

**Burkina Faso: Poverty Reduction Strategy Paper—Annual Progress Report
Joint Staff Advisory Note**

The attached Joint Staff Advisory Note (JSAN) of the Annual Progress Report on Implementation of the Poverty Reduction Strategy Paper for Burkina Faso, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Annual Progress Report on Implementation of the Poverty Reduction Strategy Paper (PRSP) to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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BURKINA FASO

**Joint Staff Advisory Note on the Poverty Reduction Strategy Paper
Annual Progress Report**

Prepared by the Staffs of the International Monetary Fund (IMF) and
International Development Association (IDA)

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I. OVERVIEW

1. **This Joint Staff Advisory Note (JSAN) reviews the Third Annual Progress Report (APR) on the implementation of the second Poverty Reduction Strategy Paper (PRSP 2004–06) for Burkina Faso.** The APR covers the implementation of the PRSP Priority Action Plan in 2006. The government has decided to maintain the current strategy until 2010, but will update the Priority Action Program of the PRSP every year. Burkina Faso has a good track record in preparing APRs early in the year to allow for full integration of the results of the PRSP annual review meeting into the budget cycle. A draft APR for 2006 was presented in early April 2007 and the main findings and recommendations were taken into consideration in the Pre-Budget Statement for 2008, which outlines priority areas for budget allocations. The final version of the APR was made available in July 2007.

2. **Burkina Faso's Poverty Reduction Strategy has four strategic objectives:** (i) accelerated and shared growth; (ii) improved access to basic social services; (iii) increased employment opportunities and income generating activities; and (iv) promotion of good governance. Staffs note that the APR is comprehensive and well-prepared and agree with the broad thrust of its analysis of recent macroeconomic policy developments and scenarios, and economic and social challenges. The measures and priority actions listed in the APR are broadly consistent with the framework presented in last year's APR, with the framework underlying the PRGF arrangement, and recommendations of the previous JSAN.

3. **This JSAN provides feedback from the staffs of IDA and the IMF on the APR.** It presents staffs' views on priority areas for strengthening the PRSP Priority Action Program during its implementation. In particular, it comments on: (a) implementation of the PRSP strategic objectives; and (b) the strategy's monitoring and evaluation framework, and risks.

II. IMPLEMENTATION OF THE PRS STRATEGIC OBJECTIVES

A. Strategic Objective 1: Accelerated and Shared Growth

4. **The APR notes a decreasing trend in poverty but raises concerns about inequality trends.** As discussed in the APR and based on the Poverty Analysis Macro Simulator (PAMS), the poverty headcount is estimated to have decreased from 46.4 percent in 2003 to 40.8 percent in 2006. This trend is consistent with the sustained economic growth observed over the period 2000–06. If this trend is maintained, the country could reach the millennium development goal to halve poverty by 2015. However, the analysis also points to continued high inequality, the causes of which are not discussed in the APR. The staffs urge the authorities to identify the factors underlying continuing inequality and analyze the policy changes needed to reverse this trend in the next APR. Also, a recent study based on the 2003, 2005 and 2007 household surveys contrasts the progress in poverty reduction with the persistent vulnerability of many households to adverse climatic and price shocks, particularly when they derive a substantial part of their livelihood from rain-fed agriculture. The staffs recommend that the authorities examine household vulnerability more closely and address it in the country's PRS.

5. **The APR adequately describes macroeconomic developments in 2006 based on information available at the time.** Despite a difficult external environment (appreciation of the Euro, to which the CFAF is pegged, relative to the dollar and the increase in oil prices), the government was able to preserve macroeconomic stability. Real GDP growth stood at 5.5 percent and average inflation declined to 2.4 percent. The overall fiscal balance met earlier projections despite low revenue performance. The trade balance improved in 2006 compared with 2005 largely due to an increase in exports (24.5 percent).

