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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A

**PROPOSED CREDIT IN THE AMOUNT OF SDR 41.8 MILLION
(US\$60.0 MILLION EQUIVALENT)**

TO

BURKINA FASO

FOR A

SIXTH POVERTY REDUCTION SUPPORT CREDIT

May 16, 2006

**Poverty Reduction and Economic Management 4
Country Department 10
Africa Region**

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BURKINA FASO - FISCAL YEAR

January, 1 – December, 31

CURRENCY EQUIVALENTS

(Exchange Rate as of May 1, 2006)

Currency Unit = CFA franc (CFAF)

US\$1.00 = CFAF 527.9

Weights and Measures

Metric System

ABBREVIATION AND ACRONYMS

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
HIPC-AAP	HIPC Accountability Assessment and Action Plan
ICR	Implementation Completion Report
IDA	International Development Association

IFC	International Finance Corporation
IGE	General State Inspectorate
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
PRSP-APR	Poverty Reduction Strategy Paper Annual Progress Report
ROSC	Report on the Observance of Standards and Codes
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

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BURKINA FASO
SIXTH POVERTY REDUCTION SUPPORT CREDIT

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The PRSC-6 was prepared by an IDA team consisting of: Abdoulaye Seck, Abdoulaye Touré, Aguiratou Savadogo-Tinto, Alain Catalan, André Ryba, Andrew Asibey, Asha Ayoung, Beloué Ido, Bintou Sogododo, Boubacar Bocoum, Boubker Abisourour, Célestin Bado, Christian Eghoff, Christophe Crépin, Christophe Prevost, Christophe Ravry, Emmanuel Diarra, Emmanuel Nikiéma, Francois G. Le Gall, Francois Nankobogo, Glauca Ferreira, Gwladys Kinda, Hélène Grandvoinet, Hélène Bertaud, Hoon S. Soh, Ibrahim Nébié, Jean-Christophe Carret, Kadiatou Toure, Koffi Ekouevi, Kofi Amponsah, Kwawu Mensan Gaba, Mamadou Yaro, Matar Fall, Michel Layec, Moukim Temourov, Nadege Leboucq, Nyaneba Nkrumah, Olivier Durand, Ousseynou Diop, Patrick Labaste, Per Ryden, Pierre Kamano, Siaka Coulibaly, Song Li, Suzane Rayaisse, Sylvie Debomy, Timothy Johnston, Virginie Vasselopoulos, William Dakpo, Wolfgang Chadab. Peer reviewers are Linda Van Gelder (PRMPR) and Roland White (EASPR). Advisors include Matts Karlsson, Ellen Goldstein, and Robert R. Blake. The PRSC team worked closely with the budget support group for Burkina Faso, and with an IMF team headed by William S. Rogers.

SIXTH POVERTY REDUCTION SUPPORT CREDIT

CREDIT AND PROGRAM SUMMARY

Borrower	Burkina Faso
Implementing Agencies	The Ministry of Finance and Budget (MFB) coordinates the implementation, in close association with line ministries.
Amount	SDR41.8 million, US\$60 million equivalent
Terms	IDA terms with a forty-year maturity, including a grace period of ten years.
Schedule of disbursement	Single tranche of SDR41.8 million, US\$60 million equivalent, to be released upon effectiveness expected in July 2006.
Description	<p>The proposed Poverty Reduction Support Credit (PRSC-6) is the third in a series of three operations supporting the implementation of the PRSP in the period 2004-2006. The 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. The PRSC series 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-6 supports institutional reforms that will increase private sector participation in the cotton, telecommunication and energy sectors, thus accelerating growth through higher investment and improved productivity and competitiveness. The second component includes policies to lower the cost of services and improve access and quality in the education, health, social protection, and water sectors. The third component encompasses policy measures to strengthen budget formulation, execution, procurement, and control. This component also supports the strengthening of public sector performance, greater decentralization, and better environmental management. The proposed operation is an integral part of the Bank's assistance strategy discussed by Executive Directors in June 2005. The next series of three PRSC will continue the support to PRSP implementation along the same directions, but with a greater focus on growth and decentralization.</p>
Benefits	<p>The proposed operation would allow 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 2006 budget. Over the period 2004-2006, it is expected that the reform program under the series of three annual PRSCs (PRSC-4, PRSC-5 and PRSC-6) would help the Government in achieving a 6 percentage point reduction of the poverty headcount. It would also help the Government in making progress toward reaching some key Millennium Development Goals (MDGs), namely, school enrollment, literacy, child and maternal mortality, and access to safe water. Lastly, expected benefits include strengthening the sustainability of development efforts, better governance</p>

through improved public financial management and modern civil service, and improved services delivery through greater deconcentration and decentralization.

Risks
The risks for the operation arise from the country's weak institutional capacity, adverse developments in commodity prices and exchange rates, and regional instability.

Risks for program implementation remain due to important capacity constraints in conceiving, executing, monitoring, and evaluating government programs, particularly decentralization and program-based budgeting. Burkina Faso's vulnerability to external shocks, notably the fluctuation of petroleum and cotton 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, threaten macroeconomic stability and growth. Regional instability, notably the political crisis in Côte d'Ivoire where live several hundred thousands of Burkinabé, could trigger a major humanitarian, social and economic crisis.

The capacity risks are mitigated through donor harmonization that reduces transaction costs and alleviates a heavy tax by donors on the meager capacity in the public sector. The approval of capacity building projects including two Bank projects also help to address the institutional capacity issue. The risks of commodities and currency shocks are mitigated by the strong track record of the Government in adapting to external shocks through adjustment of fiscal policy; by an independent monetary policy with a solid record of low inflation; and by the willingness of the international community to deliver additional assistance if needed. Regional initiatives and UN-led efforts to solve the political crisis in Côte d'Ivoire are addressing the risks of spillover.

Operation ID Number P078996

**IDA PROGRAM DOCUMENT FOR A
PROPOSED SIXTH POVERTY REDUCTION SUPPORT CREDIT
TO BURKINA FASO**

I. INTRODUCTION

1. This program document proposes a Sixth Poverty Reduction Support Credit (PRSC-6) for Burkina Faso, to be presented to the Executive Board on June 20, 2006. PRSC-6 amounts to SDR41.8 million or US\$60 million equivalent, and would be the last in a series of three PRSCs that supports the implementation of the PRSP in the period 2004-2006. The PRSP and its Joint Staff Advisory Note (JSAN)¹ were considered by the Executive Board on May 3, 2005. The PRSP pillars are accelerating equitable growth; improving social service delivery; increasing employment and income generating activities for the poor; and promoting good governance.
2. PRSC-6 is aligned with the Africa Action Plan (AAP),² an outcome-oriented framework with specific actions, quantitative indicators of results and an assessment of risks. The principal objectives underpinning the AAP are: (i) managing for results; (ii) building capable states and improving governance; (iii) strengthening the drivers of growth; (iv) building the capacity of excluded groups to participate in and benefit from growth; (v) strengthening the impact of partnerships; (vi) implementing the IDA14 partnership at the country level; and (vii) scaling up progress to the MDGs and using aid most effectively. The AAP was discussed by the Executive Board on September 7, 2005.
3. PRSC-6 is an integral part of the Country Assistance Strategy (CAS)³ discussed by the Executive Directors on June 28, 2005. The CAS defines Bank support for the PRSP during FY06-09, through analytical work and financial products. The strategic objectives of the CAS reflect the four pillars of the PRSP: (i) accelerated and shared growth; (ii) improved access to basic services; (iii) increased employment and income opportunities for the poor; and (iv) better governance with greater decentralization. The CAS is characterized by a stronger focus on results, an increasingly programmatic approach, and enhanced support for country systems and capacity.
4. PRSC-6 focuses on key measures to attain the Government's foremost objectives under the PRSP. These measures are organized under three components consistent with the four PRSP pillars: growth and employment creation; human resource development; and good governance. They are described in the Letter of Development Policy in Annex 1 and will result in higher income growth and employment, improved efficiency in the use of public funds, greater transparency and accountability in public sector management, and more effective public service delivery to the poor.
5. Progress in implementing the reform program has been sustained since the approval of PRSC-5⁴ in May 2005. Output growth was 7.5 percent in 2005 and was mostly driven by the agriculture sector which provides a living to 95 percent of the poor in Burkina Faso. The fifth PRSP Annual Progress Report and related JSAN are considered by the Executive Board jointly with this proposed operation. It describes progress in the access to and quality of basic services. It also discusses progress in governance, decentralization and sustainable development.

¹ Burkina Faso: Poverty Reduction Strategy Paper and Joint Staff Advisory Note, Report No. 31749-BF April 11, 2005

² The World Bank, Africa Region - Meeting the Challenge of Africa's Development: A World Bank Group Action Plan, September 7, 2005

³ Burkina Faso: Country Assistance Strategy – Report No. 32187-BUR, June 2005

⁴ Burkina Faso: Fifth Poverty Reduction Support Credit – Report No. 31342-BF, April 7, 2005

6. PRSC-6 is underpinned by the joint framework for budget support agreed upon by all donors providing budget support and spearheaded by the Government. The framework has enhanced donor harmonization and has cut significantly on transaction costs for the Government. Subject to satisfactory performance on the program outlined in the proposed credit, it is envisaged that a new series of three annual PRSCs will support PRSP implementation in the period 2007-2009. The new series is part of the CAS, and will continue efforts initiated under the first six PRSCs while putting more emphasis on growth and decentralization.

II. COUNTRY CONTEXT

7. Burkina Faso is a landlocked country of about 12 million inhabitants with a narrow natural resource base and significant vulnerability to external shocks such as erratic rainfall and adverse development in commodity prices. Poverty headcount was 46 percent in 2003 with 95 percent of the poor living in rural areas. Per capita income was about US\$350 in 2004 compared to US\$450 for low income countries and US\$490 for Sub-Saharan African. Social indicators compare poorly to the average in Sub-Saharan Africa: in 2004 literacy rate was about 26 percent and life expectancy at birth was 43 years, compared to 35 percent and 46 years for Sub-Saharan Africa. Burkina Faso was ranked 175th out of 177 countries in the 2005 Human Development Index (HDI) published by the United Nations Development Program (UNDP) (see Box 1).

8. Against the backdrop of the difficult initial conditions and environment, Burkina Faso has demonstrated great resilience and track record of sound policy implementation. The political environment in Burkina Faso has remained stable, and the country has achieved macroeconomic stabilization consequent to fiscal discipline. Three successive programs under the IMF's Poverty Reduction and Growth Facility (PRGF) were completed and a fourth PRGF is currently implementing well. The growth rate of gross domestic product (GDP) has averaged 6.0 percent since 1994, compared to an average population growth rate of 2.5 percent. 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. Progress in PRSP implementation has been steady as laid out in five PRSP APRs to date. However, despite the gains and the track record, there remain important challenges for attaining most MDGs.

9. Presidential elections were held on November 13, 2005. The incumbent President Blaise Compaoré won a third term of five years with over 80 percent of the vote. The elections were deemed fair and transparent by international observers. Municipal elections took place on April 23, 2006, and resulted in the elections for the first time of local governments for 302 newly established rural communes. In 2006, the political situation in neighboring Cote d'Ivoire should be monitored carefully as a key element of Burkina's external environment. Developments in the international prices of cotton and oil prices could also have a key impact on Burkina's development outcome in 2006.

Box 1: Burkina Faso and the Human Development Index

UNDP defines the HDI as a composite index that measures the average achievement in a country in three dimensions of human development: a long and healthy life, as measured by the life expectancy at birth; knowledge as measured by the adult literacy rate and the combined gross enrollment ratio for primary, secondary and tertiary schools; and a decent standard of living, as measured by GDP per capita in purchasing power parity (PPP) US dollars.

Burkina Faso has been consistently ranked at the bottom of the HDI since the first publication in 1993. This outcome often comes as a surprise to many observers who struggle to reconcile Burkina's poor ranking with reports of recent progress in the country. However, the inconsistency is just apparent.

First, the HDI does indeed reflect development progress in Burkina Faso as illustrated in the table below. The HDI has steadily increased since 1975 but initial gaps and parallel progress in other countries have led to no ranking changes for Burkina.

Year	1975	1980	1985	1990	1995	2000	2003
HDI	0.253	0.273	0.297	0.305	0.311	0.328	0.317

Second are data issues ranging from coverage and quality to timeliness. The Human Development Report Office relies on international data agencies to collect the various indicators used in the HDI. However, international data series have sometimes lagged behind national data because of coordination issues. For instance in the case of Burkina Faso, indicators for life expectancy at birth and literacy rates are derived from the population census of 1996. The estimate for life expectancy at birth is also based on a HIV prevalence rate of 4.2 percent, while UNAIDS official estimate for 2004 is 2.4 percent.

Third, it is unlikely that Burkina will move up quickly on the HDI ranking even if sustaining current progress, the reason being large initial gaps and the nature of variables in the HDI such as the literacy rate and life expectancy at birth rates which could reflect recent actions and programs only over time.

Source: Human Development Report 2005

RECENT ECONOMIC DEVELOPMENTS IN BURKINA FASO

Growth and Prices

10. Burkina Faso's external environment remained challenging in 2005. Prices of cotton – Burkina's main export commodity – fell by about 15 percent in 2005. Oil prices rose by 43.4 percent, bringing the cumulative rise to 88.0 percent since 2004. The protracted political and economic crisis in neighboring Côte d'Ivoire also continued to strain the Burkinabé economy through disruption of the supply lines, higher transportation costs, loss of markets, and lower workers' remittances. Nevertheless, continuous sound economic management has muted the impact of these external adverse shocks. Table 1 summarizes key economic indicators for Burkina Faso.

11. Real GDP grew by 7.5 percent in 2005, driven mainly by a record cereal and cotton production. Cotton production reached a record level of 642 thousand tons following the liberalization of the sector and the impetus brought on by two new private companies. Cereal production increased by 39.0 percent as a result of policies towards the development of agricultural water systems, small-scale irrigation, integrated management of soil fertility, research and development, as well as good rainfall. Industry and transport sectors also contributed to output growth, through spillover of the cotton production. The ginning industries and the transport sector benefited directly from the processing and transportation of the large cotton production. In addition, all industries benefited from a strong demand spurred by record-income received by cotton producers (about US\$270 million, equivalent to 4.2 percent of GDP in 2005).

Table 1: Selected Economic Indicators

	2000	2001	2002	2003	2004	2005	2006 (projection)
GDP Growth	3.1	6.7	5.2	8.0	5.5	7.5	4.4
Inflation	-0.3	4.7	2.3	2.0	-0.4	6.4	2.1
Real Effective Exchange Rate (-=depreciation)		3.3	2.1	3.8	-1.1	4.0	
Terms of Trade		14.8	-17.0	-0.8	1.8	-31.0	-0.3

Source: Burkina Faso authorities and IMF staff

12. Inflation measured by changes in the consumer price index was 6.4 percent in 2005, up from -0.4 percent in 2004. The price hike was mainly a result of high food prices following a poor cereal harvest in 2004/2005, and to a lesser extent it reflects higher transportation costs following the rise of international fuel prices. Excluding food items and transportation, price level remained flat in 2005. The impact of higher prices on the real effective exchange rate was somewhat mitigated by the strengthening of the dollar against the CFAF, but overall the REER appreciated by 4.0 percent in 2005. 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 31 percent.

Fiscal Development

13. Burkina Faso has continued to implement a prudent fiscal policy, consistent with medium-term fiscal sustainability, low inflation and growth. The 2005 budget was executed smoothly notwithstanding challenges resulting from adverse terms of trade shocks and uncertainties about external assistance. In particular, the rise in oil prices led to an increase in government consumption of petroleum products and subsidies to the electricity company. Regarding external assistance, HIPC debt relief fell short of initial projections (-18 percent) as a result of lack of participation of non-Paris Club creditors. In addition there was a shortfall in project grants, partly due to implementation issues in the education sector.

14. Expenditures were lower than in the financial program: expenditure and net lending was 20.6 percent of GDP in 2005 against 22.9 percent in the financial program⁵. There were planned increases in current outlays due to salary increases – the first since 1997 – and hiring of teachers and health workers with the objectives to make progress toward the MDGs. Overall, poverty-reducing social expenditures increased from CFAF145 billion in 2004 to CFAF174.3 billion in 2005. However, the subsidies to the electricity company were higher than programmed because of the increase in international oil prices. The subsidies rose to CFAF18 billion, and undermine the equity of public spending. In 2006 and 2007, the Government is planning to increase electricity tariff as agreed under the energy sector program financed by the Bank and several other donors. The tariff adjustments and increased reliance on imports of cheaper electricity will gradually eliminate the subsidies to the electricity company. The slow pace of project execution, essentially externally-financed projects, more than offset the increases in certain categories of spending.

⁵ IMF Country Report No. 05/95, December 22, 2004.

Table 2: Government Financial Operations in 2005-06
(In billions of CFA francs, unless otherwise indicated)

	2005	2006
Total revenue and grants	504.0	588.1
Revenue	380.9	432.3
Grants	123.1	155.8
Expenditure and net lending	623.4	724.5
Current expenditures	339.6	384.9
Capital expenditure	297.2	342.4
Net lending	-13.4	-2.8
Overall Balance (commitment basis)	-119.4	-136.4
Financing	119.4	136.4
Net Foreign financing	119.7	128.4
Domestic financing	-4.2	12.8
Cash basis adjustment	3.9	-4.8
	In percentage of GDP	
Total revenue and grants	16.7	18.1
<i>Of which: Revenue</i>	12.6	13.3
Expenditure and net lending	20.6	22.3
Overall balance (commitment basis, excluding grants)	-8.0	-9.0
Memorandum item: GDP (in billions of CFAF)	3,026	3,246

15. Revenue in 2005 increased by 11 percent compared to 2004 and slightly exceeded the target set in the financial program. Several government actions have made possible this revenue performance. The continuous implementation of a pass-through mechanism of international oil prices into domestic petroleum prices has insulated petroleum revenue from the increase of international prices. The Government introduced a revised taxpayer identification number, thus facilitating the control of tax compliance. It also stepped up the monitoring of tax collection effort by instructing the Large Taxpayer Directorate to carry out more than 60 tax audits. In addition, the Government produced quarterly progress reports for activities in three large tax offices in the city of Ouagadougou. The collaboration with all revenue administration (tax, customs and treasury) was also strengthened. Nevertheless, revenue as a percentage of GDP remained low at 12.6 percent, resulting in large fiscal deficit.

16. The overall fiscal deficit – excluding grants – was 8.0 percent of GDP in 2005, down from 8.5 percent of GDP in 2004. The deficit was mostly financed by concessional external assistance, and there is no evidence of crowding out of the private sector. While significant in the past, domestic debt has declined rapidly in recent years in part because of requirements by the West African Economic and Monetary Union -- to which Burkina Faso belongs -- to phase out indebtedness to the common central bank. In 2005, domestic debt represents only 5 percent of GDP, and it is projected to decline further over the medium term. Net external financing was equivalent to 8.0 percent of GDP, in which grants represented about 4.1 percent of GDP. Budget support (grants and credits) were disbursed as scheduled, reflecting the impact of the new arrangement for budget support on resources predictability.

External Developments

17. Burkina Faso was hit hard in 2005 by a massive deterioration in its terms of trade (see Table1). Cotton export earnings declined by 5 percent compared to 2004, even when exports in volume had increased by 28 percent. On the other hand, oil imports rose significantly by 54 percent.

Put differently, oil imports represented 90 percent of cotton exports earning in 2005, against 57 percent in 2004. As a result, trade deficit in percentage of GDP increased from 6.9 percent in 2004 to 8.5 percent in 2005. The balance of services also deteriorated because of higher transportation cost, including from the disruption of the Cote d'Ivoire supply lines and the opening of longer and more expensive routes to Togo, Ghana and Benin. The current account deficit (excluding current grants) deteriorated from 11.0 percent of GDP in 2004 to 12.3 percent of GDP in 2005. The deficit was financed by external financing and by running down gross international reserves which declined from the equivalent of 6.7 months of imports in 2004 to the equivalent of 5.4 months of imports in 2005.

Monetary Developments

18. Burkina Faso is a member of the Zone Franc and a supranational Central Bank implements a monetary policy consistent with the peg to the Euro. Prudent monetary policies have resulted in a good record of low inflation. In early 2005, a rapid expansion of credit to private sector led the monetary authorities to raise reserve requirements from 3 to 7 percent in order to curb the credit expansion. The latter was partly driven by the rise of crop credits as a result of record cotton production. Credit to private sector increased by 17.1 percent at end-December 2005, down from 23.5 percent in June 2005. Money supply increased by 11.3 percent in 2005 as a result of a decline of 2.9 percent in net foreign assets and a rise of 14.2 percent in net domestic assets.

MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

Growth and Prices Outlook

19. International cotton and oil prices will remain major determinants of the economic outcome in 2006. Current indications are that cotton prices could somewhat rebound from their record-low of 2005. In a January 3, 2006 press release, the International Cotton Advisory Committee forecasts that the Cotlook A Index will average 65 cents per pound in 2005/06, up 13 cents from last season, on the basis of a projected increase in net imports by China. The price increase will be a welcome relief to cotton companies which suffered financial losses in the previous season. On the other hand oil prices are expected to rise again in 2006, thus further straining the Burkinabé economy through higher transportation and production costs.

20. On the basis of the aforementioned external environment, real GDP growth rate is projected at 4.4 percent in 2006 down from 7.5 percent in 2005. The single most important factor is the expected return of cereal production to average trend, following the 39 percent increase in 2005. Cotton production is expected to increase as a result of stable producer prices and new investments made by all three cotton companies. Mining production could also pick up in 2006. Higher oil prices will limit the contribution of the industry and services sectors (transportation).

21. Inflation is projected to slow in 2006 because inflationary pressures from higher oil prices will be offset by a large decline in food prices after the record cereal production at end-2005. Inflation at end-2005 was 4.5 percent, below the annual average of 6.4 percent. With the maintenance of sound fiscal and monetary policy, price increase will remain modest at 2.1 percent, consistent with the inflation in the Euro zone. The low inflation will have a positive impact on the real effective exchange rate, thus improving competitiveness and growth prospects in the tradable sector.

2006 Budget and Financing Requirements

22. The 2006 budget reflects the priorities of the PRSP. Budget allocations for priority ministries such as basic education, health, agriculture and infrastructure, match or exceed those in the base case of the MTEF. Expenditures and net lending will increase to 22.3 percent of GDP, against 20.6 percent in 2005. The increase in spending is mostly due to the hiring of teachers, the financing of a program to increase school attainment for girls, and the financing of the decentralization reform, particularly the transfers of education and health responsibilities to local governments and the organization of municipal elections.

23. The budget includes appropriations for subsidies to the electricity company (SONABEL) and for butane and lamp oil. The subsidy to the electricity company is capped at its level of 2005 (CFAF18 billion), notwithstanding the projected increase in international oil prices. The issue of subsidies to SONABEL is discussed in detail in the policy areas section of this report. The budget has also limited subsidies (CFAF3 billion) for fertilizers in the cotton sector. The subsidy was first introduced in 2003 in the aftermath of a major political crisis in Côte d'Ivoire that disrupted the supply lines and led to an increase in transportation costs and fertilizer prices. The mitigation measure will be phased out in 2007. The budget does not include a support to the price mechanism in the cotton sector.

24. Revenue collection is expected to increase as a result of the continuous implementation of revenue-enhancing measures, including the completion of the taxpayer census in Ouagadougou and Bobo-Dioulasso in early 2006 and the implementation of the computerized revenue management system (*Circuit Informatisé de la Recette, CIR*). Revenue as a percentage of GDP is projected at 13.3, up from 12.6 in 2005. The overall fiscal deficit – excluding grants – is projected at 9.0 percent of GDP and will be essentially financed by external financing (Table 2), including by the proposed PRSC-6, disbursements under the IMF's PRGF, debt relief from HIPC and the MDRI, and program support by other multilateral and bilateral donors (African Development Bank, European Union, Denmark, France, Germany, Netherlands, Sweden, and Switzerland).

External and Monetary Projections

25. Cotton exports will rebound in 2006 but because oil imports will remain high, the trade deficit will only improve from 8.5 percent of GDP in 2005 to 7.7 percent in 2006. The trade deficit will remain higher than its level in 2004 before the rise in oil prices. The balance of services and income is projected to be broadly stable in 2006, and as a result, the external current account deficit – excluding transfers – would improve at 11.3 percent of GDP, from 12.3 percent in 2005. The current account deficit will be fully financed by net current transfers (2.6 percent), capital transfers (4.2 percent), net external disbursements (3.1 percent), private capital inflows (0.7 percent), and by drawing down international reserves (0.7 percent). Gross international reserves will be equivalent to 4.6 months imports, which seem to be adequate.

26. The supranational national Central Bank will pursue its prudent monetary policy in 2006, with the explicit objectives of containing inflation. Money supply is projected to increase by 7.3 percent in 2006, in line with increase in the nominal GDP. Credit to the private sector would increase by about 10 percent, which is evidence there is no crowding out of private investors and also indicates the monetary policy is not overly restrictive.

Debt Sustainability

27. A Debt Sustainability Analysis (DSA) was conducted jointly by Fund and Bank staff using the DSA template for low-income countries. The DSA does not take into account the impact of the Multilateral Debt Relief Initiative (MDRI). Based on the analysis of the baseline scenario and several alternative scenarios, the Staffs concluded that Burkina Faso's debt dynamics are sustainable but the country faces a moderate risk of debt distress. The full DSA is summarized in Annex 8.

28. Burkina Faso's external debt stock net of HIPC debt relief stood at USD 1.75 billion at end-2004. 72.6 percent of this debt is owed to multilateral creditors, such as IDA (49.2 percent), the African Development Bank (18.1 percent) and the IMF (5.3 percent). Most of the bilateral debt is held by non-Paris Club members, some of whom have not yet delivered their share of debt relief. ECOWAS has not indicated that it will participate in the HIPC initiative.

29. In April 2002, Burkina Faso reached the Completion Point under the Enhanced HIPC Initiative. At the time, it was judged that exogenous factors outside of the government's control (such as falling cotton prices) had contributed to a significant deterioration of Burkina Faso's debt outlook and the country became the first HIPC to obtain an additional topping-up of the Enhanced HIPC assistance. As of end-2004, Burkina Faso's debt situation looks more optimistic than had been projected at the Completion Point. Despite adverse exchange rate movements and higher than anticipated new borrowing, the country had a NPV of debt-to-exports ratio that was below the one projected at the Completion Point (183.1 percent and 192.5 percent respectively).

30. The findings from Debt Sustainability Analysis lead the Staffs to conclude that while Burkina Faso's debt dynamics are sustainable, the country faces a moderate risk of debt distress. The debt situation is sustainable because, with the exception of the NPV of debt-to-exports ratio, all debt indicators remain well below the policy-contingent indicative thresholds, both under the baseline and under the alternative scenarios. The NPV of debt-to-exports ratio breaches the indicative threshold for some years under the baseline before improving gradually in the outer years of the projection period. Taken as a whole, the Staffs did not view the temporary breach of that threshold as indicative of a fundamental debt problem.

31. However, the results from the alternative scenarios underscore the need for the authorities to continue to implement sound macroeconomic policies and reforms towards achieving higher export growth and other growth-enhancing measures. The alternative revenue scenario highlights the importance of maintaining efforts to improve revenue collection. Those reforms combined with unwavering resolve to attract financing at favorable terms -- preferably through grants -- would help Burkina Faso in achieving progress towards the MDGs while maintaining external debt sustainability.

Multilateral Debt Relief Initiative

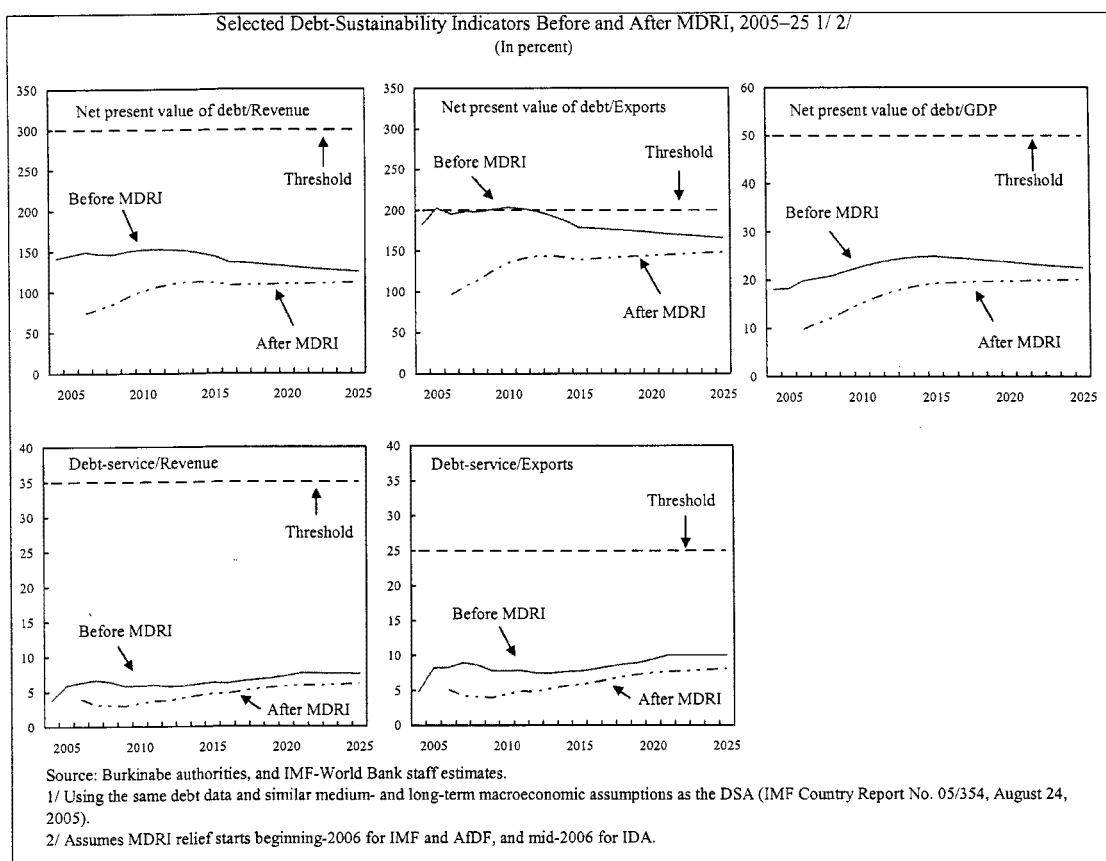
32. On March 28, 2006, Executive Directors of the IDA approved Burkina Faso's eligibility to the Multilateral Debt Relief Initiative (MDRI). MDRI relief by IDA will be provided on future debt service falling due on the end-2003 debt stock and the provision of relief would start as of July 2006. Until 2044, accumulated debt service savings for Burkina Faso with IDA would amount to SDR497 million.

33. On December 21, 2005, the IMF Executive Board approved debt relief for Burkina Faso under the MDRI (see Press Release No 05/286). The IMF will provide 100 percent debt relief on all debt incurred by Burkina Faso to the IMF before January 1, 2005 that remains outstanding. This

amounts to approximately US\$89 million, or US\$82 million excluding remaining assistance under the Heavily Indebted Poor Countries Initiative.

34. IMF and IDA Directors noted that Burkina Faso has qualified for MDRI because of its overall satisfactory recent macroeconomic performance, progress in poverty reduction, and improved public expenditure management. The Directors of the African Development Fund (ADF) will consider Burkina Faso's eligibility to the MDRI in May 2006. ADF will provide debt relief as of the end-2004 debt stock, and debt relief is expected to be delivered retroactively as of January 2006. For memory, ADF owned in 2004 18.1 percent of Burkina Faso's external debt stock net of HIPC debt relief, equivalent to US\$317 million. The impact of the MDRI on Burkina Faso's debt sustainability is summarized in figure 1.

Figure 1: Impact of MDRI



Source: IMF Country Report No. 06/107, March 2006

Adequacy of the Macroeconomic Framework

35. The macroeconomic framework is adequate for the purposes of the proposed PRSC 6. This assessment is based on the solid track record of macroeconomic stability which has created the conditions for growth of per capita income while maintaining debt sustainability.

36. The Government has achieved macroeconomic stability— despite adverse external shocks— through prudent monetary and fiscal policies. Average inflation has been kept below 3 percent in the

past decade, which has helped to prevent an appreciation of the real effective exchange rate, thus preserving the competitiveness gain from the devaluation of the CFAF in 1994. In turn, the renewed competitiveness is a main factor behind the recovery of the cotton sector which now accounts for about 70 percent of total exports earnings. In the medium-term macroeconomic framework, the Government aims at maintaining annual inflation rate below 2 percent, consistent with inflation in the Euro zone and the peg to the Euro. Because inflation is equivalent to a regressive tax, recent achievements on that front as well as ongoing policies appear to be pro-poor

37. The equity in fiscal operations was considered in the Poverty Assessment report completed by the Bank in July 2004 (Report no. 29743-BUR). The broad conclusions on the fiscal reforms undertaken by the government in the late 1990s (trade reform, lower trade tariff and introduction of a VAT), and more recent efforts to improve the collection of the progressive income tax, support the view that the revenue collection is equalizing. This effect arises from the reduction in the tax burden on imports and exemption of unprocessed food from the domestic taxes (VAT). The customs and VAT reform have reduced some of the high barriers for agricultural inputs, thus contributing to growth in rural areas where the vast majority of the poor (90 percent) are occupied.

38. The Public Expenditure Review (Report No. 29154-BUR) completed in June 2004 indicates that the budget overall poverty focus is adequate with an increasing share of the budget going to social expenditures. Poverty-reducing social expenditures increased from 4.7 percent of GDP in 2003 to 5.8 percent of GDP in 2004. There is a focus of expenditure on the most deprived regions to build and equip schools and health centers and a focus on raising female education rates. For instance, since 2001, the Government is providing subsidies to the 20 provinces with the lowest school attainment rate (eliminating school fees and providing school materials to pupils from poorest households). Recently, the Government has protected priority spending when resources levels were inadequate. For the medium term, the Government has finalized a Social Protection Strategy that will identify policies to insulate the poor against shocks. The completion of the social protection strategy is a benchmark under the proposed operation.

39. As a member of the West African Economic and Monetary Union (WAEMU), Burkina Faso complies with the criteria of the Convergence, Stability, Growth and Solidarity Pact that calls for a surplus in the primary fiscal balance. However, overall fiscal and external imbalances are large because of the low resources base and the subsequent low revenue to GDP ratio. While Burkina Faso is implementing reforms to improve revenue collection, it has kept fiscal and external imbalances at levels consistent with available concessional financing. There is no inflationary financing of the deficit and no crowding out of the private sector. Burkina's external debt dynamics remain sustainable even when excluding the impact of the MDRI.

40. Macroeconomic stability and low inflation have contributed to the economy growing on average by 6 percent since 1994, among the highest in Sub-Saharan Africa. Growth was mainly driven by the agricultural sector, in part due to policies that have prevented the appreciation of the REER. There has been a large decrease in the poverty rate given that most of the population live in rural areas and thus depend on agriculture. The Bank's Poverty Assessment (PA) indicates that economic growth has resulted in the poverty headcount decreasing from 54.6 percent in 1998 to 46.4 percent in 2003. The PA also concludes that the target poverty rate reduction to 30 percent by 2015 can be achieved if the country maintains an annual real GDP growth rate of approximately 5 percent as envisaged in the medium-term macroeconomic framework.

41. The Executive Board of the International Monetary Fund (IMF) approved a three-year PRGF arrangement on June 11, 2003 to support the Government's economic reform program for 2003-06.

The fifth review of the current PRGF arrangement was completed on March 13, 2006, thus keeping up with a perfect record of successful PRGF arrangements since 1994. In completing the fifth review, 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, while pursuing policies to achieve the Millennium Development Goals.

III. BURKINA FASO'S POVERTY REDUCTION STRATEGY

42. The Government approved a second full PRSP (PRSP-2) in 2004. PRSP-2 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. PRSP-2, its accompanying Priority Action Plan (PAP) and a Joint Staff Advisory Note (JSAN) were reviewed by the Executive Directors in May 2005, in parallel with the 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.

43. PRSP-2 builds on the same four pillars as the original PRSP: (i) accelerating equitable growth; (ii) ensuring that the poor have access to basic social services; (iii) expanding opportunities for employment and income-generating activities for the poor; and (iv) promoting good governance. The proposed operation supports the implementation of PRSP-2 along these four pillars.

44. Specific government programs under the first pillar include ensuring macroeconomic stability, increasing the competitiveness of the economy and reducing factor costs, providing support to productive sectors and accelerating development in rural areas where the majority of poor live. Under the second pillar, Government aims to improve the access to and quality of education, health and nutrition, potable water and sanitation, housing and social protection. Under the third pillar, programs 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 and decentralization issues are addressed. The logical framework of PRSP-2, including a description of the policies and programs to be implemented in 2004-2006, is presented in annex 2.

45. The new PRSP expands the number of priority sectors which now include – in addition to health, education, and rural development - food security, access to potable water, HIV/AIDS, social inclusion, gender, environment, employment and informal sector, development of small and medium enterprises and industries, including small-scale mining, security, rural electrification 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 capacity to implement it. The Government will need the support of its partners to adequately fund these priorities given the constraints on its ability to mobilize additional domestic resource. The new resources should be preferably in grant terms to prevent the risk of debt distress. The MDRI is a first step in that direction.

Participatory Process

46. PRSP-2 preparation was highly participative. Ten regional consultations were organized bringing together about three thousand (3,000) participants from the 13 regions of the country. Stakeholders represented diverse socio-economic groups in addition to public officials. The

objectives of these regional consultations were to reflect the views of the stakeholders in these regions, and to provide each region with a regional PRSP. Meetings were also held with all the heads of ministerial departments with the primary objective to strengthen the link between PRSP and the ongoing sectoral policies. These meetings allowed to build ownership of the PRSP among key officials in sectoral ministries, restate the role of sectoral policies and programs in the implementation of PRSP and led to the broadening of sectoral coverage with the introduction of new themes such as public security, youth employment, social exclusion, gender and development, environment and living standards, SMIs/SMEs, rural electrification, small-scale mining, and migration. These meetings stressed the need to add a matrix of performance indicators to the revised PRSP and to devote particular attention to national capacity building.

47. Two stocktaking workshops were held in Bobo-Dioulasso and in Ouagadougou. The latter brought together about sixty participants from the public administration, the University and Research Institutes, the private sector, and civil society organizations. The workshop reviewed an independent assessment of the draft PRSP and made suggestions about the relevance of the strategic options and policies described in the draft. Civil society organizations took the initiative to organize a forum aimed at enhancing their ownership of the PRSP and contributing to the revision process and to its implementation. The final declaration of the forum is summarized in Box 3 of the PRSP-2 document.

48. A national conference on the PRSP was also held, involving approximately 600 participants, including members of the Government, representatives of the deconcentrated, and decentralized administration, the private sector, civil society organizations which included producer organizations, the Children's Parliament, representatives of the thirteen administrative regions, and donors. PRSP-2 was also brought before the Economic and Social Council, an institution with broad representation (public administration, private sector, and civil society). The council devoted its first session of 2004 to the PRSP review. The major recommendations set forth in the report submitted to the Government were taken into account. Furthermore, in implementation of the provisions of Articles 101 and 112 of the Constitution, the Minister of Economy and Development submitted the new version of the PRSP to Parliament, a critical step inasmuch as Parliament approves the national budget.

IV. BANK SUPPORT TO THE PRSP

LINK TO CAS

49. The FY06-09 CAS was discussed by the Executive Directors on June 28, 2005. The CAS builds on the revised full PRSP and large consultations to define a results framework that explicitly defines the assumed causal links between IDA-supported activities, direct outcomes of these activities and the country's higher-level development outcomes. Specifically, the CAS will seek to contribute to the following outcomes:

50. **Accelerated and shared growth.** IDA support enhanced regional integration, expanded and diversified export earnings, an improved investment climate, decentralized urban development to promote urban-rural linkages, and economic infrastructure needed to reduce factor costs and stimulate private sector investment and growth.

51. **Improved access to basic social services.** IDA continue to support access to basic education and improved quality of teaching, expanded coverage of basic health care and HIV/AIDS prevention

and treatment and increased access to clean water and sanitation, particularly in urban areas. IDA will also provide technical input for better targeting of social protection to the most vulnerable groups.

52. **Increased employment and income opportunities for the poor.** A two-pronged approach focuses, first, on the labor market and employment strategy for urban workers. Second, IDA support efforts to reduce risk, increase revenues, upgrade economic and market infrastructure and enhance women's opportunities in rural areas, along with promoting community-based land and natural resource management for sustainable development.

53. **Better governance with greater decentralization.** Governance affects the achievement of development outcomes across all strategic pillars and sectors. Efforts to enhance governance and accountability are integral to all IDA-supported activities. Particular emphasis is placed on supporting a more efficient judiciary, promoting public resource management and increased decentralization and strengthening local capacity and participation in public policy decisions.

54. The proposed operation is an integral part of the FY06-09 CAS. It fits well with the key features of the FY06-09 CAS which are a stronger focus on results; an increasingly programmatic approach to reduce transaction costs associated with outmoded project approaches; and enhanced support for country systems and capacity. The CAS notes that self and independent evaluation of the first PRSC series in Burkina concluded that increased reliance on development policy lending has effectively supported implementation of the PRSP while improving predictability of aid flows and encouraging harmonization and alignment among external partner. As Burkina implements its revised full PRSP, the CAS proposed PRSCs that would be further results-focused, better harmonized with other budget support and would help to strengthen national capacity to monitor and evaluate progress.

COLLABORATION WITH THE IMF AND OTHER DONORS

Collaboration with the IMF

55. IDA and IMF's partnership in supporting Burkina Faso's development strategy has been excellent over the past few years. Bank and Fund managements have reviewed the Government's PRSP through joint staff advisory notes, reaching understanding on the strength of the PRSP as well as on ways that the two institutions could assist the authorities in addressing shortcomings. Bank and IMF Boards discussed the PRSP-1 and PRSP-2, and the five PRSP APRs to date. IDA and IMF staffs have continued to carry out joint missions at least twice a year for macroeconomic policy dialogue with the Government.

56. The two teams have been consulting early in the preparation of their operations in order to avoid cross-conditionality or overlap conditionality. For instance IMF staffs have shared their mission briefs and mission reports with Bank staffs. Bank staffs have invited IMF staffs in the concept review and the decision meetings of the PRSCs. The coordination has been useful to take account of the other institution's views in those areas where it has the lead and thereby enhance the quality and consistency of policy advice. In addition, staffs of both institutions have attended the other's Board sessions to respond to the Executive Directors' concerns.

57. Bank and IMF staff executed joint analytical work with the HIPC AAP in June 2004 and a Debt Sustainability Analysis in June 2005. The Bank has used analysis by IMF staffs to define PRSC measures pertaining to public finance management and 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 also worked jointly in the cotton sector, with IMF staff focusing on the impact on government finances and the banking sector, while Bank staff took the lead on the sector's structural reform agenda.

Collaboration with Other Donors

58. In January 2005, the Government of Burkina Faso and a group of partners⁶ – including the World Bank – signed a joint Memorandum of Understanding (MOU) that creates a common framework for delivering budget support based on the adequacy of the macroeconomic performance, sound public sector resource management and effective PRSP implementation. With Germany and the African Development Bank subsequently joining the MOU, all budget supports are now regulated by this new framework. The MOU is centered on the government's priority action program (PAP) that operationalizes the revised PRSP, and a jointly agreed performance matrix. The MOU was presented in annex 7 of the PRSC-5 program document. The By-laws of the MOU are presented in annex 11 of this program document.

59. The proposed PRSC-6 is aligned with the new donor harmonization framework. While a joint performance matrix was not prepared at the time the policy matrix for PRSC-6 was considered by the Board in May 2005 (during the review of PRSC-5), adequate coordination has assurance a broad alignment with the joint matrix that was subsequently prepared. A full alignment is expected with the next series of PRSC. An independent evaluation of the MOU was carried out in February 2006. The evaluation noted that – overall – the new framework was effective in cutting transaction costs, and aligning support with the budget cycle. In 2005, actual disbursements of budget support were CFAF93.1 billion (3.3 percent of GDP), equivalent to 99.1 percent of programmed support. Over 75 percent of that support was provided in the first three quarters. The independent evaluation recommended the Government and its partners in the MOU to strive to further improving the alignment with the budget cycle, harmonize donors' preparation missions and the planning of analytical work, and further streamline the joint performance assessment framework.

60. The independent evaluation reviewed the functioning of the MOU based on six criteria, the outcome of which is presented in table 3 below, the higher the score the stronger the contribution to the functioning of the MOU for budget support. **Dialogue:** measured by the participation to the bi-annual ordinary sessions. A participation at a high-level (mission chief and/or or resident representative) scores 2, while a participation at a technical level scores 1. The participation to the technical meeting provides a score of 1. **Harmonization:** measured by the chairmanship of a thematic and sectoral commission, or the Secretariat for the budget support group (score of 1).

61. **Alignment:** the first indicator is the share of budget support in total assistance, with a score of 3 for a share above 50 percent, a score of 2 for a share between 25 and 50 percent, a score of 1 for a share between 5 and 25 percent, and a score of 0 otherwise; the second indicator relates to the flow of information to the ministry of finance regarding total aid. It is assumed that the information flow is ideal for aid implemented by the Government (score of 2), and information flow is less perfect for donors-executed assistance (score of 1).

62. **Predictability:** a first indicator is the availability of a multi-year financing agreement, with a 3-year (or more) agreement scoring 3, other frameworks scoring 1, and the lack of agreement scoring 0; a second indicator relates to disbursement schedule: there is a score of 4 for a disbursement in the

⁶ European Union, Denmark, France, Netherlands, Norway, Switzerland

first quarter, 3 for the second quarter and so on. Single tranche operation scores twice than multi-tranche operations (for instance 8 in the first quarter). **Coordination:** donors that have had a seat on the Secretariat score 2.

Table 3: Independent evaluation of the functioning of the MOU for budget support

Indicator	AfDB	IDA	EC	Denmark	France	Netherlands	Germany	Sweden	Switzerland
Dialogue	0	5	5	5	3	5	2	4	5
Harmonization		1	2		1	1	1		
Budget support in percentage of total assistance		2		1	1	1			2
Information flow to the Ministry of Finance	2	2	2		2				
Predictability : multi-year financing agreement	1	3	3	3	0	3	0	1	0
Predictability: disbursement of first tranche	3	4	3	1	2	2	0	1	4
Predictability : disbursement of second tranche	2		1			2			2
Coordination			2		2				2
Total	8	17	18	10	11	14	3	6	15

Source: Ecorys Research and Consulting – Independent Evaluation of the MOU for Budget Support, February 2006.

RELATIONSHIP TO OTHER BANK OPERATIONS

63. The linkages to other Bank operations are discussed in the description of the policy areas for this proposed operation. In summary, the CAS recognized the PRSCs as the main instrument for providing support to PRSP implementation, but it also stated that complementarities of efforts between programmatic support, capacity building activities and investment lending are keys to ensure efficient use of Bank resources. Three operations are direct companions to the PRSC series. First, the administration capacity building project (FY05) which aims at building capacity for policy formulation and implementation, streamlining public administration, modernizing personnel management, and enhancing the poverty focus of expenditure. It also reinforces 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. Second, the statistical capacity building project (FY04) which addresses the issue of capacity and shortcomings in the M&E system by strengthening data collection and reporting. Third, a decentralized urban capacity building project – currently under preparation – which aims at accompanying the decentralization in urban areas by promoting growth, improved services delivery and governance.

ACHIEVEMENTS TO DATE UNDER PRSC 1-5

64. A comprehensive presentation of achievements under the first series of PRSCs (PRSC-1 to PRSC-3) is available in the ICR of PRSC-3⁷ and the outcome of PRSC-4 is also discussed in its ICR⁸. A comprehensive review of performance under the series PRSC 4-6 would be undertaken during the preparation of the ICR for PRSC-6. This section focus on key success and areas of slower progress under PRSC 1-5.

⁷ Burkina Faso. Implementation Completion Report of PRSC-3. Report No. 30330-BUR. December 29, 2004.

⁸ Burkina Faso: Implementation Completion Report of PRSC-4. Report No. 34447-BUR. December 28, 2005

Growth and Employment Creation

Objectives

65. Accelerate real growth and reduce the incidence of poverty. Improve the competitiveness and economic performance of the cotton sector. Introduce private sector participation in the utilities sector, thus increasing access, lowering cost and enhancing competitiveness. Improve investment climate to promote private investment.

Areas of faster progress

66. Burkina has achieved macroeconomic stability. As a result of strong macroeconomic performance, real GDP growth has averaged 6 percent in 2001-2005, and was driven by the agriculture sector which provides a living to the majority of the poor. It is estimated that poverty incidence has reduced by about 5 percentage points since 2003.

67. Burkina has had a stellar performance in the cotton sector. The legal monopoly of SOFITEX was removed and the sector is now liberalized. Two newcomers and SOFITEX alike are making significant investments. Production increased from 276 thousand tons in 2000 to 751 thousand tons in 2005. Burkina is now the largest cotton producer in Africa. Burkina exports to over 50 countries, including the major textile producers. The sector has perfectly weathered the recent fall in international cotton prices without public subsidies (other than for a small subsidy for fertilizers): the three cotton companies have repaid their debt to the commercial banks by end-2005. Several studies for the diversification of crops were also undertaken. Cereal production was also the highest ever in 2005.

68. The cellular telephone market was liberalized and the sector is growing fast. Subscribers increased from 240 thousands in 2003 to about 400 thousands in 2005. The telecommunication sector is regulated by an independent regulatory agency ensuring interconnection with the state-owned fixed lines under fair conditions. The rural telephony was liberalized at end-2005 and the Government has requested expression on interests for private participation in that segment.

