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Burkina Faso

Economic Memorandum

(In Two Volumes) Volume I: Main Report

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CURRENCY EQUIVALENTS

Currency unit: CFA Franc (CFAF)
Parity: 50 CFAF = 1 French franc

AVERAGE EXCHANGE RATE

Year	CFAF per dollar
1980	211.3
1981	271.7
1982	328.6
1983	381.1
1984	437.0
1985	449.3
1986	346.3
1987	300.5
1988	297.9

The fiscal year follows the calendar year

- Symbols used:
 - . not applicable
 - .. figure not available
 - ... negligible
 - nil

- When a growth rate is presented for a period defined by an initial year and an end year, it is calculated by using the initial year indicated as the base year; for example, 1982-87 signifies that the base year is 1982.

BURKINA FASOECONOMIC MEMORANDUM

The Economic Memorandum published in September 1983 (Report No. 4040-UV) described economic developments in the country over the period 1977-82, with particular emphasis on human resource development issues. The present report opens with a survey of trends in Burkina's economy and financial situation over the period 1982-87, together with preliminary results for 1988. The second part of the report examines the recent performance of main economic and social sectors in greater detail. In the third section of the report, we shall try to indicate the elements of an adjustment strategy with the triple objective of improving the management of public resources, maintaining sustainable economic growth, and making substantial progress toward solving the grave demographic, ecological and social problems that will exert a dominant influence over the country's long-term future.

This report is based on the work of a mission that visited Burkina Faso in June-July 1988. The mission members were: Mr. X. de la Renaudière (mission leader), Ms. D. Lallement (Senior Agro-Economist), Ms. E. Goldstein (Economist), Mr. R. Vauris (Senior Socio-Economist), Mr. F. Steier (Economist), Mr. P. Saverot (Industrial Economist - Consultant) and Mr. S. Samen (Industrial Economist). Others who contributed to the preparation of the report were: Mrs. B. Mitchell (Senior Transportation Economist), Messrs. J. Barro (Resident Mission Economist), H. Suzuki (Public Enterprise Sector Specialist), F. Péchon (Urban Development Financial Analyst), J.P. Dailly (Operations Officer), Ms. H. Albouy, Ms. C. Désilets (Secretary) and Mr. F. Laporte (Lead Economist, Sahelian Department). A second mission, composed of Mr. X. de la Renaudière, Mr. F. Laporte, Ms. D. Lallement and Ms. E. Goldstein, visited Burkina Faso in January-February 1989 to discuss the draft report with government authorities.

These missions benefited from the active cooperation of the Commission Technique Interministérielle Burkinabè.

BURKINA FASO

ECONOMIC MEMORANDUM

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ACRONYMS AND ABBREVIATIONS

BALIB	-	Banque Libyenne-Burkinabè
BCEAO	-	Banque Centrale des Etats d'Afrique de l'Ouest
BFCI	-	Banque pour le Financement du Commerce et des Investissements
BIE	-	Banque Internationale du Burkina
BIC	-	Impôts sur les Bénéfices Industriels et Commerciaux
BICIA-B	-	Banque Internationale pour le Commerce, l'Industrie et l'Agriculture du Burkina
BND-B	-	Banque Nationale de Développement du Burkina
BRAKINA	-	Société des Brasseries du Burkina
BTP	-	Bâtiments et Travaux Publics
BUMIGEB	-	Bureau de la Géologie et des Mines du Burkina
CAI	-	Caisse Autonome d'Investissement
CBC	-	Conseil Burkinabè des Chargeurs
CBMP	-	Comptoir Burkinabè des Métaux Précieux
CDR	-	Comités de Défense de la Révolution
CEAO	-	Communauté Economique d'Afrique de l'Ouest
CGP	-	Caisse Générale de Péréquation
CIMAT	-	Société Burkinabè des Ciments et Matériaux
CNCA	-	Caisse Nationale de Crédit Agricole
CNDI	-	Caisse Nationale des Dépôts et des Investissements
CNE	-	Caisse Nationale d'Epargne
CNEA	-	Centre National d'Equipement Agricole
CNPAR	-	Centre National pour la Promotion de l'Artisanat Rural
CNR	-	Conseil National de la Révolution
CNSS	-	Caisse Nationale de Sécurité Sociale
COBU	-	Confiserie du Burkina
COFA	-	Confiserie du Faso
COMIKI	-	Compagnie Minière de Kiéré
CRPA	-	Centre Regional de Production Agropastorale
CSPPA	-	Caisse de Stabilisation des Prix des Produits Agricoles
EPA	-	Etablissement public à caractère administratif
EPIC	-	Etablissement public à caractère industriel ou commercial
FASOPLAST	-	Société des Plastiques du Faso
FGPME	-	Fonds de Garantie aux Petites et Moyennes Entreprises
GMB	-	Grands Moulins du Burkina
INSD	-	Institut National de la Statistique et de la Démographie
IUTS	-	Impôt Unique sur les Traitements et Salaires
MABUCIG	-	Manufacture Burkinabè de Cigarettes

ACRONYMS AND ABBREVIATIONS (cont'd)

OFNACER	-	Office National des Céréales
ONAC	-	Office National du Commerce Extérieur
ONBAH	-	Office National des Barrages et Aménagements Hydro-Agricoles
ONEA	-	Office National de l'Eau et de l'Assainissement
ONERA	-	Office National d'Exploitation des Ressources Animales
ONG	-	Organisation Non-gouvernementale
ONPE	-	Office National de la Promotion de l'Emploi
ONPEB	-	Office de Promotion de l'Entreprise Burkinabè
ORD	-	Organisme Regional de Développement
PNGTV	-	Programme National de Gestion des Terroirs Villageois
RAN	-	Régie Abidjan-Niger
RNTC-X9	-	Régie Nationale de Transports en Commun
SAP	-	Société Africaine de Pneumatiques
SBE	-	Société Burkinabè d'Equipelement
SEG	-	Société d'Entreprise Générale
SEM	-	Société d'économie mixte
SHSB-CITEC	-	Société des Huiles et des Savons du Burkina
SICOMAF	-	Société Industrielle et Commerciale des Allumettes du Faso
SIEL	-	Société Internationale d'Equipelement par le Leasing
SIFA	-	Société Industrielle du Faso
SINAC	-	Société de l'Industrie Nationale de la Chaussure
SISP	-	Système Informatique de Suivi des Projets
SMG	-	Société des Mines de Guiro
SMIG	-	Salaire Minimum Interprofessionel Garanti
SOBBRA	-	Société Burkinabè des Brasseries
SOBCA	-	Société Burkinabè de Crédit Automobile
SOBEMA	-	Société Burkinabè d'Emaillerie
SOBUGAZ	-	Société Burkinabè du Gaz
SOCOGIB	-	Société de Construction et de Gestion Immobilière du Burkina
SOFAPIL	-	Société de Fabrication des Piles
SOFITEX	-	Société Burkinabè des Fibres Textiles
SOMICOB	-	Société Minière Coréo-Burkinabè
SONABEL	-	Société Nationale d'Electricité du Burkina
SONABHY	-	Société Nationale Burkinabè d'Hydrocarbure
SONACAB	-	Société Nationale des Carreaux du Burkina
SONACEB	-	Société Nationale de Cartonnerie et d'Emballage du Burkina
SOREMIB	-	Société de Recherches et d'Exploitation Minière du Burkina
SOSUCO	-	Société Sucrière de la Comoe
TCA	-	Taxe sur le Chiffre d'Affaire
TVA	-	Taxe sur la Valeur Ajoutée
UMOA	-	Union Monétaire Ouest Africaine
UREBA	-	Union Révolutionnaire des Banques

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COUNTRY DATA SHEET - BURKINA FASO

GENERAL

Area (km2)	274,112
Population (millions), census 1985	7.9
Growth Rate (1980s)	3.3%
Density (per km2)	29

SOCIAL INDICATORS

Population	
Crude Birth Rate (per 1000), 1986	61.8
Crude Death Rate (per 1000), 1986	18.7
Health	
Infant Mortality (per 1000 live births), 1988	162
Population per Physician	30,507
Population per Hospital Bed	1,384
Income Distribution (% of national income)	
Highest Quintile	..
Lowest Quintile	..
Distribution of Land Ownership	
% Owned by Top 10% of Owners	..
% Owned by Smallest 10%	..
Access to Safe Water, 1984	
% of Urban Population	60.0%
% of Rural Population	28.0%
Access to Electricity	
% of Urban Population	..
% of Rural Population	..
Nutrition	
Calorie Intake as % of Requirements	88%
Per Capita Protein Intake (g/days), 1986	88
Education	
Adult Literacy Rate (%), 1985	13.2%
Primary School Enrollment, 1987 (% of relevant age group)	27.1%

GROSS NATIONAL PRODUCT

	1987		Annual Growth Rate (%, constant prices)		
	US\$M	% du PNB	1982-86	1987	1988e
GNP at Market Prices	1872.96	100.0	5.7	-2.2	6.9
Gross Domestic Investment	385.31	20.6	0.5	-3.6	14.9
Gross National Savings	-87.21	-3.6	10.5	-16.8	27.4
Current Account Balance	-186.00	-9.9	-7.5	-0.5	3.1
Exports of Goods & NFS	292.00	15.6	3.5	13.8	10.4
Imports of Goods & NFS	742.20	39.6	-0.7	4.5	-1.1
GNP per capita (US\$) 1/	190.60	10.2	2.3	-5.3	2.6

e = estimate.

1/ Calculated in accordance with World Bank Atlas methodology.

OUTPUT, EMPLOYMENT, AND PRODUCTIVITY, 1987

	Value Added		Labor Force		Value Added ¹ per Worker	
	US\$M	% of Total	Millions	% of Total	US\$	% of Average
Agriculture	617.6	38.7	3.4	87	180.8	12.7
Industry	870.7	23.2	0.2	4	2360.3	166.2
Services	607.2	38.1	0.4	9	1718.6	121.0
Total/Average	1595.5	100.0	3.9	100	1419.9	100.0

GOVERNMENT FINANCE

	Central Government		
	(CFAF)	% of GDP	
		1987	1987	1982
	Current Receipts	77.4	15.2	12.6
Current Expenditures	74.2	14.6	14.6
Current Surplus	3.2	0.6	-2.0
Capital Expenditures	17.1	3.4	1.8

MONEY, CREDIT, AND PRICES

	1982	1983	1984	1985	1986	1987
	(millions of US\$)					
Money Supply	217.2	210.0	212.3	219.9	348.7	448.0
Bank Credit to Public Sector	1.7	-18.7	-14.3	-28.8	-48.4	-93.7
Bank Credit to Private Sector	226.3	211.1	180.1	214.2	293.8	358.4
	(percent or index)					
Money as % of GDP	18.7	19.9	22.2	20.6	24.0	26.4
General Price Index (1981-82=100)	..	112.1	115.4	124.8	128.6	117.7

BALANCE OF PAYMENTS

	1984	1985	1986	1987
	(millions of US\$)			
Exports of Goods & NFS	186.8	174.3	228.1	292.0
Imports of Goods & NFS	395.4	367.2	614.5	742.2
(of which Petroleum)	48.3	54.2	57.9	78.0
Resource Gap (deficit = -)	-208.6	-192.9	-386.4	-450.2
Net Factor Services	88.1	124.0	148.1	178.1
of which interest payments	5.9	10.0	11.9	13.9
Net Private Transfers	5.3	13.6	23.2	19.9
Balance on Current Account excl. Net Official Transfers 1/	-115.4	-175.3	-215.1	-252.2
Net Official Transfers	64.1	55.6	69.6	66.2
Balance on Current Account incl. Net Official Transfers	-51.3	-119.7	-145.5	-186.0
Direct Private Foreign Investment	14.6	10.2	10.7	8.9
Official Grants	70.9	71.2	127.5	149.0
Net MLT Borrowing	43.0	38.7	72.2	94.4
Disbursements	54.7	55.6	93.9	111.9
Amortization	11.7	16.9	21.7	17.5
Subtotal	128.5	120.1	210.4	252.3
Other Capital (net) and Capital n.e.i.	-37.2	-2.0	-6.9	-9.4
Increase in Reserves (+)	-40.0	1.6	-58.0	-56.9

MERCHANDISE EXPORTS (AVERAGE 1984-88)

	Value (US\$M)	% of Total
Cereals and tubers	16.2	9.0
Fruits and Vegetables	3.5	2.0
Shea Butter	5.8	3.2
Sesame	3.5	1.9
Other Food and Cash Crops	6.5	3.1
Livestock	56.5	31.3
Gold	39.2	21.7
Manufactured Products	50.1	27.8
TOTAL	180.3	100.0

EXTERNAL DEBT, December 31, 1987

	US\$M
Public Debt, incl. Guaranteed	758.2
Non-Guaranteed Private Debt	38.1
Total Outstanding & Disbursed	794.3

DEBT SERVICE RATIO, 1987 1/

	%
Public Debt, incl. Guaranteed	9.2
Non-Guaranteed Private Debt	1.6
Total Debt Service	10.8

IDA LENDING, December 31, 1987

	US\$M
Outstanding & Disbursed	221.1
Undisbursed	116.9
Total Outstanding incl. Undisbursed	338.0

SUMMARY AND CONCLUSIONS

Political Developments

1. Long overlooked by the international press, Burkina Faso has now achieved greater visibility. In the 1970s, it was mainly natural disasters that drew the country into the spotlight. Thus, following the great drought of 1973, Ouagadougou, the capital, became an active center for study of the structural problems of the Sahel; at the same time some 20 multilateral and bilateral agencies launched an ambitious regional program for the eradication of onchocerciasis, which has been of greatest benefit to the fertile valleys of western and southwestern Burkina.

2. The political upheavals of the 1980s radically altered the image of Burkina. After a small group of revolutionary officers assumed power, a dynamic military regime put its energy behind the radical ideas of nonconformist intellectuals. The new regime exerted a positive influence in a number of areas: it tackled population and environmental problems with courage, and took important measures to trim the public finance deficit and restructure the parastatal sector. But little by little the regime cut itself off from its own bases. Divisions and conflicts were exacerbated by the personalization of power and the arbitrary initiatives taken by an increasingly authoritarian leader. Even his supporters ceased to approve the erratic behavior of a visionary, but increasingly isolated, President.

3. Since October 1987, a new government has been working to restore the conditions necessary for a broader-based consensus. The process of "rectification" is being accompanied by a movement toward greater political openness and democratization of power. Without discarding the broad principles of the previous regime, the Popular Front Government seeks to reunite rather than divide. Relying on support from intellectuals, the unions and the army simultaneously, it is striving to reassure the middle classes and business leaders. Without denying the latent conflicts, it is trying to strengthen areas of convergence in the context of a less coercive, more pragmatic and more balanced economic and social development policy.

4. The future directions of the new political orientation are still largely unclear: the search for consensus is reflected in a deliberately cautious approach, and the alliance of militant ideology and pragmatism is producing complex and ambiguous measures and messages. For the moment, the country appears to be reacting positively to these new messages. Without renouncing its revolutionary alliances, the Government is widening the circle of its friends. Both within the country and abroad, moderation is gaining ground and confidence appears to be reviving.

Recent Economic and Financial Performance

5. Burkina's economic performance over the period 1982-87 was, on the whole, satisfactory. Estimating GDP rates and trends is complicated by the customary shortcomings of the statistical system, the substantial influence of climatic variations and the difficulty of monitoring informal-sector activity. With these caveats, it seems that Burkina is one of the few Sub-Saharan African countries where economic growth (at about 4.3 percent a year from 1982 to 1987) has clearly outpaced population growth (estimated at 3.3 percent at the time of the 1985 census).

6. Two sectors have played a primary role in the growth of the economy: agriculture and the public sector. The long-term trends in agricultural production are masked by fluctuations resulting from climatic variation (severe drought in 1983-84, favorable weather conditions in 1985-86, disappointing rainfall in 1987). Nevertheless, the average rate of growth of agricultural value added (7.1 percent a year from 1982 to 1987) indicates that expansion of areas under cultivation, spontaneous settlement of the relatively fertile lands of the South and Southwest and, for some crops (e.g. cotton), substantial technological progress have substantially boosted output and productivity. The national accounts appear to indicate that the "public administration" sector has also experienced exceptionally rapid growth: 5.8 percent a year from 1982 to 1987. This expansion contrasts with the stabilization of budget expenditures as a proportion of GDP. This apparent contradiction is explained by a sharp growth in the wage bill of national personnel and expatriates financed by external aid and NGOs.

7. The performance of the majority of the other sectors and subsectors of the economy is disappointing, at least over the period 1983-85. In the secondary sector, the accelerated growth of mining far from compensated for the relative stagnation of manufacturing during the period (2.9 percent a year from 1982 to 1987, despite a distinct recovery in the latter two years, due mainly to the rapid expansion of cotton fiber production). Generally speaking, development of the modern industrial sector is hampered by structural factors that affect external competitiveness (relative price, wage and social contribution levels) and by cumbersome regulations in certain areas (particularly price controls). More surprising is the mediocre performance of commerce, transportation and other services, which does not appear to have benefitted from the customary pull effects of agricultural growth.

8. Up to now Burkina has avoided the overstaffing that has seriously affected public finance management in most African countries. The rapid growth of expenditure (which ranged from 17 percent to 19 percent of GDP over the period 1982-84) was abruptly halted in 1985, when it was cut back to 14.5 percent of GDP; in 1987, budget expenditures climbed back to around 18 percent of GDP. Throughout the period 1982-86, budget receipts remained at between 12.5 percent and 13.5 percent of GDP; in 1987, they rose to more than 15 percent. As a result, the budget deficit for the three-year period 1985-87 barely exceeded 3 percent of GDP. However, stresses are appearing that are greatly complicating cash management. After initial financing from past budgetary savings, the cumulative deficits of the last five years have produced domestic and external arrears which amounted, at the end of 1987, to CFAF 18 billion. Although final figures are not yet available, it would appear that arrears had climbed to between CFAF 25 billion and 30 billion by the end of 1988. Restoring fiscal equilibrium, within the context of realistic budget formulation, is becoming a matter of vital necessity for the country's economic well-being.

9. Recent trends in the structure of public expenditures are also a subject of concern to the Government. The progressive cutbacks in purchases of supplies and equipment are depriving essential public services of the operational resources they must have in order to carry out their appointed tasks; the amounts allocated for maintenance of basic infrastructure are very inadequate; the Government is hard pressed to improve health coverage rates, which are already

well below the average for Africa; and the increase in education outlays (23 percent of total budget expenditure in 1987) is still not enough to support satisfactory primary-school enrollment rates. Increasingly, certain recurrent expenditures of economic or social importance are being financed by external aid within the context of development projects. However, the Government is not monitoring the growth of these expenditures very well, nor does it have the resources to ascertain that they in fact correspond to the country's major macroeconomic and sectoral priorities.

10. Although the parastatal sector accounts for a large share of the modern sector and includes a number of inefficiently managed enterprises, a systematic policy of public enterprise restructuring appears to have had a positive impact on the sector's financial performance. Nevertheless, the industrial parastatal sector suffers from every one of the handicaps holding back the development of the modern sector, and the survival of several of these enterprises probably depends on a complex web of protection measures and direct and indirect subsidies that would merit closer examination. Diagnostic surveys have been undertaken by the Government to examine the situation and prospects for the sector in a more systematic manner.

11. Burkina's external accounts have developed relatively favorably, thanks in particular to the growth of agriculture and the spectacular expansion of gold production: from 1982 to 1987 cotton exports more than doubled and gold sales quadrupled (gold is fast becoming the country's leading export). As a result, merchandise exports rose from CFAF 46 billion in 1982 to CFAF 75 billion in 1987, and export coverage of imports has now reached 45 percent, compared with less than 40 percent in 1982. At the same time, savings transfers from Burkinabè emigrants and current private transfers continued to grow, while interest payments on external debt remained only a small proportion of net factor services and transfers. Overall, the current account deficit improved, declining from an average of somewhat more than 18 percent of GDP over the period 1977-82 to 11 percent in 1983-87. Lastly, net capital inflows have sufficed not only to cover the current account deficit but also to build up net external reserves to a level equivalent to more than 3.5 months' imports of goods and services at the end of 1987.

12. Although Burkina's debt and debt-service payments have risen continuously over the last 20 years, its debt situation is far less serious than that of most of the other countries of the region: at the end of 1987, public debt outstanding represented only 47 percent of GDP (22 percent in 1967). However, debt service already represents 17 percent of exports and nearly 20 percent of budget receipts, and arrears are building up rapidly; the recent increase in debt service is due mainly to commercial borrowing and bilateral credits on not very concessional terms obtained during the period 1978-82. A debt-restructuring effort is becoming increasingly indispensable, as part of a realistic policy of borrowing on highly concessional terms for high-priority investments.

13. According to preliminary estimates, GDP grew 8.5 percent in real terms in 1988, largely as a result of a sharp increase in agricultural production. As a consequence of highly favorable weather conditions, agricultural output is believed to have risen by 25 percent; when combined with a modest but sustained

expansion in animal production, forestry and fisheries, the net result is an estimated 16 percent real growth in value added in the primary sector. The secondary sector is reported to have grown 4.2 percent, reflecting continued expansion in gold production and in construction, but virtual stagnation in manufacturing output. The sharp rise in GDP produced an increase of some 5 percent in per capita income in 1988; according to preliminary estimates, however, private consumption rose only some 3.5 percent in real terms. Public consumption, on the other hand, is believed to have gone up by some 7 percent. Fixed investment is estimated to have grown by 9 percent in real terms, thus representing a significant growth factor. Average price levels reportedly remained stable, with abundant harvests causing farm prices to decline.

14. Net external reserves increased by a further CFAF 14 billion in 1988 (US\$47 million), indicating a favorable balance of payments situation in the past year. Export earnings increased, with the decline in world prices for gold and cotton being more than offset by increases in volume. Despite a leveling-off in savings transfers by Burkinabè expatriates, national savings are believed to have increased 25 percent in current terms. The economy's excellent performance in 1988 is, however, overshadowed by the deteriorating public finance situation. The final balance of Treasury accounts was not yet known at the time this Report was being completed, but it would appear that a number of slippages occurred on the recurrent expenditures side, particularly in the extra-budgetary accounts. The sharp increase in amounts overdue (para. 8) points to the cash-flow problems that these slippages have engendered.

Favorable Medium-Term Outlook

15. The first chapter of Part III of this Report presents an indicative scenario of economic and financial projections. This scenario reflects a strategy that seeks to maximize economic growth while maintaining internal and external financial equilibrium over the long term. This strategy implies the resolute implementation of an economic reform package. A qualitative assessment of the development potential of the main productive sectors indicates that it should be possible to sustain an annual GDP growth rate of about 5 percent on average over the next nine years, while maintaining a level of investment compatible with the country's physical absorption capacity and external debt capacity. With population growth projected at 3.3 percent per annum, this would provide an average annual increase of 1.7 percent in per capita income. It should be noted that, if under this scenario average yearly growth in GDP were only to pick up from the roughly 3.8 percent yearly average over the past ten years to roughly 5 percent over the next nine years, this would result in a growth of gross domestic production (gross domestic product excluding government services) from 3.5 percent to 5.5 percent, which would represent quite a remarkable acceleration in economic growth.

16. This rate of growth would also imply a significant improvement in return on investment and in economic efficiency, since the incremental capital-output ratio implicit in the projection would decline from 4.4 for the period 1982-87 to 4.0 for the period 1987-92 and 3.8 for the period 1992-97. Despite optimistic projections for import requirements, the resource deficit would only shrink marginally in relation to GDP and the current account would increase from 11 percent of GDP in 1987 to approximately 13 percent in 1997.

17. The following are the main assumptions underlying this scenario:

- There would be vigorous growth of the primary sector (about 4.9 percent a year), fueled by the settlement of new lands, more intensive crop production through adoption of simple technologies (most of them already known), crop diversification, increase in sedentary stock-raising and in mixed (combination livestock and crop) farming. Food crops would continue to expand by 5 percent or more, while seed-cotton production would rise by 6 percent as a result of expansion in area and productivity gains. Stock raising would grow less rapidly owing to limited market prospects, particularly for large livestock. These growth assumptions for the primary sector, which are examined in detail in this Report, are all the more plausible in that they chiefly represent the continuation of a trend already evident since 1983.
- Primary-sector growth and diversification would be accompanied by nascent regional specialization which would fully exploit the ecological diversity of each major region, with the inevitable intensification of trade flows both among the various farming areas and between rural zones and urban centers. This increasing integration of agriculture into the market economy would call for special efforts to promote and liberalize business and trade and to relax regulatory and other constraints on their development.
- The relative prosperity of agriculture and services in the rural areas would exert powerful pull effects on the whole of economic activity. However, owing to the constraints on external competitiveness referred to in para. 7, the modern industrial sector would grow at only a moderate rate, chiefly to meet domestic demand. The informal and small-business sectors, less handicapped by these constraints, could develop more rapidly, in both import substitution and in exporting to regional markets; they could thus play an important role in urban and rural job creation and in the formation of a dynamic Burkinabè entrepreneurial class. Gold production, which accounts for a substantial share of exports, would follow a similar trend; whereas gold panning may continue to expand, it is to be feared that industrial production will peak in 1992-93 and then begin to decline with the gradual exhaustion of known reserves.
- The rapid growth of the informal sector and more modest recovery of the modern industrial sector, and, more generally, a vigorous expansion of the secondary and tertiary sectors, which would depend less on public expenditure, would imply the introduction of a system of incentives enabling the existing enterprises to enhance

their efficiency, undertake new activities in sectors in which Burkina enjoys substantial comparative advantages, and prepare themselves to tackle foreign markets whenever the current structural constraints on external competitiveness are relaxed. This evolution implies a progressive change in governmental activity: economic policy would have to be less regulatory, less interventionist, more flexible and more decentralized; an open dialogue would be progressively instituted among public authorities, economic operators, and the unions. This flexible direction of the economy would be all the more necessary in that the country's future depends not on a small number of large projects and dominant industries but on the gradual flowering of a multitude of initiatives and activities that would together form the elements of a dynamic strategy.

- The public sector would play a capital role in the implementation of this growth scenario: it would orient agricultural research and disseminate its results; install and effectively maintain basic infrastructures; create a stimulative economic environment; improve essential services; protect the most vulnerable population groups; and promote human resource development. Nevertheless, the public resource constraints would necessitate moderate growth of public expenditure, which in any event should not exceed the general growth of the economy. The scenario we propose consequently assumes very great selectivity in deciding on investments and allocating expenditure, with a view to enhancing the economic efficiency of public-sector management. This selectivity is all the more important in that the Government will, as a matter of priority, need to address serious and very long-term problems.

Long-Term Problems

18. Even the success of the medium-term growth scenario outlined above in no way eliminates the serious constraints that threaten Burkina's long-term future. Three of these constraints call for energetic action on the part of the Government and the international community: demographics, environment, and human resource development.

19. Burkina appears to be well ahead of other countries in the region in the perception and study of population and ecological problems. A national family planning program launched only three years ago has already produced modest, but promising, results in the adoption of contraceptive methods. The fact remains, however, that the population growth rate is rising: from 2.7 percent in the 1970s to 3.3 percent in the 1980s. Emigration to Côte d'Ivoire and Europe was, for a long time, a safety valve which relieved population pressure and provided an additional source of income. But in the last five years, although there are no statistics on emigration, the trend may well have reversed. In view of the economic and financial problems in the traditional host countries for Burkinabè emigrants, there seems little likelihood of a

strong resumption of emigration. Burkina is more than ever before in that critical phase in which progress in health coverage has a greater impact on the mortality rate than family planning has on the fertility and birth rates. The intensification of family planning programs and their integration into the primary health care services therefore merit a high priority for Burkina's long-term development.

20. The overpopulated central plateau has long been the chief victim of the well-known cycle of catastrophe in Sahel countries: rapid growth of the rural population; overexploitation of cultivable land, plant cover and water resources; a sharp decline in soil fertility; and erosion and the threat of desertification. The Government has, for the past five years, been giving close attention to land rehabilitation, to consciousness-raising among rural communities in regard to ecological problems, and to a concerted search for realistic solutions to the technical, social, land-tenure and institutional problems that determine rural families' investment in soil conservation and environmental rehabilitation. The problem is extraordinarily complex, and the results of ongoing research remain very uncertain. Domestic migration toward the more fertile lands of the West and Southwest can only put off the day of reckoning. Without energetic and effective action in this field, even the new lands will in turn experience overutilization and loss of soil fertility.

21. One of Burkina's greatest resources is the quality of its men and women: the competence and motivation of the civil service, the resourcefulness of its entrepreneurs and artisans, the mobility of its urban and rural labor force, the adaptability of its farmers and stockraisers, and the ability of emigrants to integrate completely into the economic and social life of their host countries. But looking toward more modern and more diversified economic development, Burkina's long-term prosperity depends on the ability of the entire population, urban and rural, to assimilate new techniques and use new tools and products. Up to now Burkina's entire education and training system has enrolled only a small fraction of the school-age population while orienting a relatively large percentage of enrolled children toward secondary and higher education. This strategy, though quite justified when the country's main goal was to create a cadre of competent public servants, is out of line with the new needs of the economy. Since education already absorbs a high share of total budget expenditure, the new priorities call for rapid reallocation of the available resources toward primary education. This is a matter of social revolution, calling for energetic action by the country's political leaders in order to create the necessary conditions for a new consensus that could radically alter established habits and hierarchies.

Elements of an Adjustment Strategy

22. Consequently, even if the efforts made by the Government and the economic results obtained have been encouraging, Burkina must even now begin to address major problems of critical importance for the long-term performance of the economy, the survival of agriculture, and the realization of the country's economic and social development potential. In facing up to these problems, Burkina possesses two major assets:

- Economically and financially, Burkina is not in a crisis situation. The problem of deficit financing through the accumulation of arrears must be resolved and the rapid growth of debt service brought under control, but the resources required to resolve these immediate problems are not excessively large; the progressive widening of Burkina's circle of friends will enable it to mobilize appropriate external aid to pursue a prudent financial rehabilitation policy. The country can, therefore, begin now to focus its attention on long-term problems.

- The Government is very eager to improve its understanding of the country's economic and financial situation, and is losing no time in undertaking diagnostic studies, organizing national study groups and initiating field tests as the basis for securing a better analysis of the prospects of the public and parastatal sector, gaining a better understanding of the aspirations and claims of social groups and economic operators, and mounting a vigorous attack on the country's ecological and social problems. The consensus-based style of the new regime gives reason to hope that the programs launched will be realistic and will enjoy the support of all major actors affected by the reform process.

23. An adjustment strategy for Burkina need not, therefore, be a radical strategy. In the country's present situation, gradualism and a step-by-step approach are more likely to succeed than major surgery. The main objective is not to push ahead rapidly but, rather, to bring to the reform process the continuity and perseverance without which visible results will never be obtained. On the basis of the discussions we have had thus far with the Government, a gradual adjustment program in Burkina could initially focus on the following themes:

- Public-sector management: a consolidation program consisting of the stabilization of public expenditure as a share of GDP, with slow growth in the total wage bill and more rapid growth in outlays on goods and services and in the domestic contribution to the investment program.

- Parastatal sector: prudent growth in government commitments to new enterprises, pending the results of a series of studies and diagnostic surveys aimed at (i) obtaining an overall view of the financial situation; (ii) assessing the economic impact of the various types of fiscal revenues (in particular, with respect to effective protection) and the structure of public expenditure, and (iii) analyzing the performance and prospects of the parastatal sector and its major enterprises.

- Public investment programming: preparation of rolling three-year programs, accompanied by measures to improve coordination of donors' activities in the areas of

investment, recurrent expenditures and technical assistance; at this stage, public investment policy should focus on rehabilitation and optimum utilization of the existing economic and social infrastructures, and, on a small number of high-return expansion investments designed to support the production system, safeguard land capital and develop Burkina's human resources.

- Agriculture and the primary sector in general: a number of incentive measures (progressive relaxation of price regulations and marketing constraints), accompanied by a broad, strategic study of environmental issues (in the context of existing pilot projects for land management), of the long-term goals of agricultural policy and of means (institutions, incentives, protection, investment, aid coordination) of speeding up the growth and diversification of agriculture and stock raising, as well as regional specialization.
- Modern sectors (industry, commerce and services): relaxation of the more restrictive regulations, promise of a less coercive and more cooperative style of public intervention, and institution of a permanent dialogue between the public authorities and the enterprises themselves, with the object of creating a climate propitious to entrepreneurial initiatives and investment. In parallel, study and initial reform of Burkina's fiscal system and protection and incentive policies, with a view to increasing the industrial sector's productivity and its ability to compete on domestic and export markets.
- Informal sector: articulation of a supportive government policy, accompanied by deregulation of "micro-enterprise" activity, and the introduction of a free zone (particularly with regard to regulations governing employment and wage policy) within which micro-enterprises can operate without restriction and with the possibility of expansion. At the same time, better knowledge of the structure and prospects of the sector would facilitate the integration of informal- and formal-sector activities (subcontracting, access to the banking system, etc.).
- Social sectors: intensification of family planning programs and their integration into basic health services; mobilization of additional resources for the benefit of these programs and services, and restructuring of education and training expenditures in favor of a more dynamic policy of primary-school enrollment.

24. It is up to the Burkina Government to make the appropriate macroeconomic and sectoral policy choices, to define the operational programs that derive from them, and to organize the analytical, reflective and diagnostic

studies required to define the supplemental reforms that will follow the first initiatives. The international community also has a critical role to play in the implementation and success of the reform policy. The additional financial resources that will have to be mobilized are not extremely large. Nevertheless, in view of Burkina's limited export prospects and the seriousness of the long-term constraints, it is likely that the current account and public finance deficits will increase rather than decrease over the next few years. Our growth scenario accordingly projects that Burkina's gross external financing requirements, in terms of loan commitments (excluding grants projected at an average of US\$185 million per annum), would rise from an annual average of US\$170 million (7.4 percent of GDP) over the four-year period 1989-92 to US\$305 million (9 percent of GDP) over the following five years, to the extent that these needs can be met on highly concessional terms. The donors will have to consider this question carefully and develop appropriate operational responses.

25. The question of the quality of international aid, i.e. its adaptation to the new priorities deriving from an overall view of Burkina's situation and prospects, is probably just as important as the actual volume of resources. A formal or informal meeting of donors, prepared and led by the Government, should be organized in the near future in order to begin a discussion of the strategic objectives and available aid resources for Burkina. A series of sectoral meetings should be held with the object, more specifically, of bringing order into the entire package of current expenditures, investments and other activities financed by Burkina and the donors -- based on the sectoral priorities and policies arising from the new constraints on the country's medium- and long-term development.

