

**Statement by A. Barro Chambrier, Executive Director
for Burkina Faso
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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 5.2 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 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 2 percentage point of GDP over program target. Strengthened collection of domestic revenue helped to compensate for the revenue loss (about 2 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 22 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 contractuels.

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.