Areas of slower progress

69. While the government has brought ONATEL to the point of sale, and concluded the privatization of one hotel, the divestiture program has stalled overall, particularly in the energy sector. The privatization of ONATEL was not successful because of unfavorable terms related to government's share in the capital of the company. The Government has now relaunched the privatization with more favorable terms, providing outright majority to the private partner. Investment climate reforms are picking up with the creation of one-stop shops for business start-up formalities, but Burkina stills ranks poorly in the global index for business climate, notably for labor market. Progress in the energy sector, starting with the regulatory framework, and improved investment climate would be areas of focus in the next series of PRSCs.

Human Development

Objectives

70. Improve access to and efficiency of education and health services.

Areas of faster progress

71. A number of measures laid the ground to achieve a significant increase in supply of education services at sustainable expenditure levels. The Government provided sufficient financing for the expansion of the education sector through the national budget. It expanded teachers training

by ending the automatic hiring of graduates of teacher training colleges into the civil service. The government continued the subsidization of school supplies in the 20 provinces with lowest schooling levels. It expanded the number of schools equipped with running water and sanitation facilities. Gross primary enrollment rates increased from 41.7 percent in 1999-2000 to 58.1 percent in 2004-2005.

72. The government introduced policies and institutional measures rendering all preventive services at the primary health care level free of charge. A vaccination campaign was successfully implemented. Between 1999 and 2005, vaccination rates increased from 60 to 111.7 percent (BCG), from 42 to 96.2 percent (DTCP3), from 53 to 84 percent (measles), and from 50 to 84 percent (yellow fever). Prices of essential generic drugs were reduced through a reduction of the profit margins of the National Drug Procurement and Distribution Company (CAMEG) in 2002. As a result, tracking surveys conducted as part of the PRSP process indicate that the measure resulted in a 15-30 percent decline of the cost of standard medical interventions. To increase funds at the health district level, the government introduced the delegation of credits to district managers and 66 petty cash accounts (régies d'avance) were created in 2003. Infant and under-five mortality rates decreased during the 1998-2003 period, in part due to increased coverage of primary health services. Infant mortality rate reached 83 deaths per 1,000 live births, down from 105 in 1999.

Areas of slower progress

73. In the education sector, after the initial attention on increasing enrollment, the focus should now shift on improving quality which remains poor. In the health sector, nutrition issues also remain of concern, and would need to be tackled within a multisectoral framework. Lastly, there remains the issue of personnel management evidenced by the difficulty to post education and health workers in rural and remote areas. Financial incentives introduced in 2005 have not had an impact yet. This issue will be a priority focus of the next series of PRSCs, in the context of the ongoing decentralization reform.

Good Governance

Objectives

74. Improve link between resources allocation and the objectives of growth and poverty reduction. Improve transparency in public expenditure management. Improve personnel management. Improve local service delivery through the implementation of decentralization reform.

Areas of faster progress

75. Budget preparation has improved with the introduction of a global MTEF, ensuring alignment of budget allocation with PRSP priorities. The integration of the global MTEF into the budget preparation cycle in 2002-03 also led to increasing realism of revenue targets and improved the budget arbitration. Budget execution is also more effective with the operation of a computerized expenditure management system that captures all domestically financed expenditures, and the deconcentration of spending authority. The delegation of credits to regions and provinces is effective and is helping to to accelerate delivery of basic services. The deconcentration of issuance of payment orders has been steadily expanding since a successful pilot in 2003 in the second-largest city, Bobo-Dioulasso, has been effective. Procurement reforms were fully implemented, including the adoption of procurement decree in line with international best practice, the adoption of manual of procedures and new standard bidding documents, and the creation of a procurement reform committee comprising of satakeholders from public as well as civil society.

76. Budget reporting and good governance have strengthened, allowing improving efficiency of spending and fighting against corruption. An independent Supreme Audit Court was created and the government caught up with its legal obligation to submit budget execution reports and accounting statements. The Government also created and staffed a High Authority for the Coordination of the Fight against Corruption. These achievements should be strengthened by further increasing the capacity of audit institutions. A good governance plan was prepared and disseminated to all provincial authorities. A budget management reform plan (Plan d'action pour le renforcement de la gestion budgétaire or PRGB) was adopted in July 2002, integrating the recommendations of the CFAA, and is being implemented with the support of all donors.

77. The adoption of the decentralization law and the selection of governors at end- 2004 was a major achievement directly supported by the PRSCs and the projects portfolio. The law has fulfilled its role of requiring central government to start coming to grips with fiscal and administrative decentralization. The effective transfers of competences and resources to sub-national governments, thus improving service delivery, is the new challenge that would be supported by the next series of PRSC.

Areas of slower progress

78. Civil service reform has also advanced with the development of the computerized civil service payroll and salary management system (SIGASPE). The government also instituted a new personnel management system based on mission letters and performance reviews. However, there are still missing modules in the SIGASPE (notably in career management and statistical module) and dissemination has been limited. The implementation of a merit-based promotion system is not effective yet.

LESSONS LEARNED

79. The Bank approved its first credit to Burkina Faso on February 11, 1969. IEG conducted a country assistance evaluation (CAE) of IDA's support to Burkina Faso over the period FY88-FY00, and recommended that IDA play a greater role in helping the Government establish a framework for integrating the activities of all donors, reforming governance, scaling up decentralization, and reorganizing the cotton sector. IEG also identified a critical need across all sectors for better monitoring and evaluation. Lessons drawn from the implementation of the previous CAS (FY00-FY05) include the recognition that sustained commitment to sound policies creates the basis for accelerated growth; diversification and decentralization are critical to more inclusive growth; and strengthening capacity and country systems will enhance results and sustainability, and lastly progress on simplification and harmonization has lagged behind rhetoric.

80. These lessons are taken into account in the new CAS. They are also reflected in the choice of PRSC as the main financing instrument of the CAS, and in the scope and content of these PRSCs. The CAS states that the use of the PRSC instrument to support implementation of the poverty reduction strategy -- and harmonization of budget support among donors -- has been a major benefit for the client including by strengthening capacity and country systems. The focus of this proposed operation and future PRSC is also on accelerating broad-based growth and moving to greater decentralization.

Lessons from the Implementation of PRSC 1-5

81. The Implementation Completion Reports of PRSC-3⁹ and PRSC-4¹⁰ observed that the PRSCs have reinforced country's ownership and improved development outcomes, but noted that despite these achievements, a number of challenges remain in stimulating growth and diversification; improving the PRSC-related sectoral dialogue; aligning budget support with the budget cycle; improving the link between policy actions and the monitoring and evaluation framework, reducing transaction costs associated with lack of harmonization in the delivery of budget support.

82. These lessons have been reflected in the design of the PRSCs as they have emerged. In particular, there is a continuous emphasis on growth and employment creation; the improvement of PRSC-related sectoral dialogue is being achieved through the development of sectoral MTEF for the health (PRSC-5) and education (PRSC-6) sectors; there is an increased focus on evidence-based policy making with the adoption of the PAP; alignment with the budget cycle has improved with disbursements now planned around the government's mid-fiscal year; there is greater harmonization with the adoption of the unified framework for budgetary support.

ANALYTICAL UNDERPINNINGS

83. The government's development strategy and the series of PRSCs continue to benefit from a variety of analytical work. Several analytical reports were completed in FY04-FY05. Analytical works completed in FY04 include a Public Expenditure Review; a Risk and Vulnerability Assessment; an Investment Climate study by FIAS, and a Gender Assessment. In FY05 the Bank completed a Poverty Assessment and a Country Procurement Assessment Report (CPAR). The CPAR findings guide the procurement reform in the next series of PRSC. The Bank joined several other donors to undertake a pro-poor growth study. 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).

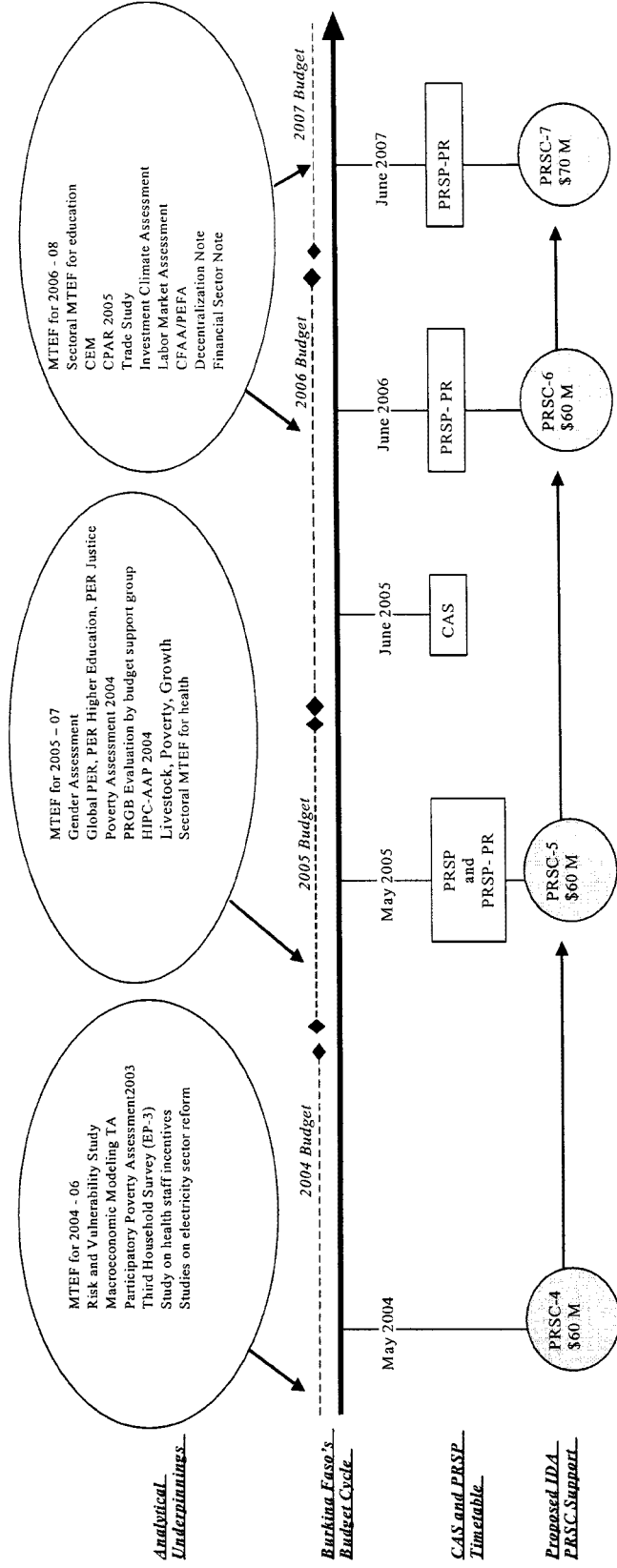
84. A set of studies are underway to assist in identifying priority reform for spurring growth, diversification and employment. These studies scheduled for completion in FY06 include a labor market study and an investment climate assessment (ICA). In late 2005, the Bank also carried out short technical missions to support the design of the decentralization reform and a social protection strategy. The studies and technical missions conducted by Burkinabé and Bank teams would help the Government revise its PRSP and PAP, and will feed in the reforms programs supported by the next PRSC operations.

85. In addition to the analytical work described above, the next series of PRSC will be underpinned by a country economic memorandum (CEM), a Financial Accountability Assessment (possibly using the PEFA framework), an Integrated Trade Framework study, a Financial Sector assessment and a Decentralization Notes, all to be completed in FY07. Beyond FY07, AAA will relate to a Poverty Assessment and a Country Integrated Fiduciary Assessment. Coordination of analytical work will be sought under the MOU for budget support

⁹ Burkina Faso. Implementation Completion Report of PRSC-3. Report No. 30330-BUR. December 29, 2004.

¹⁰ Burkina Faso: Implementation Completion Report of PRSC-4. Report No. 34447-BUR. December 28, 2005

Figure 2: The PRSC Program and AAA Underpinnings



V. THE PROPOSED POVERTY REDUCTION SUPPORT CREDIT

PRSC-6 DESCRIPTION

Rationale and Objectives

86. The proposed PRSC-6 is the third in a series of three annual operations supporting the implementation of Burkina Faso's second Poverty Reduction Strategy in 2004-2006. PRSP-2 builds on the achievements of the first PRSP while innovating 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. Achievements under the previous PRSCs are generally positive as illustrated by an 8 percent reduction of poverty incidence between 1998 and 2003. The proposed operation is fully aligned with the Africa Action Plan and the Bank's FY06-09 CAS.

87. PRSC-6 support PRSP objectives of: (i) raising growth and equity in a stable macroeconomic environment, thus ultimately reducing 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.

Scope

88. The proposed PRSC-6 has three components consistent with the four PRSP pillars: (i) growth and employment creation; (ii) human resource development; and (iii) good governance.

89. 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.

90. 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.

91. 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.

Benefits

92. The proposed operation would support the Government in pursuing 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 2006 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 would help the Government to achieve a 6 percentage point 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.

Overview of progress made under PRSC-6

93. Table 4 summarizes the status of the prior actions for PRSC-6 and table 7 presents a quantitative assessment of achievements to date under PRSC4-6. Several outcome indicators are still missing reflecting the need to strengthen monitoring and evaluation system as already envisioned under the next series of PRSCs. Overall, Burkina has maintained a strong pace in reforms implementation, and has achieved solid results in income growth and poverty reduction, access to basic services, and better governance. Progress achieved provides a solid basis for moving into PRSC-6.

Growth and Employment Creation

94. Real GDP growth rate averaged 6.2 percent per annum in 2004-2005 on account of strong cereal and cotton production. It is estimated that the strong growth in sectors providing a living to the majority of the poor has resulted in a decline of poverty incidence from 46.4 percent in 2003 to 42.4 percent in 2005.

95. Cotton sector reforms were pursued with the inclusion of two new private ginners in a new inter-profession for the cotton sector. The State does not have a voting power at the board of the new inter-profession. The private management of the sector and the participation of producers are resulting in excellent performance: cotton production increased by 16.9 percent in 2005 against a benchmark of 5 percent. Burkina Faso is now the largest producer in Africa.

Human Development

96. Access to education has improved particularly for girls and in disadvantaged areas. The adoption of a sectoral MTEF is helping rationalize and increase the efficiency of education spending. The Government recruited 3,000 teachers and built 1,427 new classrooms. Table 7 indicates that all education targets but one were matched or exceeded in 2005 (school enrolment rate, school enrollment rate in disadvantaged areas, primary completion rate, literacy rate, and ratio of textbooks to student). The missed target relates to the admission rate in first grade (actual of 69.7 percent against a benchmark of 70.7 percent). However, the target for the same indicator in 20 most disadvantaged areas was largely exceeded: actual of 59.6 percent against a target of 48.8 percent. Access could have been higher had the schools construction program and teachers recruitment been executed as planned. These are two areas where additional efforts are still needed, although Government should also turn its attention to quality issue.

97. The Government is implementing a system of subsidies for obstetrical emergencies in order to reduce cost of assisted births and improve maternal mortality. It has continued the policy of free vaccination and distribution of vitamin A. Targets in the vaccination program were exceeded in 2005. Several health outcome indicators could not be measured because the latest households' survey or HDS (Health Demographics Survey) dates back from 2003. Nevertheless, available indicators show that assisted births and the percentage of health centers meeting personnel requirements were below the target in 2004. If these poor results are confirmed when the 2005 indicators are available, they will point to the need to accelerate staffing reforms, particularly in the context of the decentralization, to increase the number of staff in remote areas.

Governance

98. A National Good Governance Program was adopted in July 2005. A National Policy Against Corruption is being finalized. The parliament adopted the 2006 budget in line with the MTEF 2006-2008 and with the PRSP priorities. The share of the budget (excluding financing from HIPC relief and externally-financed projects) allocated to social sectors (health, education, and social action) increased from 22.6 percent in 2003 to 26.6 percent in 2005.

99. The effectiveness of budget execution was enhanced with the extension of delegation of credits to six ministries against a target of 4 ministries. Nevertheless the budget execution rate in priority ministries remains lower than programmed reflecting improvement need in the management of delegation of credits, particularly in the health sector, and/or cumbersome procedures in externally-financed projects. The transparency in public resource management has improved with the stepping up of procurement audits. The Government also adopted an action plan for the reform of national procurement system based on the recommendation of the 2005 CPAR. The 2004 budget execution report was submitted to the Parliament in September 2005, and was subsequently adopted by the latter in early 2006.

100. The building blocks of the decentralization reform are taking place. The Government adopted the draft law on the resources and expenses of local governments. It also adopted the draft decree for effective transfer of functions and assets to urban communes. It has also continued the deployment of the CICL (an Integrated accounting system for local governments).

Table 4: Prior Actions for PRSC-6

Policy Areas	Original Trigger	Prior Action retained for PRSC-6	Comments
FIRST COMPONENT: GROWTH AND EMPLOYMENT CREATION			
Macroeconomic management.	Maintain a stable macroeconomic framework during the program period	Trigger fulfilled as specified.	Real GDP grew by 7.5 percent in 2005. Inflation was contained at 6.4 percent despite high food and petroleum prices as a result of poor cereal crop in late 2004 and high international oil prices. The IMF's Executive Board completed the fifth review of the arrangement under the PRGF on March 13, 2006.
Rural Sector	Prepare standards and labels for oleaginous products (sesame, cashew nuts, shea butter) and niébe (cowpeas)	Trigger fulfilled as specified.	Standards and norms for cashew, sesame, shea butter and niébe (cowpeas) were prepared by technical groups comprising of all relevant stakeholders (producers, exporters) and were approved in April 2006 after the completion of the formal clearance process which comprises dissemination to users and public surveys. The introduction of the standards has the potential to facilitate trade and the transfer of technology.
SECOND COMPONENT: HUMAN RESOURCE DEVELOPMENT			
Education	Finalize the sectoral MTEF, including secondary education, considering resources needed to attain the PDDEB objectives and the MDGs	Trigger fulfilled as specified.	A consolidated sectoral MTEF has been finalized in March 2006 by an inter-ministerial group comprising of the Ministry of basic education, the Ministry of secondary and higher education and the Ministry of finances and budget. The sectoral MTEF will help improve the intra-allocation of resources in the education sector. It will also help strengthening the link between input and sector objectives.
Health	Implement a system of subsidies for obstetrical emergency care and reduce costs of assisted birth	Trigger fulfilled as specified.	The Government adopted a decree regulating the new subsidy. The estimated cost for an 80 percent subsidy for cesareans and a 50 percent subsidy for normal deliveries is CFAF1.4 billion. This amount was integrated into the 2006 budget of the Ministry of Health. Implementation is carried out through the health district, using the mechanism of delegation of credit. Replenishment of initial allocations is done upon evidence of services delivery in line with procedures set under the PADS (<i>Programme d'Appui au Développement Sanitaire</i>). The subsidy has the potential to significantly increase use and financial access to maternal health services, thus contributing to lower infant and maternal mortality which are high in Burkina Faso.
THIRD COMPONENT: GOOD GOVERNANCE			
Budget Formulation	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	Trigger fulfilled as specified.	The MTEF was prepared and discussed in April 2005 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, social action and national solidarity, basic education, secondary and higher education and rural development. Overall, poverty-related expenditures as percentage of GDP have increased from 4.7 in 2003 to 5.5 in 2005.
Budget Execution	An accounting system for government property is operational. The physical verification of government property is completed	The physical verification of government property is completed in 43 of the 45 provinces, and in the commune of Ouagadougou. A private firm was hired to finalize the accounting system for government property.	The physical verification of government property was completed for all provinces (45) but Kadiogo (Ouagadougou) and Houet (Bobo-Dioulasso). The physical verification of government property was also completed in the commune of Ouagadougou (province of Kadiogo). On November 7, 2005 the Government selected the firm CPA (Cabinet Pierre Abadie) for the production of an accounting system for government property, for a total cost of CFAF129.7 million and a delivery date of August 2006 (9 months). However, the processing of

Policy Areas	Original Trigger	Prior Action retained for PRSC-6	Comments
			<p>The objective is to improve governance and transparency in public resource management. Its implementation proved more complex than initially sought but strong commitment and leadership have allowed major progress. Total implementation cost as of April 2006 is CFAF641.1 million (US\$1.2 million equivalent) financed entirely with domestic resources. The Government hired the accounting firm CGIC-Afrique to assist in training programs and the overall supervision of the reform, with a total cost of CFAF165.2 million. CGIC-Afrique trained 100 agents in August 16-20, 2005 in Ouagadougou. The cost of the training was CFAF23.9 million (cf. decision No. 2005-1311/MFB/SG/DGB/BC of August 11, 2005). In September 2-3, 2005, the Minister of Finances and Budget and the Minister of Decentralization launched in Bobo-Dioulasso awareness campaigns to inform local authorities about this important reform. The launching cost CFAF13.0 million (cf. decision No. 2005-1310/MFB/SG/DGB/BC/BI of August 11, 2005). Subsequently, 13 missions visited the 13 regions to inform and enlist the support of Governors, the High-Commissioners, the Prefects and the Mayors. These missions cost CFAF34.8 million (cf. decision 2005-1455/MFB/SG/DGB/BC of September 7, 2005). The physical verification of government property (inventory) was initiated by pilot-inventories led by the local authorities and cost CFAF19.9 million. The pilot-inventories were followed by two training workshops for the enumerators. The first workshop took place in Bobo-Dioulasso from October 31 to November 1, 2005. The second workshop took place in Ouagadougou in November 7-8, 2005. The cost of these two workshops was CFAF29.1 million (cf. decision No. 2005-1903/MFB/SG/DGB/BC/BI of November 23, 2005). The actual physical verification started on November 29, 2005 in 43 provinces. It was extended by 5 days because of severe accessibility constraints faced by the enumerators. The inventory and the lagging of all properties were completed on December 22, 2005. The total cost of the inventory was CFAF248.0 million. The physical verification in the Kadiogo and Houet provinces would be completed by June 2006.</p> <p>An action plan was designed in the second quarter 2005. On March 29, 2005 the Government established a steering committee (ministerial decision No. 2005-182/MFE/SG/DSI; a project task force (ministerial decision No. 2005-186/MFB/SG/DSI; and a users committee (ministerial decision No. 2005-185/MFB/SG/DSI). Actual implementation was delayed until October 1, 2005 because the procurement of the project manager was not immediately successful. The project task force has already completed the migration of SYGADE in the new version of Oracle (Oracle 9i) in order to facilitate the development of interfaces with the other Public Finance Management software. Task completion is scheduled for September 2006, in time for the implementation of the 2007 budget, and therefore the delay in completing the measure has minimal consequences. Furthermore, all 20 loan agreements and 56 grant agreements signed in 2005 were recorded in SYGADE.</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 interface between SYGADE, the computerized expenditure circuit (CID) and the State integrated accounting system (CIE) - form operators for the use of SYGADE 	<p>The Government has designed an action plan for a complete information system based on the software SYGADE.</p> <p>The Government has established a project task force in charge of customizing SYGADE for the monitoring of external financing, and developing the interface between SYGADE, the CID (computerized expenditure circuit) and the CIE (integrated accounting system).</p>	

Policy Areas	Original Trigger	Prior Action retained for PRSC-6	Comments
Procurement	Adopt the action plan based on the recommendation of the 2005 CPAR	Trigger fulfilled as specified.	On March 1, 2006 the Government adopted the action plan drawn up from the recommendations of the CPAR. A follow up is planned in the next series of PRSC with specific measures to be implemented throughout that series. It is expected that the implementation of the action plan will improve the procurement system from a score of 55 percent in 2005 (against the ideal score of 100 based on a set of benchmarks defined by a joint World Bank/OECD/DAC working group) to a score of 76 percent by 2010.
Decentralization	Finalize the framework for the transfer of resources and competences to communes	<p>The Government has adopted a draft law defining the resources and expenses for sub-national governments.</p> <p>The government has defined the accounting and financial regime for sub-national governments, including budget and accounting classification.</p> <p>The Government has adopted draft devolution decrees for effective transfers of functions and assets to urban communes.</p> <p>The Government has adopted a priority action plan to assist new regional councils and rural communes.</p>	<p>The draft law on the resources and expenses of local governments defines a general-purpose grant (unconditional) for the recurrent budget of sub-national governments as well as a general-purpose grant for their capital budget. It also defines local taxes and tax sharing mechanisms with the Central government. The draft law is being considered in the Spring session of the Parliament, and adoption by Parliament is expected in May 2006.</p> <p>At this time, and in agreement with workers unions, the Government has opted to not include civil service workforce in the transfer mechanisms. Within these parameters, the next series of PRSCs will assist the Government in establishing a proper incentives mechanism to improve the accountability of central workers seconded to local governments.</p>

Policy Areas

101. The policies supported by PRSC-6 are described in annex 3 under the following headings: (i) growth and employment creation; (ii) human resource development; and (iii) good governance.

GROWTH AND EMPLOYMENT CREATION

Cotton Sector Reform

Description

102. Despite the recent problems associated with the fall in world prices, cotton has been a success in Burkina Faso. Indeed, thanks to sustained development efforts using an “integrated sector” approach, the country has been able to make cotton its primary export product and the most widespread cash crop. There are an ever increasing number of cotton farmers (around 130,000 in 1997 and 200,000 in 2002, representing 18 percent of the labor force) and cotton farming provides direct income for some two million persons in Burkina Faso. Cotton sales tripled from 20 percent of total exports in the 1980s to 60 percent in the early 2000s, and even reached 71 percent in 2004. Cotton is the primary “endogenous” source of foreign exchange for Burkina Faso, also accounting for over 6 percent of GDP and 2 to 4 percent of government revenue. Cotton is one of the main products used to promote both the modern industrial and the traditional sectors. On the other hand, Burkina Faso is probably the WAEMU member country that is most dependent on a single export product.

Challenges

103. Sustaining the remarkable achievements and average annual production growth of 10 percent since 1990, (among the highest rates in the sub-region), would require to improve yield and the efficiency of ginning operations. Yields have remained stable at about 1 ton of seed cotton per hectare. While technical analyses show that Burkina Faso continues to benefit from a significant competitive advantage in the cotton sub-sector, production costs, excluding the purchase price from farmers, remain high compared to those in other countries in the sub-region (for example, variable costs in Burkina Faso are 40 percent higher than in Côte d’Ivoire, in part reflecting higher electricity costs).

Government Actions

104. 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. In 1998, government reduced its share in SOFITEX from 65 to 35 percent, by transferring 30 percent of the shares to UNPCB, the producer organization. In 2004, through an open and transparent competitive tender, SOFITEX’s assets the central and eastern regions were sold to two new private companies (SOCOMA and FASOCOTON). The latter reform was supported by PRSC-4 and PRSC-5. Government has also been preparing a strategic plan for the cotton sector.

Bank’s advice and recommendation

105. 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 by strengthening producers and private ginners

through the creation of a strong inter-profession, and supporting the transition to a more liberalized, open and competitive sector. The main objectives of the strategy should be: (i) strengthening the sector's competitiveness and maximize benefits for producers, including through a more efficient fertilizers and pesticides markets; (ii) implementing the regional program on bio-safety; (iii) supporting diversification of cotton farming systems, including the adoption of new technology, small-scale mechanization, and the introduction of new varieties of cotton seed.

Measures undertaken as part of the proposed operation

106. PRSC-6 has supported the creation of a new inter-professional association for the cotton sector that includes the two new private operators. The measure is a follow-up to the liberalization reforms supported under PRSC 4-5. The objectives are to strengthen coordination in the sector. The new association was established in February 2006, and is currently chaired by the producers' organization.

Non-cotton Agriculture Sector

Description

107. 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).

Challenges

108. Water resources are scarce. Rainfall is low and irregular and poses a serious risk for farmers. This situation pushes them to adopt extensive farming techniques that contribute to soil depletion. The difficulties of water management have hindered the development of irrigated agricultural, severely limiting possibility of crop diversification;

109. 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. In addition, producing surplus requires the existence of markets for such surplus and access to these markets (roads).

110. Land degradation is a major development challenge which cuts across issues of poverty, health, the environment, economic growth. It can seriously undermine the achievement of the Millennium Development Goals, particularly MDG 1 and MDG 7. Land degradation has a negative impact on agricultural productivity, vulnerability, integrity and function of ecological systems and landscapes, carbon storage, hydrological and nutrient cycles, and ultimately, on food security and economic growth. Sustainable Land Management (SLM) is a critical component of the response to land degradation problem at multiple levels of impact, from farm and community levels up to watersheds and basins. SLM combines technologies, policies and activities aimed at integrating economic incentives with environmental concerns to enhance production, reduce the level of risk,

protect natural resources and prevent soil and water degradation in an economically viable and socially acceptable manner.

111. Land tenure system is also an issue in rural areas. In Burkina Faso, despite the importance of land issues, there is no proper land policy document particularly in the rural areas. The only existing legal document is the Land and Agricultural Reorganization (RAF) document. Written during the revolutionary era in 1984, the RAF was revised in 1991 and 1996 respectively. Initially, it was meant to solve the problem of access to and the use of land and other natural resources. But in practice, the RAF exists side by side with customary land laws, and the two are often competing.

112. Beyond the difficulty in the implementation of the RAF, the issue of land tenure and farming in the rural areas is a matter of concern. In certain farming areas, access and land control and its resources, are often sources of conflicts among users. The absence of land tenure in the agriculture sector (in rural areas) also impedes investments in agriculture.

113. There is also a need to rationalize the role of the State in the rural areas, reform rural institutions, including the National System of Rural and Agricultural Training. Several studies and recent development performances of many Asian and Latin American countries demonstrate positive correlation between the degree/extent of instruction and successes in poverty reduction and agricultural growth. It is important to note that, in Burkina Faso like many Sub-Saharan African countries national training strategies are non-existence and inoperable. To achieve the millennium objectives and reduce poverty by half, it is important and indispensable to reconsider agricultural system training in a comprehensive way in Burkina Faso following the examples of Senegal, Benin and Mali.

Government Actions

114. 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.

115. 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.

116. 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.

117. Burkina Faso has also initiated several pilot rural land tenure initiatives. Thus, one could mention land tenure pilot operation (OPSF) within the framework of national program for land management (PNGT2), rural land plan in Ganzourgou province, the ongoing local development project of the West (PDLO-Houet) etc. With regard to improving land tenure issues, the Government, through the Ministry of Agriculture, has launched the preparation of National Policy for Rural Land Tenure. A first draft of the document was conducted in 2004 with the assistance of an international law firm. An extensive consultation process of the draft is in progress. The revised

document that will come out the consultative process should be adopted by the Government by December 2006. It is expected that local Governments in rural communes and Village Development Councils will endorse the policy document by June 2007 before it is enacted into law by December 2008.

Bank's advice and recommendation

118. 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 adequate.

119. 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. 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. The Bank and other partners also fully support the government in moving forward on clarifying land tenure status in rural areas.

120. Because of the Government's commitment to address land degradation, the interest of development partners in supporting the scale-up of SLM, the on-going reforms in Burkina Faso, and the formulation of the CPP, there is a conducive environment for the Bank (in alliance with its TerrAfrica partners) to assist the government in developing and implementing a comprehensive SLM agenda in Burkina Faso. In particular, the Bank's activities in land management should align and support the activities planned and implemented in the CPP. The time is therefore opportune for the Bank to take the initiative to respond to the call for better coordination between donors and support a multi-donor SLM initiative so as to increase the efficiency of ongoing and new investments in support of developments in the rural areas. Recognizing that, in order to make a substantial contribution to reducing the poverty level, a coordinated effort is required so that positive experiences can be up scaled and out on a much larger scale than is possible with the hitherto all too fragmented approach.

Measures undertaken as part of the proposed operation

121. In line with a renewed focus on its core public functions, the Government (FASONORM) has worked with technical committee representing all relevant stakeholders to define draft standards and labels for oilseeds products (sesame, cashew nut, shea) and cowpeas (niébé). The standards were finalized and adopted in April, 2006 after due process. The introduction of the standards has the potential to facilitate trade and the transfer of technology.

122. The Government has reduced vulnerability of agricultural activity through the continuous building of manure pits and hydro-agricultural installations. The Government has also improved access to rural areas through the building of rural roads and the maintenance of departmental roads. It has begun the implementation of the action plan drawn from the recommendations of the institutional audit of the Ministry of Agriculture, Water, and Fisheries (MAHRH). In particular the restructuring of the MAHRH was approved on March 22, 2006 in line with the recommendation of the institutional audit.

123. The Government is implementing action plans for cereals, cowpeas, and oilseed. However, progress is limited in providing support to the emergence of professional exporters within the Oilseed Council of Burkina Faso and the actors of the cowpeas streams. There are also delays in the adoption of the texts on the principles and rules on the execution of missions transferred or delegated to CRA, OPA, inter-professions, and the private sector.

124. In the next series of PRSCs, it is proposed to focus on: reducing the risks linked to agriculture activities, and improving land tenure security. Specific activities include: adoption of the new land tenure law in rural areas; promoting soil fertility and water management techniques, promoting small-scale water supply/irrigation systems, establishing and promoting national awareness and preparedness mechanisms to help manage locust infestations, diversification of farming systems, promoting pilot land tenure security program in targeted provinces, and increasing the visibility of successful local land management practices. Given the emerging partnership to support SLM in Burkina Faso, the Bank's activities on land in the medium-term should align and support the framework being established by the CPP.

125. It is also proposed to support the formulation, adoption and implementation of a national strategy for agricultural and rural training which will include the training of the rural youth, continuous training of farmers, and training of staff and agricultural technicians who will ensure elaboration and implementation of coherent agricultural policies.

Livestock Sector

Description

126. Livestock production accounts for about 10 percent of GDP and between 15 percent and 20 percent of exports in the 2000s. Burkina Faso is the second highest exporter of livestock products (mainly live animals) on the regional market (WAEMU) behind Mali. 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 percent of total milk and 60 percent 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

127. The livestock sector has many challenges to address, among which the most important are (i) the insufficient national supply to cope with the growing demand in livestock products, (ii) the insufficient competitiveness of products to comply with sanitary standards requested by markets and consumers, (iii) the difficulties for the small producers (economic and social aspects) to access markets and benefit from increasing demand opportunities and (iv) a deteriorating security in sustainable access and use of resources for pastoralists; (v) a preoccupying animal health situation and a high risk of emergence of major epizootic and zoonotic diseases; (vi) a lack of appropriate mechanism to prevent, and efficiently manage, external shocks such as animal diseases or pests (locust), droughts.

128. To address these challenges, the control of **animal health** as well as **food safety** aspects is crucial since it helps secure the assets of the Poor, enable intensification and for the livestock

products access national and regional markets. Reinforcement of Official Veterinary Services is with these regards a priority.

129. Despite the existence of clear competitive strengths, recent trends have raised concerns about the potential for increased production and exports in the livestock subsector. Since 1998, exports have virtually stagnated, and indeed there has been a decline in live animal exports. Although live animal exports are still competitive, the export of meat is being hampered by inadequate preservation facilities, competition from imports (e.g. Argentina), and especially the weak market for all the by-products (the so-called 'fifth quarter'). However, there has been rapid growth in the market for leather goods and crafts in recent years, thanks to the implementation of a vigorous policy in the craft and tourist industries.

Government Actions

130. Under the Livestock, Poverty, and Growth Initiative (IEPC) covering 2002-04 and providing an in-depth poverty and growth-oriented analysis of the livestock sector, the Government has developed a strategy for the livestock sector, with support from the World Bank and the FAO. The Action Plan and Investment Program for the Livestock sector (PAPISE) was revised to take into account the outcomes of the IEPC. One pillar of the strategy is the reinforcement of the public services and actors.

131. In this context, the Government has recently made sizable investments to modernize and expand the slaughterhouses in Ouagadougou and Bobo-Dioulasso in order to boost meat production and exports. It has also implemented some prophylactic programs against major animal diseases affecting economy of the sector (PPCB, NCD) and human health (rabies). However, the vaccination coverage is too low to have a significant impact. A center for African swine fever was established in the province of Kompienga

Bank's advice and recommendation

132. In the livestock sector, priority support to the public sector/government should consist in:

133. **Reinforcing the official Veterinary Services**, in charge of animal health and food safety (the current crisis with the outbreak of the Avian Flu in Burkina has demonstrated their importance to the policy-makers). It is proposed that, while the PAFASP will focus on technical aspects for the reinforcement of the VS capacities (design of inspection procedures and actions plans), the PRSCs will (i) help design and implement a new policy in terms of human resources management (recruitment, provision of former and continuing education) for the VS (and laboratories) to have sufficient and competent agents to ensure their public core-functions. Using the grid for the evaluation of the VS designed by the World Organization for the Animal Health (OIE) will be the basis to assess the needs for human resources; and (ii) anime discussions on the repartition of the national budget among ministers and how to allocate the minister of livestock with sufficient funds to ensure their core missions;

134. **Reinforcing the legal and regulatory framework**, with as the main issue to be addressed the clear definition of the roles between the private and public sectors in terms of animal health delivery. Recommendations provided during the regional OIE / FAO / IBAR / ALive seminar in Tchad (February 2006) will serve as references and guidelines. It will also be revised to comply with the WAEMU sub-regional legal framework, as part of the regional integration process.

135. The forthcoming activities aiming at strengthening the public sector will have to take into account the achievements of the PRSAPI/PNDSAII and of current programs (PACE¹¹). It is also recommended that they follow the recommendations of the ALive Partnership, which provides a comprehensive development framework for the rational and concerted development of the livestock sector in sub-Saharan Africa.

Measures undertaken as part of the proposed operation

136. Measures under PRSC-6 aimed at making the IEPC operational, with a number of measures ranging from the adoption and implementation of an action plan for 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. The preparation of the action plan for poultry and meat exports is underway, and the Government has also continued its vaccination campaign although the coverage remains low.

137. It is proposed that the following activities take place as part of the next PRSC series:

- Assessment of Veterinarian Services (and laboratories) needs in terms of human and financial resources (on the basis of the grid for VS evaluation draft by OIE); design of an action plan to allocate sufficient funds and agents to the VS (and laboratories) at the national and district levels;
- Revision/consolidation of the legal and regulatory framework in the livestock sector, in alignment with sub-regional legislation (WAEMU) and regional recommendations (ALive);
- Implementation of an action plan to: (i) train (providing scholarships for veterinary/technicians schools) and recruit VS agents, and (ii) provide resources (communication tools, vehicles, vaccines) for the VS at national and districts levels to ensure their minimum core-functions.

Telecommunication

Description and challenges

138. 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.

Government actions

139. To lower factor costs and entice investments in the sector, the government has pursued 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 favourable the terms of the privatization.

140. In the wired telephone services and the operation of satellite terrestrial terminals (VSAT), the 5-year monopoly of ONATEL legally ended on December 31, 2005. The exclusivity period was meant to help ONATEL adjust its operating costs during the transitory period and be prepared to face competition on all its market segments. The protection has created additional and costly distortions to the economy because of the total control of ISP (Internet Service Protocol) market by

¹¹ PACE : Programme Pan-Africain de Controle des Epizooties (EU)

ONATEL, tariffs have remained abnormally high (a 128 kbit/s is billed at US\$1400 monthly compared to US\$200 in developed countries).

Bank's advice and recommendation

141. The Bank has supported government efforts to further improve the terms of the privatization by providing an outright majority to potential bidders for ONATEL.

Measures undertaken as part of the proposed operation

142. On March 16, 2005, the Government agreed to revise the terms of the privatization of ONATEL by keeping a minority share of 23 percent. The privatization process was relaunched but delays linked to the procurement of a privatization advisor will not allow completing the original PRSC-6 measure which was to bring ONATEL to the point of sale and transfer assets to the new operator. It is now expected that these measures will be completed by December 2006.

Energy Sector

Description

143. **The role of energy services in achieving sustainable growth is critical but increasing access would need to be achieved against extremely low starting point and unfavorable physical conditions.** A low 12 percent of the population has access to electricity (about 40 percent in urban areas and about 1 percent in rural areas). 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 majority of the population (about 90 percent) still depends on wood energy (firewood and charcoal). Burkina Faso has no significant known fossil fuel resources. Petroleum product consumption is entirely dependent on imports (about 400-450,000 tons annually). The country's hydroelectric potential is limited, with less than 100 MW of potential capacity in 5 identified sites. Two hydropower plants have been developed with 27 MW of installed capacity and 16 MW of available capacity. These plants are vulnerable to erratic rainfall conditions. To expand modern energy services to rural and peri-urban populations, the interconnection to grid systems of neighboring countries seem to be the most promising options.

Challenges

144. Burkina Faso faces three main challenges in the energy sector: (i) to solve production capacity constraints to meet an increasing demand for electricity; (ii) to improve the efficiency and equity of electricity operations by reforming tariff and subsidy policy in a context of high supply costs; and (iii) to expand access of energy services to rural and peri-urban population.

145. **Need of additional capacity to meet increasing demand for electricity.** The demand for electricity continues to grow at an average of about 7 percent a year in the Bobo-Dioulasso Regional Network (CRCB) and in the Ouagadougou Regional Network (CRCO), in line with output and income growth. Additional power generation capacity is not following at the same pace creating important capacity constraints. The transmission interconnection from Ferkessedougou (Cote-d'Ivoire) to Bobo Dioulasso, in 2001, has alleviated this situation to a certain extent, but shortages are still important in the CRCO. Available capacity in CRCO is subject to substantial uncertainty as SONABEL, the state-owned power company, is considering retiring about 20 MW of capacity by 2006 as some units reach the end of their economic lives. If the retirement of thermal units takes

place as scheduled, SONABEL would need at least 30 MW of additional capacity to fill the generation gap.

146. ***Increase efficiency and equity by reforming tariffs and subsidies, and selecting least-cost electricity supply solutions.*** SONABEL has high electricity supply costs that stem in part from its complete dependency on imports for its large fuel needs for thermal generation electricity. Questionable investment decisions in hydropower development and provision of electricity to very small, isolated load centers have also adding to the financial burden of the company. As a result, electricity tariffs in Burkina Faso are amongst the highest in Sub-Saharan Africa, averaging US cents 21/kWh. Yet, even these high tariffs do not reflect full costs and SONABEL has relied on public subsidies and on-lending from the Government for its operations and equipments needs.

147. Tariffs were not adjusted between 1994 and 2004. At the devaluation of the FCFA in 1994, the Government also decided to provide subsidies to offset the increased costs of imported inputs for SONABEL. The company has since then purchased its fuel consumption at an administrated price below market prices. The level of fuel subsidies has steadily increased in the recent years with higher oil prices, and reached about US\$35 million in 2005. The Government implemented a first step in the tariff adjustment process, with a 10 percent raise in the average electricity tariff in November 2004. However, after the decade-long tariff freeze and large increase of input costs, further tariff adjustments are required to ensure the financial sustainability of the sector, eliminate subsidies and ease the prospects of looming contingent liabilities.

148. The current tariff and fuel subsidy policies are not equitable and sustainable as they benefit the wealthiest consumers and their costs increases in proportion to the growth in electricity consumption. Moreover, the subsidy artificially lowers the cost of thermal generation for SONABEL, thus creating a disincentive to invest in transmission lines to connect secondary centers to the main grid, and encourages the company to continue to rely on small thermal generators for secondary centers.

149. ***Expanding access of energy services to rural and peri-urban populations:*** For Burkina Faso to reduce significantly the incidence of poverty, there is a crucial need to expand access to modern energy services. The prevailing low levels of access constitutes a severe handicap for the development of small and medium size productive enterprises and it limits the impact of existing social programs. In the past, Burkina Faso has benefited from support of many donors to improve energy access levels but unfortunately, these efforts were mostly scattered, and successful pilots were not scaled up. There is a need to develop a spectrum of innovative service delivery mechanisms adapted to local conditions and constraints, drawing from lessons learned in past interventions.

Government Actions

150. **Over the past seven years the Government has been putting in place key building blocks for reforming the regulatory environment of the electricity sector.** These reforms were initiated in 1998 with the breakup of SONABEL's distribution monopoly, followed in 2000 by the adoption of a Letter of Sector Development Policy emphasizing a private-sector led energy sector development. The broad lines of the restructuring of the sector were completed in 2004 when the generation segment was opened to competition, and the transmission and distribution segments were bundled into two sub-regions. The first sub-region covers the current perimeter of SONABEL; the second sub-region covers all the area outside SONABEL's perimeter. Operations in the second sub-region will be eligible for financing through the Rural Electrification Fund (REF). The Government also decided to implement a leasing arrangement, splitting SONABEL into a publicly-owned assets

company and a privately-ran management company. In 2005, the Government voted in a law which aimed at providing regulatory provisions in the energy sector.

151. **To fill the supply gap on the CRCO, the Government has opted to build a transmission line from Bobo Dioulasso to Ougadougou, thus extend the interconnection with the grid power of Côte d'Ivoire.** The interconnection provides a substantially lower cost solution than the alternative of further investing in generation capacity. The 225 kV Ferkessedougou – Bobo Dioulasso transmission line has a transfer capability of 120 MW (compared to a 23 MW peak demand on the CRCB) and the purchase price for SONABEL is about US cents 7/kWh. Nevertheless, the reliability of the international interconnection needs to be further developed, and the Government should develop a sound strategy to address the production capacity deficits in the short term while the interconnection with neighboring countries is underway. Burkina is providing strong support to the WAPP (West African Power Pool) to advance the Ghana-Burkina interconnection.

152. The Government has recently completed a study of tariff mechanisms that will allow reforms in that area. It has also launched a 14 MW power plant financed by IDA under PSDP.

Bank's advice and recommendation

153. The recent paradigm shift towards the consideration of least-cost options including interconnection with neighboring countries, as well as concrete steps towards public-private partnership in the power sector, are appropriate policy responses to issues in the power sector. As a result, the Bank has resumed its support to power sector with the approval in 2004 of a US\$64 million grant, the first Bank-financed project since two decades. The Bank is also preparing an Energy Access Project that would explore ways to increase access of modern energy services to support productive activities and social services. At this juncture, the Bank and AFD support the Government in its continuous efforts to strengthen the legal and regulatory environment, particularly the revision of the regulatory framework to ensure that the roles and responsibilities of sector institutions are clearly laid out.

Measures undertaken as part of the proposed operation

154. The measures under PRSC-6 aimed at promoting private sector participation in the electricity and petroleum sectors to improve management and to reduce supply and production costs. It was expected that the Government will issue tender for the selection of a private operator for the management of SONABEL, as well issue bidding document for the private participation in the capital of SONABHY. Progress was limited to the launching of accounting and financial audits of these two companies. These audits are integral parts of the bidding documents and their completion will determine the schedule for completing the measures sought under PRSC-6, most likely in early 2007. In addition, clarifications are needed in the on pricing policy and mechanism, regulatory framework before advancing private participation in these two companies.

155. Policy options to be discussed in the context of the next series of PRSC include the review of the equalization policy in the electricity sector; tariff reforms; the strengthening of the legal and regulatory framework including clarity on the roles and responsibilities on institutions, the elimination of fuel subsidies, tariffs increase in 2006 and 2007, followed by the adoption of a transparent tariff setting mechanisms through an automatic adjustment tariff mechanism, the selection of a strategic partner for SONABEL, and the introduction of private partnership into SONABHY.

Investment Climate

Description

156. Since it embraced market-oriented policies in 1991, the Government of Burkina Faso has implemented significant reforms in the areas of macroeconomic management; trade, markets and price liberalization; tax reform; privatization; banking sector restructuring; regulatory reform; implementing the WAEMU-wide competition policy; and adopting new business laws under the OHADA treaty. While these reforms have helped Burkina enjoy a commendable average income growth of over 5 percent, the economy remains agrarian and poorly diversified thus pointing to an unfinished agenda. A key element of the latter is the investment climate as evidenced in Table 5 below which provides a snapshot of Burkina Faso's ranking on the 10 core indicators of the Doing Business report.

Table 5: Doing Business in Burkina Faso

	Burkina's ranking in the World (155 countries)	Burkina's ranking in SSA (37 countries)	Burkina's ranking in the WAEMU (7 countries)1/
Ease of doing business	154	36	7
Starting a business	138	27	4
Dealing with licenses	149	36	7
Hiring and firing workers	154	37	7
Registering property	148	36	7
Getting credit	109	17	2
Protecting investors	78	21	2
Paying tax	94	16	1
Trading across borders	136	26	5
Enforcing contracts	144	30	7
Closing a business	128	26	6

Source: The World Bank – Doing Business Report, 2005

1/Guinea Bissau is not listed.

Challenges

157. Burkina Faso is performing poorly across the ten topics defining the ease of doing business (see Table 5). In particular, Burkina Faso seems to be the worst performer worldwide for the topic related to labor markets regulation. In September 2004, the Parliament enacted a new Labor Code which is a positive step in the right direction but still falls short of international standards. Furthermore, some of the application decrees of the new Code were never adopted. The ongoing discussions on the business climate in Burkina Faso and the labor market study under preparation will provide the opportunity to further advance the support to government's reform in that area.

158. As for the judicial services, PRSP-2 acknowledges that despite ongoing reforms there are still many problems resulting from a shortage of human resources, with only 300 judges for a population of 12 million; and inadequate funds, equipment, technology, and information. PRSP-2 notes that only eleven high courts of the planned 45 are currently operational, while only 100 of the 350 planned departmental courts are. Other problems arise from the costly fees charged, which seem to be beyond the means of some segments of the population, and the fact that many defendants are unaware of their rights. PRSP-2 went on to describe delays in the handling of applications, bribes

paid to circumvent these delays, and delays in the settlement of disputes, all as implicit costs that, along with the direct production and marketing costs, discourage entrepreneurs and hamper investment and growth.

159. The privatization of key utilities (energy, water, and telecommunications) was decided by the Government and endorsed by Parliament since July 2001, with the objectives of fostering competition, reducing factor costs and increasing access to and quality of services, ultimately resulting in additional competitiveness and equity. Unfortunately, other than a successful opening of the cellular market to private operators and a not yet successful attempt to privatize the national telecommunication company, progress in that area has been slow.