INTRODUCTION

0.01 Before examining the recent performance of Burkina Faso's economy, we shall review some of its general features and give a brief summary of recent political developments.

A. General Features of Burkina's Economy

0.02 With a GDP of US\$200 per capita in 1987, Burkina is one of the poorest countries in the world. Its population (nearly 90 percent rural) consists of 8.5 million inhabitants occupying an area of 274,000 km², which means an average density of 31 inhabitants per km². A landlocked country, Burkina lies in a transitional zone between the Sudano-Guinean regions and the Sahel. Average precipitation varies from 300 mm a year in the North to 1,000 mm in the Southwest, with climate patterns varying considerably from year to year and season to season. The great droughts of 1983-84 gave way to two years of abundant rainfall in 1985-86, followed in their turn by two years of mediocre precipitation. Since there are few permanent watercourses, irrigation and hydropower development are difficult. Soils are comparatively fertile, although fragile; overworking of the land, as a result of rapid population growth (3.3 percent annually), is seriously affecting soil fertility. This is especially true on the Central Plateau, where over half the total population is concentrated (50 inhabitants per km²).

0.03 Migration is a very significant element in the Burkinabè economy. Traditionally, Burkinabè nationals have emigrated to neighboring African countries, particularly Côte d'Ivoire. As immigrants, they played a cardinal role in the rapid growth of the Ivoirian economy up until 1980. Subsequently, slackening growth in Côte d'Ivoire, in conjunction with the eradication of onchocerciasis in Burkina (as part of a large-scale program financed by some 20 bilateral and multilateral agencies since 1974), has led to a notable increase in internal migration to the fertile zones in the country's South and Southwest. Given the lack of data, it is impossible to ascertain to what extent emigration abroad has slowed down or even reversed itself. What is clear, however, is that Burkina's urban centers are growing rapidly, by about 8 percent per annum; in fact, urban population already totaled 1.1 million in 1985. The two major cities are Ouagadougou, the capital (500,000 inhabitants), and Bobo-Dioulasso (250,000 inhabitants).

0.04 As Table 1 indicates, the economy of Burkina depends mainly on agriculture and stock-raising (39 percent of GDP). Cultivation of traditional food crops (especially millet and sorghum) is by far the major farming activity, although maize production is expanding in zones where the right ecological conditions are found. The principal cash crop is cotton. Traditional nomadic stock-raising is increasingly giving way to crop-growing, even in marginal zones of low rainfall. Sedentary stock-raising is expanding, especially the breeding of small ruminants; and mixed farming, though only in its infancy, has a promising future.

Table 1: Sectoral Breakdown of GDP

	Percentages (calculated at current prices)			
	1982	1985	1987	Average 1983-87
PRIMARY SECTOR	37.7	44.6	36.4	39.1
Agriculture	21.9	30.9	21.0	24.2
Stock-raising	12.6	10.9	12.6	12.0
Forestry and Fisheries	3.2	2.8	2.8	2.9
SECONDARY SECTOR	18.5	18.0	21.9	20.0
Mining	1.0	2.0	2.9	2.2
Manufacturing	10.7	10.6	12.9	11.8
Electricity, Gas and Water	0.8	0.7	0.7	0.8
Construction	6.0	4.7	5.4	5.3
TERTIARY SECTOR	38.0	32.2	35.8	35.6
Commerce	12.5	9.5	10.4	10.3
Transportation and Telecom.	7.0	6.5	5.9	6.3
Public Administration	16.3	13.9	17.4	16.9
Other Services	2.2	2.3	2.1	2.2
GDP at Factor Cost <u>a/</u>	94.2	94.8	94.1	94.8
Import Duties	5.8	5.2	5.9	5.2
GDP at Market Prices	100.0	100.0	100.0	100.0

a/ Includes indirect taxes.

Source: Table 2.1, Statistical Annex

0.05 Agriculture in Burkina is dominated by small farms of 5-6 ha. As Table 2 shows, the informal sector occupies an exceptionally important place in the majority of other sectors as well (70 percent of commerce, roughly 60 percent of transportation and communications, roughly 40 percent of industry). The parastatal sector, consisting mainly of EPICs (Etablissements publics industriels et commerciaux) and SEMs (Sociétés d'économie mixte), accounts for a high proportion of activity in the modern sector, in industry as well as in transportation and commerce. In addition, the value added of the public administration constitutes a relatively high proportion of GDP (17 percent on average).

**Table 2: Informal-Sector Contribution to Sectoral Value Added
(percentage of total)**

	1985	1986	1987
SECONDARY SECTOR	38.3	40.6	37.0
Mining	67.3	66.7	67.3
Manufacturing	42.4	44.3	42.0
Construction	21.5	22.2	16.7
MARKETED TERTIARY SECTOR <u>a/</u>	68.6	68.1	67.8
Commerce	72.9	71.5	71.0
Transportation and Telecom.	59.7	59.8	59.1
Services	76.6	76.6	76.9
SECONDARY AND MARKETED TERTIARY SECTORS	53.5	53.8	51.6

a/ Tertiary sector less public administration.

Source: INSD and mission estimates.

0.06 The Burkina economy is closely integrated with those of the other French-speaking countries in West Africa. Burkina is a member of the West African Monetary Union (UMOA), 1/ whose central bank (BCEAO) has its headquarters in Dakar, and of the West African Economic Community (CEAO), headquartered in Ouagadougou. The country's main avenue of international communication is the Abidjan-Ouagadougou railway, operated until recently by the Régie Abidjan-Niger (RAN), a joint Burkina/Côte d'Ivoire regional enterprise. Transfers of funds by Burkina settled in Côte d'Ivoire are a major source national income for Burkina. Customs statistics record only a portion of the cross-border trade between Burkina and its six neighbors (Mali, Niger, Côte d'Ivoire, Ghana, Togo and Benin). Nevertheless, the role of the regional market in Burkina's external trade is a major one: 20 percent for exports and 25 percent for imports in 1986, mainly coming from, or destined for, Monetary Union countries; this regional share of external trade is the highest among the seven UMOA countries.

0.07 The West African Monetary Union, which is based on the principle of solidarity, guarantees its member States the total convertibility of their common currency (the CFA franc) and freedom of commercial transactions and foreign transfers. Foreign assets are held in common, and the external deficits of certain member States are offset by the surpluses of others. Whenever the

1/ Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo.

Union's overall external position is negative, the deficit is financed by France through the operations account, according to certain rules. In its turn, the Union, whose highest authority is the Conference of Heads of State, requires its members to follow the same monetary and credit policies and the same exchange regulations, which are formulated and put into effect by BCEAO. This central bank is governed by a council consisting of the finance ministers of all the member States, and is managed by a board of directors chaired by a governor. The CFA franc is tied to the French franc at a rate (CFAF 50 = FF 1) that has not been changed since 1948.

B. Political Developments

0.08 Between December 11, 1959, when the first Republic of Upper Volta was proclaimed, and the present period, eight governments have succeeded one another: three republics and five military regimes. Despite numerous differences, these regimes have had a number of features in common: the major role played by civilians in the government, even military governments; a tendency (albeit ill-defined) to believe that a multi-party system and the democratization of institutions are desirable; and the considerable influence of trade unions (the teachers' unions in particular), whose active opposition has been the main cause of the downfall of several governments.

0.09 The coup d'état of August 4, 1983 was notable for its revolutionary orientation and populist goals. The National Council of the Revolution (CNR), headed by Captain Thomas Sankara, had defined the ultimate purpose of the revolution as "the creation of a people's democracy"; the role of the CNR was "to plan, direct and control national life in all spheres: political, economic and social." Before very long, these concepts led to the suppression of political liberties, purges, and the general takeover of all facets of economic and social activity, by the Committees for the Defense of the Revolution (CDRs). In the economic sphere, one of the most dramatic manifestations of this "volontarisme" in the period 1983-87 was a series of commando-type operations in which the authorities required the population at large, as well as economic and financial operators, to contribute substantially to programs given official priority. Some of these programs (such as targeted vaccination and literacy programs) were, in fact, highly justified.

0.10 The Popular Front government which came to power on October 17, 1987, while not repudiating the major concerns of the previous regime, is doing its best to create the conditions for a more consensual system. It is calling simultaneously on intellectuals, trade unions and the army, and is trying to correct previous excesses and reassure the middle classes and business circles. The goal of "rectification" of the revolution is manifested in an "action program" published on March 11, 1988. The stated purpose of the program is to establish a temporary phase in preparation for the advent of a "new society" based on political liberalization, a return to economic growth, and improved living standards for the population, especially in the areas of social development and health. Some of the main measures proposed are:

- In the political sphere: Replacement of the CDRs by Revolutionary Committees with narrower powers; their

activities show some similarity to those of trade-union and professional groups.

- In the economic sphere: Promotion of "State capitalism," by which the Burkinabè authorities seem to imply that a package of government initiatives (equity participations, credit, incentives) is intended to have a catalytic effect that will foster private investment and orient business activities in the major sectors of the economy.
- In the social sphere: Pursuit of a vigorous family-planning policy and measures designed to improve the status and role of women.

0.11 The likely future directions of these new policies are not clear: the quest for a consensus is purposely hesitant; the present combination of militant ideology and pragmatism generates complex messages whose deeper meaning is not easy to decipher. On the whole, the country appears to be reacting favorably to the new messages: the courageous conclusions reached at a seminar on higher education, the symposium on prices, and the seminar on private enterprise would appear to have been well received by public opinion. Pragmatism is also the predominant feature of Burkina's foreign policy. Without renouncing its revolutionary and radical alliances, it is extending its circle of friends and entering into a constructive dialogue with its traditional donors and with international institutions. Abroad, as at home, moderation is gaining ground and confidence appears to be reviving.

I. RECENT ECONOMIC AND FINANCIAL TRENDS

1.01 The overall performance of the Burkinabè economy during the period 1982-87 may be summarized as follows: 2/

- (a) comparatively rapid growth in GDP, attributable mainly to agriculture, mining and, over the last two years, to the public administration;
- (b) despite accelerating population growth, a clearly positive rate of growth in GDP per capita;
- (c) relatively stable prices, despite fluctuations due to variations in agricultural output;

2/ The beginning of this chapter is a good place to point out a number of statistical problems which considerably complicate the study of Burkina's national accounts and analysis of its economic and financial performance. The mission was favorably impressed with the soundness and quality of the materials produced by the "Institut National de la Statistique et de la Démographie" (INSD), the government departments responsible for public accounting, and the National Directorate of BCEAO. However, since the resources available to these agencies are limited, the coverage and reliability of their statistical and accounting data leave something to be desired, and this inevitably affects the quality of the analyses given in this report, even if the data are of a better grade than in many other countries. To the usual uncertainties surrounding data on agriculture and the informal sector, we must add the following specific points: (i) vast differences among the various estimates of gold production and exports because considerable quantities are marketed outside official channels; (ii) in the national accounts at current prices, underestimation of value added in certain sectors (mainly construction, transportation and other services); (iii) various other anomalies in the national accounts at current prices, a result of the inadequacy of the data on price movements in different sectors; (iv) problems of comparability between series prior and subsequent to 1986, when INSD revised its national accounts methodology; (v) lack of consistency between the national accounts and public finance data; (vi) generally fragmentary data on public finance, so that accurate tracking of aid-financed expenditures and of developments in the external debt picture becomes impossible; (vii) the unreliability of data on price movements since the methodology and sampling technique used in computing the African consumer price index for Ouagadougou are questionable and there is no national consumer price index; and (viii) lack of exhaustive external trade statistics. In several areas, therefore, the mission relied on its own estimates; it also made use of the preliminary estimates of the national accounts at current prices drawn up by the "Caisse Centrale de Coopération Economique" on the basis of INSD data. However, these estimates and reappraisals should be used with caution and viewed as showing the orders of magnitude of trends in Burkina's economy and finances.

- (d) only slight growth in private consumption, considerably less than that in public consumption; quasi-stagnation in gross fixed capital formation accompanied by a decline in household and corporate investment;
- (e) quasi-stagnation in imports and a fairly healthy growth in exports (exceeding the growth in GDP);
- (f) a relative decline in domestic and external deficits and a moderate increase in external indebtedness; and
- (g) a marked increase in domestic and external arrears in the later years of the period.

A. Production, Income and Prices

1.02 Table 3 shows the movements in GDP and the major sectors over the period 1982-87. Examination of that Table and of Table 2.2 in the Statistical Annex leads to the following three general conclusions:

- (a) the predominance of the agriculture sector, and the impact of weather conditions on its performance, account for the extraordinary year-to-year fluctuations in GDP growth rate. The recession unleashed by the 1983 drought was followed by two good years in 1985 and 1986, and then a period of modest growth in 1987 and 1988. As in all the Sahel countries, the vagaries of the climate, and their effect on most economic aggregates, are givens that complicate economic and financial management to a singular degree;
- (b) to the extent that year-to-year fluctuations allow any medium-term trend to be identified, GDP appears to have grown at a faster rate during the five years of the period under review: having risen from 3.1 percent a year in 1977-82, the rate of economic growth picked up to roughly 4.3 percent a year in 1982-87. Despite the recent rise in the population growth rate (from an annual 2.7 percent in 1975 to 3.3 percent in 1985), Burkina is one of the few countries in Sub-Saharan Africa that can boast a positive growth in per capita GDP during the present decade; and
- (c) although agriculture and mining (gold) were the most dynamic sectors throughout 1982-87, there appears to have been a marked revival in industry, construction and services at the end of the period (1986 and 1987).

Table 3: Growth in Value Added, by Sector
(at constant 1979 prices)

	Average Growth Rate (percent)			
	1977-82	1982-85	1985-87	1982-87
PRIMARY SECTOR	2.2	6.6	3.8	5.4
Agriculture	2.4	9.6	3.4	7.1
Stock-raising	1.4	2.8	4.9	3.6
Forestry and Fisheries	-	2.5	3.1	2.7
SECONDARY SECTOR	3.8	-0.1	9.8	3.8
Mining	-	26.0	26.1	26.1
Manufacturing	2.5	-0.1	7.7	2.9
Electricity, Gas and Water	7.7	1.6	6.6	3.6
Construction	8.5	-5.6	9.8	0.3
TERTIARY SECTOR	4.1	1.2	7.8	3.8
Commerce	2.9	1.9	-0.3	1.0
Transport and Telecom.	6.1	-0.8	8.1	2.7
Public Administration <u>a/</u>	5.1	1.4	12.7	5.8
Other Services	3.4	0.0	7.7	3.0
GDP at factor cost <u>b/</u>	3.5	3.1	6.5	4.4
Import duties and taxes	-0.5	-4.0	10.9	1.7
GDP at market prices	3.1	2.7	6.7	4.3
Memo item:				
Gross Domestic Production <u>c/</u>	2.8	3.4	4.6	3.9

a/ Includes manpower costs funded from the general budget and special accounts and the wages bill for local governments, public-sector agencies, non-profit institutions, international technical assistance and NGOs.

b/ Includes indirect taxes.

c/ GDP less public administration.

Source: Table 2.2 of the Statistical Annex and the 1983 Economic Memorandum.

1.03 The performance of the Burkinabè economy is all the more impressive in that it reflects largely the results achieved in the agriculture sector: an average annual growth rate of 7.1 percent in agriculture itself and 5.4 percent in the primary sector as a whole. It will be shown in Section A of Part II that

the growth rate in stock-raising (3.6 percent per annum) appears to be an overestimate, given the cutback in traditional livestock activities in favor of agriculture. Nevertheless, even if corrected slightly downward, the primary sector growth rate is altogether very satisfactory. An increase in the total area under cultivation and improvements in crop yields result largely from the opening up of new land in the South and Southwest. Progress in cotton and grain production, and, from a more general standpoint, diversification of the agriculture sector, have had very positive effects on Burkina's economic performance.

1.04 Despite a very rapid expansion in mining, with the development of gold panning and the start of industrial-scale gold production at the Poura mine, ^{3/} the overall performance of the secondary sector was modest (estimated growth rate of 3.8 percent a year for 1982-87). After several years of stagnation, manufacturing showed a major increase in activity in 1986 and 1987; this, however, was ascribable mainly to the cotton fiber industry, where output more than doubled from 1984 to 1987. There also appears to have been a strong recovery in construction in the later years of the period, when several large-scale projects were launched.

1.05 Although it showed only very slight growth from 1982 to 1985, the tertiary sector appears to have expanded significantly in 1986, in parallel with the strong recovery in the secondary sector. Growth in value added in public administration was particularly high in 1986 and 1987 (over 12 percent per annum) as a consequence of a rapid increase in the civil service wage bill and a still more rapid expansion in international technical assistance, as indicated in Table 4. Nevertheless, the rise in personnel costs financed through the national budget lagged behind the increase in the nominal value of GDP throughout the 1982-87 period. Furthermore, the calculation of value added in international technical assistance, at constant prices, appears to have been flawed by underestimation of the deflator; it would seem that the volume increase in technical assistance was in fact less than indicated.

1.06 Quite surprising is the mediocre performance of commerce (roughly 1 percent growth a year on average from 1982 to 1987); the rapid expansion in agricultural output, and in the secondary sector from 1986 onwards, might have been expected to exert a powerful pull effect on commerce. Two explanations can be advanced: for one thing, statistical shortcomings are particularly noticeable in a sector where "informal" activities predominate, and the lack of a reliable price index for the whole country makes any assessment of value added by sector at constant prices very questionable; and for another, the tertiary private sector, in both its formal and informal segments, could have been adversely influenced by the climate of uncertainty created by certain government initiatives in the period 1982-85.

^{3/} The authorities estimate that nearly 60 percent of gold output is sold clandestinely (i.e. almost the entire volume of washed gold). The monopoly vested in Comptoir Burkinabè des Métaux Précieux (CBMP) and the official purchase price it pays (very much below the world price) undoubtedly explain the attraction that "non-official" channels hold for gold washers.

Table 4: Value Added of the Public Administration

	1980	1982	1985	1987
in billions of current CFAF				
Budget <u>a/</u>	28.5	39.2	37.1	44.1
Local Government	0.9	1.2	1.5	1.7
Other Public Agencies	2.0	2.6	2.2	2.6
International Technical Assistance	7.1	15.8	19.3	32.7
NGOs	2.1	3.4	6.6	7.8
TOTAL	40.6	62.2	66.7	88.9
as percentage of GDP				
Budget <u>a/</u>	10.5	10.3	7.8	8.4
Local Government	0.3	0.3	0.3	0.3
Other Public Agencies	0.7	0.7	0.5	0.5
International Technical Assistance	2.6	4.2	4.1	6.3
NGOs	0.8	0.9	1.3	1.5
TOTAL	14.9	16.4	14.0	17.0

a/ Includes special accounts and social security.

Source: INSD

1.07 A more accurate picture of economic growth can be obtained by disregarding the direct impact on GDP of the rapid rise in value added of the public administration: the changes in gross domestic production (i.e. GDP minus public administration) are examined. Gross domestic production increased by nearly 4 percent a year on average between 1982 and 1987 (as against 2.8 percent over the period 1977-82); this is indeed a very good performance compared with other countries in the region. It must be noted, however, that the public administration, international technical assistance and NGOs all exert an indirect effect on productive activities because of the demand for consumer goods and services they generate.

1.08 Despite its important role in Burkina, the informal sector appears not to have expanded in 1982-87, except for gold-panning activities. According to national accounts estimates, the informal element in manufacturing, construction and the tertiary sector increased by only 1 percent a year. However, the data on employment trends presented in Section II.D below indicate that this stagnation followed a long period of rapid expansion.

1.09 Two price index series are currently available in Burkina. The first is the price index for African consumption in Ouagadougou (Table 7.1 of the

Annex); the second is the series of GDP sector deflators, derived from the national accounts (Table 2.3 of the Annex). Both should be interpreted with caution: for instance, the basket of consumer goods on which the African consumption index is based was defined hastily in 1981 and is not regarded as truly representative, while INSD's lack of resources means that its monthly sampling of products is very incomplete and covers only three of the 16 Ouagadougou markets.

1.10 With these reservations, analysis of the two series suggests that:

- (a) over the period 1982-87, the average annual inflation rate was modest: 3.5 percent according to the Ouagadougou price index and 1.7 percent according to the GDP deflators;
- (b) this trend was actually the product of sizable seasonal and annual variations (Tables 2.3 and 7.1 of the Annex); after rising sharply over the 12 months from mid-1984 to mid-1985, prices fell significantly until early 1988;
- (c) seasonal fluctuations and annual variations were closely linked to the agricultural production cycle and to annual fluctuations in agricultural output: the increase in farm prices in 1984-85, following the great drought of 1983-84, led to a general rise in prices in 1985; the fall in farm prices following the excellent harvest of 1985 brought prices down in 1986; this correlation can be seen very clearly in the changes in the African consumption price index.

1.11 Examination of Tables 2.7 and 2.8 in the Statistical Annex shows that, over the period 1982-87, the changes in the inter-sectoral terms of trade favored the secondary sector, particularly manufacturing, and the public administration at the expense of the rural sector, commerce and transportation. It is also evident that the share of primary sector value added, which was just 36 percent of GDP at current prices in 1987, was almost 39 percent when expressed in terms of constant prices. The corresponding shares of government sector value added were 17 percent and over 20 percent respectively.

1.12 The only data available on wage movements are those given in Table 7.2 of the Annex on the guaranteed minimum wage, commonly known as the SMIG (salaire minimum interprofessionnel garanti). As the Table shows, the minimum wage remained unchanged in nominal terms throughout the period 1982-87; a 15 percent increase was approved in 1988. From 1984 onwards, government policy seems to have been to reduce the real value, and sometimes even the nominal value, of civil service and parastatal sector salaries. In 1988, the Popular Front government was obliged to increase salaries in the public administration and public enterprises.

1.13 IMF data suggest that Burkina's real effective exchange rate lost roughly 15 percent of its value between late 1982 and late 1988 (falling from 90.6 to 76.3 on an index in which 1980 = 100), because of the modest degree of price growth in Burkina. As an index, the real effective exchange rate gives

a measure of the improvement or deterioration in a country's competitive position vis-à-vis major trading partners, in terms of relative prices and exchange rates. However, although such an index makes it possible to assess changes in a country's competitive position over a certain time period with respect to a base year, it is still no measure of the degree of competitiveness. Moreover, as the comparison is made with respect to present trading partners, the index does not measure the particular country's position with respect to that of competing countries on potential external markets.

1.14 An economy's competitiveness is generally measured by the relationship between the prices of tradable goods and services and non-tradable goods and services. Since wages are an important element in price formation and the major indicator of the prices of non-tradable goods, it would be useful to undertake a detailed study of the structure and level of wage costs in Burkina so as to measure its relative competitiveness in comparison to other African countries, both within and outside the West African Monetary Union. Until results are available, civil service salaries, which appear to serve in Burkina as a benchmark for salaries in the parastatal and modern private sectors, can provide a valuable indicator of the level of competitiveness. The data assembled in Table 7.3 of the Statistical Annex indicate that civil service wage bill costs in Burkina are lower than the average for all the countries of the West African franc zone, but a little higher than in the other Sahel countries and much higher than in African countries outside the franc zone. Furthermore, if the average civil service wage is compared to per capita GDP -- a comparison which relates a country's level of wage bill costs to its income level -- then Burkina shows the highest ratio in the group of countries in question. It is worth pointing out that average salary costs are obviously affected by the salary structure, and that the civil service has a higher proportion of professional and skilled individuals than in general economic activities, particularly industry. Nevertheless, the analysis of the industrial sector given in the Annex confirms that Burkina's manpower costs are relatively high. This indicates the importance of instituting deflationary policies in Burkina so as to bring about a depreciation of the real effective exchange rate and to restore the competitiveness of its economy.

B. Use of Resources and Savings

1.15 As a result of the expansion in gold production, exports were the most dynamic component of demand between 1982 and 1987. Beginning in 1986, public consumption also became an important growth factor, while private consumption appears to have increased by only 3.1 percent a year over the period as a whole, slower than the population growth rate. It should be noted, however, that since private consumption is calculated as a residual element of the national accounts, it can be affected by errors in estimating such aggregates as imports of goods and non-factor services and, more particularly, changes in stocks. All things considered, the share of private consumption (calculated at constant prices) in GDP appears to have fallen from over 77 percent in 1982 to 73 percent in 1987, while the share of public consumption rose marginally from 26.5 percent to 27.5 percent.

Table 5: Origin and Use of Resources
(at constant 1979 prices)

	<u>Percentage of GDP</u>			<u>Growth Rate (%)</u>		
	1982	1985	1987	1982-85	1985-87	1982-87
Gross Domestic Product	100.0	100.0	100.0	2.7	6.6	4.3
Terms of Trade Effect	0.4	-0.2	-1.7	-	-	-
Gross Domestic Income	100.4	99.8	98.3	2.5	5.8	3.8
Resource Gap (adjusted)	26.8	24.1	20.9	-0.8	-0.8	-0.8
Imports of Goods and Services	41.7	37.6	34.4	-0.8	2.1	0.3
Exports of Goods and Services	14.4	13.6	15.3	0.8	12.8	5.5
Capacity to Import	14.9	13.4	13.5	-0.7	7.0	2.3
Private Consumption	77.5	77.2	73.1	2.6	3.8	3.1
Public Consumption	26.5	24.1	27.5	-0.5	13.8	5.0
Gross Fixed Investment	21.4	18.4	17.4	-2.3	3.7	0.1
Change in Stocks	1.9	4.2	1.2	35.0	-44.1	-5.1
TOTAL USES	127.3	123.9	119.2	1.8	4.6	2.9

Source: Table 2.5, Statistical Annex.

1.16 The effect of fluctuations in the terms of trade on the availability of funds and on capacity to import was slightly negative during the period 1982-87 as a whole, although with a significant worsening in 1986 and 1987. The capacity to import (value of exports corrected for the terms of trade effect) therefore increased by an average of only 2.3 percent annually between 1982 and 1987, although export volume rose by an annual average of 5.5 percent. However, because of the quasi-stagnation in import volume -- ascribable to what was until 1985 no more than modest growth in consumption and investment, and to the progress made in import substitution, especially in the agriculture sector after 1985 -- the funding deficit declined significantly, dropping from 27 percent of GDP in 1982 to roughly 21 percent in 1987. The deterioration in the terms of trade is explained mainly by the slump in cotton and shea nut prices, only partially offset by the decline in petroleum prices from 1986 onwards.

1.17 Subject to the uncertainty surrounding the evaluation of changes in stocks, the overall investment rate in Burkina appears to have declined in real terms from 23 percent of GDP in 1982 to 19 percent in 1987. For the period as a whole, however, this figure remained appreciably higher than the average rate achieved in the African countries as a whole (15.9 percent from 1980 to 1987).

1.18 Table 6 reveals the profound change in the breakdown of fixed investment in the course of the period under review, reflecting the active policy of government intervention in the economy from 1983 onwards. The decline in Burkina's capital investment as a proportion of GDP (from 21.4 percent in 1982 to 17.4 percent in 1987) appears to have been entirely a matter of household and business behavior, since government investment remained at 12.7 percent of GDP in real terms. In all, government investment accounted on average for more than two-thirds of Burkina's capital spending over the period 1983-87.

Table 6: Breakdown of Fixed Investment, by Economic Agent
(percentages)

	1982	1984	1987	<u>Average</u> 1983-87
Households	20.5	19.3	14.6	17.8
Business	19.8	8.2	12.6	14.6
Government	<u>59.7</u>	<u>72.5</u>	<u>72.8</u>	<u>67.6</u>
Gross Fixed Capital Formation	100.0	100.0	100.0	100.0

Source: Table 2.10, Statistical Annex.

1.19 For the period 1982-87, the incremental capital-output ratio, calculated at constant prices and allowing a year's time lag between investment and production, was 4.4, a substantial improvement over 1977-82, when it was 5.8. Although the 1977-82 ratio showed the adverse effects of the recession in the early 1980s, caused by the drought and a series of external factors, this improvement appears to also reflect a certain selectivity in public investment from 1983 onwards, as well as government-sponsored efforts to rehabilitate several industrial enterprises.

1.20 Reflecting Burkina's low per capita income level, domestic savings have typically been negative, except in a few exceptional years. However, since the propensity to consume declined somewhat over the period 1982-87, the marginal domestic savings rate rose from -17 percent for 1977-82 to roughly (+) 0.7 percent for 1982-86, a rare occurrence in Africa in the 1980s. On the other hand, national savings in Burkina has usually been strongly positive, due to the volume of remittances from nationals working abroad, current public transfers (net of debt interest payments) and current private transfers. It increased significantly in the period under review, coming to represent over 55 percent of total investment in 1987 as against less than 40 percent in 1982. The improvement in the structure of savings over the period is also noteworthy. Public savings, defined as the difference between total domestic budget revenue

and recurrent expenditure, was highly negative from 1982 to 1984 but improved substantially thereafter.

Table 7: Savings and Investment
(based on the national accounts at current prices)

	As percentage of GDP			
	1982	1985	1987	Average 1983-87
Total investment	24.1	25.2	22.7	23.4
Gross domestic savings	-5.5	-4.2	-4.0	-3.5
Factor services and net public transfers	4.8	5.1	2.9	4.5
Factor services and net private transfers	10.2	13.1	12.8	11.7
Gross national savings	9.5	14.0	11.7	12.7
Current account balance	-14.7	-11.2	-11.0	-10.6
Memo Items:				
(a) National savings structure:	100.0	100.0	100.0	100.0
Public savings	-22.2	6.3	-4.2	-12.2
Domestic savings of				
households & businesses	-36.4	-36.4	-29.7	-14.8
Factor services & net transfers	158.6	130.1	133.9	127.0
(b) Gross national savings as percentage of total investment	39.2	55.4	51.5	54.5

Source: Tables 2.4 and 3.1, Statistical Annex.

C. Performance of the Economy in 1988

1.21 Preliminary estimates suggest that GDP grew by 8.5 percent in real terms in 1988, mainly due to strong growth in agricultural production. Very favorable weather conditions allowed an estimated 25 percent increase in the volume of agricultural production; in combination with modest but sustained growth in livestock, forestry and fisheries activities, this appears to have increased primary sector value added by 16 percent in real terms. Growth of the secondary sector is estimated at 4.2 percent, reflecting rapid growth in mining (10 percent, mainly in gold production) and construction (9 percent), but virtual stagnation in manufacturing. Activity in the tertiary sector does not appear to have advanced by more than 3.5 percent. Because of the time lag where pull effects are concerned, primary sector growth would have had no impact on

manufacturing, and manufacturing no impact on the tertiary sector, in 1988, although there should be a very noticeable impact in 1989. Value added in the public administration apparently increased by 3.4 percent in real terms, mainly as a result of the increase in the number of civil service personnel.

1.22 The GDP deflator did not change due to the offsetting effect of inverse price movements. Harvests were abundant enough to bring down agricultural prices by an estimated 8 percent, while the terms of trade deteriorated noticeably, with an average increase of 7 percent in import prices, mainly for manufactured goods and foodstuffs. Export prices, on the other hand, declined by 3 percent on average, with a softening in world prices for gold and cotton. Nevertheless, export earnings increased, since the decline in prices was offset by a 10 percent volume increase.

1.23 The marked growth in GDP translated into an increase of some 5 percent in per capita income in 1988, although preliminary estimates indicate that private consumption probably increased by no more than 3.6 percent in real terms. Public consumption, on the other hand, appears to have increased by 7 percent, and overall domestic savings appear to have moved from CFAF -20 billion in 1987 to CFAF -6 billion in 1988. Despite the stabilization of remittances from expatriates, this reduction in the negative domestic savings figure appears to have generated an increase in national savings from CFAF 60 billion in 1987 to CFAF 75 billion in 1988. Capital investment is estimated to have increased by 9 percent in real terms, so that, like agricultural production, it was an important growth factor.

D. The Public Sector

(i) General Considerations

1.24 Wherever they may come from, foreign missions visiting Burkina invariably report being favorably impressed by the quality of public sector management, the competence of the officials in charge, the reliability of accounting documents, the regularity with which such documents are produced, and, consequently, the speed with which an update of the current situation can be obtained. Other characteristics of Burkina are its sense of realism, its determination to avoid prolonged budget deficits, and the Government's capacity to respond rapidly and decisively to threats of financial slippage. These qualities are exemplified by the drastic reduction in public expenditure made in 1985, the current government uneasiness at a budget deficit representing scarcely 2 percent of GDP in 1985-87, the energetic measures instituted by the Ministry of Economic Promotion to restructure several public enterprises, and, this year, in the effort initiated by the Ministry of Planning to achieve a more realistic approach in its forecasts and projections and its monitoring of the public investment program. These qualities of order and discipline are certainly exceptional assets that augur well for the Government's ability to bring to a successful conclusion any recovery and adjustment program it may decide to undertake.

1.25 This optimistic picture of public sector management in Burkina needs to be qualified, however. The most serious flaw in the system as it now stands

is that the Government is unable to obtain a comprehensive view of the overall economic situation in the public and parastatal sector. Deprived of this essential tool, it tends to concentrate its thought and action on major, but partial, elements of the public-sector management picture. It is therefore not always aware of opportunities or risks which may be inherent in favorable or unfavorable changes in data which are poorly monitored by the existing system of accounting and economic and financial analysis. This explains why the Burkina Government seems unable to keep track of, and analyze, current expenditures financed with external aid. Conversely, little reflection has been devoted to the contradictory implications of accumulating arrears and the constantly increasing treasury and savings deposits of various public agencies. In short, despite serious efforts to curb the growth of public debt, it is obvious that decentralized decision-making and the dispersed nature of data on the country's borrowing arrangements have led to serious mistakes in forecasting debt-service commitments and in overall management of the public debt.

1.26 A study of the recent performance and future prospects of the public and parastatal sector is greatly complicated by the fragmentary nature of its accounting records and the lack of integrated analyses. Although every caution should be exercised in forming an opinion on the overall development of the public and parastatal sector, the following three conclusions suggest themselves:

- (a) unlike many African countries, Burkina is not in a crisis situation with respect to the government budget; its deficit is a modest one and no insurmountable difficulties should be encountered in financing its arrears;
- (b) Burkina has a sizable parastatal sector for a poor country in which the modern sector is comparatively underdeveloped. Courageous programs for restructuring the most deficit-ridden of the public enterprises are now either on the drawing board or in the process of being implemented;
- (c) public investment programming is not based on rigorous economic analysis; several projects already completed or planned appear either premature or over-scaled. Coordination of external aid is embryonic.