6. **The APR also points out the weak absorptive capacity of the budget** and, notably, externally financed projects with an execution rate of 62 percent. However, it does not analyze the causes of poor performance and the measures envisioned to address them. Furthermore, information on budget allocations and execution is very limited. The APR indicates that a large share of the discretionary budget is devoted to health and primary education but does not provide detailed data. Given an execution rate of 89 percent for the domestically financed budget, staffs recommend that information on the composition of the executed budget figure in APRs. Staffs also recommend that concrete actions be identified to fully align foreign financed projects with PRSP priorities. In 2007, the government benefited from a technical assistance mission from the IMF which made recommendations to improve and implement the functional budget classification of expenditure. The staffs stress the need for rapid progress in this area in order to better align budget allocations with PRSP priorities.

7. **The APR points to an increase in the budget deficit** (from 8.6 percent of GDP in 2005 to 9.8 percent in 2006) as a result of a more rapid increase in expenditures (16.4 percent) than revenue (9.8 percent). It describes ongoing reforms to improve revenue collection in the section on economic governance. Nevertheless, the staffs stress the need to pursue revenue collection efforts and improve expenditure management. These efforts are critical for sustained pro-poor spending.

8. **The staffs stress that it is critical that the next APR provide an update of the macroeconomic policy framework for the coming years and explicitly discuss the risks to the medium-term outlook.** A comprehensive forward-looking macroeconomic framework and a full discussion of macroeconomic policies should be a crucial part of the APR. The staffs also recommend that APR elaborate on the macroeconomic challenges and risks, which include the domestic revenue effort, the cotton sector, the external environment (exchange rate appreciation and further increase in world oil prices) and weather related vulnerabilities. Since the preparation of this APR, the macroeconomic environment has become more difficult. Low international cotton prices, the continued appreciation of the Euro and CFA franc, and high oil and food prices pose severe challenges. Food prices are likely to increase substantially through 2008, driving annual inflation above the UEMOA average and real GDP growth is expected to remain below trend. The staffs recommend that the PRS include alternative macroeconomic scenarios reflecting different growth and export assumptions.

9. **Staffs encourage the government to continue, as envisaged, the implementation of the public finance strengthening strategy to sustain macroeconomic stability and create space for an increase in pro-poor spending.** In addition to improving revenue mobilization through better tax and customs administration, the APR notes the need to strengthen expenditure management and efficiency (especially by implementing the ongoing public procurement reform), securing external finance in the form of grants or concessional loans, and maintaining a disciplined and prudent borrowing policy fully consistent with debt sustainability, including the strengthening of debt management capacity. These efforts would improve the efficiency of public resource use and accountability in public finance management which would increase donors' reliance on the country's systems and increase the country's absorptive capacity.

10. **The APR highlights the difficulties that recently affected the cotton sector and presents envisioned actions to address them, but these actions focus on solving short term financial concerns.** The financial crisis in the cotton sector was caused by several factors, notably: (i) poor weather conditions in 2007; (ii) a pricing mechanism until 2006 which shielded farmers from declining international cotton prices; (iii) the appreciation of the Euro and the CFA franc against the dollar and a reduction in the world cotton price in Euro terms from 1999–2006; (iv) poor performance of the ginning companies; and (v) a low cotton yield per hectare. The APR discusses the actions taken by actors in the sector (the government, ginning companies, producers and commercial banks) to address the crisis, including a recapitalization of the ginning companies and the adoption of a new producer price setting mechanism. However, the next APR would benefit from a discussion of the remaining measures to put the cotton sector on a

sustainable footing, including measures to enhance productivity, design and implement safety net programs, and diversify the economy and enhance exports.

11. **The APR details ongoing actions in various sectors** including mining, industry, commerce, craft and tourism. Future APRs would benefit from providing data on the respective contribution of these sectors to value added and employment, discussing developments in the exports sectors other than cotton and presenting an account of the implementation of the recent Diagnostic Trade Integration Study (DTIS) action plan.