Government Actions

160. The Letter of Private Sector Development Policy adopted by the Government in July 2002 defines a four-pronged approach that seems still valid: (i) *Improving the climate for private investment* (upgrading existing legislation, standards, and regulations, and carrying through reforms to make a decisive improvement in the court system, speed up the enforcement of court rulings, combat fraud, and attract and safeguard domestic and foreign capital); (ii) *Continuing privatization of public enterprises* (particularly in the telecommunications, energy, and water sectors); (iii) *Strengthening private sector support institutions and building business capacities*; (iv) *Strengthening the private sector's role*.

161. The Government has followed up on that approach by strengthening the “trade point” and making operational the Burkina Faso Entrepreneurs’ Center that is providing effective business development services. It established a Competitiveness Committee, composed of public and private sector representatives, to make recommendations and monitor progress in this area, with the objective to reduce the cost of doing business in Burkina Faso. An independent regulatory agency (ARTEL) supervises competitive practices in the telecommunications sector where costs have declined by 30-50 percent. In 2004, the Government liberalized the former monopoly in the cotton sector, by opening up the sector to two private companies. Significant investments have taken place since then and Burkina Faso is now the leading producer in West and Central Africa.

162. In February 2005, the Government organized a workshop – with the support of IDA, IFC and FIAS – to address issues pertaining to business environment. On June 21, 2005, as a result of that workshop, the Government established the CEFOREs (*Centre de Formalités des Entreprises*), one-stop shops that are spearheading the simplification of administrative requirements for creating, operating and closing business. Under the aegis of CEFORE, several administrative steps are being consolidated, and others eliminated.

163. In the justice sector, the Government is implementing a National Action Plan for the Reform of Justice that consists of: (i) strengthening the judiciary sector and providing adequate legal safeguard to judges and magistrates; (ii) providing infrastructure, equipment, and both human and financial resources needed by the judiciary system; (iii) enforcing laws and regulations; (iv) creating an arbitration court; (v) attenuating the complexity of the law, through a combination of several measures (drafting a code of established laws, compiling case law reports, distributing brochures and guides explaining the law in lay terms, translating important legislation into national languages, and dissemination of the law through all appropriate channels, including a legal website with periodic updates).

Bank's advice and recommendation

164. The Government should be commended for recent reforms in improving the business climate. However, bolder and more comprehensive efforts are needed to improve investment climate and boost private investment, including reducing administrative red tape, strengthening property rights, and enhancing labor market flexibility and better enforcing judicial decisions. The Government should sustain recent reforms by a swift implementation of the action plan it has designed to improve business climate.

165. For judicial services, Government's strategic options outlined above seem valid. The Government should pursue implementation vigorously, translating this high-priority agenda into budget allocation. IDA-funded PACDE is providing assistance on judicial institutional reforms (e.g. improving the operations of the commercial registry, strengthening the judiciary inspection function, and setting up an arbitration court).

166. Completing the privatization of the utilities would yield enormous benefits: boost private investment; increase access to and quality of these services; and free up public resources for investments in sectors such as basic education and health care services.

167. Lastly, the Government should take full advantage of key studies currently under preparation (Investment Climate Assessment, Trade Study, Financial Sector Review, and Labor Market Study) to update its reform agenda in these areas.

Actions undertaken as part of the proposed operation

168. PRSC-6 has supported the simplification of administrative requirements for private investors, reducing the time and cost to create business. Some progress has been reported through the creation of CEFORE, business centers where potential investors could accomplish all the requirements to create a company. As a result, the number of days to register a business is now 7, down from 15 in 2004.

HUMAN RESOURCE DEVELOPMENT

Basic Education

Description

169. 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.

170. The gross primary school enrollment rate in Burkina Faso increased from 35 to 60 percent between 1994 and 2005, but it still remains one of the lowest in SSA (86 percent on average). Enrollment in secondary education in Burkina Faso is also very low (15 percent in 2004), with large differences across gender (8 percent for girls), location and income groups. 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 one out of five men and one out of fourteen women are literate.

171. **Poor quality of education.** Academic achievement is also low: standardized tests of learning achievements show that only 25 percent 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 percent and 22 percent of students have one textbook for their own use in reading and mathematics, respectively. Teachers' qualification is also declining due to the recruitment of lower-paid teachers to reduce high cost of salaries.

172. **Poor efficiency of the Education System.** Resources are wasted at all levels 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 costs 4.4 times, and at the upper secondary it costs 3 times.

Challenges

173. A key issue in the sector is the financial sustainability of expanding services given the existing cost structure of primary education. Teachers' costs are relatively high, and represent several times the per capita GDP. 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 (Education for All) 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 percent unless lowering construction and teachers' costs.

174. As for teachers' costs, the Government has opted to expand community schools where teachers are recruited by communities on contract and paid (with public financing) less than civil service teachers. For classrooms, high construction costs are compounded by poor school construction management in place, which stand in the way of rapid expansion of supplying basic education services. The Government is attempting to address this obstacle by involving NGOs in school construction.

Government Actions

175. The Government's strategy for the development of the education sector is outlined in its Education Policy Letter of May 2, 2001. 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 percent and an adult literacy rate of 40 percent by year 2011 and to improve both the quality and cost-effectiveness of education. 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.

176. The main development objective 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 programs involve communities and NGOs 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.; and (iv) improve the equity and cost-effectiveness of the expenditure by increasing non-salary expenditure.

Bank's advice and recommendation

177. 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. 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 girls 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:

178. **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) approve annual work plan at the regional level based on a regional MTEF; (iv) simplification of procurement procedures and credit-related regulations in MESSRS to avoid unnecessary delays in budget execution.

179. **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 of resource allocations within the sector. At present basic education is allocated about 80 percent of all the resources for the sector, thus creating large gaps in others levels.

180. **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.

181. **Better integrate primary and secondary education and scaling up the public-private partnership.** 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. In that context, the approach piloted in secondary education under the Post Primary Education Project 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 undertaken as part of the proposed operation

182. PRSC-6 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) in the areas of financial management, budgeting, procurement, monitoring, evaluation and donor coordination, to prepare the transition to programmatic support.

183. **Under PRSC-6, the Government has finalized a sectoral MTEF for primary and lower secondary education, taking into account the resources needed to attain the PDDEB objectives and the MDGs in the education sector. The Government has also strengthened the program-based budget for the primary education sector.** In principle, the education sector has been implementing a program-based budget since 2001. In practice, these program-based budgets are not comprehensive: for example, personnel expenditures were not reflected until 2006. In addition, the link with MDG and PDDEB objective was tenuous and a consistent medium-term framework was missing.

184. **The Government has continued the policy of subsidizing schooling in the 20 provinces with the lowest school enrollment rates.** For poor families, the costs of education can be a critical deterrent to participation in education. According to the 1998 Priority Survey, 24 percent of people aged 7-14 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. Government's support to the provinces with lowest school enrollment rates has included the supply of educational stationeries, building classrooms and supplying equipment. In 2004/2005, PDDEB donors provided support to the Government in piloting a mechanism of direct grants to pupils. Given the success of the pilot phase, the program will be scaled up in 2005/2006. However, there is the need to review the criteria for selecting the 20 priority provinces, which in addition to the current single criterion of gross enrollment rate could include criteria that encourage demand for education, especially for girls, and quality (completion rate).

185. **The Government has updated the PDDEB.** The first phase of this ten-year program was completed in 2005. The Government has worked with local stakeholders and the donor community to draw lessons from the implementation of the first phase in finalizing the design the second phase of the program for 2006-2010. There is now greater harmonization in donor procedures with the adoption of a SWAP and the pooling of external resources.

186. **The Government has introduced the delegation of credits to the lower secondary education.** Such mechanism introduced in the basic education sector has been a positive development as it makes local actors accountable and enhances the transparency of the budgeting process, as well as the efficiency of the supply of educational services. For lower 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. The new delegation of credits is effective with the 2006 budget. Training programs have taken place for the manager of these credits.

187. **The preparation and implementation of an action plan to increase teaching hours has been delayed.** A study carried out under PRSC-5 indicated that effective instructional hours are 660 hours on average, significantly below the medium term objective of 900 hours, and the OECD average of 1000 hours. An action plan should be prepared to follow up on the short-term

recommendation of 800 teaching/learning hours. Activities that are sought include strengthening supervision, increasing resources for inspectorates, extending the government payroll and personal management software to all regions, and empowering local communities. Improving teaching hours will be a powerful way to improve the quality of education at low cost. The Government received grants from the Bank in late 2005 to finalize and implement the action plan.

188. Beyond the overall support to the decentralization reforms, notably the transfer of primary education responsibilities to local governments, the next PRSCs will support increasing the affordability of education services for households as well as for the Government. The measures include preparing, adopting and implementing regulatory texts pertaining to compulsory and cost-free basic and lower secondary education, in accordance with education policy law. This measure will be accompanied by reforms of PTA and of the fees system in secondary education. An additional measure will be to continue the policy of subsidizing schooling in the priority provinces while reviewing the criteria for selecting these provinces. Lastly, the ministry of education will monitor trends in unit costs in the primary education sector. Unit costs are the single most important factor defining the affordability of achieving universal enrolment. High unit costs and low educational outcome also could point to imbalances in the mix of spending (salaries vs. non salaries) that should be addressed.

Health

Description

189. Despite promising trends in some health service and outcome indicators, Burkina Faso remains “off track” to achieving the MDGs for health. Most key indicators for child health and nutrition worsened during the 1990s, but in the past five years, child mortality has declined (from 219 per thousand in 1998/99 to 184 per thousand in 2003) and coverage of preventive and curative health services improved (the percent of children fully vaccinated increased from 22 percent to 44 percent). But juvenile mortality (ages 1-5) remains at the same level as in 1993 -- probably due to limited progress in combating malaria and child malnutrition.

190. Communicable diseases are the main causes of morbidity and mortality. Malaria is the biggest killer of children, followed by diarrhea, respiratory infections, and malnutrition. Yet only 7 percent of children and pregnant women slept under insecticide-treated bednets in 2003, and child malnutrition is worse than a decade ago, with 38 percent of children suffering from chronic malnutrition in 2003). Burkina Faso has one of the highest HIV prevalence rates in West Africa, with an estimated 2.3 percent of adults infected nationally in 2004, with higher rates in urban areas and among high-risk groups – although prevalence appears to have stabilized. Maternal mortality rates are high (estimates ranging from 484 to 1000 deaths per 100,000 births). The percentage of women delivering at health facilities has increased slowly (to 39 percent in 2003), but only 5 percent of rural women use modern contraception.

191. 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. 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. University and regional hospitals all enjoy a degree of managerial autonomy, and receive their budgets through a direct transfer from the central government. 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. Nongovernmental and religious organizations operate health centers and district hospitals under a framework agreement with the ministry of health.

Challenges

192. Government allocations to health have increased in recent years, but current sector financing is inadequate to achieve the MDGs and to meet other internationally agreed targets (such as the Abudja declaration for malaria). While health is identified among priority sectors for the PRSP, the percentage of the national budget allocated for health has remained relatively unchanged (between 10% and 11%, excluding debt service) for the past several years. Yet 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

193. 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. The new National AIDS Strategy (2006-2010) is organized around five strategic priorities ("*Axes Stratégiques*"), including: (i) Strengthening prevention of HIV and sexually transmitted infections (STIs), and promotion of voluntary testing and counseling (VCT); (ii) Re-enforce access to medical care and support for persons living with HIV/AIDS; (iii) Strengthen protection and support for persons living with HIV/AIDS and other vulnerable groups; (iv) Re-enforce partnership, coordination, and resource mobilization; and (v) Strengthen surveillance of the epidemic, monitoring and evaluation, and promotion of research.

194. In addition, to complement structural reforms supported by the PRSCs, the government and Bank have negotiated a \$47.7 million Health Sector Support and Multisectoral AIDS Project (HSSMAP), which will provide integrated support to health and HIV/AIDS through two pooled donor funding mechanisms: one managed by the Ministry of Health, the other by the Secretariat of the National AIDS Council. This project was approved by the Board on April 27, 2006, and will close in September 2009.

Table 6: Trends and Projections for public sector health financing

Health Budget expenditures (millions FCFA)	2004	2005	2006	2007 MTEF	2008 MTEF
Personnel	11,650	12,628	17,111	18,000	20,200
Materiel and current expenditures	5,062	6,461	10,790	8,744	9,007
Transfers	11,393	13,190	18,555	14,000	14,400
Equipment and investments	13,898	12,958	7,791	4,580	4,717
<i>Government</i>	<i>5,000</i>	<i>6,563</i>	<i>4,446</i>	<i>4,580</i>	<i>4,717</i>
<i>External Grants</i>	<i>4,237</i>	<i>2,767</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
<i>External Loans</i>	<i>5,418</i>	<i>4,537</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
HIPC (Debt relief)	8,850	7,850	6,200	6,675	6,725
TOTAL BUDGET (including on-budget external financing)	50,853	53,087	60,447	51,999	55,049

Bank's advice and recommendation

195. **Increase health sector financing, with priority given to interventions necessary to achieve MDGs.** Even with additional resources allocated through the budget and donor financing (including the HSSMAP), additional resources need to be mobilized to accelerate progress toward MDGs and ensure financing for priority interventions. Priorities include subsidized distribution of treated bednets and of new malaria drugs; ensuring adequate financing and increased coverage for essential child and reproductive health services at district and community levels; and improved funding for exemptions or risk sharing mechanisms for the poorest.

196. **Strengthen results-based budgeting and monitoring system for the health sector, and improve the efficiency and equity of resource allocations within the sector.** While resources for the health sector remain insufficient, existing resources could be more efficiently allocated to accelerate progress toward the MDGs. The Ministry of Health prepared in 2004/04 its first Medium Term Expenditure Framework (MTEF), which 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 partners. Planning tools, the arbitrage process, and related reforms need to be further strengthened at both national and decentralized levels, however, to ensure that annual work programs are aligned with the disease burden. An integrated system for tracking and reporting expenditures (budget, donor, cost recovery) would also improve program monitoring. During negotiations for the HSSMAP, the Ministry of Health (MOH) agreed to prepare a consolidated annual Program of Work, integrating all sources of financing, beginning in 2007.

197. **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 improved 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. Nearly 90 percent of health expenditures by the poor are purchase of medicines, but medical providers often prescribe drugs that are unnecessary or inconsistent with official protocols. Implementing a rational prescription program would thus significantly improve both financial access and quality of health services. Subsidizing procurement and distribution of treated bednets would be among the most cost-effective measures available to reduce child mortality. The financing and institutional framework for subsidizing priority services and providing subsidized or free care to the very poorest also need to be further defined. Health insurance is limited to a small percentage of the private formal sector, and

despite widespread interest in “mutuelles” and micro-insurance schemes, less than 3% of the rural population is currently covered.

198. **Improve the reliability, monitoring, and accountability of sector funding at district and community level.** While trends are positive, funds from both government and partners are often arrive late or at less than budgeted amounts, and making it difficult to manage and execute programs. Despite some deconcentration within the Ministry of Finance, management of budget and HIPC funds remain centralized by MoF. In addition, the Ministry of Health needs to put in place a system to annually record receipts, expenses, and account balances at the district and community level (including for government budget, donor, and cost recovery funds), and to strengthen oversight of community cost recovery funds (COGES).

199. **Improve accountability and performance management of hospitals.** The Government currently transfers resources directly to national and regional hospitals without a clearly defined performance agreement, and current texts allow for limited oversight and control by the central ministry of hospital performance. Yet the central government also imposes various unfunded mandates on hospitals (such as subsidized care for civil servants and students). Performance contracting for hospitals has been introduced in the context of the pooled donor fund for health, but should be expanded to include budget transfers.

200. **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.

201. **Ensure effective planning and implementation of decentralization.** The existing decentralization law calls for transfer of health facilities, budgets, and personnel to urban communes in 2006, with a similar transfer to rural communes by 2008. Key details regarding the timing and content of the decentralization remain to be clarified, however, and the dialogue among the Ministry of Health, MATD and the Regions needs to be strengthened.

202. **Develop an integrated approach to community-level health, nutrition, and HIV/AIDS interventions.** Most excess mortality and morbidity is due to community- and household-level factors. Reaching the MDGs will require developing the institutional and financing framework for an integrated approach to community-based health, nutrition, and HIV interventions, in coordination with health authorities, village development committees, and local NGOs/CBOs.

Actions undertaken as part of the proposed operation

203. **The Government will strengthen the health MTEF for 2006-09, and ensure adequate financing for the health sector, in line with PNDS objectives and MDGs:** The MOH engaged in an intensive process to prepare its first MTEF in 2004/05, and has initiated development of regional health MTEFs as well. This first MTEF adopted a “needs based” approach to advocate for additional funding, which strengthened its hand in negotiating the 2006 budget. To further strengthening the MTEF, next steps include: (i) strengthening the annual arbitrage process to determine priorities based on actual budget and donor financing, and to mobilize the additional funds necessary to achieve the MDGs; (ii) strengthening technical content of MTEF, including links to MDGs and

better defining criteria for allocations among districts and hospitals; (iii) establish a common program and budget coding system to improve links between MTEF, budget, and donor funding.

204. An evaluation could be necessary to draw appropriate lessons and define priorities for subsequent reforms in the implementation of the régies d'avance. To improve flexibility of budget financing at decentralized level, the government established cash advance accounts for all health regions and districts in November 2002. While the health ministry welcomed this reform, it experienced a number of problems and delays in its first two years, including delays in nominating and training district account managers (“*regisseurs*”); inadequate communication between health and regional Treasury officials; overly rigid rules governing use of the accounts; and confusion regarding the use of the “*regies*” as opposed to “normal” government procurement procedures (which are better adapted for large orders of medicines or supplies). The Ministry of Finance significantly improved the flexibility of procedures in 2005, but districts have encountered difficulties in justifying expenses in time to received subsequent tranches.

205. The Government is implementing a system of subsidies for obstetrical emergencies and for normal deliveries: As a PRSC-5 “trigger”, the MoH developed a strategy for subsidizing emergency obstetrical care, as well as to reduce the cost of normal deliveries in health centers. The recommendations of the study and working group were discussed and validated at stakeholder workshops in March and October 2005. The estimated cost for an 80 percent subsidy for cesareans and a 50 percent subsidy for normal deliveries is CFAF1.4 billion. This amount was integrated into the 2006 budget proposal of the MoH (divided among several budget categories and HIPC). On March 22, 2006, the Government formally adopted national strategy for subsidies for obstetrical emergencies. The new subsidy system has the potential to significantly increase use and financial access to maternal health services and the next challenge is ensuring effective institutional arrangements for implementation and monitoring. The HSSMAP will provide complementary support for technical assistance and monitoring of this strategy.

206. The Government has reviewed the fee structure for hospitals with the aim to develop a contracting system for hospital services. 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. The recommendations of this study now need to be implemented and monitored by hospital administration and the Ministry of Health. In addition, 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. This reduces accountability to hospital administrators and contributing to high rates of absenteeism among senior specialists, reducing the quality of hospital care. In late 2004, the government approved a new statute for public hospitals, which will facilitate the development of internal and external contracting arrangements, and in 2005, the Ministry integrated hospitals for the first time into the PADS program (the pooled health fund, which will be supported by HSSMAP), which required them to prepare performance-based action plans, and to prioritize improving information and accountability systems. The next step will be to expand the contracts to include all sources of financing, including budget transfers. The Hospital Directorate in the Ministry of Health has initiated the development of model contracts (i) between the central MOH and hospital administrations; (ii) between hospital administration and various departments (e.g., pediatrics). Implementing the former will require revision of current texts, to strengthen the MOH’s oversight role over public hospitals.

207. The revision of the texts of local health management committees (COGES), and the development of an action plan for decentralization and performance contracting with communes have been delayed by the discussions on the broader decentralization reform. Community management committees (COGES) were established to manage the proceeds of revolving drug funds, and to strengthen the participation of communities in healthcare. However, the election is not always transparent, and there have been cases of corruption. Because the question of revising COGES texts is closely tied to the ongoing process of decentralization, the Ministry of Health has 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 further revised during workshops in 2005. The link between the COGES texts and decentralization needs to be further clarified, however. For this reason, the Government is encouraged to develop an Action Plan for decentralization of health services, and to begin develop a framework for performance contracting between the central ministry and urban and rural communes, to ensure effective service provision.

208. The Government has taken some steps to implement an action plan to improving distribution and motivation of health personnel but progress needs to be accelerated. Inequitable distribution of health personnel is a long-standing problem in Burkina Faso. With technical support from the World Bank and WHO, the government has developed 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 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, and a provision made in the 2005 to provide "primes" for personnel working in remote areas, which was implemented in December 2005 (with retroactive payments to health staff for the year). But decentralization of budget posts and recruitments will be necessary to address structural imbalances in personnel distribution, and decentralization of management of careers and personnel dossiers would improve flexibility of staffing and reduce health worker frustration. Continued attention from senior officials in MoH, Finance, and *Fonction Publique* is necessary to maintain momentum on these reforms.

209. The Government should still establish an intersectoral coordination framework and action plan for malnutrition. Despite high levels of child malnutrition, the issue remains poorly understood and receives insufficient attention. With support from the Bank and partners the Ministry of Health has undertaken a secondary analysis of existing household data to better understand causes of child malnutrition. The results are consistent with evidence from other countries, namely that malnutrition is a result not just of inadequate household food security, but of access to clean water, child feeding and sanitation practices, and access to health care. Government now needs to strengthen the multisectoral framework to address malnutrition, including through integrating nutrition into an integrated package of community health, nutrition, and HIV/AIDS activities. A proposal has been developed by the Ministry of Health, but needs to be validated and adopted by government. In addition, the HSSMAP (through the pooled fund) will support the development and implementation of an integrated package of community health and nutrition activities.

210. The Government has improved the quality of care by implementing an Integrated Management of Childhood Illnesses (IMCI) in 15 districts. Effective implementation of IMCI has been shown to be an effective means to reduce child mortality at both facility and community levels.

It is expected that IMCI will be scaled up to an additional 15 districts in 2006, with others to be covered by 2007/8.

211. **The Government will continue and ensure effective implementation of the policies of free vaccination, antenatal care, and vitamin A distribution.** The policy of free vaccination and prenatal care has helped improve coverage of these services, although continued monitoring and supervision is necessary to ensure that the policy is being applied uniformly through the country. The MOH has developed a long-term strategy for vaccine program sustainability in collaboration with the Global Vaccine Initiative. New mechanisms for community distribution of vitamin A need to be established once polio vaccination campaigns are discontinued. The costs of these policies are integrated into the health MTEF, and can be supported both through the national budget as well as through the pooled donor fund.

Social Protection

Description

212. Social protection plays an important role in the fight against poverty. A lack of assets and inability to use appropriate risk management instruments render individuals and households vulnerable to increased poverty if those affected are unable to manage or mitigate the impact of shocks. The recently finalized Bank's study on risk and vulnerability in Burkina Faso identified weather-induced shocks and shocks related to fluctuations of the terms of trade, regional instability, as well as limited access to markets and social infrastructure as main sources of vulnerability in the country.

213. Burkina Faso has a number of publicly funded risk management programs, but lack of critical data make it difficult to assess their effectiveness. The programs are heavily dependent on external financing that threaten their sustainability. Whatever information that is available suggests some programs target geographically, while others such as micro finance target individuals. Most programs seem to have very limited impact, mainly because of inadequate financing, lack of institutional structures to implement programs, and lack of coordination between various Ministries. Lack of donor coordination is also hurting the efficiency of these programs.

Challenges

214. A major problem encountered in the assessment of current social protection interventions in Burkina Faso is the lack of data on expenditures and beneficiaries. In particular, the lack of basic data on the profile of beneficiaries, costs and targeting limits the usefulness of this analysis. Therefore, in order to be able to assess the impact of SP programs, it is absolutely essential to generate base line data on beneficiaries and control groups. It is also crucial to identify priority intervention areas, estimate the cost and sources of financing.

Government Actions

215. In 2002 the Government created a national multisectorial team responsible for the preparation of the country's social protection strategy. The document is expected to provide a consolidated and comprehensive framework for social risk management in Burkina Faso. Since its creation, the national team has benefited from a continued technical assistance and financial support from the Bank and ILO. The Bank has also supported the preparation of SP strategy by undertaking a series of analytical work, most notably the Burkina Faso Risk and Vulnerability Assessment study.

216. A draft strategy prepared by the national team has been discussed at a number of national workshops and technical seminars, and it was also presented in a series of regional SP conferences organized by the Bank, the most recent one being in July 2005 in Tunis. The final report identifies the following main areas of intervention: (i) improved access to basic social services by the most vulnerable groups (*les indigents*); (ii) extension of the social security in the informal sector; (iii) development of informal health insurance schemes (*les mutualités*); and (iv) reforms of the existing social security mechanisms, in particular the CNSS (*la Caisse Nationale de la Sécurité Sociale*).

Bank's advice and recommendation

217. The national social protection strategy is a step forward towards a better understanding of existing social protection mechanisms and development of better-targeted and more efficient risk management instruments in Burkina Faso. Still, there may be the need of further work on the prioritization of policies and programs proposed in all four pillars of the strategy since the range of these activities is too broad cannot be implemented within the available fiscal space. In particular, the Government should cost the proposed measures and identify possible source of financing within the MTEF. Detailed analyses on targeting and improving efficiency of social protection interventions would also yield benefits.

Measures undertaken as part of the proposed operation

218. As agreed under PRSC-6, a national SP strategy was finalized and is awaiting a formal approval by the Cabinet.

219. Based on the findings of the strategy and discussions with the Government, it is recommended to include in the next round of PRSCs the following measures: (i) development of operational targeting methods to identify the most vulnerable households (*indigents*) to benefit from SP interventions; (ii) adopt and implement a pilot strategy on conditional cash transfers in education nutrition and health for the indigents; and (iii) reforms of the CNSS (*Caisse Nationale de la Sécurité Sociale*) by reviewing its operations and reducing its high operations costs.

220. The proposed reforms of CNSS will allow to: (i) provide better social security for workers by improving the efficiency of the institution; (ii) lessen the burden of high levels of social security contributions for employees and employers (including the Government) and create new jobs; and (iii) extend the social security for SMEs and self-employed.

Water and Sanitation Sector

Description

221. **In 2005, 75 percent of Burkina Faso's population had access to safe water supply and 32 percent had access to sanitation.** To achieve the MDGs by 2015, an additional 5 million people would need to have access to water supply, and 7 million to sanitation, out of an estimated population of 17 million in 2015. The MDG targets for water supply, i.e. providing access to 85% of the urban and semi urban population and to 80% of the rural population, can probably be reached by 2015 if current investment level is sustained. For sanitation, current sector capacity would have to be multiplied by 6.5 to reach the MDG target, i.e. provide 61% of the population with improved sanitation facilities by 2015. However, even if the MDG's would be reached; it would remain 3 million people without access to potable water and about 7 million without adequate sanitation in 2015.

222. ONEA, the national water supply and sanitation utility is in charge of urban centers and considered as a good performer compared to other African countries and benefits from a strong support of the donors community. The DGAEP¹² of the Ministry of Agriculture, Water and Fishery Resources is responsible for the provision of water and sanitation services in rural areas and small towns (below 10.000 inhabitants). In each one of the 13 regions there is a representation of the Ministry of Agriculture with a water supply and sanitation service. About thousand five hundred water points are constructed every year in rural area.

Challenges

223. **The major challenges for water and sanitation lie in rural areas where most of the poor people live.** These challenges include : (i) the move from projects towards sector programmatic approach and budget support; (ii) the decentralization reform which will bring 350 new local governments, with responsibilities for WSS provision and implementation of the Water Resources Management policy; (iii) the sustainability of the water service, as 23% of the 29,500 pumps and 40% of the 360 piped water systems are broken down, due to lack of spare parts for old pumps, inadequate management and the lack of efficient cost recovery; (iv) the urgency to increase focus on hygiene and sanitation to maximize health benefits.

Government Actions

224. **Since 2003, the Government has been undertaking a series of actions to reform the institutional framework and the development strategy for the water and sanitation sector.** First, the strategy for the urban water sector is implemented through a 3-year performance contract signed between ONEA and the Government. The current contract for the period 2003-2007 includes the ZIGA project. Second, the Government officially approved in 2003 a National Integrated Water Resources Management Action Plan aiming at creating Basin agencies and Water management committees at local level. Finally, the decision was taken in May 2005 to move to programmatic approach. A roadmap to achieving the MDG was adopted with the following actions for 2005-2006 : (i) organization of regular meetings and annual joint government/donors sector review to strengthen sector coordination under the leadership of the DGAEP; (ii) completion of an inventory of all water points, to be used as baseline for measuring progress; (iii) definition of key indicators, norms and standard and reporting procedures for monitoring and evaluation and ; (iv) elaboration of a first 2007-2009 results-oriented Program budget, aiming at improving sector planning and increasing level and predictability of resources flows into the sector.

225. For sanitation, the DGEAP is preparing a national sanitation strategy that will underpin the design and implementation of new programs in rural areas. In the two main cities (Ouagadougou and Bobo-Dioulasso), ONEA has developed and implemented for about 10 years an innovative hygiene and sanitation promotion campaign, using NGOs for social marketing and local masons. About 9,000 sanitation facilities are constructed every year. This program is regarded as a model for urban sanitation policy development and provides the basis for replication and/or extension in other urban and semi urban settlements.

Bank's advice and recommendation

226. The Bank is supportive of the move towards programmatic approach as decided in May 2005 by the government for the rural water and sanitation sector (RWSS). Programmatic approach is effectively considered as the best way to engage with fundamental policy reform, improve

¹² Direction Générale de l'Approvisionnement en Eau Potable

predictability of funding, stimulate donors' harmonization and alignment with country system, maximize the impact of both government and external finance and scaling up sustainable RWSS service delivery.

227. Successful implementation of the programmatic approach in the RWSS will also require a significant strengthening of DGAEP capacity at the central and regional levels, including significant increase in its operational budget. Coordination will be critical to ensure both the successful implementation of the programmatic approach and the efficient use of resources available from the donors group and government, particularly for technical assistance, capacity building to sector institutions, equipment, and targeting of vulnerable groups or provinces.

Measures undertaken as part of the proposed operation

228. **The operation of new water concessions in 13 provinces has been delayed.** The Government has prepared a draft strategy for water sector management and maintenance policies for water infrastructures in rural and semi-urban areas. The draft strategy was discussed by all stakeholders on February 2, 2006. A revised strategy will be finalized in the first half of 2006, and will define the final options for implementing the reform of the management and the maintenance of the water facilities and infrastructures in 13 provinces.

229. **The Government has completed sanitation strategic plans for 4 secondary cities** (Fada N'Gourma, Ouahigouya, Banfora and Koudougou). The completion of the remaining 6 sanitation strategic plans was delayed by weak capacity, including inadequate funding. As indicated above, a model sanitation program is underway in the two major cities.

230. It is proposed that the next series of PRSC will support measures to increase access to, affordability and sustainability of WSS in rural and semi-urban areas given the relative better conditions and prospects in urban areas.

231. A trigger for the next PRSC would be the effective implementation of the activities of the roadmap established by the Government to reach the MDG targets for water and sanitation, including adequate funding for the program budget of the General Directorate of Water and Sanitation (DGEAP) and for the expansion of the hygiene and sanitation promotion program of the urban water public utility (ONEA) to four new towns where strategic sanitation plans are available.

GOOD GOVERNANCE

Public Finance Management

Description

232. Burkina Faso has been implementing an ambitious reform agenda since early 2000 with the adoption in 2002 of a consolidated action plan to improve the budget management system (*Plan d'Action pour le Renforcement de la Gestion Budgétaire*, PRGB). Achievements to date include: (i) stronger budget legislation; (ii) improved resources allocation with the availability of a global MTEF; (iii) enhanced effectiveness in budget execution with gradual deconcentration of spending authority; (iv) effective budget management software (CID for computerized management of budget operations; SYGADE for debt management, SIGASPE for personnel and payroll management); (v) improved budget reporting and auditing with the introduction of an independent Audit Court. IMF

and Bank staff carried out a HIPC AAP in 2004 and concluded that Burkina Faso had a solid budget management system, and it met 9 out of 16 benchmarks established under the HIPC initiative.

Challenges

233. **Enforcement of budget legislation.** Burkina Faso has a solid legislation on budget management. The challenge is to further enforce the texts already adopted by scaling up dissemination and implementing training plans.

234. **Monitoring of poverty-spending through improvement in budget classification.** Burkina Faso has already a good economic and administrative classification of budget data. The Government has adopted the WAEMU's classification of the functions of government (COFOG) which comprises 14 functions and 126 sub-functions. However, functional classification needs to be operationalized. In particular, the Government would need to further define poverty spending and integrating them into the existing functional classification through the addition of special markers.

235. **Foreign-financed investments are not fully integrated in the government budget information system, thus rendering difficult the task of planning sectoral and overall development programs.** The reporting on a significant part of foreign financed investment spending is weak and spending cannot be tracked through the computerized expenditure system. Some donors do not report their activities, particular those financed by grants. Similarly, large amounts of expenditure are incurred by NGOs in the social and other priority sectors while very little information on them is available to the government. Efficiency and effectiveness of budget management would benefit from a better monitoring of expenditures financed by external sources.

236. **The link between budget and the PRSP will be strengthened when MTEF and program budgets will be generalized across all ministries.** Burkina Faso has made significant progress in the preparation of a global MTEF but sectoral MTEF are lesser used: as of end 2005, only the Ministry of Basic Education and the Ministry of Health had sectoral MTEF although additional efforts are needed to make them more operational. The Government is preparing a methodological note on global and sectoral MTEF in view of assisting six line ministries to adopt MTEF by 2007. In July 2005, the Government also organized a workshop on program budget experiences, and proposed to re-launch the program starting with an update of sectoral policies and programs.

237. **The effectiveness of the internal audit system should be improved.** The internal audit of budget implementation is conducted by the DCCF for ex ante audits; and by IGF, technical inspectorates, and HACLC for ex-post audits. The DCCF had 160 audit officers in 2004, including 12 with electronic visa authority in the CID. DCCF considers that, to improve the speed and efficiency of its operations significantly, its staff must be increased to 250. Owing to inadequate staffing, the IGF often cannot carry out its annual work plan, especially as it is increasingly involved in project audits. At any rate, the amount of expenditure audited by the IGF is too small to affect the behavior of units involved in the various stages of competitive bidding and procurement. Furthermore, the efficiency of ex ante and ex post auditing is also somewhat diminished because accounting for government property is not practiced.

238. **The experience of budget deconcentration has been generally positive and the challenge is now to extend it to all ministries.** Burkina Faso initiated a procedure for granting credit to the peripheral units known as « crédits délégués ». The procedure aims at giving spending authority to the beneficiary structures. This procedure has helped to improve the efficiency of public expenditures although its impact was limited by the centralization of the payment stage. To address

the issue, the Government initiated the deconcentration of payment order which is now effective in 5 regions and should be extended to 12 regions by end-2006. The Government has decided to progressively extend the procedure to all ministries and relevant institutions. An evaluation of the requirements and costs for such extension is underway with the support of the Bank-funded PRCA.

239. **The Budget execution reports are now prepared within twelve months after the closing of the fiscal year but they are not always supported by accounting statements yet.** The setting up of the Audit Court (*Cour des Comptes*) established the conditions for an independent evaluation of the budget execution reports, but the annual budget of the Audit Court remains low at CFAF60 million, and its President does not have spending authority. In addition, the ability of the Audit court to issue a certificate of conformity rests on the possibility to compare the accounts as held with budget administrator (budget execution report or *comptes administratifs*) with those held by the public accountants (accounting statements or *comptes de gestion*). While there has been some progress in the production of the accounting statements of the three principal public accountants, more remains to be done, specifically for local governments and noncommercial public entities.

Government actions

240. The Government has continued the implementation of PRGB, a comprehensive reform program on public finance management issues, from the institutional framework, to the budget law, to budget execution and budget control. PRGB defines the actions needed to address these issues and it includes a result framework to assess performance. The PRGB is a key element of the Performance Assessment Framework of the MOU for budget support. Recently, the Government has taken steps to enhance the effectiveness of PRGB by sharpening its strategic content and defining a medium-term expenditure framework for public finance management reform.

Bank's advice and recommendation

241. The Bank views the PRGB as relevant in addressing public finance management issues in Burkina Faso. Indeed, PRGB is underpinned by the CFAA carried out in 2001 with the support of the Bank and several other donors. Specific measures that the Government could implement include improving the monitoring of externally-financed projects; establish an accounting system for government property; identifying and monitoring poverty reduction expenditure through adequate marker in the functional budget classification; strengthening ex post audits by the IGF and IGE, increasing the staff of audit units, reviewing the status of inspectors, and making effective use of HACLC reports; expedite the production of budget execution reports, the Treasury's general balance and the accounting statements of all public accountants; revive the production of sectoral MTEF and strengthen the link between PRSP and Budget processes.

Measures undertaken as part of the proposed operation

242. **The government is developing a computerized system to improve the monitoring of externally-funded capital expenditure.** It has designed an action plan for a complete information system based on the debt management software SYGADE. It has established a project task force to customize SYGADE to take into account grants, and to develop interfaces between SYGADE and the computerized expenditure circuit (CID) and the State integrated accounting system (CIE). As originally sought, the task would be completed in time for the implementation of the 2007 budget.

243. **The Government is developing an accounting system for government property.** The physical verification of government property was completed for all provinces (43) but Houet (Bobo-Dioulasso) and Kadiogo (Ouagadougou). The physical verification was also completed in the

commune of Ouagadougou (province of Kadiogo). A private firm was hired to build the accounting system. The completion of the task is scheduled in the summer 2006.

244. **It has continued the deconcentration of budget operations.** The delegation of credit was introduced for the Ministry of secondary and higher education, and for the Ministry of Justice.

245. **The 2006 budget was adopted in line with the MTEF 2006-2008 and the PRSP priorities.** The MTEF was prepared and discussed in April 2005 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, social action and national solidarity, basic education, secondary and higher education and rural development.

246. Key reforms to be implemented in the next series of PRSCs would include: (i) improving the monitoring of poverty-spending through the budget functional classification; (ii) strengthening program-based budget at the sectoral levels; (iii) further improving the capacity of the Audit Court and other audit bodies, and making public annual progress reports on their recommendations; (iv) accompanying the deconcentration and decentralization reform; (v) disseminate information on budget and improve civil society organizations capacity to analyze the budget.

Procurement

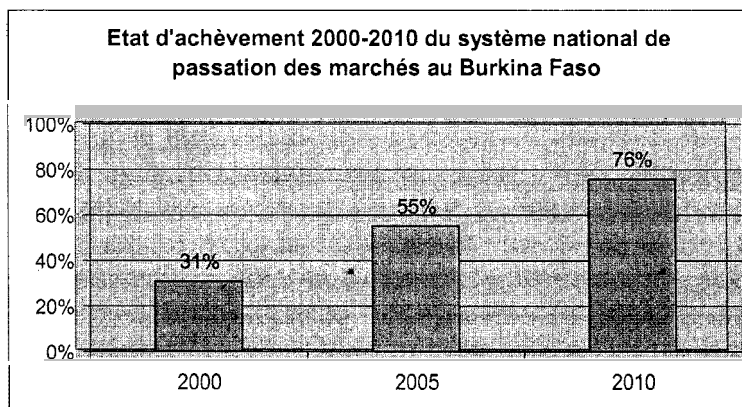
Description

247. Procurement is a priority issue in Burkina Faso for strengthening public expenditure management, improving governance, transparency, efficiency, equity and integrity. The total volume of public procurement is large and increasing. Public procurement financed by external resources represents about 66 percent of the total procurement as a result of the large share of external financing in non-wage expenditures. Available statistics indicate that noncompetitive tender represented 11 percent of total tender in 2004.

Challenges

248. A Country Procurement Assessment Report (CPAR) was carried out in 2005 (see box 2). It assessed the quality of the national procurement system against the 12 benchmark indicators proposed by the Working Group composed of OECD/DAC and the World Bank. The assessment indicated a score of 55 percent out of a best of 100 percent (see figure 3 below). The CPAR also assessed the performance of the national procurement system in 2000, prior to the implementation of the first series of PRSCs, and found out a score of 31 percent, which points to some progress between 2000 and 2005. Should all the recommendations of the 2005 CPAR are implemented, it is expected that the score of the procurement system would be 76 percent by 2010.

Figure 3: Status of the Procurement National System (2000-2010)



Source: CPAR (2005)

249. To a large extent, the score in 2005 reflects new goalposts introduced by the CPAR. Government's record in implementing procurement reforms during the first series of PRSCs was excellent. The score also indicates the need to shift attention to implementation and effective operation of procurement systems.

Government Actions

250. After the 2000 CPAR, the Government has launched a vast reform and capacity building programs. It began to prepare annual public procurement plans. It adopted a new decree on public procurement, and procedural manual and standard texts were validated in February 2004. The new decree establishes clear and exhaustive rules promoting transparency in competition, describes explicitly the responsibilities of the bodies involved, particularly those of the Central Directorate for Public Procurement (DCMP), and outlines a conflict resolution system. Internal and external public-procurement audits were conducted with a view to greater transparency. External audits were also carried out for the years 2001, 2002 and 2004, with financing from the European Commission. Other actions include: (i) extension of the scope of public procurement to administrative contracts for the delegations and the concessions of public services; (ii) creation of an independent appeal mechanism for contract awards through the setting up of the "Comité Permanent de Règlement Amiable des Litiges" (CRAL); and (v) establishment of a mechanism for an effective application of sanctions applicable to civil servants and the private sector (bidders and suppliers/consultants and contractors).

251. In December 2004, a presidential decree established CNCS (a committee for the monitoring of procurement reforms) that comprises stakeholders from the public sector as well as from the civil society, including private sector representatives and an NGO active in anti-corruption drive. The creation of the CNCS provides a formal and effective institutional framework to coordinate and follow-up the implementation of the procurement reforms aims.

Bank's advice and recommendation

252. The 2005 CPAR concluded that despite improvements in the procurement regulatory and institutional framework, there are still some weaknesses, including: (i) the restrictions applicable to the scope of public procurement; (ii) the central tender board (DCMP) being responsible for both regulating public procurement and implementation; (iii) the lack of an appeals mechanism to deal with complaints during the bidding process; and (iv) the lack of an adequate institutional framework

to determine the nature of the faults/errors for the application of sanctions. These elements are in the action plan drawn up from the CPAR.

253. The Government should provide adequate resources to CNCS to ensure it can perform its tasks and duties. Finally, CNCS should put in place an M&E system for the action plan in order to track progress and make necessary recommendation during implementation.

Measures undertaken as part of the proposed operation

254. On March 1, 2006, the Government has adopted an action plan for procurement reforms based on the recommendations of the 2005 CPAR.

255. Next PRSCs will support the implementation of the procurement reform action plan. A trigger for PRSC-7 would be: (i) adoption of a decree for the creation of a regulatory agency for public procurement (ARMP); (ii) revision of the attribution, composition and functioning of the Central Directorate for Public Procurement (DCMP); (iii) creation of specialized procurement units for principal contracting authorities/administrations, defining their attribution and functioning, and providing more responsibilities to the managers of these contracting authorities. ARMP would be operational by 2008 and will manage the monitoring and evaluation systems. A list of performance indicators will be prepared by the Government and CNCS with the support of the African Development Bank and the World Bank during the mid-term review of the implementation of the CPAR action plan, currently scheduled for June 2008.

Box 2: Country Procurement Assessment Report (2005)

Participatory Approach: The Minister of Finance and Budget agreed to a participatory approach through the establishment of a tripartite national task force - the *Comité National de Coordination et de Suivi* (CNCS) composed by the public sector, the private sector and the civil society - in order to ensure ownership of the public procurement reform. The CNCS was created by a presidential decree in December 2004. The task force was the liaison and coordinating agency that carried out the preliminary data collection, analysis and recommendations and action plan on behalf of the country, and provided basic support services to the CPAR donor team.

Scope: Assess the procurement system with respect with respect to the following 4 pillars representing a sound procurement system: (i) Legislative and regulatory framework; (ii) Institutional framework; (iii) Procurement operations and market practices; (iv) Integrity of the procurement system.

Partnerships with other donors: The CPAR was carried out jointly with the African Development Bank (AfDB), as part of the Strategic Partnership between the World Bank and the AfDB in the area of good governance. The CPAR team actively communicated with donors in the MOU for budget support. In addition, Canada supported the assessment by financing a local consultant to assist the CNCS

Harmonization: The 2005 CPAR reviewed the conformity of current system and ongoing activities with regards to the procurement harmonization initiative within WAEMU as well as OECD/DAC harmonization program. The CNCS will use the most recent benchmarking system issued by the OECD/DAC working group.

Source: CPAR (2005)

Decentralization

Description

256. Political decentralization started in the 1990s and was pursued in 1995 and 2000 with the elections of about 50 city councils. In December 2004, a new decentralization law was adopted “*Code Général des Collectivités Territoriales*” (CGCT). It was a significant step forward, since it settled some of the issues related to the institutional architecture of Burkina Faso territorial

system, which is now as follows: (i) at the **decentralized** level, 13 regions, 49 urban municipalities and from 2006, 302 rural municipalities; (i) at the **deconcentrated** level, 13 regions, 45 provinces, and 350 districts (*départements*).

257. Communal elections took place on April 23, 2006. The creation of 302 new communes and of 13 regional councils, the transfer of competencies to the 49 urban communes (i.e. Primary Health Care, pre-school education and primary education, culture, youth, sports and leisure), and the continuation of the deconcentration process in support of the new local governments would represent significant challenges for central and local governments. An inter-ministerial committee was created to improve coordination between MATD, which leads the decentralization reform, the MFPRE, responsible for defining the strategic orientation of the deconcentration policy as well as human resource management, and the MFB, responsible for the financial implications of the reform. This coordination needs to be sustained, since key decisions and options remain to be taken.

Challenges

258. The main challenges for a successful decentralization are the following: (i) transfer of human resources to the local governments; (ii) adequate funding for local governments through transfers and/or tax sharing; (iii) restructuring of central and deconcentrated ministerial units to provide support to the newly established local governments, and improving coordination between these structures and capacity constraints at the national level; (iv) building capacity of the new local governments.

Government Actions

259. In order to address these major issues, the following actions have been taken by the Government.

260. The MFPRE has enacted a decree on deconcentration with the stated objective to provide technical support to the local governments while continuing the implementation of responsibilities which remain under the control of the central Government.

261. As for human resources, the decision was taken to retain the current civil service workforce under the management of the central government. Staffs who are currently working on activities that are transferred to local governments will only be seconded to the latter, and their salaries will be paid by the central government. The decision takes into account concerns expressed by the employees and trade unions as for an effective transfer to local governments. However, this option has significant risks as it introduces distortions in the lines of accountability. In addition, because central government jobs are not usually linked to a geographical area (other than for newly recruited staff in health and education), retaining staff in the communes could be a challenge. In order to allow local governments to recruit new staff, an existing decree on a local civil service is being revised.

Bank's advice and recommendation

262. There is a strong need to clarify the scope of deconcentration. It is crucial that the future status of currently deconcentrated units such as the provincial directions for the education sector be determined (whether or not they are transferred to local governments).

263. There is a risk of multiplication of structures, with related issues of overlaps, coordination challenges, and overstretched capacity. It is important to carefully assess the need for creating new

deconcentrated units: not all ministries need to be deconcentrated; not all ministries need to have a technical unit in all the country (for instance, the tax department decides on deconcentration based on the potential for tax collection). It would be critical to carefully assess the financial and capacity implications of any deconcentration options.

264. The relationship between the governorate and the technical units must be clearly expressed. Since the Governor is the *Administrateur de Crédits*, and she is also given the authority to manage human resources, it is important that her mandate be carefully regulated in order to avoiding delays in implementing policies and in transferring necessary resources to the lower levels of the administration and to the service delivery units.

265. Lastly, it is important to clarify the financial resources for local governments so as to avoid what has been a crux of decentralization in the sub-region: “the decentralization of the problems”.

Measures undertaken as part of the proposed operation

266. **The Government has defined the framework for the transfers of resources and competences to the communes.** It has adopted a draft law that defines the resources and expenses of local government. In particular, the draft law defines a general-purpose grant (unconditional) for the recurrent budget of local governments as well as a general-purpose grant for their capital budget. The draft law also defines local taxes and tax sharing mechanisms with the central governments. In addition the government has defined the accounting and financial regime for local governments, including budget and accounting classification. Furthermore, the government adopted draft devolution decrees for the effective transfers of resources and assets to urban communes. The Government also adopted a priority actions plan to assist new regional councils and rural communes.

267. **The Government has continued the deployment of the CICAL which is now operational in 8 regions.** The software CICAL is an integrated accounting system for local governments. Its creation was a key preparatory step for the decentralization as it ensures an adequate fiduciary framework for public spending at local levels, including the ability to produce accounting statements (*comptes de gestion*).

Civil Service Reform

Description

268. A national plan for the Comprehensive Reform of Public Administration was adopted in 1998¹³. Main axis are: (i) deconcentration of human resources management to line ministries; (ii) adoption of more flexible hiring arrangements; (iii) introduction of a merit-based evaluation system for civil servants and; (iv) gradual extension of an integrated administrative and payroll information system (SIGASPE). Next reforms in this area will be devised under the overall decentralization reform.

¹³ Three main documents spell out the Government policy on State Reform:

- The *Réforme Globale de l'Administration Publique* (Comprehensive Reform of Public Administration, RGAP) (1998),
- The National Good Governance Plan (1998-2003),
- The Decree 2002-253/PRES/PM adopted on July 18th 2002.

Challenges

269. The most pressing issues are: over-centralization which creates delays and inadequacies in assigning posts, murky recruitment criteria and persistence of the seniority criterion for promotions, absence of regionalized recruitment creating a return movement towards the urban centers and therefore inadequate allocation of human resources nationwide, absence of HR planning and forecast policies, absence of training policies and professional training culture, difficult retention of trained staff in public structures.

