of measles and meningitis, with the latter second only to malaria as the leading cause of child deaths in health facilities in 2002 due to emergence of a new meningitis strain.

156. The major source of modern health care for the rural and poor majority of Burkina Faso remains the public health system, which is organized into primary, secondary, and tertiary levels. Health districts, primarily through a network of centers for health and social promotion (CSPS) provide primary care. The district hospitals (CMA) serve as referral centers for the CSPS. Nine regional hospitals (CHR) and three national hospitals (CHN) in Ouagadougou and Bobo Dioulasso provide the second and third levels of care. Administratively, the ministry of health is organized into three levels: the central ministry of health, 13 Regional Health Directorates (DRS), and 55 health districts, which are administered by a district health team (ECD). The University and regional hospitals all enjoy a degree of managerial autonomy, and receive their budgets through a direct transfer from the central government.

157. The number of government health facilities has increased over the past decade, but geographic access remains a constraint in many rural areas. About 58 percent of the population lives within 5 km of a health facility, and 19 percent live 10 km or more—with an average distance to a health center of nine kilometers. Physical access is determined not just by distance to the health facility but time, including availability of roads and transport. Health facilities are inaccessible for many villages during rainy season, and there is a shortage of reliable transport both at rural health facilities and within villages themselves. Traditional medicine continues to play an important role in health care and treatment, particularly for the rural majority, for reasons of culture, cost, and ease of access (see below). Nongovernmental and religious organizations operate health centers and district hospitals under a framework agreement with the ministry of health.

Challenges

158. While it is important to further increase the resources allocated to the health sector, the equity and efficiency of existing health spending (both public and private) must be improved, as well as the quality and financial accessibility of health services, in order to accelerate progress toward the health objectives laid out in the PRSP and the Millennium Development Goals (MDGs).

Government Actions

159. The Ministry of Health's 10-year health strategy (Plan National de développement sanitaire (PNDS), 2001-2010) identifies key priorities and program objectives for the health sector, including increased accessibility of health services, improved quality, increased financial access for the poor. The eight priority programs for the PNDS are: increase geographic coverage of health services; improve the quality and utilization of health services; strengthen the fight against communicable and non-communicable diseases; reduce HIV transmission; improve the quality and distribution of human resources in the sector; increase financial accessibility for the population; increase health sector financing; and strengthen capacity in the sector.

Bank's Assessment and Recommendations

160. **Establish results-based budgeting and monitoring system for the health sector.** The MTEF has the potential to become the basis for results-based financing system, and to strengthen the Ministry of Health's ability to negotiate for additional resources from Finance and international partner. But other reforms will be necessary to make the system fulfill its potential.

161. **Improve the level, efficiency and equity of resource allocations within the sector, particularly to ensure adequate financing for MDG priorities.** While resources for the health sector are limited, existing resources could be more efficiently allocated to accelerating progress toward the MDGs.

162. **Improve equity and financial accessibility for preventive and curative services.** Recent efforts to reduce margins on medicines and provide key preventative services for free appear to have improve utilization of health services by the poor, but financial accessibility remains a barrier to use of health services by the poor, particularly for emergency and curative services.

163. **Improve the timeliness, flexibility, and reliability of sector funding.** While trends are positive, funds from both government and partners are often unreliable, arriving late, or at less than budgeted amounts, and making it difficult to manage and execute programs.

164. **Strengthen accountability for funds at district and community level.** The Ministry needs to put in place a system to annually record receipts, expenses, and account balances at the district and community level (including district drug depots). The Ministry has also initiated for the first time global audits of accounts at health districts, which should be continued and expanded to other levels of the health system. The texts governing COGES also

need to be revised in order to strengthen accountability to and participation of communities, expand membership (particularly women and youth), and strengthen their role in financing preventive and public health services.

165. **Improve accountability and performance management of hospitals.** The government currently transfers resources directly to national and regional hospitals without a clearly defined performance agreement, but it also imposes various unfounded mandates on hospitals.

166. **Improve distribution and motivation of health personnel.** The inequitable distribution of health personnel is a long-standing problem in the health sector, which will require a multi-pronged approach, including: (a) strengthening incentives for practice in rural and poor areas, including possible financial incentives, and priority for training and professional advancement; (b) decentralization of recruitment and budget posts to the regional and district level; (c) strengthen systems for human resource planning, training, and management, including making the human resources software system operational.

Actions to be undertaken as part of the PRSCs

167. **Elaborate a sectoral MTEF for 2005-07, in line with PNDS objectives and MDGs:** Although health is a considered a priority sector in the PRSP, this fact has not been fully reflected in the budgeting process. While the Ministry of Health was involved in overall MTEF preparations, the MOH had limited influence on the process. Due to the absence of an institutional mechanism for systematically updating the list of programs and annually updating their cost, the MOH was not able to present a strong argument regarding the budgetary requirements to achieve health objectives under the PRSP, or to provide detailed information on the number and the cost of new programs to be proposed. For similar reasons, the MOH has had difficulties defending its allocation during the budget arbitration process with the Council of Ministers and before parliament. The preparation of the MTEF under PRSC-5 is helping to tackle these issues.

168. **Implement the monitoring system for the régies d'avance (including Ministries of Health and Finance):** *Cash advance accounts (regies d'avance):* In order to impart greater flexibility to executing some delegated appropriation lines, cash advance accounts were established for all health regions and districts in November 2002. This reform was partly in response to the closing of the World Bank-financed PDSN project, which had financed district action plans through local private bank accounts. With the transition to budget support, the Ministry of Finance did not want to put public money into private bank, so the “regies d'avance” were proposed to function similar to a private bank checking account” for districts, but using public funds.

169. While the health ministry welcomed this reform, it experienced a number of problems and delays in the first year. First, while the account managers (“regisseurs”) were named in March 2003, they did not assume office until November 20, 2003. Moreover, training did not extend to other members of the district health teams and regional treasury officials, who did not fully understand this new mechanism. Second, while the advances funds were created to facilitate the execution of fungible expenditure—equipment maintenance, petty expenditure, personnel support other than health care, maintenance of computers and peripherals—many

districts assumed that they had to use these accounts to cover all delegated appropriations, even though “normal” procedures were better adapted for large orders of medicines or supplies.

170. Third, the rules governing the accounts were unduly rigid: (a) only one-sixth of the total delegated credit was advanced at a time; (b) districts were not allowed to expend more than one-sixth of any given budget line, making it impossible to purchase supplies in bulk; (c) the list of eligible expenditures was seen as too narrow; (d) to qualify for account replenishment, receipts had to be sent to Ouagadougou (except in the one region that had decentralized the treasury function).

171. Despite these problems, most districts were able to execute over 90 percent of their planned delegated budget, but with significant delays. Moreover, most district and regional officials interviewed remained positive about the reform’s potential, and that performance has further improved in 2004.

172. **Develop a system of subsidies for obstetrical emergencies:** In the late 1990s, the government added a specific budget allocation for emergency care in the financing for all referral hospitals, but the use of these funds was not comprehensively monitored. Thus the continued relative high cost of services and the lack of adequate exemption mechanisms mean that despite substantial government subsidies, hospitals largely do not play a social safety net role for the poor. A recent survey found that only 2 percent of patients seeking urgent surgical care (including cesareans) were provided free or subsidized treatment. This lack of financial access is clearly a contributing factor to maternal mortality. The poor often thus either avoid hospital services entirely or present too late. Late arrival (either during or after difficult deliveries) explains in part why there were 450 maternal deaths at Yalgado hospital in 2003, equal to about 10 percent of all births at the same hospital. In response, the government created a technical working group and commissioned a study on development of a subsidy system for emergency obstetrical care. The recommendations of the study and working group were discussed and validated at stakeholder workshop in March 200, and the financing implications integrated into the MTEF for the sector.

173. **Revise the fee structure for physicians and hospital services:** With the launching of the Bamako Initiative in the early 1990s, the government introduced cost recovery for health services, and introduced an essential drug policy based on low-cost generic drugs. The national drug procurement agency (Centre d’Achat des Medicaments Essentiels Generiques (CAMEG)) was established in 1992 to procure and distribute generic drugs, with a system of regional and district level pharmaceutical depots. The cost recovery approach significantly improved the availability of drugs in health facilities, including in rural areas, but despite the relatively low prices for consultation and generic drugs, cost emerged as a barrier for the use of health services by the poor. The current fee structures for hospitals are outdated with little correspondence to the actual cost of services, and in practice fees vary considerably from one hospital to another. The government commissioned a background study (financed through the budget) to review current costs and fee for services, and to make recommendations for revisions and exemptions for the poor.

174. **Revise the texts of local health management committees (COGES), stressing community participation in decision making, public health, and fees:** Community

management committees (COGES) were established to manage the proceeds of revolving drug funds, and to strengthen the participation of communities in healthcare. The COGES are managed by a Board of six elected members. However, the election is not always transparent, and there have been cases of corruption. Strengthened community oversight and electing women to the COGES offices could help reduce embezzlement. Because the question of revising COGES texts is closely tied to the ongoing process of decentralization, the Ministry of Health initiated a consultation process among key departments in the Ministry and other stakeholders, including the ministry responsible for decentralization. Draft revised texts were developed in early 2004, and a weeklong workshop was convened in March 2005 to revise and finalize the texts. A stakeholder validation workshop is planned for April 2005.

175. Develop a contracting system for hospitals on the basis of actions plans and performance indicators: Beginning in 1999, the Ministry of Health introduced a performance-based contracting system, in which districts were given money directly in local bank accounts, and prepared annual action plans based on a limited number of key indicators. Although there are neither rewards nor sanctions for good or poor performance, it was the first time districts prepared annual plans based on agreed indicators, and were given liquid financing to implement the plans. The system was initially piloted using funds from the World Bank Health and Nutrition project, and is being carried forward through the Dutch-sponsored PADS project. In the past two years, districts have been encouraged to incorporate a wider range of indicators, and to integrate donor, government, and cost recovery funds into their plans. While the allocation of funds among districts through the PADS project is based on standard criteria (district population, etc.), there is no criterion – either population, poverty, disease burden – for government budget allocations among districts.

176. Conversely, while public hospitals enjoy a degree of administrative autonomy with regard to management of financial resources, there is no performance contract or performance monitoring agreement between the central ministries and hospitals. Transfers from central government to referral hospitals vary significantly among referral hospitals, but are not based on any clear criteria. Government hospitals distribute a proportion of proceeds from cost recovery to health personnel (e.g., about 10 percent on average, but up to 20 percent at many regional hospitals), but this creates incentives to maximize cost recovery, and disincentives to provide exemptions to the poor. Faculty from the medical school represents the majority of specialists at the referral hospitals, but they are entirely paid by the Ministry of higher education (MESSRS), and receive nothing directly for their hospital service. This reduces accountability to hospital administrators and contributing to high rates of absenteeism among senior specialists, reducing the quality of hospital care.

177. In late 2004, the government approved a new statute for public hospitals, which will facilitate the development of internal and external contracting arrangements. In January 2005, the Ministry integrated hospitals for the first time into the PADS project, which required them to prepare performance-based action plans. The MOH has been working to improve its approach to and policy framework for contracting, with technical support from the World Bank Institute. Performance contracts governing budget transfers to hospitals have not yet been implemented, but are expected to be developed by the end of 2005.

178. Continue the policy of free vaccination: Despite the government's longstanding commitment to the principle of cost sharing under the Bamako Initiative, there is now

widespread recognition that financial accessibility has emerged as an important barrier to health service by the poor. To address this situation, the MOH in February 2002 sent a circular notifying all health regions that consultations for prenatal and infant care should be provided free of charge, as well as well as syringes, vaccination cards, and iron supplements for mothers, chloroquine for children and health cards. The direct cost of vaccines had been financed through the PPTTE since 2001. This policy has clearly been among the factors contributing to the increased vaccination since 2001. The MOH has developed a long-term strategy for vaccine program sustainability in collaboration with the Global Vaccine Initiative. These costs are integrated into the health MTEF.

179. **Adopt an action plan for the application of recommendations regarding health worker motivation:** inequitable distribution of health personnel is a long-standing problem in Burkina Faso. The distribution of student-employees is carried out based on the needs expressed by the regions and the personnel available, with positions to be filled (“new measures”) designated in advance. New staff is allocated among health regions, and the regional health directorates are responsible for distributing staff within the region. The HIPC personnel—who are recruited as contractual staff—are assigned automatically to the regions they designated when registering for the recruitment competition.

180. There are several problems with the current system. The first is the willingness of health personnel to relocate to remote areas. Second, although staff recruited to a given region and are expected to remain there for a least three years, in principle staff frequently succeed in being transferred back to urban areas despite not having fulfilled the minimum. Even those who remain the minimum requirement frequently spend the rest of their careers in urban facilities. Third, and related, the “budget posts” are associated with the civil servants themselves rather than the health facility or district (with the exception of HIPC-recruited staff), so that staff who transfer out of a rural facility take their salaries with them. The centralization of recruitment results in many other problems with transporting newly assigned staff to their duty posts. As the DRSs have no budget line for this purpose, it may take 6 to 7 months before staff reports to their posts.

181. With technical support from the World Bank, including WBI, the MOH initiated in early 2004 a participative process to develop an action plan for human resources in the health sector, involving MOH staff, representatives of the ministries of finance and civil services, and representatives of health workers’ unions. The action plan was drafted in late 2004, revised during a stakeholder workshop, further refined at a regional workshop on human resources in health (sponsored by WBI), and was officially adopted by the “Comité de Suivi” of the PNDS in March 2005. The action plan includes priorities for reforms (e.g., decentralization of budget posts), technical support and capacity building, as well as recommendations to improve staff motivation (including a proposal for additional payments for health staff working remote zones). The costs have been estimated and integrated into the MTEF, but the more costly measures may be modified during the budget arbitrage process. The majority of recommendations are not costly, but those recommendations with impact on the aggregate wage bill will need to be validated by the Ministry of Finance and Budget and reviewed by the IMF.

182. **Conduct a study on the basis of household data, DHS on the increase in child/youth malnutrition and its regional variation, and develop and action plan:** The

profile of nutrition in the Ministry has been increased somewhat by the elevating the former department of nutrition to a Directorate of Nutrition. Most activities and funding to date focus on micronutrients, including vitamin A. While important, more needs to be done to combat protein-energy malnutrition, including through community-level interventions. Despite the positive trends in reducing poverty and increasing cereal production in the past five years, recent household surveys have shown that child malnutrition, having deteriorated in the 1990s, has at best stagnated and possibly worsened since the late 1990s. The government and partners therefore have initiated a process of analyzing these data to better understand trends and reasons for regional variations, using data from both the poverty surveys (1998 and 2003) and the Demographic and Health Surveys (1998/99 and 2003). Terms of reference have been finalized, but initiation of the study was delayed by later than expected availability of the DHS 2003 data. This analysis will form the basis for an action plan to be validated prior to the next PRSC

c. Social Protection

183. The PRSC-5 action plan includes the preparation of a strategy for orphans and vulnerable children (OVC) as part of an overall Government plan to prepare a comprehensive Social Protection Strategy.

d. Water

184. PRSC-5 has accompanied the design of a new water management framework, involving private-public partnerships, the definition of the investment and financing plan to reach the MDGs, the revision of the framework for the reforms and equipment maintenance in semi-urban areas will be revised, and the preparation of an adequate action plan to improve efficiency in that area. Under PRSC-5, the Government has also continued the review of public sector water bills and usage to reduce public water bills. A detailed account of the implementation status of measures water related measures are described in Annex 4.

3. Good Governance

185. Under this component, PRSC-5 continues the support to a variety of public sector reform measures to reinforce programmatic budgeting, increase public sector efficiency, fight corruption, and bring services closer to beneficiaries.

a. Budget Information

186. The government has continued its efforts to link budgets closely to PRSP objectives by adopting the 2005 budget in line with sectoral ceilings of the 2005-07 MTEF and with the priorities of the PRSP

b. Budget Execution

187. A major reform in that area is the improvement of the accounting and monitoring of externally-financed investment spending by clarifying the role of different ministerial departments involved in the process, designing a recording and information sharing system, and constituting a project data base. In addition, the Government has pursued the preparation

of a computerized revenue management system. The government has also evaluated budget deconcentration and has prepared recommendations to increase its efficiency.

c. Procurement

188. The procurement agenda under previous PRSCs was completed through the nomination of a reform committee, the adoption of a decree regulating concessions and leasing in line with best international practice, the development of a computer application for the monitoring of procurement processes, and the adoption of regulatory text for the issuance and withdrawal of accreditation for public works. In addition, the government would continue the systematic ex-post controls on procurement contracting.

d. Budget Management and Control

189. Measures include the satisfactory implementation of an accounting system for government property to verify the efficient use of equipment and avoid fraud. The government has continued the regular submission of accounts to the Supreme Audit Court, and further reinforce staffing of the ex-post control services.

e. Public Sector Reform and Decentralization

190. In this area of civil service reform, the government will expand the use of the electronic personnel management system to line ministries, and will continue the implementation of the performance-based evaluation system. Government's revised decentralized framework is described in Box 1. The authorities will finalize the accounting software for local communities, adopt the judicial framework for the regions as deconcentrated entity, and begin with the transfer of resources and competencies to local communities. They will pursue efforts to strengthen the management of the agricultural and livestock ministries and develop better professional training for the rural sector.

Box 2: Summary of the New Decentralization

The «Code Général des Collectivités Territoriales au Burkina Faso» (the Code) adopted by Parliament on December 21, 2004, replaces the previous « Textes d'Orientation de la Décentralisation » (TOD) introduced in 1998 as the new framework for decentralization reform in Burkina Faso.

1. Confirmation of the new territorial system of Burkina Faso. The first positive key change with the 1998 TOD is the final clarification of the status of the “province”, which will remain a deconcentrated level. This lifts the uncertainty and ends a long and distracting debate as to whether or not the “province” should remain a “*collectivité décentralisée*” (like the communes) as well as a “*circonscription administrative*”, as originally envisioned by the government (1998 TOD, Art.1 and maintained as such in the “Loi Modificative” of July 2001) despite the opposition of the parliament and the mayors of existing communes.

Therefore, the configuration of Burkina Faso territorial system is now the following:

- *Collectivités Décentralisées* (or local governments) levels: (i) The Region, (ii) The Commune
- *Circonscriptions Administratives* (or deconcentrated administration) levels: (i) The Region, (ii) The Province, and the Département

Another important change is the requirement for the rural communes councils to establish a “*Conseil Villageois de Développement*” (CVD, village development council). However, the composition, organization and functioning of the CVD will have to be defined by a Decree issued by the Cabinet (Articles 223 and 224). Furthermore, the CVD will not be responsible directly to the rural commune mayor and his deputies.

2. The transfer of competencies and resources

The Code does state, as the TOD did, that “all transfers of competencies must be accompanied by the *concomitant* transfer of resources required for the normal exercise of the new competencies transferred to them” (Art. 61 of the TODs, Art. 36 of the Code). Art. 62 of the TOD and Art. 37 of the new Code state that the required new resources will come from three sources: fiscal transfers, grants or a combination of both. The TOD also stated (art. 64 and 65), like the Code in its art. 40 and 41, that any transfer of competencies must be accompanied by the permanent or temporary transfer of all or part of the corresponding “services”, formally exercised by the local branches of sector ministries.

A key change from the TOD is the creation of a permanent “*Fund*” (Code, Art. 141) to assist the *collectivités*. Its mission, size and criteria of eligibility will be specified by a Decree.

3. The operational implementation of the reform and modalities for the transfers

The new Code (Article 73) states that:

“The establishment of the regions and communes councils must be effective in 2007 at the latest. In the meantime, and until such a time their mandates be exercised by the “*délégations spéciales régionales*”, composed of central government appointees from various ministries⁹ under the authority of the governors, for the regions and the préfets for the communes.

Moreover, and regarding more specifically the pace of the transfer of competencies and resources, Article 75 indicates that for the region, this transfer must be effective three years after the establishment of regional councils (planned for 2007). For urban communes, the transfer in sectors such as health, basic education, illiteracy, youth policy, culture, sport and recreational activities, must be effective in 2005 at the latest. For rural communes, Article 77 indicates that the transfer must be effective three years at the latest after their establishment in 2005.

4. Concluding Remarks

Most important are the issues of transfers of competencies and resources. All ministries are confronted with the rationalization of their structures and the deconcentration of their human and budgetary resources. Another important aspect is the challenges facing the MATD in building, almost from scratch, the human and technical capacity in all of the new entities in order for them to be able to properly assume their new responsibilities.

In addition, in the absence of the implementing decree, and in respect to the transfer of resources, it is too early to say whether the creation of a permanent “Fund” for the investments needs of the *collectivités locales* will work. But this is a major innovation of the new Code, The Fund will be funded from two major sources: the national budget and the pooling of some donors funding, some of whom are already funding the “*Fonds de développement des Communes*” (FODECOM) and the “*Fonds d'Investissements des Communes*”(FICOM).

Source: Program Appraisal Document of the Capacity Building Project.

⁹ A draft decree is being prepared by the MATD regulating the composition, the functioning and the scope of the authority of the *Délégations Spéciales*.

f. Environment

191. PRSC-5 environmental actions are addressed through support to the decentralization process, the preparation and implementation of capacity building for environmental assessment in all ministries, strengthening the supervision of environmental management plans in externally financed project, and ensuring a better management of forestry resources.

PROPOSED FRAMEWORK FOR PRSC-6 AND THE NEXT SERIES OF PRSC

192. The envisioned PRSC-6 is an integral part of a series of three annual PRSCs –starting with PRSC-4 – to assist the government in implementing the revised PRSP in the period 2004-2006. As such, the policy framework for PRSC-6 was described in the program document of PRSC-4 and in Annex 3 of this program document.

Table 8: Proposed Triggers for PRSC 6

GROWTH AND EQUITY
<ul style="list-style-type: none"> • Maintain a stable macroeconomic framework during the program period.
<ul style="list-style-type: none"> • Adopt the draft budget for 2006 on the basis of sectoral ceilings of the 2006-08 MTEF and in line with the priorities of the PRSP
<ul style="list-style-type: none"> • Define standards and labels for the oleaginous products (sesame, cashew nut) and cowpeas streams.
IMPROVING SOCIAL SERVICES DELIVERY
<ul style="list-style-type: none"> • Adopt a MTEF for the Education Sector
<ul style="list-style-type: none"> • Implement a system of subsidies for obstetrical emergencies and reduce costs of assisted birth
GOVERNANCE AND DECENTRALIZATION
<ul style="list-style-type: none"> • Implement the new information system for the monitoring of external financing based on the software SYGADE
<ul style="list-style-type: none"> • Adopt an Action Plan for Procurement Reform based on the Conclusion of the 2005 CPAR
<ul style="list-style-type: none"> • Operationalize the accounting system for government property, and complete the physical verification of Government property.
<ul style="list-style-type: none"> • Finalize the framework for the transfer of resources and competencies to communes

Beyond PRSC-6

193. PRSC-7 will be underpinned by the third full PRSP for the period 2007-2009, and by a series of analytical work planed in FY05 and FY06, including a CPAR (FY05), a CEM (FY06), a social protection and labor market study (FY06), a Trade Integrated Framework (FY06), and other AAA planed in the forthcoming CAS. It is expected the three main areas of the current series of PRSCs (growth and job creation, access to social services, governance) will remain relevant but more emphasis would be given to the growth and job creation agenda (investment climate and diversification, including taking up reforms initiated in the recently closed mining project) given the pro-poor nature of growth in Burkina (cf. Poverty

Assessment Report); the decentralization/deconcentration policy and program, including the possible integration of urban sector's work; and a gender dimension.

194. **Gender issues.** Women represent 52 percent of the population and they play an important role in Burkina Faso's social and economic system. In rural and informal sectors women provide about 60 percent of the labor force. However, the gender gap is significant in Burkina Faso. In addition to the literacy gap, results of the 2003 household survey suggest that households having a female head are associated with significantly lower levels of per capita consumption and income and assets. For instance, in rural areas, per capita expenditure is lower by 21 percent and per capita income lower by 34 percent for female-headed households. They have less access to land (average of 0.5 ha, in contrast of 2.5 ha for men), and credit (for lack of collateral). Women lack time to pursue personal opportunities and development because of household chores (fetching water, wood fuel etc). Women also have limited political representation, representing only 8 percent of the Parliament and 4 percent of the mayors.

195. The first PRSP clearly identified women's vulnerability to poverty and included gender specific actions. The first series of PRSCs has supported the PRSP objectives of closing the gender gap in access to social services (lowering education costs for girls, and subsidizing obstetric care). With the revised PRSP which identifies gender as one of the key principles underpinning government's strategy to promote growth and reduce poverty, and with the benefit of several ongoing or planned analytical work on gender issues, it is possible to step up the gender agenda, with the goal to achieve higher growth with equity, and increased access to social services. The analytical work PRSP and the next series PRSC-7 could draw from include the joint Bank-Netherlands initiative on budget and gender.

196. Under the Bank-Netherlands partnership program, a gender-responsive budget outreach and learning program (GRB-OL) is currently implementing in Burkina Faso. The initiative is intended to afford a mechanism by which Governments, in dialogue with civil society, donors and other partner agencies, can integrate a gender analysis into public expenditure policies and budgets. It is expected that the GRB-OL will build greater awareness of, and capacity to implement, GRB work and its potential strong impact on country **poverty reduction strategies** and on meeting the **Millennium Development Goals (MDGs)**. The expected outcomes of the task in FY06 include a GDB Actions Plan which likely scope is outlined in the box below.

