July 2000
IMF Staff Country Report No. 00/86

Burkina Faso: Staff Report for the 2000 Article IV Consultation and First Review Under the Poverty Reduction and Growth Facility

As required under Article IV of its Articles of Agreement, the International Monetary Fund conducts periodic consultations with its member countries. In the context of the 2000 Article IV consultation with Burkina Faso, the following documents have been released and are included in this package:

- the staff report for the 2000 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **July 10, 2000,** with the officials of Burkina Faso on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on May 12, 2000.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;.

- the Public Information Notice (PIN), which summarizes the **views of the Executive Board as expressed during the July 10, 2000, Executive Board discussion** of the staff report that concluded the Article IV consultation.

- a statement by the authorities of Burkina Faso.

Further background documentation prepared by IMF staff for the consultation may be published separately at a later date. The policy of publication of Article IV staff reports and PINS allows for the deletion of market-sensitive information.

The Article IV staff report is published—both in hard copy and on the IMF's website (http://www.imf.org)—as part of a pilot project. To assist the IMF in evaluating the pilot project for release of Article IV staff reports, reader comments are invited prior to October 5, 2000, and may be sent by e-mail to Pilotproject@imf.org.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BURKINA FASO

Staff Report for the 2000 Article IV Consultation and First Review Under the Poverty Reduction and Growth Facility

Prepared by the African Department

(In consultation with the Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by Christian A. François and Jesús Seade

May 12, 2000

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EXECUTIVE SUMMARY

- Burkina Faso's head of state, Mr. Blaise Campaoré, came to power in October 1987. He was elected President in December 1991 and again in multi-party elections in November 1998. The Prime Minister, Mr. Kadre Desiré Ouedraogo, and the Minister of Economy and Finance, Mr. Tertius Zongo, were appointed in 1996. The legislative elections take place every five years; the latest round of elections were held in 1997.

- Economic growth continued to be strong in 1999, at an estimated 5.8 percent, and was spurred by buoyant activity in construction, manufacturing, and services, supported by a large public investment program. With a favorable cereal crop, the CPI declined during 1999. The external current account deficit, including grants, rose by 2 ½ percentage points of GDP to 12.6 percent of GDP because of a decline in cotton prices and a fall in cotton export volume, attributable to pest infestation of the 1998/99 crop.

- Government revenue exceeded the 1999 target, owing to the strong performance of the value-added tax (VAT) and of import duties, and despite the full-year impact of the reduction of the external tariff undertaken in mid-1998 in the framework of the phased introduction of the common external tariff (CET) of the West African Economic and Monetary Union (WAEMU). VAT collection benefited from the elimination of payments deferment by enterprises registered under the investment code with regard to imports of raw material. The primary surplus, excluding foreign-financed investment, was somewhat larger than targeted. However, the end-1999 net bank credit to government ceiling was exceeded, owing to higher-than-programmed repayments of domestic arrears, and domestic and external debt amortization; a waiver for the nonobservance of the related performance criterion is being requested.

- All structural performance criteria were met, with the exception of the finalization of the plan for the privatization of the electricity company, SONABEL, which has required more time than initially envisaged; the government is committed to completing the regulatory framework for the electricity sector and adopting the privatization scheme for the company by end–2000. The new withholding tax on imports and purchases from wholesalers was introduced as scheduled. The privatization program for the telecommunications company, SONATEL, is also proceeding on schedule. The cotton sector has made appreciable gains in efficiency, enabling it to avoid losses despite the sharp fall in international cotton prices.

Prospects for 2000

- Real GDP is projected to grow by 5.7 percent, on the basis of a recovery in cotton production and continued strength in public investment. The external current account is expected to narrow, as a slight decline in cotton exports, owing to lower international prices, should be more than offset by the rise of other exports.

- Based on performance in 1999, the revenue-GDP target has been revised upwards in 2000; however, it is still expected to be 0.6 percentage point lower than in 1999 because of the further cut in the maximum tariff to 20 percent and in the statistical tax to 1 percent that accompanied the full introduction of the CET in January 2000. The target for total expenditure has been maintained unchanged.

- The privatization program will focus on finalizing the sale of SONATEL company and preparing the framework for the privatization of SONABEL.

- The authorities are preparing a comprehensive poverty reduction strategy and the associated strategy paper (PRSP), in close collaboration with donors and civil society. The PRSP will build on Burkina's strong participatory tradition and is to be finalized by end-2000. It will include a detailed costing of the key components of the strategy, which will be incorporated in the 2001 budget and in the medium-term budgetary framework under preparation.

Staff appraisal

- The staff is encouraged by the progress made in implementing the 1999-2000 program. It welcomes the actions taken to strengthen tax administration, the favorable results achieved in increasing revenue from the VAT, and the reduction of tax distortions embodied in the investment code. It also welcomes the measures taken to strengthen budgetary management.

- Following the decompression of the salary scale associated with the introduction of a merit- based promotion system, it is important that a very cautious wage policy be pursued in the coming years.

- The staff welcomes the priority given by the authorities to strengthening the overall competitiveness of the economy by restructuring the public utility sector and enhancing the efficiency of the cotton sector. The efforts to improve the environment for private sector activity, and to strengthen the banking system and the network of decentralized, small-scale institutions, are appropriate and must be sustained.

- As the incidence of poverty remains high and the social indicators very weak, it is important that the poverty reduction strategy under preparation include strong action plans directed at improving social indicators and at reinforcing income-generating activities of the more vulnerable groups. In this context, it is also essential that the authorities determine rapidly the best allocation of the resources expected to be released by the HIPC Initiative, within the framework of an intensified dialogue with civil society and the donor community.

I. Introduction

1. Burkina Faso's arrangement under the Enhanced Structural Adjustment Facility (ESAF) was approved in September 1999 (replaced in November 1999 by the Poverty Reduction and Growth Facility, PRGF),[1] against the background of a relatively strong performance during the past three years. In 1996-99, economic growth was steady, with real GDP growth hovering between 5 percent and 6 percent, inflation came down from 6 percent to a negative 1 percent, and significant progress was made in reducing fiscal imbalances and liberalizing the economy. Burkina Faso was scheduled to reach the completion point under the original Initiative for Heavily Indebted Poor Countries (HIPC Initiative) in April-May 2000.[2] A determined effort was being made, with the support of a large group of donors, including the European Union, to strengthen the health and education sectors and to better link reforms in these sectors with macroeconomic adjustment. At the same time, there were significant risks ahead: the price of cotton, the country's main export, was falling on world markets, and the political climate was tense after several months of social disruptions, despite the government's efforts to open up the dialogue with all political parties, labor unions, and human rights groups. In all, the country seemed to have reached a critical juncture, and, the authorities attached considerable importance to sustaining growth through a continued reform effort supported by the new PRGF arrangement.

2. Burkina Faso's head of state, Mr. Blaise Campaoré, came to power in October 1987. He was elected President in December 1991 and again in multi-party elections in November 1998. The Prime Minister, Mr. Kadre Desiré Ouedraogo, and the Minister of Economy and Finance, Mr. Tertius Zongo, were appointed in 1996. The legislative elections take place every five years; the latest round of elections were held in 1997.

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[1] The Executive Board approved on September 10, 1999 a new three-year arrangement under the Enhanced Structural Adjustment Facility (ESAF) in an amount equivalent to SDR 39.12 million (65 percent of quota), with a first disbursement in an amount equivalent to SDR 5.59 million (9.29 percent of quota) effected immediately thereafter.

[2] In September-October 1997, the Executive Boards of the IMF and the World Bank decided that Burkina Faso was eligible for assistance under the HIPC Initiative, and set the completion point under the Initiative after a two-and-a-half year interim period. This could be achieved at the time of the first review under the PRGF in April-May 2000, provided that the structural adjustment program remained on track; the target for the net present value of debt-to-export ratio was set at 205 percent, implying a reduction of external debt in NPV terms of 15 percent. Under the enhanced HIPC Initiative, the total external debt reduction will be such as to bring the ratio of external debt to exports to 150 percent.

3. The first review of this program[3] takes place at a time when the terms of trade show signs of improvement; cotton prices started to rise in the beginning of the year. Overall, the performance under the new program has been broadly satisfactory. All the quantitative benchmarks, performance criteria, and structural benchmarks at end-December 1999 were observed, except for the two performance criteria related to the change in net bank credit to the government in the 12 months to end-December 1999 and to the completion of the privatization of the electricity company (SONABEL). In the attached Memorandum of Economic and Financial Policies dated April 17, 2000 (Appendix I), the Minister of Economy and Finance reviews the progress made under the 1999-2000 program (covering the period July 1, 1999 to June 30, 2000), presents the policies to be pursued and measures to be adopted during the remainder of 2000, and requests waivers for the nonobservance of the two performance criteria mentioned above.

4. As of end-March 2000, Burkina Faso's outstanding use of Fund resources amounted to SDR 86.4 million (equivalent to 143.5 percent of quota). Burkina Faso accepted the obligations of Article VIII, Sections 2, 3, and 4, effective June 1, 1996, and maintains no restrictions subject to approval under Article VIII. Burkina Faso has consented to its quota increase under the Eleventh General Review of Quotas. It accepted the Fourth Amendment of the Articles of Agreement on March, 22, 1999.

5. Burkina Faso is on the standard 12-month consultation cycle. The 1999 Article IV consultation was concluded on May 21, 1999. On that occasion, Executive Directors noted the improvement in financial performance and structural reforms, and encouraged the authorities to sustain their efforts in the period ahead.

6. The World Bank has been supporting Burkina Faso's reforms in recent years through a number of sectoral credits, including an agricultural sector adjustment credit, a transport sector adjustment credit, and three structural adjustment credits (SACs). The third SAC, in an amount of SDR 18 million, was approved on November 9, 1999 and disbursed in full a few days thereafter. Burkina Faso's relations with the Fund and the World Bank Group are summarized in Appendices II and III, respectively. While progress has been made in improving economic statistics since the last Article IV consultation, much remains to be done to upgrade the quality, coverage, and timeliness of statistical information

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[3] The discussions on the 2000 Article IV consultation and the first review under the Poverty Reduction and Growth Facility (PRGF) were conducted in Ouagadougou in the period February 9-23, 2000. The Burkinabè representatives included Mr. Zongo, the Minister of Economy and Finance, and Mr. Zallé, the National Director of the Central Bank of West African States (BCEAO). The staff team comprised Mr. Sacerdoti (head), Mr. Lazar, Mr. Krichene, Ms. Brunschwig, Ms. Robb, and Ms. Allain (EP), all AFR, Mr. Choudhury (RA-PDR), and Ms. Estévez, assistant (AFR). The mission worked closely with a team from the World Bank that was in Burkina Faso at the same time. Mr. Ntamatungiro, Advisor to the Executive Director for Burkina Faso, attended the discussions.

(Appendix IV). A list of social development indicators for Burkina Faso is presented in Appendix I, Table 2.

7. This report will be followed shortly by a document for the completion point under the initial HIPC Initiative and the second decision point under the enhanced HIPC Initiative. This will be accompanied by an interim poverty reduction strategy paper (IPRSP), and its staff's assessment. A full PRSP is expected to be completed by end-2000.

II. Performance Under the 1999-2000 Program

8. In 1999, real GDP grew by 5.8 percent, a growth rate higher than programmed, owing to buoyant activity in construction, manufacturing, and services (Table 1 and Figure 1), supported by a large public investment program (Table 2 and Figure 2). Cotton production stabilized at 274,400 tons, as a significant reduction in the area cultivated was offset by an increase in productivity; meanwhile, cereal production exceeded marginally the record level reached in 1998 (see the accompanying RED). With abundant food supply, the consumer price index (CPI) declined during 1999, and was on average 1 percent lower than in 1998. The CPI-based real effective exchange rate depreciated slightly, by 2 percent, preserving most of the gains in competitiveness achieved through the 1994 devaluation (Figure 3). However, an 11 percent fall in the terms of trade—caused by the drop in cotton export prices and the increase in petroleum prices, and by a decline in the volume of cotton exports—[4] led to a further deterioration in the external current account (Table 3 and Figure 4). Excluding current grants, the deficit rose in 1999 to 16 percent of GDP from 14.5 percent of GDP in 1998, exceeding the program objective by 1 percentage point; including current grants, it widened from 10 percent to 12.6 percent of GDP.

9. Budgetary results were generally satisfactory, in particular on the revenue side. Government revenue reached 15 percent of GDP, as against the 14.3 percent programmed, and the primary surplus amounted to 0.3 percent of GDP, against a program objective of 0.2 percent of GDP (Table 2, Figure 5 and Appendix I, Table 1). The strong revenue performance reflects favorable collections under the profit tax, the value-added tax (VAT), and import duties; these outcomes more than offset the full year's impact of the reduction of the external tariff in mid-1998 and the adoption of a new classification of import products in April 1999, implemented as part of the phased introduction of the common external tariff (CET) of the West African Economic and Monetary Union (WAEMU) (see Box 1). The revenue performance benefited from the implementation of the compensatory measures adopted in 1999 to accompany the adoption of the CET, including the elimination of deferment of VAT payments by enterprises registered under the investment code and for imports of raw materials. Moreover, the procedures for tax payments on government

[4] Cotton exports are linked to cotton production in the previous crop year. The decline in cotton exports of 1999 by an estimated 17 percent in volume terms reflects the drop in the volume of the 1998/99 crop year caused by an infestation of parasites.

Box 1: External Tariff Reform 1998-2000

Tariff Structure

	Until June 1998			From July 1998			From January 1, 1999			From January 1, 2000		
Customs rates/categories	I	II	III	I	II	III	I	II	III	I	II	III
External tariff rates												
Customs duty/Fiscal duty	5	9	31	5	9	25	5	10	25	5	10	20
Statistical tax	4	4	4	4	4	4	4	4	4	1	1	1
Special intervention tax	2	2	2	...	...	...	...	...	...	...	...	...
Total	11	15	37	9	13	29	9	14	29	6	11	21
Community solidarity levy (PCS)	1	1	1	1	1	1	1	1	1	1.5	1.5	1.5
Intra WAEMU tariff rates												
Local primary products	0			0			0			0		
Eligible industrial products of origin	60 percent preference			60 percent preference			80 percent preference			100 percent preference		
Non-eligible products of origin	-5 percentage points			-5 percentage points			-5 percentage points			-5 percentage points		

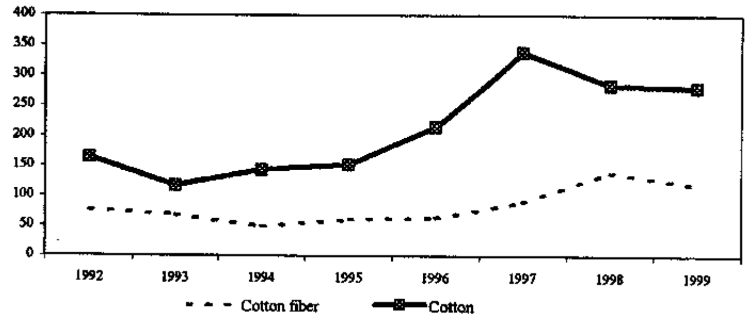
External Tariff Revenue 1997-2000
(In billions of CFA francs unless otherwise indicated)

	1997 Est	1998 Est	1999 Orig Prog	1999 Prog	1999 Est	2000 Prog
Total external tariff revenue	49.9	49.7	44.7	39.4	43.2	34.9
as a percentage of GDP	3.6	3.2	2.7	2.4	2.7	2.0
Import duties	43.0	43.8	39.8	37.3	40.4	31.0
as a percentage of GDP	3.1	2.9	2.4	2.3	2.5	1.8
Customs duty/Fiscal duty	32.6	32.1	28.0	26.2	29.0	27.5
Statistical tax	10.4	11.7	11.8	11.1	11.4	3.5
Other import taxes	5.9	4.7	3.5	0.8	1.6	2.5
Special intervention tax	4.9	2.9	0.0	0.0	0.0	0.0
Special community tax (TPC +TCNA)	1	1.8	1.0	...	1.0	0
TDP/ TCI	...	...	...	...	...	1.5
Transfers from WAEMU 1/	...	...	2.5	0.8	0.6	1.0
Other taxes on international trade	1.0	1.2	1.4	1.3	1.2	1.4
Contribution of livestock sector (on exports)	0.6	0.7	0.8	0.8	0.6	0.8
Penalties	0.4	0.5	0.6	0.5	0.6	0.6
Memorandum items:						
Nominal GDP	1390	1529	1645	1629	1589	1713
Transfers to WAEMU and CDEAO (community solidarity levy) 1/	0.9	2.4	2.4	2.4	2.3	2.3
Single tax on petroleum products (TUPP)	9.4	8.3	12.9	12.9	11.7	12
VAT on imports	24.9	27.4	26.2	26.2	32.9	32.9
(as a percentage of GDP)	1.8	1.8	1.6	1.6	2.1	1.9

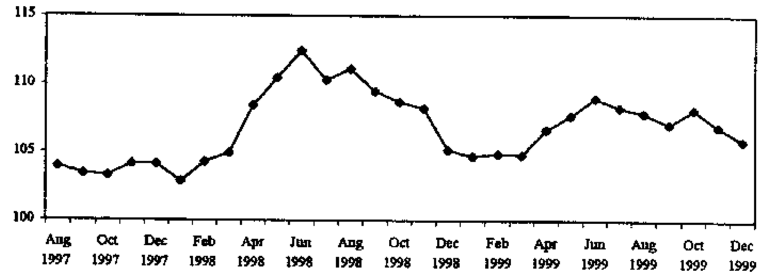
1/ The WAEMU and the ECOWAS collect a solidarity levy on extracommunity imports, respectively of 1 percent since January 1, 2000 and 0.5 percent of import value; the WAEMU transfers part of the receipts to member states to compensate for shortfalls in tariff revenue due to intercommunity trade.