270. Decentralization is adding a new challenge. The option of transferring staff was not retained, and staff from areas transferred to the local governments will be seconded to the latter, which needs to be carefully supervised to ensure local governments get the services they are entitled to.

Government Actions

271. Decentralization of human resources management started in 1998 with the creation of Human Resources Directorates (DRH) in all ministries and the creation of a computerized tool for human resource management, the SIGASPE. SIGASPE terminals have been installed in various ministerial departments, starting in large ministries –together with training of the staff. The goal is now to deploy the tool at the regional level (cf. decentralization section).

272. Prerequisites for the implementation of the long-awaited evaluation policy are being tackled: progress has been made in (i) training the managers in charge of evaluating their staff on establishing results-based contracts and conducting a performance evaluation interview, and (ii) defining job profiles for each ministries.

Bank's advice and recommendation

273. Government's plan to update SIGASPE to include a management module will allow institutions to actively manage their staff, and progress is needed in that area. The update should be linked to an active policy of professional training, supported by public training institutes. As already envisaged, the completion of the remaining modules of SIGASPE (statistics, allocation, promotion) should also be accelerated.

274. A clarification of the roles between MFPRE (in charge of civil service and reform of the State) and line ministries could also improve human resource management. Lastly, the Government should move on its program to ensure that SIGASPE is deployed in all ministries, and the merit-based evaluation system is implemented in all ministries

Measures undertaken as part of the proposed operation

275. An action plan for the deployment of SIGASPE to line ministries was adopted in March 2005 but there has been little progress since then.

Table 7: Achievements to date under PRSC 4-6

Medium Term Objectives	Indicators	Baseline		2004		2005		Comments
		2003	2003	Benchmark	Actual	Benchmark	Actual	
Accelerate real output growth and reduce the incidence of poverty	Poverty Headcount	46.4 percent.	46.4	45.0	46.1	43.7	42.4	Estimates from the model PAMS that links economic outcomes and household incomes through the labor market. The benchmark for 2006 is 41 percent. Source: MEDEV and INSD
	Real GDP growth rate	8 percent	8	6.0	4.8	6.7	7.5	Drought and locust attack adversely affected growth in 2004. A rebound in agriculture production explains growth in 2005. Source: MEDEV and INSD
Improve competitiveness and economic performance of the cotton sector	Growth rate of cotton production	8.3 percent (1998-2003)	8.3	6.6	32.8	5	16.9	Production has increased from 210,000 tons in 2003 to 6490,000 tons in 2005. Burkina is now the largest cotton producer in Africa. Source: MCPEA and SP/CPSA.
	Growth rate of cotton fiber exports (tons)	10 percent	10	6.6	19.9	5	31.6	Most cotton production is exported. However export earnings are less favorable than suggested by volume trend because of low international cotton prices and the appreciation of the Euro against the dollar. Source: MCPEA and SP/CPSA
Limit the state to supervisory functions and transfer other functions to professionals in the sector or to the private sector; and clarify the roles and responsibilities for agricultural development. As a result, producers and their organizations are expected to take a larger role, ultimately resulting in improvements in the economic performance of the sector	Evolution of the number of professional agricultural organizations with economic vocation.	30,515 (2002)	30,515					The benchmark for 2006 is 40,000. The text on the principles and rules for the missions transferred to private organizations is not approved yet, and the target could be missed. Source: DOPAIR
	Growth of agricultural exports	13.3 percent (1998-2003)	13.3	10-15	26.4	10-15	4.7	Source: MCPEA/FASONOMR
Facilitate private investment and export of agricultural products. Improve access. Reduce vulnerability	Number of hectares of hydro-agricultural installations per year	66,504 ha in 2000-2001	66,504	1000	1360	1000	1180	Source: MAHRH and SP/CPSA
	Number of manure pits built per year (thousand)	42.4 in 2000-2001	42.4	150.0	240.5	500.0	536.8	Source: MAHRH and SP/CPSA
	Feeder Roads built (kilometers)	1,207 in 2000-2002	1,207	500	463	850	136	408 additional kilometers are in construction. Source: MITH

Medium Term Objectives	Indicators	Baseline 2003		2004		2005		Comments
		Benchmark	Actual	Benchmark	Actual	Benchmark	Actual	
Diversification of agricultural production	Number of kilometres of departmental roads maintained		4300	4300		4450	4450	Source: MITH
	Growth of cereal production		3	-19.5	3	39	39	Drought in 2004 and rebound in 2005. Source: MAHRH/DGPSA
	Growth of cowpea production		7.0	-38.1	6	75.6	75.6	Source: MAHRH/DGPSA
Intensification and diversification of animal production	Growth of exports of meat and poultry		7.0	27.8	6.5	37.6	37.6	The reinforcement of the veterinary services is a high a priority to address the issue of animal health: current services fall far short of public goals and objectives. Source: DEP/MRA and SP/CPSA
	Coverage rate of vaccination against Newcastle disease		24	12.7	80	19.5	19.5	
	Coverage rate of vaccination against contagious bovine pleuro-pneumonia		58	26	80	28	28	
B. Telecommunications 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	Evolution of average costs of telecommunication between fixed lines and mobile		170	170	170	170	170	TELECEL Faso, one of the three mobile phone companies has reduced its tariff in 2005. The reduction is 14 percent for within-network communications, 17 percent for between-network communications, 34 percent for mobile to fixed local lines and 25 percent for mobile to fixed long distance lines. Source: ARTEL.
	Subscribers to the fixed line (thousands)		80.0	85.0	85	90	90	Source: ARTEL
	Subscribers to the mobile (thousands)		400.0	400	630			Source: ARTEL
C. Investment Climate								
Identify strength and weaknesses of the existing labor market laws and regulations. Reduce cost to start new firms	Number of steps to create a business		13	4	4	4	4	Source: MCPEA
	Number of days to create a business		15	7	7	7	7	
D. Mining Sector								
Diversification of the exports base	Gold exports (tons)		1.0	1.0	0.2	0.19	0.19	Source: DEP/Mines

Medium Term Objectives	Indicators	2004		2005		Comments		
		Baseline 2003	Benchmark Actual	Benchmark Actual	Actual			
SECOND COMPONENT: HUMAN RESOURCE DEVELOPMENT								
A. Education								
Improve access to education, in particular for the poor and for girls	School enrolment rate of 60.2 percent (51.9 percent for girls) by 2006	52.2 percent in 2003 (46.3 percent for girls)	56.0 (48.3)	56.8 (51.0)	58.1 (52.9)	60.2 (54.5)	Access to education has improved, particularly for girls in remote disadvantaged areas. Progress could have been stronger if it were not delays in schools constructions. The Government has built 1,427 new classrooms in 2005 against an initial objective of 3,391. Constructions financed by external partners did not perform better: while 654 classrooms were completed and 609 are under construction, they are all part of the 2003-2004 construction programs. The recruitment of teachers was significant with the hiring of 3,000 teachers against an initial plan of 3,450. Implementation of the literacy program through FONAEF has benefited to rural population, including women who represent 58% of total enrollment in non formal education. Source: MEBA	
	School enrolment rate in the 20 most disadvantaged provinces	37.6 percent	38.0	39.8	43.7	46.8		
	Admission rate in first grade (girls)	66.0% (61.5) %	69.3 (64.7)	69.9 (64.1)	70.7 (66.7)	69.7 (64.1)		
	Admission rate in the 20 most disadvantaged provinces	36.8 percent	38.0	47.3 (43.8)	60 (56.5)	59.6 (54.8)		
	Primary completion rate	26.7 percent	28.8	32.8	33.8	34.9		
	Literacy rate	32 %		28.4	30.4	30.5		
	Literacy rate for women	17 percent						
	Ratio textbooks to student	0.3	0.5	0.5	0.5	0.5		
	B. Health							
	Improve access to health services	Increase efficiency in use of resources	Increase the availability of resources at the regional and district level	45.5 percent	43.4	50.1		50.6	49.2	Recurrent resources (Title III) earmarked to regional and district levels. Source: Health Ministry Benchmark is 313 for 2008
Maternal mortality rate in hospitals (per 100,000 births)		484						Source: Ministry of Health
	% of assisted births	30.9	40.0	33.5	40.0	33.8		The benchmark is 162.7 for 2008. There was no
	Child mortality rate	184						

Medium Term Objectives	Indicators	Baseline 2003	2004		2005		Comments
			Benchmark	Actual	Benchmark	Actual	
Increase the number of staff in the remote areas	(per 1000 live births)						recent survey to assess the current rate.
	Vaccination rates (%):						
	DTCP3:	78.3	80	88.4	90	96.2	Source: Ministry of Health
	Measles:	71.1	80	78.3	80	84	
	Yellow fever:	66.3	80	76.0	80	84	
Improve nutrition status of child and youth	BCG:	86.3	90	110.9	100	111.7	
	CPN2 coverage rate:	54.1 % (2002)	70	62.0	75		
Improve nutrition status of child and youth	% of health centers meeting personnel requirements:	76.8	80	75.8	85		
	% of children aged 6-59 months with adequate intake of vitamin A	70					The Government has continued the free distribution of vitamin A supplement.
	Underweight children (%)	38 (2003)	40	38	40		Source: Health Demographics Survey
C. Social Protection							
Better protection of vulnerable groups	Number of children in foster care	273 (2003)	700	800	960		
	Number of children benefiting of educational support	4,867 (2003)	9,000		10,000		
D. Access to Water and Sanitation	Number of provinces with a safe drinking water coverage over 75 percent:	10 (1999)	35	NA	35	24	The Government built 2,490 forages in 2004 and 1,890 in 2005. Source: DGAEP
	% of households with access to safe drinking water in rural and semi-urban areas	85 (2003)	88	70	75	72.2	
	% of houses with access to safe drinking water in urban areas	75 (2003)	75	80	82	84	
	% of households with hygienic latrines in urban areas:	33.3 (2003)	35	33.5	35		

Medium Term Objectives	Indicators	2004		2005		Comments
		Baseline 2003	Benchmark	Actual	Benchmark		Actual
THIRD COMPONENT: GOOD GOVERNANCE						
A. Budget formulation						
Improve budget formulation and the link between program budgets, MTEF, and budget. Reinforce the link between public expenditure and growth and the link between objectives, resource allocation, and results. Improve the transparency of public expenditure management. Increase the responsibility of budget managers	Share of the budget allocated to social sectors (excluding HIV/AIDS and external financing): Health Education Social Action	9.4 %	10.2	10.2	10.9	11.0
		12.4 %	14.3	14.3	14.3	14.7
		0.8 %	0.8	0.8	0.9	0.9
B. Budget Execution						
Improve budget execution. Enhance the efficiency and effectiveness of public expenditures by expanding the scope of delegation of credits and accelerating the transfer of these resources to eligible departments	Budget execution rate in priority ministries (%)	69	70	75	80	70
	% of external financing managed under SYGADE				60	
	Execution rate of external financing	66 %	70		72	62
	Revenue to GDP ratio (%)	12.1	12.4	12.7	13.3	12.6
	Ministries with delegation of credits	4	4		4	6
	Time to transfer credits	5 months			10 weeks	12 weeks
C. Budget Procurement						
Improve transparency in public resource management	Number of audited procurement contracts		10	15	12	24
	Days between the opening of bids and the notification to the winner					
D. Budget control						
	Adoption of the 2004 budget execution report					
						The budget execution report for 2004 was submitted to the Parliament in September 2005 and was approved by the Parliament in its session

Medium Term Objectives	Indicators	Baseline 2003	2004		2005		Comments
			Benchmark	Actual	Benchmark	Actual	
							of March 2006.
	Submission of the statement accounts to the supreme audit court						The statement accounts of the main public accountants were submitted to the Supreme audit courts as scheduled.
E. Public sector reform and decentralization							
	Improve personnel management and wage bill information. Effective management of human resources		3		4		
	Decentralization (Improve local service delivery and empowerment of local communities)		3	3	4	8	
E. Environment							
	Improve capacity to assess environmental impact of government policies and programs, and protect environment		3	3	4	6	The target is 50 percent by end-2006. In 2005, the Ministry of Environment has received 42 investment proposals, and have screened 16 of them, providing favourable feedback on 7 of these projects and suggesting corrective actions for the remaining projects. Source: RP 2005
				115.0	120.0	276.8	

PROPOSED FRAMEWORK FOR THE NEXT SERIES OF PRSC

276. PRSC 7-9 will support CAS implementation in FY07-09. The design of the reform program under PRSC 7-9 will be completed during the preparation of PRSC-7 in FY07, in close coordination with Government and other donors in the budget support group. The next series will be underpinned by ongoing analytical work such as a Trade Study, an Investment Climate Assessment and a Labor Market Study. The completion of a country economic memorandum, a decentralization study, and a Financial Management Assessment (possibly using the PEFA framework) will also help in the formulation of the reform program.

277. Consistent with the CAS, the next series would provide support to the implementation of the four PRSP pillars: (i) accelerated and shared growth; (ii) improved access to basic social services; (iii) increased income and employment opportunities for the poor; (iv) better governance and increased decentralization. The PRSC series will complement other sectoral investments in the CAS by focusing on the first and fourth pillars. Annex 6 and Annex 7 provides an initial discussion on the issues of decentralization and growth, respectively. Annex 7 discusses the drivers for growth, a key lesson is that a balanced approach is needed to foster growth in Burkina: while the more intuitive policies described under the first pillar will promote growth, it is equally important to invest in human development and governance which could be powerful drivers for growth.

278. Figure 5 adapted from the CAS (see Annex 5), and table 8 summarize the proposed core indicators for the next series and the proposed triggers for PRSC-7, respectively.

Figure 4: PRSC 7-9 – PROPOSED CORE MONITORING AND EVALUATION INDICATORS

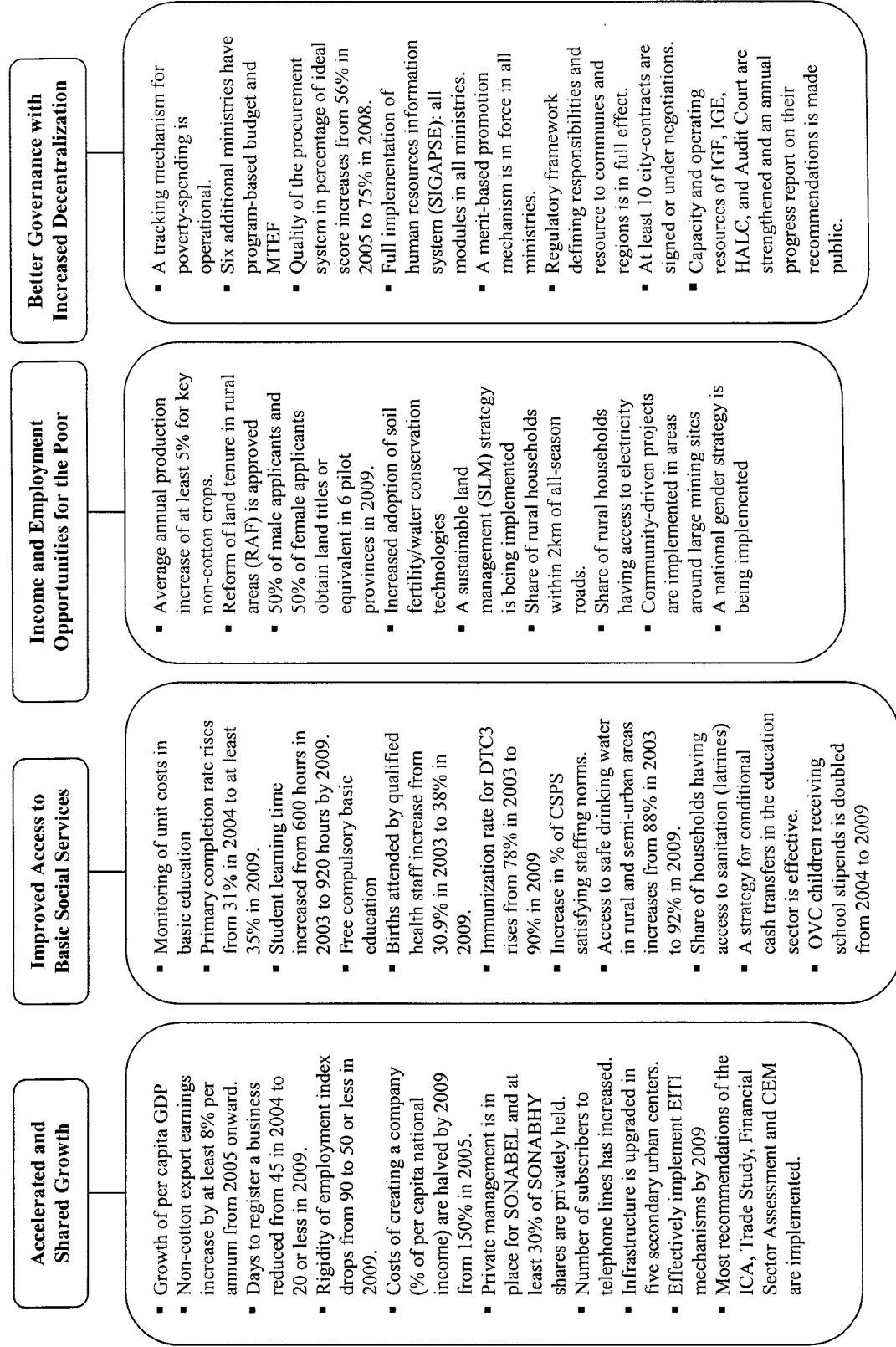


Table 8: Proposed Triggers for PRSC 7

	Strategic Objectives and measures	Issues and comments
	Accelerated and Shared Growth and Employment Creation	
1	Maintain an adequate macroeconomic framework during the program period	Prerequisite for growth policies. Low inflation also protects the poorer who suffer more from high prices.
2	Adopt and implement the action plan drawn from the Trade Diagnostic Study, including assessing and addressing the issue of VAT refunds for exporters within the existing regulatory framework	A preliminary finding of the Trade Study is that delays in VAT refunds are a major obstacle for exporters.
3	Improve business climate by implementing the Government's action plan based on the 10 macro indicators of the "Doing Business" report	Continuing on the efforts already accomplished in the reduction of the days necessary to register a company, the specific indicators to improve within the framework of the CASRP-7 are as follows: (i) rigidity of employment index which should improve from 84 in 2005 to 75 before the negotiations of the CASRP-7; (ii) to reduce the duration and to lower the costs of property transfer (in % of the national income per capita) by adopting the following measures: (a) to merge in one procedure the existing procedures for requesting property assessment and organization of the assessment; and (b) to merge in one procedure the submission of transfer documents to the Ministry of Finances and the Budget and the payment fees for the publication decree; (c) to replace by one fee the several fees requested by various administrations, including the registration fees.
	Access to Basic Social Services	
4	Effective implementation of the activities of the roadmap established by the Government to reach the MDG targets for water and sanitation, including adequate funding for the program budget of the General Directorate of Water and Sanitation (DGEAP) and for the expansion of the hygiene and sanitation promotion program of the urban water public utility (ONEA) to four new towns	A large share of the population does not have access to potable water and sanitation. Quality water and sanitation could have a huge impact on health outcomes. There are favorable institutional conditions with government's decision to adopt a programmatic approach in the sector, and a good working group of donors willing to provide support to that approach.
	Increased Income and Employment Opportunities for the Poor	
5	Pursue implementation of the pilot land tenure security program in targeted provinces; approve the strategy for land tenure security in rural areas as a critical step toward the adoption of the framework law on rural land tenure (<i>Loi d'orientation sur le foncier en milieu rural</i>)	In certain farming areas, access and land control and its resources are sources of conflicts among users. The absence of land tenure in the agriculture sector (in rural areas) also impedes investments in agriculture. The Government has launched the preparation of a National Policy for Rural Land Tenure. The proposed trigger will allow some progress while a consensus is being built on the national policy. Burkina has already initiated pilot rural land tenure reforms in the context of a Bank-supported CDD (PNGT-2) and rural projects financed by the French Development Agency.

Strategic Objectives and measures		Issues and comments
Governance and greater decentralization		
6	Adopt the draft budget for 2007 on the basis of sectoral ceilings of the 2007-2009 MTEF and in line with the PRSP priorities	The Government has defined transparent and pre-determined rules for allocating resources in the context of the MTEF. These rules favor basic education and primary health care which are allocated 50 percent of additional resources.
7	Implement the Action Plan drawn from the 2005 CPAR	The objective of the procurement reform is to improve governance, efficiency in spending and growth. The specific trigger for PRSC-7 aims to help improve procurement operations and reforms implementation, and control of procurement contracts: (i) adopt a decree for the creation of a regulatory agency for public procurement (ARMP); (ii) revise the attribution, composition and functioning of the General Directorate for Public Procurement (DGMP); (iii) strengthen the capacity of procurement units for principal contracting authorities/administrations.
8	Implement the functional budget classification with a marker for poverty-spending so to allow tracking those spending	Since 2000, priority expenditure is identified by adding the priority expenditure derived from the administrative classification of the budget and the expenditures implemented under the HIPC special account (virtual fund for poverty reduction). Data on these expenditures are available within a very short time. However, poverty reduction expenditure is monitored imperfectly by government department. Better monitoring of all poverty reduction expenditure would require integrating a complete classification of poverty-reducing expenditures into the functional classification. The latter was adopted in 2003 – based on WAEMU-wide budget classification – but is not enforced yet.
9	Strengthen the capacity of audit institutions for public finance management	Significant progress has taken place in strengthening the control of public finance management. The Government is pursuing reforms in that area and this measure aims at enhancing the capacity (staffing, equipment and training) of audit institutions (Audit Court, IGE, IGF, and Technical Inspectorates).
10	Effective transfer of competences and resources to communes and regions	The Government will produce a decentralization policy statement in which: expenditure assignments and the functional roles and powers of the regions and the communes are spelt out, and an overall framework for sub-national revenues is outlined. The core functions and powers of the different levels of sub-national government should be clarified in order (a) to avoid confusion and minimize institutional competition, and (b) so that appropriate funding arrangements for these functions can be developed. It is also important that the functional delineation between (i.e. the exclusive powers of) the communes and the regions (including the governors) is made clear, that shared responsibilities are identified and that any oversight role of the regions in respect of the communes is spelled out. Sub-national revenues would cover (a) intergovernmental transfers, outlining the different grant types (earmarked or not, including investment fund if the case arises, destination, calculation) and providing information on the funding volumes that might flow through each type; (b) clarifying local tax system for municipalities (urban and rural) and regions, including national taxation at the local level, "ristournes", and other taxes and duties collected directly by the

	Strategic Objectives and measures	Issues and comments
		local Government entities"; (c) donor funding flows to Sub-national Governments - broad expectations around types and amounts.
11	City Contracts are prepared with the 6 main cities	Cities still lack simple and performing programming procedures that provide an adequate framework for ensuring consistency of investments expenditure forecasts with resources and a sound investments plans that address both short term local needs and larger economic investments that have a broader spatial impact. Burkina is moving towards budgetary approaches which require improving coherence and good complementarity between local and national programming levels. Incentive contractual arrangements (3 year city contracts) between State level and local Governments should support the articulation between decentralization process and improvement of budget management at the local level.

VI. PRSC-6 IMPLEMENTATION

POVERTY AND SOCIAL IMPACTS

279. It is expected that the reform program supported by the proposed PRSC-6 would improve the living conditions of the poorest segment of the population. A critical analytical underpinning for the proposed PRSC-6 is 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, explore options to enhance the poverty impact of growth, and respond to macroeconomic shocks. 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.

280. The PA findings as regards the trade-off between growth, poverty, and inequality, provided additional rationale for PRSC-6 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. In addition, drawing from the findings of the Risk and Vulnerability Assessment Report¹⁴, this PRSC series to which PRSC-6 belongs has supported the introduction of social protection measures (OVC) in the Government's poverty reduction strategy.

281. The proposed operation and subsequent PRSCs would also have a positive impact on the poorest segment of the population through the increased focus on decentralization. First, decentralization is expected to increase efficiency in the use of resources and therefore enhance growth perspectives. The efficiency gains stems from the informational advantage that local governments have compared to the Central Government, and also from the closer scrutiny they are subject from local population. Not all empirical studies agree on this positive relation between decentralization and growth but more recent papers strongly support the intuitive hypothesis.^{15 16 17} Second, in addition to the growth contribution, decentralization is also likely to improve services delivery to the poorest as it tends to raise the accountability of local governments as providers of local services. Nevertheless, there are also risks to decentralization as noted by PRSP-2 which mentions the risks of capture by local elites. For this reason, it would be beneficial for future PRSC that a full PSIA be undertaken on the impact of decentralization on growth and services delivery to the poorest.

¹⁴ Burkina Faso. Risks and Vulnerability Assessment. Report No. 28144-BUR. January 30, 2004.

¹⁵ N. Akai, M. Sakata, Fiscal decentralization contributes to economic growth: Evidence from state-level cross section data for the United States, *Journal of Urban Economics* 52 (2002) 98-108

¹⁶ D. Stansel, Local decentralization and local economic growth: A cross-sectionnal examination of US metropolitan areas, *Journal of Urban Economic* 57 (2005) 55-72

¹⁷ A. Iimi, Decentralization and economic growth revisited: an empirical note, *Journal of Urban Economics* 57 (2005) 449-461

SUPERVISION

282. The ministry of finance and budget (MFB) will be responsible for overall implementation of the proposed PRSC-6. 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 Artisanship; Energy and Mines; Decentralization; and representatives of public enterprises.

283. 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-6 (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 joint performance matrix under the UFBS was not available at the time of PRSC-6 preparation, and therefore there are some minor differences between the two matrices. The PRSC-6 team will work with the authorities and the other donors under the UFBS to ensure that coordination of the supervision efforts will increase predictability and aid alignment with the budget cycle. 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 implementation. Such factors include declining terms of trade, weather-related disaster, shortfalls in external assistance, regional instability etc.

FIDUCIARY ASPECTS

284. **Public financial management system.** The 2001 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*), as were the 2004 HIPC AAP. The Government is also using the findings of the recently completed 2005 CPAR to update the PRGB. The PRGB is supported by most donors providing budgetary support, and is a core element of the MOU for budget support. Under PRSC-1 to PRSC-5, most recommendations of the CFAA and CPAR have been successfully implemented. The government is implementing annual audit procedures recommended by the CFAA. PRSC-6 is building up on the achievements under the first PRSCs by supporting the further strengthening of ex-post audits, and by including additional measures to enhance transparency of budgeting and timeliness of accounting (see annex 3). In particular, PRSC-6 has supported the adoption of an action plan based on the findings of the 2005 CPAR. In the context of PRSC-6 preparation, the Bank has reviewed fiduciary arrangements. Overall, the Bank has judged implementation performance of the PFM reform program to date and government's commitment to PFM improvements as satisfactory.

285. **Safeguard assessment of the Central Bank¹⁸.** The Central Bank of the West African States (BCEAO) is the common central bank of the West African States, which includes Burkina Faso. In 2005, IMF staff carried out an on-site safeguards assessment of the BCEAO and found that progress

¹⁸ As per guidelines, this section draws on existing assessment by IMF staff. See IMF – Country Report No. 06/107, March 2006.

has been made in strengthening the BCEAO's safeguard framework since 2002 when the last safeguard assessment was undertaken. The BCEAO now publishes a full set of audited financial statements, and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). IMF staff noted that the BCEAO has improved the explanatory notes to the financial statements and further changes are scheduled for the next fiscal year, with a view toward a graduate alignment with International Accounting Standard (IAS), as adopted internationally by other central banks. Furthermore, an internal audit charter has been put in place, mechanisms have been established to improve risk management and risk prevention, and follow-up on internal and external audit recommendations has been strengthened. The external auditor has apprised the Board of Directors of the BCEAO of the quality of internal controls in June 2003.

286. IMF staff identified a number of areas where further steps would help solidify the progress made in recent years. The main recommendations relate to: (i) **improving the external audit process** by adopting a formal rotation policy and further enhancing the transparency of the financial statements by adopting IFRS in full; (ii) **enhancing the effectiveness of the internal audit function** by further strengthening the reporting to management of the BCEAO.

287. **Bank financial management specialists visited Ouagadougou in October 2005 and reviewed the flow of funds arrangement between the Central Bank and the National Treasury.** The team met with Central Bank and Treasury officials. It also met with members of the Budget Support Group (UE and Switzerland) that have been funding an annual audit of the flow of budgetary funds between the Central Bank and Treasury. The team concluded that current arrangements are adequate, with fiduciary risks within acceptable risk tolerance levels. However, the team recommended the information systems of these two institutions to be linked, so as to minimize delays and discrepancies in flows reporting, thus eliminating cumbersome reconciliations.

DISBURSEMENT AND AUDITING

288. **Disbursement and Implementation Arrangement:** It is proposed that the credit 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 purchase and no procurement requirements will be needed. Once the credit becomes effective, the proceeds will be deposited by IDA into a Government account at the Central Bank which forms part of the country's foreign exchange reserves; and as a due diligence measure, IDA will obtain confirmation from the government that the amount of the credit has been accounted for in the country's budget management system (say within 30 days of disbursement). If, after depositing in this account, the proceeds of the credit are used for ineligible purposes as defined in the Development Credit 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

289. The Bank has determined that the specific actions supported under the proposed PRSC-6 are not expected to have a significant effect on Burkina's environment and natural resources. The

potential environmental 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, divestiture program and reform of the energy sector, as well as to investments in education and health, should not be extensive; nor will they be irreversible.

290. The PRSC team has assessed the readiness of the borrower to deal with environmental issues. The assessment found that Burkina Faso has the necessary regulations pertaining to environmental assessment but that compliance with such regulations is weak. 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.

291. The team focused on the institutional and technical capacity of the government agencies involved in supervising environmental assessment (EA). The Environment Law enacted in 1997 describes 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. However there is a lack of clarity in the responsibilities of the institutions responsible for ensuring compliance with these regulations. In addition, 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.

292. On the basis of this assessment, the PRSC team agreed that EA capacity building would be the focus of the measures proposed to deal with environmental issues in the PRSCs. In that context, PRSC-6 is providing support to measures aiming at strengthening government's capacity for environmental and natural resource management: (i) implementation of capacity-building program on environmental issues including the inclusion of their cost in the MTEF for 2006-2008 and the 2006 annual budget; (ii) 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.

293. Furthermore, there is a close and direct link between PRSC-6 and Bank-supported sectoral investment projects as regards compliance with environmental issues, and these accompanying sectoral investment operations have their own environmental management plans (EMPs) formulated to offset the main environmental impacts identified during their evaluation. These sectoral EMPs also contribute to offset adverse environmental impacts. 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; and (v) the Energy project.

RISKS AND RISK MITIGATION

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

295. **Weak Capacity is a moderate 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 processes 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-6 and future PRSCs. In the area of monitoring and evaluation, the Bank finances a statistical capacity building project. The Bank is also preparing a Capacity Building Project to accompany the decentralization reform in the urban areas.

296. **Commodity prices and currency shocks are moderate risks in 2006.** 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, low international prices hurt the country's performance and sternly affect 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. A last mitigating factor is the Government's proven ability to weather significant adverse shocks, including the 30 percent decline of terms of trade it experienced in 2005.

297. **Risks of regional instability are moderate risks in 2006.** 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.

298. 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 existing 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

MINISTRE DES FINANCES
ET DU BUDGET



BURKINA FASO
Unité - Progrès - Justice

Ouagadougou, le 25 AVR. 2006

7 6 9
N° 2006- /MI B/CAB/SP-PPF

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Monsieur Paul D. WOLFOWITZ
Président du Groupe de la Banque
Mondiale
1818, H Street,
WASHINGTON DC, 20433 (USA)

Objet : Projet de lettre de politique de développement

Monsieur le Président,

1. La présente lettre de politique de développement (LPD) a pour objet de présenter l'évolution récente de la situation économique et sociale du Burkina Faso et ses perspectives les deux prochaines années. Elle s'appuie principalement sur le Cadre stratégique de lutte contre la pauvreté (CSLP) révisé et son Programme d'actions prioritaires (PAP) 2005-2007. Les détails de la mise en œuvre du programme sont contenus dans le rapport de mise en œuvre 2005. La lettre met surtout l'accent sur l'exécution des réformes prioritaires du Gouvernement soutenues par le crédit d'appui à la stratégie de réduction de la pauvreté (CASRP) de la Banque Mondiale.

1. ETAT DE MISE EN ŒUVRE DU CADRE STRATEGIQUE DE LUTTE CONTRE LA PAUVRETE : APPORT DES CASRP

2. Malgré l'environnement économique globalement défavorable (persistance de la crise ivoirienne, bas prix du coton, flambée des prix du pétrole), l'économie burkinabé est restée dans le sentier de la croissance avec un taux de croissance du PIB réel de 7,1% en 2005, grâce aux niveaux records des productions céréalière et cotonnière. Ces progrès sont remarquables par rapport aux résultats de 2004 où la croissance du PIB réel était de 4,6%. L'inflation a été contenue à 6,4% pourcent malgré des tensions sur les prix des produits agricoles et des produits pétroliers. Avec la bonne campagne 2005-2006, la baisse des prix des produits agricoles à fin 2005 a déjà permis un recul important de l'inflation en 2006. Les déficits budgétaires et du compte extérieur ont été entièrement financés par des dons ou des prêts hautement concessionnels. Ces bons résultats sur la gestion macroéconomique ont été reconnus par le Conseil d'Administration du FMI qui a complété le 13 mars 2005 la cinquième revue de la FRPC. La description des résultats des principales réformes soutenues par le CASRP VI est retracée à travers les quatre piliers du CSLP.

1.1. Accélérer la croissance économique et la fonder sur l'équité

3. Le budget de l'Etat demeure l'instrument d'opérationnalisation des priorités du CSLP. L'élaboration de la Loi de finances 2006 a été approuvée par l'Assemblée Nationale en décembre 2005, a été sous-tendue par le Cadre des Dépenses à Moyen Terme (CDMT) 2006-2008 avec pour objectif d'assurer de manière optimale le financement du programme de réduction de la pauvreté, par l'amélioration des recettes et la maîtrise des dépenses non prioritaires. Les efforts accrus ont à cet effet été déployés pour l'exécution des réformes engagées au cours des années antérieures dans le cadre du Plan d'actions pour le Renforcement de la Gestion Budgétaire (PRGB), partie intégrante du Programme d'Actions Prioritaires du Cadre Stratégique de Lutte contre la Pauvreté (PAP-CSLP).

4. En vue de l'accélération de la croissance économique sur une base mieux partagée, le gouvernement a poursuivi la mise en œuvre des mesures visant au renforcement de la compétitivité des filières agricoles et agroalimentaires. Ainsi, après la suppression du monopole au niveau du secteur coton en 2004, une association interprofessionnelle incluant les trois sociétés d'égrenage, les producteurs de coton et les différents acteurs de la filière a été mise en place le 21 février 2006.

5. Dans le cadre de la promotion des exportations, le processus d'élaboration de normes et de labels pour les filières oléagineux (sésame, anacarde, karité) et le niébé - engagé depuis 2005 par la formulation effective de projets de normes - est aujourd'hui achevé avec la fin de l'enquête publique indispensable pour leur homologation. D'autres mesures importantes comme l'élaboration de la stratégie de promotion des exportations du bétail et de la viande et la mise en œuvre du plan d'action céréales s'inscrivent également dans la même optique.

6. Le gouvernement a continué à progresser dans la mise en œuvre des réformes structurelles visant à soutenir la croissance économique tirée par le secteur privé, grâce à son programme de privatisation, à l'amélioration du cadre réglementaire et à la réduction des obstacles administratifs à l'investissement privé.

7. Au titre de l'amélioration de l'environnement des affaires et de la compétitivité de l'économie, il convient de signaler la relance du processus de privatisation de ONATEL depuis le 30 janvier 2006 avec la signature du contrat de prestation avec la banque d'affaires chargée d'assister le gouvernement. La refonte de la loi n° 16-2005/AN portant réglementation générale de l'approvisionnement du Burkina Faso en énergie électrique permettra d'affiner le contexte institutionnel pour une définition claire des attributions de l'organe de régulation du sous secteur de l'électricité et de poursuivre le processus de privatisation de la SONABEL et de la SONABHY.

8. Le Centre de Formalités des Entreprises (CEFORE) créés par décret n° 2005-332/PRES/MCPEA/M.FB/MTEJ/MJ du 21 juin 2005 est opérationnel depuis le 9 janvier 2006 à Ouagadougou. L'application de ce décret permet de ramener le délai requis pour l'accomplissement de l'ensemble des formalités de création d'entreprises de 135 jours à 7 jours et le nombre de formalités juridiques de 8 à 4. Un centre d'arbitrage a été mis en place pour accélérer le règlement des conflits de travail.

1.2. Garantir l'accès des pauvres aux services sociaux de base et à la protection sociale

9. Le deuxième pilier du CSLP, qui met en avant les secteurs sociaux de base, notamment l'éducation de base et la santé, la protection sociale, l'eau potable et l'assainissement, a connu également des progrès notables dans la conduite des programmes sectoriels qui tiennent compte des couches sociales les plus vulnérables.

10. Sur la base des dotations de la Loi de finances, les ressources allouées aux secteurs sociaux (éducation de base et alphabétisation et santé) de base sont demeurées soutenues au cours de l'année 2005, avec des enveloppes représentant 25,3% du budget total hors dette, exonérations fiscales et projets sur financements extérieurs, contre 24,6% en 2004. Les parts de la santé et de l'éducation de base et alphabétisation sont passées respectivement de 10,2% et 14,4% en 2004 à 12,3% et 15,8% en 2005.

1.2.1. Accès aux services d'éducation de base

11. Le gouvernement a continué à déployer des efforts pour atteindre ses objectifs tels qu'énoncés dans le cadre du Plan décennal de développement de l'éducation de base (PDDEB). La revue à mi-parcours du PDDEB conduite en décembre 2005 a permis notamment la prise en compte du concept élargi d'éducation de base et des nouvelles initiatives (FTI-EPT, initiative 25/2005). D'autres actions ont été développées comme le renforcement du budget-programme de l'éducation de base et la poursuite de la subvention scolaire dans les vingt provinces les moins scolarisées. Au total, sur la base des données de l'enquête rapide réalisée en décembre 2005 par le Ministère de l'Enseignement de Base et de l'Alphabétisation (MEBA), le taux brut de scolarisation se situerait à 60,24% et celui des filles à 54,50%, en progressivement respectivement de x points et y points par rapport à 2004.

12. En vue d'atteindre non seulement les objectifs du PDDEB mais aussi les objectifs de développement du millénaire en matière d'éducation, un CDMI sectoriel intégrant le Ministère de l'Enseignement de Base (MEBA) et le Ministère des Enseignements Secondaire, Supérieur et de la Recherche Scientifique (MESSRS), a été élaboré au cours du premier trimestre 2006. Cela permet d'avoir une vision plus globale du système éducatif pour mieux canaliser les actions, tout en assurant une passerelle entre les différents niveaux d'enseignement.

1.2.2. Accès aux services de santé

13. Dans le cadre de la lutte contre la pauvreté, le gouvernement a marqué sa ferme détermination à promouvoir l'accès des pauvres aux services de santé. Cet engagement comprend la limitation de l'impact du paiement des soins sur le revenu des ménages démunis, à travers notamment la mise en

ouvre d'une stratégie nationale de subvention des soins obstétricaux d'urgence (SOU) et des accouchements assistés, pour assurer la prise en charge des indigents et améliorer la qualité des soins y relatifs. La stratégie a été adoptée en Conseil de Ministre le 22 mars 2006. Cette mesure, effective depuis début 2006 devrait contribuer à une réduction significative de la mortalité infantile et de la mortalité maternelle d'ici 2015, conformément aux Objectifs du Millénaire pour le Développement (OMD). Une dotation globale de 1472 millions de francs CFA a été inscrite à ce titre dans la loi de finances 2006, dont 934 millions sur les ressources du PITE pour la gratuité des soins maternels et infantiles. Dans cette même optique, il convient de signaler l'application effective dans la majorité des districts sanitaires de la tarification des actes professionnels et des hospitalisations, la subvention de moustiquaires imprégnées et la prise en charge des maladies infantiles.

14. Pour améliorer le fonctionnement des structures sanitaires au niveau périphérique, un plan d'action sur la motivation et la répartition du personnel fixant des indemnités en fonction de la zone d'exercice a été mis en œuvre, il s'agit d'assurer une répartition équitable de ce personnel sur l'étendue du territoire national.

15. La poursuite par le Gouvernement, avec l'appui de ses partenaires, des programmes de vaccination gratuite et de distribution de vitamine A aux enfants de 0 à 5 ans, a permis d'atteindre, sur la base du bilan provisoire, des résultats significatifs en 2005. Ainsi, les taux de vaccination pour la DCP3, le BCG, la fièvre jaune (VAA) et de la rougeole (VAR) se sont situés respectivement à de 96,21%, 111,70%; 84% et 84%.

1.3. Élargir les opportunités en matière d'emploi et d'activités génératrices de revenus pour les pauvres dans l'équité

16. La priorité essentielle de cette troisième composante du CSLP et de son programme de réformes prioritaires porte sur le renforcement des capacités des pauvres à générer des revenus par la promotion de leur participation au processus de production.

17. Concernant le secteur coton, la forte progression de la production en 2005 a permis d'injecter au niveau des producteurs plus de 110 milliards de francs CFA. La mise en place en février 2006 de la nouvelle association interprofessionnelle de la filière devrait permettre d'améliorer la productivité des acteurs et une stabilisation à moyen et long terme du revenu des producteurs.

18. Dans un environnement de baisse du prix du coton, plusieurs actions ont été entreprises visant une diversification des productions végétales. Ainsi, la société burkinabé des fruits et légumes (SOBFEL) a été mise en place à Bobo-Dioulasso pour assurer une meilleure promotion de la filière. La production des fruits et légumes a connu une augmentation de 50 000 tonnes. On note aussi une forte production céréalière à la faveur certes de la bonne pluviométrie de la campagne, mais également avec l'apport des cultures de saison sèche.

1.4. Promouvoir la bonne gouvernance

19. Conscient que la bonne gouvernance est un élément important de la lutte contre la pauvreté, le Gouvernement a poursuivi la mise en œuvre de stratégies permettant de la consolider. Un document de politique nationale de bonne gouvernance couvrant la période 2005-2015 a été adopté en juillet 2005.

20. L'amélioration des mécanismes de gestion des finances publiques et du processus de la décentralisation est demeurée au centre des principales préoccupations en 2005. Le plan d'actions prioritaires du Plan d'actions pour le Renforcement de la Gestion Budgétaire (PAP-PRGB) reste le cadre de référence pour la conduite des réformes à cet égard.

21. L'année 2005 aura été consacrée surtout à l'opérationnalisation du Cadre général d'organisation des appuis budgétaires et au soutien à la mise en œuvre du CSLP (CGAB-CSLP) dont le protocole a été signé le 11 janvier 2005. Ainsi, un règlement intérieur précisant les modalités du dialogue a été adopté (le 15 mai 2005), de même qu'une matrice agréée par l'ensemble des partenaires qui fournissent des appuis budgétaires (Banque Mondiale, Banque Africaine de Développement, Commission Européenne, Allemagne, Danemark, France, Suisse, Suède, Pays-Bas). Cette matrice devrait désormais servir de base pour le choix des critères de déboursement des différents appuis. Le protocole CGAB-CSLP prévoit dans ses dispositions une évaluation indépendante chaque année du fonctionnement du cadre de partenariat et un audit des flux financiers d'appuis budgétaires délivrés par les partenaires membres. La session de septembre 2006 a à cet égard adopté les termes de référence pour la conduite de ces deux activités qui ont démarré en février 2006. Elle a aussi été l'occasion d'évoquer la situation de mise en œuvre de la matrice du CGAB, l'actualisation du programme de travail pour le dernier trimestre 2005 et pour l'année 2006, la situation des décaissements en 2005 et les prévisions pour 2006, les critères retenus par les PTFs dans la

matrice CGAB, le calendrier des missions en 2005 et 2006 et la situation des recommandations de l'appréciation conjointe des PTFs sur la mise en œuvre du CSLP et la gestion des finances publiques au cours de la période 2004. En outre un projet de bilan des activités menées en 2005 dans le cadre du CGAB-CSLP a été élaboré ainsi qu'un programme d'activités pour l'année 2006.

22. Des efforts ont été déployés en 2005 pour engager la mise en place de la comptabilité matière. L'inventaire physique a été réalisé dans 43 provinces et à Ouagadougou, après une série de formations des agents appelés à encadrer le processus et une phase de sensibilisation des autorités régionales. L'opération de recensement se poursuivra dans les prochaines semaines à Bobo-Dioulasso. Les informations collectées sont dépouillées au fur et à mesure sur un support spécialement élaboré à cet effet et qui facilitera leur reversement automatique dans le logiciel de gestion en cours de développement par un cabinet recruté à cet effet en novembre 2005. Le logiciel sera disponible au cours du troisième trimestre 2006.

23. Les efforts remarquables déployés pour le respect des obligations de fin de gestion ont été poursuivis en 2005. La production des balances générales des comptes du Trésor, des comptes de gestion et des projets de lois de règlement sont désormais des éléments de la gestion courante des structures du ministère des finances et du budget. Le projet de loi de règlements 2004, transmis à l'Assemblée Nationale depuis fin août 2005, a été adopté lors de la présente session ouverte début mars 2006.

24. Au niveau des marchés publics, le plan d'actions issu de la deuxième revue analytique du système de passation des marchés publics (CPAR), conforté avec les conclusions des recommandations de l'audit des marchés publics de la gestion de 2004, a été adopté par le Conseil des Ministres le 1^{er} mars 2006. Sa mise en œuvre sera supervisée par le comité national de coordination et de suivi des réformes dans le secteur des marchés publics (CNCS) institué fin 2004 pour coordonner la conduite du CPAR.

25. Concomitamment aux actions de consolidation du dispositif de passation des marchés publics, l'Inspection générale des finances a renforcé la conduite des audits de marchés publics sur le terrain. Au total, 24 audits de marchés publics représentant, hors marchés exécutés dans le cadre de conventions passées avec FASO BAAFA, quelque 10% de la valeur totale des commandes publiques retracées dans le circuit de la dépense au cours de l'année 2005 contre 15 en 2004.

26. L'amélioration de la qualité de la gestion des dépenses est restée une préoccupation permanente en 2005. Après l'option prise d'utiliser le Système de gestion et d'analyse de la dette (SYGADE) de la CNUCED comme outil principal de gestion des financements extérieurs, un groupe de projet a été mis en place dès le mois de mars 2005 pour assurer la bonne conduite de ce chantier. Le groupe de projet est chargé, dans le cadre du plan d'actions adopté pour l'implémentation du SYGADE, d'assurer : i) l'adaptation du système aux besoins de suivi des financements extérieurs ; ii) la réalisation des interfaces entre le SYGADE et les logiciels CIE et CID ; iii) la formation des utilisateurs du système. Dès leur installation, les membres de l'équipe de ce projet ont été dotés des connaissances nécessaires pour la maîtrise de l'installation et des procédures d'administration du logiciel.

27. Parallèlement au processus d'adaptation du SYGADE aux besoins de suivi des financements extérieurs, durant l'année 2005, l'intégralité des conventions de financement extérieur au titre des prêts - projets et programmes (330) a été intégrée dans le SYGADE, pour un objectif projeté de 80%. Il convient également de signaler la saisie de 56 conventions de dons de toutes natures portant sur un montant global de 400 milliards de francs CFA. La formation des utilisateurs du logiciel a démarré par les agents de la direction de la dette publique et se poursuivra avec les autres intervenants au fur et à mesure de l'élaboration des interfaces avec les autres outils, qui débutera dès le mois d'avril 2006.

28. Sur le front de la décentralisation, des avancées notables ont été enregistrées avec l'adoption par le Conseil des Ministres, lors de ses séances du 1^{er} mars et du 19 avril 2006, d'une série de textes relatifs au cadre juridique du transfert de compétences et des ressources aux collectivités territoriales. Il s'agit : i) du projet de loi portant détermination des ressources et des charges des collectivités territoriales au Burkina Faso ; ii) du décret portant régime financier et comptable applicable aux collectivités territoriales ; iii) du projet de décret portant transfert de compétences et de ressources de l'Etat aux communes urbaines ; iv) du projet de décret portant règlement intérieur type du conseil de collectivité ; et v) du programme d'actions prioritaires pour la mise en place des conseils municipaux des communes rurales et des conseils régionaux. Ces textes ont pour but d'harmoniser le cadre juridique applicable à l'ensemble des collectivités territoriales et de permettre à celles-ci de disposer des moyens nécessaires pour faire face à leurs différentes charges financières.

2. PERSPECTIVES POUR LA PERIODE 2006-2007

29. Le Gouvernement continuera d'inscrire ses efforts pour l'opérationnalisation du cadre stratégique de lutte contre la pauvreté, tout en améliorant le dialogue avec les partenaires impliqués dans ce processus.

2.1. Accélérer la croissance économique et la fonder sur l'équité

30. Dans le domaine macro-économique, le Gouvernement entend poursuivre le programme de réformes en vue du renforcement des bases de la croissance économique, en mettant à cet égard l'accent sur l'apport du secteur privé.

31. Ainsi, en matière de compétitivité de l'économie et de promotion du secteur privé, le gouvernement intensifiera les efforts entrepris pour améliorer l'environnement des affaires, en relation étroite avec les institutions d'appui au secteur et le soutien de ses partenaires techniques et financiers dont la Banque Mondiale. Il continuera à appuyer les initiatives visant la diversification de la production agricole et des exportations, par la promotion des exportateurs professionnels (filières oléagineux et niébé), la mise en œuvre de la stratégie de développement du bétail, de la viande et des cuirs et peaux ainsi que des réformes en vue de contribuer à l'émergence d'investisseurs miniers au Burkina Faso.