Box 3: Gender-responsive Budget Action Plan

The Country GRB Action Plan will typically provide for undertaking the following: (a) a synthesis of gender issues relevant for the budget exercise; (b) a review of the experience and practice to-date in the country in conducting GRB work, with particular focus on understanding the gender-differentiated impact of budget policies (using benefit-incidence analysis of public spending in key sectors and other analytical techniques); (c) a summary of the existing budget process in the country, including the preparation of sectoral strategies and budget framework papers, including in relation to country-level decentralization activities, and identification of key entry points for GRB in the country; (d) identification of [two] priority sectors in which to focus the GRB work in the next 1-2 budget cycles; (e) specification of key steps for the GRB work, including filling identified data gaps, conducting policy impact and benefit-incidence analyses, formulating recommendations in the identified priority sectors; (f) as appropriate, addressing GRB issues in the context of decentralization and strengthening local-level budgetary processes; and (g) outlining mechanisms for review/evaluation of the GRB work in relation to its impact on the country budget cycle, to inform and orient GRB interventions in subsequent budget cycles.

VI. PRSC 5 IMPLEMENTATION

POVERTY AND SOCIAL IMPACTS

197. 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 Report¹⁰, 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.

198. The PA findings as regards the trade-off between growth, poverty, and inequality, provided additional rationale for PRSC-5 focus on a growth path driven by improved productivity in the rural and cotton sector, and broader private sector participation in the secondary and tertiary sectors, including in the utilities sector. Indeed, the PA shows that growth has a significant impact on poverty and that the growth-inequality trade-off is fairly small in Burkina Faso. A one percent growth results in a 2 percent decline in the poverty gap, the average distance between the poor and the poverty line. A one percent increase in inequality, measured by the Gini index, would need to be compensated by about 1.4-1.5 percent more growth in Burkina Faso, a number that is small compared to several other countries that have previously been studied. In rural areas 0.8-1.1 percent more growth would suffice to compensate for a one percent increase in inequality, but in urban areas it would require 3.3-3.4 percent more growth.

199. Under a baseline growth scenario building on long-term real GDP growth of about 5 percent, driven predominantly by secondary and tertiary sectors, the PA demonstrates that the MDG target of halving poverty by 2015 could be achieved, but sustaining growth of five percent under the baseline scenario would be predicated on increases in cultivated land use or agricultural productivity, and significantly higher private investment than in the past in the secondary and tertiary sectors. Variations to the baseline scenario show the importance of cotton and agricultural production for accelerating poverty reduction and changes in inequality. A 20 percent increase in the level of cotton production in 2004 would give rise to a 4 percentage point decline in the poverty headcount accompanied by rising inequality since cotton producers are a relatively small group of the population. A 20 percent increase in the level of nontradable agricultural production would reduce the poverty headcount by about 9 percentage points by 2015 and reduce inequality as a larger population group shares in the additional income created. Finally, a growth scenario with the same overall growth rates but a different composition—a larger contribution from the primary sector—reaffirms the previous findings, namely that participation of the rural population in growth is crucial for accelerating poverty reduction and reducing inequality.

¹⁰ Burkina Faso. Risks and Vulnerability Assessment. Report No. 28144-BUR. January 30, 2004.

SUPERVISION

200. 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.

201. 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 (see annex 3) are extracted from the government overall development program (annex 2), thus providing significant benefits in reducing transaction costs for the Government. The PRSC-5 team will work with the authorities and the other donors under the UFBS to ensure that coordination of the supervision efforts will not undermine aid alignment with the budget cycle and/or increase unpredictability of aid. In assessing the implementation of the PRSP/PRSC, the UFBS will take into account factors outside government's control that may alter the underlying assumptions for a successful PRSP. Such factors include declining terms of trade, weather-related disaster, shortfalls in external assistance, regional instability etc.

FIDUCIARY ASPECTS

202. **Public financial management system.** The latest CFAA and CPAR were key inputs in the preparation of the government's budget management reform program (*Programme de Réforme de la Gestion Budgétaire, PRGB*). The PRGB is supported by most donors providing budgetary support, and is a core element of the UFBS. The government is also implementing annual audit procedures recommended by the CFAA. Under PRSC-1 to PRSC-4, most recommendations of the CFAA and CPAR have been successfully implemented. PRSC-5 is building up on the achievements under the first PRSCs by supporting the further strengthening of ex-post audits, and by including further measures to enhance transparency of budgeting and timeliness of accounting (see annex 3). Overall, the team's assessment is that Burkina's fiduciary framework is adequate to receive the proceeds of the credit.

203. **Safeguard assessment of the Central Bank**¹¹. The Central Bank of the West African States (BCEAO) is the common central bank of the west African states, which includes Burkina Faso. IMF carried out an on-site safeguards assessment of the BCEAO and proposed specific remedies to alleviate vulnerabilities: (i) **Financial reporting framework.** Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes. It was agreed between the BCEAO and Fund staff that the BCEAO will strive to improve its financial and accounting reporting by aligning its practices with those recommended by IAS, as adopted internationally by other central banks; (ii) **Internal controls system.** IMF staff

¹¹ IMF – EBS/04/178, December 22, 2004.

noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represented a significant risk. It was agreed between the BCEAO and Fund staff that, after seeking the opinion of the external auditor (Commissaire Contrôleur), BCEAO staff will propose to the BCEAO Board of Directors that it adopt a resolution whereby the external auditor will be required to apprise the Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the bank.

DISBURSEMENT AND AUDITING

204. **Disbursement and Implementation Arrangement:** It is proposed that the financing of US\$60 million equivalent be disbursed immediately upon effectiveness. The untied budget support will be disbursed against satisfactory implementation of the development program and not tied to any specific purchased and no procurement requirements will be needed. Once the financing becomes effective, the proceeds of the financing will be deposited by IDA into a Government account at the Central Bank at the request of the Borrower, and appropriately credited to the government's budget management system. If, after depositing in this account, the proceeds of the financing are used for ineligible purposes as defined in the Development Financing Agreement, IDA will require the Borrower to either: (a) apply the corresponding amount to eligible purposes, or (b) refund the amount directly to IDA. No dedicated account is required. The administration of this financing will be the responsibility of the Ministry of Finances and Budget. .

ENVIRONMENTAL AND NATURAL RESOURCES ASPECTS

205. The Bank has determined that the specific actions supported under the proposed PRSC-5 are not expected to have a significant effect on Burkina's environment and natural resources. As noted in annex 13, the potential environmental and social impacts of the series of PRSC-4-6 stem from its sectoral coverage. However, these impacts, which are mainly linked to the measures for rural development, privatization of ONATEL and reform of the energy sector, as well as to investments in education and health, should not be extensive; nor will they be irreversible.

206. Furthermore, there is a close and direct link between PRSC-5 and the sectoral investment projects as regards compliance with environmental and social safeguards, and 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. These projects are: (i) the Community-based Rural Development project; (ii) the Basic Education Sector project; (iii) the Response to HIV/AIDS project; (iv) the Competitiveness and Enterprise Development project; (v) the Energy project; and (vi) the Urban Environment project.

207. PRSC-5 is also providing support to measures aiming at strengthening government's capacity for environmental and natural resource management: (i) implementation of the key measures in the capacity-building plan developed under PRSC-2 in the budget for 2004 and

2005 and inclusion of the measures in the 2005-2007 MTEF; (ii) ongoing creation of cells in sectoral ministries in order to strengthen compliance with national regulations; (iii) improved supervision of the management of ligneous forest resources by means of effective improvements and promotion of biomass energy; (iv) supervision of other IDA projects and of implementation of recommendations for IDA projects already visited.

RISKS AND RISK MITIGATION

208. The risks for this operation include: (i) weak capacity at the central and decentralized level; (ii) fiduciary risks; (iii) commodity and currency rates risks; and (iv) regional instability.

209. **Weak Capacity is a medium risk.** The capacity of the administration to formulate and execute programs remains weak. Continued weaknesses in implementation capacity, particularly in line ministries, may hamper improvements in service delivery. The preparation and implementation of program budgets can only advance further if the capacity of the civil service is improved. In this respect, the Bank has prepared a PER in FY04 to give guidance for further improvements in the budget process, especially as regards integrating the budget and PRSP process and objectives. In the area of public sector management, the Bank is financing a capacity building project approved by the Board on March 22, 2005 to accompany and complement PRSC-5 and future PRSCs. Over time, the project aims at giving technical assistance for capacity assessment, deconcentration and decentralization in order to strengthen service delivery, streamlining public administration, modernizing personnel management, strengthening the poverty focus of expenditure, and strengthening policy formulation. In the statistical area, the Bank finances a statistical capacity building project. PRSC-5 will also step up the competence of monitoring resources transfers from the central Government to the municipal, regional levels and deconcentrated public services providers.

210. **Fiduciary risks are low but should be monitored.** The Government's continued efforts to strengthen financial management and procurement systems are reducing fiduciary risks with regard to the use of public funds, but they remain not negligible. To mitigate the risk, the Government must continue to push forward on implementing the recommendations and reform measures outlined in the most recent CPAR, CFAA and PER. The PRSC program, as well as the Bank's continuing analytical work in these areas, is providing assistance to the Government in this endeavor.

211. **Commodity prices and currency shocks are high risks in 2005.** Burkina Faso is heavily vulnerable to fluctuations of world prices for cotton and oil, and to the appreciation of the EURO – to which the CFAF is pegged at a fixed rate – against the US\$. High oil prices drain international reserves, and increase petrochemicals, electricity and transportation costs with adverse impact on the overall economy. Since cotton is the main export product of the economy, the prevalence of low international prices hurts the country's performance and sternly affects about 2 million persons in rural areas where most of the poor live. The potential fiscal impact of continuous low cotton price is also significant. The continuous depreciation of the US dollar is also a threat to the competitiveness of the economy. Under this operation, the Bank is promoting reforms to improve efficiency in the energy sector, including privatization and regulatory reforms. The Bank also helps the Government in implementing far-reaching cotton sector reform policies through the PRSC series. The Bank has also a flexible approach in the amount of PRSC financing to respond – if needed – to external shocks. Regarding the

currency shock, support under the PRSC will provide the authorities with non-inflationary deficit financing, thus helping to keep the real effective exchange rate at an adequate level.

212. **Political risks** for PRSC implementation arise from the presidential elections scheduled November 2005. The government may be pressured to delay or partially implement certain reforms or jeopardize its prudent fiscal stance around the election date to enhance its re-election prospects. For example, if international oil prices continue to rise, the government may be tempted to suspend the pass through into domestic pump prices to satisfy the powerful urban constituency. Similarly, should international cotton prices continue to fall, there could be non orderly attempts to provide public support to the producer price mechanism. Lastly, postponing privatization or increasing the wage bill may please public sector employees but would have long-term costs. The political risk is mitigated by the Government's solid track record of commitment for reforms, the participatory process that led to the revision of the PRSP and guarantees a strong ownership of the reform program throughout the administration and civil society. Embedding PRSC reforms in a medium-term framework and conditioning credit approval to prior implementation of reforms measures reduce the risk of backtracking and the influence of vested interest to hold up reforms.

213. **Risks of regional instability are medium.** Burkina Faso being a landlocked country, it totally depends on its neighbors for delivery of goods to and out of the country, and this geographical dependence makes the country's economy vulnerable to any political instability in the region. Recently, the political and security context in neighboring Côte d'Ivoire has been a concern. So far, the negative impacts of the crisis have been mainly economic - trade, transport linkages and Government revenues. The humanitarian and social impacts of large numbers of displaced people have been relatively limited although this could change if the situation deteriorates in light of the close economic and social links. If large numbers of Burkinabé return from Côte d'Ivoire, it will put a severe strain on the delivery of social services, which is already weak and stretched

214. The risks posed by the crisis in Côte d'Ivoire are being somewhat mitigated by the adjustment already made by the economy when the crisis first erupted in late 2002, notably the opening of new routes to Benin, Togo and Ghana. The risk is also alleviated through a regional response to the impacts of the crisis on neighboring countries by the African Union and regional bodies. Membership in regional integration organizations, including ECOWAS and the CFA Zone arrangement, not only provide mediation opportunities but also generate pressure for a prompt resolution of conflicts. Moreover, it is expected that the Government of Burkina Faso will continue to demonstrate its commitment to the peaceful resolution of this conflict through continued support to the implementation of the Linas-Marcoussis peace agreement. If the situation in Cote d'Ivoire deteriorates with more Burkinabé returning home, the Bank could consider increasing PRSC financing to provide timely support to the Government and host communities.

Annex 1: Letter of Development Policy

Unofficial translation of the French original

Mr. James WOLFENSOHN
President
The World Bank
1818 H Street, N.W.
Washington, DC 20433
U.S.A.

Subject: Letter of Development Policy

Mr. President:

1. The aim of this Letter of Development Policy (LDP) is to outline recent developments in Burkina Faso's economic and social situation and the related prospects over the next two years. This LDP is based on the revised poverty reduction strategy paper (PRSP) and the priority action program (PAP) associated with it. The Government adopted the PRSP by decree in October 2004. The LDP focuses on the implementation of the Government's program of key reforms, which is supported by the poverty reduction support credit (PRSC) of the World Bank.

1. STATE OF IMPLEMENTATION OF THE PRSP:
THE CONTRIBUTION OF THE PRSCs

2. In 2004, the implementation of the PRSP continued to be the Government's fundamental objective. Poverty incidence remains high with 46.4 percent of the population living below the poverty line in 2003. However, recent analysis based on comparable welfare indicators from the two household surveys of 1998 and 2003 show that poverty declined by 8 percent points between these two years, down from an estimated level of 56.4 percent in 1998. This positive outcome is the result of continuous efforts in PRSP implementation, with targeted programs in priority sectors.

3., The links between the central government budget, regarded as a major instrument for implementing key reforms, and the PRSP were strengthened. In fact, as a result of the process of using the medium-term expenditure framework (MTEF) to allocate resources, PRSP priorities were more effectively targeted in the budget law. Overall, based on budget law appropriations, allocations to the social sectors (basic education and literacy, health, social action, and national solidarity) in 2004 accounted for 25.4 percent of the budget, excluding debt service, tax exemptions, and external financing, compared to 22.6 percent in 2003.

4. Against the backdrop of the uncertainties that characterize the economic, sub-regional, and international environment (ongoing crisis in Côte d'Ivoire, low cotton prices, leap in oil prices, drought in the north of the country, and a the locust invasion in the Sahel), the Government has stepped up the reform of the budget and of the sectoral programs supported by the PRSC of the World Bank. In fact, despite these adverse external shocks, the

Government has maintained macroeconomic stability, and this resulted in the successful completion – on February 2 2005 - by the Executive Board of the International Monetary Fund (IMF) of the second and third reviews of Burkina Faso's economic performance under a Poverty Reduction and Growth Facility (PRGF) arrangement.

5. In 2004, after the strong growth of 8.0 percent achieved in 2003, the pace of economic activity slowed down as the GDP increased more moderately by 4.8 percent. The main advances achieved under the four PRSP pillars during the year are outlined below.

1.1. Accelerating broad-based growth

6. With a view to accelerating economic growth and ensuring that its benefits were shared more broadly, the Government pursued the implementation of measures aimed at enhancing the competitiveness of the agricultural and agro-alimentary production streams. A major reform carried out in that regard was the transfer of the assets of the cotton company, SOFITEX, in the eastern and central cotton-producing zones, to two private bidders. The new companies FASOCOTON and SOCOMA have already started operating. A progress report submitted to the Government served as basis for drafting a text reinforcing and reconciling the principles and rules pertaining to cooperation between the State and the private sector.

7. A number of other activities were carried out in 2004 in order to improve the business climate and raise the competitiveness of the Burkina Faso economy. They included accelerating the reforms undertaken in the telecommunications and energy subsectors, adopting a new labor code (in September 2004), and privatizing the companies still owned by the State. The ongoing liberalization of the mobile telephone segment led to further rate decreases and enhanced access to telephone services. The number of mobile-telephone subscribers increased by 67 percent, i.e., from 239,590 in 2003 to 399,981 in 2004. , The outlook for ONATEL's privatization, which should reinforce the trends toward lower rates and more subscribers, is brighter since March 16, 2005, when the Council of Ministers adopted a new strategy, providing for private ownership of most of the company's capital by reducing the State's share to 23 percent.

8. In the energy sector, the participation of private operators in the subsectors of electricity and hydrocarbons is expected to lead to better management and, in the medium term, reduced electricity-production costs. A new stage was reached when, on March 23, 2005, the Government adopted a draft law revising the legal and regulatory framework regarding power supply in the country. The proposed framework is in line with the electricity sector strategy adopted in 2004.. The bill provides for the establishment of an electricity subsector regulatory body whose responsibilities, organization and operation will be determined by a decree after enactment of the law.

1.2. Promoting access to basic social services by the poor

9. The Government, aware of the importance of human capital development for sustainable economic growth and job creation, made that component the second pillar of the PRSP. In view of the weak level of relevant indicators and the considerable volume of resources required in order to speed up progress toward attaining the millennium development

goals (MDGs), the Government gave top priority to basic education and health with regard to resource allocation and drew up consistent sectoral programs taking into account the most vulnerable social groups.

10. The share of these two sectors in the budget remained substantial and increased significantly over earlier years. As a result of improved budget procedures, involving stronger links between the budget and the PRSP, the shares of basic education and health in the central government budget, excluding debt service, tax exemptions, and external financing, increased, respectively, on the basis of budget law appropriations, from 12.4 percent and 9.4 in 2003 to 14.4 and 10.2 percent in 2004.

1.2.1. Access to basic education services

11. In addition to government efforts aimed at providing the education sector with substantial resources in line with the commitments made under the ten-year basic education development plan (PDDEB), other initiatives were undertaken in order to enlarge infrastructure and recruit additional teachers to make the new facilities operational. As a result, basic education indicators clearly improved: According to the statistical yearbook of the Ministry of Basic Education and Literacy (MEBA), gross admission rate to the first grade in school year 2004-05 leaped by 4.5 percentage points, attaining 71.1 percent and 64.7 percent for girls.

12. Gross enrollment rate in the 20 provinces with the lowest enrolment rates increased from 28.6 percent in 2001 to 38 percent in 2004 as a result of intensive government efforts undertaken since PRSP implementation and aimed particularly at building infrastructure in those areas. The achievement is significant, but progress need to be stepped up given the still unacceptably low enrolment and the gap with the millennium development goal for 2015. The situation calls for reviewing the approach adopted and taking into consideration the specific shortages of education supply and demand in each community. An educational map will be drawn up to serve as a basis for corrective measures.

13. In order to improve the process of resource allocation within the sector, an experimental MTEF for the MEBA was validated in October 2004. The next step is to extend the procedure to the Ministry of Secondary and Higher Education and Scientific Research (MESSRS) in order to address post-primary education, by providing an overview of linkages throughout system, according to the provisions of the education policy law.

1.2.2. Access to basic health services

14. The Government implemented various activities and reforms aimed at developing a health system beneficial to the poor. To make the use of resources allocated to the sector more efficient, an experimental sectoral MTEF, consistent with the goals of the national health development program (PNDS) and the MDGs, has been drawn up for the period 2005-2007.

15. To the same end, the Government has prepared a system of subsidies for obstetrical emergencies in order to reduce significantly the direct financial costs of childbirth and obstetrical treatment throughout the country with a view to lowering maternal mortality and

morbidity. In addition, a framework for monitoring advance payments has been designed and implemented in the Ministry of Health and the Ministry of Finance and Budget (MFB). The policies of free vaccination and of reducing the prices of essential generic drugs (EGDs) were further pursued.

16. The steps taken by the Government have produced significant results in terms of improving the health system. Vaccination rates have increased through relevant programs, including the distribution of vitamin A supplements to children under five. In 2004, the DCP3, BCG, yellow fever (VAA) and measles (VAR) coverage rates were respectively 88.39, 110.50, 76.02, and 78.34 percent.

1.3. Increasing employment and income-generating activities for the poor

17. Increasing employment opportunities and income-generating activities for the poor on an equitable basis constitutes the third pillar of the PRSP and the related program of priority reforms.

18. In 2004, the Government continued to promote cotton sector reforms by concluding contracts for the transfer of the eastern and central cotton-producing zones to new operators. Moreover, initiatives were developed in order to strengthen the relevant regulatory framework. To that end, a draft text reinforcing and reconciling the principles and rules pertaining to the execution of missions transferred or delegated to regional agricultural chambers (CRAs), producer organizations (OPAs), interprofessions and the private sector was drawn up. The final report of the study will be validated at a workshop to be held at the end of March 2005. With regard to the institutional framework, an audit of the Ministry of Agriculture, Water and Fisheries (MAHRH) was carried out. The results are presented in two documents, one containing the assessment and broad recommendations and the other outlining organizational and operational schemes for institutional reforms.

18. Regarding agricultural diversification, a unit was set up to manage the plan of action for the cereal production stream, and activities for implementing the plan were launched.

19. As a result of the reforms undertaken by the Government, cotton production in 2004-05 shows a 13 percent increase and the volume of cotton exports improved accordingly. However, the fall in internal cotton prices compounded by the depreciation of the dollar resulted in low exports revenue. In addition the drought in the north of the country and the subsequent locust invasion in the Sahel caused a significant (18 percent) reduction in cereal production, thereby impairing the attainment of food security objectives.

1.4. Promoting good governance

20. In 2004, strengthening democracy and the rule of law and improving public finance management mechanisms continued to be top priorities for the Government.

21. The 2005 budget, prepared on the basis of the 2005-2007 MTEF sectoral envelopes, is consistent with PRSP priorities. The monitoring of external financing was significantly improved, particularly by establishing in the Directorate General for International Cooperation

(DGCOOP) a project database and a table of existing grants agreements in order to facilitate statistical follow-up. A series of texts were adopted to clarify the role of the various actors involved in the external financing process, in accordance with the recommendations of the West AFRITAC mission of January 2004. In that connection, the Directorate of information processing services (DSI) was tasked in September 2004 with assessing all existing information processing systems in the MFB. Subsequently, the decision was taken to monitor external financing under the public debt management electronic system (SYGADE) created by UNCTAD. The relevant practical details are being defined through an MFB circular that will specify the roles of the various actors, a steering committee is being established and a plan of action for organizing the monitoring of external financing under the SYGADE will be ready by the end of April 2005.

22. With a view to improving budget reporting procedures and public accounting, measures were taken to introduce an accounting system for government property. The bidding process for the procurement of the necessary software is in the terminal phase of publication of the results. Personnel training in government property accounting procedures and software, and a scheduled physical inventory of State moveable assets were delayed by a complaint filed with the settlements committee by one of the tenderers after the publication of the results of the evaluation. The dispute was settled, the contract definitively awarded, and these activities will now take place.

23. However, in view of the passage of responsibilities to local authorities in the framework of decentralization, the Government conducted a physical inventory of State assets to be transferred in the areas of basic and preschool education, health, sport, entertainment, culture, and tourism. In the same vein, the Government has finalized the software for the integrated accounting system for local communities (CICL). The software is already in use in four local communities.

24. To complete existing public procurement procedures, the Government adopted on December 15, 2004 a decree containing general regulatory provisions on concession contracts. In the same meeting, it decided to establish a national coordination and monitoring committee to follow up on reforms in the public procurement sector. That committee will replace the working group set up under the 2003 decree to oversee the reform of the public procurement code.

2. OUTLOOK FOR THE PERIOD 2005-2006

25. The Government will continue to take action to further PRSP operationalization and to improve dialogue with all stakeholders.

2.1. Economic growth

26. At the macroeconomic level, the Government plans to pursue the program of reforms in order to better underpin a stronger and shared economic growth, focusing on the contribution of the private sector.

27. To enhance the competitiveness of the economy and promote the private sector, the Government will complete cotton industry reforms. Studies will be carried out with a view to setting up an interprofession, establishing mechanisms for setting prices and ensuring the security of payments to producers, and defining the role and functioning of a standing secretariat responsible for monitoring the industry after liberalization. These structures are fundamental to the management and sustainable development of the cotton industry and the Government will ensure that they are operational by the 2005-06 harvest.

28. Efforts will be made to ensure a diverse source for growth through a support to productive sectors as described in the priority action plan of the PRSP. Exports of oleaginous products, cowpeas, fruits and vegetables, meat and poultry – for which action plans are available – will be particularly stressed.

28. The Government will accelerate the privatization program in 2005, with progress expected in the privatization of ONATEL, SONABEL, the electricity company, and SONABHY, the monopoly for imports of petroleum products. The completion of these privatization will contribute largely to improve the competitiveness of the economy, through expected lower factor costs. The privatization of the ONATEL has been just resumed with the adoption of a new strategy envisaging the immediate transfer of the majority of the capital to the private investor. In addition, a call for tenders for the management of SONABEL was already issued. The works on the power line interconnecting Bobo-Dioulasso and Ouagadougou has started. These measures are expected to lead eventually to reduced cost and significant supply increased.

2.2. Development of human resources

30. Government policy aims at increasing substantially the resources allocated to the social sectors. In 2005, allocations to these sectors (including for water, electricity and projects counterparts) account for at least 26 percent of the central government budget, excluding heavily indebted poor countries (HIPC) assistance and external project-financing. Over and above ongoing social programs, these appropriations will fund targeted wage increases for health- and education-staff in the rural areas and incentives designed to improve its efficiency.

31. In education, steps will be taken in 2005 to strengthen the existing program-based budgeting and update the PDDEB. Moreover, subsidies to schools in the 20 provinces with the lowest school enrollment rates will continue. Furthermore, to improve the quality of the educational system, the Government will develop a plan of action for increasing the number of hours of actual teaching.

32. With regard to health, a system will be developed and set up in the period 2005-2006 for a comprehensive monitoring of resources allocated to hospitals, health districts, district repeat deposits, and community health center (CSPS) management committees. The management of health resources will improve through a strengthening of the program-based budgeting. Steps will be taken to implement the system for subsidizing obstetrical emergencies and reducing the cost of assisted birth. The expected significant reduction of the

direct financial costs of childbirth and obstetrical treatment throughout the country will contribute to lowering maternal mortality and morbidity.