Figure 1. Burkina Faso: Economic Indicators

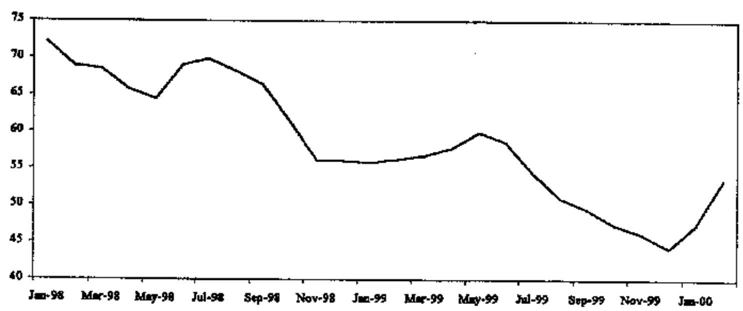
Cotton Production, 1985-99 1/
(In thousands of metric tons)



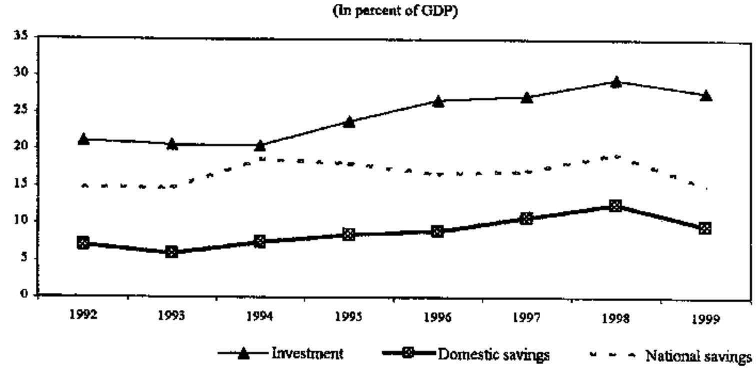
Consumer Price Index, January 1997-December 1999
(1996=100)



Cotton Price Index, January 1998-February 2000 2/



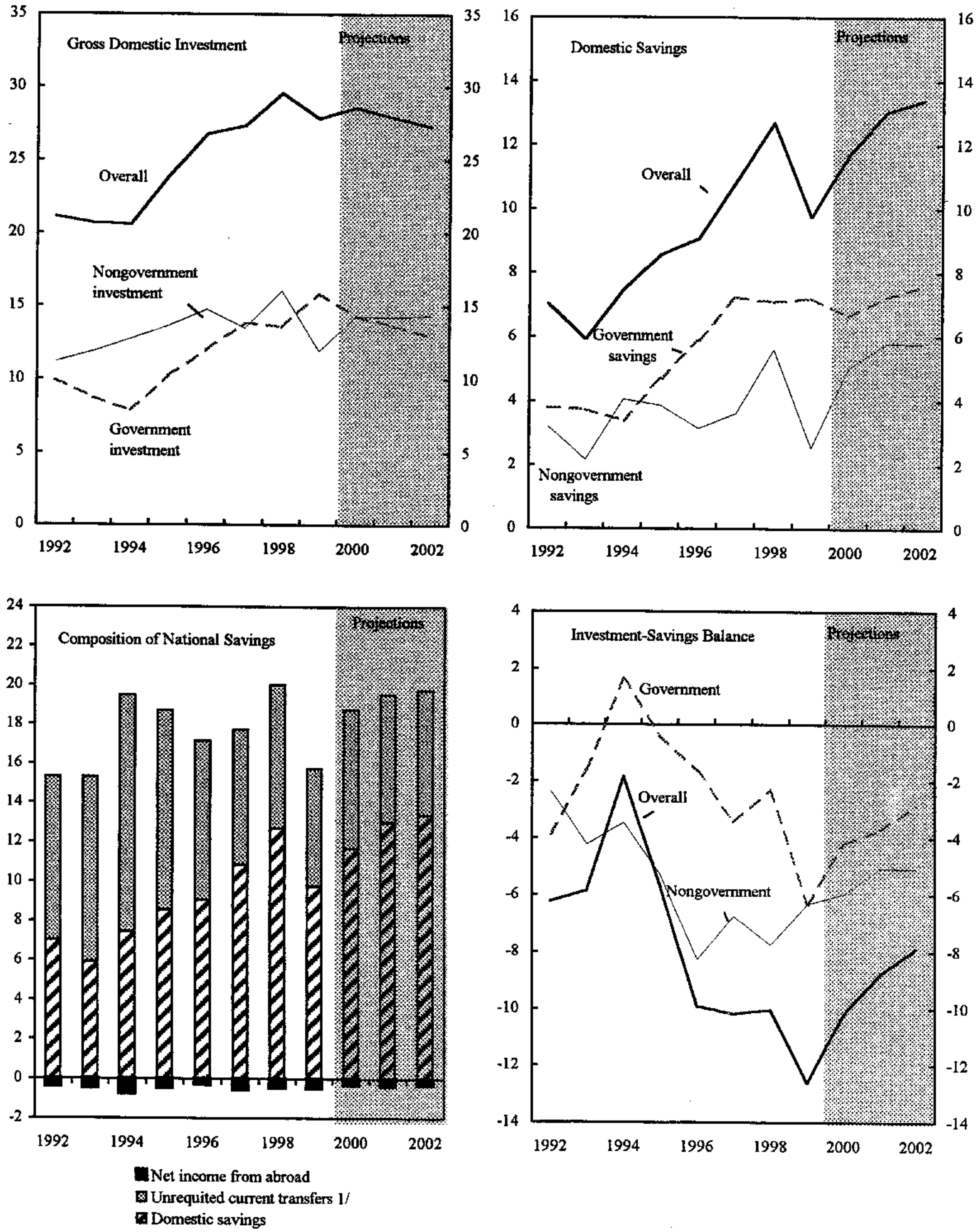
Investment and Savings, 1992-99
(In percent of GDP)



Sources: Burkinabè authorities; and Fund staff estimates.

1/ Crop year begins in July, and ginning operations are completed by middle of next year.
2/ Liverpool index, which is an average of different qualities of widely traded ginned cotton.

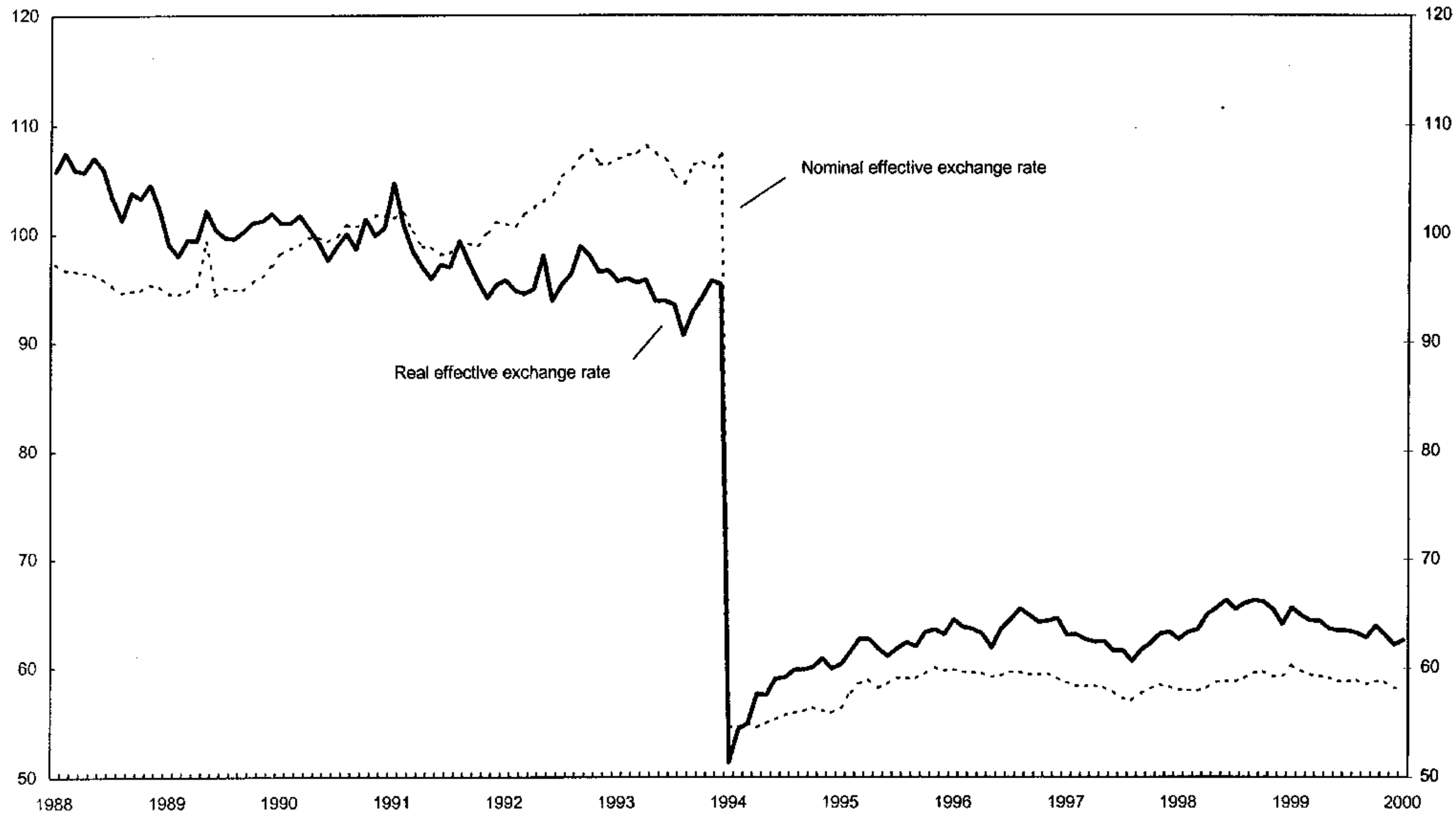
Figure 2. Burkina Faso: Investment and Savings, 1992-2002
(In percent of GDP)



Sources: Burkinabè authorities; and staff estimates and projections.

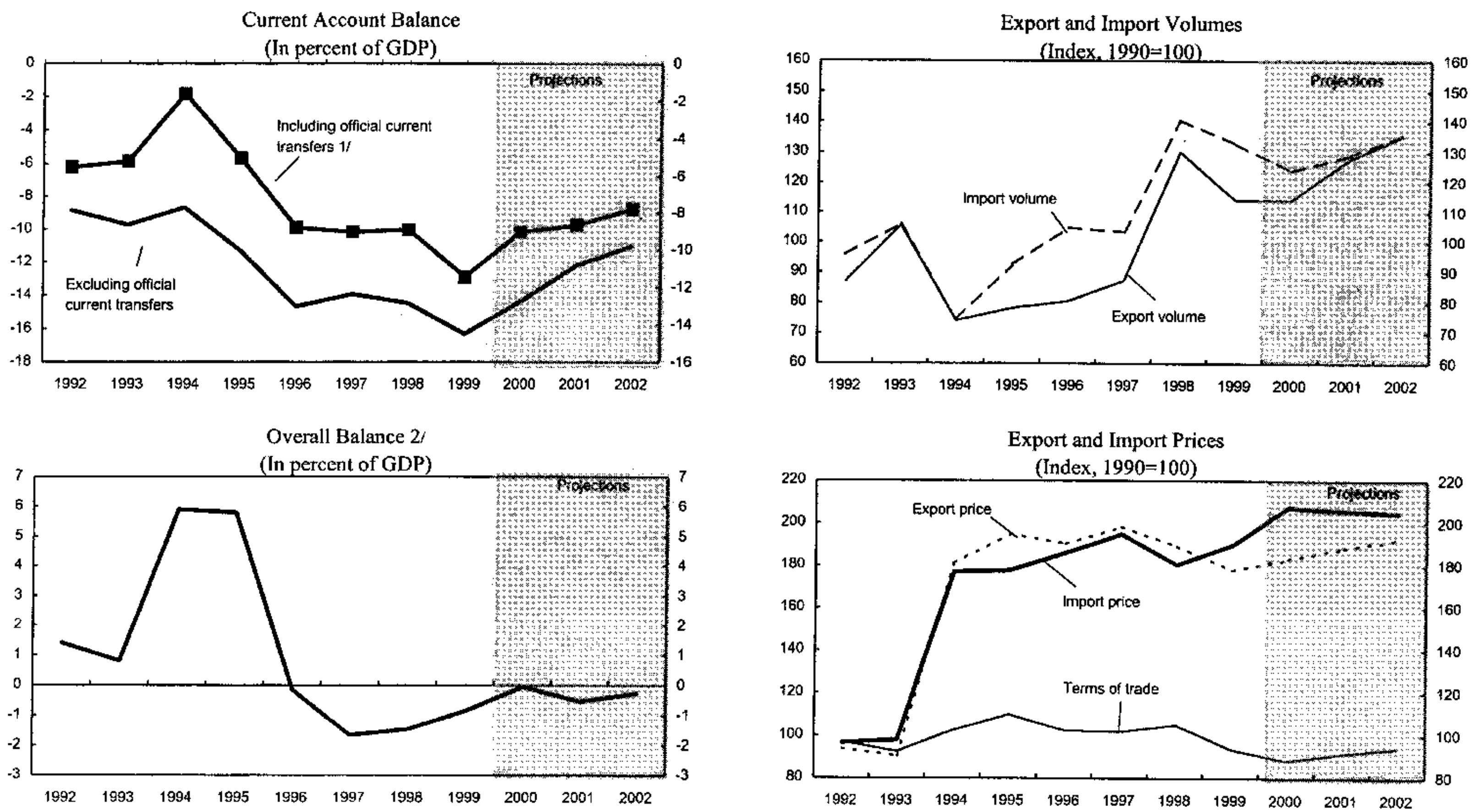
1/ Budgetary grants, technical assistance, worker's remittances, and other transfers, including from nongovernment organizations.

Figure 3. Burkina Faso: Real and Nominal Effective Exchange Rates, January 1988-January 2000
(Index, 1990=100)



Source: IMF, Information Notice System.

Figure 4. Burkina Faso: External Sector Developments, 1992-2002

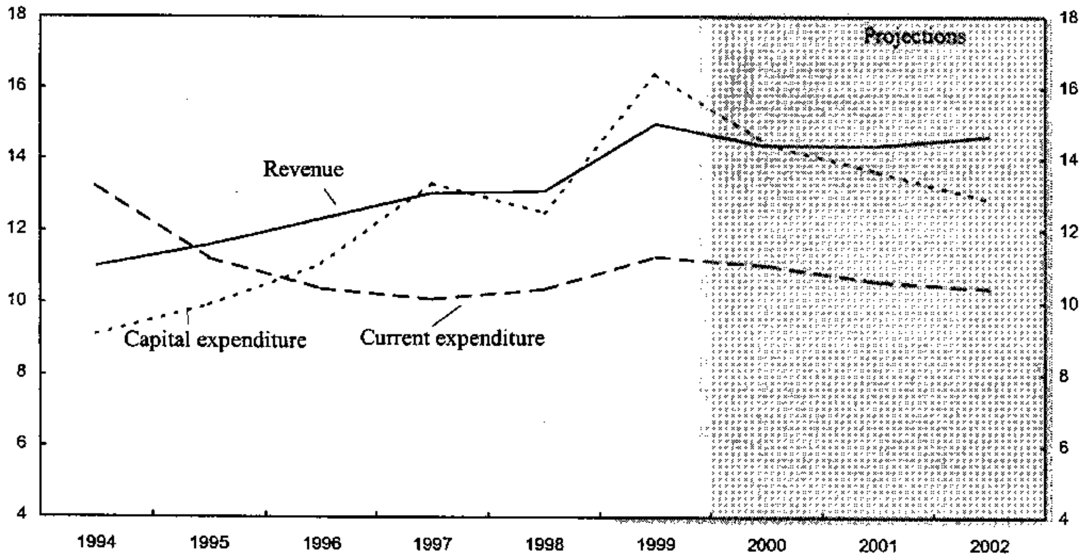


Sources: Burkinabè authorities; and Fund staff estimates and projections.

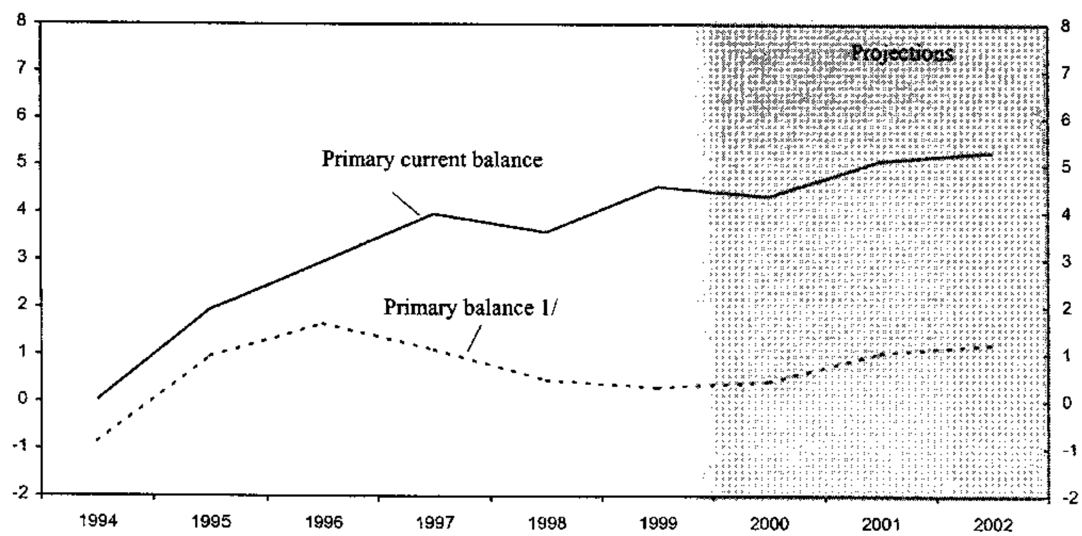
1/ In the projection years 1999-2002, the current balance does not include the grants expected to fill the financing gap.
2/ In the projection years 1999-2002, the overall balance is calculated before the grants expected to fill the financing gap.

Figure 5. Burkina Faso: Fiscal Sector Developments, 1994-2002
(In percent of GDP)

Government Revenue and Expenditure



Primary Balances



1/ Excluding foreign-financed capital expenditure.

Sources: Burkinabè authorities; and staff estimates and projections.

procurement were strengthened, with the VAT now applied to all public contracts; the monitoring of foreign-financed public projects for which the indirect taxes and customs duties are paid by the treasury was intensified, to prevent abuses (see memorandum of economic and financial policies (MEFP), para. 7). As envisaged in the program, the authorities introduced, effective January 1, 2000, a new withholding tax on imports and purchases from wholesalers and producers, creditable against the profit tax, which broadens the taxation of the informal sector.

10. On the expenditure side, although current expenditures were in line with the program's target, there was an overrun on arrears payments, expenditure related to the privatization and/or liquidation of public enterprises, and debt amortization. Current expenditure on goods and services and transfers was lower than expected; this was offset by the wage bill exceeding the initial target by the equivalent of 0.2 percent of GDP. This slippage was related to the introduction of a new, less compressed salary scale, starting in January 1999, which accompanied the introduction of a merit-based promotion system, as the repositioning of staff in the new scale involved an upward adjustment larger than initially envisaged (MEFP, para. 8).[5]

11. As part of the introduction of the new salary scale, the administrative position of all civil servants was brought up to date. This entailed retroactive payments for advancements and promotions, amounting to 0.2 percent of GDP, raising total arrears repayment over the amount programmed. Domestic debt repayments were also above program, as the treasury had to refund to military personnel previous contributions to a housing fund that had never become fully operational. In addition, the payments on external debt amortization exceeded the program estimate by about 0.4 percent of GDP, as settlements were reached with external contractors on disputed obligations related to past infrastructure investments (MEFP, para. 9); these payments will have to continue in 2000.[6] Reflecting these factors, the ceilings on the change in net bank credit to government at end-September and end-December 1999 (which constituted, respectively, a benchmark and a performance criterion under the program) were exceeded—the latter by CFAF 6.2 billion (or 0.4 percent of GDP), even though external aid was, by December 1999, higher than programmed.[7]

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[5] This adjustment reflected the need to obtain the trade unions' support for the merit-based promotion system.

[6] The authorities explained that these settlements, involving repayments in 1999 and 2000, were concluded on very concessional terms in order to streamline the external debt situation on the verge of the completion point under the HIPC Initiative, and that no remaining disputed claims were outstanding.

[7] The excess in external aid in 1999 amounted to CFAF 5.5 billion, compared with higher-than-programmed payments of external debt amortization of CFAF 6 billion.

12. External financing for the public investment program significantly exceeded the program's estimates, in particular with regards to project grants, reaching 12.1 percent of GDP. This outcome is attributable to the acceleration in the implementation of large public infrastructure projects, such as the Ziga dam and several new roads. In 1999 the shares of the government budget (excluding debt and foreign financed investment) allocated to the health and education sectors were 13.9 percent and 16.9 percent, respectively, slightly above the program objectives (see Appendix I, Table 2). The budgetary process was strengthened further with the preparation in 1999 of a three-year program budget for six key ministries, improvement in the computerized expenditure-monitoring process, and the establishment of an integrated government accounting system, which will facilitate the preparation of treasury balances in real time (see MEFP, para. 18).