32. Les opérations de privatisation engagées seront poursuivies en 2006, avec pour objectifs d'ici la fin de l'année, la finalisation du processus relatif à l'ONATEL et le lancement des appels d'offres pour la cession de la gestion de la SONABEL et l'ouverture du capital de la SONABHY au privé ainsi que le démarrage des travaux de l'interconnexion électrique entre Bobo-Dioulasso et Ouagadougou.

33. La mise en œuvre de ces actions devrait permettre à terme, la réduction du coût de l'électricité ainsi que l'accroissement significatif de l'offre d'énergie électrique et de services de téléphone.

2.2. Garanir l'accès des pauvres aux services sociaux de base et à la protection sociale

34. La politique du gouvernement visera à maintenir des flux de ressources conséquentes en faveur des secteurs sociaux. En plus des programmes déjà engagés dans ces secteurs, ceci permettra de mener des actions ciblées d'accroissement des salaires des agents de santé et d'éducation dans les zones rurales et d'améliorer le rendement de ces derniers à travers une plus grande motivation.

35. La politique de subvention scolaire dans les 20 provinces les moins scolarisées sera par ailleurs poursuivie. En vue de l'amélioration de la qualité du système éducatif, le gouvernement mettra également en place un plan d'actions pour l'augmentation des heures effectives d'enseignement. Il procédera à l'actualisation du PDDEB et veillera à finaliser le CDMT sectoriel éducation 2007-2009 pour offrir un cadre de programmation cohérent des interventions au profit de l'éducation de base.

36. Dans le secteur de la santé, il s'agira au cours de la période 2005 - 2006 de développer et de mettre en place un mécanisme de suivi des ressources globales des hôpitaux, des districts, des dépôts répartiteurs de district et des comités de gestion des CSPS. Le gouvernement poursuivra par ailleurs son programme de vaccination gratuite et mettra en place un cadre de concertation multisectorielle pour la nutrition et la sécurité alimentaire.

2.3. Élargir les opportunités en matière d'emploi et d'activités génératrices de revenus pour les pauvres dans l'équité

37. En matière de création d'emplois, les priorités du gouvernement sur la période 2005 - 2006, restent la professionnalisation des acteurs dans les différentes filières agricoles. Il s'agira à cet effet d'adopter les textes pour régir l'exercice des fonctions à transférer ou à déléguer aux autres acteurs des filières (ORA, OPA, interprofessions, secteur privé). Dans la même dynamique, il sera engagé au cours de cette période la mise en œuvre du plan d'actions pour la filière oléagineux et niébé. Toutes ces actions contribueront à la création d'emplois décents en milieu rural et à l'accroissement substantiel des revenus du monde rural. En outre, le Gouvernement concevra et adoptera au cours de l'année 2006 un plan d'actions pour la réalisation des aménagements hydro agricoles (y compris bas-fonds).

2.4. Promouvoir la bonne gouvernance

38. En matière de gouvernance locale, le Gouvernement est attaché à la mise en œuvre effective de la décentralisation. Il entend renforcer le processus, notamment en respectant les échéances arrêtées pour le transfert des compétences et du patrimoine aux communes, et assurera avec diligence le déploiement effectif du logiciel de corresponsabilité intégrée des collectivités locales (CICL) à toutes les autres régions.

39. Au plan des réformes dans le domaine de la gestion budgétaire, l'année 2006 sera marquée essentiellement par deux enjeux majeurs : la finalisation de la stratégie de renforcement des finances publiques (SRFP) et l'adoption de son plan d'actions d'une part, et par l'ancrage et la capitalisation de la coordination des aides budgétaires à travers un bon fonctionnement du OGAB-CSLP d'autre part.

40. Pour le CGAB - CSLP, un programme d'activités pour l'année 2006 a déjà été adopté. Ce programme vise principalement la consolidation du dialogue entre le gouvernement et les partenaires membres dans le cadre de la mise en œuvre de la stratégie de réduction de la pauvreté et la promotion des meilleures pratiques en matière d'appui budgétaire. Il comporte notamment un volet renforcement des capacités qui devrait contribuer à accroître le niveau de ces appuis tout en améliorant la prévisibilité des décaissements. Les prévisions d'appuis budgétaires dans la Loi de finances ressortent à 97,8 milliards de francs CFA en 2006, contre 93,05 milliards mobilisés en 2005.

41. Le processus de formulation du budget continuera également d'être affiné en vue d'assurer un lien plus étroit entre le processus CSLP et le budget. Les actions du gouvernement en la matière viseront à cette fin l'appropriation des outils de programmation budgétaire (CDMT global et sectoriel et budget programme) par les ministères sectoriels, à travers des formations en direction des principaux acteurs du processus budgétaire. Par ailleurs, un CDMT sectoriel du secteur des finances publiques sera élaboré pour soutenir sur la période 2007-2009 l'approfondissement des réformes budgétaires dans le cadre de la stratégie sectorielle de renforcement des finances publiques appelée à se substituer au PRGB à partir de 2007. Le gouvernement entend parachever le développement du Circuit intégré de la recette avec la mise en place du premier module et finaliser le logiciel de comptabilité matière et les mettre en œuvre.

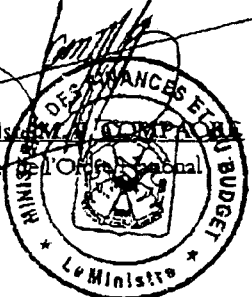
42. Les domaines de l'exécution budgétaires et du contrôle seront également renforcés. A cet égard, une attention particulière sera accordée à la mise en œuvre du plan d'action issu de la revue analytique du système de passation des marchés publics, avec une priorité à la création de l'autorité de régulation des marchés publics, la réorganisation de la Direction centrale des marchés publics et la mise en place de mécanismes appropriés de suivi des achats publics dans les ministères gros consommateurs de crédits. Par ailleurs, un effort substantiel sera fait pour renforcer les capacités d'action des structures de contrôle.

43. Pour soutenir l'élan de décentralisation, le gouvernement veillera à accompagner les nouvelles collectivités par des dotations substantielles leur permettant d'assurer leur développement en phase notamment avec les objectifs des cadres stratégiques régionaux de lutte contre la pauvreté pour améliorer les conditions de vie des populations, en particulier dans les zones rurales.

44. Le gouvernement reste convaincu de la pertinence des programmes et mesures décrites ci-dessus, qui s'inscrivent dans le cadre de la mise en œuvre du programme d'actions prioritaires du CSLP. Avec le soutien de la Banque mondiale à travers les prochains crédits d'appui à la réduction de la pauvreté (CASRP), leur mise en œuvre sera de nature à contribuer à consolider le cadre macro-économique et soutenir une croissance économique plus forte, saine et durable, nécessaire pour une réduction significative de la pauvreté.

45. Je vous prie de bien vouloir agréer, Monsieur le Président, les assurances de ma haute considération.

Jean-Baptiste
 Officier Général



Unofficial translation of the French original

**MINISTRY OF FINANCE
AND BUDGET**

N° 2006-769/MFB/CAB/SP-PPF/

Mr. Paul Wolfowitz
President
The World Bank Group
1818 H Street N.W.
Washington, D.C. 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 primarily on the revised Poverty Reduction Strategy Paper (PRSP) and the Priority Action Program (PAP) 2005-2007 associated with it. Program implementation details are contained in the implementation report 2005. The LDP focuses on the execution of the Government's program of key reforms, which is supported by the poverty reduction support credit (PRSC) from the World Bank.

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

2. Despite the unfavorable global economic environment (ongoing crisis in Côte d'Ivoire, low cotton prices, leap in oil prices), the economy of Burkina Faso has remained on the path of growth and real GDP grew by 7.1 percent in 2005 thanks to record levels of grain and cotton production. The progress made is remarkable when compared to 2004, when real GDP rose by 4.6 percent. Inflation was contained at 6.4 percent despite price pressures for agricultural and petroleum products. After a good crop season in 2005/06, agricultural product prices dropped in late 2005, which led to a significant decline in inflation in 2006. The budget deficit and external deficit were financed in their entirety by grants or loans on highly concessionary terms. The strong improvement in macroeconomic performance was recognized by the IMF's Executive Board, which completed the fifth review of the Poverty Reduction and Growth Facility (PRGF) on March 13, 2005. The advances made under the reforms supported by the sixth poverty reduction support credit (PRSC VI) are in line with the four pillars of the Poverty Reduction Strategy Paper (PRSP).

1.1. Accelerating broad-based growth

3. The state budget is the instrument for operationalizing PRSP priorities. The budget law for 2006 passed by the National Assembly in December 2005 was underpinned by the Medium-Term Expenditure Framework (MTEF) 2006-2008, which was aimed at ensuring optimal financing of the

poverty reduction program by improving revenue and curbing non-priority expenditure. Increased efforts were made to implement the reforms initiated in previous years under the Action Plan to Strengthen Fiscal Management (PRGB), an integral part of the Priority Action Program of the Poverty Reduction Strategy Paper (PAP-CSLP).

4. With a view to accelerating economic growth and ensuring that its benefits are shared more broadly, the Government pursued the implementation of measures aimed at enhancing the competitiveness of the agricultural and agro-alimentary sectors. Thus, after eliminating the monopoly in the cotton sector in 2004, an interprofessional association—including the three cotton ginning companies, cotton growers, and the various stakeholders in the sector—was established on February 21, 2006.

5. In the area of export promotion, the process of developing standards and labels for oilseed (sesame, cashew, shea) and cowpeas, which began in 2005 with the actual formulation of draft standards, is now finalized with the completion of the public enquiry required before certification. Other important measures such as the development of the export promotion strategy for livestock and beef and the implementation of the cereal action plan are being pursued to the same end.

6. The Government has continued to implement structural reforms aimed at bolstering private sector- led economic growth, thank to its privatization program, improvements in the regulatory framework, and reductions in the administrative barriers to private investment.

7. To improve the business climate and enhance the competitiveness of the Burkina Faso economy, the ONATEL privatization process was again pursued with the signing on January 30, 2006 of a services contract with the investment bank tasked with assisting the Government. Review of Law No. 16-2005/AN establishing general regulations on electrical power supply in Burkina Faso will make it possible to fine-tune the institutional framework and clearly define the powers of the regulatory body for the electricity subsector, and to continue with the process of privatizing SONABEL and SONABHY.

8. The *Centre de Formalités des Entreprises* (CEFORE) [Business Formalities Facilitation Center] established by Decree No. 2005-332/PRES/MCPEA/MFB/MTEJ/MJ of June 21, 2005 has been operating in Ouagadougou since January 9, 2006. Implementation of this decree has led to a reduction in the time required for completing all the formalities for launching a company from 135 days to 7 days and a reduction in the number of legal formalities from 8 to 4. An arbitration center has been established to speed up settlement of work disputes.

1.2. Promoting access to basic social services by the poor

9. Under the second pillar of the PRSP, which promotes basic social services, especially basic education and health, social protection, potable water, and sanitation, much progress has been made in taking into account the most vulnerable social groups when implementing sectoral programs.

10. Based on budget law appropriations, allocations to the social sectors (basic education and literacy, health) continued to be supported during 2005, and accounted for 25.3 percent of the total budget excluding debt service, tax exemptions, and externally financed programs, as against 24.6 percent in 2004. The shares of health and of basic education and literacy in the budget increased from 10.2 percent and 14.4 percent in 2004 to 12.3 percent and 15.8 percent in 2005.

1.2.1. Access to basic education services

11. The Government continued to strive to meet its goals in line with the commitments made under the ten-year basic education development program (PDDEB). A mid-term review of the PDDEB conducted in December 2005 highlighted the wide concept of basic education and new initiatives now available such as the Education for All–Fast Track Initiative (EFA-FTI, initiative 25/2005). Other actions taken included increasing the budget for the basic education program and continuing the school grants program in the twenty provinces with the lowest enrolment ratios. Overall, based on data from a flash survey conducted in December 2005 by the Ministry of Basic Education and Literacy (MEBA), the gross enrolment ratio stood at 60.24 percent and that for girls 54.50 percent, reflecting increases of \bar{x} percentage points and \bar{y} percentage points, respectively, over the 2004 levels.

12. Consistent with the goals of the PDDEB and the Millennium Development Goals (MDGs) in education, a sectoral MTEF covering the Ministry of Basic Education (MEBA) and the Ministry of Secondary and Higher Education and Scientific Research (MESSRS) was drawn up during the first quarter of 2006. It provides an overview of the education system in order to better channel activities while at the same time ensuring linkages throughout the education system.

1.2.2. Access to health services

13. Within the context of combating poverty, the Government indicated its determination to promote access to health services on the part of the poor. This commitment includes limiting the impact of health care payments on the incomes of poor households, in particular through the implementation of a national system for subsidizing emergency obstetrical care (SOU) and assisted childbirth with a view to assuming the costs incurred by the poorest and improving the quality of related health care. The strategy was adopted by the Council of Ministers on March 22, 2006. This measure, in force since early 2006, should contribute to a significant reduction in infant and maternal mortality by 2015, consistent with the commitments undertaken in the MDGs. Under the 2006 budget law an overall provision of CFAF 1,472 million has been made, of which CFAF 934 million will come from resources under the HIPC Initiative to provide free medical attention for mothers and infants. Along the same lines, most health districts have taken steps to introduce a schedule of fees for professional and hospital services, subsidize treated mosquito netting, and assume the costs of treating infantile diseases.

14. In order to improve health infrastructure in outlying areas, a plan of action for staff motivation and distribution and for setting of compensation according to area of practice has been implemented. Its aim is to guarantee an equitable distribution of personnel throughout the country.

15. Provisional findings suggest that steps taken by the Government with the support of its development partners to implement free vaccination programs, including the distribution of vitamin A supplements to children under age 5, produced significant results in 2005. Thus DCP3, BCG, yellow fever (VAA), and measles (VAR) vaccination rates are respectively 96.21 percent, 111.70 percent, 84 percent, and 84 percent.

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

16. Improving the skills of the poor and thereby improving their income-generating capacity as well as encouraging their participation in the production process constitute the third pillar of the CSLP and the related program of priority reforms.

17. In 2005, robust growth in production in the cotton sector meant that producers received income equivalent to CFAF 110 billion. The creation of a new interprofessional association in the cotton subsector in February 2006 should make it possible to improve stakeholders' productivity and stabilize cotton farmers' incomes in the medium and long term.

18. In an environment marked by a decline in the price of cotton, several actions have been taken with the aim of diversifying agricultural products. Thus, the Burkinabé fruit and vegetable company (SOBFEL) has been established at Bobo-Dioulasso in order to ensure better promotion of the fruit and vegetable subsector. Fruit and vegetable production increased by 50,000 metric tons. Cereal production was also strong, no doubt because of the good rainfall during the crop season but also because of the contribution from dry season cultivation.

1.3.1. Promoting good governance

19. The Government, aware that good governance is an important factor in combating poverty, has continued to implement strategies to consolidate it. A national policy document on good governance covering the period 2005 -2015 was adopted in July 2005.

20. Improving the mechanisms for managing public finances and improving the decentralization process continued to be the Government's primary concerns in 2005. The priority action plan for the program to strengthen budget management (PAP-PRGB) continues to be the frame of reference for conducting reforms in these areas.

21. In 2005, a top priority of the Government was to operationalize the general organizational framework for budgetary support to implement the PRSP (CGAB-CSLP by its French acronym), the protocol for which was signed on January 11, 2005. Internal rules setting out the roles of the various stakeholders in the dialogue were adopted (May 15, 2005) and a joint matrix agreed upon by all partners providing budgetary assistance (World Bank, African Development Bank, European Commission, Germany, Denmark, France, Switzerland, Sweden, and the Netherlands). This matrix will serve as the basis for selecting the disbursement criteria for the various contributions. The CGAB-CSLP protocol calls for an independent assessment each year that the partnership is in operation as well as an audit of the financial flows of budgetary support provided by the partners. The September 2005 session adopted terms of reference for conducting these two activities, which commenced in February 2006. It also provided an opportunity to take stock of the implementation of the CGAB matrix, the updating of the work program for the last quarter of 2005 and for 2006, the disbursements made in 2005 and the forecasts for 2006, the criteria adopted for technical and financial partners (TFPs) in the CGAB matrix, the missions scheduled for 2005 and 2006, the status of the recommendations made in the TFPs' joint assessment of PRSP implementation, and the management of public finances in 2004. In addition, a draft assessment of the activities carried out in 2005 under the CGAB-CSLP was prepared, and a program of activities for 2006 was drawn up.

22. Measures were taken in 2005 to introduce an accounting system for government property. The physical verification was completed in 43 provinces and in the commune of Ouagadougou, after the training of the government officers who will manage the process and a phase of sensitizing regional authorities. The physical verification will continue in Bobo-Dioulasso in the next weeks. The information collected in the 43 provinces is compiled in a support environment specially developed for this purpose that will facilitate the automatic transfer of this information to the management software now being developed by a cabinet hired for that purpose in November 2005. The software will be available in the third quarter 2006.

23. Significant efforts were made in 2005 to comply with obligations for the end of the fiscal year. The Ministry of Finance and Budget will now assume responsibility for the production of aggregate balances of Treasury accounts, operating accounts, and draft budget settlement laws are now part of the ongoing management of that ministry's structures. The draft 2004 budget settlement was submitted to the National Assembly in late August 2005 and was passed during the current session, which began in early March 2006.

24. On March 1, 2006 the Council of Ministers adopted the plan of action arising out of the second analytical review of public sector procurement (CPAR), along with the associated conclusions from the recommendations emerging from the audit of public sector procurement for fiscal 2004. Implementation of the plan of action will be supervised by the *Comité Nationale de coordination et de suivi des réformes dans le secteur des marchés publics* (CNCS) [National Committee for Coordination and Monitoring of Public Sector Procurement Reforms], which was established in late 2004 to coordinate the Country Procurement Assessment Review (CPAR).

25. In tandem with actions to consolidate procedures for public sector procurement, the General Finance Inspectorate stepped up its conduct of field audits of procurement contracts. In all, 24 audits of such contracts representing, excluding contracts executed under agreements entered into with FASO BAARA, approximately 10 percent of the total value of public procurement tracked in the expenditure circuit in 2005, as compared to 15 audits in 2004.

26. Improvement in the quality of expenditure management continued to be a top priority for the Government in 2005. Following the Government's selection of UNCTAD's SYGADE public debt management software as the primary tool for managing external financing, a project group was established in March 2005 to see to its proper implementation. In implementing the action plan for a complete information system based on the software SYGADE, the project group will: (i) customize SYGADE for the monitoring of external financing, (ii) develop interface between SYGADE, and the software CID and CIE, and (iii) form operators for the use of the new system. The project team has been provided with the knowledge necessary to master the installation of the SYGADE software and carry out the associated system administration procedures.

27. Even while adapting SYGADE to monitor external financing, during 2005 all external financing agreements relating to externally financed project and program loans (330) were entered into the SYGADE system, as against the projected target of 80 percent. It should also be noted that 56 grant agreements of all types, amounting to CFAF 400 billion, have been input into the system. The training of software users began with the staff of the public debt directorate and will continue with other stakeholders as the interfaces and other tools are developed, which is expected to get under way in April 2006.

28. Regarding decentralization, significant progress was made when the Council of Ministers at the February 1, 2006 and April 16, 2006 sessions, adopted several texts in relation to the legal framework for the transfer of resources and competences to sub-national governments (*collectivités territoriales*). These texts are: (i) a draft law identifying the revenue and expenditure of sub-national governments in Burkina Faso; (ii) a decree on the financial and accounting regime applicable to sub-national governments; (iii) a draft devolution for effective transfer of competences and assets to urban communes; (iv) a draft decree on the internal rules for the councils of sub-national governments; and (v) a priority actions program to assist the regional and rural councils. The aim of these provisions is to harmonize the legal framework applicable to all sub-national governments and ensure that they have the resources necessary to cover their various financial obligations.

2. OUTLOOK FOR THE PERIOD 2006-2007

29. The Government will continue to take action to further PRSP operationalization and to improve dialogue with the partners involved in that process.

a. Accelerating broad-based economic growth

30. In the macroeconomic area, the Government plans to continue the program of reforms in order to better underpin economic growth, by focusing on the contribution of the private sector.

31. To enhance the competitiveness of the economy and promote the private sector, the Government will continue to support entrepreneurs (in the oilseed crop and cowpea subsectors) and will implement the strategy for developing the livestock, beef, and leather and hides subsectors. Reforms will also be introduced with a view to promoting investment in mining in Burkina Faso.

32. The Government will accelerate its privatization strategy in order to finalize the process by the end of 2006. Other crucial measures to be taken in order to improve the competitiveness of the economy include a call for tenders for the management of SONABEL, the startup of the works on the transmission line between Bobo-Dioulasso and Ouagadougou, and the initiation of a bidding procedure for SONABHY to open its capital to the private sector.

33. These measures are expected to lead eventually to reduced cost and increased supply of electricity.

2.1. Guaranteeing basic social services and social protection to the poor

34. Government policy aims at maintaining sizeable resources allocated to the social sectors. 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 enhance staff motivation.

35. The policy of providing school subsidies in the 20 provinces with the lowest school enrolment ratios 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. Steps will be taken to update the PDDEB and to finalize the 2007-2009 medium term expenditure framework (MTEF) for the education sector in order to provide a coherent planning framework for the development of basic education.

36. In the health sector, a system for a comprehensive monitoring of resources allocated to hospitals, health districts, storage and distribution facilities, and management committees of community health centers (CSPSs) will be designed and set up in 2005–2006. The Government will continue its program of free vaccinations and will put in place a multisectoral focus group in the area of nutrition and food security.

2.2. Promoting employment and income-generating activities for the poor

37. The Government's job creation priorities for the period 2005-2006 include enhancing the professionalism of the stakeholders involved in the various agricultural subsectors. To that end, provisions governing the exercise of functions to be transferred or delegated to other stakeholders in the subsector (regional agricultural chambers (CRAs), producer organizations (OPAs), interprofessional bodies, and the private sector) will be enacted. A plan of action for oilseed crops and cowpeas will be implemented in the same period. The above measures will contribute to the

creation of acceptable jobs and a significant increase in rural incomes. Moreover, in 2006 the Government will draft and adopt a plan of action for implementing hydro-agricultural improvements (including catchments).

2.3. Promotion of good governance

38. Regarding local governance, the Government is committed to the effective implementation of decentralization. It plans to strengthen that process, particularly by complying with the agreed-upon deadlines for transferring resources and responsibility to the communities and by effective deployment of the software for the integrated accounting system for subnational governments (CICL) to all regions.

39. In the area of budget management reform, the Government will have essentially two major challenges in 2006: finalizing its strategy for strengthening public finances (SRFP) and implementing its related plan of action on the one hand, and basing the capitalization of budgetary support coordination on the smooth running of the CGAB-CSLP on the other hand.

40. Regarding the CGAB-CSLP, an activity program for 2006 has already been adopted. This program aims principally at encouraging dialogue between the Government and its development partners within the framework of implementing the poverty reduction strategy and promoting best practices in the area of budgetary support. The program, in particular, provides an opportunity for capacity building which should contribute to increasing the level of budgetary support simultaneously while improving the predictability of disbursements. Projected budgetary support included in the budget law stands at CFAF 97.8 billion in 2006, compared to the CFAF 93.05 billion mobilized in 2005.

41. Further improvements continue to be made in budget preparation procedures aimed at establishing close linkages between the PRSP process and the budget. The Government's efforts in this area are aimed at imparting a sense of ownership to the use of budget programming tools (global and sectoral MTEFs and program budgets) in the sectoral ministries, by providing training to the principal stakeholders in the budgeting process. Moreover, a sectoral MTEF in the public finance sector will be developed in order to underpin, over the 2007-2009 period, a deepening of budgetary reforms under the sectoral strategy for strengthening public finances that will be called upon to replace the budget management reform plan (PRGB) as of 2007. The Government plans to complete the development of the integrated revenue circuit (CIR), to implement its first module, and finalize and put into operation the software of the accounting system for government property.

42. Budget execution and control will be also reinforced. In this respect, a detailed attention will be given to the implementation of the action plan resulting from the Procurement Assessment Review, with a focus on the creation of a regulatory body, the reorganization of the Central Directorate for public procurement, and the introduction of appropriate monitoring mechanisms in ministries with significant spending level. In addition, a substantial effort will be made to reinforce the capacity of the audit institutions.

43. To support the decentralization agenda, the government will provide adequate resources to sub-national governments allowing them to ensure their development in line with the objectives of the regional Poverty Reduction Strategies and to improve the living conditions of the populations, particularly in rural areas.

44. The Government is convinced of the relevance of the initiatives and measures outlined above. They have been designed with a view to implementing the program of priority actions under the PRSP. With the support of the World Bank through future poverty reduction support credits (PRSCs), their implementation is expected to contribute to strengthening the macroeconomic framework and to promote more robust and sustainable economic growth, which is necessary for a significant reduction of poverty.

Very truly yours,

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 1.1.2 Enhanced mobilization of domestic resources 1.1.3 Accelerated implementation of the Plan to Strengthen Budgetary Management (PRGB) 1.1.4 Improvement of the system for programming public investment</p>			
	<p>1.2 Improved competitiveness of the economy 1.2.1 Reduction in factor costs (water, fuel, electricity, telephone, transport, etc.) 1.2.2 Completion of privatization program 1.2.3 Completion of the Bobo-Ouagadougou connecting road 1.2.4 Private sector development policy</p>	<p>- 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</p>	<p>*Activities reports of the MMCE, MCPEA, MAHRH, MITH, MPT</p>	<p>*National plan for development of the national information and communications infrastructure becomes operational *Unrestricted competition *Rate management *Implementation of the program to support competitiveness—rate unrestricted competition—rate management *Accelerated enforcement of court decisions *Effective deregulation of the sectors concerned</p>

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
<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"> - Enhanced capacities of small farmer organizations (OPFs-OPAs) - Introduction of a mechanism for the quality control of agricultural inputs - Improvement in soil fertility - Promotion and dissemination of research findings - Improvement of capacity in the area of prevention and management of natural disasters and crises - Development of promising subsectors - Construction/rehabilitation of irrigation infrastructure - Improved management of natural resources - Preparation and adoption of sectoral export strategies for promising subsectors 	<p>1.3.2 Mines</p> <ul style="list-style-type: none"> - Enhanced geological and mining knowledge - Development and promotion of quarry products - Development of small-scale mining - Improved regulatory framework for mine operation 	<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> <ul style="list-style-type: none"> - Increased exports of fruits and vegetables - 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>23 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
<p>1.3.3 SMIs/SMEs</p> <ul style="list-style-type: none"> - Improvement of the private investment climate - Strengthening of institutions supporting the private sector - Implementation of the state/private sector performance contract 	<p>1.3.4 Tourism</p> <ul style="list-style-type: none"> - Development of agrotourism and ecotourism - Maximizing the value of the ecological and cultural heritage - Support and regulation of stakeholders in the sector 	<p>Increase in gold exports: At least 10 metric tons in 2006</p> <p>Number of SMIs/SMEs created</p> <p>Number of SMIs/SMEs in operation</p> <p>Increase in tourism receipts</p> <p>Growth in number of tourists</p> <p>Increase in unrequited transfers</p>	<ul style="list-style-type: none"> *Balance of payments *Ministry activity report *MCPEA statistics 	<ul style="list-style-type: none"> *Implementation of the project to support small-scale mining and new deposits *Introduction of a support fund for development of the mining sector Effective operation of the national program for supporting the development of SMFs/SMEs *Opening access to tourist sites
<p>1.4 Increased contribution from expatriate economy</p> <p><i>1.4.1 Improvement in quality of migrant labor force</i></p> <p><i>1.4.2 Enhanced awareness of migrant workers</i></p> <p><i>1.4.3 Migrant worker placement policy</i></p>	<p>PILLAR 2: PROMOTING ACCESS BY THE POOR TO BASIC SOCIAL SERVICES AND SOCIAL PROTECTION</p> <p><i>2.1. Increase in budget appropriations to social sectors</i></p>	<p>Increase in share of social expenditure in central government budget (education, health other than HIV/AIDS, safe drinking water, social protection, fight against AIDS/HIV</p>	<ul style="list-style-type: none"> *Balance of payments *Central Government budget 	<ul style="list-style-type: none"> *Political stability in host countries *Favorable economic situation
<p>Increase in access to basic social services and social protection</p>			<ul style="list-style-type: none"> *MTEF *Budget laws *TOFE *Supplementary budget laws *Public expenditure reviews 	<ul style="list-style-type: none"> *Availability of financing

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	2.2. Improvement of access to education services	<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 CP1 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>*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>
2.2.1	Expansion of basic education			Availability of financing for secondary 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			
2.3.	Improvement of access to health and nutrition services	<p>Maternal mortality rate: decrease in number of deaths per 100,000 live births from 484 in 1998 to 313 in 2006</p> <p>Infant-child mortality rate: From 184 per thousand in 2003 to 162.7 per thousand in 2006</p> <p>Percentage of population living within a 10 kilometer radius of a health center: over 60 percent in 2006</p>	<p>Health statistics</p> <p>*Demographic and health surveys</p> <p>*Survey on household living conditions</p>	*PNDS implementation
2.3.1	Increase in healthcare coverage	<p>Percentage of repeat deposits with no interruption of the 45 essential molecules: less than 5 percent</p>	<p>*Health statistics</p> <p>*Demographic and health surveys</p> <p>*Survey on household living conditions</p>	

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	2.3.2 <i>Improvement in quality and use of healthcare services</i>	<p>CPN 2 coverage rate: from 54.1 percent in 2002 to 80 percent in 2006</p> <p>Vaccination rate by antigen:</p> <p>DTC3: from 77 percent in 2003 to 87.5 percent in 2006</p> <p>Measles: from 71.6 percent in 2003 to 87.5 percent in 2006</p> <p>Yellow fever: from 71.3 percent in 2003 to 87.5 percent in 2006</p> <p>BCG: from 90 percent in 2003 to 93 percent in 2006</p> <p>-Proportion of attended childbirths: from 35.9 percent in 2002 to 55 percent in 2006</p>		
	2.3.3 <i>Strengthened efforts to combat disease</i>	Percentage of CSPs operating in accordance with staffing standards: 90 percent in 2006		
	2.3.4 <i>Increase in human resources devoted to health</i>	Average cost of services and prescriptions at each level of care system		
	2.3.5 <i>Improvement in financial accessibility of healthcare services</i>	Proportion of underweight children under 5		
	2.3.6 <i>Strengthened nutrition programs</i>	Rate of low birth weight among newborns		
	2.4. <i>Strengthened efforts to combat HIV/AIDS and STIs</i>	<p>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</p> <p>Prevalence rate of HIV/AIDS: from 6.5 percent in 2001 to 3.95 percent in 2006</p>	<p>*Health statistics</p> <p>*Demographic and health surveys</p> <p>*SP/CNLS survey</p>	<p>*Availability of financing</p> <p>*Implementation of the strategic framework for combating HIV/AIDS and STIs</p>
	2.4.1. <i>Strengthened prevention of transmission of STIs and HIV/AIDS</i>			
	2.4.2. <i>Improvement in care of infected persons</i>			
	2.5. <i>Improvement of access to safe drinking water</i>	<p>- Number of new tubewells drilled per year: 1,800 (tubewells on average, of which 1,000 by MAHRH)</p> <p>- Number of provinces with a coverage rate exceeding 75 percent: 10 in 1999 and 37 in 2006</p> <p>- Coverage rate of safe drinking water:</p> <p>*in rural and semiurban areas: 88 percent in 2004, 90 percent in 2005, and 92 percent in 2006</p> <p>*in urban areas: 75 percent in 2004, 78 percent in 2005, and 80 percent in 2006</p>	<p>*Survey on household living conditions</p> <p>*MAHRH statistics</p>	<p>*Preparation and implementation of commune-level development plans</p> <p>*Implementation of village-level water supply projects</p> <p>*Availability of financing</p>
	2.5.1. <i>Enhanced coverage by safe drinking water</i>			
	2.5.2. <i>Reduction in regional disparities as regards availability of safe drinking water</i>			
	2.6. <i>Improvement in living conditions of the poor: Housing</i>	<p>- Electrification rate:</p> <p>*in urban areas: 48 percent in 2004, 50 percent in 2005, and 52 percent in 2006</p> <p>*in rural areas: 2 percent in 2004, 4 percent in 2005, and 6 percent in 2006</p> <p>- Proportion of households with functional latrines:</p> <p>*Prevalence of latrine access in rural areas: 23 percent in 2004, 26 percent in 2005, and 30 percent in 2006</p> <p>*Prevalence of latrine access in urban areas: 85 percent in 2004, 86 percent in 2005, and 87 percent in 2006</p>	<p>Survey on household living conditions</p> <p>*SONABFI statistics</p>	<p>*Introduction of urban development master plans</p> <p>*Establishment of the housing bank</p>

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	2.6.1. Promotion of access to decent housing			
	2.6.2. Improved housing quality			
	2.7. Social protection of the poor	- Number of children reintegrated - Percentage of persons who are aware of or enforce the Individual and Family Code (CPI)	CDE report *PAN/Enfance report *MASSN activity report *CAP survey	*Implementation of a support program for vulnerable groups *Availability of financing
	2.7.1. Protection and promotion of women and the family			
	2.7.2. Promotion of solidarity and protection of specific groups			
	2.7.3. Strengthened technical and institutional capacities			
	2.7.4. Protection and promotion of children and adolescents			
	2.7.4. Protection and promotion of children and adolescents			
	PILLAR 3: INCREASING EMPLOYMENT AND INCOME-GENERATING ACTIVITIES FOR THE POOR			
Contribute to income creation and job creation for the poor	3.1 DECREASED VULNERABILITY OF AGRICULTURAL ACTIVITY	- 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	*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			
	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			

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
3.3 Intensification and diversification of livestock production	3.3.1 Development of cattle farming	<ul style="list-style-type: none"> - 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 	<ul style="list-style-type: none"> *Activity report of Ministry of Animal Resources *National surveys of herd size *Sampling 	<ul style="list-style-type: none"> 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			
3.3.2 Development of short cycle livestock rearing	3.3.3 Development of livestock farming in urban peripheries			
3.3.3 Development of livestock farming in urban peripheries	3.4 INTENSIFICATION AND DIVERSIFICATION OF FISH PRODUCTION	<ul style="list-style-type: none"> Increase in aquacultural production: 300 metric tons per year beginning in 2005 Production of 2 million fry fish per year beginning in 2005 	<ul style="list-style-type: none"> Activity report of ministry responsible for agriculture *Studies and sampling 	<ul style="list-style-type: none"> *Implementation of rural development strategy *Implementation of action plans *Favorable market conditions
3.4 INTENSIFICATION AND DIVERSIFICATION OF FISH PRODUCTION	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 ENVIRONMENT AND COMBATING DESERTIFICATION	3.5.1 MANAGEMENT OF FOREST, ANIMAL, AND AQUATIC 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
3.6 INCREASE IN AND DIVERSIFICATION OF RURAL INCOMES	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
3.7 SUPPORT FOR PRODUCERS' ORGANIZATIONS AND DEVELOPMENT OF INFRASTRUCTURE				

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	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, MPP, MTEJ, MEBA, MCPEA *Activity reports of financing structures *Studies and surveys 	*Implementation of the national action plan to advance women
	3.9 PROMOTION OF JOBS AND VOCATIONAL TRAINING	<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) 	<ul style="list-style-type: none"> Report on vocational training *Activity reports of MTEJ, MECY 	<ul style="list-style-type: none"> *Implementation of the national jobs and vocational training plan *Dynamism of economic activity
	3.10 IMPROVED ACCESS TO RURAL AREAS	<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
	3.10.1 Strengthened strategy on constructing rural roads			
	3.10.2 Strengthened rural electrification strategy			
	3.10.3 Strengthened strategy to promote rural telephone service			
	3.10.4 Program to broaden radio and television coverage			
PILLAR 4: PROMOTING GOOD GOVERNANCE.				

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
<p><i>Increase the efficiency of public policies and a country of laws</i></p>	<p>Programs</p> <p>4.1 Promotion of political governance</p>	<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 	<ul style="list-style-type: none"> *Report of security services *Report of judicial services *Report of the unit for capacity building in civil society *Activity reports of the MPF and MPDH *CEDEF and CDE reports *Text of law adopted 	<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
	<ul style="list-style-type: none"> - 4.1.1 Promotion of a visionary and strategic state 			
	<ul style="list-style-type: none"> - 4.1.2 Promotion of an effective political system and an equitable judicial authority 			
	<ul style="list-style-type: none"> - 4.1.3 Protection of human rights 			
	<ul style="list-style-type: none"> - 4.1.4 Fight against lack of security 			
	<ul style="list-style-type: none"> - 4.1.5 Strengthening the capacities of civil society 			

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
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 CFAF1,567 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				
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				

Objectives	Programs	Performance indicators	Means of verification	Critical conditions
	4.4.2 Promotion of an environment conducive to the development of the private sector			<p>More rapid enforcement of court decisions and program to build capacities in managing government procurement</p> <p>*Preparation and implementation of the action plan of the High Authority for Coordination of the Combat against Corruption</p>

Annex 3: PRSC 4-6 Policy Matrix

Medium Term Objectives	Policy Actions	Indicators	Base (Year)	Benchmarks	Monitoring & Evaluation		
	PRSC 4	PRSC 5	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.	46.4 percent.	43.0	41.0	MED INSID	
		Real GDP growth rate	8 percent	4.4	5.2	MED INSID	
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 SOFTTEX in the central and eastern zones to the point of sale.	Transfer of assets of SOFTTEX in the central and eastern zone and begin of activities of the two new operators	The new interprofession for the cotton sector including the new operators for the two zones has been established.	Growth rate of cotton production	8.3 percent (1998-2003)	5	MAHRH SP/CPSA
Improvement of the coordination in the interprofession.		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	The adoption of the text on the principles and rules of the execution of missions transferred or delegated to CRA, OPA, interprofessions, and the private sector, has been delayed.	Growth rate of cotton fiber exports	10 percent	5	MAHRH SP/CPSA
Limit the state to supervisory functions and transfer other functions to professionals in the sector or to the private sector				Evolution of the number of professional agricultural organizations with economic vocation.	30,515 (2002)	40,000	DOPER
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		Reduce vulnerability of agricultural activity	Growth of agricultural exports	13.3 percent (1998-2003)	10-15	10-15	MCPEA SP/CPSA MITI
			Number of hectares of hydro-agricultural installations per year	66,504 ha in 2000-2001	1000	1000	
			Number of manure pits built per year	42,444 in 2000-2001	150000	150000	
		Improve access to rural areas	Feeder Roads built (kilometers)	1,207 in 2000-2002	850	850	
			Number of kilometres of departmental roads maintained	4300	4450	4600	

Medium Term Objectives	Policy Actions	Indicators	Base Year	Benchmarks	Monitoring & Evaluation	
			2004	2005	2006	
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)	Implement the recommendations of the institutional audit, in consultation with stakeholders and the private sector: in particular, the institutional reform of the ministry has started.	4 percent (1999-2003)	3	3	MCPEA FASONORM MAHRH SP/CPSA
Diversification of agricultural production	Develop action plans to support crop diversification	Define and adopt standards and labels for oilseeds products (sesame, cashew nut, shea) and cowpeas (niébé).	17.3 percent (1998-2003)	7.0	6	6
Intensification and diversification of animal production	Implement the emergence of professional exporters with the Oilseeds Council of Burkina Faso and the actors of the cowpeas stream.	Support the emergence of professional exporters with the Oilseeds Council of Burkina Faso and the actors of the cowpeas stream.				
	Adopt an action plan to increase the efficiency of the livestock ministry based on the review of the livestock sector	Adopt and initiate the implementation of an action plan for the promotion of poultry and meat exports (standards, label, conditioning, and training of professional exporters).	22 % (2003)	24	25	26
			39.3% (2003)	58	66	74
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	Modification of the terms of the privatization in order to bring ONATEL to the point of sale and transfer assets to the new operator	CFAF170	170	170	150
			66.6	80.0	100.0	
			239.6	400.0	450.0	
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	The bidding documents for the selection of a private operator for the management of the electricity sector were not issued. The Government has started the preparation of the bidding documents through the undertaking of accounting and financial audits.				Yes
						DGE Privatization Commission

Medium Term Objective	Policy Actions	Indicators	Base (Year)	2004	2005	2006	Monitoring & Evaluation
	PRSC 5						
	PRSC 6						
	PRSC 7						
		Begin works on the power line Bobo-Ouagadougou	The power line Bobo-Ouaga is built			(2007)	
		Prepare bidding documents for a sale of SONABHY shares	The bidding documents for the private participation in the capital of SONABHY are not issued yet. These bidding documents are being finalized with the completion of financial and accounting audits.			December	
D. Private sector development				13	4	4	MCPEA
Identify strength 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 businesses				
Facilitate trade	Preparation of a comparative study on labor 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					
Improve performance of the justice system	Create commerce tribunals	Strengthen the Chambers of Commerce within the Higher Court (<i>Tribunal de Grande Instance</i>)					
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	Number of days needed to accomplish the formalities to create a new business	15 (2004)	7	7	
E. Mining							
Mining sector development		Enforce the new Mining Code, starting with the adoption of the implementation decrees.	Gold exports (tons)	0.78 (2003)		10	MMCE MITH
		Produce Geographical Maps	Maps are available			Yes	
		Increase access to mining zones	Finalize the feasibility study of the railroad Kaya-Tambao railway (450 kms)			Not done yet.	
F. SME/SMI							
		Adopt an innovative Artisans' Code	Code is adopted			Yes	MCPEA
		Support the Chamber of Craft	The Chamber is			Yes	

Medium Term Objectives	Policy Actions	Indicators	Base (Year)	Benchmarks	Monitoring & Evaluation		
			2004	2005	2006		
SECOND COMPONENT: HUMAN RESOURCE DEVELOPMENT							
Trades (Chambre des Métiers)							
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 treatment to disadvantaged areas, increase number of schools and school equipments, provide free textbooks, begin personnel deconcentration, prepare draft sectoral MTEF, implement sub-cycle	Finalize the sectoral MTEF, including secondary education including the resources to attain the PDDEB objectives and MDGs	School enrolment rate of 60.2 percent (51.9 percent for girls) by 2006	58.1 (50.1)	60.2 (51.9)	MEDA	
	Achieve higher literacy rates for the poor	Continue the policy of subsidizing schooling in the 20 provinces with the lowest school enrolment rates	Update the PDDEB. Introduce Delegation of credits for the secondary education	56.0 (48.3)	52.3 percent in 2003 (46.0 percent for girls)		
Improve the school enrolment rate in rural zones	Continue the policy of subsidizing schooling in the 20 provinces with the lowest school enrolment rates	Adopt and implement an action plan to increase teaching hours.	School enrolment rate in the 20 most disadvantaged provinces	41.1	37.6 percent (2003)	49.1	
			Admission rate for first grade in (girls)	69.3 (64.7)	66.0 percent (37.0 percent (2003)	73.2 (69.5)	
			Admission rate in the 20 most disadvantaged provinces	56	52.4 percent (2003)	60	64.2
			Primary completion rate	31.3 percent	32 percent	33.8	
Achieve higher literacy rates for the poor	Evaluate the execution of expenditure and the availability of school materials using existing administrative statistics and INSD tracking surveys prepared for PRSP monitoring	Adopt and implement an action plan to increase teaching hours.	Literacy rate for women		17 percent	22	
			Ratio textbooks to student	0.5	0.3	0.5	
						0.5	
B. Health							
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	Develop a monitoring system for the use of resources by hospitals, regions, districts (DRS), and health management committees (COGES)	Increase the availability of resources on the regional and provincial level	27	24.6 percent	28	
	Implement vaccination program, increase health center staffing, reduce costs of	Strengthen the program-based budgeting of the sector in line with the sectoral MTEF.	Maternal mortality rate in hospitals (per 100,000 births)		484	At least 30	
Improvement of access to health services	Implement vaccination program, increase health center staffing, reduce costs of	Implement a system of subsidies for obstetrical emergencies and for obstetrical emergencies and				313	

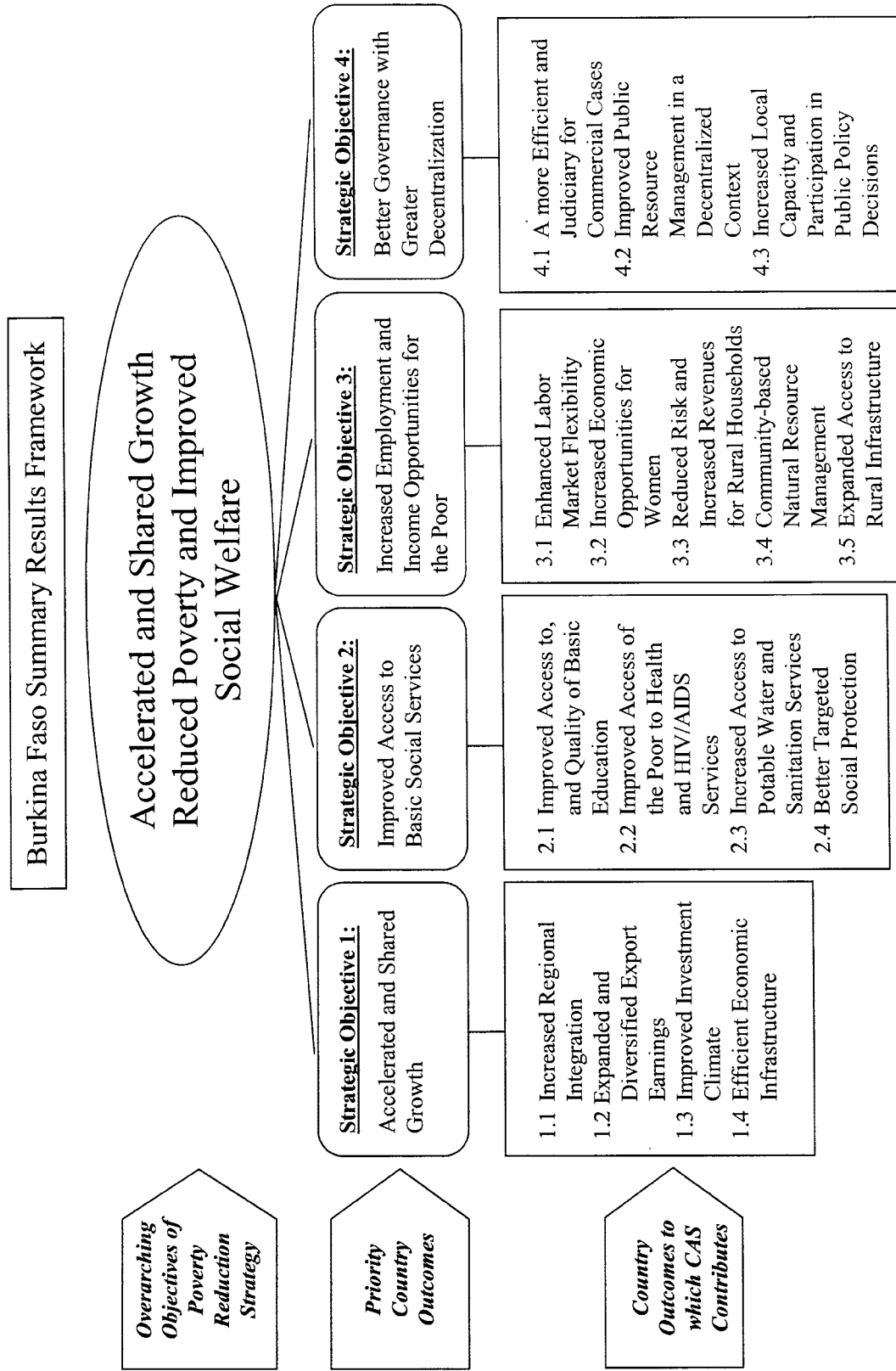
Medium/Term Objective	Policy Action	Indicators	Base (Year)			Benchmarks			Monitoring & Evaluation
			2004	2005	2006	2004	2005	2006	
preventive care, strengthen health center management, verify application of new tariffs	<p>PRSG 4</p> <p>PRSG 5</p> <p>PRSG 6</p> <p>PRSG 7</p> <p>PRSG 8</p> <p>PRSG 9</p> <p>PRSG 10</p> <p>PRSG 11</p> <p>PRSG 12</p> <p>PRSG 13</p> <p>PRSG 14</p> <p>PRSG 15</p> <p>PRSG 16</p> <p>PRSG 17</p> <p>PRSG 18</p> <p>PRSG 19</p> <p>PRSG 20</p> <p>PRSG 21</p> <p>PRSG 22</p> <p>PRSG 23</p> <p>PRSG 24</p> <p>PRSG 25</p> <p>PRSG 26</p> <p>PRSG 27</p> <p>PRSG 28</p> <p>PRSG 29</p> <p>PRSG 30</p> <p>PRSG 31</p> <p>PRSG 32</p> <p>PRSG 33</p> <p>PRSG 34</p> <p>PRSG 35</p> <p>PRSG 36</p> <p>PRSG 37</p> <p>PRSG 38</p> <p>PRSG 39</p> <p>PRSG 40</p> <p>PRSG 41</p> <p>PRSG 42</p> <p>PRSG 43</p> <p>PRSG 44</p> <p>PRSG 45</p> <p>PRSG 46</p> <p>PRSG 47</p> <p>PRSG 48</p> <p>PRSG 49</p> <p>PRSG 50</p> <p>PRSG 51</p> <p>PRSG 52</p> <p>PRSG 53</p> <p>PRSG 54</p> <p>PRSG 55</p> <p>PRSG 56</p> <p>PRSG 57</p> <p>PRSG 58</p> <p>PRSG 59</p> <p>PRSG 60</p> <p>PRSG 61</p> <p>PRSG 62</p> <p>PRSG 63</p> <p>PRSG 64</p> <p>PRSG 65</p> <p>PRSG 66</p> <p>PRSG 67</p> <p>PRSG 68</p> <p>PRSG 69</p> <p>PRSG 70</p> <p>PRSG 71</p> <p>PRSG 72</p> <p>PRSG 73</p> <p>PRSG 74</p> <p>PRSG 75</p> <p>PRSG 76</p> <p>PRSG 77</p> <p>PRSG 78</p> <p>PRSG 79</p> <p>PRSG 80</p> <p>PRSG 81</p> <p>PRSG 82</p> <p>PRSG 83</p> <p>PRSG 84</p> <p>PRSG 85</p> <p>PRSG 86</p> <p>PRSG 87</p> <p>PRSG 88</p> <p>PRSG 89</p> <p>PRSG 90</p> <p>PRSG 91</p> <p>PRSG 92</p> <p>PRSG 93</p> <p>PRSG 94</p> <p>PRSG 95</p> <p>PRSG 96</p> <p>PRSG 97</p> <p>PRSG 98</p> <p>PRSG 99</p> <p>PRSG 100</p>	<p>Percentage of assisted births</p> <p>Child mortality rate (per 1000 live births)</p>	<p>35.9 (2002)</p> <p>184 (2003)</p>	<p>45.0</p> <p>50.0</p> <p>55.0</p>	<p>162.7</p>				
		<p>Reduce costs of assisted birth</p> <p>Implement an system of integrated subsidies for child diseases (PCIME) in 15 districts</p> <p>Verify the implementation of the fee structure for physicians and hospital services</p> <p>Revise the texts for the subsidization of indigents and illnesses of public health interest (notably malaria) and implement pilots in several districts</p> <p>Effective implementation of the strategy for the fight against malaria, including subsidization of impregnated bed nets</p> <p>Continue the policy of free vaccination</p>	<p>Percentage of health centers satisfying personnel standards:</p> <p>Percentage of children aged 6-59 months with adequate intake of vitamin A (at least)</p> <p>National Plan is adopted</p> <p>Percentage of children with insufficient weight (less than...)</p>	<p>77.0</p> <p>71.6</p> <p>71.3 (2003)</p> <p>54.1 percent (2002)</p> <p>78 (expected) (2003)</p> <p>70 (2003)</p> <p>49.7 (2003)</p>	<p>70</p> <p>75</p> <p>80</p> <p>85</p>	<p>80</p> <p>85.0</p> <p>87.5</p> <p>93.0</p> <p>80</p> <p>90</p> <p>85</p>			
<p>Increase the number of staff in the remote areas</p> <p>Prepare study on health worker motivation</p>	<p>Implement the action plan for health worker distribution and motivation</p>	<p>70</p>	<p>85</p>	<p>85</p>					
<p>Improve nutrition status of child and youth</p>	<p>Develop an efficient strategy for the distribution of vitamin A</p> <p>Conduct a study on the basis of household data, DHIS on the increase in child/youth malnutrition and its regional variation, and develop and action plan</p>	<p>70</p>	<p>40</p> <p>35</p>	<p>Yes</p> <p>30</p>					
<p>C. Social Protection Better protection of vulnerable groups</p>	<p>Preparation of a strategic framework for the government financial responsibilities for orphans and other vulnerable</p>	<p>Number of children in foster care</p>	<p>273 (2003)</p>	<p>700</p> <p>900</p> <p>1900</p>				<p>MASSN</p> <p>DGAS</p>	