2.3. Job creation

33. The Government's job creation priorities for the period 2004-2005 consist in professionalizing the actors involved in the various agricultural production streams. To that end, provisions concerning the execution of missions transferred or delegated to CRAs, OPAs, interprofessions, and the private sector will be adopted. The action plans regarding the fruits and vegetables production stream will be implemented in the same period

34. The above measures will contribute to the creation of acceptable jobs and the significant increase of income in the rural areas.

2.4. Promotion of good governance

35. At the political level, the Government is aware of the need of reinforcing democratic process, an essential prerequisite for national institution building and social stability. In that connection, 2005 will be devoted to the organization of fair and transparent presidential elections.

36. Regarding local governance, the Government is committed to the effective implementation of decentralization. It plans to strengthen that process, particularly by finalizing the framework for transferring resources and responsibilities to the communities and the effective deployment of the software for the integrated accounting system for local communities (CICL) to all regions. The Government will also continue to expand the delegation of credit initiated in 2003, with the objective to include all regions by 2006.

37. The improvement of economic governance is a constant objective of the Government which, accordingly, plans to reinforce budget management by providing the MFB with a policy document aimed at the definitive implementation of the budget management reform plan (PRGB).

38. The Government is currently undertaking a review of the national procurement system, recommendations of which will be translated in an action plan to improve the existing settings. Besides that action, priority will be given to budget preparation procedures to establish a closer links between the PRSP process and the budget. Government activities in that area will therefore aim at disseminating the use of budget programming tools (global and sectoral MTEFs, and program budgets) in the sectoral ministries. In addition, the efforts will be made in 2005 to ensure a better monitoring of external financings through the functionalities offered by the software SYGADE. Within this framework, it is envisaged that a steering committee will be established to supervise the adoption and implementation of an action plan, including the following key measures in 2005: adaptation of the software to the needs for the various agencies involved in the process, development of an interface with the computerized circuit of the expenditure and the integrated accounting system of the State, and training of relevant staffs to the use of the software

39. The Government plans to continue the development of the integrated revenue circuit (CIR), to implementing its first module. The Government will also finalize the software of the accounting system for government property, and will carry out the physical inventory of Government property.

40. The Government firmly believes in the effectiveness of the initiatives and measures outlined above. They have been designed with a view to implementing the program of priority actions under the PRSP and promoting subsequent PRSCs. Their implementation is expected to contribute to strengthening the macroeconomic framework and to favor a more robust and sustainable economic growth, necessary for a significant reduction of poverty.

Yours sincerely,

Jean-Baptiste M. P. COMPAORE
Officier de l'Ordre National

Annex 2: Government Policy and Overall Development Program

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
<p>Development objective: Reduce the incidence of poverty from 46.4 percent in 2003 to 41 percent in 2006</p>	<p>Improvement in per capita incomes Increase in access to basic social services and social protection Promotion of employment and income-generating activities Improvement in public policies</p>	<p>Incidence of poverty: 41 percent by 2006 Incidence of urban poverty: 15 percent by 2006 Incidence of rural poverty: 48 percent by 2006</p>	<p>*Surveys on household living conditions *Stocktaking of implementation of the action program for the PRSP</p>	<p>*Adoption of the PRSP and the Priority Action Program *Agreements with Technical and Financial Partners *Holding of Round Table *Finalization and adoption of the forward-looking study on "Burkina Faso 2025"</p>
PILLAR 1: ACCELERATING BROAD-BASED GROWTH				
<p>Increase per capita GDP by at least 4 percent a year beginning in 2004</p>	<p>1.1 Consolidation of macroeconomic stability</p>	<p>Annual GDP growth rate: 6.5 percent on average Annual growth of per capita GDP: 4 percent Average annual inflation rate: 1.7 percent Average tax ratio: 11.7% Basic budget balance, excluding grants (in percent of GDP): 8.9 percent on average External current deficit, excluding grants (in percent of GDP): 10.1 percent on average Ratio of investments financed domestically by tax receipts: 43.2 percent on average</p>	<p>*MTEF *Annual stocktaking of the action program for the PRSP *BCEAO monetary statistics *National accounts publications *TOFE</p>	<p>*Adoption and implementation of effective public policies *Arrangements with IMF (PRGF) and World Bank (PRSC) *Preparation and implementation of a national capacity building program</p>
	<p>1.1.1 Encouragement of private investment</p>			
	<p>1.1.2 Enhanced mobilization of domestic resources</p>			
	<p>1.1.3 Accelerated implementation of the Plan to Strengthen Budgetary Management (PRGB)</p>			
	<p>1.1.4 Improvement of the system for programming public investment</p>			

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	<p>1.2 Improved competitiveness of the economy</p> <p><i>1.2.1 Reduction in factor costs (water, fuel, electricity, telephone, transport, etc.)</i></p> <p><i>1.2.2 Completion of privatization program</i></p> <p><i>1.2.3 Completion of the Bobo-Ouagadougou connecting road</i></p> <p><i>1.2.4 Private sector development policy</i></p>	<ul style="list-style-type: none"> - Change in cost per Kwh - Change in average cost of telecommunications - Change in cost per cubic meter of water - Number of formal procedures required for creating a business reduced to 4 by 2006 	<ul style="list-style-type: none"> *Activities reports of the MMCE, MCPEA, MAHRH, MITH, MPT 	<ul style="list-style-type: none"> *National plan for development of the national information and communications infrastructure becomes operational *Unrestricted competition *Rate management *Implementation of the program to support competitiveness—unrestricted competition—rate management *Accelerated enforcement of court decisions *Effective deregulation of the sectors concerned
	<p>1.3 Support to productive sectors</p> <p><i>1.3.1 Rural development and food security</i></p> <ul style="list-style-type: none"> - <i>Enhanced capacities of small farmer organizations (OPFs-OPAs)</i> - <i>Introduction of a mechanism for the quality control of agricultural inputs</i> - <i>Improvement in soil fertility</i> - <i>Promotion and dissemination of research findings</i> - <i>Improvement of capacity in the area of prevention and management of natural disasters and crises</i> - <i>Development of promising subsectors</i> - <i>Construction/rehabilitation of irrigation infrastructure</i> - <i>Improved management of natural resources</i> - <i>Preparation and adoption of sectoral export strategies for promising subsectors</i> 	<p>Increase in cereal grain production: 5 percent a year</p> <p>Increase in seed cotton production of 23.5 percent in 2004 and 6.6 percent annually beginning in 2005</p> <p>Growth of agricultural product exports of 15-30 percent annually</p> <p>Growth of agricultural livestock exports of 7 percent annually on average</p> <p>Increased exports of fruits and vegetables</p> <ul style="list-style-type: none"> - Increase in jobs created by forest resource management - Increase in production of gum arabic by 5 percent a year *<i>preparation of 6 guides on the sectoral guidelines for preparing and reviewing environmental impact analyses</i> *<i>50 percent of targeted structures have created environmental units</i> *<i>25 percent increase in the number of documented findings and units having performed environmental audits</i> 	<ul style="list-style-type: none"> *Balance of payments *Central Government budget *Annual reports on grain production *MAHRH crop season reports *Annual report on livestock production Annual report of MECV Annual report of MEVC/MCPEA MECV activity report Surveys 	<ul style="list-style-type: none"> *Control of water supply *Implementation of rural development strategy *Implementation of sectoral action plans Availability of resources required Availability of units to provide the necessary information Enhancement of the technical and financial capacities of the structures responsible

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	<p>1.3.2 <i>Mines</i> Enhanced geological and mining knowledge Development and promotion of quarry products Development of small-scale mining Improved regulatory framework for mine operation</p>	<p>Increase in gold exports: At least 10 metric tons in 2006</p>	<p>*Balance of payments *Ministry activity report</p>	<p>*Implementation of the project to support small-scale mining and new deposits *Introduction of a support fund for development of the mining sector</p>
	<p>1.3.3 SMIs/SMEs - Improvement of the private investment climate - Strengthening of institutions supporting the private sector - Implementation of the state/private sector performance contract</p>	<p>Number of SMIs/SMEs created Number of SMIs/SMEs in operation</p>	<p>*MCPEA statistics</p>	<p>Effective operation of the national program for supporting the development of SMEs/SMIs</p>
	<p>1.3.4 Tourism - Development of agrotourism and ecotourism - Maximizing the value of the ecological and cultural heritage - Support and regulation of stakeholders in the sector</p>	<p>Increase in tourism receipts Growth in number of tourists</p>	<p>*Balance of payments *Central Government budget</p>	<p>*Opening access to tourist sites</p>
	<p>1.4 Increased contribution from expatriate economy 1.4.1 <i>Improvement in quality of migrant labor force</i> 1.4.2 <i>Enhanced awareness of migrant workers</i> 1.4.3 <i>Migrant worker placement policy</i></p>	<p>Increase in unrequited transfers</p>	<p>*Balance of payments</p>	<p>*Political stability in host countries *Favorable economic situation</p>
<p>Increase in access to basic social services and social protection</p>	<p>PILLAR 2: PROMOTING ACCESS BY THE POOR TO BASIC SOCIAL SERVICES AND SOCIAL PROTECTION</p>	<p>PHILAR 2: PROMOTING ACCESS BY THE POOR TO BASIC SOCIAL SERVICES AND SOCIAL PROTECTION</p>	<p>*MTEF *Budget laws *TOFE *Supplementary budget laws *Public expenditure reviews</p>	<p>*Availability of financing</p>

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	2.2. <i>Improvement of access to education services</i>	<p>Gross enrollment ratio (GER) at the primary level in 2005/06: 58.12 percent (50.12 percent for girls) and in 2006/07 (60.24 percent (51.94 percent for girls)</p> <p>Gross admission ratio (GAR) at the CPI level in 2006/07: 85.68 percent (79.74 percent for girls)</p> <p>Adult literacy rate of 35.8 percent in 2006/07 (21.5 percent for women)</p> <p>GER in the provinces with lowest ratios: 46 percent in 2006/07 (44 percent for girls)</p> <p>GAR in the provinces with lowest ratios: 62.69 percent (58.79 percent for girls)</p> <p>Primary school completion rate: 18.1 percent in 2006</p> <p>- Grade repetition rate: From 11.7 percent in 2003 to 6.3 percent in 2006</p> <p>- Accept 229,000 students at the secondary level in 2005</p> <p>- Rate of transition from primary to secondary: 45 percent in 2006</p> <p>- Gross enrollment ratio of girls in technical and vocational education: 11 percent in 2006</p> <p>- Staffing of technical and vocational education: 10 percent of secondary education personnel in 2006</p> <p>- Accept 8,000 students in technical and vocational education</p>	<p>Annual education statistics</p> <p>*Surveys on household living conditions</p> <p>*Annual statistics of MESSRS</p>	<p>*Adoption of regulatory provisions and measures needed to expand basic education to first cycle of secondary school, free of tuition</p> <p>*Implementation of the PDDEB</p> <p>Availability of financing for secondary education</p>
	2.2.1 Expansion of basic education			
	2.2.2 Improvement in quality and performance			
	2.2.3 Strengthened literacy training programs			
	2.2.4 Improvement in management and planning capacity of the educational system			
	2.2.5 Strengthening of general, technical, and vocational education Expansion of secondary education Expansion of technical education			

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	2.3. Improvement of access to health and nutrition services	Maternal mortality rate: decrease in number of deaths per 100,000 live births from 484 in 1998 to 313 in 2006 Infant-child mortality rate: From 184 per thousand in 2003 to 162.7 per thousand in 2006 Percentage of population living within a 10 kilometer radius of a health center: over 60 percent in 2006	Health statistics *Demographic and health surveys *Survey on household living conditions	*PNDS implementation
	2.3.1 Increase in healthcare coverage	Percentage of repeat deposits with no interruption of the 45 essential molecules: less than 5 percent	*Health statistics *Demographic and health surveys *Survey on household living conditions	
	2.3.2 Improvement in quality and use of healthcare services	CPN 2 coverage rate: from 54.1 percent in 2002 to 80 percent in 2006 Vaccination rate by antigen: DTc3: from 77 percent in 2003 to 87.5 percent in 2006 Measles: from 71.6 percent in 2003 to 87.5 percent in 2006 Yellow fever: from 71.3 percent in 2003 to 87.5 percent in 2006 BCG: from 90 percent in 2003 to 93 percent in 2006 -Proportion of attended childbirths: from 35.9 percent in 2002 to 55 percent in 2006		
	2.3.3 Strengthened efforts to combat disease	Percentage of CSPs operating in accordance with staffing standards: 90 percent in 2006		
	2.3.4 Increase in human resources devoted to health	Average cost of services and prescriptions at each level of care system		
	2.3.5 Improvement in financial accessibility of healthcare services	Proportion of underweight children under 5 Rate of low birth weight among newborns		
	2.3.6 Strengthened nutrition programs			
	2.4. Strengthened efforts to combat HIV/AIDS and STIs	Percentage of persons afflicted by AIDS who should be and are receiving treatment with ARVs: from 3 percent in 2002 to 55 percent in 2006 Prevalence rate of HIV/AIDS: from 6.5 percent in 2001 to 3.95 percent in 2006	*Health statistics *Demographic and health surveys *SP/CNLS survey	*Availability of financing *Implementation of the strategic framework for combating HIV/AIDS and STIs
	2.4.1. Strengthened prevention of transmission of STIs and HIV/AIDS			

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	2.4.2. <i>Improvement in care of infected persons</i>			
	2.5. Improvement of access to safe drinking water	<ul style="list-style-type: none"> - Number of new tubewells drilled per year: 1,800 tubewells on average, of which 1,000 by MAHRH - Number of provinces with a coverage rate exceeding 75 percent: 10 in 1999 and 37 in 2006 - Coverage rate of safe drinking water: <ul style="list-style-type: none"> *in rural and semiurban areas: 88 percent in 2004, 90 percent in 2005, and 92 percent in 2006 *in urban areas: 75 percent in 2004, 78 percent in 2005, and 80 percent in 2006 	<ul style="list-style-type: none"> *Survey on household living conditions *MAHRH statistics 	<ul style="list-style-type: none"> *Preparation and implementation of commune-level development plans *Implementation of village-level water supply projects *Availability of financing
	2.5.1. Enhanced coverage by safe drinking water			
	2.5.2. Reduction in regional disparities as regards availability of safe drinking water			
	2.6. Improvement in living conditions of the poor: Housing	<ul style="list-style-type: none"> - Electrification rate: <ul style="list-style-type: none"> *in urban areas: 48 percent in 2004, 50 percent in 2005, and 52 percent in 2006 *in rural areas: 2 percent in 2004, 4 percent in 2005, and 6 percent in 2006 - Proportion of households with functional latrines: <ul style="list-style-type: none"> *prevalence of latrine access in rural areas: 23 percent in 2004, 26 percent in 2005, and 30 percent in 2006 *prevalence of latrine access in urban areas: 85 percent in 2004, 86 percent in 2005, and 87 percent in 2006 	<ul style="list-style-type: none"> Survey on household living conditions *SONABEL statistics 	<ul style="list-style-type: none"> *Introduction of urban development master plans *Establishment of the housing bank
	2.6.1. <i>Promotion of access to decent housing</i>			
	2.6.2. <i>Improved housing quality</i>			
	2.7. Social protection of the poor	<ul style="list-style-type: none"> - Number of children reintegrated - Percentage of persons who are aware of or enforce the Individual and Family Code (CFF) 	<ul style="list-style-type: none"> CDE report *PAN/Enfance report *MASSN activity report *CAP survey 	<ul style="list-style-type: none"> *Implementation of a support program for vulnerable groups *Availability of financing

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	2.7.1 <i>Protection and promotion of women and the family</i>			
	2.7.2 <i>Promotion of solidarity and protection of specific groups</i>			
	2.7.3 <i>Strengthened technical and institutional capacities</i>			
	2.7.4 <i>Protection and promotion of children and adolescents</i>			
	2.7.4 <i>Protection and promotion of children and adolescents</i>			
Contribute to income creation and job creation for the poor	PILLAR 3: INCREASING EMPLOYMENT AND INCOME-GENERATING ACTIVITIES FOR THE POOR			
	3.1 DECREASED VULNERABILITY OF AGRICULTURAL ACTIVITY	<ul style="list-style-type: none"> - 30,000 ha of land recovery per year - Agricultural water works and small dams covering at least 1,000 ha per year - Number of manure pits built: At least 150,000 per year 	Activity report of ministry responsible for agriculture	<ul style="list-style-type: none"> *Continuation of Operation Saaga *Availability of financing *Commitment of producers
	3.1.1 Improved storage capacity of water retention works			
	3.1.2 Implementation of large irrigated perimeters			
	3.1.3 Promotion and development of small-scale irrigation			
3.1.4 Enhanced security of land tenure				

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	3.2. Intensification and diversification of plant production	Rate of increase in cereal grain production: 5 percent a year Rate of increase in cotton production: 23.5 percent in 2004 and 6.6 percent beginning in 2005	*Activity report of ministry responsible for agriculture *SOFITEX report *Annual reports on grain production	*Implementation of rural development strategy *Control of water supply *Implementation of action plans *Favorable market conditions *Privatization of cotton sector
	3.2.1 Increased production of food crops			
	3.2.2 Increased production of cash crops			
	3.3. Intensification and diversification of livestock production	- Coverage rate of vaccination against Newcastle disease - Coverage rate of vaccination against contagious bovine pleuropneumonia - Increase in milk production: 15 percent a year - Increase in egg production: 10 percent a year	*Activity report of Ministry of Animal Resources *National surveys of herd size *Sampling	Implementation of rural development strategy *Implementation of action plans *Favorable market conditions
	3.3.1 Development of cattle farming			
	3.3.2 Development of short cycle livestock rearing			
	3.3.3 Development of livestock farming in urban peripheries			
	3.4 INTENSIFICATION AND DIVERSIFICATION OF FISH PRODUCTION	Increase in aquacultural production: 300 metric tons per year beginning in 2005 Production of 2 million fry fish per year beginning in 2005	Activity report of ministry responsible for agriculture *Studies and sampling	*Implementation of rural development strategy *Implementation of action plans *Favorable market conditions

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	3.5 ENVIRONMENT AND COMBATING DESERTIFICATION	<ul style="list-style-type: none"> - Available stock of forest resources - Increase in forest areas managed for the production of fuelwood: 15 percent a year Land area recovered per year: 30,000 hectares 	<ul style="list-style-type: none"> Activity report of Ministry of the Environment and Living Conditions *Annual reports on crop seasons *Studies and sampling 	<ul style="list-style-type: none"> *Implementation of PAN/LCD *Availability of financial resources
	3.5.1 MANAGEMENT OF FOREST, ANIMAL, AND AQUATIC RESOURCES			
	3.6 INCREASE IN AND DIVERSIFICATION OF RURAL INCOMES	<ul style="list-style-type: none"> Number of beneficiaries of microcredits granted Volume of microcredits granted 	<ul style="list-style-type: none"> *Activity reports of FAARF, FASI, FAPE, etc. *Report on tools for financing the activities of the poor 	<ul style="list-style-type: none"> Strengthened financial capacities of decentralized financial institutions *Strengthened support for income-generating activities *Strengthened implementation of OPA plan
	3.7 SUPPORT FOR PRODUCERS' ORGANIZATIONS AND DEVELOPMENT OF INFRASTRUCTURE	<ul style="list-style-type: none"> - Number of polyvalent centers built - Number of regional Chambers of Agriculture in operation - Number of storage infrastructures built 	<ul style="list-style-type: none"> Activity reports of ministry responsible for agriculture *Reports of OPFs and OPAs *Survey and study reports 	<ul style="list-style-type: none"> *Effective establishment of regional Chambers of Agriculture *Commitment of OPFs, OPAs, and regional Chambers of Agriculture *Availability of financing
	3.8 IMPROVEMENT IN LIVING AND WORKING CONDITIONS FOR RURAL WOMEN	<ul style="list-style-type: none"> - Number of women benefiting from microcredits--FAARF - Number of women established in developed agricultural areas - Number of women with access to intermediate means of transport - Number of equipped women's groups (shea nut press, improved fireplaces, mills, etc.) - Volume of credits extended to women--FAARF 	<ul style="list-style-type: none"> Activity reports of MAHRH, MPF, MTEJ, MEBA, MCPEA *Activity reports of financing structures *Studies and surveys 	<ul style="list-style-type: none"> *Implementation of the national action plan to advance women

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	<p>3.9 PROMOTION OF JOBS AND VOCATIONAL TRAINING</p>	<ul style="list-style-type: none"> - Number of jobs created by projects financed by support funds - Changes in staffing in vocational training and apprenticeship centers - Unemployment rate - Percentage of employed persons engaged in day labor or piecework (precarious employment) 	<p>Report on vocational training</p> <ul style="list-style-type: none"> *Activity reports of MTEJ, MECV 	<ul style="list-style-type: none"> *Implementation of the national jobs and vocational training plan *Dynamism of economic activity
	<p>3.10 IMPROVED ACCESS TO RURAL AREAS</p>	<ul style="list-style-type: none"> - Number of kilometers of departmental roads built: 150 km per year - Number of kilometers of cotton access roads built: 760 km in 2004-2006 - Number of kilometers of departmental roads maintained: at least 4,000 per year - Number of kilometers of cotton access roads maintained: at least 1,500 per year - Number of localities electrified: 10 per year - Number of schools, health centers, and leisure centers equipped with lighting systems: 90 per year in each category - Number of departmental administrative seats equipped with rural telephone service: 20 in 2004, 40 in 2005, and 60 in 2006 - Number of province administrative seats equipped with community telephone centers: 15 per year - Proportion of country covered by radio - Proportion of country covered by television - Access time (in minutes) to nearest market infrastructures (food production, public transport) 	<ul style="list-style-type: none"> *Report on PST2 implementation *MMCE activity report *MPT activity report *Activity report of Ministry of Information *Surveys 	<ul style="list-style-type: none"> *Implementation of the national plan for communications and development, and of the national plan for NTIC development *Implementation of the rural electrification plan *Implementation of the national rural telephone plan *PST2 implementation
	<ul style="list-style-type: none"> - 3.10.1 Strengthened strategy on constructing rural roads 			
	<ul style="list-style-type: none"> - 3.10.2 Strengthened rural electrification strategy 			

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	<p>- 3.10.3 Strengthened strategy to promote rural telephone service</p> <p>-</p> <p>- 3.10.4 Program to broaden radio and television coverage</p>			
<p><i>Increase the efficiency of public policies and a country of laws</i></p>	PILLAR 4: PROMOTING GOOD GOVERNANCE			
		<ul style="list-style-type: none"> - Number of new jurisdictions created: 5 in 2004, 3 in 2005, and 2 in 2006 - Population per magistrate: from 1/50,000 in 2003 to 1/35,000 in 2006 - Action radius of security services: from 60 km in 2002 to 40 km in 2006 - Change in number of armed attacks: 75 percent reduction by 2006 - Number of civil society organizations benefiting from training in the protection of human rights: 10 per year-Number of new jurisdictions created: 5 in 2004, 3 in 2005, and 2 in 2006 - Population per magistrate: from 1/50,000 in 2003 to 1/35,000 in 2006 - Action radius of security services: from 60 km in 2002 to 40 km in 2006 - Change in number of armed attacks: 75 percent reduction by 2006 - Number of civil society organizations benefiting from training in the protection of human rights: 10 per year 	<p>Implementation of the action plan for the reform of justice</p> <ul style="list-style-type: none"> *Implementation of the plan to combat the lack of security *Implementation of the action plan to promote human rights <p>*Report of security services</p> <p>*Report of judicial services</p> <p>*Report of the unit for capacity building in civil society</p> <p>*Activity reports of the MPF and MPDH</p> <p>*CEDEF and CDE reports</p> <p>*Text of law adopted</p>	
	4.1 Promotion of political governance	<p>4.1.1 Promotion of a visionary and strategic state</p> <p>-</p> <p>4.1.2 Promotion of an effective political system and an equitable judicial authority</p> <p>-</p>		

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	4.1.3 Protection of human rights			
	4.1.4 Fight against lack of security			
	- 4.1.5 Strengthening the capacities of civil society			
	4.2 Strengthening of administrative governance	<ul style="list-style-type: none"> - Availability of a national strategy document on reform of the central government - Permanent operation of SIGASPE - Availability of the action plan for the extension of SIGASPE - Number of rural communes established: 302 by 2006 - Number of local elected officials trained: 1,092 in 2004, 2,358 in 2005, and 2,358 in 2006 - Trend of resource transfers from the central government to local governments: Subsidy of CFAF 1,567 million in 2004, and amount to be defined on the basis of legal provisions in 2005-2006 - Number of contracts signed with local governments - Number of agreements signed with private sector - Number of regional and provincial territorial development plans prepared - Number of concessions signed with local governments or public structures 	<ul style="list-style-type: none"> - Publication of administrative and wage statements by MFPRE and MFB MATD reports MEDEV reports 	<ul style="list-style-type: none"> *Enforcement of the implementing provisions of TODs *Availability of financing
	4.2.1 Consolidation of the comprehensive reform of public administration and establishment of the central government reform process			

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	4.3. Strengthening of local governance			
	4.3.1. Consolidation of the decentralization process			
	- 4.3.2 Building the capacity of local elected officials			
	4.4. Strengthening of economic governance	<ul style="list-style-type: none"> - Proportion of expenditure audited by ex post administrative audits - Budget execution rate of priority ministries - Number of government procurement contracts audited - Rate of absorption of external resources: equal to or greater than 75 percent a year - Increase in number of documented decisions 	<ul style="list-style-type: none"> *MTEF *Budget laws *ONAPAD annual report *INSD reports *PIP assessment *TOFE *Activity reports of the National Ethics Committee and the High Authority for Coordination of the Combat against Corruption 	<ul style="list-style-type: none"> *Proper functioning of the PRSP monitoring mechanism *Strengthening of the national statistical system *Updating of the MTEF and program budgets *Budget laws consistent with the priorities of the PRSP Action Plan *Implementation of the PRGB
	4.4.1 Strengthening of capacities to steer and manage the economy			
	- 4.4.2 Promotion of an environment conducive to the development of the private sector			<ul style="list-style-type: none"> More rapid enforcement of court decisions and program to build capacities in managing government procurement *Preparation and implementation of the action plan of the High Authority for Coordination of the Combat against Corruption