13. Credit to the economy grew by 4.3 percent in 1999 (Table 4), significantly less than projected in the program, partly because the financing of the 1999/2000 cotton campaign started later than expected. At the same time, net credit to the government increased by 3.5 percent of the beginning-of-period money stock, exceeding the program's objectives. Net foreign assets of the banking system declined by less than anticipated in the program, and the money supply grew through the year by 6.5 percent, in line with nominal GDP growth.

14. The **banking system** continued to be strengthened in 1999. The solvency ratio, in particular, improved during the year for five of the seven banks, while all the banks observed the current prudential ratio of 4 percent with significant margins. Five banks already observed the new ratio of 8 percent, established by the Central Bank of the West African States (BCEAO) in mid-1999, which has a phased-in period of two years. Nonperforming loans net of provision represented 3.9 percent of total credit to the economy at end-December 1999, compared with 4.2 percent at end-1998. The central bank's lending interest rates remained stable throughout 1999 and in the first two months of 2000. Competition among banks increased as a result of the entry into the market of three new banks during the past two years, leading to a significant narrowing of the interest rate spread. The network of microfinance institutions continued to widen, with the network of *banques populaires* expanding in areas formerly served through a savings and loan cooperatives union (UCECB), which was liquidated because of financial difficulties.

15. In the area of **structural reforms**, the main program objectives were achieved (see Appendix I, Table 3), with the exception of the restructuring of the electricity sector, which is requiring a longer time frame than envisaged because of its complexity and the need to finalize an appropriate regulatory framework with World Bank assistance. The liberalization of the telecommunications sector is proceeding as planned, with the regulatory framework adopted in February 2000, the regulatory authority operational in April 2000, and two mobile phone licenses assigned to private operators in the same month. The selection of the investment bank, which will bring the telephone company (ONATEL) to the point of sale, will be finalized by end-May 2000. In the electricity sector, the government, in agreement with the World Bank, adopted in December 1999 a broad strategy to reform the sector and is now preparing the regulatory framework, which is to be finalized by the last quarter of 2000, together with the precise scheme for privatizing SONABEL (see below and MEFP, para. 34).

The negotiations for sale of the airline company Air Burkina to a strategic partner started in early 2000, in compliance with the associated structural benchmark. Further progress was made in strengthening the judicial system and making the national legislation consistent with that of the Organization for the Harmonization of Business Law in Africa (OHADA) (see MEFP, para. 15).

16. As regards the **cotton sector reform**, following the sale of 30 percent of the capital of the cotton ginning and marketing company (SOFITEX) to the farmers' associations in early 1999, the new shareholders are already taking an active part in the management of the company; the role of the producers' associations is also being strengthened in areas such as transport and through their gradual assumption of extension services. Despite the steep fall in cotton prices in the second half of 1999, SOFITEX expects to break even in the 1999/2000 crop year as a result of the actions taken to reduce operating costs, the successful commercial strategy adopted, and the good quality of Burkinabè cotton.

17. A comprehensive **civil service reform** entered into effect in 1999, which includes the implementation of the new system of merit-based promotion and the recruitment of civil servants under the status of contractual employees, except for those holding key policy positions. This new policy will allow for greater flexibility in personnel assignments (see MEFP, para. 17).

III. Report on the Discussions

18. The discussions with the Burkinabè authorities focused on the implementation of the macroeconomic and structural reform program in 1999, and the prospects for 2000 and the medium term, also in the context of the regional economic integration under way. In the **fiscal area**, the discussions centered on the results of recent tax reforms in the area of the VAT and customs administration, the revenue impact of the full implementation of the CET, the improvement in budgetary programming under way, and, in particular, the preparation of the medium-term budgetary framework for education and health. In the **structural reform area**, the emphasis was on the results obtained from the recently adopted civil service reform, the ongoing restructuring of the telecommunications and electricity sectors, and the reform of the cotton sector. An important part of the discussions was devoted (i) to **the progress in the preparation of the poverty reduction strategy**, based on recently updated poverty data; (ii) to the methodology for costing the action plans in the social sectors; and (iii) to the approach to be developed to strengthen the participation of civil society in the preparation and monitoring of the poverty reduction strategy.

19. The growth prospects for 2000 are favorable. Real GDP growth is projected at 5.7 percent on the basis of a recovery in cotton production and continued strength in public investment, in connection with major infrastructure projects. Average annual inflation is projected at 1.5 percent. The external current account deficit, excluding grants, is projected to narrow from 16 percent of GDP in 1999 to 14.4 percent in 2000, as a slight decline in cotton exports (because of lower international prices) should be more than offset by the rise of other exports and a modest growth in imports, following the sharp rise in previous years.

A. Fiscal Policy

20. With budgetary revenue exceeding the program objective in 1999, the **revenue objective for 2000 has been revised upward** by 0.7 percent of GDP to 14.4 percent of GDP; as initially envisaged, the revenue-GDP ratio would decline from the 1999 level by 0.6 percentage point of GDP, reflecting the impact of the full implementation of the CET. The target for total expenditure, excluding foreign-financed investment, has been maintained broadly unchanged. **The resulting higher primary surplus** will help meet the larger-than-originally expected domestic and external debt amortization requirements (by an amount equivalent to 0.6 percent of GDP). The restructuring costs related to privatization operations are also somewhat higher than originally projected. Because of these larger requirements, the expansion of net credit to government from the banking system in 2000 has been revised upward by 0.2 percent of GDP. External budgetary assistance, mainly in the form of grants, is expected to remain at the level originally envisaged (2.1 percent of GDP).

21. In 2000, the **revenue loss from the full implementation of the CET** (involving the reduction, effective January 1, 2000, of the maximum tariff from 25 percent to 20 percent, and of the statistical tax from 4 percent to 1 percent) is estimated at 0.7 percent of GDP. Revenue from the profit tax and the petroleum excise tax is also expected to decline as a share of GDP, reflecting the lower profitability of the cotton sector in 1999 and the increase in petroleum prices. Some offset will result from (i) the new withholding tax at customs and on purchases from wholesalers and producers, allowing better taxation of operations in the informal sector, and (ii) the domestic VAT, as a result, inter alia, of the tighter administration of the VAT on investment activities (see above). On the **expenditure side,** the growth of the wage bill, at 5 percent, will be well below that of nominal GDP. New hiring will continue to be concentrated in education and health. Total foreign-financed investment, at 10.4 percent of GDP, is expected to be 1 percent lower than in 1999.[8]

22. In the preparation of the budget for 2001, the government will be guided by the multiyear allocation process initiated in 1999, which will be refined further. It is a key objective of the government to increase the transparency of the preparation of the budget of the social sectors, and to widen the role of local-level institutions and beneficiaries (such as health district management committees and parent-teacher associations), both in the budget preparation and the monitoring of its execution. With the reaching of the completion point under the HIPC Initiative, the government will present **a supplementary budget** for the second half of 2000, providing for larger allocations for the social sectors, on the basis of specific action plans that are being completed.

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[8] The investment effort is concentrated in rural development projects and in irrigation, water distribution, electrification, road construction, and health and education infrastructure.

B. Money and Banking

23. The main objective of **monetary policy**, which is conducted at the regional level within the framework of the WAEMU, is to preserve the fixed exchange rate parity and strengthen the foreign reserve position of the union. In 2000, broad money is projected to grow by 6.3 percent, slightly less than the growth of nominal GDP. Net bank credit to the government is programmed to increase by CFAF 23 billion in the first semester, reflecting the drawdown of foreign aid disbursed in the last part of 1999 and deposited at the central bank, but to decline significantly in the second half of the year. Credit to the rest of the economy is projected to grow by 6.8 percent. Net foreign assets are expected to increase by about 1 percent of beginning-of-year money stock.

24. In the **banking system**, the process under way to strengthen the capital position of the banks will continue; efforts will focus on increasing accessibility to credit for rural communities through the expansion of the decentralized financial systems, especially where their presence is still limited (see MEFP, para. 36).

C. Other Structural Reforms

25. In addition to the reforms in the area of taxation, budget preparation, and civil service mentioned above, a key area of reform remains the privatization process. Following the completion of the first two phases of the privatization program, which started in 1991,[9] the authorities are focusing on the third phase, which centers on the key public utilities companies in the telecommunications (ONATEL) and electricity (SONABEL) sectors (see MEFP, paras. 33 and 34). In the **telecommunications sector,** the process is more advanced, as discussed above.

26. In the **electricity sector**, following the adoption by parliament in 1998 of the law authorizing the opening of the sector to private participation, the government is focusing on (i) preparing the new regulatory and legal framework, which should be finalized by end-October 2000, and (ii) preparing the specific scheme for the privatization of the company, including the definition of the responsibilities of the private operators, and of the functions that will continue to be maintained in the public domain; this scheme is targeted to be adopted by the government by end-2000. An investment bank will be selected by year's end that will be responsible for the search of the private strategic investors in SONABEL.

27. In the **cotton sector**, with SOFITEX now under majority control of the producers' association and foreign partners, the focus is on (i) increasing the responsibility of producers' associations for extension services and rural credit, thereby relieving SOFITEX of these

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[9] For few enterprises such as Faso Fani (textiles) and Savana (fruit juices), the government is still searching for purchasers for their assets.

functions; and (ii) attracting private operators in the new cotton-producing regions, under terms specifying their role in the provision of essential services (such as ensuring the quality of seed and fertilizer) (see MEFP, para. 35).

28. In the area of **statistics**, shortcomings remain that hamper the effective surveillance of economic developments. Efforts are however being made to address the most important of these deficiencies. In recent years, the consistency of the balance of payments statistics has been significantly improved with support of the Fund's technical assistance. In addition, the government is committed to improving the quality and consistency of the national accounts and other key economic statistics. Thus, the national accounts for 1994-97 and the preliminary accounts for 1998 will be compiled in 2000; the industrial production index will be revamped to make it more comprehensive, in the context of a harmonized effort within the WAEMU. The National Statistics Institute will also strengthen its capacity to monitor poverty developments through appropriate surveys.

D. Other Policies for Poverty Reduction

29. The improvement in key social indicators is a central objective of the medium-term program, taking into account the weakness of these indicators, despite recent improvements, and the continued high incidence of poverty in recent years (see EBS/99/162; 8/23/99, Table 5 and Appendix I, Table 2). **The authorities are preparing in close collaboration with donors and civil society a comprehensive updated poverty reduction strategy and the associated full-fledged strategy paper (PRSP), which will be finalized by end-May 2000.** The PRSP builds on Burkina Faso's strong participatory tradition, as evidenced by the national conferences held in recent years on education, health, the civil service, and justice, and on the ten-year national poverty-reduction program for 1995-2005 presented at the Geneva roundtable donors' conference in 1995. It is based on multiple data sources, including the recently published 1998 Priority Household Survey and the 1998 Demographics and Health Survey. The overall strategy aims to ensure consistency between the need for stronger economic growth and the objective of reducing poverty. This will require appropriate investment efforts and growth-oriented policies—in particular, in agriculture, the livestock sector, small-scale enterprises, and services—and an accelerated improvement in human capital through enhanced provision of services in education, health, drinking water, and sanitation.

30. The strategy has three key components: improving the economic situation of the poor, developing the social sectors, and strengthening governance and the coordination of external assistance. The priority action plan and quantitative benchmarks in the various sectors are being defined for a three-year period, and the cost of the different initiatives is being evaluated in order to be included in the medium-term budgetary framework, taking into account the resources to be provided by donors and through the HIPC Initiative. The costing exercise will be incorporated in the medium-term budgetary framework which is under preparation.

31. Particular attention will be given to improving access to schools through an expansion of their number, improvement in their quality, the provision of key services, such as canteen and running water, and an increase in multigrade teaching, as well as to developing new approaches to nonformal education. In the health sector, the key challenge is to enhance the quality of service in the network of existing health centers through increased and better trained personnel, and more reliable drug availability. Emphasis will be given to increasing community participation in the management of the decentralized health and education services in order to foster ownership, ensure more effective utilization of services, and enhance accountability. The government will also focus on (i) strengthening the participation of civil society and, especially, local communities and decentralized institutions in the preparation of the budget for the social sectors, and (ii) allowing the monitoring of the execution of these budgets through dissemination of information at the local level and the feedback to the central authorities.

E. Medium-Term Balance of Payments Outlook and External Debt

32. The **long-term balance of payments projections** for Burkina Faso and the debt sustainability analysis, presented in the final HIPC Initiative document (EBS/97/155; 8/17/97), were updated in EBS/99/162 (8/23/99) and will be further detailed in the forthcoming document concerning the completion point under the original HIPC Initiative and the second decision point under the enhanced Initiative. Under the assumption that the recent recovery in international prices for cotton will be sustained, cotton export growth is expected to resume over the medium term; this should be accompanied by an expansion in the production of gold, following major exploration and findings in recent years, as well as of fruit, vegetables, and products that can be used in the pharmaceutical industry. Export growth in volume is thus projected at about 8 percent in the 2000-10 period, while import volume is projected to increase at about 6 percent per year, in line with real GDP growth. On this basis, the external current account deficit, excluding grants, is projected to decline from 14.4 percent of GDP in 2000 to 8.3 percent in 2005 (6 percent, including grants) and 6.4 percent in 2010 (4.8 percent, including grants). The deficit would be covered by capital grants and concessional project-related loans.

33. Revised debt indicators for the medium term are presented in the forthcoming HIPC Initiative document. The nominal external debt at end-1998 stood at US$1,422 million and at US$834 million in NPV terms. Of this total, the multilateral debt accounted for 85 percent, with IDA by far the main creditor with nearly 42 percent of the total stock of debt in NPV terms, followed by the African Development Bank and Fund with 16 percent, and the IMF with 11 percent. Official bilateral debt constitutes 15 percent of the total debt, all on concessional terms.

IV. Staff Appraisal

34. Despite the risks highlighted when the program supported by the three-year PRGF arrangement was finalized, it appears that Burkina Faso's performance so far in 1999-2000 has been favorable, with sustained growth and declining inflation, and a strong revenue

performance, supported by a significant strengthening of tax legislation and administration. Budgetary expenditures were in line with the program, despite some overrun in the wage bill associated with a shift to the new, less compressed salary scale and the introduction of a merit-based promotion system. The higher arrears repayments, connected with the need to update the position of all civil servants, and the higher debt service associated with the settlement of some contentious credits, resulted in the breach of the performance criterion of net bank credit to government at end-1999. Despite this breach, the 1999 performance showed a welcome strengthening of overall tax administration and budgetary management, and a commendable determination to reduce tax distortions embodied in the investment code and eliminating VAT exemptions on externally financed public procurement contracts, so as to eliminate the possibility of abuses.

35. Following the introduction of the merit-based promotion system in the civil service and the decompression of the wage structure—which were associated with a relatively large wage increase in 1999—it is now important that a very prudent wage policy be pursued in the coming years.

36. The authorities are committed to addressing the reforms necessary to strengthen the competitiveness of the economy, in order to sustain growth; to that end, they are giving appropriate priority to improving the efficiency and limiting the costs of the main public utilitites, and to strengthening performance in the agricultural sector, in particular in the key cotton sector. It is thus encouraging that the restructuring and privatization of the telecommunications sector are fully on track. In the electricity sector, the preparation of the regulatory framework and the definition of the respective roles of the private and public sector has required more time than originally envisaged, but the authorities are committed to adhering to a clear schedule, with a view to bringing this process to completion by year end. Given the crucial importance of ensuring efficiency in this sector, it is necessary that this new schedule be observed rigorously. In the cotton sector, the increased role of producers' associations, now a key shareholder of the main ginning and marketing company, in the provision of extension services, and the emphasis on improving productivity and quality are bearing favorable results; these developments have allowed the sector to weather well the sharp decline in cotton prices in 1999.

37. Despite recent favorable developments, the incidence of poverty remains high and social indicators remain low, even in a regional context. The achievement of sustained growth requires the intensification of the efforts to improve human capital through enhanced provision of key social services and continued attention to address the many bottlenecks that impede the increase of productivity in agriculture and hamper the diversification of the economy. The poverty reduction strategy under preparation provides the authorities with the opportunity to enhance the focus of their key action plans, directed both at improving social indicators and at reinforcing income-generating activities of the more vulnerable groups.

38. In the preparation of the PRSP, the authorities are appropriately emphasizing the importance of a more rigorous medium-term strategy in health, education, water, and sanitation, with the elaboration of ambitious and fully costed actions plans, including a set of

priority indicators. These plans will have to address the key identified bottlenecks hindering the delivery of health and education services. The staff is encouraged by the emphasis given by the authorities to strengthening the participation of the local communities in the preparation of the social sector budgets, and by their determination to facilitate the monitoring of budget execution by the beneficiaries through the appropriate dissemination of information. The staff, however, notes that, this may require a considerable strengthening of administrative capacity, and may therefore take time.

39. The resources that will be freed by the HIPC Initiative will provide important room for strengthening the efforts in the social sectors and improving service provision in the agricultural area. It is important that the authorities determine rapidly the best allocation of these resources, in the framework of an intensified dialogue with civil society and the donor community. To preserve the desired destination of these resources, it is necessary that the medium-term budgetary framework remain sound, with further gains made in revenue collection and the strict control of expenditure.

40. The authorities are appropriately pursuing determined efforts to improve the environment for private sector activity, and to strengthen the banking system and the networks of decentralized small-scale credit institutions, as these are essential for providing resources to increase the productivity of agriculture. The further widening of these networks, on a sound financial basis, will have to be a priority in the strategy for rural development.

41. In view of the progress achieved in implementing the 1999-2000 program and the determination shown by the authorities to achieving the program objectives in the macroeconomic and structural areas, the staff recommends that the first review under the three-year PRGF arrangement be completed. The staff also recommends Executive Board approval of the waivers requested for the nonobservance of the end-December 1999 performance criterion on net bank credit to government, and for the delay in finalizing the plan for the privatization of the electricity company, SONABEL.

V. PROPOSED DECISION

The following draft decision is proposed for adoption by the Executive Board:

1. Burkina Faso has consulted with the Fund in accordance with paragraph 2(e) of the three-year arrangement under the Poverty Reduction and Growth Facility(PRGF) for Burkina Faso, (EBS /99/162; 8/23/99).

2. The letter of the Minister of Economy and Finance of Burkina Faso, dated April 17, 2000, together with the attached Memorandum, shall be attached to the three-year arrangement under the PRGF for Burkina Faso, and the letter dated August 2, 1999, together with the attached Memorandum, shall be read as supplemented and modified by the letter of April 17, 2000.

