

INTERNATIONAL MONETARY FUND

BURKINA FASO

Staff Assessment of Qualification for the Multilateral Debt Relief Initiative (MDRI)

Prepared by the African Department

(In consultation with other departments)

Approved by Thomas Krueger and Mark Plant

December 8, 2005

Burkina Faso reached the completion point under the enhanced HIPC Initiative on April 12, 2002.

Macroeconomic Performance

1. **Status of Fund arrangement.** Burkina Faso has an arrangement under the PRGF that expires in August 2006. The fourth review was concluded on September 7, 2005. There are some indications that the end-September performance criterion on net domestic borrowing by the government may have been missed by a small margin because of an acceleration of the public investment program, but the program otherwise appears to be on track. Board discussion of the fifth review is tentatively scheduled for March 2006.

2. **Recent Macroeconomic Developments.** Macroeconomic performance since Burkina Faso reached the completion point has generally been good. Real GDP growth averaged about 6¼ percent per year during 2003-04, and non-food inflation remained low. Debt indicators have deteriorated, primarily because of changes in discount rates and exchange rates, but they were below the policy-dependent indicative thresholds at end-2004. The latest DSA indicates a moderate risk of debt distress, based on projections that include a scaling up of expenditures to accelerate progress toward meeting the MDGs. Real GDP growth is projected to slow to 3.5 percent in 2005, reflecting the effects of a near 30 percent decline in the external terms of trade (arising from the decline in world cotton price and the increase in the world oil price). Inflation peaked at 9.7 percent in August, primarily reflecting a rebound in food prices from a 5-year low reached in 2004, as well as rising oil and transport prices. Inflation has since eased as food prices have declined in the wake of a good harvest. The fiscal deficit for 2005 (excluding grants) is projected at 9.5 percent of GDP, nearly all of which is financed by external grants and concessional loans. The information available to the staff indicates that Burkina Faso is current on its obligations to the World Bank and the African Development Bank.

3. **Summary Assessment.** Given the completion of the fourth review under the PRGF on September 7, 2005 and the recent track record of satisfactory macroeconomic performance, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Implementation of the Poverty Reduction Strategy

4. **Recent Development.** The second full poverty reduction strategy paper (PRSP) and the fourth annual progress report on the implementation of the first PRSP were issued in 2005. World Bank staff estimates that the poverty headcount fell by 8 percentage points between 1998 and 2003. School enrollment and literacy programs have exceeded PRS targets since the completion point and dropout rates have declined. Progress has been achieved in raising immunization coverage rates, lowering infant and child mortality rates, ensuring a good supply of essential drugs, and reducing the transmission of HIV/AIDS. The number of health centers with the minimum required personnel has also increased since the completion point. In education, more needs to be done in decentralization, addressing aid coordination, implementing cost-effective school construction, and ensuring that financial resources are used efficiently towards reaching MDG targets. In the health sector, increased efforts to combat malaria and malnutrition issues, and better expenditure management to balance scaling up of anti-retroviral treatment with necessary HIV prevention programs, are warranted. These issues are addressed in the poverty reduction strategy annual progress report and the updated priority action program.

5. **Summary Assessment.** Given the recent track record of satisfactory implementation of poverty reduction policies, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Public Expenditure Management System

6. **Recent Developments.** Burkina Faso's public expenditure management (PEM) system performance has improved since the completion point. Budget coverage is generally complete and extra-budgetary expenditures are negligible. The budget is a reliable implementation guide. The ability to track spending has improved with the adoption of the WAEMU budget nomenclature and the implementation of annual surveys on service delivery. The medium-term expenditure framework and annual budget laws are aligned with poverty reduction strategy priorities. Internal budget reports and the entry of transactions into the accounts are timely. Internal control is enforced – though limited by weak capacity and procedures – and the external audit of budget execution is submitted to the National Assembly. A reform program is addressing remaining shortcomings in the procurement system, including those related to the institutional framework and to procurement capacity.

7. **Summary Assessment.** Given the recent track record of satisfactory implementation of poverty reduction policies, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Other

8. **Provision of information to the Fund.** The staff is satisfied with the authorities' collaboration with the Fund and the provision of information for surveillance and program monitoring.

9. **Payments to international financial institutions.** Burkina Faso is current on its financial obligations to the Fund.

Overall Assessment

10. Staff is of the view that all three criteria are met, and recommends that the Board determine that Burkina Faso qualifies for immediate debt relief under the MDRI.

Burkina Faso: Selected Macroeconomic Indicators, 2000-05

(annual percent change; unless otherwise indicated)

	2000	2001	2002	2003	2004	2005 (Est.)
Real GDP	3.1	6.7	5.2	8.0	4.6	3.5
Inflation (e.o.p)	2.4	1.0	3.9	3.2	0.7	2.6
Real effective exchange rate	-4.4	3.2	2.1	3.8	-1.1	...
Broad money	5.7	3.3	2.9	16.3	22.9	6.8
Overall fiscal balance including grants (in percent of GDP)	-3.6	-3.9	-4.8	-2.9	-4.3	-4.2
Current account balance including grants (in percent of GDP)	-12.2	-11.0	-10.0	-8.6	-7.8	-9.6
Foreign exchange reserves (in months of imports)	4.4	4.7	4.5	5.0	6.8	5.3

Burkina Faso: Public and Publicly Guaranteed (PPG) External Debt and Debt Relief 1/

(in millions of U.S. dollars; unless otherwise indicated)

	2004	2005 (Est.)	2006 (Proj.)		2007 (Proj.)
			Before MDRI	After MDRI 2/	After MDRI
PPG External debt	1,750.7	1,921.1	2,184.8	979.3	1,253.5
<i>of which owed to the Fund</i>	92.6	101.7	101.3	25.8	25.8
<i>of which owed to IDA</i>	861.8	943.4	1,084.9	266.8	427.3
<i>of which owed to AfDF</i>	317.3	358.8	418.3	107.7	172.1
NPV of PPG external debt to exports 3/	183.1	200.5	216.9	110.2	125.2
Debt service to exports 3/	4.9	8.1	9.1	5.0	4.7
PPG External debt to GDP (in percent)	34.3	34.8	37.4	16.8	19.8
NPV of PPG External debt to GDP (in percent)	18.1	19.2	20.9	10.6	12.2

1/ After HIPC assistance.

2/ Assuming delivery on January 1, 2006 for the Fund and the AfDF, and on July 1, 2006 for IDA.

3/ Exports of goods and services for the year under consideration.