(ii) Budget Trends

1.27 Table 8 provides a summary of budgetary performance in Burkina from 1982 to 1987. Four facets of this performance should be highlighted:

- (a) the situation clearly deteriorated between 1982 and 1984, due to a combination of stagnating revenue and strong growth in expenditures. Modest budget surpluses (1 percent of GDP) up until 1981 gave way to substantial deficits (around 5.1 percent of GDP);

- (b) strong measures that included a 13 percent cut in expenditure in 1985 and a major increase in revenue brought the deficit back down to 1 percent of GDP;
- (c) during a period of consolidation (1986-87), revenue growth did not entirely keep pace with the rise in expenditure, and the deficit hovered at around 2.5 percent of GDP;
- (d) throughout the period 1982-87, these deficits were mainly financed through the accumulation of arrears and by tapping surplus Treasury deposits. Today, the Government is rightly alarmed that arrears have ballooned and that budget savings from years prior to 1982 are now exhausted. Having reached the BCEAO mandatory ceiling on credit, the Government is now looking for more effective solutions to restore budgetary equilibrium on a sustainable basis.

Table 8: Treasury Operations, 1982-87

(CFAF billion)

	1982	1983	1984	1985	1986	1987
Revenue	50.6	49.8	55.1	64.8	67.8	77.4
Expenditure	65.9	71.7	79.6	69.6	80.5	91.3
Current expenditure	58.6	65.2	70.5	60.6	72.9	74.2
of which non-classified outlay	10.1	15.2	19.1	4.7	14.7	4.9
Capital expenditure	7.3	6.5	9.1	8.9	7.6	17.1
Surplus/deficit (on order-to-pay basis)	-15.3	-21.9	-24.5	-4.5	-12.7	-13.9
Changes in arrears position (- = settled)	7.1	11.8	5.6	2.5	4.6	-7.9
Domestic	2.4	9.0	3.9	-0.6	0.7	-3.7
External	4.7	2.8	1.7	3.1	3.9	-4.2
Surplus/deficit (on cash basis)	-8.2	-10.1	-18.9	-2.3	-8.1	-6.0
Financing	8.2	10.1	18.9	2.3	8.1	6.0
Domestic	8.8	5.7	13.4	2.3	8.1	6.0
Central Bank (BCEAO)	2.6	-2.3	3.9	-1.0	1.0	4.4
Non-bank	1.2	8.0	9.5	3.4	7.1	1.6
Cash and portfolios	..	..	..	-3.9	-0.4	0.2
Special accounts	..	..	..	4.3	-1.2	0.5
Correspondent banks	..	..	..	3.1	8.2	0.2
Other	..	..	..	-0.1	0.5	0.7
External	4.4	4.4	5.5	0.0	0.0	0.0
Revenue/GDP (%)	13.8	12.4	13.2	13.5	13.5	15.2
Expenditure/GDP (%)	17.8	17.8	19.1	14.5	15.9	17.9
Deficit/GDP (%)	-4.0	-5.4	-5.9	-1.0	-2.4	-2.7

Source: Treasury.

Revenue Trends

1.28 For over ten years, budget revenue has amounted to 13-15 percent of GDP, a comparatively high level for a country as poor as Burkina. ^{4/} In the period 1983-87, 43 percent of revenue came from taxes on international trade, 21 percent from taxes on goods and services, and 18 percent from direct taxes on income and profits (a figure which, although modest, is in fact comparatively high for a country like Burkina).

1.29 Table 9 shows the changes in, and the elasticities of, the major categories of government revenue between 1982 and 1987. Up until 1986, revenue increased at very nearly the same pace as GDP, as it had done throughout the 70s. The 14 percent increase in revenue in 1987 raised elasticity with regard to GDP to 1.5 for the entire period 1982-87, although this would not appear to indicate the beginning of a trend. As far as 1988 is concerned, estimates covering the first nine months of the year reveal that revenue growth was probably limited if not negligible. Revenue growth over the period 1982-87 came from several crucial categories: consumption taxes increased twice as fast as private consumption between 1982 and 1987 -- the most productive categories being duties on local and imported beverages, petroleum products and government monopolies. Customs revenue on imports rose at the same rate as GDP but declined as a percentage of the total value of imports. Closer analysis comparing customs revenue to the level of declared imports alone (i.e. ignoring estimates of non-recorded trade flows) reveals that the effective tax rate was in continuous decline from the mid-70s (27 percent) to 1984 (barely 15 percent). This trend reversed itself in 1985 when an increase in the rate for fiscal duties raised the effective tax rate to 22 percent. As a consequence, the elasticity of import revenues with regard to declared imports alone was 1.7 percent for the period 1982-87. Nevertheless, the share of taxed imports as a proportion of total imports appears to be declining owing to both smuggling and exemptions. Quite a high proportion of imports is currently exempt from customs duties, including, most notably, imports financed with external aid, agricultural inputs, and pharmaceutical products. The majority of intermediate and capital goods also enjoy either standard exemptions or rate reductions, and certain enterprises have the benefit of exceptional tariff regimes (cf. Annex I).

1.30 Direct taxes, too, have risen very rapidly. The income tax has increased with an elasticity of 1.5 with regard to GDP, and introduction of a single tax on wages and salaries (the IUTS) has meant a very considerable increase in proceeds in this area. At present, rates are in a range from 2 to 30 percent and payments are withheld at the source, as are social security contributions. Additional studies are needed to determine whether the tax structure (bottom income threshold, rate structure, taxation of upper income

^{4/} The average ratio of revenue to GDP is 18 percent for the low-income African countries as a group; however, it is much lower for most landlocked countries in Western and Central Africa -- Niger (11 percent), Chad (6 percent), the Central African Republic (12 percent), etc.

brackets) gives optimum results as far as revenue generation is concerned. ^{5/} The proceeds of the profit tax on commercial, industrial and agroindustrial corporations, initially very small, increased quite rapidly. Despite the high growth rates of direct tax revenues, actual collections represent only a portion of what is due. Overall, the collection rate on direct taxes remained under 50 percent, while on the profit tax it was below 25 percent throughout the period 1983-87. To a large extent, the problem stems from the accumulation of tax arrears which are then levied again each year on the optimistic assumption that they can be collected. These arrears are written into the budget, making revenue projections unrealistic. The volume of accumulated arrears is considerable; in 1987, on the profit tax alone, they amounted to CFAF 5.4 billion (compared to CFAF 7.8 billion payable for the current fiscal year). Considering only the total payable for the current year, the collection rates throughout the 1980s ranged from 85 to 100 percent on income tax and from 35 to 65 percent on profit tax. Obviously, the structure and administration of the profit tax need to be examined with a view to improving collection rates and ensuring adequate revenue generation, as well as from the standpoint of providing investment incentives.

Table 9: Growth and Elasticity of Budget Revenue, 1982-1987

		B	GDP	Private consumption	Industrial value added	Imports (CFA)	Exports (fob)
		Avg. annual growth (%)					
			6.0	5.4	10.0	7.0	10.1
A	As % of total revenue	1982-87	Elasticity of A with respect to B				
Income tax	11	8.7	1.45	1.62	0.87	1.25	0.88
Profit tax	5	18.0	3.00	3.35	1.80	2.58	1.79
Turnover tax	8	-0.4	-0.07	-0.08	-0.04	-0.06	-0.04
Consumer tax	12	12.7	2.12	2.36	1.27	1.82	1.28
Import tax	39	6.1	1.01	1.13	0.61	0.87	0.60
Export tax	2	8.6	1.10	1.22	0.66	0.94	0.65
Other fiscal & non-fiscal revenue	23						
Total revenue	100	8.9	1.48	1.65	0.89	1.27	0.88

Source: Ministry of Finance, Research and Planning Department.

^{5/} Recent studies suggest that the taxation of income is more effective when the tax threshold is not set below a minimum of three times the per capita GDP and when maximum rates do not exceed 40 percent (World Development Report 1988).

1.31 Growth in the proceeds of the turnover tax has been particularly weak by comparison with the growth in GDP and industrial sector value added. As in the case of the profit tax, it is difficult to determine whether these poor results are attributable to the less than optimum structure of the fiscal system, the many exemptions allowed 6/, or tax evasion. Substitution of a value added tax for the turnover tax is under consideration. It is probably a wise step, since its effect would be to reduce the distortions that seem to interfere with the performance of numerous industrial enterprises and influence consumer prices (cf. Annex I). Its effect on government revenue levels, however, would be less significant than is generally supposed, because of the existing exemptions on imported and domestic inputs. In short, the current system of sales, turnover and trade taxes needs to be examined, first with a view to assessing the merits of proposals such as the introduction of a value added tax, and, secondly, as a means of reviewing rate structures, exemption policies, effective protection rates for domestic production and marketing and administrative problems with the collection of these various taxes.

1.32 Analysis of the fiscal system is complicated by the fact that a significant proportion of revenue (18 percent in 1985) is posted to the unclassified account. A further complication is the collection of parafiscal revenues (toll fees, miscellaneous charges and trade levies), the proceeds of which (approximately CFAF 1 billion per annum) are appropriated to agencies such as ONAC (Office National du Commerce Extérieur) and CBC (Conseil Burkinabè des Chargeurs). In addition, social security contributions (amounting to roughly CFAF 6.5 billion per annum) are deposited in commercial banks by the CNSS (Caisse Nationale de Sécurité Sociale). Finally, businesses are required to contribute to investment funds such as the Caisse Autonome d'Investissement. It is probably not advisable to redirect all these resources to general Treasury accounts. Nevertheless, a consolidated analysis of all fiscal and parafiscal revenues should be made in order to assess the overall financial claims of the public sector on the economy, the relative effectiveness of the various categories of fiscal and parafiscal taxes and other levies, and their impact on Burkina's economic performance. Without such an analysis, the Government will be in a poor position to consider tax reforms or any significant increase in budget revenue.

Trends in Expenditure

1.33 In 1975, budget expenditure (excluding capital outlays financed by external aid) represented no more than some 12 percent of GDP. 7/ This percentage grew rapidly, reaching an average of 18 percent in the years 1982-84; a cutback in government spending then brought the figure down to 15 percent of

6/ All new industrial projects and mining operations are exempt from the profit tax for five years, a period that is extended indefinitely in some "special" cases. Turnover tax rate reductions and exemptions are also negotiated on a case-by-case basis.

7/ Data on "non-classified" expenditure for the years prior to 1982 are not available. Since pre-1982 figures covered only expenditures reflected in the budget, they may have underestimated actual expenditures.

character, the balance being divided between capital outlays and amortization of the public debt. In recent years, as Burkina's debt-service commitments have mounted, the proportion of budgeted expenditure allocated to new investments has declined, although government spending again reached approximately 18 percent of GDP in 1987. This increase, ascribable in part to a rather disquieting escalation in both recurrent and "unclassified" expenditure, also reflected a reversal of the downward trend in government investment spending. Capital outlays accounted for over 10 percent of total expenditure in 1987, but at the cost of a considerable accumulation of arrears on the public debt. Unless the Government makes major efforts to curb rising recurrent expenditure and meet its debt-service commitments, it will have difficulty over the medium term maintaining, not to mention increasing, the volume of investment it is able to finance.

1.34 The rapid increase in Burkina's debt-service commitments in recent years is a very serious threat to budget equilibrium over the short term. Negligible at the beginning of the 1970s, the country's debt-service obligations had increased to roughly 6 percent of revenue by 1975, 9 percent by 1980 and almost 20 percent by 1987. It is difficult to ascertain precisely what sums were actually paid annually to cover debt service obligations, since different sources of information give contradictory figures. In some instances, the accounting system did not differentiate between payment of current debt-service obligations and settlement of arrears. In other instances, certain debt-service payments were never identified as such in the Treasury accounts; it can only be assumed they went to swell the "unclassified" expenditures. Finally, not all payments mandated in the books of the Public Debt Division or the Treasury were in fact subsequently made. Nonetheless, it is obvious that actual disbursements were far below the totals projected -- which explains why arrears accumulated so rapidly after 1984, reaching nearly CFAF 18 billion (US\$60 million) by the end of 1987. Although final figures are not available for 1988, it is likely that arrears amounted to CFAF 25-30 billion at the end of 1988. Forecasts based on Burkina's outstanding debt and its commitments at the end of 1987 indicate that its debt-service obligations will reach CFAF 20 billion annually in the next few years.

1.35 Table 10 shows the pattern and economic classification of budget expenditure during the period 1982-87. As in the majority of countries in the region, the civil service wage bill is the major item, representing 45-60 percent of total expenditure. At the end of 1987, Burkina had 29,700 government workers (not including the armed forces), with average monthly salaries of CFAF 78,300, a level below that of coastal countries in the West African Monetary Union such as Senegal and Côte d'Ivoire, but somewhat higher than in the other Sahel countries (see Table 7.3, Statistical Annex).

Table 10: Budget Expenditure, by Economic Category, 1982-87
(CFAF billion)

	1982	1983	1984	1985	1986	1987
Current expenditure	48.5	50.1	51.4	55.9	58.1	69.4
Wage bill ^{a/}	30.0	32.2	33.4	34.0	37.3	42.3
Consumables, etc.	8.2	6.8	5.9	5.3	5.3	7.1
Interest	3.0	3.2	3.9	6.5	4.4	7.5
Current transfer payments	7.3	8.0	8.2	10.3	11.2	12.4
Capital outlays	7.3	6.5	9.1	9.0	7.6	17.1
Investment	4.2	4.4	5.5	4.8	3.7	9.8
Amortization	3.1	2.1	3.6	4.2	3.9	7.5
Unclassified expenditure	10.1	15.2	19.1	4.7	14.7	4.9
TOTAL	65.9	71.1	79.6	69.6	80.5	91.3

a/ Armed forces included.

Source: Treasury, Expenditure and Public Debt Divisions.

1.36 Current transfers, including pensions, scholarships, and contributions to national and international institutions, represent from 13 to 16 percent of total budgeted expenditure. The Government recognizes that scholarship spending has risen too rapidly and that more stringent criteria should govern the selection of recipients. With the exception of academic scholarships, the level of direct subsidization of social services, consumer goods and agricultural inputs is considerably lower in Burkina than in other countries in the region. The use of cost recovery mechanisms is also more advanced in Burkina.

1.37 Operating expenses other than salaries (in other words, the cost of consumable goods and services) have barely increased in nominal value, and, in fact, they declined as a share of total expenditure from 13-17 percent in the late 1970s and early 1980s to only 5-8 percent in the later years of the period under review. This drop in the real value of expenditure on consumables constitutes a serious threat to infrastructure maintenance and the quality of administrative, economic and social services. Investment expenditure (including counterpart funds) also declined considerably during the period under review. Whereas overall capital spending by the Government fluctuated between 10 and 20 percent of total expenditure from 1975 to 1987, the increase in the proportion of resources being channeled into debt amortization reduced investment spending as a proportion of total expenditure from 12-17 percent at the end of the 1970s to only 5 percent in 1986 -- a downward trend that was reversed, however, in 1987.

1.38 Table 11 shows budget implementation rates for 1985-87 (i.e. expenditures authorized for disbursement as a proportion of projected expenditure), and to some extent elucidates the relative changes seen in different types of expenditure. While total expenditure is very close to the

amount projected in each budget, there is a significant decline in the ratios of expenditure authorized if unclassified expenditure is excluded. Since a high proportion of debt-service payments were recorded as unclassified, it is difficult to assess implementation rates for interest and amortization expenditure. The authorities were intent on paying outstanding interest, which proved far higher than the corresponding budgetary allocations. It is clear, however, that the need to pay salaries and settle overdue interest charges (so that the only arrears accumulating were for repayment of principal) led to heavy cuts in capital outlays. Efforts were made in 1987 to improve implementation rates on debt-service and investment, although the budgetary allocations for debt-service were less than the country's obligations, contributing to the increase in arrears.

Table 11: Budget Implementation Rates, 1985-87
(Expenditures authorized as a percentage of expenditures budgeted)

	<u>1985</u>	<u>1986</u>	<u>1987</u>
Budget revenue	92	98	90
Budget expenditure	92	95	93
(excluding unclassified expenses)	(85)	(80)	(88)
Wage bill	98	96	93
Goods and services	90	70	88
Interest payments	127	59	88
Current transfers	88	83	87
Investment	50	64	77
Amortization	43	43	74

Source: Treasury.

1.39 Table 12 shows the sectoral distribution of budget expenditure. It demonstrates the relative importance of, and accelerated growth in, education spending (nearly 17 percent of total expenditure in 1985-87), attributable mainly to the increase in academic scholarships. It also shows the magnitude of the increase in defense spending (17 percent of total expenditure 1985-87). Conversely, the table reveals the severity of certain structural problems already in evidence, which are examined in detail in the sectoral chapters of this Report: for instance, the insufficiency and downward trend in public health expenditure, and the inadequacy of appropriations for maintenance of roads and other infrastructure.

Table 12: Budget Expenditure, by Function, 1982-87
(CFAP billion)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Public Administration	7.2	7.7	6.9	7.3	6.7	8.3
Defense	10.8	11.2	11.8	12.2	14.5	15.2
Education <u>a/</u>	9.8	10.6	10.9	11.8	13.6	14.8
Health and Social Welfare <u>b/</u>	7.4	6.2	6.5	7.8	7.4	5.7
Economic Promotion	1.4	1.7	1.7	0.1	0.1	0.1
Agriculture and Rural Development <u>c/</u>	2.6	2.7	2.8	2.8	3.1	4.0
Commerce and Industry <u>d/</u>	0.6	0.7	0.6	0.6	0.6	0.8
Public Works <u>e/</u>	0.1	0.5	0.5	0.5	0.8	1.0
Inter-ministerial Expenditure	5.6	4.6	4.1	3.4	3.6	5.2
Non-ministerial Expenditure <u>f/</u>	20.4	25.8	33.8	23.2	30.0	36.2
Total Expenditure	65.9	71.7	79.6	69.6	80.5	91.3

a/ Ministries responsible for basic and higher education, plus scholarships and the like.

b/ Ministries responsible for health and social welfare, family development, labor and social security, sports, and pensions.

c/ Ministries responsible for agriculture and livestock, water resource management, and questions affecting the farm world.

d/ Ministries responsible for commerce, industry, the environment and tourism.

e/ Ministries responsible for infrastructure, and transportation and communications.

f/ Servicing of the public debt, subsidies, capital outlays and non-classified expenditure.

Source: Figures for 1982-84, IMF; figures for 1985-87, Burkina Treasury.

Financing the Deficit

1.40 From 1982 onwards, all budgets showed a deficit, financed in each case mainly by the accumulation of arrears and by tapping Treasury deposit surpluses.

1.41 Over the period 1982-87, 42 percent of the deficits were financed through domestic and external arrears and 33 percent from Treasury deposits. 8/ These deposits consist either of savings on earlier budgets, special appropriation accounts (to which user fees, parafiscal revenues, budgetary transfers and external aid funds are credited), or deposits by Treasury correspondents (public enterprises and agencies and local governments). Although there are a hundred or so special appropriation accounts, a mere seven receive 85 percent of all the revenue credited to these accounts.

1.42 The other sources of deficit financing were external budgetary aid (16 percent of the deficit over the period 1982-87) and advances from the Central Bank (9 percent). Budgetary aid was limited to one payment from STABEX in 1982 plus an adjustment loan granted by France in 1983 and totally disbursed by the end of 1984. Until 1987, advances from the Central Bank to Burkina had remained below the statutory ceiling; however, a drawing of CFAF 4.4 billion in 1987 brought their total up to CFAF 13.4 billion, approximately equal to the ceiling. 9/

Toward a Comprehensive View of Burkina's Financial Situation

1.43 The foregoing description of Burkina's budgetary situation illustrates the complexity of its accounting system and the lack of comprehensive review mechanisms that would give the authorities a better understanding of long-term trends and the economic impact of revenues and expenditures. Analysis of the structure of public expenditure and its justification is made all the more difficult because a significant proportion of it (both recurrent costs and capital spending) is financed outside the budget from the proceeds of external aid. An effort to construct a comprehensive, overall view is therefore essential.

1.44 Burkina's deficit is of only modest size, so that if revenue increased at a slightly more rapid pace than expenditure the deficit would be wiped out. However, allowance must be made for the fragility of the country's economic growth, especially in the modern industrial and commercial sectors. A detailed study of the structure and economic impact of the fiscal system and other government financial claims should be undertaken before consideration is given to a possible increase in the tax burden. Restoring equilibrium in Burkina's

8/ Since settlements of arrears are not explicitly identified as such in the Treasury accounts, the year-by-year variation in total arrears as shown in Table 8 over-estimates the cumulative total for the period 1982-87. At the end of 1987, Burkina's arrears were estimated at CFAF 17 billion, and preliminary data suggest they may have totaled CFAF 25-30 billion by the end of 1988.

9/ According to BCEAO's Articles of Agreement, a member country's drawdowns may amount to a maximum of 20 percent of the previous year's fiscal revenues.

financial situation should therefore be a matter of quasi-stabilization of recurrent expenditure as a proportion of GDP, coupled with external budgetary aid.

(iii) Public Investment

1.45 During the period 1983-87, two main instruments were used by the Government to organize and coordinate public investment planning: the Programme Populaire de Développement (PPD) and the Five-Year Plan. Annual public investment programs are prepared as part of this Plan.

The "Programme Populaire de Développement"

1.46 Toward the end of 1984, the Government adopted what was termed a Programme Populaire de Développement covering a 15-month period from October 1, 1984 to December 31, 1985. The main objectives of the PPD were as follows:

- mobilize national resources as part of a policy of concertation including not only all the relevant ministries and parastatal agencies but also the entire range of political organizations and local communities, down to the village level. This is the aim of the Basic Program, small in scale (CFAF 9.2 billion) but entirely financed by national contributions.
- coordinate foreign assistance as part of a substantial (CFAF 119.4 billion) Support Program which meshes with the country's main economic and social objectives.
- undertake a special effort on behalf of a few large-scale, top-priority national projects (CFAF 14 billion), particularly the Kompienga and Bagré dams and the Sahel railway.

1.47 At the economic and social level, the PPD (see Table 13) stressed four main priorities: food security, water supply, housing and basic social services. These priorities were partially reflected in the sectoral composition of the program, which emphasized agriculture and stock-raising (23 percent of the program), water supply (19 percent), transportation (23 percent) and human resources (12 percent). In all, the PPD (basic program, support program and priority projects) entailed expenditure projected at CFAF 142.6 billion. However, actual disbursements scarcely exceeded CFAF 80 billion, or 56 percent of the program. A review of implementation rates by sector indicates that performances in transportation, agriculture and stock-raising, and human resource sectors (77 percent, 65 percent and 65 percent, respectively) were markedly better than in the water supply sector (28 percent) and the projects of national priority (21 percent).

Table 13: Programme Populaire de Développement
October 1984-December 1985
(CFAF billion)

	Initial Program	Actual Disbursements
Rural Development	33.4	22.0
Agriculture/stock-raising	32.9	21.5
Environment/forestry	0.5	0.5
Water Supply	24.6	6.9
Secondary Sector	7.9	4.7
Industry and mining	2.9	2.1
Energy	1.5	1.4
Trade/tourism	3.5	1.3
Infrastructure	46.1	33.0
Transportation	29.0	22.3
Telecommunications	9.3	5.4
Public works	7.8	5.4
Housing	5.7	3.8
Other	2.1	1.6
Human Resources	14.8	9.7
Education	6.5	5.2
Health/social affairs	5.6	3.0
Information	2.6	1.5
Arts/sports/leisure	0.4	0.1
Public Administration	<u>1.5</u>	<u>0.7</u>
TOTAL	142.6	80.2

The Five-Year Plan

1.48 As in the case of the PPD, the preparation of the 1986-90 Five-Year Plan entailed an enormous effort of nationwide concertation and consultation. The Plan's objectives were ambitious, especially as regards the size of the program (CFAF 629.9 billion) and the level of disbursements projected for the early years (CFAF 108-109 billion for 1986, or 69 percent more than actual expenditure in 1985). The Five-Year Plan (see Table 14) gave top priority to

water supply (24 percent) and agriculture and stock-raising (20 percent), ahead of transportation (18 percent), energy (10 percent), mining and industry (9 percent) and human resources (8 percent). Judging from the results of the first two years (1986 and 1987), the implementation rate of the Plan was on the order of 53 percent (45 percent in 1986 and 61 percent in 1987), and this in relation to disbursement projections which were revised downwards at the beginning of each year. A review by sector shows that implementation rates were relatively high for water supply (68 percent), health and social affairs (67 percent), transportation and telecommunications (64 percent) and energy (61 percent); moderate for public works (53 percent) and mining (51 percent); and low for agriculture and stock-raising (40 percent), industry (26 percent) and education (9 percent).

Table 14: The Five-Year Plan, 1986-90
(CFAP billion)

	Five Year Plan 1986-90	Implementation 1986-87		
		Revised Plan	Disburse- ments	Implementation rate a/ (in %)
<u>Rural Development</u>	<u>135.7</u>	<u>36.9</u>	<u>16.0</u>	<u>49</u>
Agriculture/stock-raising	124.3	34.2	13.7	40
Environment/forestry	11.4	2.7	2.3	87
<u>Water Supply</u>	<u>150.0</u>	<u>37.6</u>	<u>25.7</u>	<u>68</u>
<u>Secondary Sector</u>	<u>126.7</u>	<u>54.9</u>	<u>29.7</u>	<u>54</u>
Industry b/	29.2	4.9	1.2	26
Mining	22.2	12.3	6.3	51
Small and medium enterprises	2.8	0.9	0.1	11
Energy	64.4	33.2	20.1	61
Trade/tourism	8.1	3.7	1.8	49
<u>Infrastructure</u>	<u>147.1</u>	<u>45.9</u>	<u>27.5</u>	<u>60</u>
Transportation	112.1	18.7	11.5	62
Telecommunications	19.1	9.3	6.5	71
Public works	15.9	17.9	9.4	53
<u>Human Resources</u>	<u>60.0</u>	<u>22.8</u>	<u>7.2</u>	<u>32</u>
Education	27.0	11.1	1.0	9
Health/social affairs	22.5	8.9	6.0	67
Information	10.5	1.5	0.2	14
Arts/sports/leisure	-	1.3	0.0	0
<u>Public Administration</u>	<u>10.4</u>	<u>5.8</u>	<u>1.6</u>	<u>28</u>
<u>Provincial projects</u>	<u>-</u>	<u>12.1</u>	<u>6.4</u>	<u>53</u>
TOTAL	629.9	216.0	114.2	53

a/ In relation to the revised plan.
b/ Including mining for 1986-87.

Annual Public Investment Programs

1.49 As already noted, under the Five-Year Plan, annual disbursement projections were revised downward at the beginning of each year, presumably to reflect the judgement of technical ministries regarding the pace of project implementation. In 1988, the Government showed greater realism by preparing a public investment program estimated at CFAF 74.1 billion, an amount only 20 percent greater than expenditure in 1987. This figure was revised to CFAF 84.3 billion during the year. This program, which included only projects for which financing was already assured, also ranked these projects based on their contribution in achieving three major national objectives: economic growth, food security, and national and regional integration. Final figures are not yet available for 1988, but preliminary information suggests that disbursements fell far short of projections.

1.50 The investment program for 1989 amounts to CFAF 124 billion, and principally consists of projects in progress. The new projects included in the program have been taken from a portfolio totaling some CFAF 256 billion; of this amount, firm financing commitments have been received for projects totaling CFAF 91 billion.

1.51 Finally, it should be noted that in 1986 the Government introduced a Computerized Project Monitoring System (SISP) which records accumulated disbursements for ongoing projects by sector and donor. The reports produced by this system also monitor financing commitments by donors.

1.52 It is very difficult, on the basis of the data currently available, to make judgments regarding the economic merits of the public investment program and the quality of the planning process. It would seem that in Burkina, as in many other African countries, the public investment program represents a compromise among a number of factors which can be summarized as follows:

- several dominant ideas governing the Five-Year Plan, the 1988 action program and all economic policy declarations in Burkina (food self-sufficiency and security; water management; improved access to the outside world; and development of human resources);
- the influence exerted by the various political and social groups on the content of the program and its allocation among the different regions and government departments;
- the project selection criteria and the preferences of the main donors, which are all the more important insofar as the national contribution to these projects, initially projected at around 20 percent of total public investment under the Five-Year Plan, has very probably fallen far below this figure;
- the use of the investment program and projects funded by external assistance as a practical means of mobilizing additional resources to finance recurrent expenditure that

the state budget either could not, or could no longer, finance.

1.53 All these considerations have merit and deserve to be respected. Nonetheless, one would hope that the final synthesis might be the result of a more systematic review, by the various national departments and agencies involved, of Burkina's overall development priorities, the resources available in light of the country's domestic financing and foreign borrowing capabilities, and the choices entailed by these priorities and the availability of resources. Otherwise the national objective of mobilizing the maximum amount of resources, combined with ad hoc operational choices by government departments and external donors, may lead to a basket of investments that lacks consistency and fails to meet the economy's real present and future needs.

1.54 In this respect, the recent effort by the Government to introduce greater realism in its investment planning, as well as the new desire on the part of most donors operating in Africa to have a global view of development objectives and priorities within the context of more flexible financing for a given sector or for the entire economy, offers Burkina an excellent opportunity to reconsider its planning structure and methods.

**Table 15: Public Investment Program for 1988
and Pipeline of Future Projects
(CFAF billion)**

	1988 Program	Future Projects (agreement signed by 6/30/88)	Future Projects (agreement not yet signed)
Rural Development	16.5	34.3	82.1
Agriculture/stock-raising	14.9	26.5	81.4
Water Supply	11.1	16.2	21.9
Secondary Sector	19.9	6.6	11.3
Industry 2/	6.6	6.0	2.8
Mining	0.0	0.0	2.1
Small and medium enterprises	0.4	0.5	0.0
Energy	12.0	0.1	3.9
Trade/tourism	0.9	0.0	2.5
Infrastructure	23.3	20.1	38.7
Transportation	14.7	18.5	31.0
Telecommunications	2.2	0.3	0.5
Public works	6.4	1.3	7.2
Human Resources	12.0	8.9	4.1
Education	6.5	8.0	1.5
Health/social affairs	3.9	0.9	2.4
Information	1.0	0.0	0.2
Arts/sports/leisure	0.6	0.0	0.0
Public Administration	1.6	4.9	6.6
TOTAL	84.3	91.0	164.7

(iv) The Parastatal Sector

1.55 In a country where the modern sector still accounts for only a small part of GDP, public enterprises account for a substantial part of the value added in this sector, and their performance can have a significant impact on economic activity and the public finance situation.

1.56 The establishment of a relatively large parastatal sector is not a recent development. The CNR regime (1983-87), and now the Popular Front, inherited this sector, which was initially established at independence and then steadily expanded by all the governments that subsequently administered Upper Volta. Since 1983, the Burkinabè Government has set up a number of new enterprises, in particular SONABHY to import petroleum products, CIMAT to import cement, SOBEMA for household articles and RX9 for urban and intercity transportation. The present Government attaches great importance to maintaining a dynamic parastatal sector. It is pessimistic about the capacity of the private sector, whether domestic or foreign, to engage resolutely in new activities, and believes that it is up to the State to take the initiative. Nonetheless, in this area as in many others, the dirigisme of the Government is tempered by pragmatism. For the last five years, the Government's efforts have mainly been directed to the rehabilitation and restructuring of enterprises in difficulty, on conditions and using methods that seem both reasonable and effective. Furthermore, when considering new initiatives, the Government has sought the cooperation of the private sector in all areas in which the latter can contribute resources, technology or markets essential to the success of the operation. This is, in fact, the most appropriate meaning to give to the term "state capitalism", which occupies an important place in the Government's economic policy; it indicates the Government's desire to use public investment, especially in the industrial sector, to encourage, promote and guide private investment, whether domestic or foreign.

1.57 Despite this pragmatism, the very size of the parastatal sector represents an economic and financial risk for Burkina which should not be underestimated. The economic risk lies in the complex system of benefits and subsidies which these enterprises receive directly or indirectly in the form of monopolies or protections. The latter do not, in practice, spur the enterprises to increase their efficiency and competitiveness, which in the long run could constitute a cost to the economy. The financial risk consists of government guarantees for the loans made to these enterprises, either by external suppliers and sources of financing or by the domestic banking system; it also involves the possibility that the State, as a shareholder, may find itself obliged to subsidize enterprises running at a loss. Already a substantial part of Burkina's public debt service obligations results from borrowing by the State or guaranteed by the State for the establishment and development of public enterprises. Nonetheless, an encouraging note is the Government's apparent desire to improve its knowledge of the parastatal sector through a series of comprehensive analyses and diagnostic studies that will provide information on which to base the definition of its future policy and programs.

Structure of the Parastatal Sector

1.58 In 1984 the Government published various decrees and orders designed to establish a legal framework for the sector and to classify the various kinds of public enterprises. The parastatal sector includes, on the one hand, public entities of an administrative nature (établissements publics à caractère administratif, or EPAs) and industrial and commercial agencies (établissements publics à caractère industriel et commercial, or EPICs), all operating within a relatively rigid legal, administrative and financial framework; and, on the other hand, state-owned enterprises (sociétés d'Etat, or SEs) and mixed-capital enterprises (sociétés d'économie mixte, or SEMs), which for the most part are governed by general business regulations. The public enterprises are relatively closely supervised; this involves the appointment of directors (who are generally competent managers), prior approval of budgets and investments, influence over their employment policy, an occasional intervention in supply or pricing policy ^{10/}, or the imposition of certain strategic choices. Supervision is carried out jointly by the Ministry of Economic Promotion (overall sector strategy, preparation and monitoring of restructuring programs, and technical supervision of industrial and mining enterprises), the Ministry of Finance (financial oversight of all public enterprises and technical supervision of the banking sector) and by the other technical ministries, especially Commerce and Transportation, in their respective spheres of activity. Nonetheless, according to the managers of many public enterprises, the supervisory ministries intervene little in day-to-day administration of the various enterprises.

