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Staff Country Reports

Burkina Faso: Joint Staff Advisory Note of the Poverty Reduction Strategy Paper

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

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INTERNATIONAL DEVELOPMENT ASSOCIATION
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BURKINA FASO

**Poverty Reduction Strategy Paper
Joint Staff Advisory Note**

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

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I. OVERVIEW

1. This Joint Staff Advisory Note (JSAN) reviews the second full Poverty Reduction Strategy Paper (PRSP-2)¹ for the period 2004–06 prepared by the Government of Burkina Faso as well as the fourth progress report on the implementation of the first full PRSP (PRSP-1).
2. PRSP-2 is embedded in the government’s long term vision “Burkina 2025,” and in a medium-term outlook consistent with the Millennium Development Goals (MDGs) and the New Partnership for Africa’s Development (NEPAD), the main objectives of which are to (i) increase per capita gross domestic product by at least 4 percent per year beginning in 2004; (ii) reduce the poverty headcount to less than 35 percent by 2015; and (iii) increase life expectancy to at least 60 years by 2015.
3. PRSP-2 updates the strategy laid out in PRSP-1 along the same four pillars: (i) accelerating broad-based growth; (ii) promoting access to basic social services for the poor; (iii) increasing employment and income-generating activities for the poor; and (iv) promoting good governance. Key changes in the revised PRSP are the broadening of the range of priority sectors, the introduction of a regional dimension, wider involvement of civil

¹ The preparation of PRSP-2 started in early 2003. A first draft was presented at a donor roundtable organized in Ouagadougou in March 2004. The strategy was then finalized in July 2004. PRSP-2 was not submitted earlier to the Executive Boards of the IMF and World Bank because of further work on the Priority Action Plan, and a requirement by some external partners that the Burkinabè authorities also prepare a progress report on the implementation of PRSP-1 in 2003.

society, and an overhaul of the monitoring and evaluation system, centered on a Priority Action Plan (PAP).²

4. Overall, the staffs share the view that Burkina Faso's Poverty Reduction Strategy is nicely presented in complementary nested documents—from the vision to the annual PAP—that strike an adequate balance between long-term perspective and flexibility to adjust the strategy to reflect new developments. Specifically, PRSP-2 articulates a sound strategy to tackle poverty challenges in Burkina Faso by updating and strengthening PRSP-1 in several dimensions, including the participatory approach and the monitoring framework. The latter is an illustration that PRSP-2 has taken into account recommendations from past JSAs. In the following sections, the staffs will review the poverty trends in Burkina Faso, discuss the four pillars of PRSP-2 and their related subprograms, and conclude.

II. POVERTY TRENDS

5. PRSP-2 presents poverty figures indicating that poverty has increased slightly since 1998, a development that, in the staffs' view, is inconsistent with the evolution of growth and inequality and the staffs' own poverty analysis. Based on the three household surveys to date, PRSP-2 presents official statistical figures that indicate that the poverty headcount increased from 44.5 percent in 1994 to 45.3 percent in 1998 and 46.4 percent in 2003 despite economic growth of more than 5 percent on average during 1998–2003 and declining inequality, as indicated by a reduction in the Gini coefficient from 0.560 in 1994 to 0.530 in 1998 and 0.506 in 2003. The staffs consider that these developments are at odds with the subsequent explanation in the document that the variance between growth and poverty trends may be due to rising disparities and inequalities. PRSP-2 acknowledges a Poverty Assessment³ by World Bank staff that, in contrast to the official government figures, indicates a significant reduction in the poverty headcount (-8 percent) between 1998 and 2003, consistent with Burkina Faso's recent economic performance. Bank staff have worked with government experts to build a comparable welfare indicator as changes in the design of the three surveys have impaired the comparability of the government's poverty estimates. A comparable indicator was obtained for 1998 and 2003 by eliminating the effects of changes in survey design: (i) excluding a limited number of items measured differently in both surveys; and (ii) applying a consistent set of monthly price data to household consumption items to eliminate the effect of price changes over time and space. The reduction in poverty indicated by this indicator is similar to the findings of joint analytical work by several bilateral donors and the World Bank.