12. **The APR notes that Burkina Faso continues to implement reforms to develop the private sector**, including by improving business registration, strengthening land property and establishing commercial courts that contribute to improving the business environment. In addition, the government has recently implemented reforms that improve contract enforcement and property registration and also reduce the time for business creation. Staffs recommend that the government pursue these efforts by implementing a broader agenda to improve the investment climate as suggested in the Investment Climate Assessment (ICA) carried out by the World Bank in 2006.¹ Such reforms include the fight against corruption, and efforts to further enhance the business regulatory framework, improve infrastructure (especially electricity supply for firms, road maintenance and telecommunication services) and enhance the functioning of factor markets (labor and financial services).

13. With respect to **infrastructure**, achievements in 2006 included the adoption of the Information and Communication Technologies (ICT) promotion policy and sectoral strategy document. In **energy**, the APR notes that the government continued to provide subsidies to the state-owned electricity company (SONABEL) for fuel oil and DDO fuel in order to reduce electricity generation costs. The opportunity cost of such subsidies is high for a country like Burkina Faso which has limited resources available to finance its ambitious poverty reduction program. Staffs urge the authorities to accelerate the implementation of ongoing reforms and investments in the sector; these are needed to lower high electricity costs and progressively remove subsidies. In the meantime, staffs recommend that measures be taken to reduce the losses in electricity generation as recommended by the ICA.

14. **With respect to export diversification, the adoption of an export promotion strategy was delayed.** Staffs encourage the authorities to accelerate the preparation of a national export strategy, including through the findings of the DTIS and the forthcoming Country Economic Memorandum (CEM). In particular, the DTIS identifies several measures to improve the prospects for export diversification beyond cotton to products such as mangoes, onions, cattle and meat, sesame, gold, and craft products.

¹ World Bank, Burkina Faso: An Assessment of the Investment Climate, June 2006.

B. Strategic Objective 2: Improved Access to Basic Social Services

15. **The APR notes that the actions implemented by the government in 2006 led to significant progress in improving access to education, although its quality remains a concern.** The gross enrollment rate in primary education increased by almost 6 percentage points in 2006 (from 60.7 percent in 2005 to 66.6 percent in 2006), though important disparities still exist among regions. In accordance with the recommendations made in the previous JSAN to improve sector planning and budget allocation, efforts to integrate primary and secondary education have resulted in the adoption of a consolidated medium-term expenditure framework (MTEF) for the sector as a whole. However, several issues of concern remain, including the relatively high unit cost of school construction, the low level of teaching hours (teaching hours average 640 hours/year compared to 900 hours for sub-Saharan Africa) and the decentralization implementation. Staffs encourage the authorities to: (i) implement measures to lower unit costs; (ii) increase teaching hours to improve education outcome (adopting a flexible teaching schedule for children living in rural areas could be considered among the various possible options); (iii) accelerate the implementation of the decentralization law in the sector; and (iv) implement an initiative to introduce teaching in local languages as a medium for improving learning capabilities.

16. **The APR adequately presents developments in the health sector.** Progress achieved includes: (i) the construction of health facilities; (ii) recruitment of 1,038 health staff; (iii) implementation of a vaccination program (PEV); (iv) implementation of an effective distribution system of essential drugs; and (v) prevention of HIV which has led to a reduction in mother to child transmission. However, the APR also presents worrisome indicators despite improving trends for some. These include: (i) insufficient coverage with regard to facilities and staff; (ii) insufficient financing of key programs to combat malaria and HIV; and (iii) persistent high rates of unassisted deliveries and malnutrition. These indicators call for greater efforts to increase health spending. The government may also need to consider a progressive implementation of decentralization in the health sector as part of the solution. The staffs also recommend that future APRs include an account of progress in the implementation of decentralization in the health sector.

17. **The APR mentions the efforts undertaken by the government to improve planning in the water and sanitation sector** including the adoption of a national program for water and sanitation (PN-AEPA) and the development of public-private partnerships (PPP) between the communities and the local private sector. However, the APR also points to important disparities in access to safe drinking water among regions. The staffs recommend that the government increase efforts to achieve a more equitable distribution of the water provision system throughout the country. The APR notes the lack of human resources as the main constraint to improving the implementation of sanitation programs. The staffs recommend that the authorities implement existing sanitation action plans for four cities and develop action plans for the remaining cities.