1.59 Table 16 contains a schematic presentation of the main public enterprises. The specific feature of Burkina Faso's situation is that the parastatal sector not only controls almost all the public services (electricity, water, telecommunications) and the banking system, but also dominates the modern industrial sector and plays a non-negligible role in the commercial sector. Six public enterprises (SOFITEX, SOSUCO, SHSB-CITEC, FASO FANI, GMB and SIFA) alone account for about 30 percent of value added in the formal manufacturing sector (Table 16). All except SIFA are agroindustrial enterprises; all except SOFITEX target the domestic market. The mining sector is equally important and is expanding rapidly: SOREMIB (gold mining) is the second largest exporter after SOFITEX. The three largest enterprises in the commercial sector are Burkina-Shell (distribution of petroleum products), Faso Yaar (general commerce) and OFNACER (grain marketing). Tourism (Hotel Indépendance and Hotel Silmandé) is also largely controlled by the parastatal sector.

^{10/} For example, transfer prices between SOFITEX and FASO FANI, or between FASOPLAST and GMB.

Table 16: Principal State-Owned Enterprises and Mixed Enterprises, 1986

NAME	LEGAL STATUS	YEAR ESTABLISHED	ACTIVITY	CAPITAL	STATE HOLDINGS	TURNOVER %	NET PROFIT	VALUE ADDED (CEAF millions)	EMPLOYEES
SOFITEX	SEM	79	cotton	4,400.0	66.0	22,886.0	16.0	(404.0)	1,000
SOGLCO	SEM	75	sugar refining	6,031.0	88.6	8,473.0	753.0	5,086.0	2,476
SHSB	SEM	67	vegetable oil ext.	1,500.0	83.0	7,075.0	588.0	2,002.0	330
FASO FANI	SEM	69	weaving	1,109.0	62.4	6,416.0	345.0	2,291.0	818
QNB	SEM	70	flour	435.0	78.0	4,968.0	210.0	791.0	100
SIFA	SEM	86	cycles	673.0	47.0	3,832.0	244.0	669.0	**
SIFAM	SEM	70	munitions	40.0	72.0	608.0	15.0	240.0	46
CSFA	SEM	85	candies	217.0	42.0	542.0	37.0	174.0	90
SAVANA	SEM	77	food processing	429.0	45.0	407.0	(24.0)	31.0	90
SINAC	EPIC	78	shoes	239.0	100.0	180.0	(162.0)	(13.0)	70
ONEA	EPIC	63	agricultural equip.	975.0	100.0	490.0	48.0	160.0	112
SBMC	SEM	85	leather	419.0	52.8	141.0	(24.0)	72.0	59
CINAT	SEM	86	cement	1,800.0	61.2	-	-	-	-
FASOPLAST	SEM	86	plastics	681.0	91.8	-	-	-	75
SOBEMA	SEM	-	household article	100.0	50.0	-	-	-	-
SUB-TOTAL				8,998.0		56,018.0	2,046.0	11,039.0	5,866
BURKINA-SHELL	SEM	77	hydrocarbon imp.	254.0	51.0	2,628.0	51.0	515.0	80
FASO YAAR	SEM	67	general commerce	1,634.0	98.0	20,158.0	(479.0)	758.0	433
SONABHY	SEM	85	hydrocarbon dis.	1,000.0	100.0	5,793.0	43.0	763.0	12
OPNACER	EPIC	71	grain marketing	3,723.0	100.0	5,787.0	(2,944.0)	16.0	359
SBCP	SEM	68	hides and skins	100.0	49.0	1,567.0	57.0	245.0	117
ONERA	EPIC	75	meat	351.0	100.0	92.0	(93.0)	(15.0)	363
SONAPHARM	SEM	86	pharmaceuticals	400.0	**	975.0	77.0	188.0	27
SUB-TOTAL				7,462.0		36,900.0	(3,286.0)	2,470.0	1,391
BICIA9	SEM	73	bank	1,250.0	51.0	5,162.0	449.0	2,761.0	353
LONAB	EPIC	67	lottery	82.0	100.0	566.0	71.0	60.0	71
SOBGA	SEM	72	bank	250.0	39.8	522.0	3.0	147.0	**
CAI	EPIC	84	investment food	100.0	100.0	281.0	205.0	223.0	20
SONAR	SEM	74	insurances	120.0	52.0	1,702.4	202.3	**	60
ONCA	SEM	79	agricultural cr.	1,300.0	54.0	749.0	16.0	459.0	51
ONE	EPIC	59	bank	1,078.0	100.0	633.6	18.4	**	**
BIB	SEM	74	savings bank	200.0	50.0	4,948.0	279.0	2,907.0	445
BNDB	SEM	61	development bank	2,500.0	92.0	4,024.0	1,516.0	2,248.0	324
BFCI	SEM	85	deposit bank	3,400.0	79.0	627.0	71.0	489.0	**
UREBA	SEM	84	development bank	2,000.0	100.0	218.0	39.0	159.0	33
SUB-TOTAL				12,278.0		19,733.4	2,869.7	9,453.0	1,357
SONABEL	EPIC	68	electricity	1,388.0	100.0	8,954.0	201.0	2,478.0	749
ONEA	EPIC	78	water	3,086.0	100.0	1,932.0	(143.0)	711.0	650
OPT (ONP, ONATEL)	EPIC	68	post & telecom.	1,580.0	100.0	4,696.0	673.0	3,330.0	1,515
SUB-TOTAL				6,054.0		15,582.0	731.0	6,519.0	2,914
MAQAOANI	SEM	84	air transport	18.0	**	1,743.0	114.0	332.0	**
AIR BURKINA	SEM	66	air transport	35.0	66.0	993.0	**	**	80
RCV	EPIC	84	public transport.	102.0	100.0	930.0	104.0	536.0	306
SNIB	SEM	77	road haulage	180.0	51.0	621.0	65.0	552.0	240
SUB-TOTAL				335.0		4,487.0	283.0	1,420.0	626
HOTEL IND.	EPIC	61	hotel	529.0	100.0	780.0	187.0	512.0	154
HOTEL SILMANDE	SEM	79	hotel	1,600.0	99.0	710.0	(691.0)	415.0	134
LNBTP	EPIC	68	laboratory	100.0	100.0	510.0	91.0	397.0	138
CENATRIN	EPIC	70	data processing	184.0	100.0	394.0	6.0	257.0	62
IMPRIMERIE NAT.	SEM	64	printing	119.0	100.0	401.0	63.0	242.0	108
SUB-TOTAL				2,532.0		2,795.0	(344.0)	1,623.0	746
SOREHIB	SEM	71	mining	4,000.0	60.0	9,972.0	125.0	5,239.0	760
BAMIGOB	EPIC	78	mining	1,330.0	100.0	540.0	39.0	244.0	260
SMO	SEM	85	mining	650.0	53.0	-	-	-	-
SONICOB	SEM	85	mining	1,000.0	51.0	-	-	-	-
PROJET TAMBAO	EPIC	74	mining	10.0	100.0	-	-	-	-
SUB-TOTAL				7,190.0		10,512.0	164.0	5,483.0	1,020
ONBAH	EPIC	78	dams	60.0	100.0	1,029.3	144.0	**	333
SOCOGIS	SEM	64	real estate	1,843.0	98.0	129.0	115.0	103.0	27
SUB-TOTAL				1,903.0		1,158.0	259.0	103.0	360
CCIA	EPP	48	chamber of commerce	831.2	100.0	866.0	665.0	647.0	155
CBC	EPP	78	shipping	30.0	100.0	707.0	370.0	543.0	90
SUB-TOTAL				861.0		1,573.0	1,035.0	1,190.0	245
TOTAL				57,613.2		148,753.4	3,757.7	39,500.0	14,525

Source: Ministry of Economic Promotion

Performance of the Parastatal Sector

1.60 Available data do not permit an overall assessment of sector performance. Looking only at financial results, the state-owned enterprises, mixed enterprises and EPICs together achieved a positive net result of almost CFAF 4 billion in 1986. Nonetheless, it seems that a number of enterprises are in serious difficulties, particularly FASO FANI and SIFA in the industrial sector, and most enterprises in the commercial sector as well as the Banque nationale de développement, Air Burkina and Hotel Silmandé. The causes of these financial problems are diverse: overambitious investments with inadequate utilization rates (e.g., the Fokker airplane of Air Burkina; Hotel Silmandé); unprofitable ventures (the housing loans of the Banque nationale de développement and cloth manufacturing by FASO FANI); a pricing policy complicated by social considerations (FASO YAAR and, especially, OFNACER), etc. One very encouraging fact should, however, be noted: most of the enterprises which have recently been restructured (involving capital increases, reductions in personnel and in wages, fee adjustments, better internal management, rehabilitation of existing plant) have achieved significant improvements in their financial position. This is particularly true for SOSUCO, GMB, FASO YAAR and Hotel Indépendance.

1.61 Of course, financial results are only one aspect of the parastatal sector's performance. Even more crucial is the problem of the enterprises' long-term economic viability. Any evaluation of this viability is complicated by the interplay of numerous instruments (monopolies, protections, loan guarantees, debt relief, tax exemptions or abatements) whose effect is to ensure the financial profitability of activities that are economically questionable. Only a systematic study of the fiscal regime and of the effective protection it affords, as well as a thorough analysis of the operating performance of the main public enterprises can provide the basis for a well-informed judgment of the strengths and weaknesses, the potential and the risks of the parastatal sector. Our impression at this stage of its development is that, thus far, Burkina has managed to avoid most of the major investment and management errors which in many African countries have led to large-scale disasters. Furthermore -- and very importantly -- the Government has decided to undertake a systematic review of the parastatal sector, along with in-depth analyses of the principal enterprises. The studies to be undertaken will permit a more rigorous evaluation of the quality of management, the viability of investments and the prospects for these enterprises.

E. The Banking System, Money and Credit

(i) The Banking System

1.62 Burkina Faso is one of seven countries in the West African Monetary Union (UMOA, see para. 0.07), whose common currency, the CFA franc, is linked to the French franc at a fixed exchange rate of CFAF 50 to FF 1. Most of Burkina's foreign exchange reserves are held in French francs in the UMOA operations account in the French Treasury; a guarantee system protects these reserves against the effects of a depreciation of the French franc against other currencies. The Central Bank of West African States (BCEAO) determines the monetary policy of the UMOA countries, specifically through the following

instruments: (i) establishing annual credit ceilings for each country and requiring prior authorization for lending operations; (ii) setting rediscount rates and allowable banking margins; (iii) determining liquidity and reserve ratios; (iv) ceilings for government borrowing (20 percent of the tax receipts of the previous year); and, in exceptional cases, (v) the requirement that financial institutions hold special deposits. The BCEAO has a national office in each UMOA country, operating under the supervision of a national credit committee regarding the allocation and volume of credit and the monitoring of bank operations. The national monetary authorities thus determine sectoral goals for credit allocation and credit ceilings for each bank. In addition, banks are generally obliged to participate in certain operations, such as crop credit for agriculture or, in the case of Burkina, loans for construction, on terms that are not always financially sound.

1.63 The banking system in Burkina consists of eight deposit banks, including the Banque nationale de développement (BND), the Caisse nationale de crédit agricole (CNCA), and five financial institutions (Table 17). The Union Révolutionnaire de Banque (UREBA), set up by the Government in 1984, specializes in credit to local communities. The financial institutions also specialize, particularly with respect to credit for automobiles (SOBCA), for equipment (SIEL) and for small- and medium-scale enterprises (FGPME). The Caisse autonome d'investissement (CAI) is a type of investment fund made up of contributions from enterprises, which participates in the financing of industrial projects (see Annex I). The State is a shareholder in most of these banks and institutions, and plays a role, to a greater or lesser extent, in their management and credit policy. It should, however, be noted that the low level of state interference in banks' credit decisions and the generally sound management of the banks and financial institutions has enabled Burkina to avoid the collapse of the banking sector that currently plagues a number of UMOA countries.

1.64 A review of the balance sheets of the deposit banks for 1987 shows both that the banking sector was extremely liquid (the minimum liquidity and acid-test ratios prescribed by the BCEAO were exceeded by a wide margin, except in the case of the BND), and also that the three main banks were under-capitalized (the ratio of real capital to exposure was the same as, below or only slightly above the 6 percent minimum laid down by the BCEAO; the BND's real capital was actually negative as a result of the high volume of nonperforming loans, see Table 18 below). The highly liquid position of the banking system is due to the slackening of credit expansion and the accumulation of deposits from the private sector and certain public enterprises. Industry and commerce complain about the lack of dynamism in the banking sector; the banks complain in turn about the poor quality of credit applications and the inadequate guarantees provided by borrowers. The banks also point out that most of their resources are short-term, and that the BCEAO does not rediscount for periods longer than ten years, which significantly limits their ability to operate in certain sectors. The problem deserves in-depth examination as a part of a more complete, detailed study of Burkina's banking system, and of the financing needs of the public and private industrial sector. However, it is clear that the system of strict credit management and control of interest rates and banking margins in the UMOA does not help to invigorate the banking system or develop financial intermediation. In particular, interest rates have traditionally been too low to stimulate

ong-term mobilization of financial savings through local banks, while narrow banking margins have deterred the banks from taking risks.

Table 17: Capital Structure of the Banks (September 1988)

	Capital stock (CFAF billion)	State share	State-owned enterprises or mixed enterprises	Burkina private sector	Foreign public sector	Foreign private sector
	(.....percent of total.....)					
BIB	1.64	-	53	7	-	40
BICIA-B	1.75	51	-	4	-	45
BND	2.50	84	8	-	8	-
CNCA	1.30	38	16	-	46	-
CNDI						
(BFCI)	2.86	100	-	-	-	-
CAI	0.10	100	-	-	-	-
UREBA	2.00	51	49	-	-	-
BALIB	0.80	50	-	-	50	-
FIB	0.10	-	-	92	-	8
FGPME	0.03	100	-	-	-	-
SBE	0.05	-	-	-	-	100
SIEL	0.10	-	-	35	-	65
SOBCA	0.15	30	-	34	-	36

Source: Burkina authorities.

1.65 Special mention should be made of the problems of the BND, which is currently in a very difficult position. At the beginning of the 1980s, the BND, which is owned almost entirely by the State, became overextended (CFAF 19 billion at the end of 1983) in a series of unprofitable housing construction ventures. A rehabilitation program was introduced in 1984, consisting of an increase in the bank's equity, partial privatization of its capital, strengthening of its financial management, rescheduling of arrears to the BCEAO and the sale of residential and commercial buildings financed by the BND. The bank is currently in the second phase of its recovery program, but certain areas have proven difficult, particularly the sale of buildings. The rehabilitation program provides for a capital increase in which the BCEAO, the BOAD (West African Development Bank), the CCCE and private investors will participate; the State's share of the capital would thus be reduced. According to its balance sheet, the BND in 1987 was carrying a total of CFAF 12.9 billion in nonperforming loans;

the relevant provisions amounted to CFAP 6.8 billion. The "frozen" rediscounting at the BCEAO was CFAP 6 billion; this had been reduced to CFAP 3 billion in September 1988 as a result of the consolidation and rescheduling provided by the BCEAO.

Table 18: Banking Ratios (September 1987)

	CFAP billion		Percentages		
	Real capital <u>a/</u>	Exposure <u>b/</u>	Ratio real capital/ exposure	Liquidity ratio <u>c/</u>	Acid-test ratio <u>d/</u>
BCEAO (regulatory minimum)	-	-	6.0	3.0	75.0
BIB	1.4	29.5	4.6	33.6	132.7
BICIA-B	1.9	25.6	7.5	40.8	127.9
BND	-2.3	15.7	-14.3	4.5	52.9
CNCA	2.1	6.1	34.2	0.8	135.8
CNDI (now BFCI)	2.7	3.8	71.0	78.3	168.7
UREBA	1.7	1.0	165.0	91.8	136.7

a/ Capital, reserves, provisions, grants, and balance carried forward less nonperforming assets and capital not paid in.

b/ Credits extended minus loans guaranteed by the State or another agent.

c/ The liquidity ratio compares liquid assets to current assets.

d/ The acid-test ratio compares current assets to current liabilities.

Source: BCEAO

(ii) Money and Credit

1.66 During the period 1982-87 the money supply (M2) increased by about 14 percent a year (Table 19), principally as a result of the rapid growth of savings deposits (17 percent a year on average). The growth of savings and the prudent credit policy of the major banks seem to have neutralized the effects of the expanding money supply on domestic inflation; the velocity of money (M1) fell from 10.0 at the beginning of the 1970s to 5.6 in 1987. The velocity of M2 fell even more sharply (from 9.0 to 3.8), reflecting the rapid increase in time deposits. As a result, inflation has remained moderate, although fluctuating with changes in cereal prices.

1.67 The excess liquidity in the banking system is due primarily to the rapid growth of deposits by certain public enterprises, which at the end of 1987 amounted to CFAP 46 billion, or 56 percent of total bank deposits. In fact, more than 80 percent of these deposits belonged to just two institutions: the National Social Security Fund (CNSS) and the General Stabilization Fund (CGP). In brief, although advances from BCEAO to the State have reached the statutory ceiling, the public sector as a whole is, in net terms, increasingly in surplus vis-à-vis the banking sector. The State does not have direct access to most of these funds, which are recycled for the most part on the interbank money market and, to a lesser extent, on the UMOA money market.

Table 19: Monetary Survey
(CFAP billion)

	1982	1983	1984	1985	1986	1987	1988 ^{a/}
Net foreign assets ^{b/}	1.4	13.8	31.2	29.1	51.3	68.4	80.9
Domestic credit	78.2	73.3	72.4	83.7	85.0	79.0	86.6
Credit to Government (net) of which Central Govt.	0.6 -	-7.1 -	-6.2 -	-12.9 15.4	-16.8 14.1	-28.2 18.2	-31.4 -
Credit to the economy	77.7	80.5	78.7	96.2	101.7	107.1	118.0
Short term ^{c/}	43.9	45.5	41.8	57.5	61.7	67.7	72.5
Medium and Long term	26.1	29.4	30.7	31.0	31.0	31.7	35.5
Overdue	2.1	0.5	0.8	1.5	3.2	1.7	
Non-performing	4.9	4.3	4.6	5.4	4.7	4.8	8.8
Claims on financial institutions	0.6	0.8	0.8	0.7	1.1	1.2	1.2
Broad money supply (M2)	71.4	80.0	92.8	99.0	120.8	134.6	153.2
Money	54.3	60.3	66.5	69.5	85.4	91.2	99.3
Quasi-money ^{d/}	17.0	19.7	26.3	29.3	35.3	43.4	53.8
Long-term foreign liabilities	4.3	4.4	2.7	2.7	3.5	4.0	4.5
SDR allocation	3.2	3.8	4.1	4.4	3.9	3.7	3.7
Other (net)	0.7	-1.0	4.1	6.4	8.1	5.0	6.1

^{a/} As of end-September 1988.

^{b/} Does not include medium- and long-term liabilities of deposit banks or SDR allocation; includes IMF reserve position and Trust Fund.

^{c/} Includes crop credits and customs duty bills.

^{d/} Includes CNE deposits as of 1985.

Source: Table 6.1, Statistical Annex.

1.68 Over the last six years, with the exception of 1985, net inflows of external capital have been greater than the current account deficit, leading to a steady increase in net foreign assets from CFAP 1.4 billion in 1982 to more than CFAP 80 billion in September, 1988. Burkina, Togo and Niger are the only three countries among the seven UMOA members to show a positive balance in the operations account with the French Treasury.

1.69 Bank lending to the public sector (State plus public enterprises of an administrative nature) has fluctuated in the CFAF 16-21 billion range, while the growth of credit to the private sector did not exceed 7 percent a year between 1982 and 1987; in fact, from 1982 to 1984 lending to the private sector stagnated. It increased sharply in 1985 and rose only moderately in 1986 and 1987. In 1988 the growth of credit accelerated considerably.

1.70 The main component in bank lending to the public sector has been BCEAO advances to the State, which reached their statutory ceiling in 1987. Over the last three years, total commercial bank lending to the State has grown by some CFAF 3 to 4 billion, while lending to public enterprises of an administrative nature (EPAs) has not exceeded CFAF 3 billion. Given the size of their deposits, the main EPAs scarcely need to borrow from the banking system.

1.71 Since mid-1986, the standard rediscount rate had been fixed at 8.5 percent, and bank margins had been held to a maximum of 5 percent. Crop credit, as well as credit for the construction of primary residences (up to CFAF 15 million) and for small- and medium-scale enterprises (up to CFAF 30 million) benefited from a preferential rediscount rate of 6 percent, with margins limited to a maximum of 3 percent. In 1988, however, the Central Bank raised the normal and preferential rediscount rates several times, up to the current levels of 10 and 9 percent respectively.

1.72 The slow growth of lending to the private sector since 1982 has already been noted. The share of short-term lending, including crop credits and customs duty bills, increased from some 55 percent of total credit in 1982 to 62 percent in 1987. The share of medium and long-term lending declined correspondingly; the other types of credit shown in Table 19 include non-performing loans and claims on other financial institutions.

1.73 Table 20 shows the allocation of bank credit by sector; it should, however, be pointed out that the figures are very approximate since the data cover only some 75-85 percent of total bank credit according to the BCEAO. For short-term credit, the share allocated to wholesale and retail trade is between 50 and 60 percent, while the share of the manufacturing sector (including cotton ginning) fell from 32 percent in 1980 to 16 percent in 1987; for medium-term lending, the largest recipient is manufacturing, whose share nonetheless fell from 41 percent to 27 percent, followed by social/community services and trade.

Table 20: Allocation of Bank Credit, by Sector

	CFAF billion		As % of total					
	1980		1987		1980		1987	
	ST	MLT	ST	MLT	ST	MLT	ST	MLT
Agriculture, fishing, forestry	0.3	0.1	1.1	3.1	1	0	2	9
Mining	0.0	0.0	0.0	3.2	0	0	0	9
Manufacturing industrial	8.0	7.9	8.7	10.0	32	41	16	27
Wholesale and retail trade	13.8	1.9	32.7	6.6	54	10	60	18
Construction and public works	1.7	0.3	5.6	0.5	7	1	10	1
Transport and telecommunications	0.7	2.9	1.2	2.1	3	15	2	6
Electricity, gas and water	0.0	1.4	0.0	0.7	0	7	0	2
Commercial services	0.0	0.7	0.1	1.1	0	4	0	3
Social and community services	0.8	4.1	4.9	9.3	3	21	9	25
TOTAL	25.4	19.4	54.4	36.6	100	100	100	100

Source: Table 6.4, Statistical Annex.

F. The External Financial Situation

(i) Foreign Trade

1.74 In the absence of reliable and comprehensive data on imports and exports, it is impossible to make a rigorous analysis of Burkina's foreign trade. The figures provided by the customs authorities are based on volumes recorded, using values calculated on the basis of fixed reference unit values (mercuriales) which, for the most part, have remained unaltered since 1982. As a result the values reported for foreign trade flows do not reflect current market prices and, more disturbing, rarely coincide with the volumes recorded and the respective benchmark unit values. Furthermore, substantial trade flows that evade controls are not included. To remedy these weaknesses, the BCEAO adjusts customs statistics to reflect prevailing market prices and then evaluates uncontrolled foreign trade on the basis of currency movements within the UMOA. These estimates incorporate a large margin of error due to the fact that a portion of uncontrolled trade involves countries outside the UMOA, such as Ghana and Nigeria, and that an unknown percentage of the movements of BCEAO currency represents remittances from Burkina workers abroad rather than trade flows. Even so, the BCEAO estimates for foreign trade are a considerable improvement over the basic customs data and were used as a basis for the mission's estimates. The BCEAO figures were adopted not only for total imports and exports but also for certain categories within these overall amounts. Other categories were

estimated by the mission 11/. The resulting figures should be interpreted with caution and the analysis can only be regarded as indicative of the major trends.

1.75 Table 21 presents the BCEAO and mission estimates for foreign merchandise trade for the years 1982-87. It shows that export earnings increased 67 percent in current value during this period. With cotton fiber traditionally being the main export, the relevant statistics are satisfactorily established via official channels. The volume of cotton exports rose continually, doubling since 1982, but the collapse of world prices in 1985-86 led to reduced earnings in those years. Livestock and related products also accounted for a significant share of Burkina's exports in this period, but export volumes are difficult to estimate given that most of the animals were exported on the hoof, with transactions being made through unofficial channels. The value of livestock exports is probably as high as that of cotton exports; they are, however, subject to large fluctuations as a result of climatic conditions. Exports of gold have risen strongly in recent years, initially as the result of industrial-scale exploitation, and, after commercial operations reached a plateau, as a result of small-scale artisanal exploitation (gold panning). The artisanal production was largely exported outside official channels. The value of gold exports is believed to have exceeded that of cotton fiber exports since 1985. Burkina Faso also exports other agricultural products, such as cereals and other food crops, whose volume fluctuates depending on climatic conditions and harvest size, as well as cash crops such as shea nuts and sesame. Shea nuts (karité), used in the cosmetics industry, once played an important role in the country's economy,

11/ Information sources: Figures provided by the Ministry of Trade and BCEAO to the mission, other data on agricultural imports and exports, particularly annual reports of CSPPA, SOFITEX and CNCA, the study on cereals policy, reports of the State Secretariat for Livestock, etc.

Assumptions:

1. Exports

Cereals: exports estimated using the analysis of surpluses and data collected by the FAO mission in July 1987 on significant flows of non-declared exports.

Fruits and vegetables: customs figures doubled to allow for the non-recorded exports estimated from data on cultivated areas and the observations of the Ministry of Agriculture on non-recorded exports.

Sesame, oilseeds and vegetable oils: customs figures.

Shea nuts: BCEAO figures.

Other cash crops: confectionary groundnuts, gums, etc.: customs figures doubled to allow for non-declared exports.

Livestock:

- hides and skins: customs figures.

- animals on the hoof: calculation made on the basis of the value of production as recorded in the national accounts, and an estimate of domestic consumption.

Gold: mission and CCCE estimates.

Manufactured products: cotton fiber, BCEAO figures; other products, customs figures.

2. Imports

Cereals: estimate based on customs figures adjusted to take into account estimates of food aid using data from OFNACER and NGOs.

Dairy products: estimate based on customs figures adjusted using the same ratio of non-declared food aid as calculated for cereals.

Other food products: customs figures.

Petroleum products: BCEAO figures.

Capital goods: national accounts.

Intermediate goods: customs figures.

Consumer goods: residual value.

but exports have dropped sharply in recent years owing to the saturation of the European market and the development of substitute products.

1.76 During the period 1982-87, imports increased by 40 percent in nominal terms, i.e. considerably less rapidly than exports. The drought, along with a reduction in assistance flows and the halt in private sector investments, caused imports to stagnate between 1982 and 1984. A more detailed analysis, based on different categories of imports, is hampered by lack of data. It appears that cereal imports (including food assistance) reached a maximum in 1984 and 1985 as a result of the drought, while other categories of imports either remained flat (food products, petroleum, capital goods) or declined (intermediate goods and consumption goods) during the period 1982-84. In 1985, there was a sharp increase in all kinds of imports, whose total value rose 35 percent. This was followed by three years of moderate growth, with cereal imports declining as a result of consecutive good harvests. The relatively weak growth of imported intermediate goods reflects the dominant role of cotton processing activities in the manufacturing sector, as well as low levels of growth in other subsectors.

1.77 The geographical distribution of Burkina's foreign trade is relatively diversified (Table 22). The country's main commercial partners are in the EEC, which receives more than 50 percent of recorded exports and produces 40-50 percent of imports, depending on the year in question. France's share of imports seems to be declining, but its share in recorded exports has risen steeply in the last two years. The remaining foreign trade is basically divided among African countries, especially UMOA members, the U.S. and Asia, which together absorb a significant proportion of official exports. The relatively large share of the UMOA countries in Burkina's foreign trade should be noted; it far exceeds the corresponding figure for the other UMOA member countries, suggesting that regional economic integration is more advanced in Burkina. This proportion is, in fact, even higher than it appears, given that much of the unrecorded trade takes place with neighboring UMOA countries.

Table 21: Foreign Trade, 1982-87
(CFAF million)

	1982	1983	1984	1985	1986	1987
Merchandise exports (FOB)						
Food products	8.4	0.6	0.7	12.2	10.5	6.9
Cereals and tubers	7.6	0.0	0.0	10.7	9.3	4.9
Fruits and vegetables	0.9	0.6	0.7	1.5	1.2	2.0
Cash crops	4.3	5.7	7.5	6.1	4.6	4.5
Shea nuts	3.0	4.1	5.2	2.5	0.6	0.6
Sesame	0.4	0.4	0.8	1.3	1.6	1.6
Other grains and oilseeds	0.3	0.6	0.2	0.4	0.3	0.3
Other	0.6	0.6	1.3	1.9	2.1	2.0
Livestock	18.3	19.1	30.5	19.9	17.3	19.9
Animals on the hoof	17.6	18.9	27.7	17.0	15.9	18.5
Livestock products	0.7	0.2	2.8	1.9	1.4	1.4
Manufactured products	10.5	17.6	22.9	15.6	15.2	23.1
Cotton fiber	7.9	15.8	19.7	13.3	12.8	20.5
Clothing	1.3	1.1	1.8	1.2	1.7	1.8
Oilseed cakes	0.4	0.3	0.5	0.3	0.2	0.3
Tires	0.9	0.4	0.9	0.8	0.5	0.5
Gold	4.9	6.8	8.0	13.4	18.1	20.6
TOTAL EXPORTS (FOB)	46.4	49.8	69.6	66.2	65.7	75.0
(US\$ millions)	(141.2)	(130.7)	(159.3)	(147.3)	(190.4)	(248.3)
Merchandise imports (FOB)						
Food products	24.9	26.4	39.0	44.4	37.2	30.4
Cereals	10.2	10.2	23.2	23.9	15.1	8.8
Dairy products	3.4	4.5	4.7	4.1	6.3	5.6
Others	11.3	11.7	11.1	16.4	15.8	16.0
Petroleum products	17.2	17.4	18.4	23.7	26.0	27.0
Consumer goods	33.0	28.4	17.4	32.6	42.3	55.2
Capital goods	31.0	34.3	32.9	44.3	40.4	44.3
Intermediate goods	11.6	10.6	9.7	13.3	14.4	8.1
TOTAL IMPORTS (FOB)	117.7	117.1	117.4	158.3	160.3	165.0
(US\$ millions)	(358.2)	(307.3)	(268.6)	(352.3)	(464.6)	(548.2)

Source: BCEAO, Customs Service and mission estimates.

Table 22: Geographical Distribution of Foreign Trade

	Percentages				
	1982	1983	1984	1985	1986
I. EXPORTS	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Europe	<u>48.9</u>	<u>29.1</u>	<u>32.8</u>	<u>51.1</u>	<u>51.2</u>
of which:					
EEC	42.0	27.8	35.6	41.6	41.0
of which: France	14.5	11.9	10.5	29.0	26.4
Other western European countries	1.9	1.3	4.3	9.5	10.2
Africa	<u>31.9</u>	<u>26.3</u>	<u>20.4</u>	<u>23.0</u>	<u>20.8</u>
of which:					
UMOA	27.8	14.7	17.3	18.3	19.8
of which: Côte d'Ivoire	21.0	9.0	14.8	15.0	15.1
America	<u>0.1</u>	<u>1.1</u>	<u>1.0</u>	<u>0.9</u>	<u>0.6</u>
Asia	<u>23.9</u>	<u>43.2</u>	<u>38.5</u>	<u>24.8</u>	<u>27.1</u>
II. IMPORTS	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Europe	<u>49.7</u>	<u>46.4</u>	<u>41.4</u>	<u>40.9</u>	<u>50.0</u>
of which:					
EEC	47.5	43.6	39.1	37.9	48.2
of which: France	32.0	27.9	26.0	23.6	29.5
Other western European countries	1.7	2.4	1.8	2.6	1.2
Africa	<u>27.8</u>	<u>28.8</u>	<u>30.3</u>	<u>30.6</u>	<u>28.4</u>
of which:					
UMOA	25.5	26.4	26.1	25.5	25.1
of which: Côte d'Ivoire	22.5	23.6	22.4	22.7	21.5
America	<u>11.0</u>	<u>13.7</u>	<u>12.8</u>	<u>16.6</u>	<u>12.2</u>
of which: USA	6.6	9.4	10.0	15.0	9.0
Asia	<u>10.9</u>	<u>11.1</u>	<u>15.3</u>	<u>11.7</u>	<u>9.2</u>

Source: Ministry of Trade

(ii) Balance of Payments

1.78 The principal features of Burkina's balance of payments are as follows:

- a substantial trade deficit: exports of goods and services on average (1983-87) cover only 45 percent of imports of goods and services;

- a large surplus on factor services (deriving from the remittances of Burkinabè workers abroad) and on current public and private transfers;
- similarly significant net capital inflows, of which 54 percent on average represents grants for project financing, 38 percent net disbursements on foreign loans and 8 percent private direct investment;
- a continual balance of payments surplus over the last ten years (except for 1982 and 1985), enabling Burkina to remain one of the few countries in the UMOA and BEAC zones to have a substantial positive balance in the operations account within the French Treasury.

In practice, given the discipline imposed by the monetary union on the volume of public and private credit, Burkina's external position, leaving aside its exports, is more determined by the availability of external financing, on which its capacity to import depends, than by the Government's management of domestic demand.

1.79 The balance of payments presented in this report is based on data provided by the BCEAO, with a few exceptions. First, the figures for debt service payments and loan disbursements are taken from World Bank records. In the past, there was some confusion as to whether the figures for debt service in the official balance of payments represented amounts due or amounts paid, leaving the exact arrears situation unclear. Second, the annual changes in net foreign assets are based on IMF data, which are, in fact, quite similar to the BCEAO calculations. Finally, total export earnings have been adjusted by the mission to include new estimates of artisanal gold exports. This is the only change made to the foreign trade figures provided by BCEAO (para. 1.74).

1.80 A comparison of the balance of payments for the period 1983-87 and the preceding period reveals a certain stability. While trade deficits have increased in recent years, the resource gap in the two periods remained at an average of 26 percent of GDP, fluctuating annually between 22 percent and 30 percent of GDP. Transfers by workers abroad were 7-9 percent of GDP in 1977-82, and 9-11 percent in the period 1983-87. However, the increase in the trade deficit, and the higher transfers by workers abroad during the latter period, may be more the result of a methodological change in the recording of UMOA currency movements (para. 1.74) than of a real change in unofficial trade or transfers of savings. Likewise, during the period 1983-87, the share of private current transfers in GDP may have grown as a result of changes in the methods used to estimate the percentage of current transfers in total transfers. In all, the current account deficit improved, falling from more than 18 percent of GDP on average in 1977-82 to 11 percent in 1983-87. Even if it is assumed that current transfers as a percentage of GDP remained constant, the improvement in the current account over the period 1983-87 would still be significant.