² It is, however, important to use future updates of the PAP to ensure consistency between indicators shown in the 2003 PRSP Annual Progress Report (APR) and those used as baseline indicators for PRSP-2: several of these baselines are several percentage points higher than those shown in the APR.

³ The World Bank: Burkina Faso—Reducing Poverty through Sustained Equitable Growth. Poverty Assessment, July 30, 2004. Report No. 29743-BUR.

6. The staffs recommend that the authorities place additional emphasis in the next APR on developing poverty statistics that are comparable over time. In PRSP-2, the authorities signal their willingness to improve their methodology to ensure data comparability in future surveys and research. The staffs encourage the authorities in that resolve, and stress the need to strengthen the capacity to collect and analyze poverty data. The Bank has recently approved a Statistical Capacity Building Project and a Public Sector Capacity Building Project that could assist the authorities in that endeavor.

III. POVERTY CHARACTERISTICS AND DETERMINANTS

7. The staffs welcome the wealth of poverty information in PRSP-2 but would suggest that analysis on the links between health, nutrition, water supply, and poverty be deepened in the next APR. The staffs also note that PRSP-2 (Box 8) indicates that at current trends, most MDGs will not be met. PRSP-2 estimates that MDGs related to poverty and nutrition could be met, but concludes that those related to education, reproductive health, and gender will prove more difficult to reach. The staffs suggest that the next APR could define enabling policies and programs that can bring some MDGs into reach. In addition, the APR could discuss the causes of continued high inequality, with a focus on access to productive assets, particularly land and credit. The staffs share the broad analysis on the determinants of rural poverty although they urge caution on price stabilization mechanisms, and call for a deeper analysis of the impact of an efficient agricultural price information system. The APR could also discuss the impact of volatility in international cotton prices, and the effect of cotton subsidies in developed countries.

IV. STRATEGIC PILLARS FOR POVERTY REDUCTION

A. Accelerating Broad-Based Growth

8. The 2003 APR describes well the strong economic performance and broadly satisfactory macroeconomic policies implemented in 2003. Real GDP growth increased to 8 percent owing to record levels of cotton and cereal production, inflation fell, the fiscal and external current account deficits were reduced, and the overall balance of payments was in surplus. The decline in national poverty rates between 1998 and 2003, as indicated by the World Bank Poverty Assessment, is largely a result of the growth in agricultural output, both in subsistence farming and cotton farming. The urban sector also contributed to declining poverty by absorbing an additional share of the population without experiencing rising poverty rates. The staffs suggest that the next APR should further explore the relation between growth, inequality, and social outcomes.

9. The macroeconomic framework underpinning PRSP-2 is based on an average real growth rate of about 6½ percent, which is inline with the average growth rate observed in the last ten years. The authorities consider this rate of economic growth to be necessary to achieve their poverty reduction objectives. These projections are based on a generally favorable external environment, continued strong economic policies, improved competitiveness, more dynamic export crops (including cotton, fruit, and vegetables), more

dynamic manufacturing exports (including food processing, leather, and cotton spinning), mining, trade, tourism, and remittances from Burkinabè nationals working abroad.

10. While the economic policies and structural reforms remain broadly appropriate, the outlook regarding the external environment has deteriorated substantially since the PRSP was drafted. Specifically, the macroeconomic framework of PRSP-2 does not reflect the recent sharp increase in world oil prices and sharp decline in world cotton prices. As a consequence, recent growth projections prepared by the staffs are lower than those contained in PRSP-2 by about 2 percent per year—and even those projections are subject to downside risks.

11. More broadly, PRSP-2 does not address the risks to the economic outlook, nor contingent policies that would be pursued in the event that the projected economic growth rates are not realized. The staffs' view is that PRSP-2 would benefit from an explicit treatment of these risks.

12. In light of the adverse impact on economic activity of the worsening terms of trade, the staffs consider that there is a substantial downside risk to the revenue projections contained in the medium-term expenditure framework (MTEF) of PRSP-2. The authorities' PAP indicates that capital expenditures for the 2004–06 period will need to be about one-third more than those contained in the MTEF. While the authorities' expenditure plans are in line with the objectives of PRSP-2, and rightly focus on increasing and diversifying agricultural output, improving access to basic education, health, and nutrition programs, and improving infrastructure in rural areas, the staffs urge the authorities that the financing of the PAP does not translate into new borrowing that will increase Burkina Faso's external debt vulnerability. In the staffs' view, if the levels of expenditures contained in the PAP are to be realized, there would be a need to mobilize additional resources, specifically, from domestic revenue and additional donor support, preferably in the form of grants.