3. The Fund determines that the midterm review contemplated in paragraph 2(e) of the three-year arrangement under the PRGF for Burkina Faso has been completed, and that Burkina Faso may request the disbursement of the second loan specified under paragraph 1(c) (ii) of the arrangement, notwithstanding the nonobservance of paragraph 2(a) (i), and 2(b) (iii) of the arrangement.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 1996-2002

	1996	1997	1998		1999		2000		2001	2002
		Est.	Prog.	Est.	Prog.	Est.	Orig. Prog.	Rev. Prog.	Proj	Proj
	(Annual percentage changes, unless otherwise specified)									
GDP and prices										
GDP at constant prices	6.0	4.8	6.2	6.2	5.3	5.8	5.7	5.7	6.6	6.6
GDP deflator	4.2	2.2	2.0	3.2	1.7	-1.4	1.5	2.0	2.3	2.1
Consumer prices (annual average)	6.1	2.3	2.5	5.0	2.3	-1.1	1.5	1.5	2.0	2.0
Consumer prices (end of period)	6.9	-0.1	2.5	1.0	2.3	0.7	1.5	1.5	2.0	2.0
Money and credit										
Net domestic assets (banking system) 1/	8.5	20.8	5.1	7.9	7.4	9.1	3.4	5.4	...	...
Credit to the government 1/	3.8	8.4	-1.1	0.9	1.2	3.5	0.9	2.2	...	...
Credit to the private sector 1/	11.0	16.6	7.1	3.0	6.9	2.1	2.5	3.2	...	...
Broad money (M2)	8.2	14.2	10.4	1.7	3.9	6.5	6.1	6.3	...	...
Velocity (GDP/M2)	4.0	3.8	3.7	4.0	4.2	4.0	4.2	4.0	...	...
External sector										
Exports (f.o.b.; valued in CFA francs)	0.7	12.3	31.4	42.5	-13.1	-17.8	25.7	2.9	15.1	8.7
Imports (f.o.b.; valued in CFA francs)	18.9	3.4	10.2	25.7	1.0	-1.5	7.6	3.1	3.1	4.5
Volume of exports	3.1	8.4	37.3	49.3	-8.2	-12.4	6.0	0.0	11.8	6.3
Volume of imports	13.5	-1.4	16.6	35.8	-4.6	-6.4	4.8	-5.6	3.9	5.0
Terms of trade	-6.8	-0.6	1.9	3.1	-10.6	-10.8	0.4	-5.7	3.7	2.7
Real effective exchange rate (depreciation -)	3.0	-2.8	...	4.4	0.5	-2.0	...	...	...	...
	(In percent of GDP, unless otherwise specified)									
Gross investment	26.8	27.3	25.5	29.6	27.2	27.8	27.1	28.6	27.9	27.3
Government	12.0	13.9	12.5	13.6	13.2	15.9	13.3	14.3	13.7	13.0
Private sector	14.7	13.5	12.9	16.0	14.0	11.9	13.8	14.3	14.2	14.3
Gross domestic savings	9.1	10.9	11.2	12.7	10.1	9.8	11.8	11.7	13.0	13.4
Government savings	5.9	7.2	5.8	7.1	6.8	7.2	6.2	6.7	7.2	7.6
Private savings	3.2	3.6	5.4	5.6	3.3	2.5	5.6	5.0	5.8	5.8
Gross national savings	16.8	17.2	15.8	19.6	14.9	15.2	17.0	18.4	19.2	19.4
Central government finances										
Revenue 2/	12.3	13.1	13.0	13.1	14.3	15.0	13.7	14.4	14.5	14.8
Domestic primary expenditure and net lending 3/	10.7	11.9	12.2	12.6	14.1	14.7	13.9	13.9	13.8	13.6
Overall fiscal balance, excluding grants	-9.0	-10.2	-10.3	-9.8	-10.0	-12.3	-10.4	-11.0	-9.7	-8.5
Overall fiscal balance, including grants 4/	-0.6	-3.2	-3.8	-2.9	-4.6	-3.4	-5.1	-3.0	-2.9	-2.2
Primary balance (deficit -) 5/	1.7	1.1	0.8	0.5	0.2	0.3	-0.2	0.4	0.8	1.2
Current primary balance 5/	3.0	4.0	3.5	3.6	4.2	4.5	3.9	4.3	4.9	5.2
External sector										
Exports of goods and nonfactor services	10.9	11.2	16.1	14.0	11.5	11.3	13.0	10.9	11.4	11.3
Imports of goods and nonfactor services	28.6	27.7	30.4	30.9	28.6	29.4	28.3	27.8	26.3	25.2
Current account balance (excluding current official transfers)	-14.7	-13.9	-10.9	-14.5	-15.0	-16.0	-12.8	-14.4	-12.3	-11.2
Current account balance (including current official transfers) 4/	-9.9	-10.2	-9.7	-10.0	-12.4	-12.6	-10.1	-10.2	-8.8	-7.9
Debt indicators (before HIPC Initiative)										
Debt-service ratio 6/	21.7	24.2	12.6	16.6	20.5	23.3	17.2	27.1	20.3	19.8
Debt-service ratio 7/	19.1	20.8	15.5	17.8	16.5	17.5	16.3	20.5	15.9	15.1
Net official reserves (in months of imports)	10.7	10.6	9.8	8.3	8.5	8.3	8.3	9.5	9.7	9.8
Nominal stock of public debt (in US $ millions) 8/	1,287.6	1,358.8	1,389.3	1,422.0	1,536.3	1,547.3	1,572.5	1,643.1	1,750.0	1,850.6
Nominal stock of public debt in percent of GDP 8/	50.8	56.9	53.7	54.7	58.0	59.9	58.2	62.1	59.7	57.0
Net present value of public external debt (in US$ millions) 8/	683.5	721.3	...	834.4	...	859.9	...	898.3	943.7	979.0
Net present value of public external debt-to-export ratio 9/	247	255	222	276	287	279	277	285	310	297
Nominal GDP (in billions of CFA francs)	1,298	1,390	1,515	1,522	1,629	1,589	1,748	1,713	1,869	2,035

Sources: Burkinabè authorities; and staff estimates and projections.

1/ In percent of beginning-of-period broad money.
2/ From 1999 on, revenue includes taxes paid by contractors on foreign-financed public investments using checks issued by the treasury, for an amount equivalent to about 1.5 percent of GDP.
3/ Current and capital expenditure excluding interest and foreign financed investment.
4/ For the projection years 1999-2002, the grants expected to cover the financing gap are not included.
5/ Commitment basis, excluding grants and foreign-financed projects.
6/ In percent of exports of goods and nonfactor services.
7/ Ratio of public external debt service to government revenue, excluding grants.
8/ Assumes application of traditional debt relief mechanisms at end-1998.
9/ Ratio of debt to three-year average of exports of goods and services.

Table 2. Burkina Faso: Consolidated Operations of the Central Government, 1998-2000

	1998		1999		2000	
	Prog.	Est.	Prog.	Est	Prog.	Proj.
			(In billions of CFA francs)			
Total revenue 1/	197.6	199.4	233.1	238.1	240.1	246.3
Current revenue	197.3	199.2	232.8	238.0	239.7	246.0
Tax revenue	180.9	183.5	216.1	222.2	223.1	227.4
Income and profits	46.1	43.5	48.9	53.7	52.3	58.0
Domestic goods and services	77.0	82.0	104.0	103.0	116.0	110.2
International trade	51.5	52.2	56.5	60.2	47.7	53.2
Other	6.3	5.9	6.7	5.3	7.2	6.0
Nontax revenue	16.4	15.6	16.7	15.8	16.6	18.7
Capital revenue	0.2	0.2	0.3	0.1	0.3	0.2
Expenditure and net lending 2/	353.9	347.9	396.1	433.7	421.7	434.4
Domestic expenditure and net lending	198.3	205.1	244.0	246.9	259.2	254.2
Excluding interest	185.4	192.3	229.4	233.2	242.9	238.9
Of which: health and primary education 3/	43.7	43.7	51.0	55.2	64.8	56.0
military expenditure 3	...	23.3	22.9	25.7	...	...
Wages and salaries	71.7	72.0	79.5	82.6	83.5	86.5
Goods and services	34.1	34.6	39.1	37.6	43.5	41.3
Interest payments	13.0	12.7	14.6	13.7	16.3	15.3
Of which: external	9.4	9.5	10.5	10.4	11.6	10.7
Current transfers	40.5	38.7	47.3	45.4	48.1	46.1
Budgetary contribution to investment	41.1	47.6	64.4	67.3	70.2	67.1
Of which: tax component	...	...	24.4	24.4	26.2	25.7
Net lending 4/	-2.0	-0.6	-0.9	0.3	-2.4	-2.0
Primary balance (excluding foreign-financed investment and restructuring operations)	12.2	7.0	3.7	4.9	-2.8	7.4
Primary current balance (excluding investment and restructuring operations)	53.3	54.6	68.1	72.2	67.4	74.4
Foreign-financed government investment	148.9	140.4	151.1	185.3	162.0	178.0
Restructuring operations	6.7	2.4	1.0	1.4	0.5	2.2
Overall surplus/deficit 4/	-156.4	-148.5	-163.0	-195.6	-181.6	-188.2
Change in payments arrears	-3.5	-5.5	-6.3	-8.3	-2.0	-2.0
Domestic	-3.5	-5.5	-6.3	-8.3	-2.0	-2.0
External	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures committed but not paid 5/	0.0	0.0	0.0	-1.0	0.0	-2.5
Grants	98.7	103.7	88.1	141.1	92.0	136.7
Project	98.7	84.1	88.1	117.4	92.0	110.0
Program	...	...	...	23.7	...	26.7
Overall deficit after grants (cash basis)	-61.1	-50.3	-81.3	-63.8	-91.6	-55.9
Financing	61.1	50.3	81.3	63.8	91.6	55.9
Foreign	41.5	49.6	43.2	57.8	53.6	50.5
Drawings	62.1	69.6	63.0	84.0	70.0	78.0
Of which: adjustment aid	12.0	13.3	0.0	16.1	0.0	10.0
Amortization	-20.6	-20.0	-19.8	-26.2	-16.4	-27.5
Domestic	1.3	-2.1	1.4	1.8	1.1	1.0
Bank	-2.0	-6.7	5.4	11.6	3.7	7.8
Central bank	1.3	-5.8	9.9	13.7	8.7	10.7
Commercial banks	-3.3	-0.9	-4.5	-2.1	-5.0	-2.9
Nonbank	-2.7	-1.9	-7.0	-13.5	-4.6	-7.8
Privatization revenue	6.1	6.5	3.0	3.7	2.0	1.0
Debt under discussion 6/	0.0	2.8	2.4	4.2	0.0	4.4
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	18.3	0.0	34.2	0.0	36.9	0.0
Memorandum items:			(In percentage of GDP, unless otherwise indicated)			
Revenue	13.0	13.1	14.3	15.0	13.7	14.4
Current expenditure	10.5	10.4	11.1	11.3	10.9	11.0
Current primary expenditure	9.7	9.5	10.2	10.4	10.0	10.1
Capital expenditure (excluding restructuring operations)	12.5	12.3	13.2	15.9	13.3	14.3
Of which: foreign financed	9.8	9.2	9.3	11.7	9.3	10.4
Overall surplus/deficit (excluding grants) 2/	-10.3	-9.8	-10.0	-12.3	-10.4	-11.0
Overall surplus/deficit (including grants) 2/	-3.8	-2.9	-4.6	-3.4	-5.1	-3.0
Primary balance	0.8	0.5	0.2	0.3	-0.2	0.4
Primary current balance 1/	3.5	3.6	4.2	4.5	3.9	4.3
Social expenditure 3/	2.9	2.9	3.2	3.5	3.7	3.3
Social expenditure (as a percentage of government revenue)	22.1	21.9	22.6	23.2	27.0	22.8
GDP (in billions of CFA francs)	1,515	1,522	1,629	1,589	1,748	1,713

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Since 1999 , revenue includes taxes on goods and services paid in the execution of public investment projects using checks issued by the treasury.

2/ On a commitment basis, excluding grants.

3/ Primary domestic expenditure excluding foreign financed investment and tax component.

4/ Excluding proceeds from privatization (-).

5/ Float during the year. Decline of stock of expenditure committed but not paid : (-).

6/ Contentious debt in negotiation with non-Paris Club creditors.

Table 3. Burkina Faso: Balance of Payments, 1997-2002

	1997	1998	1999		2000	2001	2002
			Prog.	Est.	Rev.Proj. 1/		
	(In billions of CFA francs)						
Exports, f.o.b.	133.7	190.4	156.2	156.6	161.2	185.5	201.7
Of which: cotton	74.6	120.9	91.2	83.6	78.4	91.3	101.3
gold	9.0	9.5	8.1	9.2	9.7	16.3	16.4
Imports, f.o.b.	-297.7	-374.2	-359.1	-368.7	-380.0	-391.9	-409.6
Of which: capital goods	-90.4	-114.5	-125.4	-135.8	-131.1	-132.2	-135.1
Trade balance	-164.0	-183.8	-202.9	-212.0	-218.8	-206.4	-207.9
Services and income (net)	-72.9	-80.5	-80.4	-83.3	-76.5	-79.3	-82.4
Services	-65.1	-73.5	-76.2	-75.4	-70.5	-72.1	-75.3
Income	-7.8	-7.0	-4.2	-7.8	-6.0	-7.3	-7.1
Of which: interest payments	-11.3	-10.2	-11.9	-11.4	-13.0	-13.4	-13.6
Of which: budget	-11.3	-10.2	-10.6	-10.4	-10.7	-11.1	-11.8
Current transfers (net)	95.6	111.5	81.9	95.0	121.0	121.9	129.9
Private	43.4	43.9	39.0	41.0	49.1	55.9	63.1
Of which: workers' remittances (gross)	51.1	54.4	51.0	51.0	54.1	59.3	64.9
Official	52.2	67.6	42.9	54.0	71.9	66.0	66.7
Of which: budgetary	16.8	19.6	0.0	23.7	26.7	20.0	20.0
Current account (deficit= -)	-141.4	-152.8	-201.4	-200.3	-174.3	-163.8	-160.5
Excluding current official transfers	-193.6	-220.4	-244.3	-254.3	-246.1	-229.8	-227.2
Capital transfers	91.6	89.5	86.8	122.8	115.4	102.0	104.7
Project grants	81.1	84.1	88.1	117.4	110.0	96.6	99.3
Other capital transfers	10.5	5.4	-1.3	5.4	5.4	5.4	5.4
Financial operations	28.5	38.3	64.8	64.7	58.0	73.0	72.9
Official capital	21.9	46.1	39.7	56.9	47.0	61.0	59.6
Disbursements	47.3	69.6	63.0	84.0	78.0	81.8	82.1
Project loans	47.3	56.3	63.0	67.9	68.0	81.8	82.1
Program loans	0.0	13.3	0.0	16.1	10.0	0.0	0.0
Amortization	-25.4	-23.5	-23.3	-27.1	-31.0	-20.8	-22.5
Of which: budget	-21.9	-20.0	-19.8	-26.3	-27.5	-18.5	-20.6
Private capital 2/	6.6	-7.8	25.1	7.8	11.0	12.0	13.3
Errors and omissions	-1.7	2.6	0.0	-0.7	0.0	0.0	0.0
Overall balance	-23.0	-22.4	-49.8	-13.5	-0.9	11.3	17.1
Financing	23.0	22.4	49.8	13.5	0.9	-11.3	-17.1
Net foreign assets	20.2	19.6	13.2	9.4	-3.5	-17.3	-20.1
Net official reserves	-2.9	12.9	5.2	20.0	-3.5	-17.3	-20.1
Gross official reserves	-12.5	4.1	-1.6	13.0	-6.8	-18.2	-20.4
IMF (net)	9.6	8.8	6.9	7.0	3.3	0.9	0.3
Use of resources	10.6	10.5	10.1	10.3	9.9	9.9	9.8
Repayments	-1.0	-1.7	-3.2	-3.3	-6.6	-8.9	-9.5
Net foreign assets, commercial banks	23.1	6.7	8.0	-10.6	0.0	0.0	0.0
Change in arrears (reduction= -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt under discussion 3/	2.8	2.8	2.4	4.2	4.4	0.0	0.0
Financing gap	0.0	0.0	34.2	0.0	0.0	6.0	3.0
Memorandum items:	(In percent of GDP, unless otherwise indicated)						
Trade balance (deficit= -)	-11.8	-12.1	-12.5	-13.3	-12.8	-11.0	-10.2
Cotton export volume (thousand metric tons)	89.4	138.8	118.4	114.7	115.0	125.7	132.1
Current account (deficit= -)	-10.2	-10.0	-12.4	-12.6	-10.2	-8.8	-7.9
Excluding current official transfers	-13.9	-14.5	-15.0	-16.0	-14.4	-12.3	-11.2
Overall balance (deficit= -)	-1.7	-1.5	-3.1	-0.9	-0.1	0.6	0.8
Debt service 4/	2.7	2.3	2.4	2.6	3.0	2.3	2.2
Total debt-service ratio 5/	24.2	16.6	20.5	23.3	27.1	20.3	19.8
Gross international reserves (in billions of CFA francs)	306.7	307.3	300.8	300.8	355.5	373.7	394.1
In months of imported goods, c.i.f.	10.6	8.3	8.5	8.3	9.5	9.7	9.8
Net official reserves (BCEAO)	134.4	121.5	116.4	101.5	105.0	206.9	227.0
GDP at current prices (in billions of CFA francs)	1,390	1,522	1,629	1,589	1,713	1,869	2,035

Sources: Central Bank of West African States (BCEAO); and staff estimates and projections.

1/ Assumes that at end-2000 the non-Paris Club creditors who have not yet granted debt relief on Naples terms will grant such relief.
2/ Includes portfolio investment and foreign direct investment.
3/ Contentious debt in negotiation with non-Paris Club creditors.
4/ Including public enterprises and private sector debt.
5/ Including public enterprises and private sector debt; in percent of exports of goods and nonfactor services.

Table 4. Burkina Faso: Monetary Survey, 1997-2000

	1997	1998	1999						2000			
	Dec.	Dec.	June		September		December		March	June	Sep.	Dec
	Actual	Actual	Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Prog.	Prog.	Indicat.
	(In billions of CFA francs)											
Net foreign assets	203.1	185.0	148.8	188.1	168.3	170.3	171.7	177.9	178.8	179.7	180.6	181.5
Central Bank of West African States (BCEAO)	133.3	120.8	87.6	101.0	110.1	84.3	115.5	100.7	101.6	102.5	103.4	104.3
Assets	206.4	210.1	181.0	200.9	208.7	192.3	211.7	195.1	196.1	198.5	199.4	201.8
Liabilities	-73.1	-89.3	-93.4	-99.9	-98.6	-107.9	-96.2	-94.4	-94.4	-96.0	-96.0	-97.6
Commercial banks 1/	69.8	64.2	61.2	87.1	58.2	86.0	56.2	77.2	77.2	77.2	77.2	77.2
Net domestic assets	177.1	204.3	259.8	259.0	250.0	256.3	233.9	238.4	259.3	268.6	256.0	260.1
Net domestic credit	204.7	217.3	271.5	260.1	262.0	268.4	252.7	238.2	259.1	268.4	255.8	259.9
Net credit to government 2/	35.5	37.1	66.4	67.4	60.3	79.1	42.4	50.2	68.6	74.6	60.0	59.2
Treasury 3/	87.8	92.9	122.4	121.8	116.2	135.6	98.3	104.5	121.7	127.7	113.1	112.3
BCEAO	50.6	45.9	77.1	76.0	72.2	88.3	55.8	59.8	77.6	84.2	70.9	70.5
Commercial banks 3/	37.3	47.0	45.3	45.9	44.0	47.3	42.5	44.7	44.1	43.5	42.2	41.8
Other central government	-52.3	-55.8	-55.9	-54.5	-55.9	-56.5	-55.9	-54.3	-53.1	-53.1	-53.1	-53.1
Of which: project deposits	-26.9	-24.9	-24.9	-24.9	-24.9	-24.9	-24.9	-24.9	-24.9	-24.9	-24.9	-24.9
Credit to the economy	169.1	180.2	205.1	192.8	201.7	189.3	210.3	188.0	190.5	193.8	195.8	200.8
Of which: crop credit	17.6	21.0	33.9	37.5	23.2	30.0	24.0	15.0	17.3	20.3	16.3	17.1
Other items (net)	-27.6	-13.1	-11.7	-1.1	-12.0	-12.2	-18.8	0.2	0.2	0.2	0.2	0.2
Broad money	370.6	376.9	422.2	429.7	406.0	409.3	393.2	401.4	423.2	433.4	421.7	426.7
Of which: currency in circulation	169.3	165.0	130.1	154.3	157.7	149.4	162.6	151.3	163.0	170.5	158.1	158.5
Medium- and long-term liabilities of commercial banks	2.1	4.7	4.7	9.6	4.7	9.5	4.7	7.1	7.1	7.1	7.1	7.1
SDR allocation	7.5	7.6	7.6	7.9	7.6	7.9	7.6	7.9	7.9	7.9	7.9	7.9
	(Changes in percent of beginning-of-period broad money, unless otherwise specified)											
Memorandum items:												
Net foreign assets	-7.1	-4.9	-9.6	0.8	-4.4	-3.9	-3.5	-1.9	0.2	0.5	0.7	0.9
Net domestic assets	21.4	7.3	14.7	14.5	12.1	13.8	7.9	9.1	5.2	7.5	4.4	5.4
Net credit to government 2/ 3/	9.0	0.4	7.8	8.0	6.2	11.2	1.4	3.5	4.6	6.1	2.4	2.2
Credit to the economy	16.6	3.0	6.6	3.3	5.7	2.4	6.9	2.1	0.6	1.4	1.9	3.2
(in percent)	46.8	6.6	13.8	7.0	11.9	5.1	14.0	4.3	1.3	3.1	4.2	6.8
Money supply	14.2	1.7	12.0	14.0	7.7	8.6	4.3	6.5	5.4	8.0	5.1	6.3
	(In billions of CFA francs)											
Net domestic assets, central bank	58.9	65.5	80.7	75.3	82.8	87.8	71.4	69.4	80.2	86.8	73.5	73.1

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Excluding foreign assets of the Post Office.