1.81 As regards the capital account, net inflows have consistently exceeded the deficit on current account, except in 1985, producing an overall balance of payments surplus and a substantial accumulation of net foreign assets. Since

1983, private capital flows have fallen continuously, reflecting the decline in direct foreign investment under the political situation which prevailed until end-1987. Preliminary data for 1988 show that this trend has reversed. Net inflows from public borrowing declined sharply in 1985 and 1986 as a consequence of the reduction in new commitments after 1982 and the increased repayments on sizeable loans contracted in the period 1978-82. Grants for project financing also fell sharply between 1983 and 1985, increasing again in 1986 and 1987. In all, net foreign reserves, which had declined by CFAF 8 billion during 1977-82, increased by CFAF 66.5 billion between the end of 1982 and the end of 1987, equaling more than three and a half months of imports of goods and nonfactor services. These reserves increased by a further CFAF 14 billion in 1988, reflecting an expansion of export earnings and a favorable balance of payments outcome for the year.

1.82 The amounts shown in "Errors and Omissions" are residuals, calculated as the difference between the overall balance of payments surplus, which is known, and its constituent elements. Being negative, they partly reflect an underestimation of imports or an overestimation of exports. They include repurchases of CFAF currency in central banks abroad, which represent either payments for nonofficial imports or capital outflows outside official circuits. They may, of course, simply reflect errors in the estimates for capital movements.

(iii) External Debt

1.83 Over the past 20 years, Burkina's foreign debt has increased very rapidly, from US\$17 million in 1967 to US\$134 million in 1977 and US\$794 million in 1987, equal to 47 percent of GDP. The growth of the debt since 1978 can be attributed to the increase in loans obtained from traditional bilateral and multilateral sources, along with new donors, such as the regional development banks, the OPEC countries and other bilateral donors outside the DAC. Debt service obligations have also increased rapidly; they rose tenfold between 1967 and 1977 and did the same again during the following ten years, to reach US\$50 million equivalent in 1987. This steep rise reflects the rapid growth of obligations deriving from both private, commercial loans and nonconcessional public lending. Debt service amounted to 17 percent of the value of exports in 1987, although the sums actually paid represented only 11 percent of exports due to the accumulation of arrears. Since Burkina is part of the franc zone, it has a freely convertible currency, which eliminates the normal foreign exchange reserves constraint. However, debt service payments are encountering severe budgetary restrictions. Debt service obligations rose from 5 percent of budget revenues at the end of the 1970s to almost 20 percent in 1987.

Table 23: Balance of Payments
(US\$ million)

	1982	1983	1984	1985	1986 est.	1987 est.
RESOURCE BALANCE	-343.6	-287.1	-208.7	-312.9	-386.4	-450.2
Trade Balance	-217.0	-176.6	-109.4	-205.2	-274.2	-294.9
Exports (FOB)	141.2	130.7	159.3	147.1	190.4	248.3
Imports (FOB)	358.2	307.3	268.6	352.3	464.4	546.2
Net Non-factor Services	-126.6	-110.5	-99.3	-107.7	-112.2	-152.3
Receipts	49.6	39.0	27.5	27.2	37.7	43.7
Payments	176.2	148.5	128.8	134.9	149.9	196.0
NET FACTOR SERVICES	105.3	107.1	88.1	124.0	148.1	178.1
of which:						
Workers' remittances	110.2	113.1	90.2	126.0	162.9	195.3
Interest payments a/	-7.6	-7.6	-5.9	-10.0	-11.9	-13.9
NET PRIVATE TRANSFERS	7.6	-1.3	5.3	13.6	23.2	19.9
NET PUBLIC TRANSFERS	60.9	55.4	64.1	55.6	69.6	66.2
CURRENT ACCOUNT BALANCE	-169.8	-126.0	-51.3	-119.7	-145.5	-186.0
Short-term capital	4.6	-1.8	-0.5	2.7	4.1	6.6
Medium and long-term private capital	13.1	22.8	14.6	10.2	10.7	8.9
Medium and long-term public capital	150.6	149.8	114.0	109.0	199.7	243.3
Development grants	77.0	68.2	70.9	71.2	127.5	149.0
Public borrowing (net)	73.6	81.6	43.0	38.7	72.2	94.3
Disbursements	81.3	89.2	54.7	55.6	93.9	111.9
Amortization a/	-7.6	-7.6	-11.7	-16.9	-21.7	-17.5
SDR Allocation	0.9	1.3	0.9	0.7	-1.7	-0.7
Errors and Omissions	-11.3	-13.4	-37.8	-5.3	-9.3	-15.2
OVERALL BALANCE	-11.9	32.8	40.0	-1.6	58.0	58.9
Change in net external assets b/	11.9	-32.8	-40.0	1.6	-58.0	-58.9
Memo items:						
Net foreign assets at year end c/	5.5	37.5	72.8	69.2	148.1	226.1
PERCENTAGE OF GDP:						
Trade Balance	-18.7	-16.7	-11.4	-19.2	-18.8	-17.7
Resource Balance	-29.7	-27.2	-21.1	-28.8	-21.6	-22.8
Workers' remittances	9.5	10.7	9.4	11.8	11.2	11.6
Current Acct. Bal.	-14.7	11.9	-5.4	-11.2	-10.0	-11.0

a/ Actually paid.

b/ A minus sign means an increase in net external assets.

c/ Actual changes in net external assets at year end do not correspond to the changes shown because of exchange rate fluctuations.

Source: Tables 2.1, 3.1, and 3.2, Statistical Annex.

1.84 The increase in external indebtedness has been accompanied by major shifts in its composition. Twenty years ago virtually all debt was owed to bilateral creditors, while currently almost 60 percent is owed to multilateral creditors. The expansion of multilateral borrowing is largely the result of loans from IDA (45 percent of total multilateral debt at the end of 1987) and from the African Development Bank/African Development Fund (20 percent of the multilateral total). Almost 90 percent of these multilateral loans were made on concessional terms. The corresponding percentage for bilateral loans is 74 percent, about three-quarters of these loans being provided by France. Private flows on market terms account for only a small percentage of total debt. Overall, the share of concessional debt in total indebtedness has fallen steadily from 93 percent in 1967 to 80 percent in 1987. This decline can be attributed to increased borrowing on market terms (at interest rates ranging from 7 to 15 percent and maturities of between five and ten years) which took place at the end of the 1970s and the beginning of the 1980s. In addition, between 1978 and 1981, Burkina contracted a certain number of bilateral loans on relatively hard terms. As a result, the average grant element of new commitments during that period fell to a low of between 40 and 55 percent. However, in recent years new borrowing on nonconcessional terms, particularly from private sources, has practically disappeared. No new commitments have been undertaken with private financial institutions since 1983 and no medium- to long-term suppliers' credits have been contracted since 1984.

Table 24: Total Indebtedness
(US\$ million)

Current debt by source:	At year end		
	1967	1977	1987
Suppliers' credits	-	2.8	9.1
Financial institutions	0.3	1.5	29.0
Multilateral agencies	-	60.2	490.7
Bilateral agencies	16.2	69.9	265.5
TOTAL	16.5	134.3	794.3
of which			
concessional	15.3	119.9	632.4
nonconcessional	1.2	14.5	161.9
Total debt/GDP (%)	22.0	17.5	46.8

Source: Debt and International Finance Division, World Bank.

1.85 In brief, total commitments increased rapidly after 1977, reaching a maximum of US\$176 million in 1982. They fell by almost half in 1983 and stabilized around US\$90 million a year until 1986 when they declined again, to about US\$60 million. New commitments were about US\$74 million in 1987. It should, however, be noted that these figures are not very consistent with the disbursements recorded in the balance of payments, which increased sharply in 1986 and 1987. There are two possible explanations: either the debt report did not incorporate the actual total of commitments in 1986 and 1987, or, as a result of delays in the implementation of certain public projects, some of the disbursements in 1986 and 1987 related to commitments contracted before 1983.

1.86 The evolution of debt service payments reflects the structure of the loans contracted over the last 20 years. Although they only account for about 5 percent of total debt, private commercial loans are now falling due and represent almost 20 percent of debt service obligations. By contrast, multilateral loans account for more than two-thirds of the total debt, but, as a result of the more favorable conditions granted by the main creditors, they represent only half the payments due. The proportion of debt service attributable to bilateral obligations has fallen since the end of the 1970s, and the creditors in question have become more diversified: although formerly they consisted only of DAC countries, they now include OPEC countries and other nations.

Table 25: Debt Service and Accumulated Arrears

	<u>US\$ million</u>			Arrears at end-1987
	<u>Debt service payments</u>			
	1987	1977	1987	
Suppliers' credits	-	0.5	0.6	7.8
Financial institutions	-	0.2	4.0	21.3
Multilateral agencies	-	1.3	17.1	15.3
Bilateral agencies	0.5	3.4	9.7	13.9
TOTAL	0.5	5.4	31.4	58.3
of which				
concessional	0.3	2.8	16.6	14.3
non-concessional	0.2	2.6	14.8	43.9
% of exports of goods and non-factor services	7.1	4.9	10.8	29.3
% of budget receipts	6.4	4.7	12.2	33.8

Source: Debt and International Finance Division, World Bank.

1.87 It is difficult to calculate with any precision the amounts due, amounts paid and accumulated arrears on debt service in recent years. The figures provided by various government departments conflict, particularly because of non-systematic treatment of exchange rates and/or the use of

differing accounting procedures for payments of arrears. The latter have either been recorded in the accounts as part of current payments, or added "retroactively" to figures for previous years, or even, but less frequently, correctly identified as the settlement of arrears. Nonetheless, by examining several analyses of the external debt made by the Government, the Central Bank and several major donors, a fairly consistent picture can be obtained of the recent past and near future. In 1985 and 1986, debt service obligations were approximately CFAF 16-17 billion a year, while actual payments were on the order of CFAF 12 billion. ^{12/} Arrears were therefore accumulating, although, at the same time, undetermined amounts were being spent to pay off previous arrears. In 1987, debt service obligations were CFAF 15 billion while actual payments were CFAF 9.4 billion. Total arrears were CFAF 17.5 billion at the end of 1987, of which 50 percent related to commercial debts, 26 percent to multilateral debts and 24 percent to bilateral debts. More than 80 percent of these arrears were on nonconcessional loans.

1.88 The preliminary debt service data for 1988 show a rapid deterioration in the budgetary situation. Debt service obligations exceeded CFAF 18 billion, or about 23 percent of government receipts. According to the authorities only CFAF 5.1 billion had actually been paid by the end of 1988, which would imply gross increase in arrears of CFAF 13 billion. However, since debt service due in 1988 continued to be paid in the early months of 1989, and arrears prior to 1988 were reduced by CFAF 4 billion in 1988, net arrears at the end of 1988 should have been somewhere between CFAF 25 and 30 billion (equivalent to US\$84-100 million), or about one-third of net foreign reserves and slightly less than one-third of budget receipts.

1.89 In the years ahead, debt service obligations on the existing loan portfolio will continue to increase, reaching some CFAF 20 billion (US\$66 million) in 1992, and intensifying the pressure on Burkina's limited budget resources. Some relief in the form of debt rescheduling or cancellation may ease this burden. However, an analysis of maturities or arrears payable in 1987 shows that 70 percent of the total was owed to multilateral agencies or private, commercial creditors, which limits the potential for rescheduling. The remainder was owed to official, bilateral creditors, about two-thirds to Paris Club members, and the balance of OPEC countries and other nations. If the principal on all official, bilateral debts still to be repaid, or which should already have been repaid, had been rescheduled or cancelled in 1987, total debt service obligations would have been reduced by 18 percent, or about US\$15 million. Including interest payments, the reduction would have been close to 30 percent, or US\$25 million.

^{12/} The figures for debt service obligations before 1987 come from projections made by the CCCE based on total debt at the end of 1983. Figures for debt service payments actually made before 1987 come from IBRD records. Data for 1987 and later years are based on calculations by both of these two sources which are nearly identical.

II. THE MAJOR SECTORS

A. Agriculture

General Considerations

2.01 Dynamism and growth are the two most salient characteristics in the recent performance of the agriculture sector, despite serious constraints: limited natural resources, very sharp climatic fluctuations, and an unfavorable economic environment. Agriculture continues to be the most important sector in Burkina's economy in terms of its contribution to GDP (38 percent on average), employment and personal income. Its annual growth rate of 5.4 percent over the period 1982-87 means that Burkina has turned in one of the best performances in the region. The very rapid development of cotton production from 1982 to 1987 best illustrates -- and was a driving force in -- this remarkable performance. Equally important indicators include the increase in productivity of most crops, the beginnings of greater regional specialization, further efforts at diversification and initiatives for conservation of natural resources.

2.02 What are the factors that explain this performance? The intrinsic qualities of Burkina's farmers and herders, who consistently demonstrate their remarkable ability to adapt and survive in a demanding agroecological environment, are complemented by the Government's relatively stimulating agricultural policy. The pragmatism displayed by the authorities compensated for the dirigisme that marked the entire period. Thus, a number of unpromising experiments, such as the nationalization of production structures, have been curtailed. Economic policies, while not optimum, have not generated major distortions. One has the impression that the agriculture sector has slipped through the net of controls and regulations, and this has allowed it to accelerate growth.

2.03 Nevertheless, one cannot help thinking that additional efficiency gains could have been obtained, and are immediately possible. Major institutional changes such as the abolition of the Regional Development Organizations and measures such as the restrictions on external trade of fresh produce in 1985-86, the regulation of domestic trade and the intermittent promotion of certain crops (cowpeas, soybeans) have generated a climate of uncertainty for more than three years. Moreover, Burkina still faces difficult problems: has growth not been achieved at the expense of the environment? The degradation of Burkina's natural resources (soil, water, plant cover), itself a consequence of population growth, is eroding its productive capital. Also, certain activities, such as herding, seem to be growing less competitive, and the uncertainties concerning the agricultural trade balance will undoubtedly be difficult to eliminate.

2.04 The current structure of the agricultural sector is largely dictated by Burkina's agroecological characteristics, which divide the country into five major zones: Sahelian, Central Plateau, West, Southwest, and East, with annual rainfall ranging from 350 mm (Northern Sahel) to 1,000 mm (Southwest). This structure is currently evolving: the part of the country south of isohyet 700, which had long remained sparsely populated and underutilized because of onchocerciasis and trypanosomiasis, is today a target area for migration into

which crop production and stock-raising are expanding. The Sahelian zone is becoming less dominated by herding as the population increasingly turns to sedentary farming and lowland cultivation. The Central Plateau, the country's most densely populated and heavily degraded zone, is the major source of emigration and is losing its predominantly agricultural function. It is estimated that 11 percent (30,000 km²) of the land is cultivated each year, i.e. one third of the cultivable area (88,000 km²), mainly through rainfed production since less than 1 percent of the cultivated land is irrigated. Pastoral land accounts for 47 percent of the total area of Burkina Faso and forests for 13 percent, with 8 percent being used for other purposes. The agriculture sector is dominated by small family farms, numbering some 600,000, which account for 95 percent of total production. The remaining 5 percent of production comes from state or private farms. Pastoralism survives in the Sahelian zone, as well as in the West and the East of the country. Raising of small livestock is increasingly common in sedentarized farming areas.

2.05 As in most of the Sahel countries, the agricultural sector in Burkina Faso is only beginning to diversify. Traditional cereals (millet, sorghum, fonio) and, more recently, maize and rice are the main crops, occupying on average 80 percent of the cultivated area. Tubers (yams, sweet potatoes) and to a smaller extent cassava, fairly widespread in the Southwest, are only subsistence crops. The major cash and export crops are cotton (barely 5 percent of total area), groundnuts (7 percent of area) and sesame. Fruit and vegetable cultivation has been expanding rapidly since the beginning of the 1980s, but production and marketing are poorly documented. The most important gathered crops are shea nuts (karité) and forest products. Livestock comprises less than 3 million cattle, nearly 8 million sheep and goats and about 30 million poultry. These figures, obtained through recent surveys by the Livestock Department, show a reduction in the cattle herd, but an increase in sheep and goats, in relation to the estimates used in the national accounts up until 1988. Fishing is a scarcely developed activity due to Burkina's very limited permanent surface water resources.

Trend in Performance Indicators

2.06 Overall growth. From 1982 to 1987, the agriculture sector was the main engine of Burkina's economy: annual growth of value added averaged 5.4 percent, compared with overall economic growth of only 4.3 percent, sectoral growth in 1978-82 of only 2.2 percent per annum and a 1965-86 trend of 2.6 percent per annum. Nonetheless, agriculture's share continued to fluctuate around 39 percent of GDP, mainly owing to the deterioration in the terms of trade. The official statistics indicate that crop production expanded particularly fast, with average annual growth of 7 percent, more than double the population growth rate of 3.3 percent. This is explained partly by expansion of the area cultivated (+ 5 percent) toward the more fertile regions of the Southwest, partly by improved productivity (+ 3 percent), and partly by the contribution of new crops, including the resumption of groundnut cultivation and expansion into fruits and vegetables. Herding increased by only 3.6 percent, and forestry and fishing by 2.7 percent.

2.07 This overall performance is all the more noteworthy in that Burkina experienced two years of drought, 1983 and 1984, which sharply cut cereal

production -- though the drop in output was offset somewhat by the rise in prices. Livestock was the other subsector most severely affected. As is generally the case in a Sahel environment, it took over two years to replenish the herds following the drought. In contrast, favorable rainfall in recent years (despite irregularities in interseasonal distribution) allowed Burkina to produce record volumes, particularly of cereals. Indeed, the effect of rainfall variations is reflected in highly variable growth rates within the period, as seen in Table 26.

Table 26: Real Growth Rates in the Primary Sector (X)

	1983-87	1983-84	1983-85	1986-88
Agriculture	7.3	-2.9	10.2	6.3
Livestock	3.6	2.6	2.7	4.2
Forestry and fishing	2.7	2.5	2.5	3.0
Total	5.6	-0.4	6.9	5.4

2.08 Trends in Production (see Table 27). Cotton production made impressive gains during the period. Its annual growth rate of over 19 percent was one of the highest in the subregion. Burkina's fiber production (60,000 tons in 1987) places it among West Africa's leading producers, behind Côte d'Ivoire and Mali. While cotton's share in gross agricultural output remains modest, its contribution to agricultural export earnings rose from 20 percent in 1982 to nearly 40 percent in 1987. Noteworthy also is its pull effect on other crops. Cereals grown in rotation with cotton today account for about one-fourth of total domestic production; this partly explains their overall growth rate of about 6 percent a year, due to the residual effects of fertilization. The resumption of groundnut cultivation, chiefly confectionery nuts, is another notable development. The 14 percent annual growth of production is the result of a policy of promoting this crop (research, extension, input supply, marketing) in the regions where cereal production is declining. Sesame cultivation, also promoted by the MAE, appears to have practically doubled since 1982, reaching nearly 13,000 tons in 1987/88.

2.09 The other major crops posted less impressive performances. Rice production reached a peak of 48,000 tons in 1985 and since then has been losing ground to more remunerative cash crops, such as vegetables. Sugar production has stagnated at around 27,000-30,000 tons for technical reasons, although solutions are currently under study. Harvesting of shea nuts, another important export product, has not only followed its natural three-year cycle but has also been hit by a sharp drop in world prices. Little quantitative data are available

on production of fruit and vegetables or on tobacco, which are being spoken of as promising crops for the future.

2.10 As Table 27 shows, the expansion of crop production is due to increases in both area and productivity, though with substantial variations among crops. It is noteworthy that the overall increase in area lags slightly behind the natural population growth rate (3.3 percent), but exceeds that of rural population. This is due partly to migration to more fertile lands, and partly to the development of intensified farming systems. These observations are confirmed by regional analysis of changes in the area under cultivation (Annex II, Table 9.4), which demonstrates the contraction of crops on the already seriously degraded Central Plateau, and their rapid expansion toward the West and the South (regions recently freed of onchocerciasis). Certain Southwest provinces, such as Mouhoun and the Hauts-Bassins, which were the object of earlier migration, seem to have already reached their saturation point. Among cereals, only the expansion of the area devoted to millet (the most drought-resistant crop) is keeping pace with population growth. This trend underscores the importance of food security in farmers' strategy. Maize cultivation is also expanding rapidly (+ 5 percent a year) in the South and Southwest regions.

2.11 Burkina has made very impressive gains in productivity for a Sahel country. The 35 percent increase in cotton yields since the beginning of the 1980s is explained by extension efforts devoted to that crop. In contrast, the gains in millet and sorghum, as recorded in official statistics, are somewhat surprising in light of the findings of surveys published so far; they may, however, be explained partly by the shift of crops toward more fertile areas and partly by the development of intensified farming, particularly in the South and Southwest regions. The slight increase in maize yields may be due to inadequate agronomic research and the vulnerability of this crop to intraseasonal rainfall fluctuations. The slow increase in rice yields can be attributed to the decline in irrigated, as opposed to rainfed, cultivation. The regional disparities referred to earlier are also evident in the analysis of productivity (Annex II, Table 9.4).

2.12 In the case of livestock, developments are more difficult to assess because the subsector is less well documented. Its contribution to GDP is lower in the 1980s (12 percent) than it was in the 1970s (20 percent). Poultry and cattle production seems to be losing ground to that of small ruminants. This trend could be due partly to a reduction in pasture lands and bearing capacity, particularly the disappearance of dry-season fodder reserves due to cultivation of bottomlands, and partly to the contraction of markets in coastal countries. On the other hand, the Government's efforts to promote the raising of small ruminants (particularly in sedentary settings) and poultry, with the dual aim of improving nutrition and diversifying agricultural activities, are beginning to bear fruit. These efforts are entirely in keeping with the reestablishment of regional comparative advantages through rational utilization of agricultural by-products.

Table 27: Trends in Crop Production, Area and Yields

	Production (000 tons)	Area (000 ha)	Yield (kg/ha)
----- 1986-1987 -----			
Millet/sorghum	1,535	2,344	733
Maize	158	176	1,019
Rice	23	19	1,119
Cotton	150	170	1,301
Groundnuts	152	233	820
Sugar (cane)	262	4	72,000
<u>Average annual growth rate (%)</u>			
		<u>1983-87</u>	<u>av. 1985-87/ av. 1980-82</u>
Millet	+7.5	+3.8	+32
Sorghum	+10.0	+1.4	+40
Maize	+3.2	+5.5	+12
Rice	-5.0	-	+16
Cotton	+19.4	+3.9	+35
Groundnuts	+13.8	+10.5	..

Source: Ministry of Agriculture.

2.13 Coverage of nutritional needs. The agricultural sector's positive performance also served to improve the coverage of nutritional needs, a vital concern of the Government under the Five-Year Plan. The need for cereals, which fulfill 70 percent of energy requirements, was met only 70-85 percent of the time in the beginning of the 1980s, but has apparently been 100 percent covered since 1984, including the drought years (see Table 28). While the contribution of imports has undoubtedly been important, the share of domestic production is increasing. However, this general balance sheet conceals substantial disparities between regions, age groups, sexes, and income groups; the northern half of the country is in a far less favorable situation. It is also likely that there is still an appreciable shortfall in dairy products: it equaled 5-10 percent of total requirements in 1983 and 1984, but no data are available for later years. This performance is encouraging for the future, given that production and productivity gains that are still possible. As we shall see in the second part of this Report, improving nutrition would be a key element of an action plan to achieve food security.

Table 28: Cereals Food Balance

	(1) Domestic production -----	(2) Imports (tons)-----	(3) Total -----	(4) Population (millions)	(5) Demand a/ (000 tons)	Coverage Rate (%) (1)/(5) (3)/(5)	
1980	1,028	66	1,094	7.1	1,349	81	86
1981	1,249	59	1,308	7.3	1,387	94	100
1982	1,179	74	1,253	7.5	1,425	88	93
1983	1,099	77	1,176	7.7	1,463	80	85
1984	1,318	173	1,491	7.9	1,501	99	105
1985	1,791	190	1,961	8.0	1,520	129	135
1986	1,709	67	1,776	8.3	1,577	113	119
1987	1,759	60 <u>b/</u>	1,819	8.6	1,634	111	119

a/ Estimate based on 190 kg/inhabitant.

b/ Estimate.

Source: Ministry of Agriculture; Customs Service; mission estimates.

Trends in the Agricultural Trade Balance

2.14 It should be borne in mind in reading this section that the external trade statistics are not very reliable, and one should not accept as conclusions what is no more than indicative information. According to the analysis done by the mission, the agricultural trade balance -- including cotton -- was in surplus during the period 1982-87. However, the rate of coverage of agricultural imports by agricultural exports -- excluding cotton exports -- fell sharply from 1982 to 1986 as a result of the drought, which led to an increase in food imports and a decline in exports until 1987, when a surplus was again achieved. As Table 29 indicates, agricultural imports accounted for 20-30 percent of total imports, the rise in 1984 and 1985 reflecting increased food imports due to the drought. This data also highlights the considerable importance of agricultural exports in the overall trade balance, with their share of total exports ranging from 57 to 87 percent throughout the period.

Table 29: Trends in the Agricultural Trade Balance
(billions of current CFAF)

	Imports (a)	% of total imports (b)	Exports (c)	% of total exports (d)	Cotton exports (e)	Agric. imports/ exports coverage (f)(i)	Excluding cotton (f)(ii)
1982	24.9	21.2	39.3	57.0	20.1	157.8	124.5
1983	26.4	27.5	41.5	83.3	38.0	157.2	96.2
1984	39.0	33.2	58.9	84.6	33.4	151.0	99.2
1985	44.4	28.0	50.7	76.7	26.2	114.9	83.6
1986	37.2	23.2	45.1	68.6	28.4	121.2	87.0
1987	30.4	18.4	55.3	73.7	37.1	181.9	113.4

Source: Table 9.10 of the Statistical Appendix.

Growth Factors

(i) Evolution of Production Systems and Land Assets

2.15 Extension efforts that have raised farmers' level of knowledge have led to the transformation of production systems, even the emergence of modernization, and this, in turn, has contributed greatly to growth in the agricultural sector since 1982. Fertilizer consumption, which had for a long period lagged behind that of other countries in the subregion, such as Senegal and Mali, rose by 70 percent from 1980 to 1986. Cotton received most of the fertilizer (60 percent), the balance going to cereals (35 percent) and groundnuts and vegetables (5 percent). In contrast, the distribution of seeds with higher yields than traditional varieties continues to be limited to cotton. Research agencies estimate that new sorghum and millet varieties, which require greater water and soil fertility than the average conditions in Burkina Faso, account for just over 5 percent of the total area planted to these two crops. Mechanization, particularly animal traction, has also progressed, though much more slowly than in some countries, such as Mali, where it has been promoted more actively. Overall, not more than 3 percent of farmers possess a complete traction unit, though 20-25 percent have partial units. In addition, about 250 farms in the Southwest are equipped with intermediate motorization (medium-power tractors assembled locally) and their performance is encouraging in terms of both area cultivated and yields, and labor productivity.

2.16 Substantial progress has been made in the development of land assets. The largest investment was in the opening up of "new lands," mostly in valleys freed of onchocerciasis. However, Burkina has also nearly doubled its area under irrigation since 1982, mainly by establishing small, irrigated perimeters of 30-250 ha, at the rate of 2,000 ha a year. This performance, highly positive in relation to that of other countries in the subregion, is all the more interesting in that it is due as much to private initiative (individual or community) as to public efforts. It adds a measure of security to agricultural activities, and makes it possible to diversify crops and income sources. These irrigation projects are complemented by the expansion of erosion control activities and conservation of runoff water; areas in which Burkina is by far the most advanced of the Sahel countries. These measures have made it possible to recover lands previously abandoned, as well as increase crop yields by 15-30 percent. The areas being treated are still small (60,000 ha), but are expanding at an accelerated rate -- particularly on the Central Plateau in the most severely degraded areas -- using relatively inexpensive techniques developed in Burkina.

2.17 While encouraging investment, the Government has also actively pursued a policy of land conservation. In 1984 and 1985, as part of a national plan to combat desertification, Burkina launched a "campaign on three fronts" (programme des trois luttes) designed to encourage the rural population to conserve plant cover by restricting wood cutting, preventing the straying of animals and prohibiting brush fires. This initiative was reinforced by the Agrarian and Land Reform Law enacted in August 1985. The Law identifies the village land as the appropriate management unit for natural resources, and entrusts responsibility for it to rural communities. While the intent of the Law holds promise, its implementation has been beset by difficulties stemming from certain provisions (such as limiting right of ownership to the State) that conflict with traditional law. The current Government's effort to regain the confidence of the rural people on this point has already begun to bear fruit. However, the decrees implementing the Law are not yet operational, and it is open to question whether this reform will be implemented fairly rapidly. Will the Government be able to convince its administrative bodies to accept such a radical change in their relationship with village communities? Under the National Village Land Management Program (Programme National de Gestion des Terroirs Villageois), the first program of this scale in a Sahel country, a number of pilot projects have been launched to test both institutional mechanisms for implementing agrarian and land reform, and technical approaches and modalities for collective management of lands. This program seeks to promote sustainable production systems on the basis of land use planning and standards for resource management. It is also destined to become a key instrument in the management of internal migration.

(ii) Trends in Regional Comparative Advantages and Crop Diversification

2.18 The factors that have contributed to growth during the recent period include the emergence of a new pattern of regional specialization and the development of new activities. Accelerated migration to the South and Southwest regions has made them the major development nuclei, not only for cotton production, but also for cereals and, increasingly, for other crops, such as legumes and, finally, for semi-sedentary herding. In contrast, the decline in

cereal production on the Central Plateau is progressively giving way to livestock production, chiefly small ruminants. The southern part of the Central Plateau, closer to the large urban centers and export trade routes, is witnessing the development of sheep and poultry fattening, using agricultural by-products, for both domestic consumption and export. This development, while still embryonic, holds promise. It is also in this region that the Government is trying to reestablish cultivation of confectionery groundnuts for export. Finally, the focus on livestock in northern and eastern Burkina is being consolidated, through innovative programs combining conservation of pasture land and cultivation of fodder crops.

2.19 Crop diversification yielded encouraging results during the period particularly through the expansion of cash food crops, including, most notably, fruit and vegetables. Based on small irrigated perimeters, these rainy-season and dry-season crops are intended as much for the domestic market as for export. They demonstrate the ability of Burkina's farmers to organize themselves and exploit market opportunities. Nonetheless, Burkina could take greater advantage of other openings in the market, for example, the production of sesame or cowpeas, which are perfectly suited to Burkina's agroecological conditions, but present as yet unresolved problems in post-harvest processing.

(iii) Evolution of Incentive Policies

2.20 Sensitive to maintaining balance between rural and urban areas, Burkina has traditionally been ready to intervene in agricultural market operations. Reconciling the various interests of producers, consumers and government, notably through price stabilization and extension services to the farmers, has been the main goal pursued. Adoption of this approach has led to the establishment of a complex system of institutions, regulations and mechanisms which give the Government a dominant role. One is struck by the plethora of agricultural and rural sector institutions: four key ministries, six marketing and stabilization boards, more than 20 decentralized agencies, and numerous parastatal enterprises for production, extension and research. Fiscal, price and trade regulations are both numerous and cumbersome.

2.21 The existing system has undoubtedly introduced substantial economic inefficiencies and one may therefore question its justification. Would it not be better to have a smaller number of more effective regulations and institutions? There are already signs of movement in this direction. The general effort to rehabilitate public finances begun in 1985, and, more recently, the call to economic operators to join in the development effort as well as the consultations with the private sector and with decentralized local authorities (such as the price seminar held in July 1988) have already made it possible to initiate a restructuring of institutions in the agricultural sector and to identify the need for greater coherence and eventual liberalization of price and marketing policies.

(a) Institutional Reforms

2.22 These reforms are aimed at rationalizing the role of the public sector. The Ministry of Agriculture established new decentralized development agencies, the so-called Regional Agricultural Production Centers (Centres Régionaux de

Production Agropastorale) in May 1987. They serve to replace the Rural Development Agencies (Organismes de Développement Rural) which were abolished in 1986, and their essential function is to provide extension services. However, in view of their status as public enterprises of an industrial and commercial nature, it is not yet clear whether they will be tempted to engage in other, i.e. commercial, activities in order to generate their own revenue. The 11 Agricultural Production Units (Unités de Production Agropastorales) which were set up in August 1988 to operate irrigation infrastructures are to be privatized. Studies are under way concerning the phased withdrawal of marketing boards. On the other hand, with respect to overall management of the sector, notably investment planning and subsector strategies, it is difficult to discern the priorities, criteria and guidelines followed. The succinct analysis of existing projects that can be made points to an ad hoc investment policy, heading in all directions, largely steered by the donors. Numerous initiatives to promote particular crops or activities were launched during the period under review with the best intentions, and then were abandoned for lack of resources or follow-up.

(b) Pricing and Marketing Policies

2.23 A striking feature of the policies followed from 1982 to 1987 is their plurality of objectives: production and productivity gains, income stabilization, food security, foreign-exchange earnings and fiscal revenues. Their implementation has involved a whole series of "classic" interventions: minimum producer prices, maximum consumer prices, administering of agroindustrial output (and input) prices, stabilization levies or compulsory paybacks, marketing and stabilization boards, and regulation of markets and foreign-trade.

2.24 The results of this policy (Table 30) are, however, surprising. Official producer prices have on the whole had an incentive effect, although analysis of official prices points to a more optimistic situation than could be deduced from analysis of market prices, for which very little reliable data are available. As can be concluded from the trend in nominal protection ratios, distortions are due more to high protection of food crops, and, since 1985, of cash crops, than to taxation of agricultural products; only cotton and groundnuts were fairly heavily taxed in 1983 and 1984. One might wonder whether the maintenance of such high protection rates is desirable, in the medium and long term, and whether they reflect Burkina's comparative advantages. From 1983 to 1985 there again appeared to be no major distortion between cash and food crops, the price ratio having remained more or less constant. However, substantial distortions in favor of cash crops appeared following the abundant grain harvests of 1986.