13. With regard to the mobilization of domestic revenue, the PRSP progress report rightly emphasizes that while tax revenues increased by about 12 percent in 2003, Burkina Faso's tax revenue-to-GDP ratio remains well below the WAEMU convergence criterion of 17 percent. In light of the importance of increasing revenue to support the public expenditures contained in PRSP-2, the authorities should consider identifying ongoing tax reforms and their implementation schedule more explicitly in the PAP, including with regard to the census of taxpayers, the monitoring of imports benefiting from fiscal exonerations, and the strengthening of audit and enforcement capacities.

14. The potential for enhancing tax revenues notwithstanding, additional donor support would be needed, and should be provided principally in the form of grants, given Burkina Faso's high level of external debt. If highly concessional or grant financing does not materialize, the authorities would need to curtail some of their planned expenditures, and they should consider defining their expenditure priorities more narrowly in the context of a revised PAP that would include a debt sustainability analysis. The staffs' view in that regard is that the implementation of PRSP-2 should be compatible with debt sustainability over the medium and long term.

15. The staffs agree with the thrust of the PRSP-2 agenda in the area of private sector development, including policies to improve competitiveness and reduce unit factor costs, but urge the government to use a variety of benchmarks for improving the business climate. The Bank staff plans to carry out a review of the investment climate in FY 2006 that should assist the authorities in updating their policies in that area. Lastly, the staffs stress the benefit of a swift implementation of the privatization program and measures to strengthen the regulatory framework.

16. The staffs also agree with the PRSP-2's emphasis on diversification and accelerating rural development. Overall, the strategy for income generation and diversification addresses areas the staffs also consider to be bottlenecks, including low labor productivity, high transport, water, and energy costs, inadequate marketing services and infrastructure, and gender inequality. However, it appears that the ambitious government agenda would go beyond currently available resources, and— unless additional concessional resources are made available—further prioritization may be needed to make the strategy effective. The staffs would suggest to use the forthcoming APR to make these choices. In promoting much-needed downstream agroindustrial activities, the authorities will need to resist protectionist policies that reward inefficiency.

17. The staffs note PRSP-2's description of trade policy but would encourage the authorities to give more emphasis in future PRSPs and APRs to the importance of trade liberalization and export diversification in their medium-term growth strategy. The Bank is carrying out an Integrated Trade Study, the results of which could inform government trade policies, including with respect to the removal of remaining trade restrictions.

18. The staffs observe that PRSP-2 clearly stresses the relation between access to financing and growth, although it could have taken a broader approach by including issues related to savings mobilization and payment systems. The staffs note that the authorities' policy to promote the development of the microfinance sector seems adequate, but the creation of several funds is likely to introduce distortions and miss the intended objectives. The staffs note that the findings of the forthcoming FSAP in FY 2006 will result in a number of suggestions that could help strengthen the authorities' strategy to develop the financial sector.

B. Promoting Access to Basic Social Services by the Poor

19. In the area of education, the 2003 APR shows that school enrollment and literacy programs exceeded PRSP targets in 2003/2004. The school enrollment rate was up by 5 percentage points compared to 2002/2003. Enrollment in literacy classes rose by 44 percent in 2003. In addition, the 2003 APR indicates progress in the quality of education, including a reduction in dropout rates. However, it also points to significant shortcomings such as the slow implementation of school infrastructure construction, which led parents to build temporary classrooms. In addition, the student teacher ratio rose in 2003/2004 and the number of instructional hours remains low.

20. The staffs are in broad agreement with the strategy on basic education outlined in PRSP-2 but would encourage to further decentralize the management and hiring of teachers, address the difficult issue of aid coordination in the sector, more vigorously implement cost-effective school construction, and ensure that financial resources for the sector are used efficiently toward reaching MDG targets. They also encourage the authorities to put in place measures to increase the number of instructional hours effectively provided to pupils as part of the strategy to enhance the quality of basic education.