18. **Gender.** The APR notes that the action plan for the 2006–10 national policy for the promotion of women was adopted and disseminated in 2006. Also, several related activities were carried out in 2006 including: (i) sensitizing about 7,000 people on the respect of basic rights for women and girls', on the Personal and Family Code (CPF), and on violence against women; and (ii) implementing activities to provide women with appropriate production technologies. Going forward, the staffs recommend that the national gender policy be adopted together with its action plan and implemented.

C. Strategic Object 3: Increasing Employment and Income Generating Activities

19. **The APR notes that the government's efforts to support income-generating activities and employment opportunities in rural areas** have focused on: (i) reducing vulnerability of agricultural activities; (ii) improving security in land access; (iii) intensifying and diversifying agricultural, animal, forest, fauna and fishing products; (iv) providing support to producers' organizations and improving women's participation in economic activities; (iv) promoting employment for youth through vocational training; (v) improving accessibility to rural areas and markets through rural roads; and (vi) the development of small irrigation, and financial support to animal husbandry micro-projects. In addition, the APR notes that the multi-purpose technology program (*Plateformes multifonctionnelles*) which started in January 2005 has had tangible results. Given the impact of this program on rural poverty, the staffs recommend that the government expand the program throughout the country.

D. Strategic Object 4: Promoting Good Governance

20. **The APR notes that progress achieved in 2006 in the area of governance** included: (i) the adoption and implementation of the action plan on the national good governance policy (PA/PNBG) and the launching of activities of the good governance permanent secretariat; (ii) the launching of the African Peer Review Mechanism (MAEP) whose objective is to encourage mutual self-evaluation, monitoring and learning; (iii) continuing implementation of the justice sector reform action plan; (iv) the adoption of a sector strategy for strengthening public finances (SRFP); (v) the adoption of an action plan based on the Country Procurement Assessment Review (CPAR) and carried out with the support of the World Bank and the AfDB; and (vi) the adoption in May 2006 of a national anti-corruption policy.

21. Despite the achievements mentioned above, several diagnoses conducted in the past two years² show that major governance challenges remain in Burkina Faso. These include (i) increasing access to justice and improving timeliness of judicial decisions; (ii) strengthening human rights; (iii) fighting effectively against corruption in revenue mobilization;

² Country Procurement Assessment Review (Deuxième génération – Rapport analytique sur le système de passation des marchés publics au Burkina Faso, Volume 1. Septembre 2005); Public Expenditure and Financial Accountability (Mesure de la performance de la gestion des finances publiques au Burkina Faso selon la méthodologie PEFA, Rapport final, Avril 2007). Lienert (I.) et al. Burkina Faso: Amélioration de la Gestion Budgétaire. Juillet 2007, FMI.

(iv) establishing effective public finance control and procurement systems; and (v) improving poverty spending tracking. In 2007, the Government committed to step up efforts to improve governance and transparency and created an independent audit institution (*Autorité Supérieure du Contrôle d'Etat*, ASCE). The staffs encourage the authorities to clearly establish the roles and responsibilities of various control institutions of the State and to adequately fund the ASCE to help it achieve its mandate. More generally, the staffs recommend that the authorities accelerate the implementation of the justice sector reform action plan and implement the Country Procurement Assessment Review (CPAR)'s and the public finance sector's strategic action plans.

22. **The APR notes that the government pursued the implementation of the decentralization law in 2006** with: (i) the setting up of 302 rural communities; (ii) the implementation of training sessions on issues such as the organization and operations of town councils, development and implementation of local budgets, the holding of municipal registries of births, marriages and deaths; (iii) the adoption of a decree to transfer responsibilities to urban communities; and (iv) the adoption of a decree defining regional or local authorities' financial and accounting systems.

23. **In implementing the decentralization policy**, two issues critical to improved service delivery and poverty reduction remain: (i) the issue of adequate financial transfers to the local level and rationalization of administrative structures in light of the new institutional structure of the state, and (ii) the issue of the implementation of modern management tools in the civil service (including performance evaluation on the basis of "mission letters" and work programs). Staffs look forward to a discussion of progress on these issues in future APRs.