2.25 On the whole, stabilization has mainly benefited consumers. After rising slightly during the two drought years 1983 and 1984, food prices fell by just over 10 percent in 1985 then rose again by an average of only 3 percent in 1986 and 1987. This points to fairly efficient management of imports, including private trade and NGO food aid. However, stabilization has operated mainly in Ouagadougou and the Southwest, while the deficit regions have experienced sharp fluctuations. Producer prices, on the other hand, reflect the adjustments made by the Government to take into account effects of the drought or changes in world prices, although the adjustments are generally made with a one-year time lag. Producer prices of food crops rose by 25 percent in 1984 and 1985, then fell by

50 percent in 1986 and rose again by 15 percent in 1987. This demonstrates the minimal role of the National Cereals Marketing Board (Office National de Commercialisation des Céréales - OFNACER) in the local food crop market -- just over 10 percent of marketed surpluses. To the annual variations are added seasonal and regional variations. The export price index rose sharply between 1983 and 1985 (+ 26 percent) owing to the boom in world prices, particularly for cotton and shea nuts, then fell again by 15 percent between 1985 and 1987. In the livestock sector, the fall in prices in 1984-85 reflects a reduction in herd size due to the drought, while the price rise in the past two years reflects reconstitution of the herd.

2.26 The abolition of input subsidies is another positive element of agricultural pricing policy for which the Burkina authorities should be commended. Under a program supported by a number of donors, input subsidies of more than 60 percent in 1983 were eliminated by 1987. The return to full-cost pricing, which coincided with a fall in the world price of fertilizer, has not had a negative impact on consumption. On the contrary, it has enabled more cost-effective technological packages to be devised, chiefly for the application of pesticides to cotton and, more recently, for fertilization of cereals. The impact of these measures cannot be assessed until the results of several crop years are available. In contrast, the price of household energy, which is very important for forest cover conservation, could not be analyzed systematically for lack of data. Official wood and charcoal prices for urban centers are apparently about 40 percent lower than the prices of substitute energy sources, especially butane gas, which is still taxed at 32 percent (see Annex II, Table 9.23). This price structure is in contradiction to the Government's environmental protection goals -- a subject worthy of more thorough study.

2.27 In comparison with the fairly positive picture regarding price trends, it is more difficult to determine the net result of the many trade regulations and to assess the performance of the marketing and stabilization boards. The regulations governing the traders, the various prior authorizations or licenses required and the existence of monopolies have all been acknowledged at the national level ^{13/} as negative factors in agricultural marketing. It is today accepted that relaxation of these regulations would foster development of private commercial activities and interregional trade flows.

^{13/} Seminar on prices and marketing, July 1988.

Table 30: Trends in Agricultural Prices and Protection Ratios

	1983	1984	1985	1986	1987
<u>Official producer price index (1979 = 100)</u>					
- Main export products	168	206	213	186	178
- Main food products	158	198	197	100	115
- Export/food products price ratio	1.06	1.04	1.08	1.86	1.54
<u>Official consumer price index (1981-82 = 100)</u>					
- Food	106	112	126	119	108
- Meat and fish	140	134	139	171	169
<u>INSD deflators index (1979 = 100)</u>					
- Agricultural prices	161	191	196	128	136
- Livestock prices	140	134	139	171	169
<u>Input price index</u>					
<u>Producer share of world price, major products (%)</u>					
- Cotton	25	29	68	61	64
- Groundnuts	63	71	1169	123	-
- Millet/sorghum	124	171	280	179	174
- Maize	103	167	264	177	165
<u>Nominal protection ratio</u>					
- Cotton	.38	.59	1.14	.88	.92
- Groundnuts	.70	.80	1.74	1.74	1.37
- Millet/sorghum	.83	1.08	1.37	.94	1.40
- Maize	.73	1.08	1.34	.93	1.35

2.28 The efficiency of SOFITEX in input distribution and cotton marketing and ginning is beyond dispute. Its adjustment measures in response to the world cotton crisis of 1985 and 1986, combined with the 10 percent fall in producer prices, have reduced Burkina's production costs to among the lowest in West Africa and have kept the industry competitive to a certain degree. The General Equalization Fund (Caisse Générale de Péréquation - CGP) also seems to have played a positive role both in stabilizing the prices of certain food products, such as bread and rice, and in financing productive investment through fairly stringent management of trading contracts, rice imports and the financing of producer cooperatives. However, these operations have been effected at a high cost to the economy: from 1983 to 1987 more than CFAF 20 billion was absorbed for stabilization of the above-mentioned products plus sugar, financed essentially out of levies on petroleum products. These parafiscal resources could have been used to lower the cost of industrial or household energy, or to finance a larger number of productive investments. The CGP has played a positive role in the financing of certain investments. However, the net performance of the Agricultural Stabilization and Equalization Fund (CSPPA) is on the whole negative, even in the opinion of the Burkina authorities, who recently began to study the possibility of restructuring it. Levies on cotton (CFAF 5.5 billion from 1982 to 1985) were used mainly to finance shea nut purchases from traders; then, when world prices fell, the CSPPA found itself saddled with unsalable stocks of shea nut and without resources to fulfill its obligation to stabilize cotton during the 1985-86 crisis. As of today, the cotton industry deficit is still being financed by banks to the tune of over CFAF 6 billion. OFNACER is another marketing board which has had, on the whole, negative results. With the support of a number of donors, it was given the responsibility to maintain stabilization and security stocks (50,000 and 30,000 tons, respectively). Even so, this has not resolved supply problems in deficit areas, and OFNACER's cumulative losses total several billion CFAF. Finally, ONERA, the long-moribund livestock marketing board, was abolished in January 1988.

2.29 Food aid, another instrument of pricing and marketing policy, was substantial from 1983 to 1987. Consisting mainly of cereals, but also including dairy products, it increased by about 40 percent as compared to the previous five year period (Annex II, Table 9.12), to an average volume of 73,000 tons a year. Whereas necessary during the drought years, food aid has continued to flow in since 1986, despite the domestic cereals surplus and the collapse of local market prices. Food aid imports, managed by either private or public agencies, seem to largely bypass the authorities, to judge from the more than 50 percent disparity between official customs statistics and those collected from OFNACER, NGOs and the CILSS. Food aid distribution is not governed by very precise criteria, while the sales price ranges from free distribution by certain NGOs to sales at full market price. Coordination of donor efforts, improved management of stocks, definition of sales criteria, and the effectiveness of food aid use are all topics that merit in-depth study.

(c) Fiscal and Budgetary Policy

2.30 The agricultural sector clearly occupies a dominant place in the management of public finance. Unfortunately, the data are too scanty to determine whether there is a net inflow or outflow of resources to the sector. According to an OECD estimate, fiscal levies on agriculture -- including direct

and indirect taxes on exports, agroindustrial companies and stabilization funds, as well as the various income excise taxes -- accounted for about 20 percent of total budget receipts, i.e. nearly CFAF 10 billion, in the early 1980s. As in the other sectors of the economy, tax instruments are numerous and lack coherence. The tax on industrial, commercial and agricultural profits, ranging from 10-45 percent, is applied to marketing boards and stabilization funds. Customs duties on imports vary widely, from zero percent on rice to 68 percent on flour. They are 20 percent on sorghum and 15 percent on other cereals, negligible on agricultural inputs (3.9 percent), but range from 4 to 77 percent on capital goods for agroalimentary industries and 40 percent for certain consumable materials.

2.31 The positive elements of the policy pursued can be summarized as a comprehensive effort to rehabilitate and manage the public finances, coupled with a policy of cost recovery for certain public services (e.g. veterinary products and services, agricultural inputs) based on full-cost pricing. For the Ministry of Agriculture, budget allocations leveled off during 1982-87 at between CFAF 3.5 billion and 4.5 billion. To this must be added, however, the subsidies allocated directly by the stabilization funds, financing by the CRPAs out of their own resources, and external project financing. As regards recurrent expenditures, priority has been assigned to agronomic research and extension services. In investment expenditure, although the priorities are not easily discernible, the principle of cost recovery is also maintained, in the form of cost-sharing -- in kind or in cash -- by the beneficiary population.

Conclusion

2.32 In terms of the goals of the 1986-90 Five-Year Plan, which aimed for 3.9 percent annual growth of agricultural production, the sector's recent performance is very positive. Burkina can congratulate itself on the progress made toward a number of its major goals: food security, improvement of incomes and living standards, promotion of intensified farming, the recent effort toward improved natural resource management, and export growth.

2.33 Burkina faces the future with many assets. It enjoys a definite comparative advantage in cotton, livestock and other products such as vegetables, fruit, confectionery groundnuts, sesame, even tobacco and, depending on production systems, cereals. The necessary conditions for Burkina to consolidate its comparative advantages remain to be studied in depth. In the cases of other crops, such as wheat, barley and sugar, in which Burkina enjoys no comparative advantage, or rice, in which its comparative advantage is limited, it will have to rely on imports.

2.34 The area in which prospects are less encouraging is in the conservation of natural resources. So far Burkina has managed to cope with its population explosion through increased exploitation of its resources. However, the new land potential is not unlimited, and disturbing signs are already evident. For example, current demand for firewood and charcoal is already leading to exploitation of wood products in excess of the natural regeneration rate and consequent deforestation at the rate of 1,000 km² a year, with all the attendant effects on soil erosion and loss of surface water.

2.35 Conservation of these natural resources, preservation of its existing capital and pursuit of efficiency gains will without a doubt be the most critical issues facing Burkina in the future.

B. Industry

2.36 Annex I gives a more detailed description of the structure, incentive system, constraints and prospects of the industrial sector in Burkina. In this chapter, we shall summarize the sector's characteristics and principal problems. In Chapter III.C, we shall attempt to identify programs and policies capable of assuring the long-term growth of industry and of the secondary sector as a whole.

2.37 Industry in Burkina, although under-developed, is relatively diversified, and is dominated by the parastatal sector and the informal sector. Being chiefly oriented toward the domestic market, it enjoys high levels of protection. However, its growth has been hampered by the small size of the domestic market, an unfavorable cost structure, burdensome regulations, and -- given the existing level of competitiveness of the Burkinabè economy (in terms of the relative prices of tradable and non-tradable goods and services) -- a very limited export potential.

An under-developed but relatively diversified secondary sector

2.38 After a long period of stagnation in the 1960s, the secondary sector experienced a short period of rapid expansion over the period 1970-76 (5 percent average annual growth). But from 1977 to 1985, the sector's annual growth rate was close to zero, its share of GDP declining steadily from 21.3 percent in 1976 to 18 percent in 1985. It is only since 1986 that the secondary sector has experienced a strong comeback, its share of GDP jumping to some 22 percent in 1987. This recovery is mainly attributable to the growth of cotton fiber production and, to a lesser extent, the increase in gold production, the resumption of construction activities, and the improved performance of several other manufacturing industries. The share in GDP of the manufacturing industries alone, having fallen from 13.8 percent in 1973 to 10.6 percent in 1985, swung back up to almost 13 percent in 1987. The secondary sector's role in job creation is even smaller: the number of workers employed fell between 1975 and 1985, to the point where it represented only 2 percent of all jobs. In Chapter II.D, we shall review some of the factors explaining the sector's failure to generate employment opportunities.

2.39 Dominated by manufacturing, the industrial sector in Burkina also has a relatively active construction and public works sector, and a mining sector which, although small, is expanding rapidly. Major activities in the sector are as follows:

- (a) the processing of agricultural raw materials (food products and textiles) is the principal manufacturing activity. This subsector is dominated by five enterprises: SOFITEX (cotton harvesting and ginning), SOSUCO (sugar), SHSB-CITEC (edible oils), FASO FANI (textiles) and GMB (flour);

- (b) next comes a group of diverse manufacturing industries (leather tanning, chemicals, metal working, wood and paper);
- (c) the construction and public works subsector consists of 71 enterprises, according to an official count; after a serious slump in 1985, the subsector has recently been reaping the benefits of expanded government contracts, particularly in the area of water supply (dams), and urban development and housing (low-income housing projects); and
- (d) the mining subsector is presently limited to gold mining, both industrially (SOREMIB) and semi-industrially (SOMICOB and SMG), as well as through gold panning, which has a higher output than that of the mining enterprises. The growth rate of this sector has been estimated at 26 percent per annum between 1982 and 1987.

A sector dominated by parastatal enterprises and the informal sector

2.40 In Chapter I.C, we saw that the parastatal sector in its different forms (EPICs, state-owned enterprises and mixed-capital ventures) represents a considerable portion of secondary-sector value added. The share of parastatals is particularly predominant in water and electricity (ONEA and SONABEL) as well as in mining (with the exception of gold panning). The largest enterprises in the modern manufacturing sector (SCITEX, SOSUCO, SHSB, FASO FANI, GMB and SIFA) are also parastatal enterprises; only the breweries (BRAKINA and SOBBRA) are essentially privately owned.

2.41 Another notable attribute of the Burkinabè economy is the substantial role played by the informal sector, ^{14/} not only in agriculture and services, but also in the secondary sector (around 37 percent of value-added, see Table 2). Indeed, the informal sector represents an estimated 67 percent of value added in the mining sector (gold panning) and over 40 percent in manufacturing. Among the activities of informal enterprises in the manufacturing sector, one can cite production of dolo beer, clothing, furniture, etc. In short, any review of the structure of Burkina's secondary sector reveals that modern, private enterprises are relatively few in number and small in size. It is only the construction and public works sector that is dominated by a high number of modern private enterprises, both large and small. In construction and public works, informal enterprises represent only 15-20 percent of value added.

A sector oriented toward the domestic market and benefiting from relatively high levels of protection

2.42 Two industrial activities are principally oriented toward the export market: cotton ginning and gold production. All other secondary-sector

^{14/} The informal sector is defined as artisanal enterprises and small, unregistered companies which have no accounting system and are, to a large extent, free of government regulation.

activities are oriented toward the domestic market and are heavily protected by a set of tariffs, quotas, import licenses and monopolies, import twinning, discretionary import authorizations by the Ministry of Commerce, absolute prohibitions, etc. An exhaustive study of the effective protection resulting from these diverse instruments of customs policy would be beyond the scope of this Report. However, some elements of this policy seem to run counter to the Government's overall objectives, such as the long-term encouragement of infant industries (when an industry is overprotected against foreign competition, it has little reason to improve the quality of its products or increase its productivity), consumer welfare (elevated tariffs are reflected in the selling price of the product), and an increase in customs revenues (when the same product is subject to multiple types of duties, it results in uncertainty on the part of users, complicates customs procedures, and thus, indirectly, leads to smuggling).

2.43 Industry in Burkina has benefited little from the system of regional protection set up within the West African Economic Community (CEAO). Whereas, for example, a substantial proportion of Côte/d'Ivoire's industrial exports goes to other countries in the region, including Burkina, regional exports do not play a significant role in the activities of Burkina's industrial enterprises.

A sector whose growth has been hampered by the limited size of the domestic market, the structure of production costs, and cumbersome regulations

2.44 The small size of Burkina's domestic market is, of course, the chief obstacle to industrial development. Not only is the country's per capita income among of the world's lowest, but the limited development of urban centers, the geographic dispersal of the population, and the resulting distribution costs are factors that considerably restrict the possibilities for expanding the modern industrial sector. However, the structure of production costs, and excessive bureaucratic red tape are also major factors holding back the development of the secondary sector.

2.45 Among the main contributors to high production costs is the fact that Burkina is a landlocked country, giving rise to elevated transportation costs and lengthy delivery periods. As a result, industrial enterprises have to maintain large stocks of rawmaterials, spare parts, and finished goods. A second factor is the underutilization of production capacity, for which there are probably several explanations: weakness of the domestic market, excessive initial investments and inadequate incentive systems. A third factor is the cost of energy, a particularly high item as far as industry is concerned, because of a system of cross-subsidization of electricity rates among industrial enterprises, urban consumers and rural communities. It also appears that wages in the industrial sector are quite high in relation to national income, placing the sector in a very unfavorable competitive position vis-à-vis both imports and exports (paras. 1.13-1.14). This is a phenomenon common to most UMOA and BEAC countries. On the other hand, the annex on the industrial sector underscores the quality of Burkina's workers and their ability to learn "on the job" and master imported technologies. In contrast to what one sees in many neighboring countries, maintenance of industrial plant is efficiently handled by Burkinabè personnel, and recourse to foreign technical assistance is rare.

2.46 The question of regulation and incentives arises principally at four levels: price and trade controls, tax and customs regimes, employment regulations, and investment incentives.

(a) Price and trade controls

- for manufactured goods, regulation involves not only official control ex-factory prices, but also the setting of profit margins. According to industrialists, the present system is cumbersome, discourages investors, encourages producers to exaggerate their costs, and, in certain cases, encourages import activity.
- until certain procedures were relaxed recently, ^{15/} an industrialist seeking official approval had to submit an application with itemized estimates of production costs for a product before launching it onto the market. The Pricing Directorate of the Ministry of Commerce would then examine this calculation and hold negotiations to determine the ex-factory price of the product. To this price would be added the wholesale and retail margins to determine selling price. The system was cumbersome and complex, and since the whole procedure took such a long time, the fixing of the price was based on figures that were already out-of-date and were likely to involve a substantial loss or reduction in earnings for the industrialist. However, if production costs went up, the industrialist had to submit another completed application, and go through the whole procedure again.
- one way in which an industrialist can defend himself against the rigidity of this system is to overestimate; in any case, there is no incentive to reduce operating costs, either through productivity increases or reductions in financial costs, since profit margins are fixed. It would even be to his advantage to inflate his production cost prices in order to increase his actual margin.
- the idea of passing on exaggerated production costs to the consumer is especially tempting, since many enterprises are in a quasi-monopolistic situation; however, when there is competition from imports, it is to the merchants' advantage to favor the foreign products, since distribution margins on imported goods are generally higher than the margins applicable to local products.
- industrialists are not legally authorized to handle the distribution and retail sale of their products themselves. Furthermore, under the investment code, a number of

^{15/} See Annex I, para. 49.

enterprises have a captive clientele, which does not give them any incentive to improve the quality of their products or increase their productivity.

(b) The tax and customs system

In addition to the problem of high levels of protection for industrial enterprises, the system is extremely complex; the fact that a single product is subject to several different types of duty leads to uncertainty, complicates the task of the customs authorities, and ultimately encourages fraud. Access to the business of importing and exporting is subject to restrictive procedures. The multiplicity of taxes and levies is uneconomical; the turnover tax is not deductible, cumulating up to the stage of final sale, introducing costly distortions for enterprises and, ultimately, for the consumer. Lastly, the lack of export competitiveness is aggravated by the imposition of a number of export taxes.

(c) Labor regulations

Labor policy, in the area of both recruitment and dismissal, is subject to strict controls. To recruit workers, an enterprise has to contact the Office National de la Promotion de l'Emploi (ONPE), which chooses the candidates and supervises the selection test. Industrialists are of the opinion that dismissals for economic reasons are practically impossible: in general, the authorities give their approval only when an enterprise is going through a process of restructuring. Whatever the advantages of such methods in certain situations, they can in the long term discourage investment and employment.

(d) Investment incentives

Nearly all industrial enterprises enjoy various types of protection and certain advantages based on establishment agreements or granted under the Investment Code. Such advantages, granted on a case-by-case basis to enterprises that are just starting out, lead to wide disparities among enterprises and serious distortions within the economy: since the period of protection is very long and the advantages are not gradually phased out, an enterprise that has grown accustomed to favored treatment is not always able to adapt suddenly to the unprotected regime; certain benefits affecting operations (exemptions from, or reduction of, import duties on inputs or turnover tax) can give new enterprises an unfair competitive edge over existing enterprises in the same market; lastly, the benefits granted are generally very costly to both the State (protracted tax exemptions) and to the economy (excessive customs protection).

2.47 This rapid overview of the structure of Burkina's industrial sector and the constraints affecting it leads to the following general conclusion: despite efforts by the State to protect the domestic market and develop and restructure industrial enterprises, Burkina still does not have an extensive modern sector capable of generating employment. Until 1986, it was only the informal sector that proved dynamic, and somewhat offset the general stagnation of the modern secondary sector. This is not surprising. The products and means of production in the informal sector are well suited to the needs of a

low-income population that is essentially agricultural and rural. Moreover, development of the modern sector is seriously handicapped by high wage costs. This explains why the modern private sector has survived much better in services and in construction and public works -- two areas not directly affected by competition from imports -- than in manufacturing.

2.48 Herein, however, lies a serious problem for Burkina's future. The lack of momentum within the industrial sector is fortunately being offset by the rapid expansion of agriculture. But, in the long run, it is essential that primary-sector growth engender a corresponding growth in the industrial sector, and that industrial enterprises, both modern and informal, in turn come to play an important role in the balanced development of the country's economic potential and the employment of its labor force.

2.49 Nevertheless, we would like to end this rapid overview of the secondary sector on a more optimistic note. The serious problems mentioned above should not cause us to forget the very positive impression that visiting missions often obtain of Burkina's modern industrial enterprises, both public and private: generally speaking, most of those enterprises, despite being handicapped by many constraints, are well managed. A deeper analysis of the many distortions affecting the sector would very probably reveal that a number of enterprises are, in fact, operating under difficult economic conditions. They have, nonetheless, made the most of the unfavorable economic environment, and will very likely be able to adapt to changing conditions. Prudently managed by dedicated and competent individuals, it is highly probable that, within the framework of a more modern and more dynamic incentive system, these enterprises will be able to reorient their activities toward goals more consistent with the country's long-term interests, and that the industrial sector will, as a whole, finally experience the type of expansion that is essential for sustained economic growth.

C. Transportation

2.50 In addition the country's landlocked position, there are a number of reasons why transportation is a strategic sector in Burkina, including the geographic dispersal of its economic activities, migration towards new lands in the South and Southwest, progress that may be expected from a certain degree of regional specialization, the growing urban population, the role of foreign trade in the country's economy, and the development of regional markets within West Africa. In 1987, the value added in the transport sector represented some 10 percent of Burkina's marketed GDP, with informal and small-scale transport accounting for 60 percent of this figure. Not included in this figure are construction and maintenance of transport infrastructure. Lastly, it should be noted that this sector is an important source of employment generation.

2.51 Recent development of the transportation sector may be characterized as follows:

- (a) Burkina has developed its road infrastructure at a relatively rapid pace, and now possesses a diversified network which, in general, meets the country's principal

needs, subject to seasonal interruptions due to weather conditions;

- (b) the priority accorded by the Government and donors to road construction relative to maintenance expenditures has already had serious consequences on the condition of the network and on transportation costs; without a massive rehabilitation effort, a large part of the existing road network will have to be entirely rebuilt at prohibitive cost;
- (c) the road transport industry consists of few modern enterprises and a large number of small carriers; also, in 1984, the Government set up the Régie Nationale de Transport en Commun (RNTC-X9), which handles urban and interurban passenger traffic. Access to the transport business is free and competition is lively; the relatively high cost of road transportation ^{16/} in Burkina is thus principally explained by poor maintenance of the network, high fuel costs, and heavy taxation of vehicles and spare parts; however, a temporary reduction of import duties in 1985-86 made it possible to substantially increase the fleet of heavy trucks (over 30 tons);
- (d) during the 1970s, more than 70 percent of Burkina's foreign trade was transported by rail over the Ouagadougou-Abidjan line (1,155 km), operated by Régie Abidjan Niger (RAN), one of West Africa's few efficient and well-run railways. Now, at the same time that the Burkinabè Government is expanding its railroad network (laying 100 km of track between Ouagadougou and Kaya), RAN's operations are becoming more and more costly and inefficient, and the railroad is losing more and more traffic to the road networks. Côte d'Ivoire's decision to split the RAN into two companies is likely to accelerate the disorganization and deterioration of the service. However, with good management the railroad remains much more economical than the road for long-distance heavy freight, and the rehabilitation of RAN is thus a matter of very high priority for Burkina's economic development;
- (e) air transportation plays a small role in the Burkinabè economy; here also the inadequacy of maintenance expenditures contrasts with the size of capital investments (extension and strengthening of the runway at Ouagadougou; less justified improvements at Bobo-Dioulasso; purchases of aircraft). Burkina has two national airlines: one for

^{16/} Note, however, that the official hauling fees are inadequate and need to be adjusted or deregulated. At present, they do not cover the depreciation costs of the vehicles.

regular regional links (Air Burkina), the other for tourism and charters (Naganagani). Burkina is also one of the six member countries of Air Afrique. Little is known about Naganagani's economic situation, while Air Burkina's deficit has increased considerably as the result of purchasing a Fokker, which is underutilized and on which the payments represent one third of the company's annual expenditures. Air Afrique is also experiencing serious difficulties, as shown by the size of its arrears (CFAF 5.4 billion) to ASECNA, the regional agency responsible for aerial navigation services in 16 French-speaking countries.

2.52 The transportation sector is the subject of additional studies by the World Bank for use in preparing a sectoral adjustment program. Within the scope of this Report, we shall limit ourselves to an analysis of two problems that we feel are particularly important: road maintenance and railroad operations.

Road maintenance

2.53 The road network has expanded considerably over the past 15 years, growing from 7,750 km in 1974 to 13,070 km in 1988. The quality of the network has improved substantially, the proportion of paved roads rising from 6.5 percent to 11.5 percent of the total network. Traffic remains light, with averages varying between 23 vehicles a day for unimproved tracks to 230 vehicles a day for paved roads. The relative stability over time in the number of vehicles conceals, however, an increase in tonnage transported, resulting from an increase in the proportion of heavy vehicles. Table 31 shows the growth of the network between 1974 and 1988, broken down by type of road and average traffic volume.

Table 31: Growth of Road Network
between 1974 and 1988

	<u>1974</u>		<u>1988</u>		Av. traffic, 1987 (vehicles per day)
	km	%	km	%	
Paved roads	507	6.5	1,503	11.5	228
Gravel roads	1,205	5.5	1,943	14.9	86
Improved tracks, type A			2,196	16.8	31
Improved tracks, type B	1,988	25.6	2,795	21.4	26
Other tracks	<u>4,052</u>	<u>52.4</u>	<u>4,633</u>	<u>35.5</u>	<u>23</u>
	7,752	100	13,070	100	

Today, the road network not only handles almost all domestic transportation, but also carries around 50 percent of the 650,000 tons a year of imports/exports which were mainly transported by rail in the 1970s.

2.54 Expansion of the network and intensification of road transportation clearly necessitates a steady increase in road maintenance expenditures. In reality, however, the resources earmarked for these activities have dwindled. Since 1982, allocations to the Fonds Routier (in principle 59 percent of fuel tax proceeds), have declined, falling from 6 percent of current expenditures in 1974 to below 2 percent over the past few years. Despite additional resources provided by IDA and the Netherlands under the Fourth Highway Project, 17/ only a little more than half the classified network has received any maintenance over the past seven years. As a result, not only are the costs of vehicle operation very high, but the country's entire road network, with a value estimated at CFAF 200 billion (1988 prices), is threatened with collapse if the Government and donors do not organize a massive rehabilitation effort as quickly as possible.

Railroad Operations

17/ This project, originally designed to finance deferred periodic maintenance, has in effect served to finance routine maintenance work.

2.55 Up until October 1988, the RAN railroad was jointly owned by Burkina and Côte d'Ivoire. This network includes a main line linking Abidjan with Ouagadougou (630 km over Ivorian territory; 525 km in Burkina), and a 100-km extension to Kaya, now under construction. During the 1970s, the RAN was an efficient, well-managed and expanding enterprise, its volume of traffic rising from 500 million passenger-km (pk) in 1969 to 1,290 million in 1979, and from 380 million ton-km (tk) in 1969 to 670 million in 1981. At that time, RAN's prosperity seemed to be particularly important to the economy of Burkina, since 70 percent of its export trade was transported by rail.

2.56 A number of diagnostic studies have pointed out the principal causes of RAN's deteriorating operational and financial performance: excessive capital investments (CFAF 50 billion from 1978 to 1983), overstaffing (5,000 employees, whose wages are equivalent to 55-60 percent of the company's operating expenditures), deterioration in maintenance and quality of service, and competition from road transport. RAN's passenger traffic has fallen by almost two-thirds (460 million pk in 1987) and its freight traffic by 25 percent (500 million tk in 1987). The major products carried towards Burkina are cereals, petroleum products, containers, cement and fertilizer; out of Burkina, they are cotton and livestock.

2.57 In 1983, a recovery program was established, comprising the following main components:

- recapitalization of the enterprise and easing of financial costs;
- organizational restructuring;
- substantial cuts in wage costs;
- reorientation towards heavy, long-distance traffic;
- deregulation of rates;
- suspension of all new capital investments over five years, except for replacement of equipment and replenishment of the stock of spare parts.

Most of these measures have not been implemented, in particular those relating to the easing of wage and financial costs, and RAN today has a cumulative debt of CFAF 80 billion, of which 35 percent is short-term debts. RAN's annual deficit has been running at around CFAF 8 billion over the past three fiscal years.

2.58 In January 1986, Côte d'Ivoire decided to divide RAN into two systems. A joint commission was set up to prepare for the dissolving of the enterprise. This split, twice postponed, still does not seem to have taken place, owing to a lack of agreement on key points of the separation/cooperation plan. The future of the railroad thus hangs in the balance. This transportation route is particularly important for the Burkinabè economy, and for the development of new resources (Perkoa zinc mine, for example), but its rehabilitation depends on radical measures that must be taken by both governments concerned. To reestablish the economic and financial viability of the operation, it would be necessary to increase revenues by 20-25 percent and reduce expenditures by some 50 percent. This objective is not unattainable, but, with each passing year,

the problems of the railroad become more serious, and the chances of success for a major rehabilitation operation grow increasingly slim.

D. The Social Sectors

General Considerations

2.59 It is clear that Burkina must today confront serious problems in terms of human resource development and mobilization of the resources necessary to strengthen and expand its basic social services. Burkina's difficulties are similar to those plaguing most other African countries. All social indicators point dramatically to the precarious living conditions (in particular the high infant and maternal mortality rates) and the inadequacy of existing social services; at the same time, accelerating population growth makes it continually more difficult to handle the elementary task of maintaining the present public health coverage and school enrollment rates. It also increases the risk of overexploiting the country's ecological potential, and complicates, in particular, the problems of urban housing, employment conditions and unemployment. In this critical situation, however, it should be noted that Burkina has two assets: on the one hand, the country is aware of the dangers inherent in the present pace of population growth; on the other, the Government is becoming aware of the need to make rigorous choices for optimal use of available resources. Henceforth, the problem is to translate this awareness and willingness to choose into specific measures that will slow the most dangerous trends and step up the economic and social effectiveness of the sector's services.

Population Growth

2.60 The results of the 1985 census have not yet been published nor analyzed. As of now, certain preliminary conclusions may be drawn:

- (a) Between the 1975 and 1985 surveys, the officially recorded resident population increased from 5.6 million to close to 8 million inhabitants, equivalent to an average annual growth rate of 3.5 percent.
- (b) The acceleration in population growth is primarily and principally explained by the increase in the natural population growth rate, which rose from 2.7 percent per annum in 1975 to 3.3 percent in 1985. This increase resulted from actions taken to develop public health coverage: crude maternal and infant mortality rates fell substantially, though still remaining higher than the average for Africa, while fertility rates remained unchanged. The immediate consequence of this increase in the natural population growth rate has been a younger population, with the proportion of inhabitants under 20 rising from 55 percent in 1975 to 58 percent in 1985.
- (c) Emigration is still poorly documented, and the authorities doubt the estimate that the resident population of Burkina is

abroad dwindled from some 1 million in 1975 to less than 740,000 in 1985. This factor explains why the growth of the resident population (3.5 percent per annum), as calculated between the two surveys, is higher than the natural population growth rate. The authorities claim that the total number of emigrants was overestimated in 1975, as a means of evading an existing head tax, and that in reality the migratory balance has remained positive. A specific study of migration patterns is thus urgently called for. 18/

- (d) In the present international context, and taking account of the economic difficulties of the recipient countries, it would be unrealistic to expect migration to play the role of safety valve it performed during the first 15 years of independence, and to significantly reduce the population growth rate below its natural level of 3.3 percent. On this point, it should be noted that most official analyses continue to refer to a population growth rate of just 2.7 percent, which can only distort any analysis of problems linked to population growth. It is thus recommended that the 3.3 percent per annum rate be used. On that basis, the resident population of Burkina would top 11 million by 1995.

2.61 For the past three years, Burkina has been implementing a national family planning program. It is firmly supported by the political authorities, who have clearly defined their strategic objectives and the distribution of tasks among different departments. The program also benefits from good cooperation between the NGOs and the principal donors (UNFPA and USAID). This is why, although the program has not long been under way, significant progress has already been made. Not only the clinics managed by the two NGOs (ABBEF and Association des Sages-Femmes du Burkina Faso), but also another 46 health centers are offering the new service; in addition, the new contraceptive prevalence rate among women of childbearing age is 1.3 percent in the 28 provinces covered (out of a total of 30) and 6.0 percent in the two major cities. These rates are, of course, extremely low, but they augur well for the program's long-term future, provided that the efforts undertaken are pursued with the necessary vigor. Nevertheless, no matter how energetically Burkina may implement its new family planning policy, the impact is unlikely to be felt before the beginning of the next century. In the 1975-85 period, the drop in overall mortality rates was not matched by a decline in fertility rates. Burkina has entered into the very critical phase in which the effects of improved public health coverage on mortality rates, which is a prerequisite for

18/ A comparison of the two surveys by sex and age bracket shows that returnees would mainly be women and people over 35; in the case of men aged between 15 and 35, the numbers of emigrants and returnees even out. This has led to a change in the breakdown by sex, and the sex ratio seems to have fallen from 101 in 1975 to 93 in 1985.

the success of a family planning program, are far from being offset by the positive impact of that program.

2.62 All that has been said about the population problem is, naturally, of the greatest importance for the future of the social sectors, human resource development and the meeting of basic needs. A detailed analysis of the impact of demographic trends on those services is extremely urgently needed. Without presupposing the findings of such an analysis, we can cite certain estimated impacts:

- (a) Health services: the "mothers and children" target group will probably increase by 34 percent over ten years, from 3.1 million in 1985 to 4.2 million in 1995.
- (b) Primary education: the number of school-age children will rise from 1.4 million in 1985 to 1.9 million in 1995 (in 1987, under 400,000 children were actually enrolled in school).
- (c) Housing and urban services: the urban population growth rate is already 8 per cent per annum, and is constantly rising; the number of city dwellers will probably rise from 1.0 million in 1987 to 2.2 million in 1997. Every year, Ouagadougou, Bobo-Dioulasso and Banfora, which is on the way to becoming the country's third largest city, find that they have to take in 80,000-90,000 more inhabitants; this means that at least 8,000 new housing units have to be made available each year, quite apart from the need to improve and renew the existing housing stock.