Annex 3: PRSC Policy Matrix

Medium Term Objectives	Policy Actions		Indicators	Benchmarks			Monitoring & Evaluation	
	PRSC 4	PRSC 5		PRSC 6	Base (Year)	2004		2005	2006
Accelerate real growth and reduce the incidence of poverty	Maintain a stable macroeconomic framework during the program period.	Maintain a stable macroeconomic framework during the program period.	Poverty Headcount	46.4 percent.	45.0	43.0	41.0	MED INSD
			Real GDP growth rate	8 percent	6.0	4.4	5.2	MED INSD
FIRST COMPONENT: GROWTH AND EMPLOYMENT CREATION								
A. Rural Sector: Reinforce the competitiveness of agricultural and agro-food sectors.								
Improvement of the competitiveness and economic performance of the cotton sector.	Continue with the implementation of the action plan for the opening of cotton sector by bringing the assets of SOFITEEX in the central and eastern zones to the point of sale.	Transfer of assets of SOFITEEX in the central and eastern zone and begin of activities of the two new operators	Put in place the new interprofession for the cotton sector including the new operators for the two zones.	Growth rate of cotton production	6.6	5	5	MAHRH SP/CPSA
				Growth rate of cotton fiber exports	6.6	5	5	MAHRH SP/CPSA
Limit the state to supervisory functions and transfer other functions to professionals in the sector or to the private sector	Prepare a draft text consolidating and harmonizing the principles and rules of the execution of missions transferred or delegated to regional agricultural chambers (CRA), professional organizations (OPA), the interprofession, and the private sector, including the modalities and conditions for such a transfer		Adopt text on the principles and rules of the execution of missions transferred or delegated to CRA, OPA, inter-professionals, and the private sector	Evolution of the number of professional agricultural organizations with economic vocation.	30,515 (2002)		40,000	DOFER
Clarification of the roles and responsibilities for agricultural development								
Producers and their organizations take a larger role								
Improvements in the economic performance of the sector								
Facilitate private investment and export of agricultural products								

Medium Term Objectives	Policy Actions		Indicators	Base (Year)			Benchmarks			Monitoring & Evaluation
	PRSC 4	PRSC 5		PRSC 6	2004	2005	2006	2004	2005		2006
						13.3 percent (1998-2003)	10-15	10-15	10-15	MCPEA SP/CPSA MITH
						60,504 ha in 2000-2001	1000	1000	1000	
						42,444 m pits built per year 2000-2001	150000	150000	150000	
						Feeder Roads built (kilometers) 2000-2002	500	850	850	
						Number of kilometres of departmental roads maintained	4300	4450	4600	
Improve efficiency and quality of basic services of the rural development ministries.	Finalize the institutional audit of the Ministry of Agriculture, Water, and Fisheries (MAHRH)		Elaborate an action plan to implement recommendations of the institutional audit, in consultation with stakeholders and the private sector, and begin its implementation							
Diversification of agricultural production.	Develop action plans to support crop diversification	Implementation of action plans for cereals	Implement action plans for cereals, cowpeas, and oilseeds			4 percent (1999-2003)	3	3	3	MCPEA FASONGORM MAHRH SP/CPSA
			Define standards and labels for oilseeds products (sesame, cashew nut, shea) and cowpeas streams.				17.3 percent (1998-2003)	7.0	6	6
			Support the emergence of professional exporters with the Oilseeds Council of Burkina Faso and the actors of the cowpeas stream.							
			Begin implementation of action plan for fruits and vegetables							
			Adopt and initiate the implementation of an action							
Intensification and	Adopt an action plan to increase the efficiency of the livestock		Growth of exports of meat and poultry							MRA MCPEA

Medium Term Objectives	Policy Actions			Indicators	Base (Year)	Benchmarks			Monitoring & Evaluation
	PRSC 4	PRSC 5	PRSC 6			2004	2005	2006	
diversification of animal production		PRSC 5 ministry based on the review of the livestock sector	PRSC 6 plan for the promotion of poultry and meat exports (standards, label, conditionings, and training of professional exporters)	Coverage rate of vaccination against Newcastle disease (2003) Coverage rate of vaccination against contagious bovine pleuro-pneumonia (2003)	22 % (2003) 39.3% (2003)	24 58	25 66	26 74	EASONORM DEP/MPRA SP/CPSA
B. Telecommunication sector									
Promote private sector participation in the telecommunications sector in order to increase the density of the fixed network and reduce the cost of fixed and mobile telephone services, in particular the connection costs between fixed line and mobile phones	Pre-qualification of bidders, preparation of bidding documents, and evaluation of bids	Bring ONATEL to the point of sale and transfer assets to the new operator	Modify the terms of the privatization and bring ONATEL to the point of sale and transfer assets to the new operator	Evolution of average costs of telecommunication between fixed lines and mobile Subscribers to the fixed line (thousands) Subscribers to the mobile (thousands)	CFA170	170	170	150	ARTEL
C. Energy sector									
Promote private sector participation in the electricity and petroleum sectors to improve the management of the electricity and petroleum distribution companies, in order to reduce production costs and tariffs.	Adoption of strategies for the electricity and petroleum sector	Adopt the changes to the regulatory and legal framework in line with the electricity sector strategy	Issue tender for the selection of a private operator for the management of the electricity sector Begin works on the power line Bobo-Ouagadougou Prepare bidding documents for the sale of SONABHY shares	Bidding documents are finalized and tender is issued The power line Bobo-Ouagadougou is built Private investors own shares of SONABHY				Yes	DGE Privatization Commission
D. Private sector development									
Identify strengths and weaknesses of the existing labor market laws and regulations	Hold tripartite discussions on labor code revision	Adoption of the changes to the labor code		Number of administrative steps to create a business		13	4	4	MCPEA

Medium Term Objectives	Policy Actions	Indicators	Base (Year)	Benchmarks	Monitoring & Evaluation
	PRSC 4			2004	2006
	PRSC 5			2005	
	PRSC 6			2005	
Facilitate trade	Preparation of a comparative study on labour laws and regulation and preparation of an action plan	Implement the action plan for the change in labour regulations			
	Revise the regulation for wholesale and external commerce	Adoption of the revised texts for wholesale and external commerce.			
	Put in place the project to strengthen FASONORM and train Trade point staff	Provide FASONORM and Trade-Point with logistics and financial resources			
	Create commerce tribunals	Strengthen the Chambers of Commerce within the Higher Court (<i>Tribunal de Grande Instance</i>)			
Improve performance of the justice system					
Reduce cost to start new firms	Allocation of logistical and human resources to the one-stop service center for new investors	Reduce the time for completing the formalities for the creation of new businesses	15 (2004)	7	
E. Mining					
Mining sector development					
		Enforce the new Mining Code, starting with the adoption of the implementation decrees.	0.78 (2003)	10	MMCE MITH
		Produce Geographical Maps		Yes	
		Increase access to mining zones		Yes	
		Finalize the feasibility study of the railroad Kaya-Tambao railway (450 kms)			
F. SME/SMI					
		Adopt an innovative Artisans' Code		Yes	MCPEA
		Support the Chamber of Craft Trades (Chambre des Métiers)		Yes	
SECOND COMPONENT: HUMAN RESOURCE DEVELOPMENT					
A. Education					
Improve the public service in particular in rural areas	Reduce teacher training time and remove automatic hiring procedures, increase budget allocations, give special	Strengthen the program budget for the sector and finalize the sectoral MTEF, including secondary education	52.3 percent in 2003 (46.0	58.1 (50.1)	60.2 (51.9) MEDA
	Finalize the sectoral MTEF, including secondary education including the resources to attain the PDDEB objectives and	School enrolment rate of 60.2 percent (51.9 percent for girls) by 2006			

Medium Term Objectives	Policy Actions		Indicators	Base (Year)	Benchmarks			Monitoring & Evaluation
	PRSC 4	PRSC 5			PRSC 6	2004	2005		2006
Improve the school enrolment rate in rural zones	PRSC 4 treatment to disadvantaged areas, increase number of schools and school equipments, provide free textbooks, begin personnel deconcentration, prepare draft sectoral MTEF, implement sub-cycle	PRSC 5 MDGs	PRSC 6 including the resources to attain the PDDEB objectives and MDGs Update the PDDEB Introduce Delegated Credits for the secondary education Continue the policy of subsidizing schooling in the 20 provinces with the lowest school enrolment rates	percent for girls)				
				37.6 percent (2003)	41.1	44.9	49.1	
Achieve higher literacy rates for the poor	PRSC 4 treatment to disadvantaged areas, increase number of schools and school equipments, provide free textbooks, begin personnel deconcentration, prepare draft sectoral MTEF, implement sub-cycle	PRSC 5 MDGs	PRSC 6 including the resources to attain the PDDEB objectives and MDGs Update the PDDEB Introduce Delegated Credits for the secondary education Continue the policy of subsidizing schooling in the 20 provinces with the lowest school enrolment rates	Admission rate for first grade in (girls)	66.0 percent (37.0) percent (2003)	69.3 (64.7)	70.7 (66.7)	73.2 (69.5)
				Admission rate in the 20 most disadvantaged provinces	52.4 percent (2003)	56	60	64.2
B. Health	Prepare national health development plan, establish a monitoring system for the PNDS institute régies d'avance, increase deconcentrated credits	Elaborate a sectoral MTEF for 2005-07, in line with PNDS objectives and MDGs Implement the monitoring system for the régies d'avance (including Ministries of Health and Finance)	Develop a monitoring system for the use of resources by hospitals, regions, districts (DRS), and health management committees (COGES) Strengthen the program-based budgeting of the sector in line with the sectoral MTEF Implement a system of subsidies for obstetrical	Primary completion rate	31.3 percent			33.8
				Literacy rate	32 percent			36
				Literacy rate for women	17 percent			22
				Ratio textbooks to student	0.3	0.5	0.5	0.5
Increase efficiency in use of resources	Prepare national health development plan, establish a monitoring system for the PNDS institute régies d'avance, increase deconcentrated credits	Elaborate a sectoral MTEF for 2005-07, in line with PNDS objectives and MDGs Implement the monitoring system for the régies d'avance (including Ministries of Health and Finance)	Develop a monitoring system for the use of resources by hospitals, regions, districts (DRS), and health management committees (COGES) Strengthen the program-based budgeting of the sector in line with the sectoral MTEF Implement a system of subsidies for obstetrical	Increase the availability of resources on the regional and provincial level	24.6 percent	27	28	At least 30
				Maternal mortality rate in hospitals (per	484			313
Improvement of access to health services	Implement vaccination program, increase health	Develop a system of subsidies for obstetrical emergencies	Implement a system of subsidies for obstetrical	Maternal mortality rate in hospitals (per	484			313

Medium Term Objectives	Policy Actions		Indicators	Base (Year)	Benchmarks			Monitoring & Evaluation
	PRSC 4	PRSC 5			2004	2005	2006	
PRSC 4 center staffing, reduce costs of preventive care, strengthen health center management, verify application of new tariffs	PRSC 5 PRSC 6 emergencies and reduce costs of assisted birth	PRSC 6 emergencies and reduce costs of assisted birth	100,000 births		45.0	50.0	55.0	MOH
		PRSC 4 center staffing, reduce costs of preventive care, strengthen health center management, verify application of new tariffs	Percentage of assisted births	35.9 (2002)				
Increase the number of staff in the remote areas.	PRSC 5 PRSC 6 emergencies and reduce costs of assisted birth	PRSC 6 emergencies and reduce costs of assisted birth	Child mortality rate (per 1000 live births)	184 (2003)			162.7	MOH
		PRSC 4 center staffing, reduce costs of preventive care, strengthen health center management, verify application of new tariffs	Implement an system of integrated subsidies for child diseases (PCIME) in 15 districts. Verify the implementation of the fee structure for physicians and hospital services					
Improve nutrition status of child and youth	PRSC 5 PRSC 6 emergencies and reduce costs of assisted birth	PRSC 6 emergencies and reduce costs of assisted birth	Revision of texts for the management committees (COGES), stressing community participation in decision making, public health, and fees					MOH
		PRSC 4 center staffing, reduce costs of preventive care, strengthen health center management, verify application of new tariffs	Develop a contracting system for hospitals on the basis of actions plans and performance indicators					
Increase the number of staff in the remote areas.	PRSC 5 PRSC 6 emergencies and reduce costs of assisted birth	PRSC 6 emergencies and reduce costs of assisted birth	Continue the policy of free vaccination					MOH
		PRSC 4 center staffing, reduce costs of preventive care, strengthen health center management, verify application of new tariffs	Continue the policy of free vaccination	Vaccination rates (percent): DTCP3: 77.0 Measles: 71.6 Yellow fever: 71.3 BCG: (2003) 93.0 CPNZ coverage rate: 54.1 percent (2002)	70	75	80	
Improve nutrition status of child and youth	PRSC 5 PRSC 6 emergencies and reduce costs of assisted birth	PRSC 6 emergencies and reduce costs of assisted birth	Adopt an action plan for the application of recommendations regarding health worker motivation					MOH
		PRSC 4 center staffing, reduce costs of preventive care, strengthen health center management, verify application of new tariffs	Develop an efficient strategy for the distribution of vitamin A	Percentage of health centers satisfying personnel standards: (expected) (2003) 78	80	85	90	
Improve nutrition status of child and youth	PRSC 5 PRSC 6 emergencies and reduce costs of assisted birth	PRSC 6 emergencies and reduce costs of assisted birth	Develop an efficient strategy for the distribution of vitamin A					MOH
		PRSC 4 center staffing, reduce costs of preventive care, strengthen health center management, verify application of new tariffs	Implement an efficient strategy for the distribution of vitamin A	Percentage of children aged 6-59 months with adequate intake of vitamin A (at least) (2003) 70			85	
Improve nutrition status of child and youth	PRSC 5 PRSC 6 emergencies and reduce costs of assisted birth	PRSC 6 emergencies and reduce costs of assisted birth	Design a National Nutrition Policy and Program					MOH
		PRSC 4 center staffing, reduce costs of preventive care, strengthen health center management, verify application of new tariffs	Create a multisectoral consultation framework for	National Plan is adopted (2003) 49.7	40	35	30	

Medium Term Objectives	Policy Actions	Indicators	Base (Year)	Benchmarks	Monitoring & Evaluation
	PRSC4		2004	2005	2006
	PRSC5	increase in child/youth malnutrition and its regional variation, and develop and action plan	insufficient weight (less than...)		
	PRSC6	nutrition and food security, including health, agriculture, education, economy and development, etc.			
C. Social Protection					
Better protection of vulnerable groups	Preparation of a strategic framework for the government financial responsibilities for orphans and other vulnerable children	Number of children in foster care	273 (2003)	700 900	1900 MASSN DGAS
	Preparation of a strategic framework for subsidization of schooling for the social cases	Number of children benefiting of educational support	4,867 (2003)	9,000 10,000	12,000
D. Water Infrastructure					
Develop and action plan for attaining the MDGs	Preparation of an action plan for public-private partnerships in urban areas	Number of provinces with a safe drinking water coverage over 75 percent	10 (1999)	35 37	37 MAHRH
	Definition of the investment program, and financing plan for the implementation of the action plan to reach the MDGs	Percentage of houses with access to safe drinking water in rural and semi-urban areas	85 (2003)	88 90	92
	Revision of the framework document for the reforms and equipment maintenance in semi-urban areas	Percentage of houses with access to safe drinking water: in urban areas	75 (2003)	75 78	80
	Preparation of a national water program for rural and semi-urban areas	Percentage of households with hygienic latrines in urban areas	33.3 (2003)	35 39	43
	Revision of the national strategy for sanitation				
	Identify water users belonging to the administration and eliminate those not eligible				
	Continue the verification of public buildings for leaks				
THIRD COMPONENT: GOOD GOVERNANCE					
A. Budget formulation					
Improve budget	Strengthen MTEFs, introduce	Adopt the draft budget for	Adopt the draft budget for	Share of the budget:	MFB

Medium Term Objectives	Policy Actions	Indicators	Base (Year)	Benchmarks	Monitoring & Evaluation
	PRSC 4	PRSC 5	2004	2005	2006
<p>formulation and the link between program budgets, MTEF, and budget.</p> <p>Reinforce the link between public expenditure and growth and the link between objectives, resource allocation, and results</p> <p>Improve the transparency of public expenditure management</p> <p>Increase the responsibility of budget managers</p>	<p>PRSC 4</p> <p>Adopt budget program budgets, institute PER procedure and oversight</p>	<p>PRSC 5</p> <p>2005 on the basis of sectoral ceilings of the 2005-07 MTEF and in line with the priorities of the PRSP</p>	<p>9.4 %</p> <p>12.4 %</p> <p>0.8 %</p> <p>(2003)</p>	<p>10.2</p> <p>14.3</p> <p>0.9</p>	<p>11.0</p> <p>14.5</p> <p>1.0</p>
	<p>PRSC 6</p> <p>2006 on the basis of sectoral ceilings of the 2006-08 MTEF and in line with the priorities of the PRSP</p> <p>Prepare an action plan to introduce delegated credits to the Ministry of Justice</p> <p>Implement the recommendations of the audit of HPC resources carried out in 2004</p>	<p>allocated to social sectors (excluding HPC resources and external financing)</p> <p>Health</p> <p>Education</p> <p>Social Actions</p>			
<p>B. Budget Execution</p> <p>Improve budget execution</p> <p>Increase the level of delegated credits and the speed of their execution</p>	<p>Adopt budget deconcentration procedures and extend the computerized expenditure management system (CID) to 5 regional capitals.</p>	<p>Satisfactory implementation of actions for the treatment and monitoring of externally financed investment spending based on the AFRITAC report:</p> <ul style="list-style-type: none"> - Clarify the roles of different departments and establish procedures and supporting documentation for DGCOOP, DGTCP, DGB, DCCF, and DGEP - Constitute a project database - Verify the table of credit and grant agreements 	<p>Budget execution rate in priority ministries (percent)</p> <p>69 (2003)</p>	<p>75</p> <p>80</p>	<p>85</p> <p>DGB</p>
		<p>Improved monitoring of externally financed investment spending:</p> <ul style="list-style-type: none"> - Design and implement an action plan for a complete information system based on the software SYGADE - Customize SYGADE for the monitoring of external financing. - Develop interfaces between SYGADE, the computerized expenditure circuit (CID) and the State integrated accounting system (CIE) - Training in the use of the software SYGADE is 	<p>Percentage of external financing (budget support and projects loans) managed under SYGADE</p> <p>Absorption rate of external resources exceeds 77 percent (2003)</p> <p>66 percent (2003)</p>	<p>60</p> <p>70</p> <p>72</p>	<p>80</p> <p>DGCOOP</p>

Medium-Term Objectives	Policy Actions		Indicators	Base (Year)	Benchmarks			Monitoring & Evaluation
	PRSC 4	PRSC 5			PRSC 6	2004	2005		2006
<p>C. Budget Procurement</p> <p>Improve the transparency of public resource management.</p> <p>Efficient and simplified procurement system.</p>	<p>Begin development of a computerized revenue management system (CIR)</p>	<p>Pursue the preparation of the CIR: establish choices for possible solutions and a demonstration</p> <p>Evaluate budget decentralization and prepare recommendations to increase its efficiency</p>	<p>Develop CIR and put in place first modules</p> <p>Notify decentralized services of their budgets at the latest 10 weeks after putting in place the budget</p>	2003	12.4	13.3	14.0	DCIUP
	<p>Adopt new regulations and procedures, reinforce capacity, adopt standard texts, verify application through audits, prepare application texts for new decree</p>	<p>Adopt a decree for the regulation of concession and leasing contracts to ensure best international practice in this area</p> <p>Put in place a tripartite committee for monitoring procurement reforms</p> <p>Adopt the arrêtés concerning the conditions for the issuance and withdrawal of accreditation for public works, corresponding to norms of transparency and equity</p> <p>Define the framework for the developing a computer application to set up a database and a software application to follow the procurement process consistent with the existing expenditure framework (CID)</p> <p>Continue the auditing of procurement contracts by IGF</p>	<p>For 80% of public tenders, 30 days maximum between the opening of the bids and the notification to the winner.</p>	4 (2003)	4	4	6	DGIB
	<p>Adopt the Action Plan based on the recommendations of the 2005 CPAR</p>	<p>Begin implementing the software application to monitor the procurement process in the CID</p> <p>Continue the auditing of procurement contracts by IGF</p>	<p>For 80% of public tenders, 30 days maximum between the opening of the bids and the notification to the winner.</p>	5 months (2003)	10 weeks	10 weeks	10 weeks	DGIB
<p>D. Budget management and ex-post control</p> <p>Improve budget reporting</p>	<p>Prepare a national good</p>	<p>The accounting system for</p>	<p>Number of audited procurement contracts</p>		10	12	15	IGF

Medium Term Objectives	Policy Actions		Indicators	Base (Year)			Monitoring & Evaluation
	PRSC 4	PRSC 5		PRSC 6	2004	2005		2006
and public accounting Dispose of a functional classification of expenditure Follow more closely the use and location of government property Reinforce the ex post control	PRSC 4 governance plan, regular preparation and submission of budget execution reports, operationalize the Supreme Audit Court, reinforce controls by IGE and IGF, operationalize the high authority for the coordination of the fight against corruption, implement WAEMU budget classification, prepare treasury balances on a monthly basis	PRSC 5 the action plan for the creation of a government property accounting system: - Purchase software - Train agents in procedures and the new software - Begin the physical verification of government property Adopt the 2002 budget execution report Submit the final account statements for 2001-2003 to the Supreme Audit Court Train magistrates of the Supreme Audit Court	PRSC 6 government property is operational: The physical verification of government property is completed. Adopt the 2004 budget execution report Submit the 2004 final account statements to the Supreme Audit Court Reinforce the staff and budget of control services	Dec. Dec. Dec.	June June June	June June June	DGB DGICP DGICP
E. Public sector reform and decentralization Improve personnel management and data on wage bill More effective management of human resources Decentralization (Improve local service delivery and empowerment of local communities.)	Finalize SIGASPE, prepare an action plan for extending SIGASPE to line ministries, prepare texts for decentralization and deconcentration of central government functions, define the role and organization of governates	Consolidation of SIGASPE and extension to line ministries Implement performance evaluation system Finalize the software for the integrated accounting system for local communities (CICL) Adopt the judicial framework for the deconcentration and implementation of the region as deconcentrated entity Begin pilot transfers of resources and competencies to communes	Continue the deployment of SIGASPE to government entities Deploy the CICL software Finalize the framework for the transfer of resources and competencies to communes	3 3 3	4 3 3	5 13 4	DGRE DGICP DGICP
F. Environment							

Medium Term Objectives	Policy Actions	Indicators	Base (Year)	Benchmarks	Monitoring & Evaluation	
<p>Improve capacity to assess environmental impact of government activities and protect environment.</p> <p>The environmental dimension is systematically taken into account in the development and implementation of new projects through environmental evaluation</p> <p>Better management of natural resources. Better biomass energy supply</p>	<p>PRSC 4</p> <p>Prepare a capacity building plan and reinforce procedures at the ministerial level, create focal points and cells, begin supervision of environmental management plan of IDA projects</p>	<p>PRSC 6</p> <p>Continuous implementation of capacity building plan for environmental assessment</p>	<p>2004</p> <p>3</p>	<p>2005</p> <p>4</p>	<p>2006</p> <p>6</p>	
	<p>PRSC 5</p> <p>Implement capacity building plan for environmental assessment</p>	<p>PRSC 6</p> <p>Control of the application of national regulation for environmental assessments</p>	<p>New ministries created</p>	<p>2004</p> <p>3</p>	<p>2005</p> <p>4</p>	<p>2006</p> <p>6</p>
	<p>PRSC 5</p> <p>Continue the creation of cells in selected line ministries</p>	<p>PRSC 6</p> <p>Control of the application of national regulation for environmental assessments</p>	<p>Proportion of new industrial units and projects have received the opinion of the Ministry of Environment as regards their environmental and social feasibility</p>	<p>2004</p> <p>3</p>	<p>2005</p> <p>4</p>	<p>2006</p> <p>6</p>
	<p>PRSC 5</p> <p>Continue the supervision of IDA EMPs and other donor-financed projects</p>	<p>PRSC 6</p> <p>Control of the application of national regulation for environmental assessments</p>	<p>Increase in forestry surfaces for energy production</p>	<p>2004</p> <p>3</p>	<p>2005</p> <p>4</p>	<p>2006</p> <p>6</p>
	<p>PRSC 5</p> <p>Ensure a better management of forestry resources owing to efficient organization and the promotion of biomass energy</p>	<p>PRSC 6</p> <p>Take stock of forestry resources and elaborate an investment program permitting a sustainable management</p>	<p>15 percent</p>	<p>2004</p> <p>3</p>	<p>2005</p> <p>4</p>	<p>2006</p> <p>6</p>
	<p>PRSC 5</p> <p>Ensure a better management of forestry resources owing to efficient organization and the promotion of biomass energy</p>	<p>PRSC 6</p> <p>Take stock of forestry resources and elaborate an investment program permitting a sustainable management</p>	<p>15 percent</p>	<p>2004</p> <p>3</p>	<p>2005</p> <p>4</p>	<p>2006</p> <p>6</p>

Annex 4: Progress made before PRSC-5
(Triggers in Boldface)

Policy Area	Original PRSC-5 measures	Measures implemented before PRSC-5
Macroeconomic Framework	Maintain a stable macroeconomic framework during the program period	Trigger fulfilled as specified. Real GDP growth was 4.8 percent, and inflation was low in 2004. On February 2, 2005, the IMF's Executive Board completed the second and third reviews of the arrangement under the IMF PRGF
C. Rural sector	Reinforce the competitiveness of agricultural and agro-food sectors	FIRST COMPONENT: GROWTH AND EMPLOYMENT CREATION
	Transfer of assets of SOFITEX in the central and eastern zone and begin of activities of the two new operators	Trigger fulfilled as specified. SOFITEX, the previous public monopoly has transferred its assets in the Central and Eastern zone to two new operators which have a 8-year exclusivity to develop their zones, after which the government will decide on the renewal of the exclusivity at its sole discretion. FASOCOTON and SOCOMA have already began their activities. SOFITEX retains the control of the Western zone. Other bidders were from US, Singapore, France, Switzerland, and Burkina Faso.
		The liberalization contributes to an improvement of public finance management by shifting a significant part of the cotton sector's financial risk from SOFITEX, the former monopoly in which the government has a 55 percent stake, to the new private companies. More efficient organization of operations is also expected through decentralization: before the liberalization, all production units had to report to SOFITEX's headquarters in Bobo Dioulasso in Western Burkina, it is expected that proximity of the decision center to the producers and the ginning units will increase efficiency by reducing the decision-making time and by speeding up some functions such as maintenance.
		The liberalization also increases the ginning capacity of the sector and employment. For instance, SOCOMA will upgrade an existing cotton ginning plant, thus increasing capacity from 23,000 million tones (Mt) to 35,000 Mt in the first year of operations. In addition, SOCOMA will construct a new ginning unit by end of year 2. This 45,000 Mt unit will be designed to have its capacity expanded to 55,000 Mt on a need basis. The new companies have retained all workers employed from SOFITEX, and it is estimated that SOCOMA will hire an additional 130 workers.
		In December 2004, the Executive Directors approved MIGA's Management proposal to offer Development Agro-Industries Sud S.A. (DAGRIS) guarantees covering its EURO1 million equity investment and EURO12.3 million shareholder loan to SOCOMA, as well as its EURO15.2 million loan guarantee to BCIA-Bi (a commercial bank) for a loan of the same amount to SOCOMA. MIGA's gross and net exposure ⁴ under is EUR49 million (US\$ 65.3million) and EUR44.5 million (US\$ 59.3million), respectively.
		A study was carried out and is serving as the basis to draft the new regulatory text. A validation workshop is scheduled at end-March 2005 to review and adopt the new framework.
	Prepare a draft text consolidating and harmonizing the principles and rules of the execution of missions transferred or delegated to regional agricultural chambers (CRA), professional organizations (OPA), interprofessions, and the private sector, including the modalities and conditions for such a transfer	
Management of rural development ministries	Finalize the institutional audit of the Ministry of Agriculture, Water, and Fisheries (MAHRH)	The results of the audit have been summarized in a two-volume report. See 'Audit et réforme institutionnelle du Ministère de l'Agriculture de l'hydraulique et des ressources halieutiques. Volume 1 : Diagnostic et axes des recommandations. Septembre 2004. Volume 2. Schéma organisationnel et opérationnel de réformes institutionnelles Décembre 2004.
	Adopt an action plan to increase the efficiency of the livestock ministry based on the review of the livestock sector	A livestock action plan is available.