21. In the area of health, nutrition, and HIV/AIDS, the 2003 APR establishes that progress has been achieved in raising immunization coverage rates, lowering infant and child mortality rates, ensuring a good supply of essential drugs, and reducing the transmission of HIV/AIDS. The report also notes that the number of health centers with the minimum required personnel increased to 77 percent in 2003, up from 74 percent in 2001. Nevertheless, more efforts should be undertaken in personnel reform, notably in assuring a significant presence of health specialists in rural areas. Overall, the staffs support the strategy described in PRSP-2, which identifies key constraints to improved health outcomes, and outlines priority actions and indicators of progress, but would suggest that future APRs stress malaria and malnutrition issues. Malaria programs are seriously underfinanced relative to their importance to the disease burden, even though simple interventions (such as increased coverage of insecticide-treated bed nets) could significantly reduce mortality and morbidity. Nutrition and reproductive health programs also need greater attention. The government has drafted a human resources action plan for health: while many proposed measures are not costly, it will be important to maintain a dialogue among the Ministries of Health, Finance, and Civil Service on how to improve availability of health workers in rural areas, in light of macroeconomic constraints. On HIV/AIDS, care should be taken to ensure that the current emphasis on scaling up ARV treatment does not undermine prevention programs.

C. Equitably Increasing Employment and Income-Generating Activities for the Poor

22. The staffs consider the overall strategy for supporting income-generating activities growth to target the right areas but suggest that the next APR provide a prioritization of activities in line with resource constraints. Given that 92 percent of the poor live in rural areas and the dominant role of agriculture in the overall economy and employment, PRSP-2 focuses rightly on the agriculture sector as the main vehicle for providing income-generating activities to the poor. The staffs support the authorities' strategy, but urge a final costing of the PAP that is consistent with the macroeconomic framework.

D. Promoting Good Governance

23. The staffs welcome the emphasis on governance as a key pillar of PRSP-2 and encourage the government to highlight progress in this area in future APRs. PRSP-2 improves on the PRSP-1 by providing indicators and targets to monitor progress in implementing the governance reform program. The authorities should be commended for being candid in describing the limited development of the justice sector. Regarding public finance management, the staffs encourage the authorities to steadfastly implement reforms in

the tax and customs administrations designed to minimize fraud, and to take into account the recommendations of the recently completed Public Expenditure Review and of the Country Procurement Assessment Report which is currently carried out in collaboration with the World Bank. The anticorruption drive should be reinforced, in particular through the strengthening of the High Authority for the Coordination of the Fight Against Corruption, which should have the autonomy and the operational capacity to conduct its work, and the adoption in 2005 of a national policy to fight corruption.

V. CONCLUSION

24. In the staffs' view, PRSP-2 presents a candid and rich picture of poverty reduction challenges in Burkina Faso. PRSP-2 improves on PRSP-1 which was reviewed by the Executive Directors in June 2000, in several dimensions: the staffs welcome in particular the broader debate on poverty reduction and the introduction of a Priority Action Plan as the centerpiece of a more effective monitoring and evaluation system. Looking ahead, the staffs see several areas where PRSP-2 could be strengthened:

- adopting a methodology to improve data comparability in future surveys and research, so as to correctly measure poverty trends and draw relevant lessons;
- integrating the PAP and the macroeconomic strategies into a consistent framework that will take into account debt sustainability;
- including alternative macroeconomic scenarios in the PRSP and APRs that permit to gauge the authorities' response to exogenous shocks (low cotton prices, high oil prices, regional instability, dollar/euro exchange rate, inadequate external assistance, etc);
- setting the correct benchmarks for improving the business climate and taking swift actions in that area;
- in the education sector, pursuing the decentralization of the hiring and management of teachers, improving school construction programs, and implementing an action plan to increase instructional hours which remain low;
- in the health sector, adequately financing malaria programs, addressing nutrition and reproductive health programs issues, improving the availability of health workers in rural areas, and on HIV/AIDS, ensuring that the emphasis on scaling up ARV treatment does not undermine prevention programs.