Performance in the Public Health Sector

2.63 An analysis of recent performance in the health sector leads to two principal conclusions. First, substantial efforts have been made to improve the health services situation, and (as mentioned above) to initiate a vigorous family planning program; despite all this, however, the rate of public health coverage in Burkina is still much lower than the average for Africa. Given the severity of the population problem, it will be very difficult to consolidate the results already obtained and further develop the existing network: the inadequate share of budgetary expenditures allocated to health clearly reveals the gravity of the resource problem, which will very likely dominate the sector's development in coming years.

(i) Significant progress in rates of public health coverage

2.64 Since the beginning of the 1980s, major efforts have been made to develop infrastructure and increase the personnel assigned to the public health sector. In 1980, Burkina had two national hospitals, one in Ouagadougou (690 beds) and the other in Bobo-Dioulasso (500 beds), and three regional hospitals (total of 530 beds). Three new regional hospitals (with a 330-bed capacity) have been established since then. In parallel, the number of medical centers headed by a physician has risen from 13 to 54 and that of health facilities

headed by a State-registered nurse from 395 to 545 19/, while the total number of health-care workers 20/ almost doubled between 1981 and 1986, rising from 2,050 (including 165 doctors or equivalent and 370 nurses) to 4,100 (including 360 doctors and 890 nurses). The result of these efforts has been a substantial increase in public health coverage rates, as clearly illustrated by Statistical Tables in Annexes 1.7-1.9. Thus, the number of inhabitants per health-care worker fell from 2,980 in 1980 to 2,630 in 1986, while the number of inhabitants per hospital bed fell from 1,625 to 1,364. This trend was, of course, reflected in the number of patients cared for; for example, the proportion of deliveries which took place in maternity wards rose from 23 percent in 1981 to 34 percent in 1986.

2.65 This positive overall assessment does, however, raise three major concerns:

- (a) The increase in the number of health-care workers is not an across-the-board phenomenon. It is particularly strong for doctors, auxiliary obstetric workers and traveling health-care workers, but much less so for midwives and qualified nurses.
- (b) The increase in the number of auxiliary workers and traveling health-care workers is the result of a sectoral strategy which stresses facilities close to village communities; nevertheless, the total number of health-care personnel per doctor decreased from 28 in 1981 to 16 in 1986, while the proportion of such personnel operating in rural areas fell from 61 percent in 1981 to 55 percent in 1986.
- (c) Lastly, and despite recent progress, health-care coverage in Burkina is still way below the average for the whole of Africa; although the number of inhabitants per doctor fell from 37,400 in 1980 to 30,500 in 1986, it still remains well above the average for Sub-Saharan Africa, which hovers around 22,000; the number of inhabitants per nurse fell from 4,200 in 1980 to 3,930 in 1986, but is still higher than the African average of around 3,000.

(ii) The sector's development will be dominated by resource problems

2.66 For Burkina to attain the average levels for Africa, it will have to triple the number of its health-care personnel. This goal is particularly difficult to achieve, because the accelerating population growth seriously complicates the simple consolidation of results previously obtained. The problem is largely one of financial resources. Like most African countries, Burkina has allocated only a small share of its budgetary expenditures to the

19/ Only half these facilities have maternity services.

20/ Excluding auxiliary workers.

health sector: 6-7 percent between 1982 and 1986. Ideally, this proportion should increase gradually, but the experience of the past few years shows that the country is having difficulty maintaining the level reached in the early 1980s. Even by 1985, budgetary considerations led the Government to suspend its nurses' training program, jeopardizing a vital element in the development of the public health sector; also, in 1987, the share of the budget allocated to health apparently decreased. The sector's medium- and long-term future, the consolidation of results obtained to date and improvement of public health coverage rates will thus demand major reforms and imaginative solutions aimed at mobilizing a dynamic and cohesive package of public and private resources, both domestic and foreign, in order to achieve a top-priority social objective.

Recent Trends in the Education and Training Sector

2.67 Even more than health, the education and training sector has been the subject of a substantial government effort to increase enrollments at all levels of primary, secondary and higher education. As in the health sector, the results obtained are still highly insufficient, especially in comparison with the average for other African countries. However, where education is concerned, the solution to the problem seems to depend less on the mobilization of additional resources than on a restructuring of expenditures within the sector.

(i) Rapid progress in enrollment rates

2.68 The number of primary school students rose from 201,400 in 1980/81 to 390,400 in 1986/87, an annual growth rate of 11.8 percent, considerably higher than the 7.4 percent annual growth rate over the period 1975-1980. Similarly, the number of secondary-school students increased annually by 5 percent from 1975 to 1980, and by 14 percent after 1980, rising from 23,400 in 1980/81 to 56,500 in 1986/87. But by far the highest growth rate (20 percent per annum since 1975) was in the number of students in higher education. In 1986/87, there were 5,600 such students, of whom 4,400 were studying in Burkina and 1,200 abroad.

2.69 Thanks to this considerable effort, primary-school enrollment rates have increased substantially, from 15 percent in 1985 for children aged 7-12 to 28 percent in 1987/88; nevertheless, this rate is still far below the African average of approximately 77 percent. At the secondary level, enrollments represent only 6 percent of the secondary school-age population in the first cycle and 2.4 percent in the second. As in all African countries, far fewer girls are enrolled than boys; girls represent 37 percent of primary-school students and 32 percent of the secondary-school population. Private schools play an important role in the education system, with their students representing 9 percent of the total primary-school enrollments and 39 percent of secondary-level students.

2.70 The recent acceleration in enrollments has not yet produced entirely satisfactory results. However, the sector's share of budgetary expenditures rose from an average of 14 percent over the period 1982-84 to an average of almost 17 percent in 1985-87. Even more so than in the case of the health sector, it would be difficult to achieve a rapid increase in this proportion. It is consequently within the framework of this budget allocation that the

education and training sector will have to tackle the problems resulting from population growth and increased demand for enrollment. It thus appears that Burkina can scarcely avoid undertaking a number of reforms designed to restructure expenditures, with a view either to reducing unit costs, or to redistributing expenditures among the different subsectors of the education and training sector.

2.71 Except at the primary level, unit costs of education are relatively high in Burkina. There appear to be three main reasons for this: (i) teacher salaries are not particularly low 21/; (ii) the teacher utilization rate at the secondary level is low, undoubtedly because of organizational problems; (iii) lastly, and most significantly, over one-third of the sector's operating budget is allocated to secondary and higher-level scholarships: almost 40 percent of secondary school students and over 90 percent of entrants to higher education receive relatively substantial scholarships, without a rigorous system of monitoring the quality of their work or their academic performance.

2.72 Also with respect to costs, it should be noted that a measure was taken three years ago to hold down the tuition that can be charged by private education facilities. This measure, designed to make private education accessible to the less well-off social groups, ended up limiting its expansion, since the ceilings set by the Government proved considerably lower not only than the average real costs of the private establishments, but also the average costs of public schools.

2.73 A redistribution of expenditures among the different subsectors is seen as a more effective way of tackling the most urgent needs than a reduction in unit costs. Primary education receives only 37 percent of the education and training sector's overall budgetary appropriation, against 24 percent for secondary schooling and over 32 percent for higher education. Consequently, 5,300 higher-education students cost almost as much as nearly 400,000 primary-school students. The unit cost per student was CFAF 770,000 a year (US\$1,760) in 1985/86, of which 60 percent was for scholarships. On the other hand, not only are primary-school enrollment rates low, but the quality of education is affected by the shortage of recurrent budgetary resources and by the inadequate pace of school construction, resulting in overcrowded classrooms. Another aspect of the structural problems of education is that of the relative role of the different disciplines. The internal efficiency of education in Burkina has not yet been too seriously affected by the resource problem: 74 percent of enrolled students reach the graduating class of the six-year primary cycle; and, at the secondary level, 85 percent of the students complete the two cycles 22/. But the sector's external efficiency, its capacity to provide training in skills and technologies which correspond to the needs of the

21/ In Burkina, the average primary-school teacher's salary is ten times higher than GDP per capita, against 7.6 times higher for the whole of French-speaking Africa, and much less in the other low-income countries.

22/ Source: Rapport Coût, Financement et Politiques de l'Education au Burkina Faso, Mingat & Larousse, 1987.

economy, seems much less obvious. Students in literary disciplines in fact represent 62 percent of enrollments in higher education.

2.74 In brief, all indicators for assessing the relative economic and social priority of the different types of education seem to point to the conclusion that the only way for Burkina to raise primary-school enrollment rates, consolidate the results already obtained (despite accelerated population growth rates) and gradually catch up with the rest of Africa is through a set of measures designed to reduce unit costs, limit expansion of secondary and higher education, and, above all, effect a reduction in real terms in the number and cost of scholarships.

Recent Trends in Urban Housing

2.75 The present rate of growth of Burkina's urban population is estimated at 8 percent, or 2.4 times its overall population growth rate. With over half a million inhabitants, Ouagadougou, the capital, accounts for about half the urban population; it grew at the rate of 9.7 percent a year between 1975 and 1985. Bobo-Dioulasso, the country's second largest city (some 250,000 inhabitants) is developing at an annual rate of 7 percent. And Banfora (35,000 inhabitants in 1985) has experienced an average annual growth rate of 11 percent since 1975, and could rapidly become the country's third largest city. These few figures will give an idea of the scope of the urban housing problem. Each year, the cities have to take in between 80,000 and 90,000 new inhabitants, equivalent to a demand for at least 8,000 new housing units a year, plus cope with the demands for improvement and renewal of the existing housing stock.

2.76 Over the past five years, the Government has taken a number of initiatives designed to increase the supply of affordable housing. Among these initiatives, one can cite the large-scale subdivision operations, which produced 60,000 sites on the outskirts of the two largest cities, and the urban renewal operations known as cités de la Révolution, constructed by the Government, mainly in Ouagadougou, which are both for rent and for rent with option to buy (some 2,000 housing units constructed over 5 years, plus 1,000 at the design stage). Less significant are the rental operations of the Social Security Fund (a total of 100 housing units constructed and 400 at the design stage) and those of SOCOGIB (some 100 housing units a year). Lastly, one should note that, after one year of abolishing rent, in 1985, the Government replaced this radical measure by progressive, albeit heavy, taxation of rental income.

2.77 The subdivision operations have two principal merits: the sites are allocated upon the payment of a fee, which, though not negligible, does not exceed the payment capacity of the majority, and they have the advantage of securing the occupancy rights of the beneficiaries (the land remains the property of the Government). Moreover, planned site demarcation can facilitate subsequent infrastructure creation, without the normal technical problems inherent in bringing services to squatter settlements. It is still too early to assess the results of this experiment. The main road alignments are in place, but their development is still very rudimentary. The sites have not received any utilities. In any case, the level of fees paid is such that it is possible to finance only very rudimentary amenities, and recovery rates are

extremely poor. In brief, the very principle of the subdivision operations demonstrates the Government's apparent interest in decentralized operations, supported by limited financial resources, designed mainly to create a favorable environment for a large number of individual initiatives. But the problem of servicing the sites has not yet been solved, and we have no means of comparing the relative success of these subdivisions to squatter settlements, which, with the accelerated growth of the urban population, form the principal base for expansion of the housing sector.

2.78 The cités de la Révolution are operations undertaken by the Government, and implemented under the aegis of the Ministry of Infrastructure. In many cases, they were financed by mandatory levies on agencies that were not in a position to refuse. In total, some 2,000 housing units have been placed on the market, for a total cost on the order of CFAF 6-8 billion. The cités de la Révolution have encountered all the problems common to projects of this nature. In most cases, the standards chosen and the unit costs are not in line with the incomes of potential users. It has been impossible to make such projects profitable, and the financial deficit resulting from the operations underway amounts to several billion CFAF. The Government is very concerned about the situation, but it is difficult to find an adequate solution to the complex operational and financial problems that such projects always create.

2.79 To put it succinctly, government efforts to guide, formalize and modernize urban housing programs have so far had practically no satisfactory results. For the moment, the informal sector is the principal supplier of housing. For the future, the housing problem remains the same: how to respond to the growing demand for housing, which is linked to the growth of the urban population? How to allocate the modest funds available to the public sector so that government-assisted programs represent a significant part of the housing supply? How to attack the problem of servicing sites? How to create legal and economic conditions favorable to the effective mobilization of individual and institutional savings? How to structure the intervention of the banking sector on conditions compatible with the specific demands of the sector and its financial viability, on the one hand, and the borrowing capacity of beneficiaries, on the other?

2.80 An encouraging factor in this difficult situation is the Government's readiness to conduct an in-depth analysis of urban housing constraints, an essential prerequisite to the preparation of a cohesive development strategy. A study of this kind has been ordered by the Government within the context of preparation for a second urban project, with results expected to be available in 1989.

Employment

2.81 In Burkina, as in most African countries, data on employment and unemployment are very fragmentary and unreliable. The results of the 1975 and 1985 censuses represent the main source of information, but changes in the definitions make comparison difficult, particularly with respect to female employment. The absence of systematic enquiries into household incomes, budgets, and consumption makes it difficult to analyze the present situation and

recent changes. With this caveat, it appears that the employment situation has in fact developed quite favorably:

- (a) During the period 1975-85, Burkina's economy created some 860,000 jobs, 23/ representing an annual growth rate of around 3 percent; this rate is lower than overall population growth, but close to the growth rate of the potential working population (defined as residents over 15 years old). If we only consider trends in male employment and unemployment (relatively more significant than female employment trends, being less affected by the differences of definition between the two surveys), it appears that the proportion of males who claim that they have a job has even risen slightly, from 89.3 percent in 1975 to 90.4 percent in 1985; moreover, the acceleration in economic growth since 1985 has probably had a positive effect on the employment rate.
- (b) The increase in the employment rate is principally due to the strength of agriculture and the rural sector. Rural employment still accounts for over 90 percent of total employment, and the rural sector produced more than 90 percent of the jobs created between 1975 and 1985 (800,000 out of 860,000), while the rates of declared unemployment in the rural environment seem to have declined from 4.2 percent in 1975 to an insignificant 0.3 percent in 1985. Furthermore, the value added per job in the primary sector seems to have risen by 13 percent between 1975 and 1985, representing an annual growth rate of 1.2 percent.

2.82 Despite this very favorable set of indicators, one should carefully monitor trends that could herald the beginning of certain imbalances:

- (a) Until recently, the potential working population has grown at a pace slightly below that of the overall population; with the entry of young people onto the job market a reversal of this trend is expected, making it essential to hasten the pace of job creation.

23/ The following table summarizes the data:

	(in thousands)					
	1975			1985		
	(M)	(F)	TOTAL	(M)	(F)	TOTAL
Population over 15	1,500	1,590	3,090	1,880	2,210	4,110
Population employed	1,340	1,170	2,510	1,700	1,670	3,370
Employment rate (%)	89.3	73.6	81.2	90.4	74.9	82.0

- (b) The urban population represents only a small proportion of the overall population, but its growth rate is on the order of 8 percent; job creation in urban areas is probably slower than urban population growth. Between 1975 and 1985, the urban unemployment rate rose modestly, from 9.6 percent to 10.8 percent.
- (c) The situation in the secondary sector is particularly disturbing: not only has its share declined, but the number of individuals employed in the sector has shown a downward trend (for men, falling from 55,000 in 1975 to 40,000 in 1985). Falling employment in the secondary sector contrasts with the growth of the tertiary sector, whose share in total employment rose from 3.8 percent in 1975 to 7.3 percent in 1985. It should be noted, however, that gross value added per job appears to have declined by 18 percent from 1975 to 1985 in the formal secondary and tertiary sectors. This probably reflects the stagnation of the modern sector and the relative growth of employment in the informal and small enterprise sectors.
- (d) The employment of professionals is threatened by modest growth of the modern sector: in 1985, the secondary and tertiary sectors employed 250,000 persons of whom 110,000 were in the modern sector (according to the census figures, 35,000 in government posts, 15,000 in the parapublic sector, and 60,000 in the private sector): 23,000 of these in the modern sector are considered professionals, including 18,000 mid-level and 5,000 senior professionals. Even if we assume that the annual growth in professional posts has been slightly higher than the annual growth of all jobs in the modern sector (4.6 percent), the increase in the number of professional jobs would have been less than 10,000 over the 1975-85 period. The number of high-school graduates produced was 10,500 during the 1975-85 period, and, of those, 4,000 went on to graduate from the university. Consequently, the secondary school system produces more graduates than the economy produces mid-level professional jobs, and the number of new university graduates far exceeds the demand for senior-level professionals.

2.83 For the future, the employment problem in Burkina is thus more qualitative than quantitative. If the economic growth rate continues to accelerate as it has over the past five years, it is likely that employment growth would be just marginally lower than the growth of the active population, and that there will be only a moderate rise in unemployment. However, a more rapid growth of the urban population, and, in particular, of the number of professionals, would require a considerable acceleration of growth in the secondary and tertiary sectors, and in particular in the modern sector, which seems very difficult to achieve. In this field, the policy followed up to now by the Government has not facilitated the matching of supply to demand. Not

only are employment prospects in the modern sector limited by structural problems that are particularly difficult to resolve (relatively high cost of labor because of high wage and benefit levels) and by the rigidity of certain regulations (ONPE's role in recruitment, time-consuming dismissal procedures), but the structure of education expenditures and the weakness of the scientific disciplines and vocational training systems also do not seem to be in the long-term interests of the economy.

III. DEVELOPMENT PROSPECTS AND ELEMENTS OF A GROWTH STRATEGY

A. An Indicative Scenario for Growth with Financial Equilibrium

3.01 In light of the analysis presented in Chapters I and II of this Report, and of the goals of the 1986-90 Five-Year Plan and the Popular Front Action Program of March 1988, the mission has developed a long-term economic and financial projections scenario. This scenario reflects a strategy designed to maximize economic growth while maintaining domestic and external financial equilibrium over the long term. This strategy calls for a set of coordinated measures, analyzed in the following sections, which consists essentially of:

- (a) adoption of policies for improving public resource management: public finance, public investment programming, management of external assistance and of the parastatal sector;
- (b) creation of an incentive system conducive to rapid growth of investment and productive activities in agriculture, industry and services, in both the formal and the informal sectors;
- (c) rehabilitation and strengthening of infrastructure which supports production (particularly that of transportation), land rehabilitation, and protection of the agroecologic environment;
- (d) pursuit of dynamic policies in the social sectors in order to fully develop the country's human resource capital, particularly through policies which would tailor the education system to the needs of the economy.
- (e) rationalizing of credit policies in order to increase the mobilization of financial savings and their transformation into investment financing for the economy.

3.02 The model used to develop the projections scenario presented in the following paragraphs is the Revised Minimum Standard Model (RMSM). 24/ The RMSM cannot be used measure the impact of different economic policies on economic variables directly -- the production and exports of the major sectors are entered as exogenous variables determined by qualitative evaluation. 25/ On the other hand, it is particularly well-suited for assessing the external financing and government financing needs which correspond to a given rate of growth of production and exports, consumption and investment -- and of the resulting import demand -- as well as for measuring the long-run impact of the terms of this financing on the external accounts and public finance. It should be stressed that these projections are in no way predictions of the future; rather, they serve to show the possible directions that the major economic and financial aggregates could take, given a set of assumptions about a number of variables. They are, therefore, purely indicative.

Economic Growth

3.03 Whereas Burkina's economic growth averaged around 3.3 percent per annum over the entire 1964-87 period, it accelerated during 1982-1987 to about 4.3 percent, albeit with substantial year-to-year fluctuations. The goal of the growth strategy envisaged in this Report would be to achieve a sustained increase in per capita income over the long run. Qualitative assessment of the development potential of the major sectors indicates that a GDP growth rate of about 5 percent a year over the next nine years could be achieved by maintaining an investment level which is compatible with Burkina's physical absorptive capacity and access to external borrowing. With projected annual population growth of 3.3 percent, this rate of economic growth would generate an average annual increase in per capita income of 1.7 percent. It should be noted that, while in this scenario annual GDP growth would only accelerate from about 3.8 percent over the past ten years to about 5 percent over the next nine years, the rate of growth of marketed GDP -- i.e. GDP minus public administration -- would rise from 3.5 to 5.5 percent, representing a notable spurt in the growth of the economy.

3.04 Because of the limited size of the domestic market, and the balance of payments constraint, for productive activity to expand faster than projected (particularly in industry), production would have to be geared increasingly

24/ By means of mathematical and econometric relationships, the model ensures coherence both within and between the national accounts, external accounts, public finance and external debt for a series of assumptions concerning a number of economic and financial variables over a given number of years. The model consists of 120 principal data items for the base year (1987), about 100 exogenous variables and about 300 derived variables for each year of the projection period.

25/ It does not seem practical at this stage to develop a "policies model" to supplement the "growth model" for the Burkina economy because the historical statistical data are too incomplete and unreliable to determine the parameters of such a model.

towards export markets. However, despite a depreciation in the real effective exchange rate in the past years, the external competitiveness of Burkina's formal sector suffers from a severe price handicap (paras. 1.13-1.14). In view of Burkina's membership in the Western African Monetary Union (UMOA) and the fixed nominal exchange rate of the CFA franc to the French franc (para. 0.07), it is expected that the Government would implement deflationary policies to restore the competitiveness of the economy. Such deflationary policies can, however, only exert the necessary impact on the real effective exchange rate in the long term. Therefore, the scenario presented here does not foresee a substantial supply response in favor of export production, at least in the formal sector.

3.05 The sectoral growth rates summarized in Table 32 derive from the following main assumptions:

- In agriculture, food crops would continue to grow at an average rate of over 5 percent a year under the combined effect of rapidly increasing domestic demand, intensification of production, and exploitation of new lands freed from onchocerciasis. Seed cotton production would rise by 6 percent a year, with 3 percent attributable to expansion of the area cultivated and 3 percent due to productivity gains. The livestock subsector would grow less rapidly than the rest of the agricultural sector owing to the limited domestic and external market prospects, particularly for large stock. The overall growth rate for the sector (crop production, livestock, forestry and fishing) would be 4.6 percent a year. The higher rate for 1987-92 (5.2 percent) was influenced by the sharp rise in agricultural production in 1988. The sectoral policies necessary to exploit Burkina's agricultural potential at this projected pace are analyzed in Section C.
- For gold production, which contributes less than 3 percent of GDP but accounts for a substantial share of exports, a rapid increase is foreseen in artisanal gold production. In contrast, on the basis of known reserves, industrial production should level off and then decline after 1992-93. Furthermore, these projections do not take into account possible development of the Perkoa zinc mine, which would not, in any case, begin production within the next several years.
- In view of the constraint on competitiveness outlined in para. 3.04, it is assumed that the formal industrial sector, including cotton fiber, would grow at the modest rate of 4.9 percent a year over the entire projection period, essentially in response to domestic demand. Excluding cotton fiber, the growth of modern manufacturing industries would be only 3.6 percent. It is assumed that growth would accelerate from 3.1 percent during the first four years to 4.1 percent thereafter, due to the impact of deflationary policy on the competitiveness of the economy. It should be

stressed that the projected growth rates for the modern manufacturing sector, modest as they are, presuppose the creation of an incentives framework that will (i) enable existing industries to increase their efficiency, initially in order to maximize their utilization of limited domestic resources, and then to prepare themselves to face external markets when circumstances so permit; and (ii) foster investment in new activities that enjoy a comparative advantage. Suggested reforms to improve the incentive system are discussed in Section C.

- In contrast, the informal, small-scale enterprise sector could develop rapidly with respect to activities which promote import substitution or exports to regional markets of the UMOA and BEAC countries.
- The growth projected for the construction sector is determined by the level of fixed investment (para. 3.06), assuming a gradual increase in the share of investment devoted to construction and public works by reason of the country's need to develop its economic and social infrastructures.
- The growth of economic services (transportation, commerce, etc.) is determined by an elasticity that reflects the expected impact of growth in the production sectors and of consumer demand on service activities, particularly in the informal sector.
- Although the civil service is not excessively large in Burkina Faso, it is assumed that public resource constraints will necessitate strict control of staff and wage bill growth following the rapid increase of recent years. Since an increase in international technical assistance is not desirable, the public administration as a whole is expected to grow appreciably more slowly than the economy. Given the relatively high level of civil service salary costs, and their pull effect on salary and benefit costs in the formal sector in general, the projection assumes that, in current value terms, growth of salary costs would lag behind projected domestic and external inflation rates. Besides the purely budgetary constraints, firm pursuit of a deflationary policy is in fact essential in order to gradually restore the competitiveness of the economy.

Table 32: Sectoral Value Added, 1987-97

	Billions of CFAF at 1982 prices			Growth rate (%)		
	1987	1992	1997	1987-92	1992-97	1987-97
<u>Gross Domestic Product (market prices)</u>	<u>469.3</u>	<u>599.3</u>	<u>773.7</u>	<u>5.0</u>	<u>5.2</u>	<u>5.1</u>
<u>Gross Domestic Product (factor costs)</u>	<u>445.3</u>	<u>570.7</u>	<u>736.9</u>	<u>5.1</u>	<u>5.2</u>	<u>5.2</u>
Farming, livestock, forestry, fishing	186.8	241.1	301.9	5.2	4.7	4.9
Industry	86.2	111.9	152.4	5.4	6.4	5.9
Manufacturing	47.2	60.3	83.4	5.0	6.7	5.9
of which:						
- formal sector	26.3	32.9	42.5	4.6	5.3	4.9
- informal sector	20.9	27.4	40.9	5.6	8.3	6.9
Mining	12.1	16.2	18.7	6.0	3.0	4.4
Energy, water	3.8	5.1	7.5	6.1	8.0	7.0
Construction	23.1	30.4	42.7	5.6	7.0	6.3
Services	172.3	219.7	282.6	4.8	5.3	5.1
Public Administration	82.4	95.5	113.5	3.0	3.5	3.3
Economic	89.9	122.2	169.1	6.3	6.7	6.5
<u>Memo items:</u>						
Marketed GDP <u>a/</u>	386.9	503.8	660.2	5.4	5.6	5.5
GDP per capita (1982 CFAF)	56,047	60,857	66,676	1.6	1.8	1.7
GDP in millions of current US\$	1,732	2,658	3,984	8.9	8.4	8.7
GDP per capita, in current US\$	207	270	344	5.4	4.9	5.2

a/ Gross Domestic Product (market prices) minus public administration.

Investment, Consumption and Savings

3.06 The ratio of fixed investment to GDP was 19.3 percent in 1987 (at constant 1982 prices). The projections assume that investment policy would aim more at increasing the return on investment and fostering investments which directly support production than at raising the relative investment level. As a result, the fixed investment/GDP ratio would be held at 19 percent until 1994 and then gradually rise to 19.6 percent. The incremental capital-output ratio (ICOR) implicit in this projection would decline from 4.4 in the period 1987-92 to 3.8 in 1992-97 under the combined effects of the expected changes in investment composition (with a growing share of investments that are directly productive or directly supportive of production), improved public investment programming, greater selectivity in government participation in mixed-capital enterprises, and gradual improvement in the efficiency of the economy, particularly in the formal sector. In line with this proposed policy, the projection assumes that the share of private investment in total fixed investment would rise progressively from 23 percent in 1987 to 34 percent at the end of the period. This would represent a growth of private investment of 9.5 percent a year in real terms; this is entirely feasible if the Government devotes itself to restoring and maintaining the confidence of the private sector and establishing a favorable economic environment.

3.07 Public consumption would rise appreciably faster during the next five years, based on the need to increase the non-personnel operating expenditures in a number of priority ministerial departments in order to maintain public infrastructure and provide efficient services. Moreover, a substantial share of recurrent expenditures associated with the public investment program, which are currently borne by external assistance, would have to be gradually transferred to the budget. Private consumption, which has not increased much during the last five years, would expand during the projection period by about 4.5 percent per annum in real terms, equivalent to an average annual increase in per capita consumption of just 1.2 percent. In contrast to the 1983-87 period, exports would be only a moderate growth factor due to the expected slowdown in the growth of gold production and the constraints on export potential in the other sectors (para. 3.04). Under this scenario, negative domestic savings would stabilize during the next five years and improve thereafter. National savings would remain positive, but decline in relative value during the first half of the projection period owing to expected slow growth, in real terms, of workers' remittances from abroad, as well as of other public and private transfers.

Table 33: Origin and Use of Resources, 1987-97

	Percentage of GDP (at 1982 prices)			Growth Rate (%)		
	1987	1992	1997	1987-92	1992-97	1987-97
Gross Domestic Income <u>a/</u>	100.3	98.5	98.6	4.6	5.3	5.0
Adjusted Resource Gap <u>b/</u>	27.3	26.0	23.9	.	.	.
Total Resources	127.5	124.5	122.5	4.5	4.9	4.7
Investment	20.6	19.9	20.6	4.3	6.0	5.1
Gross fixed capital formation	19.3	19.0	19.6	4.7	5.9	5.3
Public sector <u>c/</u>	14.9	13.5	12.9	3.0	4.3	3.7
Private sector	4.4	5.5	6.7	9.7	9.3	9.5
Changes in stocks	1.3	0.9	1.0	-1.7	7.5	2.8
Consumption	107.0	104.5	101.9	4.5	4.7	4.6
Public consumption	9.5	10.1	9.8	6.4	4.6	5.5
Private consumption	97.5	94.4	92.0	4.4	4.7	4.5
<u>Memo items:</u>						
Gross domestic savings	-6.7	-6.1	-3.3	.	.	.
Gross national savings	6.7	6.0	6.3	2.7	6.3	4.5

a/ Gross Domestic Product adjusted for terms of trade effect.

b/ Goods and nonfactor services imports less GNFS exports, adjusted for terms of trade effect.

c/ Including the public enterprises.

Public Finances

3.08 The public finance projections summarized in Table 34 are intended to illustrate the impact of the major elements of the proposed budget policy, and to assess the budgetary implications of the growth scenario envisaged. It is assumed that:

- (a) prudence would continue to be the hallmark of public resource management;
- (b) while fiscal pressure would not be increased, so as not to undermine the growth of a still fragile economy, tax revenue would grow slightly faster than GDP owing to general improvements in collection;
- (c) growth of current government expenditures would be tightly controlled, and would lag slightly behind that of GDP;
- (d) growth of government subsidies and current transfers would not surpass that of GDP;
- (e) in line with a policy of rigorous programming, greater selectivity in public and parapublic investment and stimulation of private investment, real growth of public investment would lag behind that of GDP and total fixed investment. However, the Government would finance a growing share of its investments from its own resources;
- (f) the authorities would pursue a prudent domestic and external debt policy.

3.09 The revenue projections are relatively general and do not take into account possible fiscal reforms following in-depth study of the tax system, rate structure, preferential regimes, effective protection, etc. Based on the assumptions adopted at this stage, total government revenues would increase only marginally relative to GDP over the next five years. The assumptions adopted for the main types of taxes are as follows:

- (a) Import duty revenue, which on average accounts for one half of fiscal receipts, would continue to grow with an elasticity of 1.2 with respect to merchandise imports. This is the historical elasticity and reflects nominal increases in protection rates and improved collection. It could, of course, change appreciably if protection rates were reformed. It is assumed that any remaining export duties would be abolished.
- (b) Direct tax revenue (13 percent of fiscal receipts in 1987) would increase slightly faster than GDP, assuming progressive widening of the tax base and strengthening of tax administration.
- (c) Excise tax revenue (13 percent of fiscal receipts in 1987) would rise at the same rate as private consumption.

Table 34: Projection of Consolidated Government Operations, 1987-97
(CFAF Billions at current prices)

	1987	1989	1992	1994	1997
TOTAL GOVERNMENT REVENUES	<u>77.4</u>	<u>96.0</u>	<u>118.3</u>	<u>140.2</u>	<u>188.5</u>
of which:					
Direct and indirect taxes	29.5	36.6	44.9	53.0	70.3
Foreign trade taxes and duties	32.3	40.0	49.5	59.3	82.4
Other fiscal and nonfiscal receipts	15.6	19.4	23.9	27.9	35.8
CURRENT EXPENDITURES	<u>74.2</u>	<u>89.4</u>	<u>108.4</u>	<u>124.6</u>	<u>156.7</u>
of which:					
Wages and salaries	42.3	53.1	61.7	69.8	85.1
Materials and supplies	7.1	12.9	19.1	23.6	32.6
Subsidies and current transfers	12.4	15.5	19.0	22.2	28.5
Interest on public debt	7.5	7.9	8.6	9.0	10.5
Unclassified	4.9	--	--	--	--
BUDGETARY SAVINGS	<u>3.2</u>	<u>6.6</u>	<u>9.9</u>	<u>15.6</u>	<u>31.8</u>
CAPITAL EXPENDITURES	<u>89.3</u>	<u>109.6</u>	<u>129.9</u>	<u>147.4</u>	<u>186.5</u>
of which:					
Investment	82.1	98.8	117.9	135.0	174.0
Amortization of public debt	7.2	10.8	12.0	12.4	12.5
NET FINANCING REQUIREMENT	<u>-86.1</u>	<u>-103.0</u>	<u>-120.0</u>	<u>-131.8</u>	<u>-154.7</u>
- External project assistance	72.5	86.4	100.4	112.7	138.1
- External budget support	-	17.3	19.7	19.1	16.6
- Change in arrears	13.6	-1.1	-0.1	-	-
<u>As percentage of GDP</u>	. . . . .	. . . . .	. . . . .	. . . . .	. . . . .
- Total revenues	14.9	14.7	14.8	15.1	15.8
- Current expenditures	14.3	13.9	13.6	13.4	13.1
- Budgetary savings	0.6	0.8	1.2	1.7	2.7
- Capital expenditures	17.2	16.8	16.3	15.8	15.6
- Net financing requirement	16.6	15.8	15.0	14.2	12.9

- (d) The revenue produced by the turnover tax (TCA) and the industrial and commercial profits tax (BIC) has risen little in recent years, and represented only about 11 percent of fiscal receipts in 1987. It is assumed that reforms will be implemented in the near future to rationalize the structure and widen the base of these taxes, together with a review of the various preferential regimes. Consequently, a gradual increase is foreseen in the elasticity of TCA revenue with respect to growth of industrial value added and of BIC revenue with respect to value added in industry and services, rising from 1.1 to 1.3 over the next ten years.

3.10 According to the assumptions adopted, total current expenditures would decline in relative value, from over 14 percent of GDP in 1987 to about 13 percent by the end of the projection period:

- (a) Real growth of wage and salary expenditure would be limited to 3.0-3.5 percent a year (para. 3.05).
- b) In contrast, increasing priority would be given to recurrent expenditures for materials and supplies with the goal of improving both the maintenance of the country's economic and social infrastructure and the quality and effectiveness of government services. The projections assume that these expenditures would rise by an average of 12.2 percent a year in real terms.
- (c) Interest payments on past and future loans would be strictly ensured, without further accumulation of arrears, while existing interest arrears would be settled over a period of four years.