Policy Area	Original PRSC-5 measures	Measures implemented before PRSC-5
Diversification of rural income	Begin implementation of action plans for cereals	The actions plan for cereals (PAC) aim at creating favorable conditions for improving the profitability of cereals production and promoting food security. The PAC are strengthening producers organization. A privately managed project implementation unit was created in June 2004. The work program of this unit is supervised by a steering committee including representatives of the public sector and producers. An inter-professional committee with regional branches are also in place. The action plan for rice is being implemented.
D. Telecommunication sector	Modify the terms of the privatization of ONATEL	The initial measure under PRSC-5 was to bring a share of ONATEL to the point of sale. That measure was fulfilled. However, the first attempt to privatize ONATEL was not successful in June 2004 as potential investors did not like the terms of the privatization, particularly to minority share that was offered. In July 2004, the government adopted a new approach, but prospective investors are still not granted outright majority. In the policy dialogue with the Government of Burkina Faso, the Bank has recommended the authorities to change the terms of the privatization by providing an outright majority (at least 51 percent) to prospective investors. The government was responsive to that dialogue as it approved new terms for the privatization that will limit the State share at 23 percent. At this time, the revised timetable for the privatization is the following: (i) in the first quarter 2005, hiring of the financial advisor to implement the privatization transaction; (ii) invitations for expression of interest sent in the third quarter 2005; (iii) invitation to tender sent to pre-qualified bidders in the first quarter 2006; (iv) final sale in the second quarter 2006.
E. Energy sector	Re-launch the privatization process to bring ONATEL to the point of sale and transfer assets to the new operator	Trigger fulfilled as specified. The government commissioned a study on the new regulatory framework. The latter was completed and the report was validated by the Government in a workshop in October 2004. The draft new regulatory framework and the draft new legislation (yet to be enacted by Parliament) has been adopted by a Decree of the Council of Ministers on March 23, 2005. A regulatory agency will be created by decree following the enactment of the law by Parliament.
Private sector participation in the energy and petroleum sectors	Adopt the changes to the regulatory and legal framework in line with the electricity sector strategy	The financial audits of SONABHY for the years 2002-2004 are being carried out as part of the preparation of the bidding package. A public announcement for inviting expressions of interest (EOI) is scheduled in the first quarter 2005. The new Labor Code was approved by the Parliament on September 14, 2004. It introduces more flexibility in hiring and firing rules.
F. Private sector development	Prepare bidding documents for a sale of SONABHY shares	This measure will allow Burkina Faso to align its practices to best practices in the sub region. The TORs are available and the selection of the consultant is completed.
	Adoption of the changes to the labor code.	A lawyer was hired in 2004, and the center received a company car. Additional resources are expected under the Bank-financed PACIDE project for private sector development and competitiveness.
	Preparation of a comparative study on labour laws and regulation and preparation of an action plan.	The project is ongoing. A study tour was organized to Tunisia in 2004.
	Allocation of logistical and human resources to the one-stop service center for new investors.	An interim report is available.
	Put in place the project to strengthen Fasonorm and train Trade point staff	Litigations are currently solved in the Commerce Chamber of the High level of jurisdiction (<i>Tribunal de Grande Instance</i>).
	Revise the regulation for wholesale and external commerce	A MTEF is available for basic education sector. The Government completed a PER for the secondary sector.
	Create commerce tribunals	The measure is being continued. Coverage has been extended to most regions with UNICEF as the implementing agency in 2004-2005.
B. Education	Finalize the sectoral MTEF, including secondary education including the resources to attain the PDDEB objectives and MDGs	The study was carried out. It shows that effective teaching hours are 660 hours on average, and compares poorly to the
	Continue the policy of subsidizing schooling in the 26 provinces with the lowest school enrollment rates	
	Prepare a study on effective teaching hours	

Policy Area	Original PRSC-5 measures	Measures implemented before PRSC-5
	Evaluate the execution of expenditure and the availability of school materials using existing administrative statistics and INSD tracking surveys prepared for PRSP monitoring	short-term objective of 800 hours and the medium term objective of 900 hours. An action plan is being prepared to address the issue. The 2004 tracking survey report from INSD is available. It shows a significant increase of resources to education facilities at the decentralized level in 2003.
C. Health Increase efficiency in use of resources	Elaborate a sectoral MTEF for 2005-07, in line with PNDS objectives and MDGs	Trigger fulfilled. A task force has been working for over a year, with support from a Bank-financed consultant. The team made a successful presentation in December 2004 of the draft health MTEF to all the central and regional Directors of the MOH, and received an strong overall endorsement with some specific comments for improvements. The team signed a memorandum with the GTZ macroeconomic modeling TA project to help improve/streamline the spreadsheet model, and the link to the macroeconomic model. A revised draft MTEF was presented to donors on February 18, 2005. The new draft MTEF is comprehensive. It was finalized by a task force that visited Bamako in March 2005 to benefit from Mali's experience in that area. The MTEF is ready to feed into the 2006 budget discussions.
	Implement the monitoring system for the régies d'avance (including Ministries of Health and Finance)	The régies d'avance system continues to be a source of problems and frustration for district and regional health officials, with many districts not receive their first tranche payment until late in the year. While lack of information/understanding by both health and treasury officials was a problem in 2003, the decentralisation process of the Treasury complicated things in 2004. However, health districts managers continued using "normal procedures" for the remainder of the budget, so total execution rates weren't significantly affected. In addition, several coordination meetings took place between the Ministry of Finances and Budget (Budget and Treasury Directorates) and the Ministry of Health. A monitoring framework for the régies d'avance was formally established on November 17, 2004. The group has since met several times, and appears to be functional, including organizing field missions in December 2004 and January 2005. The monitoring group has proposed establishing monitoring sub-groups (Treasury, health, etc) in each region, to ensure past problems are not repeated.
	Develop a system of subsidies for obstetrical emergencies	Triggers fulfilled as specified. The main objective is to reduce maternal mortality and morbidity through a significant reduction in the costs of delivery and emergency obstetrical services. A workshop on the National Strategy to Subsidize Emergency Obstetric Care in Burkina took place in February 2005. The workshop was the final step towards the adoption of the national strategy. It was organized by DSF (Direction de la Santé de la Famille) with support of main donors involved in reproductive Health in Burkina. While the Bank financed the local consultant to draft the strategy, UNICEF financed the full cost of the workshop. Technical assistance was also provided by WHO, UNFPA, and the French Cooperation. The workshop was attended by a wide range of stakeholders (more than fifty participants) including government officials, donors, civil society, various health professional associations and a representative from the National Assembly. Participants discussed various aspects of the strategy for subsidizing emergency obstetrical care. The workshop provided answers to various questions and feedback to various scenarios suggested in the supporting document. The workshop mainly helped specify the following: (i) the form of subsidy to be developed, (ii) the level of subsidy for the three major service provision categories (normal birthing, dysotopic birthing and major surgical interventions), and (iii) the methods for country-wide coverage which will be achieved by phases of service packages. The final report was prepared in March 2005.
	Revise the fee structure for physicians and hospital services	MOH wanted to commission a study on this issue, for which MOH/SP-PPF agreed to find financing within government budget. The terms of reference for the study are available.
	Revise the texts of local health management committees (COGES), stressing community participation in decision making, public health, and fees	COGES are health centers management with community participation. Initially, progress has been slow due to delays in establishing coordinating framework among the three different responsible departments in MOH (CADSS, Inspectorate, DGIS). A working group convened in December 2004, has issued a preliminary report in February 2005. A workshop scheduled March 7-12 will develop proposed revisions consistent with the evolving decentralization process. The PRCA appraisal document anticipates funding for COGES. The government will finalize the proposed revisions in April 2005.

Policy Area	Original PRSC-5 measures	Measures implemented before PRSC-5
		following a consultation process (possibly workshop) regarding role of COGES, community health etc in context of decentralization, and CDD programs (PONENT), etc.
	Develop a contracting system for hospitals on the basis of actions plans and performance indicators	The government has revised the texts governing hospitals, changing them from EPA to EPS (Etablissement Public de Santé). The Ministry also has developed a new contract for hospitals, but they are apparently not truly performance based (disbursement based on justification of expenses). Hospitals were required to produce integrated actions plans, however, including key indicators. In addition, hospitals were eligible for financing this year by the PADS project (the basket funding mechanism), which was to serve as an entry point for a broader contractual approach. While the PADS allocation to hospitals was based well-defined criteria (population served, etc., unlike government budget), the amounts were relatively small. A team from the Ministry of Health attended a WBI workshop on hospital reform and contracting, which exposed them to experiences in neighboring countries. French cooperation has full-time hospital specialist working with Ministry on reforms. The Bank will review current contracts, draft a technical note on possible revisions/improvements, and follow up dialogue with government, and France on further strengthening the contracting framework. The criteria for budget allocations among hospitals will be reviewed as part of the health MTEF and the 2006 budget dialogue.
	Continue the policy of free vaccination	The measure is ongoing. Actual outcome in 2004 exceeded objectives. Vaccination coverage rate is 76 percent for yellow fever, 78 percent for measles, 88 percent for DTP3, and 72 percent for BCG.
Staff development	Adopt an action plan for the application of recommendations regarding health worker motivation	Despite a slow start, significant progress has taken place in the past 6-9 months, and has achieved important momentum needs to be maintained. Using the recommendations from the November 2003 WHO-financed study on "Motivation of Health Personnel," the Human Resource sub-commission of the health sector "Comité de Suivi" produced an initial report and recommendations in July 2004. WBI provided support to help draft a detailed action plan. Following an initial "restitution" workshop in October, a sub-committee including representatives of MoH, MoF, Civil service, and the health workers unions worked intensively to produce a detailed action plan. Five participants from Burkina (including the DRH) then attended an Africa-wide workshop on HR/health reform in Ghana in November (also financed by WBI), where they further refined the plan. During a VC in December 2004, WBI provided further detailed comments which have been incorporated. Some elements of the draft Action Plan have already been integrated into the capacity building project (PRCA). Key next steps: (i) schedule a validation workshop for the action plan with key stakeholders; (ii) continue dialogue with MFB regarding financial implications of recommendations, and include into the health MTEF; (iii) MOH and MFB to prepare a technical note for next IMF mission.
Nutrition	Develop an efficient strategy for the distribution of vitamin A	The distribution of Vitamm A was made in parallel with the country-wide drive for vaccination against poliomyelitis.
	Conduct a study on the basis of household data, DHS on the increase in child/youth malnutrition and its regional variation, and develop an action plan	A nutrition coordinating group among interested partners was set up to help develop TORs and coordinate with the Nutrition Directorate. Due to the consultation process (UNICEF, WFP, WHO, etc), TORs have gone through multiple revisions and various consultants vetted. This has been useful in developing a working groups of partners engaged in nutrition. The full DHS data expected are now available. The Bank is providing financial support for this analysis, and for further follow up work, including consolidating the analysis into a formal ESW report on malnutrition in Burkina. Next steps: (i) Finalize TORs and select consultants for analysis (nutritionist and a statistician), launch analysis; (ii) distribute draft report, and hold validation workshop to launch preparation of the action plan. The Government prepared a draft OVC strategy and its action plan.
D. Social protection	Preparation of a strategic framework for the government financial responsibilities for orphans and other vulnerable children	
	Preparation of a strategic framework for subsidization of schooling for the social cases	While a technical note on the issue was drafted in September 2004, the Government has now decided to prepare a comprehensive social protection strategy, completion of which is scheduled by December 2005.

Policy Area	Original PRSC-5 measures	Measures implemented before PRSC-5
E. Water Infrastructure	<p>Preparation of an action plan for public-private partnerships in urban areas</p> <p>Definition of the investment program, and financing plan for the implementation of the action plan to reach the MDGs</p> <p>Revision of the framework document for the reforms and equipment maintenance in semi-urban areas</p> <p>Preparation of a national water program for rural and semi-urban areas</p> <p>Revision of the national strategy for sanitation</p> <p>Identify water users belonging to the administration and eliminate those not eligible</p> <p>Continue the verification of public buildings for leaks</p>	<p>The Privatization Commission and DGAEP (Directorate for the supply of potable water) should initiate the process.</p> <p>An inter-ministerial committee was set up on October 25, 2004. Two assessment reports were prepared by the Government and the Bank, respectively. France also provided financing for the design of a roadmap for the attainments of water-related MDGs. An inventory of existing infrastructures will be carried out in 2005 with the financing of the African Development Bank. Two consultants were hired to draft the program - starting in March 2005.</p> <p>An assessment report is being prepared in the 13 regions of the country. The report will serve to define various scenarios based on the typology of the private operators, the conditions of the infrastructures, the location and size of the concessions, the costs structure, and the appropriate incentives to promote private sector participation.</p> <p>The preparation is ongoing.</p> <p>The revision is ongoing.</p> <p>A survey was completed, and 48 controls were carried out in January 2005.</p> <p>Several public buildings were controlled, including the high school Philippe Zinda Kaboré, the Ministry of Labour, the Ministry of environment, and the officers' mess.</p>
THIRD COMPONENT: GOOD GOVERNANCE		
E. Budget: Formulation	<p>Adopt the draft budget for 2005 on the basis of sectoral ceilings of the 2005-07 MTEF and in line with the priorities of the PRSP</p>	<p>The government adopted the 2005 draft budget in line with the sectoral ceilings of the MTEF 2005-07 and the priorities of the PRSP. The MTEF was prepared and discussed in April 2004 at the launch of the budget cycle preparation. Within the overall ceiling set under the MTEF, the authorities significantly increased the allocation for non-wages recurrent expenditures in priority sectors, including health (+36%), social action and national solidarity (21%), basic education (7%), secondary and higher education (16%), and rural development (55%).</p>
F. Budget: Execution	<p>Satisfactory implementation of actions for the treatment and monitoring of externally financed investment spending based on the AFRITAC report:</p> <ul style="list-style-type: none"> - Clarify the roles of different departments and establish procedures and supporting documentation for DGCOOP, DGTICP, DGB, DCCF, and DGEP - Constitute a project database - Verify the table of credit and grant agreements 	<p>Trigger mostly implemented. The government has constituted a project database and has verified the table of credit and grant agreement. On September 15, 2004 the government adopted a memorandum (circulaire No 2604-207/MFB/CAB) clarifying the role of all agencies involved in the management of external debt. A similar effort for grants financing is being complicated by the weaker control the Government has on this category of financing due to the procedures of several donors. A workshop held on September 21, 2004 reviewed the feasibility of using the debt software SYGADE as the instrument for the monitoring of all external financing, including grants. A workshop held on March 17, 2005 adopted that option. This workshop will also determine the options for the monitoring of externally-financed projects. The government is taking steps to ensure that the new system will be operational by the appraisal of the next PRSC.</p>
	<p>Pursue the preparation of the CIR: establish choices for possible solutions and a demonstration</p>	<p>A steering committee met on September 17, 2004 to decide on the institutional and technological options. The preparatory analysis and technical report are available. The software is being built and should be available by December 2005.</p>
	<p>Evaluate budget deconcentration and prepare recommendations to increase its efficiency</p>	<p>A progress report and an action plan are available. The first experience of budget deconcentration in Bobo Dioulasso in 2003 was positive and led to the expansion of the program in 4 other regions in 2004 (Ouhangourya, Kaya, Koudougou, and Tenkodogo). The deconcentration will continue in 7 other regions in 2005 and 2006. The positive assessment of this experience is based on two elements: (i) reduced delays in executing the budget; (ii) the emergence of local entrepreneurship.</p>

Policy Area	Original PRSC-5 measures	Measures implemented before PRSC-5
G. Budget: Procurement	<p>Adopt a decree for the regulation of concession and leasing contracts to ensure best international practice in this area</p> <p>Put in place a tripartite committee for monitoring procurement reforms</p> <p>Adopt the decree concerning the conditions for the issuance and withdrawal of accreditation for public works, corresponding to norms of transparency and equity</p> <p>Define the framework for the developing a computer application to set up a database and a software application to follow the procurement process consistent with the existing expenditure framework (CID)</p> <p>Continue the auditing of procurement contracts by IGF</p>	<p>Trigger fulfilled as specified. The new decree was signed on January 31, 2005.</p>
H. Budget management and ex post control	<p>Satisfactory implementation of the action plan for the creation of a government property accounting system:</p> <ul style="list-style-type: none"> - Purchase software - Train agents in procedures and the new software - Begin the physical verification of government property 	<p>The decree creating the tripartite committee was adopted by the cabinet on December 15, 2004, and signed by the President, the Prime minister and all relevant ministers on February 23, 2005.</p> <p>Two draft decrees related to infrastructures and hydraulics sectors are available. Further consultations are taking place with DCMP.</p> <p>A study tour was organized in Morocco in September 2004. The development of the software is underway.</p> <p>Two audits and 35 controls were carried out by IGE in 2004.</p> <p>Trigger partially implemented. The bidding process for the procurement of the necessary software is in the terminal phase of publication of the results. Personnel training in government property accounting procedures and software, and a scheduled physical inventory of State moveable assets were delayed by a complaint filed with the settlement committee by one of the bidder after the publication of the results of the evaluation. The dispute was settled, the contract definitively awarded, and these activities will now take place. However, in view of the passage of responsibilities to local authorities in the framework of decentralization, the Government conducted a physical inventory of State assets to be transferred in the areas of basic and preschool education, health, sport, entertainment, culture, and tourism.</p>
	Adopt the 2003 budget execution report	The draft budget execution report was submitted by the Cabinet to the Audit Court on August 9, 2004. The final budget execution report was approved by the Parliament in December 2004.
	Submit the final account statements for 2001-2003 to the Supreme Audit Court	The final account statements of the Central accountants for 2001-2003 were submitted to the Audit Court. Because of weak capacity, public accountants at the decentralized levels and in Public Enterprises have more difficulties in submitting their final account statements.
	Train magistrates of the Supreme Audit Court	A training program is being implemented.
I. Public sector reform and decentralization	Consolidation of SIGASPE and extension to line ministries	The Human resources departments of the MEBA (Minister for basic education) and MESSRS (second and higher education) are operating the new software. Lack of equipments and connection to the RESINA (the government computer network) is constraining the extension to other ministries.
Personnel Management	Implement performance evaluation system	The new system is already effective at the General Directorate for Treasury. It remains to be generalized in other departments.
	Finalize the software for the integrated	Trigger fulfilled as specified. The software for the integrated accounting system for local communities (CCL) was

Policy Area	Original PRSC-5 measures accounting system for local communities (CICL)	Measures implemented before PRSC-5
Decentralization	Adopt the judicial framework for the deconcentration and implementation of the region as deconcentrated entity	The 13 governors of regions took office in December 2004. The law for the deconcentration is being drafted by the Ministry of Civil Service and the Reform of the State.
	Begin pilot transfers of resources and competencies to communes	The competencies to be transferred to the decentralization bodies are identified in the decentralized law adopted by Parliament on December 21, 2004: pre-school education, basic education and literacy program; health; culture, sport, youth and leisure. The transfer of resources is being defined as indicated by the decentralization law.
J. Environment	Implement capacity building plan for environmental assessment	Ongoing program.
	Continue the creation of cells in selected line ministries	12 ministerial cells have been created, although they are often short of financial resources.
	Continue the supervision of EMPs for IDA and other donor-financed projects	Supervisions are carried out as planned.
	Ensure a better management of forestry resources owing to efficient organization and the promotion of biomass energy	A master plan has been elaborated and pilot projects have been implemented. Additional resource would be of investment prevent the measure to be fulfilled.

Annex 5: Key Reform Measures Implemented under the First PRSC Program

Policy Area	PRSC-1	PRSC-2	PRSC-3	PRSC-4
Budget Formulation	<ul style="list-style-type: none"> Adoption of the 2002-04 Medium-Term Expenditure Framework (MTEF) Institution of program budget in five more ministries Adoption of budget procedures to more effectively track and record HIPC relief and related expenditure 	<ul style="list-style-type: none"> Adoption of budget law based on 2002-04 MTEF Completion of program budgets in 5 key ministries Completion of 2 PERs 	<ul style="list-style-type: none"> Adoption of budget law based on 2003-05 MTEF Creation of a regular PER process and supervision committee 	<ul style="list-style-type: none"> Adoption of budget law and program budgets for 2004 on the basis of sectoral ceiling of the 2004-06 MTEF and in line with the priorities of the PRSP. A PER for higher education was finalized and a PER for the justice sector was initiated.
Budget Execution	<ul style="list-style-type: none"> Full operationalization of a new financial management system Creation of administrative framework for delegating credits 	<ul style="list-style-type: none"> Creation of the legal-administrative framework for payment order issuance on the regional level Connection of the cooperation directorate (DGCOOP) with the financial management system 	<ul style="list-style-type: none"> Extension of the financial management system to Bobo-Dioulasso and issuance of payment orders on the regional level 	<ul style="list-style-type: none"> Extension of the computerized expenditure system (CID) to 5 regional capitals with a connection to the Government accounting system.
Procurement	<ul style="list-style-type: none"> Decentralization of procurement functions and involvement of ministerial finance (DAAF) and planning (DEF) directorates Reassignment of responsibilities for procurement financed internally (DCMP) and financed externally (DGCOOP) 	<ul style="list-style-type: none"> Limit role of DGCOOP to supervision of lending and disbursement procedures 	<ul style="list-style-type: none"> Adoption of a procurement decree in line with international best practice Preparation of a procurement manual and standard texts Preparation of a capacity building plan 	<ul style="list-style-type: none"> The new procurement decree is implemented. The standard documents of a sample of procurement during 2003 was audited by IGF
Budget Reporting and Good Governance	<ul style="list-style-type: none"> Submission of budget execution reports for 1996-1998 to the Chamber of Accounts Creation of an independent Supreme Audit Court Adoption of a work program for the Executive Secretary for 	<ul style="list-style-type: none"> Submission of budget execution reports for 1999 and 2000 to the Chamber of Accounts Adoption of an action plan to operationalize the Supreme Audit Court Finalization of the CFAA study and presentation of a related 	<ul style="list-style-type: none"> Full operationalization of the Supreme Audit Court Submission of 2001 budget execution reports to the Supreme Audit Court Adoption of a new organic budget law by the National Assembly Staffing of a high authority for the 	<ul style="list-style-type: none"> The new WAEMU budget classification. Has been incorporated in the CID and is being applied since the 2004 budget The Treasury account balances are being prepared monthly since March 2003.