Medium Term Objectives	Policy Action	Indicator	Base (Year)	Benchmarks			Monitoring & Evaluation
				2004	2005	2006	
	PRSC 4	PRSC 6					
	children						
	Preparation of a strategic framework for subsidization of schooling for the social cases		4,867 (2003)	9,000	10,000	12,000	
D. Water Infrastructure							
	Develop and action plan for attaining the MDGs	The operation of new water concessions in 13 provinces has been postponed.	10 (1999)	35	37	37	MAHRH
	Preparation of an action plan for public-private partnerships in urban areas						
	Definition of the investment program, and financing plan for the implementation of the action plan to reach the MDGs		85 (2003)	88	90	92	
	Revision of the framework document for the reforms and equipment maintenance in semi-urban areas						
	Preparation of a national water program for rural and semi-urban areas		75 (2003)	75	78	80	
	Revision of the national strategy for sanitation	Implementation of a strategic sanitation plan for 10 urban communes is incomplete: 4 strategic plans are available.	33.3 (2003)	35	39	43	
	Identify water users belonging to the administration and eliminate those not eligible						
	Continue the verification of public buildings for leaks						
	Begin verification of government water users						
THIRD COMPONENT: GOOD GOVERNANCE							
A. Budget formulation							
Improve budget formulation and the link between program budgets, MTEF, and budget	Strengthen MTEFs, introduce program budgets, institute PER procedure and oversight.	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					MTB
Reinforce the link between public expenditure and growth and the link between objectives, resource allocation, and results		Prepare an action plan to introduce delegated credits to the Ministry of Justice	9.4 %	10.2	10.9	11.0	
Improve the transparency of public expenditure management		Implement the recommendations of the audit of HIPC resources carried out in 2004	12.4 %	14.3	14.3	14.5	
			0.8 %	0.8	0.9	1.0	
			(2003)				

Medium Term Objectives	Policy Actions	Indicators	Base (Year)	Benchmarks	Monitoring & Evaluation	
	PRSC 4	PRSC 5	2004	2005	2006	
Increase the responsibility of budget managers						
B. Budget Execution						
Improve budget execution	Adopt budget deconcentration procedures and extend the computerized expenditure management system (CID) to 5 regional capitals.	Satisfactory implementation of actions for the treatment and monitoring of externally financed investment spending: - Clarify the roles of different departments and establish procedures and supporting documentation for DCCOOP, DGTCP, DGB, DCCF, and DGEP - Constitute a project database - Verify the table of credit and grant agreements	69 (2003)	75	85	DGB
Increase the level of delegated credits and the speed of their execution	Begin development of a computerized revenue management system (CIR)	Improved monitoring of externally financed investment spending: - Design an action plan for a complete information system based on the software SYGADE - Establish a task force to: customize SYGADE for the monitoring of external financing; develop interfaces between SYGADE, the computerized expenditure circuit (CID) and the State integrated accounting system (CIE) Develop CIR and put in place first modules Notify deconcentrated services of their budgets at the latest 10 weeks after putting in place the budget	69 (2003)	75	80	DGB
			66 percent (2003)	70	77	DGCOOP
			12.1 (2003)	12.4	13.3	DGTCP
			4 (2003)	4	4	DGB
			5 months (2003)	10 weeks	10 w.	DGB
C. Budget Procurement						
Improve the transparency of public resource management	Adopt new regulations and procedures, reinforce capacity, adopt standard texts, verify application through audits, prepare application texts for new decree	Adopt a decree for the regulation of concession and leasing contracts to ensure best international practice in this area Put in place a tripartite committee for monitoring procurement reforms Adopt the <i>arrêtés</i> concerning the conditions for the issuance and withdrawal of accreditation for public works, corresponding to norms of transparency and equity Define the framework for the developing a computer application				DCMP
Efficient and simplified procurement system		Adopt the Action Plan based on the recommendations of the 2005 CPAR Begin implementing the software application to monitor the				

Medium Term Objective	Policy Actions		Indicator	Benchmarks			Monitoring & Evaluation
	PRSC	FRSC		2004	2005	2006	
		to set up a database and a software application to follow the procurement process consistent with the existing expenditure framework (CID) Continue the auditing of procurement contracts by IGF	procurement process in the CID				
		Continue the auditing of procurement contracts by IGF	Number of audited procurement contracts	10	12	15	IGF
D. Budget management and ex-post control							
Improve budget reporting and public accounting	Prepare a national good 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	Satisfactory implementation of 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	The physical verification of government property is completed in 43 provinces (out of 45 provinces) and in the commune of Ouagadougou. A private firm was hired to build the accounting system for government property				
Dispose of a functional classification of expenditure							
Follow more closely the use and location of government property							
Reinforce the ex post control		Adopt the 2003 budget execution report	Adopt the 2004 budget execution report	Dec.	June	June	DGIB
		Submit the final account statements for 2001-2003 to the Supreme Audit Court	Submit the 2004 final account statements to the Supreme Audit Court	Dec.	June	June	DGTCF
		Train magistrates of the Supreme Audit Court	Reinforce the staff and budget of control services				
E. Public sector reform and decentralization							
Improve personnel management and data on wage bill	Finalize SIGASPE, prepare an action plan for extending SIGASPE to line ministries,	Consolidation of SIGASPE and extension to line ministries Implement performance evaluation system	Continue the deployment of SIGASPE to government entities	3	4	5	DGIRE
More effective management of human resources	prepare texts for decentralization and deconcentration of central government functions, define the role and organization of governates	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	Number of ministries with access to SIGASPE database				
Decentralization (Improve local service delivery and empowerment of local communities)		Begin pilot transfers of resources and competencies to communes	Number of regions where the software is operational.	3	3	13	DGTCF
		The Government has adopted a draft law defining the resources and expenses for sub-national	Number of ministries having transferred tasks and resources to local communities			4	

Annex 4: Country and CAS Result Framework



Annex 5: Decentralization

Decentralization in Burkina Faso: Current Situation and Road Ahead

A. Background

1. Decentralization in Burkina Faso could be traced as early as in 1926 when Bobo-Dioulasso was erected as commune by colonial rulers, followed by Ouagadougou in 1952. In 1955 the autonomy of both communes was further extended, and they were rejoined by four other communes (Banfora, Kaya, Koudougou and Ouahigouya) at the independence in 1960. However, the post-independence experiences of decentralization were short-lived as Burkina Faso went through a long period of political turmoil and military rules. The Constitution of June 2, 1991 reinstated civilian rules and established the broader framework for the current decentralization. The first set of decentralization laws was adopted in 1993, and subsequently revised and expanded in 1998 (*Texte d'Orientation de la Decentralisation, TOD*). Burkina Faso enacted a far-reaching decentralization law on December 21, 2004, the *Code General Des Collectivites Territoriales*. Local elections took place on April 23, 2006.

B. Objectives

The main objectives of the decentralization are to:

- Strengthen democratization by empowering local citizens and promoting public participation in the management of public affairs
- Promote grassroots' development, improved delivery of public services, infrastructure development and better management of natural resources
- Strengthen local governance.

C. The Decentralization Framework

2. The Code defines a two-tier government level (central, local). Local governments (*Collectivités Territoriales*) have legal personality and financial autonomy, and are of two kinds: the Communes and the Regions. The communes are divided into urban communes and rural communes. The introduction of rural communes in 2006 is a major milestone as it resulted in a full communalization of the territory. Currently, there are 13 regions, 49 urban communes and 300 rural communes. The 13 regions are a grouping of urban and rural communes.

The Urban Communes

3. An urban commune is a geographical unit that includes at least one permanent agglomeration of 25 thousand inhabitants and whose economic activities can generate budgetary resources of at least CFAF25 million (article 19 of CGCT). An urban commune could be developed into a commune with special status, when its principal agglomeration has a population of at least 200 thousand and its economic activities could generate annual budgetary resources of at least CFAF500 million (article 23 of CGCT). As of 2006, Ouagadougou and Bobo Dioulasso are the only communes with special status.

The Rural Communes

4. A rural commune is a cluster of villages with a population of not less than five thousand inhabitants, and whose economic activities can generate annual budgetary resources of at least CFAF5 million (article 27 of the CGCT). In the rural communes, Village Development Council (CVD) are established to contribute to the elaboration and implementation of communal development plans; run local development programs in the Village; participate in the animation of the different commissions established by the municipal council for management and promotion of local development programs.

Box 1: Decentralization in the Poverty Reduction Strategy Paper

The experience of urban municipalities revealed some problems that may jeopardize the viability and effectiveness of the decentralized territorial government units. This is particularly true with regard to:

- Local governments' capacities for strategic planning, consensus building, strategic and operational management, and regional planning, which are often inadequate for local development needs
- Uncertainty about the availability of resources and the decentralized authorities' effective control over them, which makes it difficult to draw up public plans that meet local needs. The decentralized government units' inability to raise sufficient resources has been exacerbated by widespread poverty and the weak purchasing power of the population
- The laws and regulations, along with some centralized practices still being applied, which prevent local governments from being full partners in the national development process
- Decentralized capacities and structures, which are still too weak to provide effective support for the decentralization process
- Local government bodies and structures which are not yet completely open to participation by civil society and the private sector.

The policy of transferring powers and resources, as well as the local capacity building policy, are bound to help eliminate most of these constraints. The division of powers, ways, and means is being set out in policy laws and regulations on decentralization. This is based on a system that is capable of providing adequate solutions to some of these problems.

For this purpose, the following provisions are under consideration:

- (i) The subsidiarity principle, which states that the central government will only intervene if the task cannot be performed satisfactorily at a lower level of government
- (ii) The clustering in authority blocs of the responsibilities to be transferred
- (iii) Simultaneous transfers of responsibilities and resources
- (iv) The possibility of temporary or permanent transfers of staff dealing with the transferred powers, and even the transfer of buildings and equipment
- (v) An arbitration commission to assess the responsibilities and resources to be transferred
- (vi) Compliance by local governments with national defense obligations.

In 2003, the Government drafted a strategy paper for implementing decentralization in order to ensure the successful completion of the process. The goals set out in the strategy paper are: (i) speeding up the decentralization process, (ii) mobilizing adequate resources, (iii) capacity building, and (iv) coordination of the stakeholders in decentralization.

Eight strategic areas have been identified for attaining these goals:

- (i) Completing the institutional framework
- (ii) Completing deconcentration in keeping with the central government's new role
- (iii) Transferring responsibilities and resources
- (iv) Financing decentralization
- (v) Capacity building for stakeholders
- (vi) Long-term decentralization planning
- (vii) Consultations and coordination
- (viii) Information, communication, and social mobilization

Source: *Gouvernement du Burkina Faso - Cadre Stratégique de Lutte contre la Pauvreté (2004)*

D. The Decentralization Process

5. Two key features of the decentralization process in Burkina Faso are progressiveness in implementation and asymmetric arrangements for the different types of local governments. The overall process also appears to be very much top-down although one can point to various pressure at the grassroots levels, specially in urban areas where decentralization seems now well established with three popular elections since 1995 (1995, 2000, [2006]).

Description

6. Burkina Faso has opted for a gradualist approach of decentralization reform as opposed to a more comprehensive approach. For instance, among the 11 functions slated for devolution in the decentralization law, the authorities plan to transfer a smaller set of 6 priority function to the urban communes in 2005/2006. In rural communes and the region, the transfer will take place within three years after the election of local councils. The authorities have explained the rationale behind the incremental approach: (i) an holistic approach could overwhelm the financial and technical capacity of the central Government to accompany the reform program; (ii) some of the local governments may not have the capacity to fulfill the responsibilities assigned to them; (iii) a breakdown in services delivery because of inadequate preparation may build resistance against decentralization and trigger reversals.

Assessment and Agenda for reform

7. Decentralization reform is often the result of history, political experiences, the strength of the social fabric, and internal dynamics in a given country. Therefore, while the authorities' choice for a gradual and incremental approach may be appropriate to the local circumstances, one observation and two recommendations could be made. The observation is that the asymmetric approach may be inevitable, given the heterogeneity of the local governments (see table below). The smaller urban commune (Gayéri) has a population of 3,509 and the largest one (excluding Ouagadougou and Bobo-Dioulasso) is Koudougou with a population of 92,346

Table 1: Population of urban communes (excluding Bobo-Dioulasso and Ouagadougou)

Thousands of inhabitants	Number of communes in 2004
<10	6
[10-25[	21
[25-50[	16
>50	4

Source: Etude d'un système de financement pérenne des investissements en infrastructures et en équipement des collectivités territoriales au Burkina Faso, MATD, Allemagne et AFC Consultants International, Avril 2005

8. The first recommendation is to define transparent rules for the transfers of responsibilities. At present, the process leading to effective transfer seems to be at the sole discretion of the central government while the decentralization law clearly states the subsidiary principles and the list of functions to be devolved to local governments.

9. The second recommendation is to clarify the lines of responsibilities and accountability between central and local governments when there are joint responsibilities or when the States retain some roles during a transition period.

E. Political Decentralization

Description

10. Political decentralization is characterized by several criteria, including¹⁹: (i) adequate safeguard against arbitrary dismissal; (ii) security of existence of local governments; (iii) popular election of local council members; (iv) provisions for popular recall of local governments. Against these criteria, Burkina Faso has some positive aspects of political decentralization such as the affirmation in the 1991 Constitution of the decentralization option; the election of local councils through popular vote; and the definition of pre-determined conditions under which central authorities could disband local governments or dismiss mayors. On the other hand, there are no provisions for popular recall of local governments.

Assessment and Agenda for reform

11. Overall, the new decentralization law introduces major gains in political decentralization: council members for the new rural communes [were selected by popular vote in March 2006. It is the first time that in the management of local affairs, voice has been given to about 75 percent of the population. In the medium term, a reform option to be considered would be the introduction of popular recall mechanisms for ineffective local governments. The central government should also consider strengthening the appeal mechanisms against dismissal of local government.

F. Administrative Decentralization

Description

12. Administrative decentralization appears to be very limited. Delegation of responsibilities instead of devolution seems to be the most appropriate characterization of the ongoing reform in Burkina Faso. Indeed, the central government retains large ex-ante controls on most decisions that should be taken by local governments (see table 2 below). Local governments can engage in contractual arrangements with public or private entities but there should be a prior approval from the central government if the arrangement has financial implications. In addition, local governments do not have relevant authority on the staff transferred to them as part to the transfer of responsibilities. In particular, the decision to promote or fire these staffs remains with the central government, thus introducing distorted incentives in the lines of accountability. On the positive side, Burkina Faso has elected to establish a local civil service. It is therefore expected a realignment of the lines of accountability when all staff will be member of the local civil service and therefore subject to hiring, promotion and firing by local governments. This would happen when central staffs currently transferred will reach retirement or leave offices.

¹⁹ Anwar Shah ...

Table 2: Controls of local governments by the central government

Nature of the Control	Scope	Comments
Approval	Initial and supplemental budgets. Procurement. Accounting (<i>comptes administratifs et de gestion</i>)	Decision should be issued within 45 days.
Prior Authorization	Borrowing. Bequest. Grants. Allowance. Physical planning of the territory	Lack of decision within 45 days is equivalent to consent.
Cancellation	Regulations and decisions from local governments are subject to review by the central government which could pronounce cancellation on the basis of conflicts of interests or illegal basis.	Cancellation should take place within 45 days after a decision was taken by local governments, or the decision is deemed approved and effective.
Suspension	Apply to all decisions, deliberations and regulations of local governments.	Suspension cannot exceed 45 days.
Substitution	Central government could substitute to local governments if the latter fail to implement decisions set by laws and regulations.	
Auditing	Audits are carried out by the central government as they deem necessary.	

Assessment and Agenda for reform

13. It should be first noted that the decision to maintain transferred central staffs under the authority of the central government is a request of workers who have judged there were little incentives to join the local civil service. A first agenda of the reform would be therefore to tackle these issues which make unattractive local civil service. It seems that the main fear is about the fiscal situation of local governments and their ability to pay salary regularly. A successful fiscal decentralization would be a positive step towards enabling local governments to attract competent people in the local civil service.

14. The salaries for local civil servants are set by a national law, and they are uniform across all jurisdictions and parts of the country. This lack of flexibility may be counterproductive because it fails to take into account the different circumstances across jurisdictions and the importance of adequate wage settings for the affordability of public services. The Government should consider allowing local governments to pay salaries within a range (+- 20 percent?) of currently established salary scale for local civil service²⁰.

15. The control of local governments seems skewed toward top-bottom accountability and ex-ante controls. The central government should consider building bottom-up lines of accountability by allowing residents in the various jurisdictions to discipline incompetent and inefficient local governments. As mentioned earlier, a mechanism for popular recall of failing local governments could be envisaged. Furthermore, controls on services delivery and outputs should be privileged over ex-ante controls.

G. Fiscal Decentralization

16. The decentralization law states that all responsibilities of local governments should be matched by appropriate transfer of resources through a mix of taxing powers and transfers. Local governments could also supplement these two sources of resources by borrowing. Expenditures assignment, tax assignment, transfers and borrowing conditions are discussed below.

²⁰ Francois Vaillancourt Tenkodogo

Expenditures Assignment

Description

17. The decentralization law assigns expenditures according to three principles of subsidiarity, progressiveness and compensation. The subsidiarity principle means that activities are assigned to the level that can best deliver the service. The progressiveness principle is that responsibilities are transferred only gradually to local governments. The compensation principle is equivalent to “finances follow responsibilities”. Each assignment (expenditure and finances) is provided by a devolution decree adopted by the central government. Expenditures are assigned to the region and communes on an exclusive basis (such as preschools), shared basis (secondary education) or by delegation. The decentralization law indicates that expenditure assignment should be implemented in compliance with National defense framework. A law²¹ defines mandatory activities of local government (article 20).

18. There are 11 activities that should be eventually transferred to local governments: (1) land; (2) communal development and physical planning; (3) environment and natural resources management; (4) planning and economic development; (5) health and hygiene; (6) education, literacy program and vocational training; (7) culture, sports and leisure; (8) civil defense, assistance and social protection; (9) management of cemeteries and funeral services; (10) water and electricity; (11) marketplaces, slaughterhouses and trade show and fairs.

19. Among these, six activities were to be transferred to urban communes as early as in 2005. These are (1) preschool programs; (2) basic education and literacy programs; (3) health; (4) culture; (5) sports; (6) youth and leisure. Activities will be transferred to the regions and rural communes within three years after the installation of their deliberative bodies. The latter should take place by 2007 at the latest.

Assessment and Reform Agenda

20. The principles (subsidiarity, full-funding) that underpin the division of responsibilities between central and local governments are sound and should be further elaborated, strengthened and implemented. For instance, one further argument within the subsidiarity principle is that central government’s involvement is required in the presence of spillovers between jurisdictions. The division of responsibilities should also encourage economic efficiency by favoring the level of government that could supply a given service at the lowest cost. The central government should not attempt to provide services for which local governments have strong informational advantage.

21. It would be critical to effectively transfer responsibilities and resources as described in the decentralization law. As stated in the discussion on the decentralization process, any merit of the progressiveness approach is overshadowed by the lack of rules about the conditions under which the transfers of activities to local governments would be effective. At present, expenditures of local governments represent a meager 5 percent of total public expenditures despite several years of decentralization reforms in urban areas. In areas of shared responsibilities (education, health), the role of each level of government should be clearly defined.

²¹ Avant Projet de Loi portent détermination des ressources et des charges des collectivités territoriales au Burkina Faso

Tax Assignment

22. Taxing authority remains largely with the Central Government which raises more than [95] percent of consolidated public sector revenues. Under the decentralization law, the regions will not have taxing powers.

23. The central government retains control over the determination of base and rates on the most significant local taxes: trading license tax (*patente*), property taxes, tax on the informal sector, land and property rental taxes (*taxes de jouissance*). Local governments have autonomy to revise base and rates on few other taxes: refuse collection and disposal taxes, entertainment taxes etc. Currently, the proceeds of the land and property rental tax (*taxes de jouissance*) is shared with the central government.

24. The central government has control on the collection of local taxes because the public accountants for local governments are also agent of local branches of the Treasury Department of the Ministry of Finances and Budget, and they collect the taxes before transfer to local governments. This organization parallels the situation in France where treasury officials have two mandate and report to local and central authorities. However, these agents are evaluated and remunerated by the central government and that dictate their loyalties. It has been noted that the central tax and treasury administrations have sometimes requested material support from local governments in order to carry out the tax collection.

Assessment and Reform Agenda

25. Tax assignment appears to be limited in Burkina Faso. There are many good reasons why the central government would retain some tax authority: ensuring macroeconomic stability, minimizing administrative costs, promoting fiscal equity; and the specific nature of some taxes such as mobile bases, multi-stage taxes (VAT), and customs taxes that cannot be handle at the local level. However these reasons should be balanced against equally good reasons why local governments should have tax authority: to the extent possible local spending should be financed on taxation on local residents so as to ensure efficiency and selectivity in these spending.

26. The Government has discussed several options or studies during a workshop held in December 2005 on the resources and responsibilities for local governments²². If implemented, these options and studies will provide a good basis to engage the reform of local taxation:

- Reestablish the taxation of motor vehicles. The latter was eliminated in 1994 to offset the adverse impact of the devaluation of the local currency in domestic prices. To compensate for that loss, the central government started to transfer a share 10 percent of petroleum products taxation to local governments. The motor vehicle tax is potentially a significant potential source of revenue for large cities.
- Fully transfer the *taxe de jouissance* to local governments. At present, the share of local governments ranges from 25 to 30 percent
- Transfer the land and properties transfer tax (*droits de mutations*) to local governments
- Consider a sharing arrangement for the VAT
- Review the feasibility of taxation on rural lands. In the present situation, the ability of rural communes to raise revenue is extremely limited

²² MFB et MATD: Répartition des ressources entre l'état et les collectivités territoriales et entre collectivités au Burkina Faso, Novembre 2005

- Assess the impact on the central government budget of taxes transferred to local governments
- Assess any gaps between activities transferred to local governments and their tax authority and tax potential
- Build the capacity of local governments to improve the collection of local taxes. In doing so, the government could build on achievements under the component “resources mobilization” of the Bank-financed PACVU project. The PACVU has noted several inefficiencies in tax filing and tax compliance, outdated tax bases etc. It has financed a software (STARE) to help address the management of tax records, thus reducing fraud, but the software was not widely used when PACVU closed in June 2005
- Carrying a survey of land and properties (cadastre) and updating the value of these lands and properties.

Transfers

Description

27. Direct transfers of the central government to local governments consisted until recently of a general-purpose grant equivalent to [10] percent of the taxes levied on petroleum products (TPP). The transfers were introduced in 1994 as a way for the Central Government to compensate local governments for the elimination of the local tax on vehicles (motors and non-motorized). The amount of the transfers in 2005 was CFAF2.3 billions.

28. In addition to these direct transfers, resources are channeled to local governments through several externally-funded projects. It is estimated that local governments have received CFAF 43 billions from that source in the period 1996-2002²³, of which the Bank provided 43 percent.

29. The government has prepared a draft law²⁴ that describes the transfers to local governments in the new decentralization framework. Two types of grants are planned for 2007. The first is a general-purpose grant (unconditional) for the recurrent budget of local governments. It is composed of two parts reflecting equalization objectives (per capita) and needs (activities transferred to local jurisdictions). The second is a general-purpose grant for the capital budget of local governments. It is also broken down in two parts based on population size and on quality, quantity and nature of infrastructures transferred to local jurisdictions, respectively.

30. A particular feature of the transfer mechanism in Burkina Faso is the existence of transfers between local governments, from the communes to the regions. The regions do not have taxing authority, and they received from the communes within their jurisdiction, 10 percent of the proceeds of predetermined tax categories.

31. With the delegation of activities to local governments, civil servants (mostly teachers and health workers) carrying out these activities will continue to do so and their costs (salaries) will be considered as conditional grants from the central government. No estimates on the size of these conditional transfers are available yet but could be significant. New recruitments (starting in 2007) will take place in the framework of the local civil service, and the central government will transfer conditional grants for the payments of these workers.

²³ KfW, AFC Consultants International Bonn, 2005

²⁴ Burkina Faso: Avant Projet de Loi portant détermination des ressources et des charges des collectivités territoriales au Burkina Faso, DGTCP, Novembre 2005

32. A Government working group has also proposed a mechanism for transferring resources to local governments²⁵. In addition to the two general-purpose grants presented above, the working group discussed a specific-purpose (conditional) capital grant for the implementation of sectoral programs (health, education) based on a contractual arrangement between the central government and local governments. The working group details the distribution of the general-purpose grant among jurisdictions and between recurrent and capital spending.

33. First, two-thirds of the total grant is allocated to the recurrent general-purpose grant while the remaining third is allocated to the capital general-purpose grant. Second, each general-purpose grant is split among jurisdictions according to the following rules: (i) 10 percent for the regions; (ii) 20 percent for the urban communes; and (iii) 70 percent for the rural communes. Within jurisdictions, 50 percent of the allocations are distributed on a per capita basis and 50 percent as a lump sum in equal parts for each jurisdiction. It is unclear how the distribution was done among jurisdictions but it was reported that the criteria used could be the population size²⁶.

Size of the Grants

34. There is no explicit discussion in the resource law about the size of the general-purpose transfers. The working group mentioned above has proposed these transfers to be financed with 15 percent of the petroleum product tax, up from the current level of 10 percent. In 2006, the Government has estimated that the size of the transfers should be CFAF3.3 billion, up from CFAF2.3 billion in 2005, reflecting the creation of about 300 rural communes. There does not seem to be a clear formula that has led to that estimate.

35. However, the draft resources and spending law requires local governments to spend at least 20 percent of their own revenue on their capital budget, and the latter should be at least equal to 33 percent (a third) of the total budget (article 23). From these criteria, one can derive a formula for the size of the transfers: $\text{Transfers} = 0.33 \times \text{Budget} - 0.2 \times \text{own Revenue}$. This would define an open-ended grant scheme which will reward big local governments and those with poor revenue performance. This unintended goal underlines the need to better define the rules for the size of the transfers.

36. As for the specific-purpose transfers, their actual size will ultimately depend on the performance of the project implementation units. In addition, a full account of these resources will also depend on the integration of externally-funded projects external resources in the government accounting system.

Distribution of the Grants

37. The draft law indicates that the modalities for appropriation of grants are determined, each year, by a joint decree of the Minister of Decentralization and the Minister of Finance and Budget. The working group articulates a formula-driven scheme that offers a solid starting point, but it is just one of the schemes reviewed by the Government during the 2005 December workshop on fiscal decentralization.

²⁵ Répartition des ressources entre l'Etat et les collectivités territoriales et entre collectivités au Burkina Faso (Jean Martin Ki, Roger Nama, Fatimata Balma, Evariste Millogo).

²⁶ Francois Vaillancourt, Observations sur la décentralisation au Burkina Faso, Décembre 2005

Assessment and Recommendations

38. The first observation is that there seems to be lot of uncertainties on the level of resources that will be made available to local governments, and the first priority is to clarify the rules of the games: what would be the size of the grants? How would it be distributed?
39. Regarding the size of the general-purpose grants, the government should consider distributing a predetermined percentage of total central revenues. In Rwanda, the fiscal law allows for 1.5 percent of domestically collected revenue to be distributed to the districts for their recurrent budgets. The law also envisages a common development fund which was initially set at 10 percent of total revenues, even it is now equivalent to 2.5 percent of total revenues.²⁷ In the case of Burkina Faso, the general purpose grants represented 0.6 percent of total revenue in 2005, comparing poorly with the 4.0 percent in Rwanda. Using the total revenues instead a particular tax will also a more stable stream of resources.
40. Regarding the distribution of the grants, the draft resources law already includes some sound principles as equalization (per capita allocation) and a measure of needs. The challenge is to finalize the formula so as to eliminate all discretionary elements. Equalization could be further pursued by taking into account poverty headcount in the jurisdictions where it is available. The government should also include in the design of the transfer, an element that encourage
41. As for conditional grants, their effectiveness could be limited given the fungibility of resources. Conditional grants also contribute to the fragmentation of local budgets and lessen the transparency of budget implementation. If maintained, there should be restricted to cases of spillovers with closed-ended matching grants, and the conditionality should be based on some measures of outcomes instead of inputs/spending.
42. Capacity building programs should be initiated for local governments to ensure that the fiduciary environment and the competences in budget planning and execution for resources transferred are at least comparable than in the central government. The accompanying capacity building and urban project is specifically designed to that end.
43. The Government should encourage donors to provide assistance to local governments by financing the general-purpose grants that will scaled then scaled up to reflect the immense infrastructures needs of local governments. The design of such mechanism would be along the experience of Uganda in financing local development program (see Box 2). The next series of PRSCs would support such arrangements. The PRCA and the forthcoming urban capacity building project could assist in the process by ensuring that resource allocation are transparent, and there is an efficient monitoring and evaluation system of outcomes at the local level.

²⁷ World Bank, Rwanda PER...

Box 2: The Local Government Development Program (LGDP) in Uganda

The LGDP was intended to devolve development funds through the Local Development Grant (LDG) and Capacity Building Grant (CBG) to 31 districts and 13 municipalities.

The LGDP developed an approach which combined building local governance with the implementation of development investments. The LGDP provided non-sector specific development grants to local governments according to a transparent formula. Local governments qualified to access these grants once they have achieved specified minimum governance criteria. Local governments were required to co-finance the development funds received with 10 percent contribution in cash, in addition to scheme-specific local contributions from communities.

Central to the LGDP design was the annual assessments of local governments against the pre-set governance criteria (the so-called minimum access conditions) and performance criteria. The minimum conditions determined whether a district or a sub-county is eligible to access the Local Government Fund. The performance criteria, assessed in retrospect, determined whether a local government is eligible for a reward or penalty (i.e. whether the amount of the Development Fund is to be increased or decreased from the next financial year).

The minimum conditions (access criteria) included:

Development planning capacity (e.g. availability of council-approved District Development Plan and functional planning committees)

Financial Management (e.g. proper maintenance of accounts, adherence to procurement regulations)

Technical capability (e.g. capacity to supervise engineering works)

Program specific conditions (e.g. 10 percent co-financing)

Districts which did not meet the minimum access criteria could still benefit from the Capacity Building Grant (a separate funding-line under LGDP) in order to qualify for development funding in future.

Districts and sub-counties operated under incentive and penalty system linked to good governance and service delivery. Those that performed well against specified performance criteria received an increase in their allocations in subsequent years (an additional 20 percent), whilst those that performed poorly had their investment funds reduced by 20 percent.

Borrowing Rules

Description

44. Borrowing of local governments is subject to prior authorization by the Central Government. The proceeds of these loans should finance investments exclusively. The terms and the conditions under which such borrowing could take place are defined by a decree prepared by the Ministry of Finances and Budget and approved by the Cabinet.

Assessment and Reform Agenda

45. At this stage of the decentralization reform, concerns about macroeconomic stability probably dictate the rigid framework for borrowing of local governments. The issue could be revisited in the medium to long term, once the creditworthiness of local governments and their budget management capacity are strengthened.

H. Local Public Finance Management

Description

Regulatory Framework

46. The government has prepared a draft decree²⁸ setting the rules and principles for local budgets and the terms for the management of assets owned by or delegated to local governments (article 1). Key features of the decree are described below.

²⁸ MFB, MATD: Projet de Décret Portant Régime Financier des Collectivités Territoriales au Burkina Faso

47. The central government approves the initial and supplementary budgets of local governments. Local budgets have to be balanced and the recurrent budget should have a surplus at least equal to 20 percent of own revenues. There is mandatory spending determined by law which should be itemized in local budget. The central government can reestablish the balance of local by reducing optional expenditures as needed.

Budget preparation

48. Local budgets are voted by the councils and submitted to the central government for approval. The government has 45 days to issue a decision. It can ask for any modifications and has the ultimate word. The Central Government can refuse to approve the budget of local governments in the following case: (i) the budget is not compliant with laws and regulations; (ii) mandatory expenditures were not included; (iii) resources are lower than mandatory expenditures; (iv) there seems to be an underestimation or overestimation of spending and/or revenues. If the local budget is not approved by the beginning of the fiscal year (January 1), the Central Government can authorize the local governments to collect revenue and undertake spending on the basis of the previous budget.

Budget Nomenclature

49. Local budgets are classified by Section (recurrent budget and investment budget), and by Chapter, Article and Paragraph, all of the latter describing spending by nature only. The lack of functional classification or even an administrative classification is a serious concern as far as the monitoring of poverty-spending and development outcomes is concerned.

Budget Execution

50. The head of the local council is the budget administrator (*ordonnateur*) and has the spending authority. She implements the budget in coordination with the financial comptroller and the municipal accountant who are officials of the Ministry in charge of finances. A financial comptroller is posted by the Ministry of Finances and Budget with each local government. She clears – ex ante – all decisions from the local governments that have a financial implication. The municipal accountant is also the head of the local branch of the National Treasury Department (DGTCP). She collects revenues and executes payments for the local governments. CICL (Comptabilité Intégrée des Collectivités Locales, CICL), an accounting software, is operational in few communes.

Budget Control and reporting

51. As for the national budget, the administrative controls of the financial operations of local governments are exerted by the financial comptroller, the General Inspectorate for Finance (IGF), the State General Inspectorate (IGE) and the Technical Inspectorates of line ministries. In particular, the financial comptroller carries out ex-ante controls of all financial decisions of local governments. Only a written notification from the Ministry of Finances and Budget can override a decision by the financial comptroller denying an expense.

52. As for the national, the jurisdictional control is carried out by the Audit Court. However, it is not effective yet for local government. The task for the Audit Court will be even more challenging given it will now have to audit 350 administrative accounts (held by the head of the local council) and 350 *comptes de gestion* (held by municipal accountants), instead of 49 in the present situation. In principle, the Audit Court should reach an opinion on the integrity of budget implementation by comparing the *comptes administratifs* and the *comptes de gestion*. However, few *comptes de gestion*

are available. Administrative accounts are more available but large gaps remain. Administrative accounts for the years up to 2002 are posted on line: <http://www.inforoute-communale.gov.bf/dfl.htm>

Assessment and recommendations

53. A critical reform is to introduce a functional classification in line with similar reforms at the central government. At the minimum, an administrative classification should be taken into account so as to allow a consolidation of all public spending. A reform is needed to allow the tracking of poverty-related spending, and to link inputs to outcomes.

54. The Government should finalize all the functions of the CICL and complete its deployment in all local government. The Government should consider establishing hubs to centralize the accounts of the communes where there is no power.

55. The capacity of local governments should be strengthened in the area of public financial management, including procurement. In the short-term, local governments should get the support needed to prepare their administrative accounts as required by the regulation. In the medium term to long-term, the communes should start introducing medium-term budget planning and program-based budgeting.

56. Within the current framework, the capacity of the Ministry of Finances and Budget to accompany the fiscal decentralization is critical. As required by the regulation, the MFB would need to accelerate deconcentration, and post about 350 financial comptroller and 350 treasury offices at the local level, or at least open branches as close as possible to local governments. The Government should take the necessary measures to ensure that all *comptes de gestion* are produced timely.

57. The Audit Court should undertake the audit of local budgets, in order to present a consolidated execution report of total public spending. This would require increasing significantly the resources (technical and personnel) for the Court.

Annex 6: Accelerated and Shared Growth

Overview

1. Burkina Faso is a small, landlocked, resource-scarce country surrounded by economically weak neighbors which nevertheless was able to achieve robust growth and poverty reduction in recent years. The economy grew on average by 6 percent since 1994, among the highest in Sub-Saharan Africa. This growth was driven by agriculture, particularly cotton. However, economic performance can be volatile due to its dependence on agricultural output which is sensitive to rainfall patterns and other exogenous factors. Recent growth performance attests to this volatility. Relatively high growth rate of 8.0 percent in 2003 was followed by below average growth in 2004, which then rebounded to approximately 7.5 percent in 2005.

2. The analysis of the Bank's Poverty Assessment (PA) indicates that economic growth has resulted in the poverty headcount decreasing from 54.6 percent in 1998 to 46.4 percent in 2003. Recent growth was mainly driven by the agricultural sector, which explains the large decrease in the poverty rate given that most of the population live in rural areas and thus depend on agriculture. The poverty rate will remain sensitive to the sectoral composition of growth as long as the poor are significantly asymmetrically distributed among the sectors. The PA also concludes that the target poverty rate reduction to 30 percent 2015 can be achieved if the country maintains a long term real GDP growth rate of approximately 5 percent. This target seems within reach given the country's recent track record.

3. The authorities' PRSP focuses on maintaining a stable macroeconomic environment, diversifying the economy and increasing productivity. It targets an average real GDP growth rate of 6.5 percent and reducing the poverty rate from 46 percent in 2003 to 30 percent by 2015. These objectives seem reasonably achievable. The target average annual growth rate is in line with the average annual growth of 6 percent achieved since 1994, among the highest in Sub-Saharan Africa.

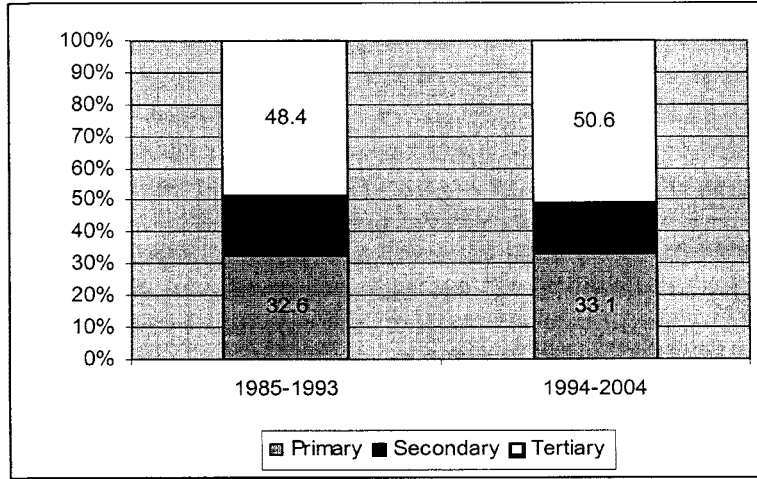
4. However, there remain significant risks to sustaining the growth pace given the challenging environment. The vast majority of the poor in the rural sector depend on agriculture which is characterized by low mechanization and sensitive to rainfall variation. There are risks to sustaining the recent growth of the cotton subsector given that it mainly resulted from expansion of cultivated areas as opposed to higher yields. In addition to lack of rainfalls in the Sahel zone, the country is exposed to international price shocks in cotton due to the lack of diversification, political instability in neighboring countries, and exchange rate shocks as its currency, the CFA franc, is pegged to the Euro. By their very nature, the country is limited in how it can directly influence the occurrence of such exogenous shocks.

Economic Structure

5. Comparison over time indicates that the structure of the economy has not changed over the years (see figure 1). The largest sector of the economy is the tertiary sector which includes trade, transport and government services. The next largest is the primary sector, dominated by agriculture and livestock. The secondary sector is the smallest and its share of GDP decreased over the years. The sector includes mining, manufacturing, energy and constructions. The lack of structural change indicates an economy less than dynamic. In the case of South Korea, agriculture as a share of GDP decreased from 39.9 percent in 1960 to 3.8 percent in 2005 while the share of industries rose from

18.6 percent to 41.4 percent in the same period. The decrease of the share of the secondary sector in Burkina Faso indicates a failure to industrialize.

Figure 1: GDP by Sectors



Source: World Development Indicators (WDI) in Nankobogo, Francois and JM Marchat, "Secteur Privé, Investissements, et Développement des Exportations," World Bank, mimeo, March 2006.

6. Measured in terms of GDP at factor costs, the economy grew by a compound annual rate of 6.3 percent over the last decade, a relatively strong performance. The three major sectors grew at approximately similar rates. The electricity, gas and water subsector grew annually by 16.8 percent, significantly faster than any other subsectors. Livestock, banking and insurance, and the transport and telecommunication subsectors also grew faster than the average. By contrast, the mining subsector shrank by 12.9 percent, and forestry and fishing, commerce, and non-market services (government) grew slower than the average.

7. The growth of the primary sector has largely kept pace with overall economic growth, but its growth fluctuates significantly from year to year. Economic growth in 2005 was mainly due to growth of agriculture as the other major sectors performed poorly. Record cereal and cotton harvests resulted from expansion of cultivated areas. Although the tertiary sector is the largest in the economy, the country remains largely agrarian as more than 80 percent of the population live in rural areas and depend on agriculture and livestock. The relatively small size of the primary sector despite the largely agrarian population indicates the low level of productivity of the sector. The agricultural sector is constrained by poor infrastructure and low levels of mechanization and irrigation.

8. Industries account for 70 percent of the secondary sector. The fledgling mining sector has significantly declined in the past decade, while public utilities nearly quintupled. Major industrial subsectors such as food, tobacco and textile are characterized by a few dominant firms in the formal sector and large informal activities. The relatively small share of the secondary sector reflects the weakness of the manufacturing and infrastructural base of the economy.

9. The tertiary sector grew more slowly than the economy, reflecting the slow expansion of trade and government services. However, growth rates of government services have increased in more recent years as official capital inflow significantly increased up to approximately 10 percent of GDP. Trade and other tertiary subsectors have large shares of informal activities.

Table 1: Sectoral Growth Rates

Sector	Compound Annual Growth (1995-2005)	2005 Growth Rate
Primary sector	6.61	15.35
Agriculture	6.64	25.34
Livestock	7.27	2.50
Forestry and fishing	4.79	6.59
Secondary sector	6.22	2.60
Mining	-12.87	30.04
Industry	6.21	1.31
Electricity, gas, and water	16.79	5.31
Construction and public works	6.06	5.38
Tertiary sector	5.99	3.37
Market services	6.42	0.69
Transport and telecom	9.80	0.16
Commerce	3.76	0.16
Banking and insurance	7.96	7.19
Other	6.36	0.16
Nonmarket services (gov't)	5.32	8.04
GDP by factor costs	6.28	7.79

Source: IMF, Country Report No. 06/107 (March 2006) and previous reports.

10. The informal sector accounts for two-thirds of the modern sector, and 38 percent of the entire economy.²⁹ Typically, some of the possible reasons for the presence of a large informal sector are: (i) high tax rates, particularly corporate tax; (ii) ineffective and discretionary application of the tax system; (iii) high social security contributions; (iv) lack of property rights; and (v) burdensome regulations, including for the labor market, trade barriers, and labor restrictions for foreigners. Firms in the informal sector tend to be smaller in size, invest and export less than counterparts in the formal sector, offer lower wages, and contribute less to tax revenues. Averaging 12.4 percent of GDP in recent years, low domestic revenue in Burkina Faso constrains public investments.

Determinants of Growth

11. There is a rich body of empirical research on the determinants of growth based on cross-country analysis. Some of the more robust variables based on a sample of studies are outlined below.³⁰

²⁹ Schneider, Friedrich (2002), "Size and measure of the informal economy in 110 countries around the world" working paper, Johannes Kepler University of Linz, Austria.

³⁰ Based partly on Sala-i-Martin, "I just ran two million regressions," QJE, 1997.

Table 2: General Determinants of Growth

Cross-Country Analysis ¹	Typical Measurements	Burkina Faso
<ul style="list-style-type: none"> • Rule of law/business climate 	<ul style="list-style-type: none"> • Cross-country assessments of property rights, political rights, civil liberties, freedom of press 	<ul style="list-style-type: none"> • Poor indicators (Heritage Foundation ranks 102 out of 157 countries, WB's Doing Business ranks 154 out of 155 countries, Freedom House assesses partly free)
<ul style="list-style-type: none"> • Investment rate 	<ul style="list-style-type: none"> • Investment rate as percentage of GDP 	<ul style="list-style-type: none"> • Investment rates similar to SSA average, but lower than high growth East Asian countries
<ul style="list-style-type: none"> • Openness of the economy (trade (tariff) policy) 	<ul style="list-style-type: none"> • Extent of tariff and non-tariff trade barriers, state monopoly on exports (ex., Sachs and Warner (1995)) 	<ul style="list-style-type: none"> • Relatively open (average CET of 12 percent, duty waiver within WAEMU, minimal quantitative trade restrictions, but limited competition in cotton exports)
<ul style="list-style-type: none"> • Type of economic organization 	<ul style="list-style-type: none"> • Degree of capitalistic organization 	<ul style="list-style-type: none"> • Mixed capitalist system, similar to Greece, Senegal (private enterprises but with substantial govt involvement in economy)
<ul style="list-style-type: none"> • Macroeconomic stability 	<ul style="list-style-type: none"> • No single variable consistently robustly related to growth, but variables in aggregate perceived to be significant 	<ul style="list-style-type: none"> • Relatively stable macroeconomic environment in recent years
<ul style="list-style-type: none"> • Education 	<ul style="list-style-type: none"> • Primary and secondary school enrollment rates 	<ul style="list-style-type: none"> • Low enrollment rates, even with respect to other SSA countries
<ul style="list-style-type: none"> • Market (exchange rate) distortions 	<ul style="list-style-type: none"> • Real exchange rate distortions (PPP), standard deviation of black market premium on foreign exchange 	<ul style="list-style-type: none"> • Possible overvaluation of exchange rate due to recent appreciation; no black market premium.
<ul style="list-style-type: none"> • Exporter of primary commodities 	<ul style="list-style-type: none"> • Share of primary commodities (agriculture, mineral, fuel, metal) in total merchandise exports 	<ul style="list-style-type: none"> • Relatively high share of primary commodities in merchandise exports
<ul style="list-style-type: none"> • Africa 	<ul style="list-style-type: none"> • Significant negative dummy variable for SSA 	<ul style="list-style-type: none"> • N/A

1. Based partly on Sala-i-Martin, "I just ran two million regressions," QJE, 1997.

12. The cross-country empirical research indicates that an economy will grow faster if it is characterized by: (i) an open market system with minimal distortions; (ii) a stable macroeconomic environment; (iii) rule of law and protection of private property; (iv) high investment rates, particularly for equipment; (v) high education levels; and (vi) low share of primary products in exports.³¹

13. With respect to the cross-country determinants of growth, Burkina Faso's relatively stable macroeconomic environment, open external tariff policies and an economic organization which is not overly dominated by the state are some of the favorable conditions for growth. By contrast, a poor business climate, low education levels and a high share of primary commodities in exports

³¹ An interesting finding of the empirical literature is the significant negative coefficient on the dummy variable for Sub-Saharan Africa. In general, African countries are predicted to grow slowly because they score low on most variables good for growth and high on most variables harmful for growth. However, a significant negative coefficient on the African dummy implies that African countries grow even less than would be predicted by these other variables.

hinder the country's growth prospects. With respect to the last variable, it indicates that Burkina Faso should diversify beyond primary commodities to further its economic development.³²

Table 3: Growth Diagnostics for Burkina Faso

Cross-Country Analysis	Govt/WB Competitiveness Study ¹	PRSC-6 Policies
<ul style="list-style-type: none"> • Rule of law and protection of private property 	<ul style="list-style-type: none"> • Little emphasis, instead focused on high cost of inputs 	<ul style="list-style-type: none"> • Reduce days/number of steps to start a business; improve labor regulations
<ul style="list-style-type: none"> • Investment rate 	<ul style="list-style-type: none"> • Underlined country's relatively high investment rates among SSA countries, instead focused on perceived low productivity of investments 	<ul style="list-style-type: none"> • Increasing (private) investment implicitly assumed as one of overall objectives
<ul style="list-style-type: none"> • Openness of the economy (trade policy) 	<ul style="list-style-type: none"> • Little emphasis specifically on tariff policy, instead focused on open regional integration (WAEMU, ECOWAS) 	<ul style="list-style-type: none"> • Not emphasized
<ul style="list-style-type: none"> • Type of economic organization 	<ul style="list-style-type: none"> • Focused on improving monopolistic parastatals in infrastructure sectors (transport, communication, energy, water) 	<ul style="list-style-type: none"> • Promote divestiture program, including entry of private operators in cotton sector
<ul style="list-style-type: none"> • Macroeconomic stability 	<ul style="list-style-type: none"> • Emphasized need for macroeconomic stability 	<ul style="list-style-type: none"> • Maintain macroeconomic stability
<ul style="list-style-type: none"> • Education 	<ul style="list-style-type: none"> • Poor education (and health) indicators 	<ul style="list-style-type: none"> • Improve education sector budgeting, subsidize schooling in low enrolment areas
<ul style="list-style-type: none"> • Market distortions 	<ul style="list-style-type: none"> • Focused on perceived overvaluation of real exchange rate 	<ul style="list-style-type: none"> • Not emphasized (limited policy options due to participation in CFA zone)
<ul style="list-style-type: none"> • Exporter of primary commodities 	<ul style="list-style-type: none"> • Little emphasis since diversification strategy focused on primary commodities (agriculture, mines) 	<ul style="list-style-type: none"> • Indirect support through PSD/infrastructure reforms

1. Ministry of Economy and Finance of Burkina Faso and World Bank (2001), *Competitiveness and Economic Growth*.

14. Table three compares the diagnostics of the determinants of growth conducted jointly by the authorities and the World Bank, and the policies areas emphasized in the PRSC-6. In 2001, the authorities and the World Bank conducted a comprehensive study of competitiveness and long term sources of growth in Burkina Faso.³³ Four major constraints to growth were identified: (i) low levels of domestic and external liberalization; (ii) high factor costs and weak price competitiveness; (iii) low technological progress; and (iv) low human development indicators. These constraints are still broadly relevant and largely consistent with the policy focus of the PRSC.