2/ In 1997, the change in net credit to government includes revaluation of IMF liabilities equivalent to CFAF 5.6 billion.

3/ In 1998, the change in net credit to the treasury differs from the amount indicated in the government finance table because it includes the assumption by the government, in the second quarter, of a debt due by the private sector to commercial banks related to public work executed in previous years.

4/ In 1999, the change in the advance of the commercial banks to the Treasury differ from the amount recorded in the Government Operations table by an amount of CFAF 0.5 billion, as the banks hav their balance sheets repayments by the Treasury of this amount, since they were only intermediaries in these transactions, acting on behalf of the final beneficiaries.

Table 5. Burkina Faso: Income and Social Indicators

Item	Unit of Measure	Latest Single Year				1996	1997	1998	1999
		1979-75	1980-85	1993	1990-95				
Population	Thousands	6,202	7,881		10,377	10,688	11,009	11,339	11,679
Population growth rate	Annual average in percent	2.1	2.6		2.9	3.0	3.0	3.0	2.6
Total fertility rate	Birth per woman	7.0	7.5	6.9	6.9	6.9	...	...	6.8
Urban		...	...	...	...	...	...	...	4.1
Rural		...	...	...	...	...	...	...	7.3
Poverty and equity									
National poverty line	CFA francs	...	...		41,099	...	...	72,690	-
National head count index	Percent of population	...	...		44.5	...	...	45.3	
Urban		...	...		10.4	...	...	15.9	
Rural		...	...		51.1	...	...	50.7	
GDP per capita	U.S. dollars	150	180		231	237	217	229	208
Share of income or consumption									
Lowest quintile	Percent of income	...	...		5	...	...	...	...
Highest quintile	Percent income	...	...		56	...	...	...	63
Gini coefficient		...	...		0.63	...	...	...	...
Social indicators									
Gross primary school enrollment rate									
Total	Percent of school age group	16.0	29.0		38.0	38.9	40.0	40.9	...
Male	Percent of school age group	21.0	36.0		47.0	46.3	47.3	48.0	...
Female	Percent of school age group	12.0	21.0		30.0	27.8	32.2	34.0	...
Access to safe water									
Total	Percent of population	25.0	35.0	65.0	65.0	78.0	...	...	...
Urban	Percent of population	...	...	93.4	93.4	...	...	...	...
Rural	Percent of population	...	...	58.1	58.1	...	...	...	...
Acess to adequate sanitation	Percent of population	...	...	...	...	...	...	...	...
Total		...	...	18.1	18.1	...	...	18.0	...
Urban		...	...	55.3	55.3	...	...	...	...
Rural		...	...	9.1	9.1	...	...	...	...
Child (under 5) malnutrition rate	Percent of age group								
Height for age 1/		...	48.5	29.4	29.4	...	...	...	...
Weight for age (emaciation)		...	...	13.3	13.3	...	...	...	...
Life expectancy at birth	Years	41.1	44.9	52.0	52.0	52.2	51.2	52.4	
Infant mortality rate	Per 1,000 live births	137.0	117.0	93.7	93.7	98.0	...	105.0	
Under-5 mortality rate	Per 1,000 live births	...	...	214.0	214.0	...	...	219.0	
Adult mortality	Per 1,000 population	24.6	19.9		18.1			16.4	
Birth assisted	Percent	...	...	41.5	32.9	26.9	...	27.0	
Maternal mortality rate	Per 100,000 live birth	...	600.0	566.0	939.0	930.0	...	930.0	
HIV prevalence	Percent of population							7.0	
Medical personnel availability									
Doctor		...	...		1/28,673	1/29815	1/29,589	1/23,308	
Midwife		...	...		1/23316	1/29,897	1/25,563	1/25,090	

Sources: Social Indicators of Development, 1996 Edition; and World Bank and IMF staff estimates.

1/ Percent of children in age group for which the weight-to-age ratio is less than -2 standard deviations below the reference sample mean.

Ouagadougou, April 17, 2000

Mr. Stanley Fischer
Acting Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Fischer:

1. On behalf of the government of Burkina Faso and within the framework of the first review of the program supported by an arrangement under the Poverty Reduction and Growth Facility approved by the Executive Board of the International Monetary Fund on September 10, 1999, I am pleased to send you herewith the memorandum of economic and financial policies for 2000. The memorandum describes progress made in implementing the program for 1999–2000, the revised objectives for 2000, and the policies that will be pursued to achieve them. As stated in the memorandum, most of the performance criteria and structural benchmarks at end-December 1999 were met, except for the criteria related to net bank credit to the government and the completion of the privatization of the electricity company (SONABEL), for which waivers are requested. The government believes that the policies and measures described are appropriate to achieve its program objectives but will take any other measures that may prove necessary for this purpose.

2. With the completion of this review, and the pending preparation of the poverty reduction strategy paper (PRSP) currently under way, Burkina Faso wishes to be considered as having fulfilled the conditions for reaching the completion point under the original Initiative for Heavily Indebted Poor Countries (HIPC Initiative). The government hopes that the relevant HIPC Initiative document can be submitted to the Executive Board as soon as possible.

3. As described in the memorandum, the government is currently preparing, within a participatory framework that includes the public administration, the private sector, civil society, and its partners in development, a poverty reduction strategy paper (PRSP), presenting the current poverty situation, as well as the strategy and action programs designed for improving it. The government intends to complete the process of consultation with all of its partners, including the civil society, over the next few months and thus be able to forward the document to the Executive Boards of the International Monetary Fund and the World Bank. The government has already prepared an Interim PRSP which will be forwarded to you shortly.

4. The government would like to be able to reach the completion point under the original HIPC Initiative and the decision point under the enhanced HIPC Initiative at the time of the PRSP discussion in the two Executive Boards.

Sincerely yours,

s/

Tertius Zongo
Minister of Economy and Finance

Attachment: Memorandum of Economic and Financial Policies for 2000

CONFIDENTIAL

Memorandum of Economic and Financial Policies for 2000

I. Implementation of the Program for 1999–2000

1. Burkina Faso has made considerable progress in implementing the program for the period 1999–2000, presented in the memorandum of economic and financial policies and the policy framework paper (PFP) dated August 23, 1999. Most of the quantitative benchmarks, performance criteria, and structural benchmarks at end-December 1999 were observed, except for the performance criteria related to the change in net bank credit to the government between end-December 1998 and end-December 1999 and to the completion of the privatization of the electricity company (SONABEL).

2. The objectives for government revenue, current budgetary expenditure, and current primary surplus for 1999 were met. The overruns on the targets for net credit to the government at end-September and end-December 1999 (which constituted, respectively, a benchmark and a performance criterion) were the result of (i) payments of domestic arrears that exceeded program estimates, for the reasons indicated below; (ii) the decline in the treasury's correspondent accounts; (iii) higher-than-expected external debt amortization; and (iv) the refund to military personnel of housing savings contributions. Given the exceptional nature of these factors, the government requests a waiver for noncompliance with the performance criterion related to net credit to the government at end-December 1999. As regards structural reforms, the government has carried out the program with determination, especially concerning the liberalization of the telecommunications sector and the liquidation and privatization of a number of public enterprises, as well as the reforms in the cotton sector and in the civil service.

3. Based on preliminary data, GDP growth in real terms reached 5.8 percent in 1999, compared with 6.2 percent in 1998. The slight slowdown in growth reflects, in particular, the stagnation of cereal production, which grew by only 1.6 percent following the exceptional level achieved in 1998, and the stabilization of cottonseed production at about 280,000 metric tons. Overall, primary sector growth is estimated at 3.1 percent. The secondary sector grew steadily because construction and public works experienced a strong upsurge, owing to the accelerated implementation of the public investment program in the infrastructure sector (in particular, the Ziga dam and the roads projects). Private investment increased considerably, reflecting, inter alia, the construction of the new cotton processing unit (involving spinning and the use of waste materials) and the expansion of production capacity in the cement and brewery sectors. Lastly, activity in the tertiary sector expanded by 6 percent as a result of sustained growth in private and government services.

4. Consumer prices for foodstuffs fell throughout the year because of the exceptional grain harvest in 1998, which reached the market in the fourth quarter of 1998, and the

satisfactory 1999 harvest. These factors, together with the maintenance of prudent economic and financial policies, led to a decline in the consumer price index of 1.1 percent on average in 1999. According to provisional estimates, the GDP deflator fell by 1.3 percent in 1999, partly as a result of the decrease of 16 percent in the average annual cotton export price.

5. Exports contracted by 18 percent in value terms in 1999, owing to the sharp decline in cotton exports (30 percent) from the record 1998 level; this reflected a fall in export prices and also in export volumes, as production declined because of parasite attacks. Based on provisional data, imports were stable in 1999, after the 26 percent upturn recorded in 1998. Accordingly, the external current balance of payments deficit (excluding current grants), amounted to 16 percent of GDP in 1999, compared with 14.5 percent of GDP in 1998 and a program estimate of 15 percent. Including current grants, the current account deficit stood at 12.6 percent of GDP in 1999, or broadly in line with the program objective.

6. **Fiscal developments in 1999** were broadly favorable, in particular concerning revenue, which reached CFAF 238 billion (15 percent of GDP), exceeding the objective by about 0.7 percent of GDP. Current primary expenditure was consistent with program objectives (CFAF 165.9 billion, or 10.4 percent of GDP), but the budgetary contribution to investment slightly exceeded the program's projection. Overall, the current primary surplus and the primary surplus (the latter of which excludes externally financed capital expenditure) exceeded the objectives by 0.3 percent and 0.1 percent of GDP, respectively. The overrun of the revenue objective is the result of the good performances of the corporate income tax (BIC), the tax on property income, the value-added tax (VAT), and customs duties, which more than offset the introduction, in April 1999, of the common external tariff (CET). This favorable outturn is attributable to an increase in the taxable profits of enterprises in 1998 and, at the same time, to the strengthening of the tax and customs administrations. Specifically, the monitoring of large enterprises by the General Directorate of Taxes (DGI) was strengthened through an improvement in collection and management procedures (including the upgrading of software) and a more concerted staff training effort.

7. The good results achieved at customs (the program's objective was exceeded by 7 percent) were a consequence of (i) the strict application of the compensatory measures adopted to accompany the new classification of products under the CET; (ii) the computerization, from end-1998, of six additional customs offices; (iii) the elimination of the remaining exemptions on public contracts; and (iv) the enhanced monitoring of foreign-financed projects for which the indirect taxes are paid by the treasury. In particular, the introduction of the new classification of import products was accompanied by the elimination of special VAT payment procedures for importers of raw materials and for the enterprises registered under the Investment Code. Moreover, as of June 28, 1999, the procedures for tax payments on government procurement were strengthened, with the VAT applied on all public contracts. Accordingly, the government pays the VAT to contractors on a timely basis as public works are executed and interim payments are made; the VAT on goods and services used as an input in the public works are paid regularly, giving rise to a normal deduction entitlement. This mechanism replaces the previous procedure of pro forma

invoices for purchases from local suppliers; it widens the scope of the VAT, which thus gains in transparency and effectiveness.

8. As regards expenditure in 1999, the overrun of CFAF 3.1 billion (0.2 percent of GDP) in wage expenditure was offset by savings on expenditure for goods and services and transfers. Thus, current primary expenditure was broadly in line with the projections. The wage bill increased from CFAF 72 billion in 1998 to CFAF 82.6 billion in 1999, as against a program objective of CFAF 79.5 billion. This overrun can be explained by (i) the cost of repositioning civil servants in the new salary scale that entered into effect on January 1, 1999 (CFAF 6.4 billion, based on provisional data), which was substantially higher than projected; and (ii) the impact of the new allowance package introduced in 1998, the cost of which (about CFAF 1.1 billion) also exceeded initial estimates. In addition, the shift of the civil servants' positions to the new salary scale was accompanied by an update of their individual administrative status, resulting in the recording of substantial retroactive salary payments (CFAF 4.4 billion) as arrears payments. Unforeseen difficulties encountered in the introduction of the new computerized payroll management procedure, which was designed to interface with the civil service personnel file (SYGASPE), caused significant delays in implementing the shift of civil servants to the new salary scale. At end-December 1999, 91 percent of civil servants had their salary scale position updated in the civil service roster, but only 75 percent had their new status registered by the payroll office. Efforts are under way in this office to make up for the delays. The interconnection between the administrative roster of civil servants and the payroll files should be completed at end-June 2000; this will allow for the payroll to be updated immediately following changes in the administrative status of civil servants. To strengthen management discipline, starting with the year 2000, retroactive payments made during the year will be charged as expenditure to the current fiscal year.

9. In 1999, domestic arrears were reduced by CFAF 8.3 billion; this compares with a program projection of CFAF 6.3 billion, that took into account the offsetting of cross debts between the government and the water, electricity, and telephone companies effected in January 1999. The overrun is attributable primarily to the retroactive salary payments made on the occasion of the shift of civil servants to the new salary scales. Restructuring expenditure, related to the liquidation of a number of public enterprises, exceeded the estimates by CFAF 0.4 billion. In addition, during the third quarter the government had to refund to army personnel an amount of CFAF 3.4 billion for salary withholding that had been withheld to establish a housing savings fund. As regards external financing and debt service, disbursements of grants and adjustment loans exceeded the program estimate by CFAF 5.5 billion. At the same time, external debt amortization was above the program estimate by about CFAF 4.6 billion (excluding amounts not paid on debt under negotiation). This overrun is the result of payments made under new agreements concluded with foreign public works enterprises to settle disputes concerning past infrastructure investments. Reflecting the overrun on arrears payments, restructuring expenditure and debt amortization, the performance criterion on the change in net bank credit to government at December 1999 exceeded the objective by CFAF 6.2 billion (or 0.4 percent of GDP), even though external aid was higher-than-programmed by CFAF 5.5 billion .

10. External financing for the public investment program totaled CFAF 185 billion, significantly exceeding the program estimate of CFAF 151 billion. In particular, project grants amounted to CFAF 117 billion, compared with an initial estimate of CFAF 88 billion. This overrun is attributable to the acceleration in the implementation of large projects, such as the Ziga dam and some road infrastructure.

11. The data on budget execution in 1999 indicate that, on a commitments basis, the shares of the government budget (excluding debt service and foreign financed investment) allocated to the health and education sectors were 13.9 percent and 16.9 percent, respectively, or slightly above the program objectives.

12. As regards **money and credit**, credit to the economy grew by 4.3 percent in 1999 (i.e., significantly below the program estimate of 14 percent), as a result of the delay in putting in place the financing for the 1999/2000 cotton campaign. The repayment of the 1998/99 campaign credits was completed, after some delays, at end-December 1999. Credit other than crop credit increased by 8.7 percent, compared with a program projection of 12.1 percent. However, net credit to the government increased by CFAF 13.2 billion (3.5 percent of the beginning-of-period money stock), exceeding the program's objectives. The net foreign assets of the banking system declined less than anticipated in the program. Burkina Faso's contribution to the net foreign assets of the West African Economic and Monetary Union (WAEMU) fell by CFAF 20.1 billion (5.3 percent of the beginning-of-period money stock), an amount close to the program's projections. Reflecting these developments, the money supply grew throughout the year by 6.5 percent, close to nominal GDP growth.

13. The strengthening of the **banking system** continued in 1999. In particular, the solvency ratio improved during the year for five of the seven banks, and all the banks are observing, with large margins, the prudential ratio of 4 percent currently in force. Five banks are already observing the new ratio of 8 percent established by the Central Bank of the West African States (BCEAO) in mid-1999, which is to be observed by all the banks by end-2001. At end-December 1999, nonperforming loans represented 2.7 percent of total credit to the economy, the same ratio as at end-1998. The central bank's lending interest rates remained stable throughout 1999 and in the first two months of 2000. Competition among banks increased as a result of the entry into the market of three new banks during the past two years; this led to a narrowing of the interest rate spread, as borrowing rates rose and lending rates fell. Microfinance institutions (such as the network of *banques populaires* and other local networks) continued to develop satisfactorily.

14. In the area of other **structural reforms**, much progress was made in the second half of 1999 and early in 2000, especially as regards the liberalization of the telecommunications sector. The studies planned on the regulatory framework (tariffs and interconnection system) were completed, and the basic regulations were adopted by the Council of Ministers in late February 2000. The regulatory authority established in November 1999 will be fully operational in April 2000. Following the call for bids issued in December 1999 for the granting of two mobile telephone licenses, bids were opened at end-February 2000, and the

licenses were granted in March. As regards the privatization of the telephone company (ONATEL), an accounting and financial audit is expected to be completed by end-April. In the electricity sector, the government, in agreement with the World Bank, adopted in December 1999 a strategy to reform the energy sector, including the electricity company (SONABEL) and the petroleum import company (SONABHY), as indicated in paragraph 33.

15. Negotiations are under way with a strategic partner regarding the privatization of Air Burkina; this should bring in fresh capital to the company, while the government contribution will be mainly constituted by the single existing aircraft. In the hotel sector, calls for bids for the Société des Hôtels de La Gare were issued in December 1999. As regards the program to support the private sector, efforts are being focused on (i) strengthening the judicial system, with the support of donors and lenders; (ii) making the national legislation consistent with that of the Organization for the Harmonization of Business Law in Africa (OHADA); (iii) improving the effectiveness of the one-stop window (CGU) for investors; (iv) restructuring the Chamber of Commerce, the National Foreign Trade Office, and the Burkinabè Council of Shippers (CBC); and (v) setting up the Entrepreneurs' Center with a view to helping new enterprises.

16. As regards the **cotton sector reform**, the sale of 30 percent of the capital of the cotton ginning and marketing company (SOFITEX) to the farmers' association was finalized in early 1999, and the new shareholders are already taking an active part in management of the company. The role of the private sector in cotton transport was strengthened. Moreover, actions are under way to gradually transfer to the farmers' association the financing of outreach activities and technical assistance that used to be carried out directly by the cotton company. Despite the steep fall in cotton prices in the second half of 1999, the company expects to break even and present an income statement in balance for the 1999/2000 crop year; this objective is expected to be reached as a result of the actions already taken to reduce operating costs, the successful commercial strategy adopted, and the good quality of Burkinabè cotton.