Policy Area	PRSC-1	PRSC-2	PRSC-3	PRSC-4
Civil Service Reform and Decentralization	<ul style="list-style-type: none"> • Good Governance • Dissemination of the National Good Governance plan to all provincial authorities • Finalization of the development of the integrated payroll and salary management system (SIGASPE) 	<p>action plan</p> <ul style="list-style-type: none"> • Posting of allotted health budgets in public places <p>N/A</p>	<p>coordination of the fight against corruption</p> <ul style="list-style-type: none"> • Issuance of instructions to apply performance-based personnel evaluation system as of January 2003 and issue "mission letters," Issuance of further personnel management guidelines • Adoption of texts to define the role and attribution of decentralized authorities and specify the organization of the governor's office 	<ul style="list-style-type: none"> • Staff of IGE has been increased in 2004 • Nomination of governors for the 134 regions was completed in 2004.
Policy Monitoring and Evaluation	<ul style="list-style-type: none"> • Completion of a study on marginal tax rates by economic sector 	<ul style="list-style-type: none"> • Refinement of the list of PRSP indicators 	<ul style="list-style-type: none"> • Completion of a participatory poverty assessment • Launch of a new household survey 	<ul style="list-style-type: none"> • A Priority Action Plan with specific monitoring indicators was prepared, as part of the revision of the PRSP
Education	<ul style="list-style-type: none"> • Adoption of an action plan for recruitment of new teachers in accordance with provisions of the 1998 civil service reform • Adoption and release of policy statement to eliminate automatic link between admittance to the national education school (ENEP), creation of a new category of teachers to be hired at the regional level, and expansion of the community school program • Adoption of a new organization 	<ul style="list-style-type: none"> • Implementation of the action plan and education policy statement • Implementation of a mechanism to subsidize school supplies in the 20 provinces with lowest school enrollment rates • Expansion of the number of schools equipped with running water and separate sanitary facilities for girls • Continuation of provision of school books free of charge, ensuring sufficient resources to rural schools 	<ul style="list-style-type: none"> • Continuation of the financing and implementation of the ten-year basic education development plan • Continuation of the subsidization of school supplies in the 20 provinces with lowest schooling levels 	<ul style="list-style-type: none"> • The 2004 budget included allocations consistent with the PDDEB. Allocation exceeded the 2004-06 MTEF and the PDDEB implementation benefited from additional resources under the HIPC initiative.

Policy Area	PRSC-1	PRSC-2	PRSC-3	PRSC-4
Health	<ul style="list-style-type: none"> • chart for MEBA • Change criteria for promoting students and limit the repeating of grades • Adoption of national health policy document • Adoption of the 10-year health sector development program • Implementation of a vaccination program • Establishment of national HIV-AIDS coordinating body • Implementation of plan to endow health centers with a minimum of required staff • Limitation of the inventory shortfall of drug supply to norms of the PRSP 	<ul style="list-style-type: none"> • Introduction of a number of preventive services at the primary health care level free of charge • Reduction of prices of drugs sold by the purchasing center for generic drugs (CAMEG) • Provision of budgetary resources to replace IDA funds financing regions and health districts • Continuation of the vaccination program • Continuation of the plan to adequately staff health centers • Limitation of the inventory shortfall of drug supply to norms of the PRSP • Completion of beneficiary assessment 	<ul style="list-style-type: none"> • Publication of a list of prices for key medical services and subsidized rates for 3 pediatric drugs • Free provision of prenatal care • Continuation of the vaccination program • Establishment of <i>régies d'avance</i> in all 66 health districts and regions • Development of community-based strategies for malaria, nutrition and reproductive health 	<ul style="list-style-type: none"> • Continuation of the distribution of vitamin A during the polio vaccination days • The General health inspectorate verified the application of the price structure and prepared an internal audit report • The 2004 budget provided sufficient resources for the provision of subsidized health services.
Rural Development	<ul style="list-style-type: none"> • Completion of the public expenditure review • Completion of the study on opening the cotton sector 	<ul style="list-style-type: none"> • End SOFITEX legal monopoly for cotton marketing • Establishment of an action plan for opening the cotton sector • Restructuring of IDA-funded 	<ul style="list-style-type: none"> • Elaboration of the bidding documents for two cotton zones representing about 15 percent of production 	<ul style="list-style-type: none"> • The technical bids for the opening of the two zones were evaluated in August 2003. The opening was completed in September 2004 as part of PRSC-5 • A strategy for the

Policy Area	PRSC-1	PRSC-2	PRSC-3	PRSC-4
Environment	<ul style="list-style-type: none"> • Adoption of the national plan for environmental education • Organization of campaign on environmental assessments • Upgrade of skills of environmental assessment practitioners 	<p>rural development operations</p> <ul style="list-style-type: none"> • Development of action plans for diagnostic studies for crop diversification • Enforcement of health guidelines for livestock <ul style="list-style-type: none"> • Clarification of mandates of the environmental management committee (CONAGESE) and the directorate general for preservation of the environment (DGPE) • Preparation of a three-year action plan for capacity building • Establishment of ministerial focal points for environmental assessments 	<ul style="list-style-type: none"> • Launching of the technical pre-qualification process for the two cotton zones • Finalization of several action plans for diversification of agricultural activities • Dissemination of environmental safeguard procedures • Issuance of joint ministerial instructions on the application of environmental assessments 	<p>development of fruits and vegetables streams was finalized in early 2004</p> <ul style="list-style-type: none"> •

Annex 6: Key Outcomes Envisaged under PRSC 1-3 (2001-03) and Results

Policy Area	(a) Type of Monitoring Indicator		(b) Achievements since 2000
	POLICY BASED	RESULTS	
	Input/Output	Outcome	Anticipated Impact
Overall Macro Framework	<ul style="list-style-type: none"> Appropriate fiscal stance/budget deficit Stable real exchange rate Low inflation rate (less than 3 percent) 	<ul style="list-style-type: none"> Real GDP growth (4-6 percent) Real income per capita (about 2 percent a year) 	<ul style="list-style-type: none"> Consumption of the poor Lower number of people below the poverty line: about 2 percentage point reduction a year
	<ul style="list-style-type: none"> Social sector ministries' budget execution rate and analysis of results compared with targets set by the ministries Completion of year-end budget execution reports (<i>lois de règlement</i>) and transmission to the Supreme Audit Court (<i>Cour des Comptes</i>) and to Parliament 	<ul style="list-style-type: none"> Share of budget effectively reaching the most decentralized departments Reduced gap between unit prices of a selected number of products obtained by public bidding and those obtained by the private sector 	<ul style="list-style-type: none"> Increased accountability of public entities for achievement of performance objectives, spending of public resources, procurement of goods and services—as indicated by results of evaluations done through the INSD Increased value for money in public procurement and contracting in agencies—as evidenced by unit costs meeting the market test Increased transparency and enhanced civil society capacity to monitor public sector performance, as indicated by the quantity, quality and timely of information, pertaining to public sector performance and expenditures, available to the public
Public Sector And governance			<ul style="list-style-type: none"> The government maintained an appropriate fiscal stance under the IMF's PRGF-supported program, with stable real exchange rates and, with the exception of 2001, inflation stayed below 3 percent. Average annual growth rates in 2001-2003 exceeded 5 percent Analysis based on time-consistent expenditure aggregates shows an 8 percentage points decline in the headcount index between 1998 and 2003 A Supreme Audit Court was instituted in 2002 and has evaluated budget execution reports for 1995-2001, which have been adopted by the National Assembly in 2003 The share of decentralized budgets has increased further in 2002 but execution by the education ministry has been poor and needs improvement A new procurement decree and implementation regulation were adopted in May 2003 The difference in unit prices between publicly procured goods and market reference prices decreased in 2002, but further reductions are needed. The average time period between verification of delivery and payment fell from 56 to 42 days in 2002 and reached 47 days in 2003. Administrative data and the surveys on service delivery quality and expenditure tracking are available regularly. They are exploited as part of the monitoring and evaluation of PRSP implementation Information on public expenditure and performance is being made available regularly, in particular through the PRSP progress reports. Budget documents are public. Parliamentary debates on budget execution reports have reinforced control, including by opposition parties. However, broader public oversight remains hampered by limited capacity of civil society

<p>Pro-Poor Sectoral Policies</p>	<p><u>Education</u></p> <ul style="list-style-type: none"> Average cost per child in primary school <p><u>Health</u></p> <ul style="list-style-type: none"> Essential drugs breakdown rate (less than 8 percent) Cost of medical interventions in first level health centers <p><u>Rural Development</u></p> <ul style="list-style-type: none"> Loans granted to farmers Network of rural roads 	<ul style="list-style-type: none"> Gross enrollment rate for girls/total enrollment rate, from 34 percent in 1999 to 50 percent in 2003 Gross enrollment rate in least privileged rural areas <ul style="list-style-type: none"> Vaccination coverage ratio (in percent) <ul style="list-style-type: none"> - BCG: from 60 in 1999 to 90 in 2003 - DTP3: from 42 in 1999 to 70 in 2003 - Measles: from 53 in 1999 to 70 in 2003 - Yellow fever: from 50 in 1999 to 70 in 2003 Rate of use of health facilities : number of new contacts per person and per year in first level health centers (CSPS, CMA) Higher farm mechanization rate Higher cereal production 	<ul style="list-style-type: none"> Higher literacy rates (from 19 percent in 1999 to 25 percent in 2003) Higher literacy rates among women <ul style="list-style-type: none"> Decrease in infant mortality (under 80 per 1000 live births in 2003, down from 105 in 1999) Decrease in maternal mortality (under 400 per 100,000 live births in 2003 , from 484 in 1999) Lower mortality rates in poor families <ul style="list-style-type: none"> Increased and diversified rural income Reduced vulnerability to agricultural activities 	<ul style="list-style-type: none"> Tracking surveys show 5.5 percent increase in the cost of education in 2002 but the cost remains below its 2000 level Gross primary enrollment rates increased from 41.7 percent in 1999-2000 to 52.3 percent in 2003-04 overall, and from 36.2 percent to 46.0 percent for girls. In the 20 most disadvantaged provinces, enrollment increased from 27.8 to 36.2 percent. According to the household survey, literacy rates increased from 18.4 to 21.8 percent between 1998 and 2003. However, female literacy rates remained unchanged Tracking surveys indicate that the cost of many standard medical interventions (appendectomy, caesarian, etc) declined in 2002 by 15-30 percent, reflecting the sharp reduction in cost of medicine Between 1999 and 2002, vaccination rates increased from 60 to 90.4 percent (BCG), from 42 to 69.1 percent (DTP3), from 53 to 64.1 percent (measles), and from 50 to 61.4 percent (yellow fever) The use rate of health facilities increased from 0.206 person/year of 0.27 person/year between 2000 and 2002 Infant mortality rates declined from 105 to 83 of 100 live births, and juvenile mortality rates declined from 127 to 111 per live 1000 live births the new demographic and health survey for 2003 are not yet available 800 kilometers of feeder roads have been constructed out of HIPC resources during 2000-02 and funds are being channeled at a small scale to rural communities under the community-driven development project, which is being extended to the entire country Irrigation techniques are being promoted Following favorable climatic conditions, cereal production increased by more than 1.5 percent in 2003 after an already abundant harvest in 2002 Mechanization rates remain low Diversification of incomes remains very limited and cotton remains the main cash crop. Cotton production is growing fast on account of increasing surfaces. Promotion of other cultures is in its early stages
--	--	--	--	---

Annex 7: Fund Relations Note



INTERNATIONAL MONETARY FUND

EXTERNAL
RELATIONS
DEPARTMENT

Press Release No. 05/22
February 4, 2005

International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431 USA

IMF Executive Board Completes Second and Third Reviews Under Burkina Faso's PRGF Arrangement and Approves US\$10.5 Million Disbursement

1. On February 2, 2005, the Executive Board of the International Monetary Fund (IMF) completed the second and third reviews of Burkina Faso's economic performance under a SDR 24.08 million (about US\$36.6 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 03/82). The completion of the reviews enables the release of a further SDR 6.88 million (about US\$10.5 million), which will bring the total amount drawn under the arrangement to SDR 13.76 million (about US\$20.9 million).
2. In completing the reviews, the Executive Board granted a waiver of the nonobservance of two structural performance criteria and agreed to extend the three-year arrangement by two months to August 2006 from June 2006.
3. Following the Executive Board's discussion of Burkina Faso, Anne O. Krueger, First Deputy Managing Director and Acting Chair, stated:
4. "Burkina Faso's economy performed well during 2004. Economic growth remained robust and inflation low, and fiscal revenue and expenditure targets were met. However, several challenges to sustaining economic success lie ahead, especially in the face of a sharp fall in world cotton prices, a rise in oil prices, and worsening debt indicators. These challenges need to be addressed decisively if Burkina Faso is to achieve the Millennium Development Goals and debt sustainability.
5. "The authorities' emphasis on price flexibility and on steps to strengthen competitiveness is well placed. If the world price of cotton does not rebound in the coming months, all parties—including the government as shareholder in the largest ginning company—are encouraged to discuss ways to increase the pass-through of world prices to all participants in the sector. In the electricity sector, the gradual move toward pricing based on cost recovery as well as the ongoing investment program will increase efficiency and improve the competitiveness of the economy. With regard to labor market reform, the decrees and regulations that accompany the recently passed labor law should be issued expeditiously, as the new regulatory framework will help improve labor market flexibility and reduce the cost of doing business in Burkina Faso.

6. "The authorities will continue to focus on poverty-reducing, pro-growth policies while reducing the external debt ratios in the medium term. The reorientation of public spending in key social sectors is welcome, and the planned increase in the wage bill is rightly targeted primarily to the priority health and education sectors. The wage increase is consistent with the overall spending limits under the government's economic program. The projected fiscal deficit is expected to be financed with net donor flows in the form of grants, debt relief, and highly concessional borrowing. The external debt burden is projected to decline in 2005, and a further reduction of the high debt burden remains a key priority over the medium term. In this regard, critical policy priorities will be to maintain prudent fiscal policies, obtain more grants, and continue the outward-oriented and efficiency-enhancing reform agenda.

7. "Ongoing efforts to strengthen good governance should be bolstered by a swift follow-up on the findings of the report of the High Authority on the Coordination of the Fight Against Corruption," Ms. Krueger said.

Annex 8: Economic Indicators

Burkina Faso - Key Economic Indicators Base Case

Indicator	Actual			Estimate			Projected			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
National accounts (as % of GDP)										
Total Consumption	98	95	94	93	92	92	90	91	90	90
Gross domestic fixed investment	19	19	17	17	19	20	21	21	21	23
Government investment	8	8	7	6	8	8	8	8	8	8
Private investment	11	11	10	11	11	12	12	12	13	15
Exports (GNFS) ^b	9	9	9	9	10	9	9	10	11	12
Imports (GNFS)	25	23	21	21	22	22	22	21	21	21
Gross domestic savings	2	5	6	7	8	8	10	9	10	10
Gross national savings ^c	6	8	8	9	9	9	12	11	12	12
Real annual growth rates (% calculated from 1985 prices)										
Gross domestic product at market prices	1.6	6.8	4.6	8.0	4.8	3.8	4.2	5.0	6.0	6.0
Gross Domestic Income	0.9	7.6	3.5	8.0	4.2	3.0	4.5	5.2	6.0	6.0
Current account deficit (% of GDP)	-12.3	-10.2	-9.1	-6.8	-9.2	-10.9	-10.6	-8.5	-8.3	-8.3
Excluding current official transfers	-15.0	-13.3	-11.8	-10.9	-12.1	-12.3	-11.7	-11.2	-10.9	-10.9
Reserves (months of imports of goods & ser.)	4.2	4.6	3.9	4.3	3.7	3.9	3.8	4.1	4.2	4.3
Public finance (as % of GDP at market prices)^e										
Current revenues (including grants)	13.1	12.2	12.7	15.0	15.0	15.5	16.4	16.6	16.7	16.7
Current expenditures	10.5	10.5	11.2	10.5	11.3	12.1	12.3	11.1	10.9	10.7
Current account surplus (+) or deficit (-)	2.6	1.7	1.6	4.6	3.7	3.4	4.0	5.5	5.8	6.0
Overall deficit (commitment basis)	-3.6	-3.9	-4.5	-2.1	-3.3	-2.1	-1.7	-1.9	-2.1	-2.0
Capital expenditure	12.5	11.4	10.0	8.7	9.3	8.8	11.8	12.8	12.6	13.2
Consumer price index (% change)	-0.3	4.9	2.3	2.0	-0.2	2.0	2.1	2.0	2.0	2.0
GDP deflator (% change)	-0.8	5.9	4.1	0.9	1.3	2.0	2.0	2.0	2.7	2.7

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

Annex 9: Social Indicators

Burkina Faso Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1997-2003	Sub-Saharan Africa	Low-income
POPULATION					
Total population, mid-year (1	6.2	7.9	12.1	702.6	2,310.3
Growth rate (% annual av	1.9	2.5	2.4	2.3	1.9
Urban population (% of popu	6.4	11.4	17.8	36.1	30.3
Total fertility rate (births per	7.3	7.3	6.3	5.1	3.7
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	45.3	..	..
Urban headcount index	..	..	16.5	..	..
Rural headcount index	..	..	51.0	..	..
INCOME					
GNI per capita (US\$)	160	210	300	490	450
Consumer price index (199€	31	76	123	..	..
Food price index (1995=100	..	92	131	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Share of income or consumption					
Gini index	..	..	48.2	..	..
Lowest quintile (% of incom	..	..	4.5	..	..
Highest quintile (% of incom	..	..	60.7	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	1.5	2.5	1.2
Education (% of GDP)	..	2.0	..	3.4	2.7
Social security and welfar	0.6	0.8	..	..	..
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	9	23	35	..	78
Male	12	29	41	..	84
Female	7	17	29	..	72
Access to an improved water source					
<i>(% of population)</i>					
Total	..	..	42	58	75
Urban	..	..	66	83	90
Rural	..	..	37	45	69
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	38	46	58	64
DPT	..	9	41	54	64
Child malnutrition (% under	..	..	34	..	44
Life expectancy at birth					
<i>(years)</i>					
Total	42	45	43	46	58
Male	41	44	42	45	57
Female	44	47	44	47	59
Mortality					
Infant (per 1,000 live birth	163	140	107	103	82
Under 5 (per 1,000 live bi	290	247	207	174	126
Adult (15-59)					
Male (per 1,000 populæ	526	467	559	519	319
Female (per 1,000 pop	407	362	507	461	268
Maternal (modeled, per 1	..	..	1,000	..	..
Births attended by skilled he	..	..	31	..	38

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

World Development Indicators database August 2004, World Bank

Annex 10: Recent Cotton Prices Developments

8. International prices of cotton fiber – measured by the Cotlook A Index¹² – plummeted from US\$76 cents in January 2004 to US\$48 cents per pound in December 2004. The impact of international prices is compounded by the appreciation of the CFAF against the US dollar. Estimated average price in 2004/2005 is US\$52 cents per pound, down from US\$68.3 cents in 2003/2004 (see table 1 below). The drop in prices was fueled by record world production which outpaced world consumption. According to the International Cotton Advisory Committee (ICAC), world ending stocks in 2005/2006, would be equivalent to 45 percent of world consumption.

9. International cotton prices have fluctuated considerably in the recent period, but current market conditions suggest that the adverse shock on prices may not be temporary, although prices could occasionally rebound in certain years¹³. The factors behind the increased world supply are likely to remain in the next few years, thus continuing to depress prices. World production is currently driven by subsidies in the United States, the EU and China, as well as by new cotton production areas in China, Brazil and Turkey, and by productivity gains from genetically engineered cotton¹⁴. Available estimates indicate that removal of US subsidies could increase world price by about 12 cents per lb.¹⁵ However, progress in the negotiations to remove the subsidies in the United States, China and the EU are slow¹⁶.

Table 1: World Cotton Outlook

	Unit	2003/2004	2004/2005	2005/2006
Production	million tons	20.6	25.4	23.1
Consumption	million tons	21.3	22.8	23.3
Exports	million tons	7.3	7.02	6.9
Ending Stocks	million tons	7.7	10.36	10.1
Cotlook A Index	cents per lb.	68.3	52	58

Source: International Cotton Advisory Committee. Press Release, March 1, 2005

¹² The COTLOOK A INDEX is intended to represent the level of offering prices on the international raw cotton market. It is an average of the cheapest five quotations from a selection (at present numbering nineteen) of the principal upland cottons traded internationally. Source: www.cotlook.com

¹³ The Cotlook A Index is forecast at an average of 58 cents per pound in 2005/06, 7 cents above the average in 2004/2005. However, during the last ten seasons, ICAC projection in March/April of the average Cotlook A index for the coming season were overestimated four times, by between 5 and 20 cents per pound, and underestimated four times, by between 3 and 16 cents per pounds. Forecasts based on New York futures market have not proved more reliable.

¹⁴ The World Bank. Development Prospects Group, 2004.

¹⁵ Carlos Valderrama Becerra, "The World Cotton Market: Prices and Distortions". International Cotton Advisory Committee, Washington DC, 2000.

¹⁶ On August 2, 2004, the WTO General Council reached a decision on the frameworks to proceed with agricultural negotiations. The decision included the "cotton initiative" by the four West African countries and emphasized that it should be addressed "ambitiously, expeditiously, and specifically." On September 8, 2004, the WTO's Dispute Settlement Body posted its ruling on the cotton dispute brought by Brazil. According to the ruling, the US is under obligation to "take appropriate steps to remove the adverse effects ... or withdraw the subsidy." On March 2005, the WTO upheld that decision after the USA filed an appeal Source: The World Bank. Development Prospects Group, 2004, and BBC.

10. The drop in international prices is putting significant stress on the domestic producer prices mechanism. Domestic prices of seed-cotton are composed of a floor price of CFAF175/kg and a bonus (ristourne) representing 50 percent of the pre-tax profit from the previous campaign. According to existing arrangement, the floor price is a breakeven price for the ginning companies. The floor price was kept constant at CFAF160 per kilo from 1999 to 2001. It was increased to CFAF175 in 2001. The mechanism is backed by a support fund (*fonds de soutien*) created in 1998 and managed jointly by the producers and the ginning companies. The fund was initially endowed through the transfer of the then Stabilization Fund, and is replenished by farmers on a voluntary basis out of their profits. Until recently, this mechanism has worked reasonably well with no need of public subsidies, an exception across Africa. Even in 2001/2002, when international prices reached a low US\$42 cents/lb for cotton fiber, the cotton sector did not need public subsidies. This time, the combination of low international prices and the depreciation of the dollar is creating an additional burden on the mechanism.

11. When SOFITEX announced in March 2004 a bonus of CFAF35 for the crop season 2004/2005, resulting in a overall domestic price of CFAF210/kg, international prices were still high. The bonus was based on the record profits of CFAF26 billion in 2003/2004 as a result of strong international prices (US\$68 cents/lb) and high production (203 thousands tons of fiber). The announcement was the basis of producers' planting decision and it is being honored by SOFITEX. Preliminary indications are that the ginning companies will suffer significant financial losses in 2004/2005, although the variance between final outcomes and current estimates could be quite large given the uncertainties on international cotton price.

12. As of February 2005, SOFITEX had sold only 40 percent of its production. It sold above the market price because of a good management of forward sales. Assuming the remaining of the production will be sold at the latest Cotlook indices of US\$54 cents, the losses of the three ginning companies (most of the losses for SOFITEX which is financing the bonus on the entire production) could be estimated at about CFAF11 billion in 2004/2005 (about 0.2 percent of the 2005 GDP). SOFITEX could entirely finance the losses through its profits in 2003/2004, and its capital gains from the sales of its assets in the Eastern and Central regions. The challenge will remain for the sector to cope with larger losses if low international prices and weak dollar continue during the 2005/2006 crop season. The challenge is even bigger now that the sector is in a more fragile financial situation.

13. This pricing scheme will be effective until December 2005. Producer prices for 2005/2006 will be negotiated in April 2005 between farmers' organizations and the three ginning companies although the ginning companies have already indicated they could not pay a bonus in 2005-06. During the discussion with the IMF in the context of the second and third review of the PRGF¹⁷, the Government has indicated that if world prices do not rebound, these negotiations could result in a producer price that might have severe poverty implications for farmers or result in unsustainable financial losses for the companies. Should this scenario materialize, the Government would expect farmers and companies to absorb a major part of the required adjustment, and also to consult with the development partners to find a way forward.

¹⁷ IMF Staff report. February 2005.

Table 2: Financial Situation of the Cotton Sector

		2001/02	2002/03	2003/04	2004/05
WORLD PRICES					
Exchange Rate	CFAF/\$	696.99	581.2	540	501
International reference price	US cents/lb	42	56	68	52
Export sale price (c.i.f.) computed	CFA/kg	642.4	713.8	813.2	596.3
Export sale price (CFA/Kg. c.i.f.) computed	CFA/kg	630.0	709.0	805.0	567.9
DOMESTIC PRICES (of fiber)					
Negative differential for local sales	CFA/kg	122	129	264	0
Local price	CFA/kg	508	580	541	624
FARMERS' SITUATION					
Average producer price	CFA/kg	174.5	174.1	173.6	174.4
Bonus (Ristourne)	CFA/kg	25.0	0.0	10.0	35.0
Gross Return	CFA/ha	209,031	175,163	191,994	213,564
GINNERS' SITUATION					
Gross revenue	M.CFA	105,128	127,700	171,769	141,650
Total Costs	M.CFA	111,285	121,695	142,773	145,774
Gross Margin ginning activities	M.CFA	(10,021)	2,763	26,562	(11,327)

14. In 2005, the impact of cotton developments on GDP will ultimately depend on the acuity of producers on the prices and their response to the disparities. Deplorable level of producer price would be a disincentive to plant cotton and could even trigger a halt of production. If the producer price is high enough to generate only a modest adverse supply shock, the cotton sector's contribution to overall GDP growth will remain positive through spillovers on other sectors of the economy generated by the marketing and transportation of the record production in 2004-2005, and by the CFAF214 billion gross incomes distributed to producers in 2004-2005. Available estimates indicate that the growth multiplier of the cotton sector is 1.88.

15. The producer price in 2005 should also have an impact on poverty. Table 3 provides estimations of this impact under different producer prices. The analysis is carried in a very simple way: we measure the income obtained from cotton production by households, assess the difference in income that would follow alternative producer prices, and assume that this difference in income translates into an equivalent difference in the consumption per equivalent adult of households used to measure poverty. More sophisticated methods could be used to measure the "general equilibrium" effect of a drop in cotton producer prices, but such simulations require a much larger number of assumptions which are subjected of debate. The estimations given here provide "first round" poverty effects from lower producer prices, assuming that households can't compensate their cotton income loss through other activities¹⁸.