15. Although the PRSC is broadly consistent with earlier analysis, it differs in three significant. First, it focuses on reducing administrative barriers to businesses, an emphasis resulting from recent surveys which indicate overly burdensome government regulations. Second, there is a heavy emphasis on decentralization, again largely absent in earlier growth analyses on the country. Third, the economic diversification strategy focuses on expanding into other primary commodities. Analyses of growth in Burkina Faso have tended to focus other primary goods, but the broader literature and typical experience of high growth developing countries indicate that expansion into

³² See also Hausmann, Ricardo and Jason Hwang, Dani Rodick, "What you export matters," Center for International Development, Harvard University, working paper no. 123, December 2005. The paper indicates that a country's initial level of sophistication of exports is a significant determinant of subsequent growth.

³³ Burkina Faso: Competitiveness Report, 2001

higher value added non-primary goods will eventually be critical for growth. And finally fourth, PRSC policies do not directly deal with regional issues such as regional integration and exchange rate policies which were emphasized in the competitiveness study. A regional approach as opposed to a country specific instrument such as the PRSC is probably more appropriate to address such issues.

Macroeconomic Stability

16. The authorities have been able to maintain a relatively stable macroeconomic environment in recent years despite a volatile external environment (see table 4). Economic growth has remained relatively robust, averaging a growth rate of 6.5 percent since 2001, as cereal and cotton production achieved record harvests in recent years. Prudent fiscal and monetary policies have maintained a low level of inflation, anchored by the fixed exchange rate peg represented by the CFA franc. As a member of the West African Economic and Monetary Union (WAEMU), Burkina Faso devolves its monetary policies to the Central Bank of West African States (BCEAO). The stable macroeconomic environment has provided a conducive environment for growth in the past decade.

17. In general, the authorities have been pursuing prudent fiscal policies consistent with available resources, but the current levels of spending depend heavily on foreign aid. Overall fiscal deficits are fairly large mainly due to low domestic revenues but the financing gap has mostly been covered by concessional foreign financing, resulting in little crowding out of domestic investment. The Enhanced Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) are together expected to provide additional resources of approximately 1 to 2 percent of GDP for the near future. Public debt service averaged a relatively low 3.2 percent of total expenditures in recent years. Basic primary balance has averaged a deficit in recent years, indicating that discretionary spending has been exceeding domestic revenue, but the deficit has been fully covered by external grants.

Table 4: Key Macroeconomic Indicators

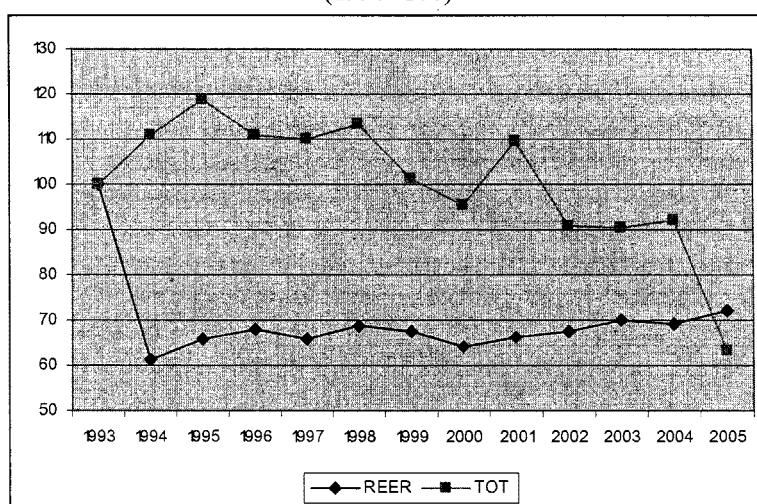
	2002	2003	2004	2005
GDP growth (%)	5.2	8.0	5.5	7.5
Inflation (%)	2.3	2.0	-0.4	4.0
Growth in M2 (%)	2.9	16.3	22.9	11.3
Real effective exchange rate (%)	2.1	3.8	-1.1	4.0
Domestic revenue (% of GDP)	11.4	12.1	12.8	13.4
Fiscal balance including grants (% of GDP)	-4.8	-2.9	-4.2	-3.9
Basic primary balance (% of GDP)	-2.9	-2.2	-2.4	-1.5
Current account balance (% of GDP)	-10.0	-8.6	-7.8	-9.3
Gross International Reserves (month of imports)	4.5	5.0	6.7	5.4
Terms of Trade (% change)	-17.0	-0.8	1.8	-31.0

Source: IMF, Country Report No. 06/107 (March 2006) and previous reports.

18. The devaluation of the CFAF in 1994 resulted in an improvement of the country's competitiveness, and the gains from the devaluation have been only partially eroded through subsequent adjustment (see figure 2). However, the real effective exchange rate has been gradually appreciating since the devaluation, particularly in recent years when it appreciated by 12.6 percent since 2001. The appreciation of the euro and the region's low inflations reflecting tight monetary policies contributed to the exchange rate appreciation. The continued appreciation of the euro combined with the sharp deterioration in the terms of trade could have resulted in 2005 in an overvaluation of the exchange rate with respect to the equilibrium rate.

19. The potential overvaluation of the exchange rate is a concern given that most fast growing developing countries tend to have undervalued real exchange rates.³⁴ Although the fixed exchange rate supports low levels of inflation, it limits public policy instruments, and fiscal policies bear the burden of maintaining aggregate demand consistent with the relatively low inflation in the Eurozone, thus potentially adversely impacting growth. The current fixed exchange rate can constrain adequate responses to changes in international prices if appropriate periodic adjustments are not implemented. The recent decline of the terms of trade could lead to an overvalued exchange rate. In turn, an overvalued exchange rate would undermine exports by reducing their international competitiveness. The deterioration of the terms of trade and loss of external competitiveness contributes to worsening in government savings through reduced revenues. In response, governments typically lower public investment, and there is also a corresponding decrease in private investment. These responses would accentuate the detrimental impact of the overvalued exchange on the economy.

Figure 2: Real Effective Exchange Rate and Terms of Trade
(1990=100)



Source: IMF, Country Report No. 06/107 (March 2006) and previous reports.

20. In summary, Burkina Faso has benefited in recent years from a stable macroeconomic environment reflecting prudent fiscal and monetary policies. Given the current exchange rate regime, low levels of inflation were critical to maintaining the peg with the euro. However, enhancing the flexibility of the exchange rate regime could be considered in view of the potential adverse impacts of recent appreciations on export promotion and international competitiveness.

Productivity and Competition

21. Preliminary growth accounting analysis indicates that economic growth in the last four decades was mainly due to the accumulation of physical capital, while the contributions of human capital and Total Factor Productivity (TFP) were negligible. The analysis indicates that the rate of return of physical capital accumulation has been comparable to other Sub-Saharan African countries. The insignificant impact of human capital accumulation likely reflects the extremely low educational

³⁴ Haussmann and Rodrick (2005) looked at the relationship between real exchange rate deviation and growth for a 15 year period, from 1988 to 2003, and found that: (a) most fast growing developing economies had very undervalued real exchange rates; (b) the only exceptions are countries which rely on natural resources, such as Belize, Botswana, Uganda, or aid dependent countries, such as Mali, Mozambique, Sudan; and (c) a proxy estimate of such relationship reveals that a 30 percent deviation of the real exchange rate accelerates growth by about 0.5 percent.

and health indicators of the population which are low even in comparison with other Sub-Saharan African countries. The major policy implication is that sustaining economic growth will depend on improving factor productivity, including by building human resource capacity..

22. Improving total factor productivity is critical to accelerating economic growth. Factor productivity is a major determinant of cross-country differences in income and growth rates. The post-1995 growth recovery among SSA countries has been fueled by a significant increase in TFP growth. The fastest growers of 1990s registered TFP growth of 2.3 percent in the second half of the decade, in contrast to the negligible TFP growth for Burkina Faso. The low productivity growth in Burkina Faso is consistent with an environment characterized by low skill levels and competition constrained by the prominence of monopolies and the informal sector. A more competitive environment would induce economic agents to improve their productivity, and it would shift resources from less to more productive agents. In addition, greater productivity growth would induce increased growth of inputs given that the decision to invest in physical and human capital is itself dependent on productivity of the inputs. Hence, the low productivity growth rate in the country has a detrimental impact on economic growth beyond simply the low rate of TFP growth.

23. The key to improving the level and productivity of investment is to create an environment that encourages competition and use of productive technology. Hence, the ongoing economic restructuring program should continue to focus on removing structural impediments to greater market competition, based on the principles of: (i) market liberalization and privatization; (ii) exports expansion to benefit from economies of scale; (iii) liberalization of markets for inputs such as transport, telecommunication, water, energy, and labor services in order to reduce the cost and improve access and quality. The reduction of structural impediments would contribute towards diversifying economic activities and therefore reducing the country's overdependence on a single commodity, cotton. Liberalizing markets and increasing investments in infrastructure are particularly important given that Burkina Faso consistently has one of the highest cost structures in the region, even compared to other landlocked countries (see table 5).

Table 5: Factor Costs in WAEMU, 2000

Factor	Unit	Burkina Faso	Benin	Cote d'Ivoire	Mali	Niger	Senegal	Togo
Water	CFAF/m ³	1,206	293	396	315	386	614	257
Road Transport	CFAF/km	55	34	31	34	42	34	32
Freight (Europe)	CFAF/kg	5,750		5,350			5,350	
Electricity (Industrial)	CFAF/kWh	110	45	36	81			
Telecommunication (WAEMU-EU)	CFAF/min	780	475	535		700	424	600

Source: FIAS (2004) and WAEMU (2004) in World Bank, "Concept Paper, Burkina Faso Diagnostic Trade Integration Study," mimeo, 2006.

24. The country's labor regulations on hiring and firing are overly rigid and complex. According to the World Bank's "Doing Business" surveys, Burkina Faso is rated the worst country in the world with respect to the difficulties employers face in hiring and firing workers. These difficulties include ratio of minimum wages to value-added per worker, rigidity in working time and mandated annual leaves with pay, workers' legal protection against dismissals, cost of hiring including all social security payments and payroll taxes, and cost of firing including severance payments and penalties due. These costly labor regulations are reflected in non-competitive hourly labor costs (see table 6). The hourly labor costs of Burkina Faso are higher than neighboring countries and larger international competitors such as China and India. However, comparison of unit labor costs should be adjusted for

differences in the value of output or value-added. Assuming that countries such as China probably enjoy a higher level of productivity in at least some of the low value added industries, the relatively high labor costs of Burkina Faso presents a challenge to its efforts to diversify beyond primary commodities.

Table 6: Comparison of Hourly Labor Costs in Textile & Garment Industry (Units US\$)

Cotton-4	Hourly Labor Cost	Other Countries	Hourly Labor Cost	Year reported
Benin	\$0.27	Brazil	\$1.14	2002
Burkina Faso	\$0.64	China	\$0.46	2002
Chad	\$0.29	India	\$0.51	2001
Mali	\$0.48	Korea	\$5.83	2001
		Turkey	\$2.32	2000

Source: World Bank, "West and Central Africa: Strategies for Cotton Sector Development in West and Central Africa – Towards a Regional Textile and Garment Industry," PADECO Co., Ltd., mimeo, December 2005.

25. Although further market liberalization provides the basis for greater competition and productivity gains, past experience indicate that in certain cases market liberalization seemed to have benefited from an adjustment period during which the new market players are provided an opportunity to build their capacity. An illustrative example is the cotton sector in Burkina Faso. The cotton sector was developed in the past under a monopolistic market structure (see box 1). By contrast, the production and exports of fruits and vegetables declined after the withdrawal of the government from the subsector.

Box 1: Cotton Sector

Market liberalization and privatization can proceed in many different ways, depending on country specific circumstances. The cotton sector in Burkina Faso has played a major role in promoting growth and reducing poverty. Cotton production increased by an annual average of 17 percent in the last decade, and cotton producers increased from less than 50,000 in the 1960s to approximately 250,000 today. However, such successes were achieved through a vertically integrated market structure dominated by a single company, SOFITEX. SOFITEX has evolved over the years, mostly significantly in 1999 when producers bought 30 percent of the shares, but its dominance of the domestic market was partially relinquished only in 2004 with the entry of two new regional operators. Hence, the country's successes in cotton were mostly achieved in the absence of domestic competition. Instead, the export orientation of the sector seemed to have allowed international competition to compensate for the lack of domestic competition in instilling market discipline through competition.

A vertically integrated monopoly was a satisfactory structural arrangement in the past given the lack of contracting capacity and the small volume of production. Small producers were supported through a guaranteed market and a floor price, effectively transferring the risks onto the cotton company, in return for a guaranteed monopsony position. Capacity of the producers was increased through substantial support from the donors. However, increased production was achieved mainly through expansion of cultivated areas, while productivity remained largely stagnant. At the same time, international market prices for cotton continued to decline, reflecting competition from more productive and in some cases more subsidized producers.

In order to adapt to the changes in the international market, Burkina Faso will have to address the relative lack of competitiveness through domestic reforms. The main thrust of the reforms should be to further liberalize and privatize the cotton sector in order to create a business climate more favorable to the development, distribution and adaptation of new technologies, particularly for seed variety, soil fertility and irrigation.

Source: World Bank, "Cotton cultivation in Burkina Faso – a 30 year success story," case study (mimeo) for "Scaling up for poverty reduction: a global learning process and conference," May 2004. Goreux, L., "Annex to the Burkina Faso Diagnostic Trade Integration Study," mimeo, February 2006.

26. The strategy of improving productivity through market liberalization inherently has limits in a country such as Burkina Faso where the public sector plays a significant role in the economy. Given that the public sector is shielded from market forces, policy makers have to rely on other instruments to improve the productivity of public investments. Hence, public sector capacity building and structural reform initiatives are inextricably an important part of the growth agenda of the country. Diagnostics tools such as Public Expenditure Reviews (PERs), Country Financial Accountability Assessments (CFAAs), Country Procurement Assessment Reports (CPARs) and HIPC AAPs are used to identify the critical shortcomings of the country's public financial management system. The country's decentralization program has been identified as a key component to effective public sector management.

27. In addition to improving the productivity of public sector investments, the authorities should continue to reduce the scope of public investments through their divestiture and utility reform programs. Government involvement should focus on core public goods and services which provide the most contribution to public welfare, while allowing the private sector to supply private goods and services which naturally belong in the market domain. The public sector still includes 53 enterprises, with many of the largest in the utility sector. These public enterprises are constrained in their investment choices due to the limited fiscal capacity of the government. Furthermore, management of public enterprises lacks incentives to compete effectively, resulting in below optimal performance. Partly as a result, Burkina Faso has the highest unit costs of infrastructural services in the WAEMU

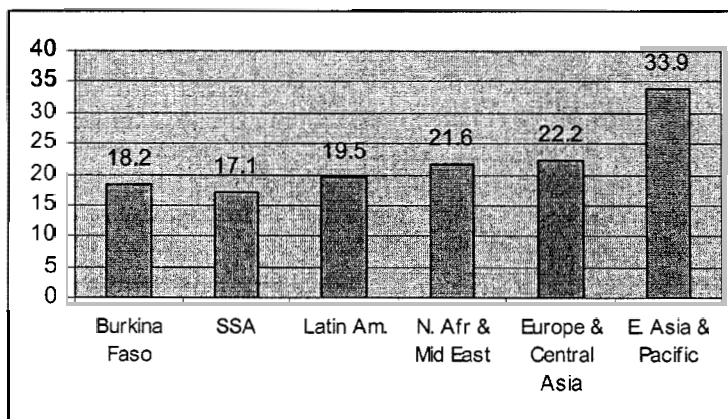
zone. High factor costs discourage investment and the expansion of the private sector. Low coverage of public services in the country, particularly in rural areas, undermines shared growth.

28. Although TFP growth can explain differences in economic growth across countries, this does not mean that factor accumulation is unimportant, particularly at certain stages of development. Factor accumulations in the form of large increases of participation rates, educational levels and investment rates explain a large part of their rapid growth of East Asian countries.³⁵ In addition, there was a large intersectoral transfer of labor into manufacturing which enjoyed higher value added per worker, thus further increasing economic growth. Hence, sectoral composition of factor accumulation can have an important impact on growth. Removing structural impediments to intersectoral flow of resources, such as overly restrictive labor legislations, could facilitate resource transfer to sectors with higher per capita output and thus result in increased growth.

Savings and Investment

29. Investment rates in Burkina Faso appear to be comparable to the average of SSA countries. However, investment rates in SSA are the lowest among all the regions in the world. In particular, the investment rate in East Asia is significantly higher than the other regions and nearly twice as high as in SSA. Although it would be unrealistic at present to target investment rates similar to those in East Asian countries given the difference in investment opportunities and economic structure, the rates in East Asia illustrate investment levels that could be expected in a high growth environment.

Figure 3: Average Investment Rates
(Gross Fixed Capital Formation as Percent of GDP (1997 – 2001))



Source: World Development Indicators (WDI), World Bank.

Note: Burkina Faso figure based on the period 1991 to 2001.

30. Although investment rates are comparable in the region, the savings rate is low even compared to other countries in the region. Excluding the year 2004 when the country experienced an exceptional agricultural season, gross domestic saving has been in the range of 3 to 4 percent of GDP, comparing poorly with the average of 6 percent in SSA and 36 percent in high performing Asian economies.

³⁵ Alwyn, Young, "The tyranny of numbers: confronting the statistical realities of the East Asian growth experience," Quarterly Journal of Economics, 110(3), August 2005.

Table 7: Savings and Investment in Burkina Faso
(percentage of GDP)

	199 9	200 0	200 1	200 2	200 3	200 4
Gross domestic saving	2.9	2.4	4.0	4.2	4.1	7.4
Public domestic saving	5.0	3.3	2.8	2.8	4.1	4.9
Private domestic saving	-2.2	-0.9	1.1	1.3	0.0	2.6
Gross investment	18.2	18.9	18.5	17.5	17.0	18.6
Public investment	9.8	8.4	8.0	7.1	6.3	7.7
Private investment	8.4	10.5	10.6	10.4	10.7	10.8
Domestic savings – investment gap	15.3	16.5	14.5	13.3	12.9	11.2
Total external inflows	15.2	14.0	15.4	13.2	11.7	12.0
Official	12.4	10.2	13.3	10.8	10.1	9.8
Transfers (grants)	9.2	8.8	10.4	7.6	7.8	6.6
Official loans	3.2	1.4	3.0	3.2	2.3	3.2
Private	2.8	3.8	2.0	2.4	1.6	2.2
Current transfers	2.2	2.1	1.2	1.3	0.7	1.0
<i>of which: workers' remittances</i>	2.7	2.4	1.5	1.6	1.1	1.1
Private capital (including FDI)	0.6	1.7	0.8	1.1	0.9	1.2

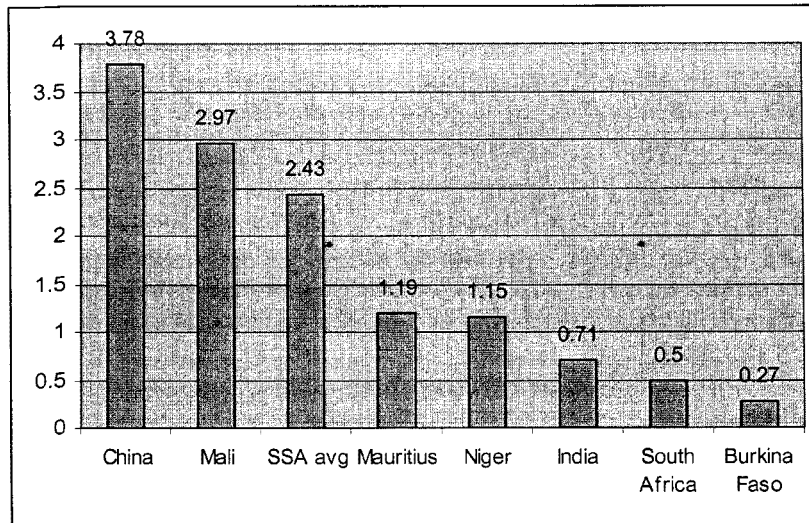
Source: IMF Country Report No. 05/358, September 2005

31. Private saving is low partly because of low per capita income and high household dependency ratio.³⁶ These factors normally change only gradually. The low savings rate also reflects the lack of financial depth in the economy, with few savings products and a lack of bank branches which are mostly concentrated in Ouagadougou. The low savings rate and the lack of financial depth could result in lower productivity of investments if they reflect a financial sector which does not efficiently carry out its financial intermediary role, particularly for mobilizing and channeling savings into more productive sectors. In addition, financial institutions have lamented the lack of appropriate lending opportunities despite the fact that level of investment appears to be far greater than the level of domestic financial resource mobilization.

32. Foreign aid appears to cover most of the gap between gross domestic savings and gross investment (see table 7). Official transfers and loans, including current and capital transfers, have averaged 80.3 percent of the savings-investment gap in recent years. Private external flows, mostly composed of private remittances and private capital, have average 17.6 percent of the gap in recent years. Hence, the country heavily relies on official inflows, and it appears that this situation will not change in the near future given that private remittances have decreased in recent years. In the long term, domestic savings rate will have to be increased in order to decrease dependence on foreign aid given its unpredictability. Note that the comparison between the savings-investment gap and external inflows is only a rough analysis as some of the inflows, particularly current transfers, could have been used for consumption.

³⁶ Ibrahim A. Elbadawi and Francis M. Mwege, "Can Africa's saving collapse be reversed?" World Bank Economic Review, Vol. 14, No 3:415-43.

Figure 4: Foreign Direct Investment
(Percent of GDP)



Source: World Development Indicators (WDI) in Nankobogo, Francois and JM Marchat, "Secteur Privé, Investissements, et Développement des Exportations," World Bank, mimeo, March 2006.

33. Low levels of Foreign Direct Investment (FDI) contribute to the relatively small private external inflows (see figure 4). Burkina Faso's FDI averaged 0.4 percent of GDP from 1994 to 2003 compared to the average of 2.3 percent for Sub-Saharan Africa. In fact, the country's cumulative capital flight from 1970 to 1996 was fourteen times greater than FDI inflow, indicating that Burkinabes agree with foreigners that the country is not a promising location for investment.³⁷ A small domestic market and relatively high factor costs are some of the challenges to attracting FDI. Such disadvantages can be partially compensated by export promotion policies, regional integration and a stable investment climate. Measures to attract foreign investment should be accompanied by a full examination of the extent of the associated externalities. In particular, FDI in extractive mining industries in Africa have tended to result in enclaves with limited local linkages.

Investment Climate

34. The strategy of improving productivity through market competition depends on an investment climate supportive of private investments. A country's quality of governance is the most basic foundation of the investment climate. In general, cross-country governance assessments indicate that Burkina Faso is a low performer, but its relative ratings have improved over the last decade. In terms of percentiles, the country now ranks in the second quartile on all governance indicators according to a World Bank research.³⁸ The indicators consist of accountability, political stability, government effectiveness, regulatory quality, rule of law and corruption. The same research also indicates that governance has a significant impact on standards of living and poverty alleviation.

35. The International Country Risk Guide (ISRG) rates a country's governance ratings more specifically targeting concerns of the business community. The rating measures country risks with respect to contract viability, payment delays and profit repatriation. Burkina Faso rates 9.0 on a scale

³⁷ UNCTAD, "Economic development in Africa: Rethinking the role of foreign direct investment," Sales No. E.05.11.D.12, 2005.

³⁸ Kauffman, Daniel and Aart Kraay, M. Mastrussi, "Governance matters IV: Governance indicators for 1996-2004," World Bank, 2005

from 0 to 12, where 12 is the lowest risk. This rating compares favorably with the Sub-Saharan African average of 7.5, and the average of 6.4 in the mid-1980s for sustained growth countries.³⁹

36. By contrast to the relatively favorable investment risk ratings of ISRG, ease of doing business in the country in terms of business regulations and their enforcement is extremely poor. According to the “Doing Business” survey of the World Bank, the country ranks 154 out of 155 countries in terms of the overall ease of conducting business, measured by business regulations and their enforcement. Some of the most significant challenges to conducting business in the country are as follows: (i) licensing and permit requirements are burdensome with 46 steps which cost 5,003 percent of per capita income; (ii) labor regulations on hiring and firing are overly rigid and complex; (iii) enforcing contracts through legal and administrative procedures costs 95.4 percent of the debt, or nearly all of the value of the debt; and (iv) bankruptcy procedures take 4.0 years and result in the claimants recovering only 6.3 percent from the insolvent firm. Burkina Faso performs poorly for all of these indicators even compared to the region.

37. Building the capacity of the legal system will be critical to improving the business climate. The insufficient number of courts and judges result in low coverage of the judiciary, with most of the courts concentrated in the two largest cities. There is a perception that the level of accountability and impartiality of judges are low. Court decisions suffer long delays, and decisions frequently are not executed.

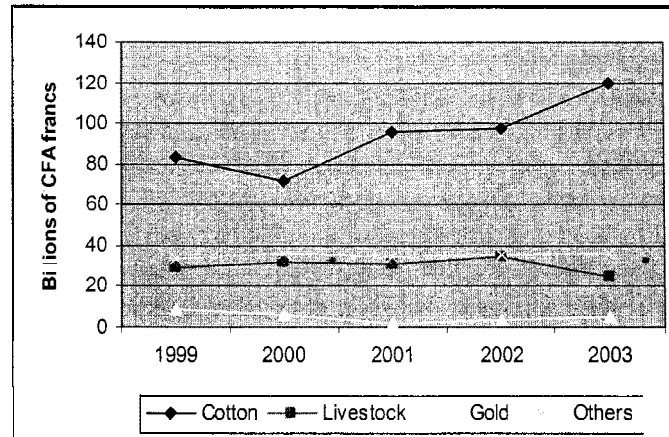
External Trade

38. Burkina has a small domestic market, and therefore much can be gained from pursuing an export oriented growth strategy. The country’s total exports and imports of goods and services are relatively low, averaging 9.3 percent and 22.2 percent of GDP respectively since 2001. By contrast, Sub-Saharan African countries which grew the fastest in the 1990s were generally more open to trade, with ratios of exports plus imports to GDP between 90 and 100 percent. Hence, there are significant margins for improving trade performance. There is relatively strong evidence that participation in export markets is a source of improved firm productivity.⁴⁰ There could be a combination of factors which explains this relationship, including the impact of market discipline provided by international competition, and technology transfer carried out through contact with overseas firms and customers.

³⁹ Johnson, Simon and Jonathan Ostry, Arvind Subramanian, “Levers for Growth,” Finance and Development, IMF, March 2006.

⁴⁰ Bigsten, Arne and Mans Soderbom, “What have we learned from a decade of manufacturing enterprise surveys in Africa?” World Bank Policy Research Working Paper 3798, December 2005.

Figure 5: Burkina Faso Main Exports

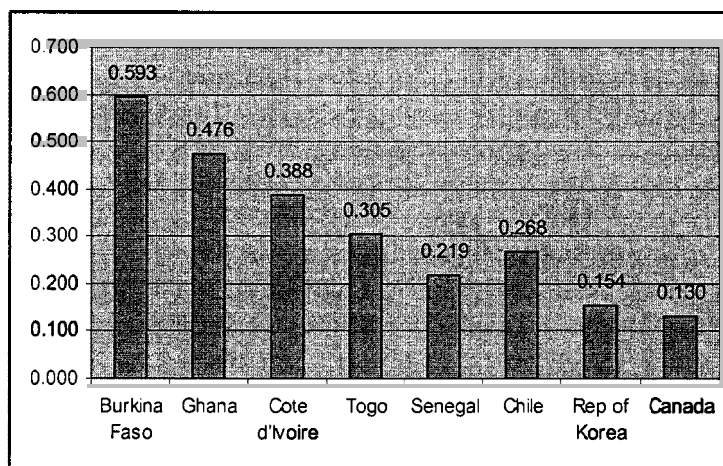


Source: IMF, "Burkina Faso: Selected Issues and Statistical Appendix," IMF Country Report No. 05/358, September 2005.

39. Total exports have roughly kept pace with the growth of GDP in recent years mainly due to increased cotton exports, while exports of other goods stagnated (see figure 5). This situation is not sustainable. Exports of non-cotton goods will eventually have to contribute to export growth. The cotton sector accounted for 63.3 percent of merchandise exports since 2001 and employs a fifth of the population.

40. The dependence on cotton is reflected in a relatively high Herfindahl-Hirschmann index for exports, a measure of product diversification (see table 7). The index ranges from zero to one, with one indicating no diversification. The dependence on cotton leaves the country critically exposed to changes in its international prices. Although export diversification has been a key policy objective for many years, the extent of diversification has actually deteriorated over the years as indicated by increase in the country's Herfindahl-Hirschmann index from 0.439 in 1986 to 0.593 in 2003.

Figure 6: Herfindahl-Hirschmann Index of Export Diversification (2003)



Source: United Nations, *UNCTAD Handbook of Statistics*, 2005.

41. In general, trade policy of the country is fairly liberalized. With the adaptation of the WAEMU's Common External Tariff (CET) in 2000, the average tariff fell to 12 percent.

Nevertheless, agricultural products such as sugar and refined vegetable oils are subject to an additional degressive protection tax which reduces the purchasing power of households. The country waives import duties on goods originating in the WAEMU, and this preferential treatment has been extended to ECOWAS countries since 2004. There are no non-tariff import restrictions except for a quantity-based restriction on sugar imports which has not been enforced since the middle of 2002, and a national conformity certificate for certain products. The country's openness to trade is consistent with the policies pursued by successful Asian economies. All of the East Asian economies have low or zero black market premiums, all but Thailand have low tariffs, and all but Taiwan have low coverage of import quotas.⁴¹ However, some of these countries also utilized discretionary market interventions (see box 2).

42. Accelerating regional trade liberalization and integration can promote export diversification. It is particularly critical for landlocked countries such as Burkina Faso to work closely with neighboring countries on regional economic policies, become a haven for businesses in the region, and secure access to coastal ports in addition to air transportation and the internet.⁴² Trade reforms have been pursued within the context of the WAEMU, including the adoption of a Common External Tariff (CET). As a result, intraregional trade within WAEMU as a share of total trade has been increasing in the past years. Burkina Faso's share of intraregional exports, at 28 percent, is the highest among all the WAEMU countries. Other WAEMU countries are the principal markets for the country's non-cotton exports, mostly livestock and food crops. Intraregional trade liberalization should be accompanied by reduction of external trade barriers of the region in order for the country to avoid becoming a captive market for more industrialized and richer neighbors within the region.

Box 2: Export Promotion and Growth in the Republic of Korea

Despite open trade policies, it should be noted that many Asian economies also pursued discretionary interventionist policies. In the early 1960s, South Korea abandoned an import substitution strategy and instead adapted a growth strategy based on export-oriented industrialization and close cooperation between business and government. The authorities allowed the local currency to depreciate, reduced administrative barriers for businesses, and allowed duty-free imports and tax exemptions for exporters. In addition, the authorities utilized targeted discretionary policies such as sponsorship of specific industries through rationed and directed credits, low interest rates through banks that they owned or controlled, import restrictions, selective price and wage controls, and restrictions of labor union activities.

Exports in the early 1960s were dominated by primary commodities such as silk, tungsten, and fish products. As industrialization proceeded, manufactured goods emerged as the dominant exports and the proportion of primary commodities in exports fell from 80.1 percent in 1960 to 3.8 percent in 1994. The structure of the economy reflected the changes in the composition of exports. Agriculture as a share of GDP decreased from 39.9 percent in 1960 to 3.8 percent in 2005, while the share of industries rose from 18.6 percent to 41.4 percent in the same period.

The effectiveness of the discretionary policies are still debated, and these policies were gradually phased out over time in favor of free market initiatives. The Asian financial crisis of 1997 to 1998 exposed the long standing weaknesses in the country's development model, and spurred the restructuring of the corporate and financial sectors. By contrast to the discretionary policies, the non-discretionary policies are less controversial and more adaptable to Burkina Faso.

Source: Byung-Nak Song, *The Rise of the Korean Economy*, Oxford University Press, 1997.

⁴¹ Sachs, Jeffrey and Andrew Warner, Anders Aslund, Stanley Fischer, "Economic Reform and the Process of Global Integration," *Brookings Papers on Economic Activity*, 1:1995.

⁴² Collier, Paul, background note for the Niger CEM workshop, World Bank, September 2005.

Human Development

43. The level of schooling, education attainment and literacy in Burkina Faso remain low. The primary school enrollment rate at 44 percent and secondary school enrollment at 16 percent are low by international standards. Just 30 percent of male adults and 13 percent of female adults know how to read and write. Progress has been made on some key health indicators, reversing the trend of the mid-1990s. Infant mortality declined to 83 per 1000 live births, below the SSA average. Infant mortality and under-5 mortality also declined. Health infrastructure increased in recent years, but accessibility to health services is still an issue as 35 percent of the population still have to walk more than an hour to reach to nearest health center.

44. Health influences growth by improving the productivity of labor.⁴³ First, high rates of morbidity undermine productivity. Second, a longer and healthy life alters decisions about consumption and savings. Planning for retirement becomes more critical when the likelihood of surviving to retirement age is high. This results in higher savings which in turn promotes higher investment. High morbidity and endemic diseases deter foreign as well as domestic investors. Better health and nutrition also improve school attendance and cognitive development, which in turn raise knowledge capital and productivity.

45. Increased life expectancy may have played a significant role in promoting growth in East Asian countries. Life expectancy increased from 39 years in 1967 to 67 years in 1990, resulting in an increase in the ratio of working-age to dependents population from about 1.3 to over 2. Life expectancy in Burkina Faso is 44 years. In conjunction with decreased dependency ratio, the increase in the life expectancy also contributed towards greater savings given that individual savings normally peak between ages 40 to 65. The high saving rate allowed for the high investment levels. Cross-country growth regressions suggest that one extra year of life expectancy raises steady-state per capita GDP by about 4 percent.⁴⁴

46. The positive influence of education on income growth is also well documented. Educational attainment has a positive impact on skills in the labor force, productivity and earnings. Education could also enhance health outcomes, thus maximizing the benefits described above. Modern growth theories emphasize the importance of knowledge and R&D on long-term growth.

Inequality and Shared Growth

47. Country experience indicates that growth is the main driver of poverty reduction but changes in inequality can also have a sizable impact on reducing poverty. Relatively to other countries, Burkina Faso experienced a high degree of pro-poor growth in terms of falling inequality contributing to a sizable decrease in poverty (see figure 7).⁴⁵ In fact, the contribution from decreasing inequality to poverty reduction Burkina Faso exceeded the contribution from growth over the period 1994 to 2003. By contrast, Ghana and Zambia showed very small inequality effects, and Uganda experienced a large increase in poverty due to the inequality effect.

48. Differences in sectoral growth performance are a significant factor in explaining the impact of inequality on growth. In Burkina Faso, the agriculture sector producing traded goods was a major

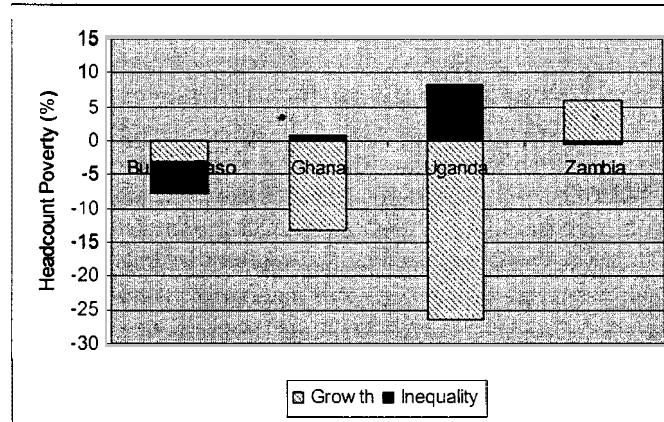
⁴³ Bloom, David and David Canning, and Dean T. Jamison: Health, Wealth, and Welfare – Finance & Development March 2004.

⁴⁴ David E. Bloom, David Canning, and J. Sevilla, 2004, "The Effects of Health on Economic Growth: A production Function Approach," World Development, Vol. 32, pp. 1-13

⁴⁵ Patillo, Catherine and Sanjeev Gupta, Kevin Carey, "Sustaining growth accelerations and pro-poor growth in Africa," IMF WP/05/195, October 2005. The change in the headcount poverty rate is decomposed into components due to growth and to inequality following the methods of Datt and Ravallion (1992).

source of growth which benefited from the 1994 devaluation, with the main employment response occurring in the informal sector. Declines in poverty coincided with a decline in subsistence farming and an expansion of commercial cereal and cotton production.

Figure 7: Decomposition of Changes in Poverty (1994 to 2003)



Patillo, Catherine and Sanjeev Gupta, Kevin Carey, "Sustaining growth accelerations and pro-poor growth in Africa," IMF WP/05/195, October 2005.

49. Decentralization of the public sector is a major initiative in the country which aims to provide a more equitable growth by improving public service delivery. The principle is that local governments are more accountable and responsive to local needs in education, health and infrastructure. However, empirical research is so far inconclusive regarding causal relationships between decentralization and growth, reflecting the difficulty of measuring the decentralization variable and indicating the importance of individual country circumstances, including non-economic factors, in determining causality.⁴⁶ A country's growth response to decentralization is sensitive to the degree to which local governments control their revenues and expenditures, the composition of expenditures, and the degree to which local citizens elect local officials. Given the gradual pace of decentralization in Burkina Faso, it is likely that the impact on growth will not be noticeable significant in the near future.

Policy Implications

50. The PRSP targets an average growth rate of 6 to 7 percent in the medium term in order to significantly reduce poverty. Such levels of growth in the medium term will depend on implementing a development strategy which strengthens the country's competitiveness, diversifies its economic base, and expands market penetration. The key is to raise productivity and investment rates, where improved opportunities will induce greater investments. Higher productivity in the agriculture sector could result from improved irrigation, research and extension, fertilizer usage, and mechanization, as opposed to continued expansion of cultivation area which is not sustainable. Promotion of the private sector will be crucial given the limits of further increasing the already large presence of the public sector in the economy.

51. Policies to promote economic growth require a comprehensive and balanced approach given the varieties of factors that influences the nature and quality of development. Much of the analysis

⁴⁶ Davoodi, Hamid and Heng-fu Zou, "Fiscal decentralization and economic growth," *Journal of Urban Economics*, 43 (2), March 1998. Ebel and Yilmaz (2003). Xie et al (1999). Akai and Sakata (2002). Zhang and Zou (2002). Martinez-Vasquez and McNab (2001). Lin and Liu (2000). Zhang and Zhou (2001)

outlined previously needs to be further developed. In some instances, the underlying problems have been identified but the policy implications were not articulated. In particular, the previous analysis focused on the problems associated with low returns to economic activities, while the cost and availability of financing were not addressed. The key is to determine whether credit is a binding constraint.

52. Despite the shortcomings of the analysis, some broad policy implications can be identified:

(i) **Maintain macroeconomic stability.** Maintaining macroeconomic stability is a prerequisite to all other policies. Sound macroeconomic policies over an extended period reduces uncertainties which undermine domestic and international investment. Within a stable macroeconomic environment, some of the more pressing issues are to improve domestic revenue, and to carefully monitor and adjust for overvaluation of the exchange rate. Credible exchange rate policies are of course critical to export promotion.

(ii) **Initiate a coordinated push for an export diversification strategy of higher valued added industries.** Given the relatively small domestic market and poor natural resource endowment, the country's prospects for sustained growth depend on diversifying exports beyond primary commodities. Further contraction of the secondary sector of the economy has to be reversed. The authorities should initiate a coordinated strategy to address shortcomings identified in the infrastructure, investment climate, finance, and customs and trade facilitation. The ongoing Diagnostic Trade Integration Study provides another opportunity to assess the situation in a comprehensive manner. In addition to a country-wide assessment, in-depth diagnostics of specific subsector should be conducted in order to identify detailed analysis of competitiveness at the industry and firm levels. Subsectors in the secondary sector should be priority candidates for such assessments.

(iii) **Improve the investment climate by reducing factor costs and administrative barriers.** Costs associated with electricity, transportation, labor, contract enforcement and administrative bureaucratic practices are high even compared to other countries in the region. Poor investment climate results in high transaction costs, and impacts in particular the manufacturers which are intensive users of investment climate services. Market liberalization combined with greater regional coordination on infrastructural management, such as the importing of electricity from neighboring countries, contribute towards the lowering of these costs.

(iv) **Improve public sector management.** Improving public services is critical given the large size of the public sector. Diagnostic instruments such as CFAAs and PERs could be used to analyze in detail the management of development projects in the public sector as opposed to their typical focus on public financial management in general. The ongoing decentralization program should address regional development needs aligned with the coordinated push for export diversification proposed above.

(v) **Strengthen human resource capacity.** The extremely low human development indicators are a major constraint to diversifying the economy into higher valued added industries.

Annex 7: Fund Relations Note



INTERNATIONAL MONETARY FUND

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 06/51
March 13, 2006

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

IMF Executive Board Completes Fifth Review Under Burkina Faso's PRGF Arrangement and Approves US\$4.9 Million Disbursement

1. The Executive Board of the International Monetary Fund (IMF) completed today the fifth review under the Poverty Reduction and Growth Facility (PRGF) arrangement for Burkina Faso (see [Press Release No. 05/207](#)). The completion of the review, which was undertaken on a lapse of time basis¹, enables the release of a further SDR 3.44 million (about US\$4.9 million) under the arrangement. This will bring the total amount drawn under the arrangement to SDR 20.6 million (about US\$29.6 million).

2. The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in the country's Poverty Reduction Strategy Paper. This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

¹ The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

Annex 8: Debt Sustainability Analysis

Burkina Faso: Debt Sustainability Analysis

This appendix assesses the sustainability of Burkina Faso's external public debt using the Debt Sustainability Analysis (DSA) template for low-income countries. The DSA was conducted jointly by Fund and Bank staff and included a loan-by-loan reconciliation of the multilateral debt data. The macroeconomic scenario underlying this DSA is summarized in Box 2 of the appendix. Based on the analysis of the baseline scenario and several alternative scenarios, the Staffs have come to the view that the country faces a moderate risk of debt distress.

Burkina Faso's Debt Situation at end-2004

1. The focus of the DSA is on Burkina Faso's external debt situation. While significant in the past, domestic debt has declined rapidly in recent years in part because of requirements by the West African Economic and Monetary Union – to which Burkina Faso belongs—to phase out indebtedness to the common central bank. In 2005, domestic debt represents only 5 percent of GDP, and it is projected to decline further over the medium term.
2. Burkina Faso's external debt stock net of HIPC debt relief stood at USD 1.75 billion at end-2004⁴⁸. 72.6 percent of this debt is owed to multilateral creditors, such as IDA (49.2 percent), the African Development Bank (18.1 percent) and the IMF (5.3 percent). Most of the bilateral debt is held by non-Paris Club members, some of whom have not yet started providing their share of debt relief.
3. In April 2002, Burkina Faso reached the Completion Point under the Enhanced HIPC Initiative. At the time, it was judged that exogenous factors outside of the government's control (such as falling cotton prices) had contributed to a significant deterioration of Burkina Faso's debt outlook and the country became the first HIPC to obtain an additional topping-up of the Enhanced HIPC assistance. As of end-2004, Burkina Faso's debt situation looks more optimistic than had been projected at the Completion Point (Box 1). Despite adverse exchange rate movements and higher than anticipated new borrowing, at end-2004, the country had a NPV of debt-to-exports ratio that was below the one projected at the Completion Point (183.1 percent and 192.5 percent respectively).

⁴⁸The debt stock net of obtained HIPC debt service relief is used to measure the existing debt burden of the country. The actual debt outstanding reported by the country and the creditors was USD2.1 billion at end-2004. The two numbers differ because HIPC debt relief is provided only in part as a reduction of the debt stock. Most creditors provide relief in the form of grants to help cover debt service obligations for a limited period or in the form of a debt rescheduling.

Box 1. Burkina Faso: Decomposition of the Difference Between the End-2004 NPV of Debt-to-Exports Ratio Under the New Debt Sustainability Framework (DSF) and the Estimate at the Completion Point (CP) (in percentage points)			
NPV of debt to exports ratio as projected at CP 1/	192.52	Changes due to methodology 2/	Changes due to economic variables
(i) Parameters used to calculate NPV of debt	24.95		
Exchange Rate	26.56	33.36	(6.80)
Discount rate	(1.61)	(35.93)	34.32
(ii) New borrowing	7.43		
Volume	5.85		
Concessionality	1.58		
(iii) Exports	(71.54)	(18.41)	(53.13)
(iv) Residual 2/	48.56		
NPV of debt to exports ratio as of DSF 3/	183.11		
<p>1/ The difference between the NPV of debt-to-exports ratio as of the DSF and the NPV of debt-to-exports ratio as projected at the CP equals the sum of lines (i), (ii), (iii) and (iv).</p> <p>2/ Impact of using the WEO exchange rate projections and a 5 percent discount rate, as well as current year exports (as under the DSF methodology), instead of end-2004 exchange rates and currency-specific CIRR and a three-year backward looking average for exports (as under the HIPC methodology).</p> <p>3/ The residual captures any accumulation of arrears, the non-delivery of HIPC assistance or changes in the time profile of assistance as well as weaknesses in the underlying bilateral data.</p>			

4. The latest World Bank's Country Policy and Institutional Assessment (CPIA) ranks Burkina Faso as a 'strong performer' in terms of its policies and institutions. Indicative debt-burden thresholds for countries in this category are a NPV of debt-to-exports of 200 percent, to GDP of 50 percent and to revenues of 300 percent, and debt service ratios to exports and to revenues of 25 and 35 percent respectively.

5. To assess the risk for future debt distress, the Staffs have developed a baseline scenario and several stress tests that are compared against the indicative thresholds. The debt service numbers underlying the analysis reflect any debt relief still to be delivered after 2004. Sections B and C discuss the underlying assumptions and present the results of the analysis, and Section D concludes.

The Baseline Scenario

6. The baseline scenario is developed for 2005--2025. The medium-term assumptions for 2005--08 are covered in the Staff Report. The main assumptions for the subsequent years are summarized in Box 2.

7. Under the baseline scenario, all but one of the external debt indicators maintain a stable path for the entire projection period and remain well below their respective thresholds (Table 1a). Only the NPV of debt-to-exports ratio breaches its indicative threshold over the medium term, but improves again over longer horizons. Between 2005 and 2013, the ratio averages 218 percent before falling below 200 percent in 2014. The medium-term deterioration in the NPV of debt-to-exports ratio is due to several factors, including the medium-term run-up in expenditures (from 21.4 percent of GDP in 2004 to 24.6 percent in 2006).

Box 2. Baseline Assumptions.