17. The **civil service reform,** which entered into effect in 1999, is expected to be completed in the course of 2000. It includes the implementation of the new system of merit-based promotion, which has already been introduced, and the recruitment of civil servants under the status of contractual employees with permanent contracts, except for those holding key policy positions. This new policy will allow for greater flexibility in personnel assignments. In order for the assessment of the performance of civil servants to become effective, supervisors will have to be trained, before the end of 2000, and detailed action plans will have to be formulated for all departments, on which individual staff work objectives will be based. The detailed action plans are being finalized for all ministries.

18. The introduction of the integrated government accounting system (CIE), designed to integrate all government accounting operations performed throughout the country and thus to facilitate the rapid production of treasury balances, is expected to be completed during the first half of 2000. This system will also make it possible gradually to decentralize certain payment operations.

II. Objectives and Policies for 2000

19. The **economic outlook for 2000** is encouraging; in particular if the upturn in cotton prices observed in January and February 2000 is confirmed over the next few months, it will limit the decline originally expected in the value of exports. It is anticipated that agricultural production will grow by 6 percent. Public investment should remain high, close to the 1999 level, and value added in the secondary and tertiary sectors is expected to increase by about 7 percent. Overall, on the basis of prudent estimates, real GDP growth could reach 5.7 percent, in line with the original forecast. The favorable cereal harvest is expected to help maintain a moderate level of inflation moderate (1 ½ percent on average for the year).

20. As regards **the balance of payments**, export are expected to increase in value terms by 3 percent in 2000; the small fall in cotton exports in value terms resulting from the 6 percent reduction in the average export price should be offset by a rise in other exports. Gold exports should remain stable, as production is not expected to increase until the second half of the year, provided that the upturn in world prices is confirmed. Imports in value terms are projected to grow by about 3 percent, reflecting the sustained level of public investment. Thus, the external current account deficit, excluding grants, should narrow to 14.4 percent of GDP in 2000, compared with 16.0 percent in 1999 (10.2 percent of GDP, including current grants). In light of the expected external financing for investment projects, external budgetary support, and debt amortization, Burkina Faso's contribution to the official reserves of the Union are projected to increase by about CFAF 3.6 billion (0.9 percent of beginning-of-period money stock), excluding the effect of debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. In the medium term, the external current account deficit is projected to narrow, owing to the expected rebound of cotton prices, the anticipated rise in gold production as a result of the start-up of operations in new areas of production, and prospects for the exports of fruit and vegetables.

21. **On the monetary side**, credit to the economy is projected to grow by 6.8 percent in 2000; net bank credit to the government is expected to increase by 2.2 percent of beginning-of-period money stock, reflecting the use of external assistance disbursed at end-1999 and deposited at the central bank. The money supply growth is projected at about 6.3 percent. At the regional level, the BCEAO monetary policy will continue to aim at strengthening foreign reserves of the union and maintaining the inflation rate close to that of the partner countries. The targets for net bank credit to the government at end-June, end-September, and end-December 2000 are shown in the attached Table 1. In addition, efforts to strengthen the banking system will be pursued, through an increase in the banks' capital position. The settlement of the cross claims between the treasury and the postal agency (SONAPOST), which began in 1999, will be completed by end-June 2000.

22. **Government finance**. Based on the budget approved by the parliament on November 26, 1999, the key budgetary objectives for 2000 are to achieve (i) a revenue level equivalent to 14.4 percent of GDP, despite the entry into force of the last phase of the CET on January 1, 2000 (involving a reduction of the maximum tariff rate from 25 percent to 20 percent and of the statistical tax from 4 percent to 1 percent); (ii) a current primary

surplus of 4.3 percent of GDP; and (iii) a primary surplus, excluding foreign-financed projects, of 0.4 percent of GDP. It is anticipated that the financing requirement will be fully covered by already identified external assistance.

23. Burkina Faso is expected to reach the completion point under the original HIPC Initiative in April-May 2000 at the time of the completion of the first review under the PRGF; this would make available additional resources in the form of debt-service reduction, provisionally estimated at CFAF 11 billion, or 0.6 percent of GDP. The government intends to allocate these additional resources to the social sectors (see paragraph 45) by submitting to parliament a supplementary budget law. At the completion point under the enhanced Initiative, the additional resources would reach some CFAF 22 billion (1.3 percent of GDP), which compares with a debt-service burden before HIPC Initiative relief of CFAF 35 billion.

24. On the revenue side, the authorities aim at reaching in 2000 a revenue level of CFAF 246 billion, or 14.4 percent of GDP, compared with the 13.7 percent of GDP initially programmed. This objective takes account of (i) the revenue loss related to the reduction of customs duties, effective January 1, 2000; (ii) the full-year effect of the measures to strengthen the VAT, as described above, and of rigorous monitoring of public contracts for which the tax burden is assumed by the government; (iii) the enhanced monitoring of large enterprises, including improved procedures for tax recovery from defaulters; (iv) the impact of tax withholding at source on imports and on purchases from producers and wholesalers, creditable against the minimum corporate tax (*impôt minimum forfaitaire*—IMF) and the corporate income tax (*impôt sur les bénéfices industriels and commerciaux*—BIC). The 2000 Budget Law introduced—effective January 1, 2000, as anticipated in the program—a withholding tax at source of 2 percent on imports and purchases from wholesalers and producers, to be credited toward payments of the IMF and BIC taxes. This measure allows better taxation of informal sector activities. The Budget Law also introduced, effective January 1, 2000, a withholding tax at source on the payment for services performed by residents and nonresidents. In addition, the tax rate under the business profit tax was reduced from 40 percent to 35 percent within the framework of actions aimed at improving competitiveness.

25. Customs tariff revenue is projected in 2000 at CFAF 35 billion or 2 percent of GDP (excluding Treasury cheques and the community solidarity levy), which compares with CFAF 43 billion in 1999 (2.7 percent of GDP). This decline reflects the reduction, effective on January 1, 2000, of the maximum tariff rate from 25 percent to 20 percent, and of the statistical tax from 4 percent to 1 percent. The WAEMU Commission has accepted the request of Burkina Faso to apply to five products the temporary protection tax (TDP) of 15 percent, which will decline by five percentage points in each of the next three years. In addition, the Council of Ministers of the WAEMU adopted in November 1999 a regulation introducing a conjunctural import tax, and the list of products eligible for this additional protection. Burkina Faso has not yet made any request to the Commission for applying this tax to any of the eligible products.

26. Current primary expenditure is expected to contract slightly after the rise in 1999 (from 10.4 percent to 10.1 percent of GDP), with an increase in the wage bill of about 5 percent. As regards expenditure on goods and services, measures to achieve savings will be adopted, in particular to curb the consumption and the costs of electricity and telecommunications services. Procedures will be introduced to enable each ministry to monitor its consumption and implement savings measures. Hiring will continue to be concentrated primarily in the education and health sectors, with the recruitment of graduates of professional schools. To enhance teacher training, a fourth national primary education teacher training school will start operation by year's end.

27. Total foreign-financed investment in 2000 is expected to be slightly lower than in 1999 (CFAF 178 billion, or 10.4 percent of GDP, including CFAF 110 billion covered by grants). The large water supply, rural development, and road infrastructure programs will continue to absorb a significant amount of resources.

28. Expenditures related to the restructuring of public enterprises are expected to total CFAF 2.2 billion, while privatization proceeds are estimated at CFAF 1 billion in 2000. In order to avoid unforeseen impacts on the treasury situation, debt-restructuring agreements concluded in the course of the year will be fully budgeted. Also, the statutory time limits for budgetary expenditure commitments and payment orders will be strictly observed. To avoid delays in budget implementation, the quarterly monitoring of expenditure commitments will be strengthened. Accordingly, the gap between expenditure commitments and actual payments is expected to narrow somewhat in 2000 from CFAF 27 billion at end-1999.

29. Total external program assistance already identified is expected to reach CFAF 37 billion, comprising about CFAF 20 billion from the European Union, provided the necessary conditions for disbursements are met, CFAF 10 billion from the World Bank, and CFAF 7 billion from bilateral donors. The increase in net bank credit to the government—including net credit from the central bank, the commercial banks, the postal checking system (CCP), and the national savings bank (CNE)—is projected at CFAF 6.9 billion (0.5 percent of GDP).

30. The adoption by the government of a multiyear resource allocation process (program budget), with priority given to local-level institutions (management committees of health and social promotion centers (CSPS) and parent-teacher associations for schools), will be strengthened by procedures facilitating the monitoring of expenditure execution by the various participants (users, administration, and civil society). To improve the preparation and monitoring of the program budgets, the government will adopt the procedure of program authorizations provided for by the current statutes and by the WAEMU directives, and the budget for 2001 will be presented with a schedule of estimated payment appropriations related to the program authorizations.

31. **Debt management**. The government is aware of the need to update rapidly, at the end of each year, the data on outstanding external debt and annual disbursements. To this end, the outstanding debt at end-1998 was reconciled with the data obtained from creditors in

1999; the reconciliation of end-1999 data is under way. Efforts have been made to complete the renegotiation of debt obtained on concessional terms with a number of bilateral donors and lenders (Algeria, China, Côte d'Ivoire, and Libya), and in this respect the support of the Bretton Woods institutions is being sought. Saudi Arabia and Kuwait have indicated their willingness to grant concessional rescheduling on terms comparable with those of the Paris Club.

32. **Statistical data.** The government is determined to improve the quality and consistency of the production of the national accounts and other economic statistics. The national accounts for 1994–97 and the preliminary accounts for 1998 will be established in 2000. The industrial production index will be revised in 2000 in the context of a harmonized effort within the WAEMU. This new index will take account of the results of the latest industrial and commercial survey, carried out in March 1998.

33. **Structural reforms.** The government is pursuing with determination its program to restructure the remaining public enterprises, mainly public utility companies. As indicated above, the **telecommunications sector** restructuring program is off to a good start, and the regulatory authority will be fully operational in April 2000. The recruitment of an investment bank to manage the bidding process for the privatization of ONATEL is under way and should be completed by end-May 2000. Moreover, the effort to expand the telephone network is being pursued, the objective being to link, in the short term, all district main cities and, over a seven-year period, all 8,000 villages in the country; this effort will be facilitated by the launching in two years' time of a RASCOM (Regional African Satellite Communication Organization) satellite, which will link all locations equipped with appropriate terminals. The present telephone operator will continue to honor its public service obligations.

34. After the adoption in 1998 of the electricity law opening the **electricity sector** to private producers, the Government of Burkina Faso has been preparing, with the assistance of the World Bank, an institutional, legal, and regulatory study for the whole energy sector (electricity and hydrocarbon) that will give room for private sector participation. This framework will be completed by the Ministry of Energy and Mines by end-October 2000 and will subsequently be discussed with civil society at large during a series of workshops to help build consensus and ownership. By end-December 2000, the Council of Ministers will adopt the amended institutional framework that will include a specific scheme for the reform of the energy sector, including: (i) a scheme for the privatization of SONABEL, which will define, inter alia, the functions to be assumed by the private operators, and those that will remain under the public domain; and (ii) the opening up of the capital of the petroleum products company (SONABHY) to private operators. The adoption by the Council of Ministers by end-December 2000 of the regular tariff framework for the electricity sector, and of the privatization scheme for SONABEL will constitute a structural performance criteria.

35. The terms and conditions for opening up the new cotton-producing areas to private operators are being prepared, and should be finalized by end-June 2000. They will specify the obligations of new operators, in particular as regards research expenditure for seeds and insecticides and the maintenance of rural roads.

36. In the **financial sector**, efforts will be focused on increasing accessibility to credit for rural communities through expansion of the decentralized financial systems (DFS), especially in areas where their presence is still limited. Access by decentralized financial systems to refinancing from the national banking sector will be promoted. Moreover, decentralized financial systems should be strengthened, inter alia, through increased training efforts, the establishment of risk and overdue payments reporting and information centers, and the cofinancing of investment with long gestation periods. Significant support in this area is expected from Burkina Faso's external donors.

III. Poverty Alleviation and the Social Sectors

37. The government is aware of the extreme poverty in which most of the population lives; based on the new poverty line, estimated at CFAF 72,690 in 1998, as against CFAF 41,099 in 1994, the proportion of poor people rose slightly from 44.5 percent to 45.3 percent over that period. The government recognizes also the inadequate provision of social services, as evidenced by the fact that the school enrollment ratio is one of the lowest in the subregion, and that morbidity and mortality rates, especially among infants and mothers, are among the highest. The government is therefore preparing a poverty reduction strategy paper (PRSP) with the participation of the administration, the private sector, civil society, and Burkina Faso's external partners. This document falls within the participatory tradition in Burkina Faso, as evidenced by the two meetings on the national economy held in May 1990 and May 1994; the national conferences on education, employment, and health, held respectively in 1996, 1997, and 1999; the national conference on comprehensive civil service reforms in 1997; the national workshop on the sources of economic growth in May 1999; the formulation of the Country Assistance Strategy with the World Bank in August 1999; and the forum on justice in 1999. A ten-year national poverty reduction program (1995–2005) had already been presented in Geneva in October 1995, on the occasion of the third general roundtable of donors and lenders aimed at centering the development strategy on the concept of human security. The strategic elements of this poverty reduction policy were designed to accelerate economic growth and the develop human resources, good governance, and rational management of economic resources.

38. The initial draft PRSP presents the current social situation and the characteristics of poverty in Burkina Faso, based on the results of the last survey on the living conditions of households (Priority Survey II), carried out in 1998. This survey shows that poverty mainly affects large households, is most acute in rural areas, and has regional and gender dimensions. People in the north of the country are more affected by it than those in the southern and central regions; the most vulnerable segments of the population are children, women, and the unemployed. As regards socioeconomic groups, the incidence of poverty is highest among farmers growing food and cash crops and among the nonworking population.

39. The draft poverty reduction document presents the principal orientations and objectives, strategic approaches, and action programs. The overall strategy seeks to reconcile the need for structural reform and economic recovery with the objectives of increasing the income of the poor. This strategy requires an investment effort and growth policies aimed at improving the economic situation of the poor in the agriculture, livestock, crafts, commerce, and services sectors. The central role of agriculture and services in generating income requires the improvement of the quality of human capital. For this reason, emphasis will be placed on priority development of the sectors that produce services benefiting primarily the poor: basic education and health, drinking water, hygiene, sanitation, and housing conditions. The strategy is based on allocating resources freed up by debt relief to expenditure directed at reducing poverty and increasing human capital. The program approach will be given preference, and implementation will be carried out as much as possible by the beneficiaries, with support from nongovernmental organizations (NGOs), the private sector, and local governments. The PRSP requires a participatory, consensual framework, under which priorities will be established that should guide government action and external assistance will be directed at addressing the key factors that can contribute to poverty reduction.

40. The strategy to achieve the objectives contained in the strategy paper is structured around three subprograms—improvement of the economic situation of the poor, development of the social sectors, and strengthening of governance and assistance coordination—and seven strategic approaches: (i) implementation of vigorous economic growth policies; (ii) improvement of the economic, political, and legal climate for the benefit of poor people; (iii) promotion of income-generating and self-employment activities; (iv) control of population growth and stepping up of the campaign against AIDS; (v) improvement of access by the poor to basic essential services; (vi) introduction of better governance; and (vii) better coordination of poverty reduction initiatives.

41. Following discussions with the various partners, including foreign donors and lenders, on the poverty reduction strategy, the priority actions and quantitative benchmarks in the various sectors, already outlined for the medium term, will be defined for one- and three-year periods. In this regard, the experience with the indicators adopted under the new donor approach to conditionality and with the HIPC Initiative indicators will be extremely useful. The costs of the various initiatives (strengthening of the education and health infrastructures; water supply systems; the promotion of hygiene, sanitation, and housing; and strengthening of village and municipal structures) will be estimated and will serve as a basis for the medium-term budgetary framework.

42. Special attention will be paid to the respective roles of the central government, local governments, and households in the financing of health and education services. Sound fiscal management, in a context of transparency, will be essential. Within this framework, the participation of civil society in the preparation of the budget for the social sectors at the decentralized level will be further enhanced. Monitoring by civil society of the execution of these budgets at the most decentralized levels will be facilitated by better dissemination of information, which, in turn, will lead to increased participation and control by the beneficiaries.

43. Progress made in the area of poverty reduction will be monitored through priority surveys, which will be completed by means of more frequent and simplified analyses, including those carried out by external donors. The technique of participatory poverty assessment which, as tested in numerous countries, uses direct contacts with target groups at the individual and group level, will also be implemented. This will provide a more complete view of the poverty situation and of the concerns and priorities of the most vulnerable groups. In addition, methods used for assessing the impact of the various sectoral action plans on the poverty situation and on the poorest groups will be strengthened to ensure close monitoring of poverty reduction efforts and of the results obtained.

44. The updated matrix of HIPC Initiative indicators for 1996–2000 is shown in the attached Table 2. It indicates that the principal education and health indicators for the period 1996-99 improved, although the results sometimes fell short of the initial objectives (school enrollment ratios, number of new entrants in the first year of primary education, percentage of fully operational health and social promotion centers, and utilization rate of health centers). The data in the matrix show that substantial efforts are still needed in these areas, which are essential for the improvement of the people's living conditions. They emphasize the need for a broad-based effort, mobilizing all the resources of the administration, the private sector, and civil society, with the assistance of the partners in development.

45. The government, in the context of PRSP preparation, will adopt a participatory approach to establishing the supplementary budget for 2000, which will allocate resources generated by debt relief under the HIPC Initiative to the social sectors, including essential rural and village infrastructures. Moreover, the government plans to take the opportunity of the preparation of the 2001 Budget Law to update program budgets for the principal ministries, so as to take account of the additional resources to be made available under the Initiative.

Table 1. Burkina Faso: Quantitative Performance Criteria, Benchmarks, and Indicators for the First-Year Program Under the Poverty Reduction and Growth Facility, 1999-2000

(In billions of CFA francs; cumulative from beginning of year)

	Stock	1999					2000			
	Dec. 1998	June	September		December		March	June	Sept	December
	Actual	Est.	Bench.	Est.	Perf. Crit.	Prel. Est.	Bench. 1/	Perf. Crit.	Bench	Indicator
Performance criteria and benchmarks										
Ceiling on cumulative change in net bank credit to government	92.8	28.9	23.3	42.7	5.4	11.6	17.2	23.2	8.6	7.9
Adjusted ceiling for shortfall in external resources			30.2							
Ceiling on the cumulative amount of new nonconcessional borrowing contracted or guaranteed by the government 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: less than one year's maturity 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative net reduction in domestic payments arrears	...	5.1	5.3	7.0	6.3	8.3	0.0	0.0	1.0	2.0
Accumulation of external payments arrears 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicators										
Government revenue 4/	199.4	96.5	151.9	154.2	208.7	213.7	46.7	96.6	159.2	220.6
Expenditure on wages and salaries	72.0	42.5	60.8	61.8	79.5	82.6	20.5	44.5	64.7	86.5
Total primary expenditure 5/	192.9	97.8	143.3	146.1	205.9	208.5	45.7	97.6	143.5	215.2
Adjustment factors 6/										
Balance of payments assistance	19.6	3.0	9.9	3.0	36.6	42.1	0.0	5.0	12.0	36.7
Adjustment lending (excluding IMF)	0.0	0.0	0.0	...	9.0	16.1	0.0	0.0	0.0	10.0
Adjustment grants	16.8	3.0	9.9	3.0	25.2	23.7	0.0	5.0	12.0	26.7
Debt relief	2.8	0.0	0.0	...	2.4	2.4	0.0	0.0	0.0	0.0

Sources: Burkinabè authorities; and staff estimates and projections.