16. The simulations are implemented using the household survey for 1997-1998, because in the 2003 survey, we observe only a fairly small number of cotton producers, so that the survey may not be representative enough for this population group. The headcount index of poverty is simply the share of the population with a level of consumption per equivalent adult below the moderate poverty line. The poverty gap takes into account the distance separating the poor from the poverty line. The squared poverty gap takes into account the square of that distance (and thereby the inequality among the poor). The poverty line is that used in the

¹⁸ Work by World Bank staff on Burkina Faso using data for 1996-97 and 1997-98 seasons suggests that the ability of cotton producers to compensate for losses in revenues (in that year, due to a drought) is fairly limited.

latest World Bank Poverty Assessment for Burkina Faso. To interpret the results, note that in 1997-1998, we find a modal price of 180 Fcfa/kg in the survey, which is close to the current price around 175Fcfa/kg. The share of cotton producers in poverty, at 53.9 percent, is similar to that observed for the population as a whole (54.6 percent in 1997-98). Note also that although the level of poverty observed in the 1997-98 survey is significantly higher than in the 2003 survey (see table 3 and paragraph 15 in the main text of this document), the impact on poverty of changes in producer prices is likely to remain roughly similar over time. Table 3 below suggests that a 20 Fcfa/kg reduction in price would lead to an increase in the share of producers in poverty of about 3.5 percentage points, which is significant. For poorer producers, who may be less diversified, the negative impact could be even larger, and the resulting increase in poverty could also have negative impacts for other indicators in terms of education- and health-related MDGs.

Table 3: Impact of cotton producer prices on poverty among producers, Burkina Faso

	Cotton price (Fcfa/Kg)										
	200	190	180	170	160	150	140	130	120	110	100
1997-98 household survey											
Headcount	50.7	52.2	53.9	55.8	57.4	59.3	60.9	62.7	64.9	66.3	67.8
Poverty gap	16.0	17.1	18.2	19.9	21.3	22.8	24.3	25.9	27.5	29.2	30.9
Squared poverty gap	6.8	7.4	8.1	9.4	10.4	11.5	12.8	14.1	15.6	17.2	18.8

180 Fcfa/Kg is the modal price in 1997-98 and is the price at which cotton production has been evaluated for all producers. When simulating a decrease in price, consumption that becomes negative has been changed into zero.

17. In table 4, which provides basic data on cotton production by decile of consumption per capita in the 1997-98 survey, the total production of cotton observed in the survey is at 607,213 tons. In other countries, subsidies to producers are considered on an exceptional basis in case world prices are very low. Who would benefit from such subsidies in Burkina Faso? Table 4 suggests that cotton production is higher among richer deciles, with the bottom half of the population (which represents the poor) accounting for less than 40 percent of total production. This implies that richer households would receive a higher share of price support mechanisms in Burkina Faso. Still, the share of potential support to producers that would be provided by the Government under very low world price would probably still compare favorably with the corresponding shares of public spending that reach the poor in other sectors (such as education and health). This being said, rather than providing uniform quantity-based cotton subsidies in case of low world prices, it would be better to consider ways to target such potential subsidies, or to find better ways to protect poor producers from cotton price shocks, so that an even larger share of the measures implemented for such protection mechanisms would benefit the poor.

**Table 4: Cotton production data by consumption decile
in Burkina Faso, 1997-98 data**

Consumption decile (per capita)	Population in decile	Total cotton production (Kg × 1000)	Mean production per household (Kg) ¹	Share (%) in total production	Cumulative share (%) in total production	Population with positive cotton sales	Population share in population with positive cotton sales (%)
1 (poorest)	1061695	21818.7	228	3.6	3.6	133889	8.2
2	1057905	57718.2	560	9.5	13.1	195274	11.9
3	1060692	41645.7	399	6.9	20.0	177769	10.9
4	1059058	74743.5	669	12.3	32.3	151075	9.2
5	1060100	37398.1	316	6.2	38.4	140979	8.6
6	1059926	69506.4	525	11.4	49.9	156622	9.6
7	1058992	51600.5	363	8.5	58.4	190803	11.7
8	1061537	61968.5	392	10.2	68.6	221914	13.6
9	1057657	127884.8	698	21.1	89.6	171731	10.5
10 (richest)	1059451	62929.2	252	10.4	100.0	95028	5.8
National	10597013	607213.5	434	100.0		1635084	100.0

Source: World Bank staff estimates. 1/ Includes all households (also those with no cotton production).

Annex 11: Oil Prices Developments and Poverty

18. **The shock.** Oil prices increased by 31.5 percent in 2004, from US\$28.9 per barrel to US\$39.0 per barrel¹⁹ as a result of a strong demand. The Development Prospects Group (DPG) at the World Bank forecasts a gradual deceleration of prices in 2005 and 2006 given new sources of supply and reduced oil intensities in the world economy. Despite the deceleration, prices should remain high in 2005 and 2006 at US\$36/bbl and US\$32/bbl, respectively. DPG warns about the upside risks in prices development because of the sensitivity of oil markets to localized disruptions in production and, the fall in OPEC excess capacity from 4.6 million barrels per day in 2001 to only 1.4 million barrels per day in 2004. Moreover, DPG observes that further hikes would not be unprecedented because oil prices remain well below past peaks: corrected for inflation and expressed in 2003 dollars, oil prices averaged \$72 in 1980, and even reached \$100 in November 1979.

19. **The impact.** Burkina Faso is a net oil importer and the prices hike is taking a heavy toll on the external sector, on consumers, on government finances and on the economy. Oil imports increased in 2004 to US\$190.2 million, up from 134.2 million in 2003. Oil imports as a share of GDP is increasing from 3.1 percent in 2003 to 4.2 percent in 2005. Assuming the 2003 oil price as the baseline, the additional burden due to the prices hike is about US\$42.3 million, equivalent to 0.8 percent of the GDP. Additional burden in 2005 will be US\$59.9 million, equivalent to 1.1 percent of GDP

Table 1: Burkina Faso: Oil Prices Developments

	Unit	2003	2004	2005
Average price of crude oil 1/	US\$/bbl	28.9	38	41.8
Exchange rate	CFAF/US\$	581.2	540	500
Imports 1/	CFAF billion	78	102.7	119.2
Imports	US\$ million	134.2	190.2	238.4
Imports	% of GDP	3.1	3.8	4.2
Change in value		31.7	41.7	77.6
Additional impact of prices hike	US\$ million		42.3	59.9
Additional impact of prices hike	% of GDP		0.8	1.1

Source: IMF staff estimates and projections; and Central Bank of West African States (BCEAO)
1/IMF staff report.EBS95/05. December 22, 2004. IMF forecast for oil price in 2005 is higher than the projection of US\$36 by the Bank. The price of US\$41.8/bbl is consistent with other figures in the table.

20. Consumers are bearing the brunt of the domestic adjustment to high international prices. Retail prices for petroleum products are adjusted monthly to fluctuations in oil international prices. Although the domestic impact of the rising international oil prices has been mitigated by the appreciation of the CFAF against the US dollar, there was a steep increase in retail prices in 2004. High consumer prices may lead to higher poverty. Table 4 provides data on per capita expenditures for various oil-related products. While such expenditures represent a lower share of total spending for poorer households, this share is not negligible. In table 4, simulations are provided for the impact on poverty of various levels of increases in the price of oil-related products. For example, a 50 percent increase in prices would lead to an increase in the headcount index of poverty of about 1.2 percentage points.

¹⁹ Crude oil (spot), average spot price of Brent, Dubai and West Texas Intermediate, equally weighed.

However, this represents only the impact of higher prices for oil-related consumer goods. Higher transportation and energy costs would also create an extra burden on firms and on the overall economic activity, which may dampen employment and lead to inflation in the production costs of other goods, so that we would witness price increases for these other goods as well. In other words, it is likely that the impact of higher oil prices on poverty could be substantially higher than suggested in table 5.

Table 2: Per capita spending on oil products by consumption decile in Burkina Faso, 2003

Deciles of per capita expend.	Average per capita cons.	Share of the population with positive expenditure on:				Average annual per capita amount spent on: (zero included)				oil related expend. as % of total pc cons
		Oil	Transport	Gasoline	Any oil related product	Oil	Transport	Gasoline	Any oil related product	
1	28451	0.819	0.032	0.054	0.823	485	57	101	643	2.3
2	41388	0.819	0.035	0.115	0.835	653	124	362	1139	2.8
3	50421	0.823	0.060	0.108	0.840	751	151	443	1345	2.7
4	60219	0.856	0.071	0.147	0.874	867	400	833	2099	3.5
5	70523	0.824	0.084	0.182	0.847	935	489	993	2417	3.4
6	83025	0.835	0.103	0.196	0.873	1179	586	1483	3248	3.9
7	99609	0.801	0.124	0.271	0.867	1163	1045	2419	4626	4.6
8	123609	0.788	0.162	0.299	0.882	1255	1487	3724	6466	5.2
9	167996	0.737	0.159	0.370	0.879	1461	2036	6854	10351	6.2
10	423524	0.553	0.289	0.602	0.921	1603	11765	30040	43407	10.2
Total	114846	0.785	0.112	0.234	0.864	1035	1813	4723	7571	6.6

Source: World Bank staff estimates using 2003 QUIBB. Average amount have been deflated in order to make them comparable across the country

Table 3: Impact of increase of oil prices on poverty in Burkina Faso, 2003

	Increase in oil (and oil-related products) prices					
	-	+10%	+20%	+30%	+40%	+50%
Headcount index (% of population poor)	46.4	46.6	46.9	47.1	47.4	47.6
Poverty gap	15.3	15.4	15.5	15.6	15.7	15.8
Squared poverty gap	6.8	6.8	6.9	6.9	7.0	7.1

Source: World Bank staff estimates using 2003 QUIBB.

21. In December 2004, the subsidies on DDO and FO were CFAF184/liter and CFAF149/liter. The total subsidies to SONABEL in 2004 were CFAF10 billion, equivalent to 0.37 of GDP. The State also provided subsidies on butane consumption for CFAF2.5 billion up from CFAF1.2 billion in 2003. The second channel of high oil price impact on fiscal stance is through its effect on high Government consumption of petroleum products. The third channel is higher revenue collection (customs, petroleum products taxation, VAT) because of higher value of oil imports and sales. Government's revenue from the oil sector, net of subsidies, was CFAF 33 billion in 2004.

Annex 12: Unified Framework for Budget Support

CGAB —January 11, 2005

GENERAL FRAMEWORK AGREEMENT FOR ORGANIZING BUDGETARY ASSISTANCE IN SUPPORT OF IMPLEMENTING BURKINA FASO'S POVERTY REDUCTION STRATEGY PAPER

(CGAB-PRSP)

SUMMARY

1. Context and justification
2. Objectives and principles
3. Management procedures and disbursement criteria
4. Framework for evaluating progress
5. Undertakings of the Government of Burkina Faso
6. Undertakings of technical and financial partners
7. CGAB monitoring and evaluation process
8. Capacity-building
9. Participation, amendment, withdrawal, and cancellation
10. Continuity

Annex: CGAB indicative work timetable

1. CONTEXT AND JUSTIFICATION

1. By adopting a Poverty Reduction Strategy Paper (PRSP) in 2000, which was revised in 2004, the Burkinabè Government affirmed its desire to situate its work in this area within a coherent framework, in order to strengthen its impact. The PRSP outlines the Government's poverty reduction strategy, for which the Priority Action Program (PAP-PRSP) serves as the implementation mechanism. The Medium-Term Expenditure Framework is the budgetary allocation mechanism (sectoral and intra-sectoral) for budgetary resources, in accordance with the priorities set forth in the PRSP.

2. Using, among other things, the main conclusions of the test conducted between 1997 and 2000 on the reformulation of the conditionality applied to Burkina Faso, a number of technical and financial partners decided to support PRSP implementation through non-targeted budgetary assistance. This form of assistance, which has been expanded since 2000, has necessitated adaptation of intervention mechanisms and assigns responsibility to the Government for the management and allocation of resources, based on the priorities outlined in the PRSP and reflected in the annual budget laws.

3. Assumption of this responsibility has given rise to the Government's assumption of greater accountability as regards both the public and its partners as regards the use of resources. For this reason, the Government has implemented (i) a budget management reform plan, adopted in July 2002, intended to enhance on a sustainable basis the transparency, reliability, and efficiency of budget management; and (ii) a Priority Action Program to implement the PRSP, adopted in October 2004, outlining the quantitative results expected and the key measures for achieving them.

4. This agreement, which is in keeping with the spirit of the Poverty Reduction Strategy Paper, sets forth the principles and procedures for the formulation and implementation of budgetary assistance programs to support PRSP implementation in Burkina Faso, as well as the mutual commitments of the Government of Burkina Faso ("the Government") and the technical and financial partners ("the partners"). It is called the General Framework Agreement for Organizing Budgetary Assistance to Support Implementation of Burkina Faso's Poverty Reduction Strategy Paper (CGAB-PRSP) [Cadre générale d'organisation des appuis budgétaires en soutien au cadre stratégique de lutte contre la pauvreté, CGAB-PRSP].

5. The CGAB-PRSP was prepared owing to the realization that the myriad procedures of the partners and the lack of harmonization of conditionalities and alignment of programs with the PRSP and budget cycles are imposing great constraints on the Government and are noticeably curbing the effectiveness of budgetary assistance provided. This agreement draws on the lessons learned from the implementation of the memorandum of understanding on joint budgetary support for implementation of the PRSP, the practices in effect in this regard in other countries, and the main initiatives conducted both nationally and internationally, in particular, within the framework of the Strategic Partnership with Africa (SPA) and the Development Assistance Committee (DAC), and in light of developments related to the February 25, 2004 Rome Declaration on Harmonization.

6. The CGAB-PRSP will be supplemented by individual agreements between each technical and financial partner and the Government. The partners guarantee compatibility

between the substance of their financing procedures and the spirit and provisions of the CGAB, which is annexed to the bilateral agreements on budgetary assistance or the country assistance strategy documents.

2. OVERALL OBJECTIVES AND PRINCIPLES

7. The overall objective of the CGAB-PRSP is to support implementation of the PRSP through non-targeted budgetary assistance while enhancing its effectiveness and reducing its management costs.

8. The following are the specific objectives of the CGAB-PRSP:

- Contributing to greater involvement by the Government in defining and implementing the poverty reduction strategy;
- Improving dialogue between the Government and partners through the establishment of a meaningful partnership, with emphasis placed on the effectiveness of government policy;
- Making medium-term resources more predictable and ensuring that disbursement is synchronized with the budget cycle;
- Achieving greater harmonization of the practices of partners with respect to the implementation of budgetary support and the determination of the conditionalities for disbursement;
- Improving coordination among partners through joint and coordinated missions, studies, audits, and assessments;
- Fostering capacity-building among the parties concerned (partners and Government).

9. The Government and partners have agreed on the following basic principles:

- The Government will spearhead coordination of budgetary assistance and implementation of the CGAB;
- The CGAB will constitute the joint framework for determining and implementing the budgetary assistance provided for PAP-PRSP implementation;
- The PRSP, PAP-PRSP, and the latter's annual implementation reports will underpin all the supporting components of budgetary assistance, whether they pertain to policy measures, results indicators, or the budget management reform program and its annual implementation reports.
- Budgetary assistance will be disbursed in the form of non-targeted budgetary assistance. This assistance will be used to finance expenditures appearing in the annual budget law and will be in line with national procedures in effect.

10. The partners will follow the principles guaranteed by the CGAB by drafting bilateral agreements that are consistent and compatible with the provisions of the CGAB. The CGAB will take the form of an annex to bilateral agreements or country assistance strategy documents. These bilateral agreements will stipulate mainly the specific terms governing each form of assistance, that is, the total amount of budgetary assistance provided, as well as

information pertaining to tranches, namely the timetable, criteria, and procedures for disbursement of each tranche. Each partner will reserve the right to include a number of its own specific terms, but will keep them to a minimum.

3. MANAGEMENT PROCEDURES AND DISBURSEMENT CRITERIA

11. Provisions will be made by the Government in the initial and amended budget laws for budgetary assistance tranches scheduled to be disbursed annually, following consultation with the partners.

12. Assistance will be disbursed annually in one or several tranches, based on an assessment of the progress made in the macroeconomic, poverty reduction, and public finance management spheres. Although joint assessments and evaluations will serve as a basis for disbursement, actual disbursement decisions will be made by each partner.

13. The disbursement criteria for the tranches related to the macroeconomic component will be based on the pertinent evaluation performed by the International Monetary Fund (IMF).

14. The disbursement criteria for the tranches related to the poverty reduction strategy will be based on the PRSP Priority Action Program and its annual updates, as part of the relevant annual review and evaluation processes. The criteria jointly agreed upon in this area will be summarized in a matrix, to be updated annually.

15. The disbursement criteria for the tranches related to public finance management will be based on the Priority Action Program for the budget management reform program and its annual updates, as part of the relevant annual review and evaluation processes. The criteria jointly agreed upon in this area will be summarized in a matrix, to be updated annually.

16. The partners undertake to use the disbursement criteria derived from the documents mentioned in items 3.3, 3.4, and 3.5 above. The Government will prepare reports that are sufficiently detailed and precise to permit the partners clearly to identify and evaluate disbursement criteria, as well as the extent to which they have been applied, in order to make a decision related to disbursement.

17. The criteria set forth in items 3.3, 3.4, 3.5, and 3.6 above must be realistic, attainable by the Government, and limited in number. Assessment of the extent of execution of policy measures and results achieved, which constitute disbursement criteria, will take exogenous factors into account.

18. In the event of exogenous shocks that have a major impact on economic and social conditions and consequently on the Government's ability to meet a number of the disbursement criteria outlined in items 3.3., 3.4, 3.5 above, the Government may enter into discussions with the partners on the effects of these shocks and request the elimination of one or several criteria. The Government will be responsible for providing all the information needed to substantiate its request, which will be used by each partner concerned as a basis for making individual decisions regarding whether or not the Government's request will be granted.

19. The occurrence of various unexpected events that are likely to: (i) threaten macroeconomic stability; (ii) make achievement of poverty reduction objectives unlikely; or even (iii) jeopardize the sound management of public affairs, could lead one or several partners to undertake discussions with the Government and the other partners in order to remedy or mitigate the impact of such situations. These discussions may lead to the identification of corrective measures, the implementation of which may go so far as to make the disbursement of budgetary assistance tranches in progress or scheduled for a later date, subject to conditions. In such situations, the justification for such action will be clearly outlined by the partner(s) in question.

20. The Government will provide partners with the number of the public treasury account opened in the name of the Central Accounting Officer (Agent comptable central) of the Treasury (ACCT) listed on the books of the Central Bank of West African States (BCEAO) as being authorized to receive budgetary support payments when the joint agreement takes effect.

21. The funds disbursed for each tranche will be deposited and posted on the value date of notification of the recording of funds by the BCEAO. The exchange rate used will be the rate agreed upon with each partner in the budgetary assistance agreement. The BCEAO will credit the account indicated above of the Central Accounting Officer of the Treasury with the equivalent amount in CFA francs of the currency in question on the date of receipt of each tranche.

22. The Government will inform the partners, as soon as possible, of the amount, dates, and terms of the transfers received in the account mentioned pursuant to item 3.8. Budgetary assistance tranches paid out annually will be recorded in the general balance of Treasury accounts and reflected in the annual budget settlement law.

23. At the end of each budget year, an audit will be conducted of the financial flows of budgetary assistance provided through the treasury account opened in the name of the ACCT, mentioned in item 3.10. This audit will be performed by an outside auditor who will be recruited and remunerated as agreed by the Government and partners.

4. FRAMEWORK FOR EVALUATING PROGRESS

24. Underlying the CGAB is a series of joint poverty reduction reform and performance objectives agreed upon by the Government and partners which are based on the PRSP.

25. The Government and partners will use the various evaluation frameworks, described below, when implementing budgetary assistance, in order to limit parallel reviews by each partner.

26. To evaluate the progress made in the macroeconomic sphere, the partners, recognizing the role and expertise of the IMF, will use the results of the work done by that institution. The Government will organize, at the start of each macroeconomic mission, a meeting to present the objectives of the mission to the partners and, upon completion of the work, a feedback session on the results of the mission.

27. To evaluate the progress made in the area of poverty reduction, the partners will rely on the national mechanism in place, specifically the annual PRSP review, based on an examination of the annual report on its implementation. Sectoral policy reviews will supplement and cover in greater depth a number of areas covered in the annual PRSP review.

28. The annual report on PRSP implementation for year N, which will look forward to year N+1, will cover:

- An overview of year N focusing on the various pillars of the PRSP, linking reforms and strategic decisions made, financial resources used and results obtained, and projections covering a three-year period (N+1 to N+3);
- An overall and sectoral budget overview for year N and budget programming covering years N+1 to N+3, which are consistent with PRSP thrusts;
- A timetable of activities linked to annual PRSP monitoring, including those activities involving state institutions and civil society, in keeping with the budget cycle;
- A matrix of PRSP indicators and priority measures that shows the achievements for year N, based on the matrix agreed upon during the previous review and the objectives set for years N+1 to N+3.

29. In order to evaluate progress made in the area of public finance management, the partners will rely on the national mechanism for monitoring the budget management reform program, in particular the annual session to review the overall report on the implementation of this program for the year ending. A number of analyses and evaluations of the practices and progress in the area of public finance management, such as periodic reviews of public procurement and public expenditure, may be used to supplement this report or obtain more details, using a basis agreed upon annually by the partners and the Government.

30. The annual report on the implementation of the budget management reform program will include:

- An overview of execution of the program's priority actions, including an assessment of the results obtained in relation to the objectives set, and the outlook for the year ahead, with a clear indication of the objectives to be achieved and the resources to be implemented in order to achieve them.
- A matrix of indicators and priority measures pertaining to public finance management that shows the achievements for year N, based on the matrix agreed upon during the previous review and the objectives set for years N+1 to N+3.

31. The Government and partners will agree each year on a timetable of the main CGAB events, as well as the number of evaluations and the frequency of conducting them. The partners will make endeavor to ensure that their concerns in this regard are taken into account, in order to reduce to a bare minimum the number of individual evaluations that take place in the context of bilateral agreements.

32. This process will enable the partners to evaluate the extent to which medium-term objectives set by common agreement have been achieved, as well as the progress made with

specific measures in the macroeconomic sphere, PRSP implementation, and public finance management. Each year, the partners will submit an aide-mémoire to the Government providing their assessment and recommendations at the end of the annual PRSP review. The progress made will determine the appropriate level of financing to be earmarked in the budget.

33. However, should the quality of the information provided be found wanting, the partners and Government will jointly establish a timetable and determine the assistance that the partners are positioned to provide in order to build the capacity necessary to obtain this information.

5. UNDERTAKINGS OF THE GOVERNMENT

34. In accordance with its laws, regulations, policies, and procedures, and subject to the availability of resources, the Government undertakes to:

- Prepare a PAP-PRSP that is sufficiently detailed and accurate to permit a proper assessment of disbursement criteria;
- Take decisive action to reduce poverty;
- Ensure consistency between the PRSP and sectoral policies;
- Ensure the proper functioning of the mechanisms for monitoring and evaluating the PRSP and the budget management reform program, in accordance with the timetable agreed upon, in particular as regards annual reviews;
- Demonstrate the determination to reduce poverty in the process of sectoral allocation of all resources and expenditure, and in the preparation of the annual budget law;
- Resolutely combat corruption in order to strengthen good economic governance.

35. The Government undertakes to produce documents and reports related to macroeconomic management, poverty reduction, and public finance management that are sufficiently detailed and precise to permit the partners to identify their disbursement criteria and periodically assess the extent to which they have been achieved.

36. The Government will provide the partners with the documents and reports agreed upon for monitoring the implementation of reforms and results achieved in the areas of:

- poverty reduction:
 - ⇒ Status reports and annual reports on PRSP implementation;
 - ⇒ Priority sector review reports.
- macroeconomics and public finance management:
 - ⇒ Letter of Intent and/or Memorandum of Economic and Financial Policies;
 - ⇒ Budget laws (initial, amended, or settlement) and preparatory documents (Medium-Term Expenditure Framework, budget memorandum);

- ⇒ Monthly government flow of funds table (TOFE) and a monthly status report on the execution of budgetary expenditure, including HIPC resources;
- ⇒ Annual and intra-annual reports on implementation of the budget management reform program;
- ⇒ Half-yearly reports on multilateral surveillance;
- ⇒ Public investment program and periodic implementation reports on this program;
- ⇒ Reports, studies, and other economic and public finance documents may be requested, within reason. The list, nature, and frequency of submission of such documents will be determined each year at a consultation meeting.

5. UNDERTAKINGS OF THE DEVELOPMENT PARTNERS

37. The partners will work with the Government to support and facilitate PAP-PRSP implementation, in the context of the budgetary assistance covered in this framework agreement and of the supplementary assistance provided through their development programs and projects, in particular in the area of capacity-building.