III. MONITORING AND EVALUATION AND RISKS

24. Staffs consider that the new institutional setup presented in the APR seems well designed for a sound and effective results-based monitoring and evaluation (M&E) system. However, the challenge is to ensure that the thematic and sectoral commissions operate effectively. The M&E system includes three levels: (i) the government (*Conseil des Ministres*), which approves the PRSP and APRs; (ii) a national steering Committee (*Comité national de pilotage*) which includes representatives of donors and civil society which propose implementation mechanisms; and (iii) eight thematic and sectoral commissions responsible for designing sector policies and programs and for reporting on achieved progress. The major difficulties encountered by these commissions include: (i) the lack of timely data in some sectors; (ii) limited analytical tools and skilled staff – e.g., there are no indicators to track justice decisions; (iii) insufficient or inexistent operating budget for all the commissions; and (iv) lack of a work program. In addition, monitoring and evaluation activities are constrained by the high degree of mobility of staff within the administration and weak capacity in regional directorates of the Ministry of Economy and Finance which are responsible for coordinating monitoring and evaluation activities at the local level. Another weakness is the existence of parallel sectoral M&E systems which are not integrated into the PRSP M&E system. To address these challenges, staffs recommend that the

work of the commissions be supported with adequate resources and that government technical staff be trained on new concepts and development management tools, notably the result-based approach. This would be to better monitor the PRS implementation and outcomes. In addition, staffs recommend a better integration of existing sectoral M&E systems into the PRSP M&E system.

25. **Significant risks remain regarding the implementation of the strategy.** First, the economy remains highly vulnerable to exogenous shocks, particularly changes in cotton, food and oil prices, and droughts and locust plagues. Second, continued real appreciation of the CFAF, either because of domestic inflationary pressures or because of further depreciation of the US dollar versus the Euro, would have a negative impact on competitiveness and growth. Third, limited capacity within the civil service may delay timely implementation of identified policies and programs, and delays in scaling up aid could defer the implementation of the strategy. Success of current efforts that improve governance and build capacity, especially in areas of public financial management and policy planning, and efforts to improve productivity, would go a long way toward mitigating some of these risks.

IV. CONCLUSIONS

26. **The APR clearly identifies key achievements and major obstacles to the implementation of the Poverty Reduction Strategy.** The authorities should be commended for their continued efforts and commitment to improve the implementation of the strategy. Looking ahead, the staffs see several areas for strengthening the PRS during its implementation over the coming years:

- **Identifying constraints and related policies and programs to achieve the Millennium Development Goals (MDGs).** In this respect, the staffs highlight the importance of increasing public revenue mobilization and strengthening expenditure management and efficiency, and securing financing in the form of grants and highly concessional loans, which would create space for an increase in pro-poor spending. Producing data on functional classification of expenditures is an important step in that direction.
- **Restoring the economic viability of the cotton sector and accelerating efforts to diversify exports.** Sustained efforts to increase productivity and consolidate reforms in the cotton sector are needed. In addition, measures to enhance the investment climate and strengthen governance are needed to accelerate private sector growth, export diversification and employment creation, drawing inter alia on the analysis and recommendations of the Investment Climate Assessment, the DTIS and the financial sector review that were recently completed. Efforts to further enhance governance, with particular attention to public financial management, are also needed.

- **Improving access and quality of basic services.** Increasing spending on basic services and enhancing the management and efficiency of public expenditure in health and education, improving basic infrastructure and continued progress on decentralization are critical to achieve the PRS public service delivery targets.
- **Further improving the capacity to monitor and evaluate the PRS implementation.** The PRS benefits from an enhanced institutional monitoring and evaluation framework. The staffs recommend that the work of the relevant M&E entities be supported with adequate resources and that government technical staff be trained on new concepts and development management tools, notably the result-based approach. In addition, staffs recommend that the existing sectoral M&E systems be fully integrated in the PRSP M&E system.