1/ Updated.
2/ To be observed on a continuing basis.
3/ Excluding normal import-related credits.
4/ Excluding revenue collected through treasury checks.
5/ Excluding the tax component paid on public investment projects.
6/ In 1999, the limits on net credit to government were to be adjusted upward by the amount of the shortfall up to a maximum of CFAF 7 billion, if balance of payments assistance was to fall short of program projections. In 2000, the adjustor for a shortfall in external assistance is limited to a maximum of CFAF 4 billion by end- June 2000, CFAF 10 billion by end-September, and CFAF 12 billion by end-December 2000.

Table 2. Social Development Performance Indicators, 1996-2000

Objectives and Policies	Indicators	Targets and Results								
		Health								
Improve primary health care quality and coverage		1996		1997		1998		1999		2000
		Est.	Actual	Target	Actual	Target	Actual	Target	Prov.	Target
Increase public expenditure on health	Share of budget expenditure on health									
	Including foreign-financed investment 1/ 2/	...	11.4	10.5	11.0	11.0	11.1	12.0	10.9	12.0
	Excluding foreign-financed investment and interest expenditures 1/ 2/ 3/ 4/	...	11.3	(12.0)	11.9	(12.6)	12.2	(13.1)	13.9	(12.4)
Reallocate budgetary spending to health districts	Health budgets established at district level	Target by 1998			Done					
Provide adequate staffing of local health centers (CSPS)	Share of CSPS' meeting minimal staffing norms (three agents) 1/	...	...	...	57	...	60	...	60	100
Provide regular supplies of essential drugs to CSPS	Share of CSPS with essential drugs 1/	60	60	70	85	80	84	100	92	100
Increase utilization rates in CSPS	New cases/inhabitants/year	...	0.21	...	0.20	...	0.23	...	...	...
	Urban	0.20	0.37	0.40	0.60	0.50	0.70	0.60	...	...
	Rural	0.10	0.18	0.20	...	0.30	...	0.40	...	...
Strengthen child vaccination programs	Share of infants (0-11 months) vaccinated 1/									
	BCG 5/	67	53	70	46	80	52	85	53	...
	DCT/polio 6/	50	37	60	28	70	31	75	35	...
	Measles	57	55	70	33	75	38	80	58	...
	Yellow fever	57	28	70	27	75	33	80	51	...

Objectives and Policies	Indicators	Targets and Results								
		Education								
Improve coverage, equity, and quality of basic education		1995/96	1996/97		1997/98		1998/99		1999/2000	
		Est.	Est.	Actual	Target	Actual	Target	Est.	Target	Prov.
Increase public spending on basic education	Share of budget expenditure on basic education									
	Including foreign-financed investment 1/ 2/ 7/	...	8.8	9.0	10.1	11.2	11.5	11.5	13.0	10.8
	Excluding foreign-financed investment and interest expenditures 1/ 2/ 4/ 7/	...	(14.6)	14.5	(14.3)	15.8	(13.0)	14.2	(15.0)	16.9
Expand capacity of primary school system	Gross enrollment ratio 1/	38.9	40.0	38.4	42.0	39.5	44.7	40.5	46.0	42.0
	New admissions in first grade (in thousands)	...	149	139	189	141	229	154	270	165
Recruit primary school teachers locally	Local recruitment plan ready		In August 1998 (target June 1998)							
	Pilot implementation started		In October 1998, as targeted							
Promote girls' education	Girls' primary school gross enrollment ratio 1/	27.8	30.0	31.1	33.0	32.4	35.0	33.6	38.0	34.0
Reduce regional disparities in access to primary education	Spread in provincial primary school enrollment ratios 1/	...	75.0	73.3	73.0	64.4	71.0	57.8	69.0	53.0
Improve quality and efficiency of primary education	Repetition rate 1/	17	18	17	17	17	16	18	14	17
	At least one book for two pupils (French and math) for 1999				Done					

1/ In percent.
2/ On a commitment basis, excluding external debt service.
3/ Not part of identified HIPC targets.
4/ Data in parenthesis indicate budget appropriations.
5/ Tuberculosis.
6/ Diphtheria, cholera, and tetanus/polio.
7/ Budgetary data refer to initial year of school year.

Table 3. Burkina Faso: Structural Benchmarks and Performance Criteria for the 1999-2000 Program

Measures		Date	Status
1.	Implementation of the new tax withholding system on imports and purchases from wholesalers. 1/	January 1, 2000	Done
2.	Introduction of a withholding tax on payments of services to nonresidents. 1/	January 1, 2000	Done
3.	Issuance of call for bids for Air Burkina.	End-March 2000	On schedule
4.	Select investment bank that will bring ONATEL to the point of sale. 1/	End-May 2000	On schedule
5.	Finalization of plan for privatization of SONABEL 1/	End-December 1999	Delayed.
6.	Finalization of settlement of cross debts between the postal agency (SONAPOST) and the government.	End-June 2000	On schedule
Memorandum item:			
	Performance criterion introduced in Memorandum of Economic and Financial Policies for 2000, dated April 17, 2000.		
7.	Adoption by the Council of Ministers of the regulatory framework for the electricity sector and finalization of the plan for the privatization of SONABEL 1/	End-December 2000	

1/ Performance criterion.

Burkina Faso: Relations with the Fund

(As of March 31, 2000)

I. Membership Status: Joined: 05/02/63; Article VIII

II. General Resources Account:

	SDR Million	%Quota
Quota	60.20	100.0
Fund Holdings of Currency	52.99	88.0
Reserve position in Fund	7.22	12.0

III. SDR Department:

	SDR Million	%Allocation
Net cumulative allocation	9.41	100.0
Holdings	0.49	5.2

IV. Outstanding Purchases and Loans:

	SDR Million	%Quota
SAF arrangements	1.26	2.1
ESAF arrangements	85.15	141.4

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	09/10/1999	09/09/2002	39.12	5.59
ESAF	06/14/1996	09/09/1999	39.78	39.78
ESAF	03/31/1993	05/30/1996	53.04	44.20

VI. Projected Obligations to Fund: (SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	02/29/2000	2000	2001	2002	2003	2004
Principal	0.0	5.9	10.1	10.8	12.6	13.5
Charges/interest	0.0	0.7	0.8	0.7	0.6	0.6
Total	0.0	6.6	10.9	11.5	13.2	14.1

Burkina Faso: Relations with the Fund (continued)

VII. Exchange Rate Arrangement

Starting on January 1, 1999, Burkina Faso's currency, the CFA franc, has been pegged to the euro at the rate of €1=CFAF 655.95. The exchange rate on March 31, 2000 was CFAF 923.8=SDR 1. The exchange and trade system is free of restrictions on payments and transfers on current international transactions.

VIII. Article IV Consultations

Burkina Faso is on the standard 12-month consultation cycle. The 1999 Article IV discussions were held during the period February 7-24, 1999 in Ouagadougou, in conjunction with the negotiations of the midterm review under the second annual arrangement under the Enhanced Structural Adjustment Facility. The staff report (EBS/99/68; 5/3/99) and the statistical annex (SM/99/100; 5/5/99) were considered by the Executive Board on May 21, 1999.

IX. Technical Assistance

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Expert	November 20-28, 1989	Strengthening budget preparation and expenditure control.
FAD	Expert	October 1-December 28, 1990	Assisting in preparation of a unified investment budget and in improving budgetary procedures.
STA	Expert	January 22-February 2, 1990	Improving national accounts methodology.
FAD	Expert	October 11-18, 1991	Helping organize seminars for taxpayers in preparation for the introduction of VAT.
FAD	Expert	November 26-December 10, 1992	Improving tax administration and reviewing the introduction of VAT.
FAD	Expert	July 14-24, 1993	Assessing budget and planning, and public expenditure control, and proposing tems of reference for long-term technical assistance to be financed by the EC.

Burkina Faso: Relations with the Fund (concluded)

FAD	Staff	June 7-23, 1995	Reviewing implementation of the 1993 customs and tax reforms and designing a stabilization strategy.
STA	Expert	July 24-August 7, 1995	Multitopic mission to assess macroeconomic statistical system.
FAD	Staff	October 6-17, 1997	Assessing the fiscal impact of the common external tariff (CET) and regional integration, and defining policies to offset revenue losses.
FAD	Staff	November 20-30, 1998	Assessing implementation of the 1997 mission recommendations, and proposing complementary reforms to strengthen the fiscal and customs administrations and improve efficiency of the fiscal system.
FAD	Staff	February 11-25, 1999	Assisting in upgrading the computer system used for large taxpayers and following up on the implementation of previously recommended measures.
FAD	Staff	December 4-11, 1999	Monitoring the upgrading of the computer system used for large taxpayers; reviewing the establishment of a withholding system for business taxes; reviewing the system of treasury refunds of taxes due on foreign-financed projects; and proposing modalities for eliminating VAT exemptions on investments.

X. Resident Representative

None.

Burkina Faso: Relations with the World Bank Group

(As of March 31, 2000)

Since the beginning of the structural reforms in the early 1990s, the World Bank has approved, in addition to project support, two structural adjustment credits, an economic recovery credit, an agricultural sector adjustment credit, a transport adjustment credit, and an economic management reform credit. The current portfolio amounts to commitments of US$282 million, of which US$115 million are undisbursed. It includes a number of projects aimed at accelerating the provision of social services, with one project in the education sector, one in health/nutrition, one in population/AIDs control, and one in urban environment. Other projects are geared to improving agriculture (as services II, private irrigation, food security); improving the country's management capability; promoting the private sector; improving environmental management and building up capacity in the mining sector (see table). Forty-four IDA credits for an amount of US$653 million are closed. There are no MIGA operations in Burkina Faso.

Implementation issues in structural adjustment and other credits

The Transport SECAL operation (US$66 million) was approved in 1992 following an extensive dialogue with the World Bank and other donors. The second tranche (US$8 million) was released in February 1996. The third tranche was released on May 13, 1998, after specific compliance conditions were met by the borrower. Much has been done under the Public Institutional Development Project to improve budgetary management, information/statistics, and procurement, and the project closing date has been extended to June 2000. The SAC II (US$15 million) was approved in December 1998 and disbursed before end-1998 in one tranche. The SAC III (US$25 million) was approved in November 1999 and disbursed a few days thereafter in one tranche.

New credits

A new Country Assistance Strategy (CAS) is currently under preparation. Two operations are expected to be approved in fiscal year 2000: a community-based rural development project, and an adjustment operation. In fiscal year 2001, three operations are expected to be approved: a basic education project, a water supply operation and an adjustment credit.

Burkina Faso: Relations with the World Bank Group (concluded)

Statement of IDA Credits

(In millions of U.S. dollars)

Credit Number	Fiscal Year	Sector	IDA	Undisbursed
C23320-BF	1992	Transport SECAL	66.0	3.1
C23780-BF	1992	Public Institutional	15.0	3.4
C24720-BF	1993	Private Sector Assistance	7.00	2.3
C24140-BF	1993	Food Security	7.50	0.3
C25950-BF	1994	Health/Nutrition	29.2	7.3
C26190-BF	1994	Population/AIDS Control	26.3	7.5
C27280-BF	1995	Urban Environment	37.0	18.8
CN0070-BF	1997	Post-Primary Education	26.0	18.4
CN0290-BF	1997	Mining Capacity Building	21.4	17.1
C29740-BF	1998	AG Services II	41.3	32.5
C31610-BF	1999	Private Irrigation	5.2	4.4
Total (number of credits: 11)			281.9	115.1
44 credits closed			653.4	0.0

Source: World Bank.

Burkina Faso: Statistical Issues

Real sector

While the general framework of the national accounts is rather complete, there are substantial problems with the source data for the national accounts at current prices and the price statistics used as deflators. In particular, the industrial production index should be revised to include new industrial units. Also, the procedure to collect information on private investment and services should be improved. In addition, the national accounts suffer from methodological problems. To overcome these problems, additional resources are being provided to the National Institute of Statistics and Demography (INSD), which will be converted into an autonomous institution in 2000.

The base year of the constant-price national accounts estimates has been updated from 1979 to 1985, resulting in revisions in the data from 1985 to 1989. The final 1989-93 national accounts were published in June 1998. With external assistance, the INSD is planning to draw up the 1994-97 national accounts, and the preliminary accounts for 1998 in 2000. The index of industrial production is also under review, within the framework of a program harmonized at the level of the West African Economic and Monetary Union (WAEMU); a new industrial census, taken in March 1998, will be used in the construction of the new index.

A new consumer price index was published in 1998, based on a survey taken in the context of a regional project financed by the European Union and France. The coverage of this index will gradually be extended to include markets outside Ouagadougou.

A new household survey has been completed in 1999 that provides detailed information on the incidence of poverty and expenditure patterns.

Government finance

The latest summary data reported to STA for publication in *International Financial Statistics* are for 1998 and contain imbalances between the deficit and financing. The detailed data published in the *1998 Government Finance Statistics (GFS) Yearbook* cover only 1984-93. All reported data, which are compiled from the Balance Générale des Comptes du Trésor (BGCT) have limited coverage—extrabudgetary and social security accounts, as well as foreign-financed expenditure, are not included—and the *GFS Yearbook* data lack much of the required detail. The authorities are updating this information. The compilation of GFS is constrained by a lack of coordination among fiscal agencies, which has a negative impact on the reliability and timeliness of these data.

Monetary accounts

Preliminary monetary data for Burkina Faso are prepared by the national agency of the Central Bank of West African States (BCEAO) and released officially by the headquarters of the BCEAO. A new accounting system for commercial banks was introduced by the BCEAO on January 1, 1996. Most of the problems that appear in the monetary statistics for Burkina Faso are not specific to that country but concern all seven countries of the WAEMU (prior to May 2, 1997).[10] One statistical problem arises from the difficulties the BCEAO has encountered in estimating currency in circulation in each WAEMU member country because of the large backlog of unsorted banknotes held by the central bank in its various national agencies. A money and banking statistics mission visited the BCEAO in August 1997, investigated these problems, and reviewed with the authorities several measures that would contribute to reducing the delay. The BCEAO is working on additional measures to accelerate the sorting operations in order to resolve this problem.

A second problem has been the slower-than-expected implementation of the new accounting system by banks since its introduction in 1996. These delays contribute importantly to the lag in reporting of monetary statistics. The August 1997 STA mission that visited the BCEAO recommended that timing targets for reducing delays in producing the principal report forms be established. While there has been a recent reduction in the lag in reporting of monetary data to STA, among others—and this appears to reflect in part an acceleration in this phase of statistical production—there is scope for further improvement.

Balance of payments

The BCEAO is responsible for completing the balance of payments statement and has made significant improvements over the past few years in order to enhance the data consistency. The technical assistance of the Fund's Statistics Department (Statistical Adviser from July 1996 through July 1999) contributed to the reporting of balance of payment data in the framework of the *Balance of Payment Manual (Fifth Edition)* for 1996, 1997 and 1998. Regarding trade data, the Customs computer system (SYDONIA) has been upgraded in 1999 and its installation in all main border Customs houses is currently being completed, this should allow a better monitoring of import data and should complete the coverage of informal trade. The further improvement of the Services and Transfers (especially workers' remittances) coverage is clearly linked to the intensification of the contacts with reporting bodies; this implies that the authorities' commitment to strengthening the human and technical resources be confirmed.

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[10] Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo. Guinea-Bissau joined the WAEMU on May 2, 1997.

Concerning the Financial account, the foreign assets of the private nonbanking sector are still weakly covered, especially assets of UEMOA residents, which are assessed through BIS data. The organization of annual exhaustive surveys for the reporting of Foreign-Direct investment transactions in Burkina-Faso is still in a very preliminary stage. The BCEAO authorities have indicated that they are looking forward to integrating two additional sources aimed at improving the quality of the balance of payment reports: the regional stock exchange transactions and the firms' balance sheet database (Centrale des bilans).

The computer debt-management system software SYGADE, developed by the United Nations Conference on Trade and Development (UNCTAD), was introduced in 1999, and is fully operational. According to the authorities' indications, in 2000, information on debt disbursement will also be fully integrated with the expenditure monitoring system.

Burkina Faso: Survey of Reporting of Main Statistical Indicators

(As of end–March 2000)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates 1/	Consumer Price Index	Exports/ Imports 2/	Current Account Balance	Overall Govern-ment Balance	GDP/GNP 3/	External Debt
Date of latest Observation	Feb. 2000	Dec. 1999	Dec. 1999	Dec. 1999	Dec. 1999	Feb. 2000	Dec. 1999	Dec. 1999	Dec. 1999	Dec. 1999	1999	Dec. 1999
Date received	Feb. 2000	Feb. 2000	Feb. 2000	Feb. 2000	Feb. 2000	April 2000	April 2000	April 2000	Feb. 2000	Feb. 2000	April 2000	Feb. 2000
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annual	Monthly	Annually	Annual
Frequency of reporting	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Quarterly	Annually	Monthly	Annually	Annually
Source of data 4/	EIS/TRE	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	Ministry of Finance	BCEAO	BCEAO	Ministry of Finance	Ministry of Finance	Ministry of Finance
Mode of reporting	On-line	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	5/	5/	5/	5/	No	No	5/	5/	5/	5/	5/
Frequency of publication	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Monthly	Annually	Annually

1/ Up-to-date data available upon request from BCEAO; also updated regularly in press.
2/ Customs data available monthly in conjunction with fiscal data.
3/ Revised periodically during year.
4/ EIS = IMF, Economic Information System; TRE = IMF, Treasurer's Department; BCEAO = Central Bank of West African States
5/ Preliminary use for staff only; actual data unrestricted.

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IMF Concludes Article IV Consultation with Burkina Faso

On June 26, 2000, the International Monetary Fund (IMF) Executive Board concluded the Article IV consultation with Burkina Faso.[1]

Background

Burkina Faso's sustained adjustment effort has been supported by the IMF under successive programs since 1991, first under the Structural Adjustment Facility (SAF), approved in March 1991, followed by a first three-year arrangement under the Enhanced Structural Adjustment Facility (ESAF) approved on March, 31, 1993, and an additional three-year arrangement under the ESAF, approved on June 14, 1996. A new arrangement was approved in September 1999 supported since November 1999 under the Poverty Reduction and Growth Facility (PRGF). Under these programs the government of Burkina Faso implemented a broad range of macroeconomic and structural reforms which have contributed to redirect the economy from a centralized to a market-oriented one, raise per capita GDP and reduce internal and external imbalances. In September/October 1997, the IMF and the World Bank approved a decision concerning the country's eligibility under the Highly Indebted Poor Countries Initiative (HIPC), under which external debt would be reduced by April 2000 by about 15 percent to the equivalent of 205 percent of exports in net present value terms. Under the enhanced HIPC Initiative, the total external debt reduction will be such as to bring the ratio of external debt to exports to 150 percent.

Macroeconomic performance was favorable in 1999. Real GDP grew by 5.8 percent with strong growth in construction, manufacturing and services. Cotton production stabilized at 274,000

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. In this PIN, the main features of the Board's discussion are described.

tons and cereal production exceeded marginally the record level reached in 1998. With abundant food supply, the consumer price index (CPI) declined during 1999, and was on average 1 percent lower than in 1998. Gross investment remained high at about 28 percent of GDP in 1999, due to a strong increase in public construction activity; domestic saving declined by an estimated 3 percentage points of GDP, owing in part to lower profits in the cotton sector. Reflecting these developments, the external current account deficit (including official grants) widened to 12.6 percent of GDP in 1999 from 10.0 percent of GDP in 1998.