38. In keeping with the spirit of this agreement, and taking into account the thinking in international circles on these issues, the partners undertake to:

- Make their medium-term assistance more predictable by:
 - ⇒ Informing the Government of the indicative commitments related to budgetary assistance for the next two or three years in order to facilitate the Medium-Term Expenditure Framework exercise (MTEF);
 - ⇒ Preparing, as expeditiously as possible, multi-year bilateral agreements;
- Make short-term budgetary assistance more predictable by:
 - ⇒ Seeking to bring their assistance in line with the budget cycle during the budget preparation and execution period.
This will be achieved by:
 - ⇒ seeking to make financing decisions before the vote on the annual budget law;
 - ⇒ programming related disbursements on the basis of the budgetary needs of the Government, in particular during the first six months of each year;
 - ⇒ reducing, as much as possible, delays in the processing and payment of budgetary assistance tranches.
 - ⇒ Formulating and assessing disbursement criteria in a more transparent manner and limiting their number.
- Foster policy ownership by the Government and seek to align policy support with national processes, while refraining from introducing disbursement criteria that are not derived from the documents mentioned in items 3.3, 3.4, and 3.5 above and using as a framework for evaluation those documents mentioned in items 4.3, 4.4, and 4.6;
- Improve coordination among partners through an increased number of joint or coordinated evaluation missions and assessments;

- Limit, to a bare minimum, requests for additional information during the course of the year that have not been agreed upon, as well as the evaluation missions or missions of any other nature that do not appear in the work schedule, in order to avoid overburdening government agencies;
- Provide the Government and other partners with guidelines on their assistance policies or changes pertaining thereto, as well as the results of their evaluations or any other reports or studies related to the support they extend, in particular to Burkina Faso, on their own initiative;
- Actively encourage other Burkina Faso partners to commit to non-targeted budgetary assistance which offers advantages in several areas for Burkina Faso, particularly in terms of the minimization of the transaction costs of the Government.
- Examine, in the event of external shocks that have a negative impact on the economy, particularly in terms of the mobilization of internal resources, the possibility of providing supplementary resources through an amendment to bilateral agreements in effect or a new agreement.

6. CGAB MONITORING AND EVALUATION PROCESS

39. Regular dialogue is essential to ensure proper implementation of the CGAB-PRSP. The parties will meet every six months to monitor and evaluate jointly the status of execution and the extent to which CGAB-PRSP objectives have been achieved, as well as the extent to which CGAB-PRSP stakeholder commitments have been met.

40. The annual timetable for monitoring/evaluation meetings and the activities pertaining thereto are established at the start of each year on the basis of the indicative timetable annexed hereto. Additional meetings may be organized on an ad hoc basis by the Government or partners on any matter related to CGAB-PRSP implementation, where necessary. However, the number of these meetings will be limited as much as possible.

41. The Government and partners may use the services of external experts to assist with the CGAB-PRSP evaluation exercise. The procedures for recruitment and remuneration of the expert will be agreed upon between the Government and partners.

42. The parties will accord great importance to the CGAB-PRSP results, which should facilitate more in-depth dialogue between them and, as necessary, lead to the strengthening of a number of provisions of this agreement.

The procedures related to the CGAB-PRSP monitoring and evaluation process will be set forth in rules of procedures agreed upon by the signatories.

7. CAPACITY-BUILDING

43. The partners will work with the Government to assist with building capacity among all the stakeholders involved in the various areas involved in the implementation of the joint framework agreement. Other than their budgetary assistance, partners who so desire may support the institutional capacity-building activities of the steering and management entities of the ministries and institutions involved in PRSP implementation and in the budget

management reform program. In so doing, they will endeavor, insofar as possible, to use local expertise (including government agencies) to conduct certain studies that are essential to attainment of the objectives set forth in the joint framework agreement.

44. The partners will ensure the joint and coordinated formulation and implementation of their assistance, on the basis of Government proposals. This assistance may extend to civil society entities, with a view to enhancing their dialogue with the Government on poverty reduction issues.

45. Capacity-building may extend to the personnel of the partners in certain areas, in order to facilitate a better understanding of the main aspects of budgetary assistance as well as the objectives and activities to be carried out within the framework of this agreement.

8. PARTICIPATION, AMENDMENT, WITHDRAWAL, CANCELLATION

46. This agreement, concluded between the signatories, is open to all partners wishing to become parties thereto, and who accept the terms and conditions for provision of their budgetary assistance. Being a party to the agreement does not imply a commitment by the party thereto to provide resources on a systematic basis each year. It does, however, guarantee that the main principles of this agreement will be observed.

47. The CGAB-PRSP may be amended by exchange of letters, in accordance with the terms agreed upon by all the partners and by the Government.

48. In the event of a proposal to suspend or withdraw budgetary assistance for the PRSP, in whole or in part, the Government and the partner concerned will also consult the other parties to the framework agreement. Should a partner request palliative measures or should the support of a partner no longer be available, the Government will review the technical and budgetary implications in consultation with the other partners.

49. Any dispute related to implementation of the CGAB-PRSP shall be settled through a process of dialogue and cooperation between the partners and the Government.

10. CONTINUITY

50. The CGAB-PRSP represents a significant shift in the focus of the dialogue between the Government and the partners, as well as in the coordination between same. The partners and the Government undertake to develop and improve the procedures adopted for budgetary assistance in accordance with the principles set forth and taking account of international developments in this regard.

Done at Ouagadougou, January 11, 2005

For the Government of Burkina Faso

Jean-Baptiste M. P. COMPAORE
Minister of Finance and Budget

<i>Multilateral Partners</i>	<i>Bilateral Partners</i>
European Commission Mrs. SUOMALAINEN Ambassador, Head of Delegation	Kingdom of Denmark Mrs. Margit Thomsen Ambassador
World Bank Ellen GOLDSTEIN Resident Representative	French Republic Mr. _____ Director for Burkino Faso, French Development Agency
African Development Bank _____	Kingdom of the Netherlands Mr. _____ Ambassador
	Kingdom of Sweden Mr. _____ Burkina Faso Director, Swedish International Development Agency
	Swiss Cooperation Office Mrs. Kristel Ferret Balmer Resident Director, Swiss Cooperation Office in Burkina Faso

Annex 13: Environmental Assessment

Introduction

1. This document analyzes the potential environmental and social impacts of the reforms supported by the fifth Poverty Reduction Support Credit (PRSC-5) for Burkina Faso. Since PRSCs take the form of a series of successive operations, the analyses contained in this report are based extensively on the contents of the environmental assessment (EA) report for previous PRSCs.

General context and description of project objectives

2. PRSC-5 is the fifth operation in a series of credits and grants to support implementation of the poverty reduction strategy adopted by the Government of Burkina Faso. It supports the government objectives of maintaining a sound macroeconomic environment and accelerating growth, through budget support. In particular, the operation is designed to strengthen short-term macroeconomic management and promote the creation of the necessary economic and institutional environment in order to enhance the effectiveness and efficiency of public expenditure and achieve sustainable improvement of key social indicators.

3. Like its predecessors, PRSC-5 will continue to support the reform program adopted and implemented by the Government. For example, in addition to sound budgetary management, the operation will also support improvements in delivery of basic services, particularly in the areas of education and health, and stimulate growth sources through structural reforms and increased investment in rural development. In brief, PRSC-5 emphasizes reforms designed to accelerate growth, develop human resources and promote good governance. Its principal activities and objectives are described below.

1. **Accelerating growth and employment creation.** PRSC-5 supports the implementation of several measures to increase productivity and reduce factor costs. In particular, under PRSC-5, the Government has continued its efforts to increase agricultural productivity and create employment in the rural sector. The agriculture sector is the main source of employment and income for about 80 percent of the population of Burkina Faso. It also generates considerable growth and employment links with the potentially dynamic sector represented by the non-agricultural rural economy. The agriculture sector is also the main source of growth for the economy, contributing 90 percent of export earnings. Despite the relatively good performance of Burkina Faso at the macroeconomic level, the incidence of poverty remains high, particularly in the rural areas where 51 percent of the population lives below the poverty income threshold. There is an urgent need to reduce the pressure exerted by rapid demographic growth on the limited and fragile resources of the land. In particular, intensification of farming and rapid technological change are perceived as a means of increasing the productive potential of the land and of improving living conditions in rural areas. The Government has prepared strategic guidelines for the agriculture sector covering four topics:

- Modernization of agriculture (improved seeds, water management, fertilizers, agricultural equipment).
- Soil fertility management.
- Support for producer organizations.
- Capacity building.

In this context, the Government adopted a global rural development strategy at the end of 2003.

Key issues of safeguards and mitigating measures

17. The potential environmental and social impacts of PRSC-5 stem from its sectoral coverage. These impacts, which are mainly linked to the measures for rural development, privatization of ONATEL and reform of the energy sector, as well as to investments in education and health, should not be extensive; nor will they be irreversible. At this stage, the potential environmental and social impacts can be described only in general terms.

18. PRSC-5 will deal with the environmental issues mentioned below and will be based on the national regulation requiring an environmental impact study for qualified investments, on the ongoing sectoral investment projects supported by the Bank and on the EA capacity-building activities supported by PRSC-5.

19. **Rural development:** The reform measures envisaged under PRSC-5 relating to rural development fall into two categories. The first category concerns activities likely to encourage agricultural diversification. The second category relates to activities connected with opening of the cotton subsector.

20. *Diversification.* The potential environmental impacts related to the activities mentioned above are diverse in nature but not irreversible. Agricultural diversification could improve soil fertility management and reduce the need for pesticides, but it could also result in more intensive cultivation methods. Efforts to intensify agricultural production may result in better soil fertility management (for example, by addition of nutrients) but may also lead to increased and inappropriate use of pesticides, with possible adverse (and sometimes catastrophic) environmental and social impacts.

21. The potential environmental impacts related to the intensification of agricultural production are being tackled by two main types of government intervention. The first is the promotion of conservation practices that help to maintain the production capacity of the resource base. Soil and water conservation activities have long been the core of national efforts to encourage the adoption of sustainable agricultural practices. During the three years of PRSP implementation, significant progress has been made in this area under the auspices of the national soil fertility initiative (supported by HIPC resources). Labor-intensive soil and water conservation arrangements have been introduced. The creation of village resource conservation groups helped to accelerate these efforts during the second year of PRSP implementation, although no quantitative evaluation is yet available.

22. The second type of intervention was designed to mitigate the adverse environmental impacts of agricultural intensification, such as pesticide-related pollution and dangers. The most significant efforts in this area concern pesticide registration. In addition to the national policy initiatives, these efforts are helping a regional pesticide registration initiative supported by a number of donors through the Comité Permanent Inter Etats de Lutte Contre la Sécheresse au Sahel (CILSS). Pesticide management and pest management efforts have expanded in recent years in Burkina Faso. However, integrated pest control initiatives in the country have so far achieved only very limited success.

23. Through the decentralized rural development operation financed by IDA, the Government will support the promotion of alternative and complementary pest management methods, in accordance with the provisions of the Bank OP on pest management (OP 4.09) and with the Burkina Faso regulations issued in articles 42 to 46 (dealing with problems of pesticide and fertilizer management) of the Environment Code (see also document E377). The application of

these policies and rules will require the adoption of specific measures for the handling, use and conservation of products, sensitization and training of stakeholders. The rural community development operation financed by IDA is supporting the diagnostic tool that will help to identify and mitigate any adverse social and environmental impact related to community investments.

24. *Opening of the cotton sector.* The transfer of two cotton-growing zones, including ginning plants, may raise environmental impact issues, particularly concerning environmental responsibility in connection with this privatization. In order to reduce the impact of the privatization and establish investors' responsibility in the context of the transfer of part of the assets of SOFITEX (the cotton firm), an environmental audit of the ginning plants was conducted in order to ascertain the scope of the problems and potential environmental responsibilities and decide how to take them into consideration in the privatization transactions. The results of this environmental audit were made available before the financial bids were submitted so that the costs related to mitigation of potential environmental and social problems could be taken into account. The final audit report recommends for each region an environmental and social management plan geared to the following items:

- plan for mitigation and optimization of impacts.
- list of environmental and social parameters to be monitored.
- list of methods for tracking and periodic monitoring of such parameters.
- definition of stakeholders' responsibilities.
- estimate of the cost of the plan for mitigation and alleviation of the impacts identified during the audits.

In addition, the auditors made recommendations to ensure better implementation of the measures set out in the recommended environmental and social management plan.

25. **Privatization of ONATEL.** The privatization of ONATEL may raise questions concerning the responsibility of the new owner for environmental questions, either as regards existing installations or as regards investments to be made in the future. The privatization of ONATEL was accompanied by an IDA technical assistance credit for competitiveness and enterprise development (PCDE). This project financed an environmental audit of the firm before the start of the privatization process, in accordance with environmental annex E530 of the project. The audit recommendations concerning the management of environmental responsibilities were included in the bidding documents and implementation of the recommendations is supervised by the IDA project.

26. **Energy sector reform.** The reform of the energy sector raises the issues of the environmental responsibility of potential investors. In addition, the investments in the construction of the interconnecting line between Bobo-Dioulasso and Ouagadougou and the construction of a new 14 MW power station raise environmental impact questions. The reform of the energy sector is accompanied by two IDA projects : the above-mentioned PCDE and a project for energy sector reform under preparation. The various environmental audits have already been conducted. The audit of SONABHY was prepared in the context of the PCDE. Under the energy sector reform project, the investment component envisages the purchase of a 14 MW power station and construction of a line interconnecting Bobo-Dioulasso and Ouagadougou. For this purpose, the following environmental studies have been made:

- Evaluation of environmental and social protection under the reform.

- Environmental impact study of the 14 MW diesel station at Kossodo.
- Environmental impact study of the project interconnecting Bobo-Dioulasso and Ouagadougou.

27. In accordance with existing arrangements and with the schedule drawn up with the World Bank for the presentation of the Burkina Faso energy file to the Board of Governors, these studies were officially presented at a ceremony held on February 9, 2004. On Tuesday, February 10, 2004, a press announcement was made in the principal newspapers in Burkina Faso. In it, the public was told where the various environmental assessment reports could be consulted for the purpose of expressing opinions and submitting amendments, observations, comments and counter-proposals.

28. The different audits address the environmental responsibilities of potential investors, which will be included in the specifications, and propose mitigating measures for the investments for the interconnection. Implementation of the recommendations is supervised by the two IDA projects.

29. **Health sector development:** In general, the reforms supported under PRSC-5 in the health sector concern capacity building and decentralization of services delivery, and upgrading of human resources. More specifically, PRSC-5 continues to give priority to improving access by the poor to basic services (by abolition of fees for preventive care and reduction of prices for essential medicines), maintaining adequate budget allocations for primary health services and developing a better policy of staff motivation. Essentially, these PNDS-based activities will have only a small number of adverse and irreversible environmental impacts. The main environmental concern is the management of dangerous medical waste (including needles) and the disposal of dangerous substances, human body parts, etc.

30. Dangerous medical waste is a source of concern to the authorities. Specific measures consisting mainly of packaging and disposing of such waste (by incineration) were taken as part of the management and administration of all health care centers/services. These arrangements are part of the present ten-year national plan. Here too, the IDA support operation for efforts to combat HIV/AIDS has formulated and adopted a national plan for medical waste management, which will serve as a guide for the executing unit in processing such waste (see document E715).

31. **Development of basic education:** The main activities planned under the proposed PRSC-5 are continued support for the poorest families in the form of subsidized school supplies, increase in the number of schools and capacity building in the Ministry of Basic Education. The only potential environmental impacts linked to these activities could result from the construction of school buildings and of related sanitary infrastructures.

32. Through the Ten-year Basic Education Development Plan (PDDEB), PRSC-5 would ensure compliance with Bank requirements and policies in the context of school infrastructure construction. The PDDEB has prepared a framework that conforms to Bank requirements.

Linkage between PRSC-5 and supplementary sectoral investment projects as regards compliance with safeguards

33. As will be apparent from the above analysis, there is a close and direct link between PRSC-5 and the sectoral investment projects as regards compliance with environmental and

social safeguards. Since 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, it is more rational to use these plans as a basis in order to guarantee compliance with Bank requirements and policies.

34. Since the Task Team Leaders of these investment operations are members of the PRSC-5 team, they are responsible individually (at any rate, more than the PRSC-5 team) for ensuring full implementation of the EMPs of the operations, which they lead. The details of these Environmental Management Plans can be found in the Environmental Assessments (EAs) of the respective projects. For information, the sectoral investment operations covered by the PRSC-5 environmental and social safeguards are:

- The Community-based Rural Development project.
- The Basic Education Sector project.
- The Response to HIV/AIDS project.
- The Competitiveness and Enterprise Development project.
- The Energy project
- The Urban Environment project.

Readiness of the borrower to deal with safeguards issues

36. Like many other IDA countries, Burkina Faso prepared a National Environment Action Plan (NEAP) at the beginning of the 1990s. Unlike in the other countries, however, the NEAP of Burkina Faso was not reflected in a coherent investment program, which could have included capacity-building components. The result was delays in creating the regulatory framework, a lack of experience and limited capacity in certain areas of environmental management, particularly environmental assessment. The current regulatory framework for the country's environmental management is the result of a slow but steady development of environmental law, including land law, forest law and mining law.

37. Under previous PRSCs, the Bank had an opportunity to verify the country's readiness to apply the environmental assessment to development projects. This work focused on the institutional and technical capacity of the government agencies involved in supervising environmental assessment (EA). Most environmental policies and practices in Burkina Faso are based on the Environment Law enacted in 1997. Articles 17 to 24 of this law describe the situations in which an environmental assessment of development activities is required, as well as the procedures to be followed for its preparation. Typically, the law requires that any development activity likely to produce major adverse environmental impacts should be the subject of an environmental assessment, which must be endorsed by the Ministry of the Environment. The law also requires that a public consultation should be organized with the affected parties/communities to discuss potential impacts and ways to mitigate them.

38. The assessment found that Burkina Faso has the necessary regulations pertaining to environmental assessment but that compliance with such regulations was weak. There were three main reasons for this situation. The first one was the very recent enactment of these regulations (1997) and the late adoption of the implementation decree (June 2001). The second reason was the lack of clarity in the responsibilities of the institutions responsible for ensuring compliance with these regulations. Finally, the lack of technical capacity and awareness both within the Government and in the non-government sector for applying EA to development operations

constituted a major obstacle to obtaining a higher level of compliance with the regulations enacted. On the basis of this assessment, it was agreed that EA capacity building would be the focus of the measures proposed to deal with environmental issues in the PRSCs. In addition, it has been found that overlapping responsibilities within these institutions and unclear mandates are an obstacle to effective application.

Arrangements to enable the Borrower to deal with safeguards issues

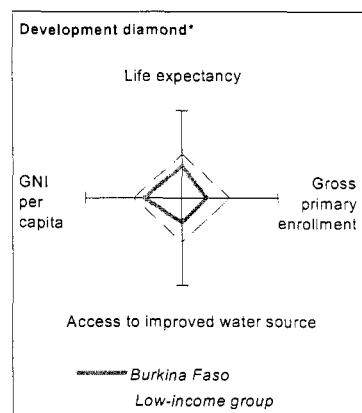
39. A long-term capacity-building commitment will be required in order to remove the constraints preventing effective compliance with Bank safeguard policies and EA requirements in Burkina Faso. On the basis of the revisions of the country's environmental policies and practices, it was agreed between the Bank and the Borrower that long-term EA capacity building at the national level (national agencies, consulting firms, NGOs, civil society, etc.) is the best way of ensuring effective compliance with Bank safeguards in PRSCs. The arrangements to enable the Borrower to deal with safeguards issues consist of two types of activity and are designed to enhance due diligence while permitting the development of local capacity to the level at which national agencies can ensure effective monitoring and suitable application of EA requirements. The first type of activity consists of measures to supplement those adopted and implemented under PRSC-3 and PRSC-4 and in the preparation of PRSC-5; the second type involves enhanced supervision of Bank operations under way in the country. The goal is to ensure full compliance with plans for management of the environmental and social safeguards adopted at the time when these operations were assessed.

Annex 14: Country at a Glance

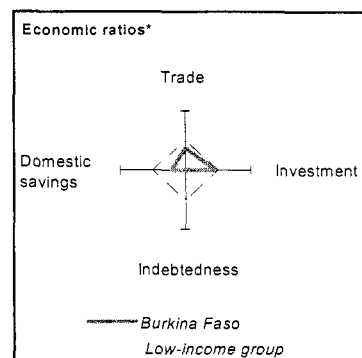
Burkina Faso at a glance

3/4/05

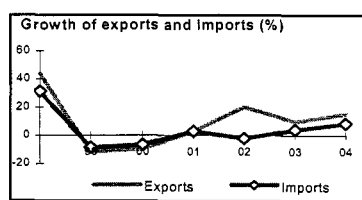
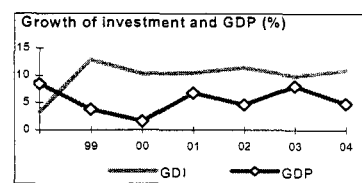
POVERTY and SOCIAL	Burkina Faso	Sub-Saharan Africa	Low-income
2004			
Population, mid-year (millions)	12.4	703	2,310
GNI per capita (Atlas method, US\$)	350	490	450
GNI (Atlas method, US\$ billions)	4.4	347	1,038
Average annual growth, 1998-04			
Population (%)	2.4	2.3	1.9
Labor force (%)	2.0	2.4	2.3
Most recent estimate (latest year available, 1998-04)			
Poverty (% of population below national poverty line)	45	..	..
Urban population (% of total population)	18	36	30
Life expectancy at birth (years)	43	46	58
Infant mortality (per 1,000 live births)	107	103	82
Child malnutrition (% of children under 5)	34	..	44
Access to an improved water source (% of population)	42	58	75
Illiteracy (% of population age 15+)	..	35	39
Gross primary enrollment (% of school-age population)	48	87	92
Male	..	94	99
Female	..	80	85



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1984	1994	2003	2004	
GDP (US\$ billions)	1.3	2.2	4.3	4.9	
Gross domestic investment/GDP	..	20.4	18.3	20.5	
Exports of goods and services/GDP	12.4	11.5	9.1	9.7	
Gross domestic savings/GDP	-2.0	9.0	6.8	8.0	
Gross national savings/GDP	..	18.8	8.5	9.4	
Current account balance/GDP	..	-1.6	-10.3	-11.3	
Interest payments/GDP	0.5	0.7	..	..
Total debt/GDP	31.7	51.1	39.3	35.9	
Total debt service/exports	8.0	12.2	15.4	13.0	
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..
(average annual growth)					
GDP	4.8	5.9	8.0	4.8	4.7
GDP per capita	2.4	3.3	5.5	2.4	..
Exports of goods and services	2.0	5.8	9.8	15.3	6.5



STRUCTURE of the ECONOMY	1984	1994	2003	2004
(% of GDP)				
Agriculture	32.9	31.1	31.7	30.6
Industry	21.9	19.3	20.9	21.5
Manufacturing	..	..	..	..
Services	45.2	49.6	47.4	47.9
Private consumption	87.3	76.1	80.9	79.3
General government consumption	14.7	14.9	12.2	12.7
Imports of goods and services	30.3	22.9	20.5	22.2
(average annual growth)				
Agriculture	4.7	6.3	10.8	1.7
Industry	4.1	5.8	10.4	6.3
Manufacturing	2.7	..	..	..
Services	5.3	6.0	5.5	6.1
Private consumption	3.5	6.0	6.1	4.3
General government consumption	2.6	7.5	1.2	10.4
Gross domestic investment	0.1	11.7	9.9	10.9
Imports of goods and services	1.6	3.5	4.0	8.5

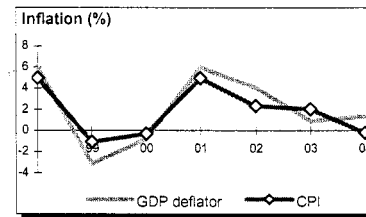


Note: 2004 data are preliminary estimates. Group data are for 2003.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

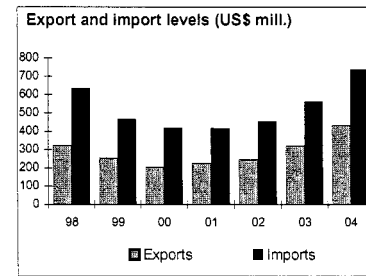
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices				
<i>(% change)</i>				
Consumer prices	4.1	24.8	2.0	-0.2
Implicit GDP deflator	..	25.5	0.9	1.3
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	9.9	13.0	15.0	15.0
Current budget balance	-0.9	1.9	4.6	3.7
Overall surplus/deficit	..	-5.8	-4.1	-5.6



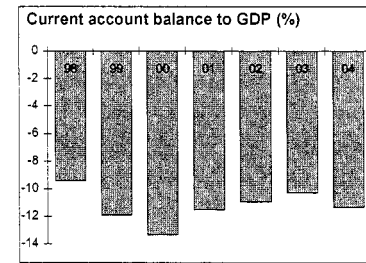
TRADE

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total exports (fob)	..	191	321	434
Cotton	..	58	206	306
Livestock products	..	61	43	47
Manufactures
Total imports (cif)	..	0	561	737
Food	..	0	83	95
Fuel and energy	..	0	134	192
Capital goods	..	0	222	289
Export price index (1995=100)	..	93	93	96
Import price index (1995=100)	..	100	124	131
Terms of trade (1995=100)	..	93	75	73



BALANCE of PAYMENTS

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Exports of goods and services	179	248	381	503
Imports of goods and services	397	495	893	1,131
Resource balance	-218	-247	-512	-628
Net income	N/A	-14	1	3
Net current transfers	95	227	71	66
Current account balance	N/A	-35	-440	-559
Financing items (net)	..	153	552	578
Changes in net reserves	N/A	-119	-112	-20
Memo:				
Reserves including gold (US\$ millions)	..	238	331	336
Conversion rate (DEC, local/US\$)	437.0	534.6	581.2	534.4



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	410	1,129	1,675	1,768
IBRD	0	0	0	0
IDA	124	518	760	Error
Total debt service	22	44	68	73
IBRD	0	0	0	..
IDA	1	6	15	..
Composition of net resource flows				
Official grants	81	212	283	158
Official creditors	41	80	91	Error
Private creditors	0	0	..	..
Foreign direct investment	..	..	28	0
Portfolio equity	0	0	0	0
World Bank program				
Commitments	7	91	160	..
Disbursements	13	79	74	15
Principal repayments	0	3	10	..
Net flows	13	76	65	..
Interest payments	1	3	5	..
Net transfers	12	73	59	..