The baseline scenario is developed for 2005-2025. The medium-term assumptions for 2005-2008 are covered in the staff report. For the subsequent years, the main assumptions are the following:

- Annual real GDP growth is 6 percent. This is in line with the average growth rate over the past 15 years and also reflects gains from sustained efforts to improve private sector development and reduce government involvement in the economy;
- Average inflation as measured by the implicit deflator of GDP is 2.1 percent, owing to the peg of the currency to the euro
- The revenue to GDP ratio is projected to rise gradually from 13.9 percent in 2005 to 18 percent by 2016 and stays constant afterwards, reflecting the gradual convergence of the revenue ratio to the 17 percent WAEMU norm owing to rising incomes and improved tax collection (including from ongoing efforts such as the establishment of the large taxpayer unit, the completion of a taxpayer Census and the introduction of a unique Tax Identification Number)
- The expenditure to GDP ratio reaches 24 percent of GDP by 2008 from 21.4 percent in 2005, reflecting efforts of the authorities to make progress towards meeting the Millennium Development Goals (MDGs), and afterwards remains constant as a share of GDP
- Cotton exports, which in 2004 were almost 70 percent of total exports, are projected to grow at 10 percent annually in real terms during 2009—2015 and at 5 percent thereafter. These growth rates are more conservative than the five and ten year historical averages, which were 13 and 17 percent respectively. Growth will come from increasing the cotton growing areas and from productivity gains, notably from using better crop varieties and increasing the use of fertilizers
- Non-cotton exports are assumed to grow at 5 percent in real terms annually during 2009—2015 and at 7.5 percent thereafter. The authorities have identified non-cotton exports as a key sector for increasing economic diversification, and recent reforms in the mining sector and ongoing efforts such as building a fruit and vegetables terminal support this strategy
- The export projections and the assumption that imports grow on average 7.4 percent annually over 2008—2025 (slightly less than nominal GDP growth) lead to a gradual improvement of the current account deficit excluding grants relative to GDP, from 11.7 percent in 2008 to 4.9 percent by 2025
- Finally, the baseline scenario assumes that the grant share of the total external financing need is 57 percent and 54 percent for 2005 and 2006 respectively, calculated from information provided by the authorities. From 2007 onwards, the grant component is
- projected to remain at 55 percent, which is more conservative than the ten year historic average.

8. The deterioration in the ratio is compounded by the relatively weak export growth in the short term, which in dollar terms is projected to grow by 5.6 percent on average in 2005-06 compared to an average growth of 25.0 percent in 2002-04. Other debt burden indicators such as the debt service ratios and the NPV of debt-to-GDP and revenue ratios remain stable over the projection period. Until 2025, the NPV of debt-to-GDP ratio is projected to average 23 percent, and Burkina Faso would spend on average 9 percent of its export proceeds or 7 percent of its total revenues on the payment of debt service.

Sensitivity Analysis

9. The sensitivity analysis shows that, again with the exception of the NPV of debt-to-exports ratio, the indicators remain below their respective indicative thresholds, even under stress (Table 1b). The projections for the NPV of debt-to-exports ratio and the debt service ratios are most vulnerable to the following three standard scenarios: (i) should export projections remain subdued and grow at one standard deviation below historical levels, (ii) in the event of a combined shock or (iii) if the

terms of financing available to the country worsen (bound tests B2 and B5 and scenario A2 in Table 1b respectively). The Staffs performed an additional scenario that assumes that the authorities achieve only half of the projected increase in the revenue-to-GDP target 2015 (Table 1c). Under this scenario, should the authorities not be able to compensate the lower revenues with expenditure cuts or a higher grant share of their financing, the various debt ratios would not improve over the long run, and the NPV of debt-to-exports ratio would remain above 200 percent over the entire projection period. Finally, under the standard historical scenario (scenario A1, Table 1b), all indicators exhibit a sharp upward trend in the outer years of the projection period. The main reason for the worsening of the indicators compared to the baseline is that the historical scenario assumes that the non-interest current account remains at 8.9 percent of GDP leading to a stark increase in new borrowing.⁴⁹

Staff Assessment

10. The findings from Debt Sustainability Analysis lead the Staffs to conclude that while Burkina Faso's debt dynamics are sustainable, the country faces a moderate risk of debt distress. The debt situation is sustainable because, with the exception of the NPV of debt-to-exports ratio, all debt indicators remain well below the policy-contingent indicative thresholds, both under the baseline and under the alternative scenarios. The NPV of debt-to-exports ratio breaches the indicative threshold for some years under the baseline before improving gradually in the outer years of the projection period. Taken as a whole, the Staffs do not view the temporary breach of that threshold as indicative of a fundamental debt problem.

11. However, the results from the alternative scenarios underscore the need for the authorities to continue to implement their program of sound macroeconomic policies and reforms, including towards achieving higher export growth and other growth-enhancing measures. The alternative revenue scenario highlights the importance of maintaining efforts to improve revenue collection. Those factors, combined with unwavering resolve to attract financing at favorable terms—preferably through grants—would help Burkina Faso in achieving progress towards the MDGs (as reflected in the ambitious medium-term expenditure program) while containing the risks to maintaining external debt sustainability.

⁴⁹ The historical scenario also does not take into account the forward-looking export price projections from the latest WEO.

Table 1a. Burkina Faso: External Debt Sustainability Framework, Baseline Scenario, 2002-2025 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/ Standard Deviation 6/	Projections										2011-25 Average	
	2002	2003	2004		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		2015	2020	2025
External debt (nominal) 1/	49.7	42.9	34.3	34.8	37.3	38.7	39.6	40.5	41.1	38.7	35.0	40.1	35.0	38.4		
Change in external debt	-4.1	-6.8	-8.6	0.5	2.6	1.4	0.9	0.9	0.6	1.1	-0.8	-0.8	-0.4	-0.4		
Identified net debt-creating flows	2.8	-3.9	0.7	6.7	10.2	8.5	8.0	6.4	5.7	7.6	2.8	2.8	2.6	3.2		
Non-interest current account deficit	9.6	8.3	7.6	8.8	11.5	10.6	10.4	8.6	7.9	9.6	4.4	4.9	4.4	5.1		
Deficit in balance of goods and services	13.3	12.9	11.1	12.8	13.4	12.5	12.2	11.8	11.3	12.3	6.7	7.9	6.7	7.9		
Exports	9.0	8.9	9.9	9.6	9.6	9.8	10.0	10.3	10.6	10.0	13.2	12.8	12.8	12.7		
Imports	22.3	21.7	21.0	22.4	23.0	22.2	22.3	22.1	21.9	22.3	21.1	19.5	20.6	20.6		
Net current transfers (negative = inflow)	-4.0	-4.9	-3.9	-4.3	-2.2	-2.1	-2.0	-3.2	-3.4	-2.9	-2.9	-2.1	-2.7	-2.7		
Other current account flows (negative = net inflow)	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.0	0.2	-0.1	-0.2	-0.1	-0.1		
Net FDI (negative = inflow)	-0.4	-0.6	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.1	-0.1	-0.1	-0.1		
Endogenous debt dynamics 2/	-6.4	-11.5	-6.5	-1.7	-1.0	-1.8	-2.1	-1.9	-2.0	-1.7	-1.9	-1.6	-1.6	-1.8		
Denominator: $1+g+p+rgo$	1.1	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1		
Contribution from nominal interest rate	0.4	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.4		
Contribution from real GDP growth	-5.1	-11.1	-5.4	-2.0	-1.2	-2.0	-2.3	-2.2	-2.3	-2.0	-2.3	-2.0	-2.2	-2.2		
Contribution from price and exchange rate changes	-1.7	-0.7	-1.4	...	...	...	...	...	...	...	...	...	...	...
Residual (3-4) 3/	-6.8	-2.9	-9.3	-6.2	-7.6	-7.1	-7.1	-5.6	-5.1	-6.4	-3.6	-3.0	-3.6	-3.6		
o/w exceptional financing	-0.6	-0.6	-0.5	-0.7	-0.5	-0.3	-0.3	-0.3	-0.3	-0.4	-0.1	0.0	0.0	0.1		
NPV of external debt 4/	...	...	18.1	19.2	20.9	21.8	22.6	23.4	24.0	22.0	24.5	22.2	23.7	23.7		
In percent of exports	...	...	183.1	200.4	216.8	223.6	225.5	226.7	225.9	219.8	185.5	173.1	187.3	187.3		
In percent of revenues	...	...	141.5	143.8	149.2	151.7	153.6	154.8	154.9	151.4	133.7	123.6	129.3	129.3		
Debt service-to-exports ratio (in percent)	10.1	6.3	4.9	8.1	9.1	9.9	9.6	8.8	8.7	9.1	8.5	10.3	9.3	9.3		
Debt service-to-revenues ratio (in percent)	7.9	4.6	3.8	5.8	6.2	6.7	6.6	6.0	6.0	6.2	6.1	7.3	6.9	6.9		
Total gross financing need (millions of U.S. dollars)	330.9	352.5	393.4	510.9	704.3	709.6	760.2	690.3	692.4	678.0	703.8	1,474.7	965.9	965.9		
Non-interest current account deficit that stabilizes debt ratio	13.7	15.1	16.2	8.3	8.9	9.2	9.5	7.8	7.3	8.5	5.7	4.8	4.8	4.8		
Key macroeconomic assumptions																
Real GDP growth (in percent)	10.9	29.4	15.0	11.6	6.3	3.7	5.9	6.6	6.1	6.1	6.0	6.0	6.0	6.0		
GDP deflator in US dollar terms (change in percent)	3.3	1.4	3.3	3.2	1.7	2.2	2.1	2.2	2.1	2.1	2.1	2.1	2.1	2.1		
Effective interest rate (percent) 5/	0.9	0.7	0.7	0.4	0.8	0.7	0.7	0.8	0.8	0.9	0.8	1.0	1.1	1.0		
Growth of exports of G&S (US dollar terms, in percent)	13.4	29.1	32.5	21.1	4.6	6.6	9.8	11.7	11.4	11.6	9.3	13.3	8.0	9.6		
Growth of imports of G&S (US dollar terms, in percent)	8.4	27.7	14.9	15.7	15.1	8.9	4.4	9.1	7.5	7.5	8.8	7.4	7.4	7.4		
Grant element of new public sector borrowing (in percent)	...	...	...	...	45.0	45.3	46.1	46.1	46.3	46.4	45.9	44.2	44.2	44.2		
Memorandum item:																
Nominal GDP (millions of US dollars)	3,277.6	4,299.9	5,110.1	5,524.5	5,850.6	6,323.6	6,888.2	7,461.3	8,083.3	8,083.3	12,001.8	26,458.4	26,458.4	26,458.4		

Source: Staff simulations.

- 1/ Includes public external debt.
2/ Derived as $(1 - g - p(1+g))/(1+g+p+rgo)$ times previous period debt ratio, with r = nominal interest rate, g = real GDP growth rate, and p = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief), changes in gross foreign assets, and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 1b. Burkina Faso: Sensitivity Analyses for Key Indicators of Public External Debt, 2005-25
(In percent)

	Estimate		Projections					
	2005	2006	2007	2008	2009	2010	2015	2025
NPV of debt-to-GDP ratio								
Baseline	19.2	20.9	21.8	22.6	23.4	24.0	24.5	22.2
A. Alternative Scenarios								
A1 Key variables at their historical averages in 2006-25 1/	19.2	18.8	18.6	18.6	19.4	20.5	27.2	38.9
A2 New public sector loans on less favorable terms in 2006-25 2/	19.2	22.1	24.3	26.1	27.8	29.4	33.0	34.6
B. Bound Tests								
B1 Real GDP growth at historical average minus one standard deviation in 2006-07	19.2	22.6	26.2	27.1	28.1	28.8	29.4	26.7
B2 Export value growth at historical average minus one standard deviation in 2006-07 3/	19.2	21.8	24.5	25.1	25.8	26.4	26.2	22.8
B3 US dollar GDP deflator at historical average minus one standard deviation in 2006-07	19.2	21.5	23.3	24.1	24.9	25.5	26.0	23.7
B4 Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	19.2	20.0	20.1	20.9	21.8	22.5	23.4	21.9
B5 Combination of B1-B4 using one-half standard deviation shocks	19.2	20.7	22.7	23.6	24.5	25.3	26.1	24.2
B6 One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	19.2	29.5	30.9	32.0	33.1	34.0	34.6	31.5
NPV of debt-to-exports ratio								
Baseline	200.4	216.8	223.6	225.5	226.7	225.9	185.5	173.1
A. Alternative Scenarios								
A1 Key variables at their historical averages in 2006-25 1/	200.4	195.0	190.7	185.4	188.2	192.7	206.1	302.6
A2 New public sector loans on less favorable terms in 2006-25 2/	200.4	229.8	248.3	260.4	270.1	276.6	250.6	269.1
B. Bound Tests								
B1 Real GDP growth at historical average minus one standard deviation in 2006-07	200.4	216.8	223.6	225.5	226.7	225.9	185.5	173.1
B2 Export value growth at historical average minus one standard deviation in 2006-07 3/	200.4	272.8	375.4	375.6	374.9	371.3	297.1	266.1
B3 US dollar GDP deflator at historical average minus one standard deviation in 2006-07	200.4	216.8	223.6	225.5	226.7	225.9	185.5	173.1
B4 Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	200.4	207.8	205.7	208.9	211.2	211.4	177.1	170.1
B5 Combination of B1-B4 using one-half standard deviation shocks	200.4	223.5	252.7	256.1	258.4	258.3	215.0	204.4
B6 One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	200.4	216.8	223.6	225.5	226.7	225.9	185.5	173.1
Debt service-to-exports ratio								
Baseline	8.1	9.1	9.9	9.6	8.8	8.7	8.5	10.3
A. Alternative Scenarios								
A1 Key variables at their historical averages in 2006-25 1/	8.1	8.8	9.2	8.7	7.7	7.6	7.2	13.8
A2 New public sector loans on less favorable terms in 2006-25 2/	8.1	9.1	10.5	11.0	10.9	11.0	11.8	16.2
B. Bound Tests								
B1 Real GDP growth at historical average minus one standard deviation in 2006-07	8.1	9.1	9.9	9.6	8.8	8.7	8.5	10.3
B2 Export value growth at historical average minus one standard deviation in 2006-07 3/	8.1	10.9	15.2	15.2	13.9	13.7	14.2	16.1
B3 US dollar GDP deflator at historical average minus one standard deviation in 2006-07	8.1	9.1	9.9	9.6	8.8	8.7	8.5	10.3
B4 Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	8.1	9.1	9.8	9.3	8.5	8.5	7.9	10.0
B5 Combination of B1-B4 using one-half standard deviation shocks	8.1	9.8	11.7	11.3	10.3	10.2	9.7	12.0
B6 One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	8.1	9.1	9.9	9.6	8.8	8.7	8.5	10.3
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	44.8	44.8	44.8	44.8	44.8	44.8	44.8	44.8

Source: Staff projections and simulations.

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

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

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

4/ Includes official and private transfers and FDI

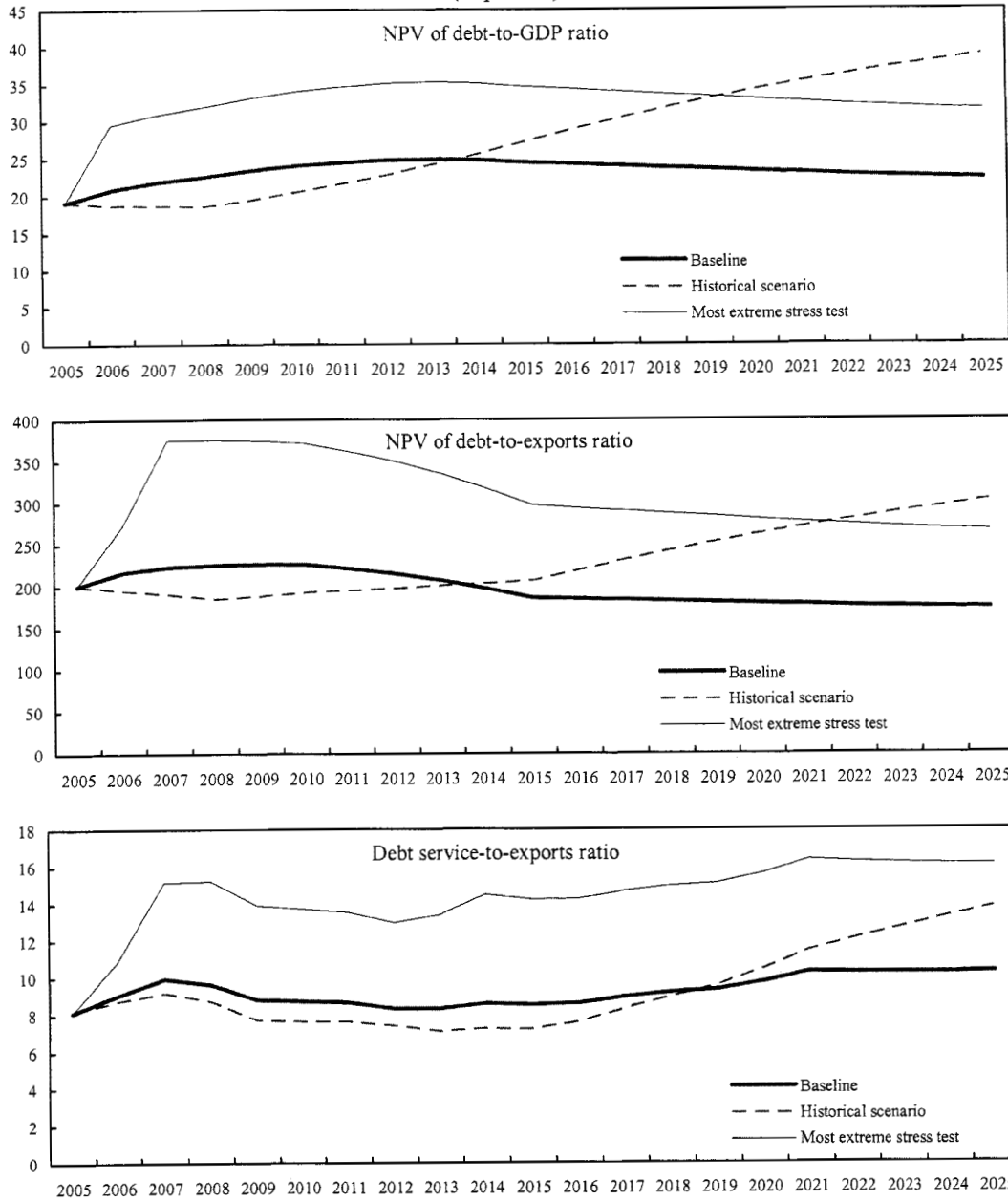
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent

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

Table 1c. Burkina Faso: Alternative Revenue Scenario for Key Indicators of Public External Debt, 2005-25
(In percent)

	Estimate		Projections					
	2005	2006	2007	2008	2009	2010	2015	2025
Baseline								
Revenue-to-GDP ratio	13.3	14.0	14.4	14.7	15.1	15.5	18.3	18.0
Debt-to-GDP ratio	34.8	37.3	38.7	39.6	40.5	41.1	40.1	35.0
NPV of debt-to-GDP ratio	19.2	20.9	21.8	22.6	23.4	24.0	24.5	22.2
NPV of debt-to-exports ratio	200.4	216.8	223.6	225.5	226.7	225.9	185.5	173.1
NPV of debt-to-revenues ratio	143.8	149.2	151.7	153.6	154.8	154.9	133.7	123.6
Debt service-to-exports ratio	8.1	9.1	9.9	9.6	8.8	8.7	8.5	10.3
Debt service-to-revenues ratio	5.8	6.2	6.7	6.6	6.0	6.0	6.1	7.3
Alternative Scenario: Smaller Revenue Improvement over 2005-2025								
Revenue-to-GDP ratio	13.3	13.6	13.8	14.1	14.3	14.6	15.8	15.8
Debt-to-GDP ratio	34.8	37.8	39.3	40.5	41.7	42.6	44.8	43.9
NPV of debt-to-GDP ratio	19.2	21.1	22.3	23.2	24.2	25.1	27.7	28.7
NPV of debt-to-exports ratio	200.5	219.7	228.1	231.6	234.6	235.9	210.5	223.3
NPV of debt-to-revenues ratio	143.9	155.9	161.4	165.1	169.0	172.1	175.6	181.6
Debt service-to-exports ratio	8.1	9.1	10.0	9.8	9.0	8.9	9.3	13.2
Debt service-to-revenues ratio	5.8	6.4	7.1	7.0	6.5	6.5	7.8	10.7

Figure 1. Burkina Faso: Indicators of Public External Debt
Under Alternative Scenarios, 2005-2025
(In percent)



Source: Staff projections and simulations.

Annex 9: Economic Indicators

Burkina Faso - Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2001	2002	2003	2004	2005	2006	2007	2008	2009
National accounts (as % of GDP)									
Gross domestic product ^a	100	100	100	100	100	100	100	100	100
Agriculture	40	39	40	38	40	38	38	38	38
Industry	18	19	19	20	19	19	19	19	19
Services	42	42	41	42	41	43	42	42	43
Total Consumption	96	96	96	93	93	92	91	89	88
Gross domestic fixed investment	19	17	17	18	20	20	20	22	23
Government investment	8	7	6	8	7	7	6	7	8
Private investment	11	10	11	11	13	13	15	15	16
Exports (GNFS) ^b	9	9	9	10	9	10	10	10	10
Imports (GNFS)	24	22	22	21	22	22	21	21	21
Gross domestic savings	4	4	4	7	7	8	9	11	12
Gross national savings ^c	7	7	8	10	10	9	10	11	12
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	2861	3278	4300	5156	5760	6000	6502	7048	7631
GNI per capita (US\$, Atlas method)	250	260	310	380	460	..	..	..	..
Real annual growth rates (% , calculated from 1985 prices)									
Gross domestic product at market prices	6.7	5.2	8.0	5.5	7.5	4.4	6.2	6.2	6.3
Gross Domestic Income	7.7	4.1	7.5	5.4	5.1	4.0	6.2	6.2	6.1
Real annual per capita growth rates (% , calculated from 1985 prices)									
Gross domestic product at market prices	4.2	2.7	5.9	3.6	6.1	..	..	..	..
Total consumption	3.7	1.0	6.0	1.0	3.8	..	..	..	..
Private consumption	4.2	-0.7	7.3	0.4	3.2	..	..	..	..
Balance of Payments (US\$)									
Exports (GNFS) ^b	260	295	381	504	519	609	653	687	739
Merchandise FOB	223	246	321	434	442	529	567	594	638
Imports (GNFS) ^b	692	751	959	1094	1276	1353	1405	1523	1641
Merchandise FOB	534	578	687	792	933	992	1026	1113	1197
Resource balance	-433	-456	-578	-590	-757	-744	-752	-835	-902
Net current transfers	87	85	148	136	167	170	74	78	175
Current account balance	-352	-373	-431	-463	-602	-583	-685	-764	-731
Net private foreign direct investment	12	15	29	21	23	23	24	25	26
Change in reserves ^d	5	-5	-37	-198	92	39	-36	-58	-89
<i>Memorandum items</i>									
Real annual growth rates (YR85 prices)									
Merchandise exports (FOB)	11.9	4.3	9.1	22.9	1.4	23.4	..	..	..
Merchandise imports (CIF)	6.2	2.5	-0.7	4.9	17.3	9.5	..	..	..

(Continued)

Burkina Faso - Key Economic Indicators (Continued)

Indicator	Actual			Estimate			Projected		
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Public finance (as % of GDP at market prices)^e									
Current revenues	12.2	12.7	14.9	14.4	14.5	15.0	13.9	14.4	16.0
Current expenditures	10.4	11.4	10.4	10.5	11.2	11.9	11.7	11.8	11.9
Current account surplus (+) or deficit (-)	1.7	1.3	4.5	3.9	3.3	3.1	2.2	2.6	4.1
Capital expenditure	11.4	10.0	9.9	10.7	9.4	10.5	11.0	11.2	10.8
Monetary indicators									
M2/GDP	20.2	19.2	20.4	22.9	21.9	21.9	21.9	21.9	21.9
Growth of M2 (%)	3.3	2.9	16.3	22.9	6.0	7.3	8.2	8.0	8.1
Private sector credit growth / total credit growth (%)	338.6	541.0	79.4	255.0	76.4	60.3	100.0	100.0	100.0
Price indices (YR85 =100)									
Merchandise export price index	211.5	176.6	181.9	194.6	160.0	177.0	176.0	173.2	170.7
Merchandise import price index	209.6	211.0	219.0	230.2	274.2	304.2	299.5	294.8	295.8
Merchandise terms of trade index	100.9	83.7	83.0	84.5	58.4	58.2	58.8	58.7	57.7
Real exchange rate (US\$/LCU) ^f	63.2	64.5	67.0	66.2	68.4	..	..	..	..

Annex 10: Social Indicators

Burkina Faso Social Indicators

	Latest single year			Same region/income group	
	1975-80	1985-90	1998-2004	Sub-Saharan Africa	Low-income
POPULATION					
Total population, mid-year (millions)	7.0	8.9	12.4	719.0	2,338.1
Growth rate (% annual average for period)	2.3	2.4	2.4	2.2	1.8
Urban population (% of population)	8.5	13.6	18.2	36.7	30.7
Total fertility rate (births per woman)	7.5	7.0	6.2	5.2	3.6
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\$)	290	330	360	600	510
Consumer price index (1995=100)	52	74	123	..	..
Food price index (1995=100)	69	79	128	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	46.7	..	..
Lowest quintile (% of income or consumption)	..	..	4.5	..	..
Highest quintile (% of income or consumption)	..	..	60.7	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	2.0	2.6	1.5
Education (% of GDP)	..	2.4	..	3.4	3.2
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	26	36	64	78
Male	..	32	42	68	82
Female	..	20	31	60	76
Access to an improved water source					
<i>(% of population)</i>					
Total	..	39	51	58	75
Urban	..	63	82	82	89
Rural	..	35	44	45	69
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	79	76	61	66
DPT	..	66	84	59	67
Child malnutrition (% under 5 years)	..	..	38	..	44
Life expectancy at birth					
<i>(years)</i>					
Total	43	45	43	46	58
Male	42	44	42	45	57
Female	44	47	43	46	59
Mortality					
Infant (per 1,000 live births)	140	118	107	101	79
Under 5 (per 1,000 live births)	247	210	207	171	122
Adult (15-59)					
Male (per 1,000 population)	467	429	559	519	317
Female (per 1,000 population)	362	338	507	461	266
Maternal (modeled, per 100,000 live births)	..	..	1,000	24	538
Births attended by skilled health staff (%)	..	..	31	39	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, World Bank - 08/29/05

Annex 11: Unified Framework for Budget Support
Draft CGAB Rules of Procedure

Preamble

1. The Government of Burkina Faso and the African Development Bank, Denmark, the European Union, France, the Netherlands, Switzerland, Sweden, and the World Bank, hereinafter the “Partners,” signed the General Framework Agreement for Organizing Budgetary Assistance in Support of the PRSP, known as the “CGAB-PRSP,” on January 11, 2005.

2. The general objective of the CGAB-PRSP is to support PRSP implementation through non-targeted budgetary assistance, while enhancing the effectiveness of this assistance and reducing its management costs. With a view to implementing this important partnership mechanism, these rules of procedure outline CGAB-PRSP operating, monitoring, and evaluation procedures, as set forth in point 7.5 of the CGAB-PRSP.

3. The provisions of the CGAB-PRSP will take precedence over the rules of procedure.

1. Organization of the CGAB-PRSP

4. An office headed by a chairman and chief liaison official for the partners will be responsible for the CGAB-PRSP. The office will have a Technical Secretariat. Ad hoc technical groups may be established, as necessary, to address in greater depth any matter related to CGAB-PRSP activities.

1.1 The chairman

5. On behalf of the Government, the Minister of Finance will, as chairman, oversee the functioning of the CGAB-PRSP and will coordinate all the activities pertaining thereto.

6. To that end, he will:

- Convene, after consultation with the chief liaison official for the partners, all regular and special CGAB-PRSP meetings and chair such meetings;
- Ensure the timely availability of background documents for meetings, their preparation on a regular basis, and conservation of the main documents related to CGAB-PRSP implementation;
- Ensure proper implementation of the decisions made within the framework for consultation established by the CGAB-PRSP;
- Prepare a CGAB-PRSP schedule of activities and annual budget, and oversee the execution thereof, funding for which will come from the State Budget and/or any other source, in accordance with the procedures to be agreed upon between the parties and the Government.

7. In the event of absence or involuntary restriction, the person acting for the chairman will assume the latter’s duties and will so inform the other CGAB-PRSP parties by mail.

1.2 The chief liaison official for the partners

8. The chief liaison official for the partners (hereinafter the chief liaison official) will serve as the representative and spokesperson of the technical and financial signatories of the CGAB-PRSP. He will be appointed by the signatories by consensus for a period of six months, which may be extended beyond this period, and will assist the chairman in the coordination of CGAB-PRSP activities, while working jointly and in consultation with the Partners, as necessary. In this regard, he will:

- Within the framework of the CGAB-PRSP, perform a liaison role between the partners and the chairman;
- Prepare, along with the chairman, the agenda for CGAB-PRSP meetings;
- Draft, on behalf of the partners and with their consent, correspondence to the chairman pertaining to CGAB-PRSP objectives;
- Undertake initiatives that are likely to strengthen harmonization, coordination, and partnership between parties within the framework of CGAB-PRSP implementation;
- Receive new requests for CGAB-PRSP accession from other technical and financial partners and transmit such requests to the chairman for processing.

9. In the event of absence or involuntary restriction, the chief liaison official will be represented by a partner whom he will designate in advance.

1.3 Technical Secretariat

10. The Technical Secretariat will be composed of a government representative and two representatives of the partners. The Government will designate the entity (or entities) responsible for monitoring PRSP budgetary assistance provided, which will operate on a permanent basis and will play a coordination role with respect to the Technical Secretariat. The partners will designate their representatives. The Technical Secretariat will perform the following functions:

- Propose to the chairman and chief liaison official an agenda for the regular meetings appearing on the CGAB-PRSP calendar;
- Ensure implementation of the decisions and recommendations adopted at CGAB-PRSP meetings;
- Propose all activities that are likely to strengthen coordination and partnership between parties, within the framework of the CGAB-PRSP;
- Organize technical preparatory regular CGAB-PRSP meetings, and convene, as necessary, technical meetings between government representatives and the representatives of the partners;
- Prepare and disseminate reports on the conclusions of technical meetings;
- Draft reports on CGAB-PRSP sessions (within ten business days). Draft reports will be circulated in the name of the chairman, via e-mail, to all CGAB-PRSP parties, who will be required to provide feedback during the week following the session. At the end of that period, reports will be finalized. Two copies will be kept on file at the Technical Secretariat, after dissemination to parties in electronic form as well as hard copy form bearing the seal of chairman and chief liaison official;
- Keep the information transmitted and disseminated between the Government and CGAB-PRSP partners up-to-date.

2. Functioning of the CGAB-PRSP

11. With regard to CGAB-PRSP provisions (points 4.3, 4.4, 4.6), the partners will use, as a frame of reference, the national mechanisms identified in the CGAB-PRSP framework, in order to monitor and evaluate the macroeconomic framework, PRSP implementation, and sectoral policies, as well as public finance policy through the PRGB [*Plan de Renforcement de la Gestion des Dépenses Budgétaires* - Budget Management Reform Plan].

- The partners will participate fully in the work of these national mechanisms, in accordance with the documents establishing their structure.
- Support for CGAB-PRSP functioning will be provided through regular and special sessions.
- CGAB-PRSP signatories will be invited to all CGAB-PRSP sessions by the chairman at least 15 days prior to the convening of such sessions.
- The chairman, in consultation with the chief liaison official, can invite any resource person or structure whose contribution is deemed necessary for attainment of CGAB-PRSP objectives.
- Decisions will be made by consensus. When necessary, an ad hoc technical group (or groups) may be established to submit proposals aimed at achieving a consensus.

2.1 Regular CGAB-PRSP sessions

12. These sessions will provide a forum for regular dialogue between the Government and CGAB-PRSP partners.

2.1.1. Semi-annual sessions

13. These sessions are provided for in point 7.1 of the CGAB-PRSP, and are aimed at permitting CGAB-PRSP parties to monitor and evaluate, on a regular basis, effective execution of CGAB-PRSP activities. Provisions are made for two sessions per year:

- **The first** will take place during the first two weeks of February each year. In particular, the agenda will be:
 - Outlining the indicative work calendar for year N for the monitoring of the CGAB-PRSP and activities related to macroeconomic, PRSP, PRGB, and budget monitoring;
 - Preparing a calendar showing missions and studies conducted within the framework of budgetary assistance and the CGAB-PRSP;
 - Preparing an operational overview in (N-1) of the CGAB-PRSP and an independent assessment of the commitments of the various parties;
 - Preparing an overview of budgetary assistance (N-1), a calendar for the disbursement of assistance (N) and programming, beginning in (N+1);
 - Auditing financial flows;
 - Providing a status report on the performance matrix based on a government report.
- **The second** will take place during the first two weeks of September each year, and will be aimed at performing a mid-term review of the execution of the work program agreed upon for the year in question (including a status report on the performance matrix based on a government report) and in particular at adopting terms of reference for the independent audit, as well as the flow of funds audit.

14. Any other relevant point may be added to the agenda of the regular sessions.

2.1.2 Annual session to review the performance matrix

15. This session will be organized in accordance with point 4.9 of the CGAB-PRSP, and, insofar as possible, at the same time as the annual PRSP review. To that end, the partners will submit a memorandum to the Government containing their assessments and recommendations. This memorandum will be entitled “Joint Assessment of the Partners on PRSP implementation and public finance management in (N-1) and projection (N; N+2).”

16. Assessments will focus on progress made with respect to the macroeconomic framework, PRSP implementation, and public finance management, in particular on the points contained in the matrix agreed upon with respect to the disbursement criteria outlined in points 3.3, 3.4, and 3.5 of the CGAB-PRSP agreement, more commonly known as the “performance matrix.”

17. The memorandum will provide an overall assessment of the implementation of the performance matrix, as well as an assessment of specific points where necessary.

18. The objective of the annual performance matrix review session in (N) will be to:

- review the partners’ memorandum assessing the performance matrix for (N-1);
- finalize the performance matrix which will be assessed in (N+1).

19. Matters related to the preparation, approval, and modification of the performance matrix, are discussed in point 4 of these rules of procedure.

2.2 Special sessions

20. CGAB-PRSP parties will be notified of the agenda for special sessions at least two business days before such sessions are convened.

2.3 Technical meetings

21. Within the context of its functions, the Technical Secretariat will convene technical meetings in order to:

- prepare for each regular session;
- examine all technical points related to CGAB-PRSP implementation, when meetings are needed for this purpose.

22. These meetings will be convened sufficiently in advance to permit full participation by all stakeholders. They will be chaired by the government entity within the technical secretariat. They will be attended by the government entities listed in the annex and the representatives of the TFPs-CGAB.

23. The Technical Secretariat may invite any partner or entity, as necessary.

24. Meetings should be technical in nature; no decisions will be made at these meetings.

3. Sharing of information

25. The sharing of information is necessary in order to promote a fruitful partnership between the Government and CGAB-PRSP partners. Furthermore, this activity will lead to better harmonization and coordination between them. To that end, and in keeping with the provisions set forth in points 5 and 6 of the CGAB-PRSP agreement, the following provisions are being set forth in order to specify the nature of the information to be shared, their status, and the calendar for provision of this information.

3.1. Provision of information and documents by the government

26. Pursuant to point 5.3 of the CGAB-PRSP agreement, the Government will submit documentation as expeditiously as possible.

27. In the case of the documentation listed below, the chairman undertakes to deliver it in accordance with the deadlines indicated in the table.

Documents	Maximum time periods for submission
Draft PRSP annual implementation report	At least two weeks prior to the review of N for the N-1 projection
Final PRSP review report	On month after completion of the review
Review report on the priority sectors	Based on the review calendar (see PDDEB, PNDS)
Letter of Intent or Memorandum on Economic and Financial Policies	Based on the IMF's PRGF calendar
Budget law	January N for budget N
Supplementary budget	Six weeks after its adoption by the National Assembly
Budget settlement law with tables	Six weeks after its adoption by the National Assembly
MTEF report	Six weeks after its adoption by the Council of Ministers
Budgetary circular	One month after signature
TOFE and monthly status report on the execution of budgetary expenditure	Six weeks after the month covered by the report, except December, which will be submitted one month after the supplementary day for the close of FY transactions.
PRGB quarterly reports	Six months after the meeting of the steering committee
PRGB annual reports	Six weeks after the evaluation workshop
Semi-annual multilateral surveillance report	Six weeks after the end of the six month period covered by the report

3.2 Provision of information and documentation by the partners

28. Pursuant to point 6.2 of the CGAP-PRSP agreement, the partners undertake to submit, as expeditiously as possible, the following information to the Government and CGAP-PRSP parties:

- The regulations and working guidelines for access to and implementation of budgetary assistance;
- The official documents outlining the development assistance policy and guidelines, in particular, the procedures for using this assistance;
- The terms of reference and memoranda on missions related to budgetary assistance to support PRSP implementation in Burkina Faso;
- The disbursement and programming decisions on PRSP budgetary assistance for Burkina Faso; and
- Any relevant study or evaluation pertaining to PRSP budgetary assistance.

3.3 Status of information

29. Given the raw and provisional nature of some data, dissemination may be limited to CGAP-PRSP parties. For this reason, it is important for the Government and partners to indicate, when necessary, whether dissemination of information is restricted or unrestricted.

30. In order to ensure the expeditious and proper circulation of information, the most appropriate means for doing so will be used, depending on the circumstances.

4. Performance evaluation framework

31. The principles outlined in point 3 of the CGAP-PRSP for the drafting, approval, and evaluation of disbursement criteria matrix, more commonly called “the performance matrix,” will apply.

4.1. Preparation of the performance matrix

32. The performance matrix (N; N+2) is a matrix of measures and indicators mutually agreed upon by the Government and partners, based on PRSP and PRGB priority action plans aimed at achieving the results sought, following the calendar agreed upon in these documents. The principle of sliding triennial programming is applied in the preparation of the performance evaluation framework, in order to facilitate the predictability of disbursement criteria.

The draft matrix (N; N+2) will be prepared in N by the Government based on:

- The conclusions of the annual reviews of the PRSP and PRGB priority action programs, with input from the partners;
- The assessments and recommendations outlined in their memorandum “Joint Assessment of the Partners on PRSP implementation and public finance management in (N-1) and projection (N; N+2).”

4.2 Approval of the performance matrix

33. The performance matrix for N is finalized according to the provisions set forth in point 2.1.2 of these rules of procedure. The matrix agreed upon contains all the disbursement criteria of the partners for year N and projections for years N+1 and N+2.

34. Each partner will inform the Government and other partners, to the fullest extent possible, of the factors included in its disbursement criteria. The matrix, which will be agreed upon annually, will be included *in toto* in the report on the annual performance matrix review. The recommendations of this session will be incorporated by the Government into its PRSP and PRGB final implementation reports.

4.3. Performance matrix review

35. The performance evaluation framework will be reviewed each year as part of the annual evaluation exercise mentioned in point 2.1.2 above.

36. The provisions pertaining to possible elimination of disbursement criteria are outlined in the CGAB-PRSP agreement (points 3.8 and 3.9).

37. Following review of the performance matrix criteria for providing assistance, each partner will inform the Government and other partners, as expeditiously as possible, of its individual decisions regarding the disbursement and programming of budgetary assistance.

5. CGAB-PRSP monitoring and evaluation

38. In accordance with point 7.5 of the CGAB-PRSP, the annual program of activities will provide specific results indicators for each activity, as well as the entities responsible for execution. With regard to point 7.3 of the CGAB-PRSP, the Government, and partners may use the services of an independent team of experts appointed by either to assist with the evaluation of CGAB-PRSP implementation.

5.1 Missions

39. Supervision and evaluation missions will be conducted. The Government and partners would like to limit, as much as possible, transaction costs related to the management of missions, and would like joint missions to become the rule, and individual missions, the exception.

40. Any mission pertaining to PRSP budgetary assistance undertaken by a partner will be subject to terms of reference that include the dates and description of the mission and the functions or roles of mission members. The partner in question will inform the chairman by mail at least three weeks prior to the mission. In instances where a partner retains the services of a consultant, the latter's curriculum vitae will be attached to an explicit request for approval at least one month in advance. This information will be forwarded to the Government and other partners.

41. Every mission will begin with an information session related to its goals and objectives, and will end with a session on its conclusions. A memorandum of approval will be sent by the chairman to the Government and partners within two weeks of its finalization and release.

5.1.1 Supervision missions

42. Insofar as possible, supervision missions of the partners will take place at the same time as regular and annual review sessions of performance matrixes. They may take place in conjunction with annual PRSP or PRGB reviews, in a joint and coordinated manner.

43. At the beginning of each year, the partners will program follow up missions within the CGAB-PRSP framework. These missions will take place throughout the year, with the exception of July and August, the months during which the State budget is prepared.

5.1.2 Evaluation missions

44. Pursuant to CGAB-PRSP objectives, including greater ownership of the process of formulation and execution of policies by the Government, the government entity most involved in the evaluation will be responsible for its supervision and execution; the partners may provide financial support. Each year, the Government will provide the partners with a list of studies and audits to be conducted. The partners may, however, offer proposals to the Government of studies to be conducted.

5.2 Administrative arrangements

45. The indicative work program of missions related to CGAB-PRSP activities will be prepared by the Government and discussed with the partners at least one month in advance. The mutually agreed upon work program will be sent with the letter of invitation. Appointments for special meetings will be made through the Ministry of Finance and accorded based on the availability of staff or individuals.

6. Final provisions of the rules of procedure

6.1 Special arrangements for 2005

46. Inasmuch as the CGAB-PRSP agreement was concluded in 2005, no performance matrix was prepared or approved in 2004 by the Government and the partners for evaluation in 2005. The annual performance matrix review session will take place three weeks after submission of the memorandum from the partners by the lead manager to the Government, and five weeks following the annual PRSP review, at the latest.

47. The 2005 partners' memorandum will consist of a joint overall evaluation of PRSP and PRGB implementation in 2004.

48. The partners who have established specific disbursement criteria that require review based on commitments made prior to signing the rules of procedure will conduct this exercise individually but in line with the overall evaluation, and with as much input as possible from the other partners.

49. The usual cycle for drafting, approval, and review, as provided for in points 4.1, 4.2, and 4.3 above will begin in 2005. Therefore, the annual 2005 review session will result in the preparation of a 2005-2007 performance matrix decided upon by consensus, implementation of which will be assessed during the second half of 2006.

50. For practical reasons, the mandate of the chief liaison official appointed by the partners will cover the remainder of 2005, at a minimum.

6.2 Amendment to the rules of procedure

51. The rules of procedure may be amended by consensus at CGAB-PRSP sessions and, as necessary, on the basis of a detailed report prepared by the technical ad hoc group.

6.3 Entry into effect and application of the rules of procedure

52. These rules of procedure will enter into effect when they are adopted at a CGAB-PRSP session. The document that serves as a record will be later initialed by the chairman and chief liaison official who will jointly oversee proper application of these rules of procedure and the decisions reached within the consultation framework provided for in the CGAB-PRSP.

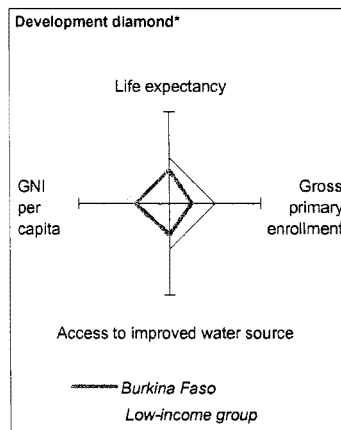
Annex 12: Country at a Glance

Burkina Faso at a glance

4/4/06

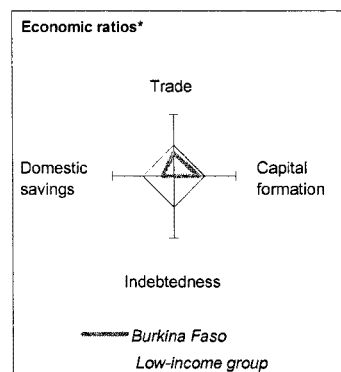
POVERTY and SOCIAL

	Burkina Faso	Sub-Saharan Africa	Low-income
2004			
Population, mid-year (millions)	12.3	719	2,338
GNI per capita (Atlas method, US\$)	380	600	510
GNI (Atlas method, US\$ billions)	4.7	432	1,184
Average annual growth, 1998-04			
Population (%)	2.3	2.2	1.8
Labor force (%)	1.8	1.0	2.1
Most recent estimate (latest year available, 1998-04)			
Poverty (% of population below national poverty line)	45	..	..
Urban population (% of total population)	18	37	31
Life expectancy at birth (years)	43	46	58
Infant mortality (per 1,000 live births)	107	101	79
Child malnutrition (% of children under 5)	38	..	44
Access to an improved water source (% of population)	51	58	75
Literacy (% of population age 15+)	..	65	61
Gross primary enrollment (% of school-age population)	46	95	94
Male	53	102	101
Female	39	88	88



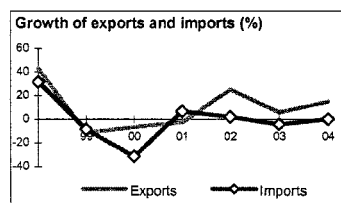
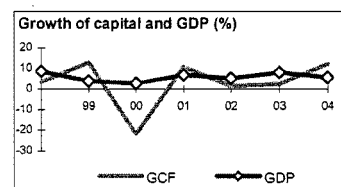
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1984	1994	2003	2004
GDP (US\$ billions)	1.3	2.2	4.3	5.2
Gross capital formation/GDP	..	20.4	17.0	18.4
Exports of goods and services/GDP	12.4	11.5	8.9	9.8
Gross domestic savings/GDP	-2.0	9.0	4.1	7.3
Gross national savings/GDP	..	18.8	7.5	9.8
Current account balance/GDP	..	-1.6	-10.0	-9.0
Interest payments/GDP	0.7	0.8	..	..
Total debt/GDP	31.7	51.1	41.6	35.8
Total debt service/exports	8.0	12.2	15.4	13.0
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..
	1984-94	1994-04	2003	2004
<i>(average annual growth)</i>				
GDP	4.8	6.1	8.0	5.5
GDP per capita	2.4	3.6	5.9	3.6
Exports of goods and services	2.0	5.7	5.9	14.8



STRUCTURE of the ECONOMY

	1984	1994	2003	2004
<i>(% of GDP)</i>				
Agriculture	32.9	31.1	40.2	37.8
Industry	21.9	19.3	19.0	20.1
Manufacturing	..	..	..	..
Services	45.2	49.6	40.8	42.2
Household final consumption expenditure	87.3	76.1	83.7	80.7
General gov't final consumption expenditure	14.7	14.9	12.1	11.9
Imports of goods and services	30.3	22.9	21.7	20.8
	1984-94	1994-04	2003	2004
<i>(average annual growth)</i>				
Agriculture	4.7	6.1	11.0	-2.9
Industry	4.1	5.9	7.5	9.6
Manufacturing	2.7	..	..	..
Services	5.3	5.4	6.7	7.5
Household final consumption expenditure	3.5	7.4	9.5	2.3
General gov't final consumption expenditure	2.6	7.3	-1.6	7.5
Gross capital formation	0.1	4.9	2.6	12.2
Imports of goods and services	1.6	-1.0	-4.4	-0.2

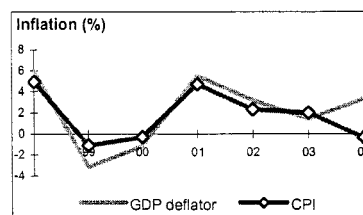


Note: 2004 data are preliminary estimates.

* 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.

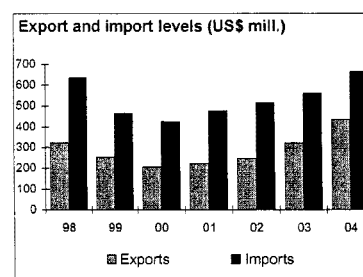
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices				
(% change)				
Consumer prices	4.1	24.8	2.0	-0.4
Implicit GDP deflator	..	25.5	1.4	3.3
Government finance				
(% of GDP, includes current grants)				
Current revenue	9.9	13.0	14.9	14.4
Current budget balance	-0.9	1.9	4.5	3.9
Overall surplus/deficit	..	-5.8	-5.4	-6.8



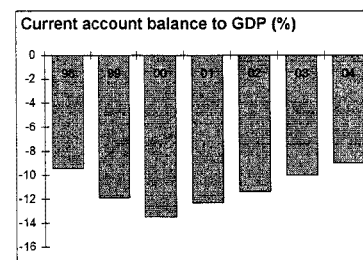
TRADE

	1984	1994	2003	2004
(US\$ millions)				
Total exports (fob)	..	191	321	434
Cotton	..	58	207	301
Livestock products	..	61	43	53
Manufactures
Total imports (cif)	..	0	562	663
Food	..	0	84	100
Fuel and energy	..	0	134	171
Capital goods	..	0	222	246
Export price index (2000=100)	..	98	98	105
Import price index (2000=100)	..	84	104	110
Terms of trade (2000=100)	..	116	94	96



BALANCE of PAYMENTS

	1984	1994	2003	2004
(US\$ millions)				
Exports of goods and services	179	248	381	504
Imports of goods and services	397	495	959	1,094
Resource balance	-218	-247	-578	-590
Net income	N/A	-14	-1	-9
Net current transfers	95	227	148	136
Current account balance	N/A	-35	-431	-463
Financing items (net)	..	153	468	661
Changes in net reserves	N/A	-119	-37	-198
Memo:				
Reserves including gold (US\$ millions)	..	238	390	611
Conversion rate (DEC, local/US\$)	437.0	534.6	580.1	527.6



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
(US\$ millions)				
Total debt outstanding and disbursed	410	1,129	1,789	1,844
IBRD	0	0	0	0
IDA	124	518	760	..
Total debt service	22	44	0	0
IBRD	0	0	0	..
IDA	1	6	15	..
Composition of net resource flows				
Official grants	81	212	283	158
Official creditors	41	80	91	..
Private creditors	0	0	..	..
Foreign direct investment (net inflows)	..	..	28	0
Portfolio equity (net inflows)	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	..