The main objectives of the program for 1999 in the fiscal area were to achieve a revenue level of 14.3 percent, and a primary surplus of 0.2 percent (excluding foreign financed investment expenditure). These targets took into account the revenue loss caused by the full year effect of the reduction on July 1, 1998 of the maximum custom tariff rate to 25 percent from 31 percent, in accordance with the phased introduction of the common external tariff (CET) of the UEMOA; A further cut of the maximum rate to 20 percent took take place on January 1, 2000, together with the reduction of the statistical tax to 1 percent from 4 percent. The 1999 revenue objective was exceeded by 0.7 percent of GDP, reflecting the authorities' continuing efforts to improve tax administration, in particular concerning customs duties and the value added tax. The objective for the primary current surplus was also largely exceeded, as current primary expenditure was in line with the program. At the same time, however, the reduction of external arrears, restructuring expenditure, external and domestic amortization payments were above the program's target. As a result, the target concerning the increase in net bank credit to government during 1999 was exceeded.

Monetary policy is conducted at the regional level by the Central Bank for West African States, and remained prudent. Credit to the economy rose in 1999 by 4.3 percent, reflecting the fact that the new crop credit was not yet in place by the end of the year. The delay in the collection of cotton export proceeds resulted in a decline in the net foreign assets of the banking system in 1999.

In 1999 and early 2000, the Burkinabè authorities strengthened the implementation of structural reforms, in particular as regards the civil service, the cotton sector, and the liberalization of the telecommunications sector. In the cotton sector, the sale of 30 percent of the shares of the cotton ginning and marketing company to producers' associations was finalized in early 1999. A broad civil service reform entered into effect on January 1, 1999, which includes a new merit-based promotion system, a wider wage scale to stimulate productivity, and a larger recourse to contractual workers to increase flexibility in the allocation of staff.

It is expected that in 2000 GDP will increase by 5.7 percent, spurred by a further expansion in agricultural production and a high level of public investment. Inflation is expected to remain low. Notwithstanding the drop in the international price of cotton, the external current account deficit, excluding grants, is expected to narrow to 14.4 percent of GDP in 2000, compared to 16.0 percent in 1999; including grants the deficit would narrow to 10.2 percent of GDP. Fiscal policy will continue to put emphasis on the widening of the tax base, and the provision of larger budgetary allocations to social sectors, while maintaining a very prudent wage policy in the coming years; the planning and the execution of the investment program will be strengthened in a medium-term framework.

Executive Board Assessment

Executive Directors commended the authorities on the favorable economic performance in recent years, attributable in large part to prudent macroeconomic policies and the pursuit of structural reforms. Directors observed that, in 1999, economic growth had been sustained, inflation had declined further, the main budgetary targets had been met, and progress had been made in the area of structural reform. Directors also noted the continuing strength of agricultural production, and the increased cotton production, despite the depressed world prices for that commodity during the major part of 1999. Several Directors expressed concern, however, that the external current account deficit had deteriorated further, although they recognized that this decline was partly the result of a sharp deterioration in the terms of trade.

Directors considered the budgetary results in 1999 generally satisfactory, especially in relation to government revenue, in a year when the impact of the reduction of the common external tariff of the West African Economic and Monetary Union (WAEMU) was fully felt. Looking ahead, the further strengthening of overall tax administration and compliance, as well as improvement in budgetary management, will be essential, especially as the government steps up its anti-poverty programs in the context of the HIPC Initiative.

Directors underscored the need to reduce current expenditure. They agreed that the introduction of a merit based promotion and compensation system and the decompression of the wage scale should allow more flexibility in wage policy and improve incentives. They noted, however, that the reform had proved significantly costlier than expected, in part because of the need to update the position of civil servants, and that the wage bill increase in 1999 had been relatively large, which has made it even more essential to be prudent on wage policy in the coming years.

Directors noted the importance of reforms to strengthen the competitiveness of the economy and to promote economic diversification. They welcomed the partial divestment of the cotton ginning and marketing company (SOFITEX) in early 1999, and urged the authorities to adhere closely to the schedule established for restructuring and privatizing the telecommunications and electricity sectors.

Directors were encouraged by the efforts of the authorities to improve the environment for private sector activity, in particular through steps to strengthen the banking system and the network of small scale credit institutions. They stressed that the further broadening of the networks of these institutions should be a key priority in the strategy for rural development.

Directors noted that the incidence of poverty remains high and social indicators low, even in a regional context. They therefore welcomed the adoption by the government of a full, participatory PRSP and its focus on improving rapidly social indicators and promoting income-generating activities of the more vulnerable groups. In this connection, Directors underlined the need for technical assistance to help improve Burkina Faso's implementation capacity for the envisaged measures, including poverty reduction initiatives. Stressing the importance of regional stability for economic development in Burkina Faso—as for other countries in the region—Directors urged Burkina Faso to provide full support—and indeed, to contribute to—international efforts to promote regional stability.

Directors noted that the resources that will be freed from debt relief under the HIPC Initiative will provide important room for improving the provision of services in the social sectors. In this regard, they noted that these resources are to be channeled through decentralized service providers in an effective manner, and stressed the importance of close monitoring to ensure their effective use by local communities and beneficiaries.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Burkina Faso: Selected Economic Indicators

	1996	1997	1998	1999	2000 Proj
Real GDP	6.0	4.8	6.2	5.8	5.7
GDP deflator	4.2	2.2	3.2	-1.4	2.0
Consumer prices (end of period)	6.1	2.3	5.0	-1.1	1.5
Real effective exchange rate 1/	3.0	-2.8	4.4	-2.0	...
	(In percent of GDP)				
Gross domestic investment	26.8	27.3	29.6	27.8	28.6
Gross domestic savings	9.1	10.9	12.7	9.8	11.7
Gross national savings	16.8	17.2	19.6	15.2	18.4
	(In millions of US$)				
Exports (f.o.b.)	232.5	229.5	325.2	254.8	249.2
Imports (f.o.b.)	562.4	511.2	638.9	599.7	587.4
Current account balance, excluding official transfers	-372.3	-332.4	-376.3	-413.7	-380.5
Capital account balance	170.8	157.3	50.9	96.9	120.1
Gross official reserves	579.1	526.7	524.7	489.3	549.5
	(In percent of GDP)				
Current account balance, excluding official transfers	-14.7	-13.9	-14.5	-16.0	-14.4
Current account balance, including official transfers	-9.9	-10.2	-10.0	-12.6	-10.2
External public debt	50.8	56.9	54.7	59.9	62.1
	(In percent of GDP)				
Financial variables					
Government revenue	12.3	13.1	13.1	15.0	14.4
Domestic primary expenditure and net lending 2/	10.7	11.9	12.6	14.7	13.9
Primary balance (deficit -)	1.7	1.1	0.5	0.3	0.4
Overall fiscal balance, excluding grants	-9.0	-10.2	-9.8	-12.3	-11.0
Overall fiscal balance, including grants	-0.6	-3.2	-2.9	-3.4	-3.0
Change in broad money (in percent)	8.2	14.2	1.7	6.5	6.3
Interest rate 3/	6.5	6.0	6.2	5.8	...

1/ (+)=appreciation

2/ Current and capital expenditure excluding interest and foreign financed investment.

3/ Central Bank rediscount, end of period.

Statement by A. Barro Chambrier, Executive Director for Burkina Faso July 10, 2000

Introduction

Over recent years, Burkina Faso has made significant macroeconomic progress and implemented basic structural reforms under Fund-supported programs. Real GDP growth averaged some 5½ percent during the last five years, and inflation was reduced to extremely low levels. However, it is to be noted that the deficit of the current account deficit remains high, reflecting the low level of savings and a number of structural constraints that still face the economy. My Burkinabe authorities are aware that, in spite of the performance registered in recent years on the macroeconomic front, considerable economic challenges need to be addressed to improve the living standards of the population, about half of which live below the absolute poverty line. In addition, as reflected in the social indicators, a large part of the population has no access to basic social services, such as education, health, and safe water. These deficiencies constrain human development and labor productivity (particularly in rural areas), and constitute a major impediment to sustainable development.

My Burkinabe authorities are determined to deepen their economic, structural and social reforms, so as to achieve a higher and durable growth, to increase employment opportunities and to reduce poverty. In this endeavor, they will need the continued support of the international community, including substantial debt relief. Their a medium-term budgetary framework has been prepared in this context, with resources generated under the HIPC Initiative earmarked specifically for poverty reduction. They express their appreciation to the IMF staff and management for their precious advice and are thankful for the support received from the international community in their fight against poverty.

Recent economic developments

Developments in real activity continued to be encouraging in 1999, even though there was a slight deceleration of growth relative to 1998. Real GDP growth is estimated at some 5.8 percent, reflecting mainly buoyant activity in construction, industry and services. Economic activity benefited greatly from increased foreign-financed public investment in infrastructure as well as private investment, notably in construction and transport. Although the abundant rainfall led to higher levels of food production, there was a decline in the production of seed cotton, resulting in an overall poor performance of the primary sector. Investments in the gold sector remained subdued, owing mainly to weak international prices for gold. The drop in cotton export volume and prices, as well as the increase in world petroleum prices negatively affected developments in external trade. As a result, the external current account deficit (excluding current official transfers) widened to 16 percent, exceeding the program target by one percentage point of GDP. However, owing not only to exceptionally good food production in 1998-99, but also to prudent financial policies, the average CPI was reduced by 1 percent, as compared with a projected 2 percent increase under the program.

Fiscal performance in 1999 was generally strong, which led to the stabilization of government savings at slightly above 7 percent of GDP, or some ½ percentage point of GDP over program target. Strengthened collection of domestic revenue helped to compensate for the revenue loss (about ½ percent of GDP in 1999) associated with the phased reform of the common external tariff (CET) of the West African Economic and Monetary Union (WAEMU). Administrative measures were taken to strengthen the collection of VAT revenue and to extend the tax net to the informal sector, notably through the reinforcement of presumptive taxation. Government revenue increased from 13.1 percent of GDP in 1998 to 15 percent of GDP, exceeding the program target for 1999 by about 1 percentage point.

On the expenditure front, the salary scale was revised as envisaged under the program, so as to decompress the pay structure and to enhance incentives. In the event, however, the impact on the wage bill associated with the wage adjustment was higher than projected. The new wage scale, which resulted in an average pay increase of some 10 percent, was implemented after a three-year period without pay increase. Yet, current expenditure was contained within program limits, as overruns on the wage bill were compensated with savings on other current outlays. Moreover, budget allocations for the social sectors were above program objectives. The widening in the overall fiscal deficit reflects foreign-financed investment that exceeded projections by some 2½ percentage points of GDP. The overhaul of the wage scale was accompanied by a larger-than-planned clearance of domestic payments arrears, in the form of retroactive regularization of past promotions. The higher-than-expected financial impact of the revision of the wage scale (some CFA 5.6 billion above program projections) complicated treasury management and contributed to breaching the program targets for government recourse to bank financing. As a result, the quantitative performance criterion on bank credit to the government for end-December 1999 was not met.

A significant part of the wage regularizations was owed to employees in the education and health sectors. Moreover, despite the high resort to bank financing, the domestic banking sector remained strong, as evidenced by the observance of prudential ratios, the continued reduction in bank margins and the low level of nonperforming assets. However, to avoid similar slippages in the future, the authorities have reinforced civil service management, notably through the computerization and the unification of the roster for the civil service with World Bank assistance.

Progress was made in the implementation of structural and sectoral reforms, as detailed in paragraphs 14 to 18 of the Memorandum on Economic and Financial Policies. Most of the structural performance criteria and benchmarks were met, except for the performance criterion relating to finalization of a plan for the privatization of the electricity company (SONABEL). Given the importance of the cost of energy in Burkina Faso's economy, it was agreed with the World Bank to conduct a thorough reform of the energy sector and to postpone the privatization of SONABEL. However, preparations for the privatization of the company are advanced and all the necessary legislation for the privatization of SONABEL will be ready by end-December 2000. In addition, the liberalization of the cotton sector was pursued, notably through the transfer of 30 percent of the shares of SOFITEX to producers, who are fully playing their role in the new arrangement while the liberalization of the sector continues. In the telecommunications sector, international bids for the authorization of two private cellular phone services were issued on December 15, 1999, and the licenses were granted in March 2000. The government also pursued civil service reform, which is centered on the implementation of a merit-based promotion system, and the generalization of the hiring of contractuals.

Policies for the rest of 2000

The recovery in cotton production as well as the projected increase in investment should improve prospects for growth in 2000. In this context, the budget for 2000 aims at increasing revenue to some CFA 6 billion above the target of the original program. This additional revenue will be necessary notably to meet the higher wage bill. The new revenue objective is ambitious, given the revenue loss expected from the introduction of the new CET in January 2000 and the weak profitability of the cotton sector recorded in 1999. In the context of the 2000 budget law, the corporate tax was also reduced from 40 percent to 35 percent, but with effect from year 2001. Regarding expenditure, actions taken to strengthen civil service management should help enhance the control over the wage bill. At some 35 percent of government revenue, the size of the wage bill in Burkina Faso remains below the WAEMU criterion of 40 percent of revenue. Measures to strengthen budget management will enable the provision of adequate resources to social sectors. In order to protect the tax on petroleum products, retail prices for oil products have been adjusted. My Burkinabe authorities are also prepared to adjust expenditure in case the revenue objective is not attained.

The authorities are determined to speed up structural reforms, mainly the restructuring and privatization of public utilities. After the liberalization of the cellular phone service, the necessary preparatory work is under way to ensure a successful privatization of the telecommunications company (ONATEL). An institutional framework for the reform of the energy sector will be adopted before end-December 2000, together with a privatization scheme for the electricity company SONABEL. The authorities are also determined to pursue the liberalization of the cotton sector in a pragmatic manner, so that it contributes to poverty reduction.

The fight against poverty

In 1995, the authorities presented their ten-year Poverty Reduction Strategy (PRS) at a Geneva roundtable conference of donors. Other policy papers and background studies, such as the 1998 Priority Household Survey and the 1998 Demographics and Health Survey have enriched the PRS. The household survey indicates that people living below the poverty line has increased from 44.5 percent in 1994 to 45.3 percent in 1998, with a special poverty prevalence in large families, in female population and in rural areas, particularly in the northern part of the country. It also indicates that poverty has decreased slightly in rural areas, while it has increased in urban centers. More recently, a prospective study on Burkina Faso's competitiveness was produced in 1999, while public expenditure reviews for the sectors of education and health were completed in 1999 and examined in 2000. These studies contributed to an update of the PRS, which portrays the nature and extent of poverty and sets policies for sustainable growth and poverty reduction. The PRS reaffirms that rapid growth is a major factor for poverty reduction and lays down future government policies for the sectors of education, health, safe water and rural development.

The Poverty Reduction Strategy Paper (PRSP) presents key components of the general strategy, including policies necessary to maintain a sound and stable macroeconomic framework, structural reforms to unleash economic growth and diversification opportunities, as well as some specific actions to be carried out in the medium term in the identified priority sectors. Over the past five years, the main elements of the PRSP were discussed extensively with stakeholders, including within various levels of government, the civil society, the media, the Parliament and donors, in conformity with the Burkina Faso's well-established consultation tradition. The PRSP includes social indicators to be achieved for the priority sectors, and which will be monitored on a regular basis. Accordingly, budgetary allocations to these sectors will be increased substantially. The authorities are determined to use these resources in an effective and transparent manner. In this context, they have developed a medium-term expenditure framework (MTEF) for 2001-2003, in consultation with donors. The MTEF is to be presented to Parliament in October 2000 in the context of the budget law for 2001. At the same time, it is envisaged to shift to performance budgeting, starting with key six ministries (Basic Education, Secondary and Technical Education, Interior, Defense and Finance). This shift is expected to increase the effectiveness of government outlays, by instilling transparency at all levels of government, and by formulating outcome-based policies. Finally, the authorities will pursue and deepen administrative decentralization, to ensure that the resources allocated to priority sectors reach the intended beneficiaries, who will also be involved in the budgetary preparation and monitoring process, with the assistance of local government and the civil society.

While the authorities have done impressive work in designing a framework for the implementation of the poverty reduction strategy, they are aware that poverty reduction is a long-term process, which will have to be improved over time. In this context, they share the concerns expressed by the staff as regards the need to consult with the poor, the need to ensure that there are no uncovered gaps, the role of the civil society in program monitoring, and the need to address the issues of low efficiency of government spending in social sectors. Most of these shortcomings are actually mentioned in the PRSP. Some of them, such as the issue of low efficiency of government spending, are linked to weak institutional capacity, and are therefore expected to be addressed in the context of the implementation of the strategy. Measures planned to improve governance, transparency and accountability, the computerization of the expenditure process, the fight against corruption and the actions contemplated in the education sector to increase the literacy rate should improve budgetary control and service quality, and the effectiveness of government spending. At the same time, the envisaged reforms in the sector of public utilities should reduce domestic costs. However, it should be stressed that the country faces specific constraints, such as the high transportation costs linked to the geographic location, which puts it at disadvantage relative to other low-income countries. The shortcomings related to the consultation with the poor, the clarification of the role of each stakeholder and the uncovered financing gap will be addressed over time, as the participation process is strengthened. Finally, the implementation of PRSP measures will put pressure on the already weak administrative capacity, which points to the need to increase technical assistance notably in the collection and monitoring of social indicators.

Debt Relief under the HIPC Initiative

Burkina Faso reached the decision point under the initial HIPC Initiative in September 1997 and the completion point was set for April 2000, under the condition that the structural reform program remained on track. Following the reduction of the debt thresholds for eligibility under the enhanced HIPC Initiative in September 1999, the country was ranged under "retroactive cases". In view of the successful implementation of a wide range of economic and structural reforms since 1996 under two ESAF/PRGF-supported programs, my authorities consider that conditions for the completion point under the initial HIPC Initiative have been met. Moreover, given Burkina Faso's continued solid track record of macroeconomic and structural implementation, as well as the high quality PRSP, the authorities consider that they have met the conditions for the decision point under the enhanced HIPC Initiative. They expect to benefit rapidly from interim assistance from the Fund and the World Bank.

I would like to make a general remark relating to the need to introduce more flexibility in the HIPC framework, with a view to speeding up the delivery of debt relief. In their discussions with the staff, my Burkinabe authorities rightly maintained that the one-year period of implementation of the PRSP before the completion point was unnecessary. They argued that the completion point could be reached on the ground of a credible track record, and that the formulation of a full PRSP in the context of an adequate participatory framework would ensure the implementation of properly targeted social programs. It is in this context that they have established a credible framework in which the resources generated from debt relief would be used efficiently for poverty reduction, notably through the implementation of the medium-term expenditure framework (MTEF) developed for six major ministries, including health and education.

Social indicators in the education and health sectors remain among the weakest in the world, despite the fact that budgetary resources to these sectors have been on an increasing trend under Fund-supported programs. Waiting too long would weaken the support for the envisaged reforms. The resources generated from debt relief are to be added to budget allocations in favor of social sectors. Regular consultations in the context of the budget preparation process will continue to be conducted at the community level, to ensure effective monitoring of the use of resources.

I understand that the staff has proposed an amendment to the condition for the completion point, given that there has been no Board policy requiring at least a one-year period of implementation of the PRSP to retroactive cases, such as Burkina Faso. In similar cases, Board discussions has required a good track record, the existence of a PRSP, and satisfactory progress in the implementation of key social reforms triggering the floating completion point.

Accordingly, I am pleased to note that condition (b) for the completion point appearing in the proposed decision (page 45 of EBS/00/113) will be dropped.

Conclusion

In view of the satisfactory track record in program implementation, I request the Board to grant waivers for the two performance criteria that were not observed and to conclude the first review under the PRGF. Finally, given the high-quality PRSP, I request the approval of the decision point under the enhanced HIPC, with the proposed amendment to the proposed decision, to ensure that the delivery of debt relief is not unduly delayed.