This scenario would result in a gradual and substantial increase in current budgetary savings, enabling the Government to finance a growing share of its capital expenditures: from about 4 percent in 1987 to 8 percent in 1992 and more than 18 percent in 1997.

3.11 The Government's net financing needs, including those associated with the public investment program and with past and future debt service, would rise by about 80 percent in current terms over the projection period. It is assumed that they would be covered largely by disbursements of conventional loans and grants linked to investment projects. The balance would be met with additional, quick-disbursing loans for budget support, representing on average US\$55 million equivalent per annum over the nine years 1989-97.

External Accounts

3.12 In this growth scenario, the current account deficit on the balance of payments would rise somewhat in relative value, from 10.9 percent of GDP in 1987 to 13.4 percent in 1997 (Table 35). However, this increase would be due entirely to workers' remittances from Burkinabè nationals abroad and to public and private current transfers. Thus, the resource gap -- the balance of

merchandise exports and imports and nonfactor services -- while increasing in nominal value would decline very slightly as a percentage of GDP, from 26.1 percent in 1987 to 25.5 percent in 1997. As shown below, the projected current deficit could be financed by external borrowing and grants, given Burkina's access to official financing sources on concessional terms and its long-term debt-servicing capacity.

3.13 Import requirements are projected as a function of consumer demand, investment demand, intermediate demand of industry, and energy demand according to appropriate elasticities. On the basis of the sectoral production, consumption and investment assumptions adopted, the various import categories would develop as follows:

	Average Annual Growth of Import Volume (%)		
	<u>1987-92</u>	<u>1992-97</u>	<u>1987-97</u>
Capital goods	4.2	5.3	4.8
Intermediate goods	4.6	5.4	5.0
Energy products	5.1	5.3	5.2
Consumer goods	4.0	3.6	3.8
Food products	-3.5	-2.0	-2.8
Non-factor services	4.0	3.4	3.7
<u>Total goods and non-factor service imports</u>	<u>3.3</u>	<u>3.9</u>	<u>3.6</u>

The overall elasticity of imports with respect to GDP which results from these projections is 0.7 for the entire period. This fairly low elasticity is due mainly to an assumed reduction in agricultural and food imports, which account for a substantial share of the total. In fact, because of the relatively rapid growth projected for the agriculture sector, agricultural and food imports would decline by about three percent a year. The elasticity of all other imports with respect to GDP--i.e. excluding agricultural and food products--comes to 0.9 for the whole of the projection period. It should be noted that the projected decrease in food imports, and the slow growth of other imports, is optimistic: if, for the same production and investment growth rates, import demand (and therefore implicit consumer demand, in particular) actually grew more rapidly, the external financing requirements would be greater than projected.

3.14 The projected volume growth rates of major exports are as follows:

Average Annual Growth of Export Volume
(%)

	<u>1987-92</u>	<u>1992-97</u>	<u>1987-97</u>
Gold	4.6	3.0	3.8
Fiber cotton	5.8	6.4	6.1
Food products	2.5	3.7	3.1
Livestock products	2.0	2.5	2.2
Cash crops	4.3	5.2	4.7
Manufactures	2.0	2.5	2.2
Non-factor services	5.0	5.4	5.2
<u>Total goods and non-factor service exports</u>	<u>4.2</u>	<u>4.4</u>	<u>4.3</u>

With the probable slowdown in gold production, cotton fiber should dominate Burkina's exports in the years ahead. The projected rate of growth of cotton fiber exports is 6.1 percent, which is slightly below that of production, and reflects the assumption that the domestic market will absorb a growing share of production through the development of the textile industry. The increase in gold exports would be due entirely to artisanal gold production. The projected rates for food exports, including cereals, are purely notional since such exports remain within the informal sector and depend on agricultural surpluses. However, they reflect the assumption that the domestic market would absorb most of the increases in production, and that stocks would rise as part of measures taken to ensure food security. The export potential for livestock products is limited by the great distances to large, coastal urban centers, and by competition from European and Argentinian meat, given prevailing relative prices. Finally, only a marginal increase is projected in manufactured exports, which are, in any event, not very significant given the assumption adopted in this scenario that the competitiveness of the Burkina economy would not change radically (para. 3.04). It is assumed that any growth would stem essentially from informal sector exports to regional markets.

3.15 The world prices of major export products and import categories, as well as the international inflation rate, are based on projections made by specialized units within the World Bank. The results are the following weighted price indices for merchandise exports and imports as well as the terms of trade for Burkina (projected in US dollars, base 1982 = 100):

	<u>1987</u>	<u>1989</u>	<u>1990</u>	<u>1992</u>	<u>1994</u>	<u>1997</u>
Export prices	114.8	116.6	115.5	127.0	140.0	157.7
Import prices	110.4	125.5	127.6	137.9	149.1	171.5
Terms of trade	103.9	92.9	90.5	92.1	93.9	92.0

The price of cotton is expected to improve in the next two years, although, in the long run, it would remain appreciably lower in real terms than the average level of the 1970s and early 1980s. Gold prices, which declined in 1988, should continue to decline in real terms during the 1990s. This set of assumptions leads to a considerable deterioration in Burkina's terms of trade between now and 1990, and quasi-stabilization thereafter. Thus, gross domestic product, which is calculated by adjusting GDP for the effect of changes in terms of trade and which represents the country's real income, would grow by only 4.6 percent a year over the period 1987-92, against 5 percent for GDP. Similarly, import capacity would grow more slowly than the value of exports at constant prices.

3.16 In the capital account, gross inflows of public capital are projected on the basis of public investment financing needs and debt amortization charges. It is assumed that capital grants would increase at the moderate rate of only 6.2 percent a year at current prices, which would represent very limited real growth. In view of Burkina's low per capita income, it is assumed that the Government could borrow only on highly concessional terms from official sources; we have assumed no commercial borrowing. We have also adopted a prudent assumption with respect to increases in net direct foreign investment (5 percent a year at current prices), which could prove to be too conservative if policies to encourage private investment bear fruit. Assuming that net external reserves are held at the equivalent of 3-4 months of imports throughout the period, the additional net financing requirement for balance-of-payments equilibrium would be around US\$50 million in 1989, rising to some US\$110 million in 1997. These requirements would exceed those of the Government, implying that it would be borrowing or guaranteeing external loans in excess of the amount needed to finance public expenditures, the object being to generate financial savings to fund certain activities, such as public enterprise restructuring or financing the economy via the banking system.

3.17 Total new loan commitments required to cover public investment financing and additional net external financing needs would rise from about US\$ 170 million a year on average in 1988-92, to about US\$ 305 million a year in the following five years. These amounts would very probably fall within Burkina's capacity to borrow from official bilateral and multilateral sources, if the proposed program of reforms is implemented. The debt service ratio would rise over the next three or four years due to maturities on large loans contracted in the late 1970s and early 1980s, and would increase further if settlement of principal in arrears were included. However, it would then decline to about 10 percent by 1997, reflecting the highly concessional terms assumed for future loans.

Table 35: Balance of Payments, 1987-97
(US\$ Millions at current prices)

	1987	1989	1992	1994	1997
RESOURCE BALANCE	-452	-586	-693	-785	-1017
Exports of goods and NF services	293	332	408	488	630
Imports of goods and NF services	746	918	1101	1273	1647
NET FACTOR SERVICES	178	218	246	268	306
of which: Interest on debt	-14	-19	-20	-19	-21
Workers' remittances	195	225	246	265	300
NET CURRENT TRANSFERS	85	105	125	142	175
Public	66	81	96	110	135
Private	20	24	29	32	40
CURRENT BALANCE	-189	-263	-326	-375	-536
Direct investment (net)	9	10	11	13	15
Short-term capital	7	8	8	9	10
MLT public capital (net)	243	252	267	319	420
of which:					
Capital grants	149	175	191	226	271
Net public borrowing	94	77	76	93	149
Disbursements	112	111	114	132	188
Amortization	-18	34	38	39	39
Other capital	-14	-	-	-	-
NET FINANCING REQUIREMENT	-	49	60	64	110
Change in net external reserves (- = increase)	-57	-56	-24	-30	-19
<u>As percentage of GDP</u> (%)				
Exports (goods and NF services)	16.9	15.3	15.3	15.7	15.8
Imports (goods and NF services)	43.1	42.3	41.4	41.1	41.3
Current balance	-10.9	-12.1	-12.1	-12.1	-13.4

Table 36: External Debt, 1987-97

	Memoranda				
	(1983-87)	(1988-92)	(1993-97)	(1988-97)	
Annual averages in millions of current US\$					
<u>Commitments</u> (Public and publicly-guaranteed debt) <u>a/</u>	83.0	167.3	304.2	235.8	
Bilateral sources	34.7	49.7	77.5	63.6	
Multilateral sources	47.1	117.6	226.7	172.2	
Commercial sources	1.2	-	-	-	
	<u>1987</u>	<u>1989</u>	<u>1992</u>	<u>1994</u>	<u>1997</u>
<u>Debt outstanding and disbursed</u>	694.9	856.5	1,236.6	1,530.4	2,194.8
- pre-1988 loans	694.9	764.7	782.0	727.6	625.9
- future loans	-	91.8	454.6	802.8	1,568.9
<u>Debt service</u>	32.2	53.6	58.6	60.3	63.5
- pre-1988 loans	32.2	53.7	54.9	52.1	44.2
- interest	14.1	19.2	16.9	13.6	9.4
- amortization	18.1	34.3	38.0	38.5	34.8
- future loans	-	0.2	3.7	8.2	19.4
- interest	-	0.2	3.7	7.6	15.1
- amortization	-	-	-	0.6	4.3
<u>Memo items:</u>(%).....				
Debt outstanding and disbursed/GDP	40	39	47	49	55
Debt service/ exports (GNFS)	11	16	14	12	10
Debt service/ total govt. receipts	13	17	15	13	10

a/ Including the commitments necessary to cover all net financing requirements for the balance of payments.

B. Management of Public Resources

(i) Public Sector Management

3.18 The general impression emerging from an analysis of public sector management in Burkina Faso is reassuring. Overall, the country has thus far avoided some of the excesses which have plunged the majority of African countries into economic crisis and financial disaster. The management of the public and parastatal sector has been pragmatic and reasonable. The civil service is small in number, well motivated and relatively efficient. As a proportion of GDP, budgetary expenditures are not excessive and the budget deficit is modest. The parastatal sector is large relative to the size of Burkina's economy, but seems to be fairly well managed. Public debt is increasing, but still represented only 47 percent of GDP at the end of 1987. The information systems for public and parastatal sector management are incomplete and not without their shortcomings, but the principal ones are working. In fact, when the available summary tables revealed a deterioration in major indicators (rapid growth of budgetary expenditure in 1983-84, increasing deficits of several public enterprises), measures were taken to reduce expenditure and restructure these enterprises. The concern currently shown by the Government over the rising deficit and accumulating arrears augurs well for its willingness to act quickly and firmly to reverse this situation.

3.19 Nonetheless, this reassuring picture of the evolution of Burkina's public sector conceals a number of problems. Throughout the analysis of the public sector, two kinds of problems were repeatedly in evidence: first, existing information systems were capturing only part of the data required for effective planning of public sector activities; second, a policy of moderate growth for the sector needed to be supported by a restructuring of public revenues and expenses.

3.20 In terms of public sector management, an adjustment strategy should therefore incorporate, on the one hand, a major effort to develop an information, analysis and planning system that enables the Government to base its policy on a global view of its resources and their use, and, on the other hand, a series of reforms designed to increase the economic and social effectiveness of its interventions as a whole.

An information, analysis and planning system to support a global approach to resource management

3.21 It is difficult to identify with precision the weaknesses of the information, analysis and planning systems in Burkina. The issue is probably important enough to merit detailed examination by public sector management specialists. At the same time, the worst possible remedy would be to introduce into Burkina an ambitious information system that did not meet the country's specific needs, that excessively complicated the tasks of Burkina's civil servants and that contributed very little to the desired objective of clarity. A new system should, therefore, be devised by the departments principally responsible for public sector management, with the intermittent assistance of a small number of outside experts.

3.22 This being said, we believe that the information system used by the Burkinabè Government should incorporate the following features:

(a) Better information regarding the flows of resources available to the public authorities, a deeper analysis of the economic impact of the current system of fiscal and parafiscal revenues and an improved forecasting capability:

- The tax system in force has certain positive aspects: although budgetary receipts have been strongly influenced by annual, short-term fluctuations, the increase in revenues has, in overall terms, kept pace with the growth of the economy. For the last ten years, their volume has been on the order of 13-15 percent of GDP. The tax base is relatively diversified for a country as poor as Burkina: although duties and taxes related to external trade still account for about half of budgetary receipts, direct taxes on incomes and profits are relatively important. However, little effort has hitherto been made to evaluate the economic impact of the existing fiscal system and the structure of customs tariffs. Consequently, before any measures are considered that would result in an increase in the overall tax ratio, an in-depth study of this impact should be undertaken. The objective would be to identify a package of reforms that would simultaneously generate the resources which the Government needs to finance the public sector, establish an appropriate system of protection for domestic production and create a favorable climate for economic expansion. The study would examine the structure of budgetary receipts and tax revenues, problems of tax administration and yield and of the preferential regimes benefiting certain activities. With respect to income taxes, the study would aim to define their optimum structure (income threshold, rate structure, taxation of higher income brackets) in terms of resource mobilization. An analysis should be undertaken of why the proceeds of the turnover and profit taxes have increased very slowly since 1982, and whether it would be possible to boost these types of revenue without substantial negative impacts on entrepreneurial activity and the volume and structure of investment. It is in this context that one should examine the economic and fiscal advantages of a value added tax. In the area of customs duties and taxes on imports, effective rates of protection should be examined, and the basis identified for the future harmonization of tariffs and other forms of protection; it would be important to look at the provisions governing exemptions, their original justification, their effects, and possible ways of correcting distortions arising from these provisions. Finally, a forecasting model should be devised that would enable the Government to make more realistic revenue projections and minimize the severity of liquidity crises that too often necessitate sudden, poorly-

prepared decisions to adjust expenditure to revenues in the middle of the fiscal year.

- The economic mission scarcely had time to study the structure and evolution of parafiscal receipts. The weight and relative complexity of this parafiscal system makes a coherent analysis of the entire range of compulsory levies on the economy very difficult. It is therefore important that the structure of these parafiscal charges be examined. The purpose of this exercise would be to construct a consolidated overview in order to define an overall policy for mobilization and use of public resources which would be more consistent with the twofold objective of financial rehabilitation and encouragement of economic activity. The analysis would also provide an opportunity to review the justification for these parafiscal charges and, in some cases, to consider their reintegration into the general fiscal system.

- We have previously referred to the disastrous effect on the investment climate of contributions that have been imposed from time to time on economic agents, in order to finance projects that have been deemed top priority by the Government. In many cases, the unforeseeable and arbitrary nature of these decisions is more damaging for economic operators than the direct costs of the levies themselves. In our view, the Government should pledge firmly to abandon this practice and integrate the financing of projects that are essential to Burkina's economic and social development into the normal process of budget management or public investment programming.

- (b) Improved analysis of the volume and structure of public expenditure, whether financed from the national budget, special accounts or external assistance:

- Even before taking up the problems of aid-financed public expenditure, certain measures could be taken to rationalize the existing budgetary and accounting system. At present, the relative size of interministerial and "unclassified" expenses (for ex post allocation) greatly complicates any analysis of the budget and public accounts, preventing the clear attribution to responsible departments and organizations of all expenses incurred in the performance of their various functions. We shall see below that the problem of "unclassified" expenses for ex post allocation particularly affects the accounting of public debt service and monitoring of arrears.

- Once again, one encounters the problem of the special accounts in the Treasury, which are numerous (over 100). Most of these accounts are inactive, but the operations of

the active ones make it very difficult to identify net budgetary transfers and prepare a consolidated statement of public sector receipts and expenses. A number of these special accounts could very probably be closed, and a serious effort should be made to ensure that the operations of the remaining accounts do not hamper preparation of a consolidated statement.

- It appears that budgetary austerity in Burkina has been partially compensated for by donor financing of recurrent charges outside the budget. We in no way oppose the merits of this policy, which has almost certainly made it possible to sustain the operational efficiency of certain basic services that are essential to the country's economic and social development. Nonetheless, we believe that the Government and donor community should study this situation and review relative priorities in public spending as a whole, irrespective of how it is financed. It is not easy to make such an analysis on a global basis. It should, in our view, initially be based on a series of sector studies, beginning with high-priority sectors, in order to review the principal activities and expenditures in each sector, and the means by which they are financed. It should then analyze the relative merits of these various interventions, and define sectoral programs for public spending based on an overall view of the prospects for each sector and the appropriate supporting policy environment.

(c) Systematic monitoring of the public debt and debt service:

- As seen in Chapter I.D, the rapid increase in debt service payments has often resulted in a reduction during the year of expenditure on goods and services and on investment, relative to initial budget projections. However, this reallocation of budgetary resources has not prevented the accumulation of arrears, which at the end of 1987 totalled almost CFAF 18 billion. It was also pointed out that a major share of "unclassified" expenses for ex post allocation represented debt service payments; a fact which further complicates analysis of the situation. Finally, arrears are settled in such a way that payments are not always recorded as such in the accounts in which the arrears were initially recorded, making it almost impossible to determine the volume of arrears at the end of the fiscal year. These are technical problems which can easily be resolved, but they give the impression that, first, the accounting system for commitments, disbursements and payments on public and publicly-guaranteed debt, as well as debt service projections, are not adequately centralized, and that, second, at a time when Burkina's obligations represent a significant and ever-increasing share of public

expenditure, government departments are poorly prepared to manage the country's debt and debt service in a consistent, coordinated and efficient way.

- Burkina's situation in this respect is no different from that of many countries that are belatedly discovering the extent of a problem which, had it been grappled with earlier through systematic, forward-looking analyses, could have been resolved or alleviated by appropriate measures. The first step to consider is probably a complete inventory of all loans already contracted and under negotiation, in order to verify that the available data on commitments, disbursements, repayments and arrears are comprehensive and consistent. The next step would be to make realistic projections of Burkina's obligations, within the framework of a macroeconomic analysis of the resources available to meet debt service requirements. The third step would be to introduce and apply appropriate procedures, and train personnel who would be fully informed and able to analyze and project, at any time, the magnitude of the problem and the different solutions that could be considered. Since the public debt consists of a range of commitments contracted by a large number of departments, agencies and enterprises, the centralization of information, analysis and forecasting is a complex task requiring constant efforts to ensure the collaboration and discipline of all parties concerned. This task is all the more urgent in that increasingly sophisticated rescheduling and refinancing formulas are periodically being introduced, of which Burkina could take full advantage in order to resolve a situation which remains far better than in many other countries.

(d) More effective programming and monitoring of public investments:

- In a country in which public savings are negative, the Government's role is, to a great extent, to mobilize the largest possible volume of external resources for development. Given the large number of donors operating in Burkina Faso, using extremely diverse criteria and procedures, the resource mobilization effort tends to absorb all the energies of the national departments involved, to the detriment of the coherency of the overall program and the close supervision of project implementation. Burkina has, nonetheless, made significant efforts to "internalize" the process of planning public investment: the Programme Populaire de Développement and the Five-Year Plan were based on extensive consultation with the departments involved and the populations affected; an information system and a data bank were set up to monitor implementation of the various projects; and, in 1988, preparation of an annual public

investment program resulted in more realistic projections of probable disbursements. Nonetheless, the decline in the budgetary contribution to investment in recent years has probably reduced the direct influence of the public authorities over their own program, and has certainly had damaging effects on the pace of implementation for ongoing operations.

3.23 At the present time, several factors argue in favor of strengthening investment programming:

- (a) The present Five-Year Plan covers the period 1986-90; a new plan is now in preparation for the following period, making this a good time to reconsider the methods used thus far, on the basis of the experience gained, with a view to adapting the investment program to the new needs of the economy.
- (b) The tension which is manifest in the public sector's financial position underscores this need: the State can no longer meet its debt service obligations; the maintenance of existing infrastructure is not fully ensured; the Ministry of Planning believes that the absorptive capacity for the resources available is inadequate. Taken together, these facts highlight the imbalances between investment programming, and the administrative and financial resources available to the Government to implement these projects, defray recurrent costs and meet debt service obligations.
- (c) Donors, aware of the economic and financial problems facing African countries, are ready to recient their programs and adapt them to the specific needs of each country. An intergrated approach -- macroeconomic or sectoral -- which would have been inconceivable in the 1970s is now possible if the Government resolutely makes a commitment to this process, and assumes the leadership in a systematic effort to coordinate the programs and projects financed from both domestic and external resources.

3.24 This is, therefore, an oppoortune time to reassert control over a somewhat disorganized process, and ensure that the systems for planning and programming public investment are consistent. The instruments of this reform could be the following:

- (a) The development, within either the Ministry of Planning or Ministry of Finance, of a greater capability for macroeconomic and financial analysis and forecasting: in conjunction with the strengthening of the planning and strategic review functions within the technical ministries, this step would enable the Government to define realistically the macroeconomic and financial framework (forecasts of economic growth, projections of available net

resources, establishment of economic and social development priorities, cost and projected disbursement patterns of ongoing projects; forecasts of essential maintenance and rehabilitation expenses, debt service projections, role of private investment, etc.) into which investment programming must be inserted.

- (b) The widespread reliance on, and systematic exploitation of, sectoral studies mentioned above: bringing together macroeconomists, financial institutions, technical departments and donors operating in each sector, these studies would serve to establish sectoral objectives, the relative priority of recurrent charges and investment expenditure needed for balanced development of the sector, and the policies needed to maximize the productivity of public services and stimulate activity and investment by private entrepreneurs.
- (c) The preparation of multiyear programs -- for example, rolling three-year programs (which experience shows to be the most flexible, precise and effective instruments for realistic planning) as the basis for mobilizing and effectively utilizing all resources available, regardless of how they are financed.

A rolling three-year public investment program would function as a tool for implementing the Five-Year Plan. This Five-Year Plan, using an analysis of past events and current development issues, defines the country's major economic and social objectives over the long term, determines the strategies to achieve these objectives, identifies economic policy measures and a preliminary portfolio of projects to implement these strategies, and then builds a broad national consensus around these objectives, strategies, policies and projects. The purpose of a three-year investment program is to select from among the Plan's portfolio of projects, and establish a timetable for a list of projects that have been thoroughly appraised and carefully chosen in light of their rate of return, associated recurrent costs and state of readiness. The program is revised annually as a means of reporting progress in the implementation of projects underway, adjusting the programming of projects under preparation, adding new projects for the coming year and ensuring that the aggregate cost of the resulting program is compatible with the Government's domestic and external financing capacity, as determined by the updated economic and financial projections. Donors would then have to choose exclusively from among the projects appearing in this program.

Policies designed to increase the economic and social efficiency of public sector management

3.25 To a large extent, these policies should continue, and intensify, the efforts already undertaken by the Burkinabè authorities to contain fiscal pressure, halt the expansion of the civil service and the growth of public expenditure in general, raise the productivity of this expenditure and mobilize substantial quantities of external resources on highly concessional terms.

Mobilization of National Resources

3.26 One of the temptations which the Burkinabè authorities should resist is to solve the problems of public finance through a significant increase in fiscal pressure or through a policy of "voluntary" contributions from economic operators for certain activities accorded high priority by the Government. This temptation could be strong: raising the tax ratio by one or two points as a share of GDP would suffice to finance the entire deficit without additional external assistance, at least until a new rise in expenditure required a further increase in fiscal pressure. Furthermore, economic operators are not always in a position to resist the pressure exerted on them by the State for the mobilization of their savings. Nevertheless, either approach would be harmful to economic growth. In the first place, the structure of the system of duties and taxes, and, more generally, the entire range of fiscal and parafiscal levies, deserves detailed analysis from the standpoint of their consistency and their economic impact (para. 3.22). In addition, stimulating activity in the modern and informal private sector requires a special effort by the Government to regain the trust of economic agents. Maintaining a moderate tax ratio, and progressively adjusting the structure of protection and taxation systems, so as to better exploit Burkina's comparative advantages, are more important medium-term objectives than raising fiscal pressure. Finally, nothing is more damaging to the resumption of investment than the system of forced contributions to which the Government has often resorted during the past five years.

3.27 In light of these factors, we have projected customs and tax receipts to grow at a moderate rate in coming years, increasing only marginally as a proportion of GDP. However, in order to improve public and parapublic sector management, a major effort should be made to recover an increasing proportion of the cost of services from users and beneficiaries. Burkina has already made significant progress in this area, particularly in agriculture and the social services, which ought to be maintained and intensified.

Volume and Structure of Public Expenditure

3.28 Although over the last three years budget expenses have been held to less than 18 percent of GDP, the national accounts show rapid growth in the item "public administration," which apparently pertains to national personnel or technical assistants financed by foreign aid. We have already referred to the benefits to be gained from a detailed examination of the volume and structure of public expenditure, covering expenditure financed from both the budget and external assistance. Subject to the conclusions of this study, we believe that the Government's policies should include the following features:

- (a) The wage bill for the civil service and other state employees should not rise by more than 3-3.5 percent per year in real terms, consequently declining as a proportion of GDP. This outcome would be achieved through a moderate increase in employees and adjustments to the salary structure that are lower than the rate of inflation. Although civil service salary levels were nearly frozen from 1984 to January 1988, they are relatively high (in relation

to GDP per capita) and influence the wage structure in the modern sector. Public sector wage policy should, however, take into account the need to protect and improve the quality of the civil service, and to reward competence, good performance and merit.

- (b) The containment of budgetary expenses has led to a fall in the share of expenditure on goods and services and in the Government's contribution to the investment program. On the other hand, external assistance, in the form of project support, is probably financing goods and services previously financed by the budget. Nonetheless, it seems desirable to increase significantly the proportion of this kind of current expenditure and of investment expenditure financed by the national budget, enabling the Government to make a more satisfactory contribution to infrastructure maintenance and management of existing services, and to play a greater role in supporting the public investment program.
- (c) The sectoral composition of public expenditure should be reviewed as part of the studies of sectoral policy mentioned above. Without prejudging the conclusions of these studies, it is probable that they will confirm the need for an increase in the relative share of certain expenses (road maintenance and other basic infrastructure, health and family planning services, education, especially at the primary level, and departments dealing with the problems of environmental protection).

Restructuring of Public Investment

3.29 Although the Bank has a good understanding of the sectors in which it has financed projects (transportation infrastructure, agriculture, mining, telecommunications, education, health and energy), and of the priority needs of these sectors, it is not for us to propose the elements of an investment policy before the Government itself has prepared a new multi-year public investment program, established the macroeconomic framework for this program and set out its objectives and priorities. Indeed, the best basis for public investment programming would be the series of proposed sector studies which, by establishing the relative priority of the various kinds of public spending, would facilitate the definition of a public investment policy in each of the main sectors.

3.30 We will confine ourselves to suggesting that, in general terms, future investment programs should incorporate the following features:

- (a) Absolute priority should be given to the rehabilitation of existing infrastructure, with investments in new capacity being carefully chosen and scaled according to their relative urgency and to physical and financial maintenance capabilities in the public sector. A review of the transportation sector clearly illustrates the need for a

special effort to maintain and rehabilitate the existing road network, as well as the importance of overhauling railroad operations, which have suffered from ten years of lax management.

- (b) Priority should also be given to public investments which serve to stimulate or support investment by other economic agents. This is particularly true for agriculture and environmental protection: The essential requirement in these two areas is to expand and diversify research, promote extension work and undertake those investments (infrastructure, irrigation, etc.) that are beyond the resources of small-scale producers and village communities. However, the ultimate objective of these public investments would be to stimulate investment in the land by small farmers, as well as all other forms of appropriate investment by village communities and the private sector.
- (c) Burkina is a country where a large number of small projects, in the framework of appropriate sector policies, could play a major role in economic and social development. This is particularly the case in the health and family planning sectors, where the problem is for the State, in conjunction with NGOs and the private sector, to ensure the provision of highly decentralized essential services.
- (d) Medium- and large-scale projects certainly have their place in the investment program, but the Government needs to strengthen the capacity of its centralized and sectoral departments to undertake the economic and financial appraisal of such projects, based on realistic assumptions about changes in demand, investment costs, technological choices, project management and the impact on recurrent costs.
- (e) In general terms, the quality of investment programs has suffered from diffuse decision-making and disparities in the selection and evaluation criteria used by various donors. A concerted, overall approach, based on the sector studies and meetings proposed, could make an important contribution to improving the effectiveness of the public investment program and the policies supporting it.

Prudent Debt Management

3.31 Our projections assume that, under certain assumptions, the Government could settle its interest arrears, meet its debt service obligations on past and future loans and gradually reduce the debt service ratio to ten percent over a ten-year period. On the basis of work done to improve centralization and forecasting, the authorities should adopt a flexible policy for external financing, eschewing any recourse to commercial loans, and maximizing their negotiating capability and the use of grants and loans on highly concessional

terms. As part of this policy, instruments that would alleviate the current debt service burden through rescheduling and refinancing on highly concessional terms should be carefully considered and sensibly used.

A more aggressive policy of foreign aid coordination

3.32 The macroeconomic policy dialogue which the Government has recently initiated with donors, and the sectoral policies to be defined as a result of proposed sector studies, should lead to more efficient coordination and faster disbursement of available external assistance. More effective use of external assistance would by itself have beneficial effects on the volume of resources available to the Government. A resolute effort should therefore be made to pursue a policy of aid coordination, relying both on general meetings of the Round Table type, and on frequent, informal sectoral meetings to review progress and the results of the various sector studies. In this area, the new operational instruments (adjustment loans, program loans, sector financing) recently introduced by the international community can play an important role in mobilizing flexible and fungible financial resources to carry out policies and programs which reflect the general needs of the economy and each of its principal sectors.

(ii) The Role of the Parastatal Sector

3.33 We noted in the first part of this Report that the parastatal sector in Burkina appeared to be relatively well-managed, and that restructuring recently undertaken by the Government had, on the whole, positive effects on the financial situation of the enterprises concerned. It was also noted that the Government had shown a real desire to continuously improve its information on the sector, and had decided to carry out a systematic review of a growing number of enterprises, based on their economic and social importance and their financial and management problems. This review will be all the more informative insofar as it is not limited to an analysis of financial performance, but will attempt to determine the current and potential role and economic cost of each of the activities in question.

3.34 In the absence of a consolidated balance sheet for the sector and detailed studies of the principal enterprises, it is difficult to outline the elements of a long-term strategy. We are nonetheless led to make the following recommendations:

- (a) The parastatal sector already controls a significant proportion of the modern sector. Despite the success of restructuring programs, some enterprises are still encountering serious operational and financial difficulties, which is why the parastatal sector is largely responsible for the recent increase in the Government's public debt service obligations. In fact, it is very likely that the studies to be carried out will reveal problems hitherto unknown or underestimated. In these circumstances, a prudent attitude toward expansion of the sector seems advisable, particularly with respect to the establishment of new enterprises where the State is the majority

shareholder, given the economic and financial risks inherent in such expansion at a time when the Government is facing budgetary and fiscal problems that are a source of ever-increasing concern.

- (b) The general overview of, and prospects for, the sector, and the diagnostic studies of particular enterprises, will certainly be the subject of careful reflection; they will enable the Government to refine its conclusions on the relative priority of the strategic enterprises for which it intends to retain control, and those for which mixed-capital solutions could be considered. They will also make it possible to determine whether the sector includes particularly disastrous activities which have no chance of ever becoming viable. Finally, they will allow the Government to determine the kind of restructuring that should take place for potentially viable enterprises which are currently facing serious difficulties.
- (c) It would also be advisable to progressively move public and mixed-capital enterprises into a competitive economic environment that will stimulate improvements in efficiency; this will require a reexamination of, on one hand, the various advantages, monopolies and exemptions that they enjoy, and, on the other hand, the constraints they may face in such areas as pricing policy, input supply, market access and social objectives.
- (d) Public and mixed-capital enterprises should also be guaranteed maximum autonomy in their management, possibly by reexamining the State supervision system and rationalizing, when necessary, relations between the State and the enterprises, while at the same time continuing to improve the Government's information and audit systems with respect to these enterprises.
- (e) Given the problems that might result in the long term from a rapid and continuous expansion of the parastatal sector, the Government should give high priority to a constructive dialogue with economic agents, in order to identify ways to spur private investment so that it plays the important economic and social role that will be essential for sustained growth of the Burkinabè economy.

C. Production Policies and Incentives

(i) Agricultural Policies

3.35 As we have seen in Chapter II.A, the agricultural and agroindustrial sector accounts for roughly 50 percent of GDP and employs over 90 percent of the working population. Therefore, there can be little doubt today that it will

continue to play a leading role in the development of Burkina Faso's economy over the medium and long term. But will it be able to maintain a growth rate of 5-6 percent as it has done recently? What will its role be, compared to industry or services?

Past Gains: Prospects for Growth

3.36 The performance of the agriculture sector over the last five to ten years has been characterized by three trends: the predominant trend toward extensification, whereby new land in the South and Southwest and even marginal land in the North and East of the country is now being farmed; the more recent trend toward greater productivity and a wider range of crops, and increasingly rapid deterioration of zones (the Mossi Plateau, in particular) that have reached their saturation point. As a consequence of the population explosion, food security is at the core of the extensification strategy -- which, however, is not without its risks. As pointed out earlier, new land is not in inexhaustible supply, and farming in marginal areas contributes heavily to degradation of the environment. Furthermore, given that the sector at present is dominated by subsistence agriculture, can it continue to grow without becoming more market-oriented?

3.37 As for the future, two scenarios are possible. Under the first, extensification would continue to predominate, despite its deleterious long-term impact on the lifespan of Burkina's agroecological assets, and would lead to a relatively slow growth rate, possibly below that of recent years, because of a loss in soil fertility and water-retention capacity. Under the second, more optimistic scenario, based on a strategy of intensification, there would be an expansion of trade, both domestic and external, and growth rates on a par with recent ones. More ambitious, and perhaps more difficult to achieve, the intensification scenario would give Burkina the chance to see its aspirations for economic growth and social development materialize. We have therefore used it as our base scenario, while at the same time recognizing that both trends will remain in evidence, depending on the particular region, the capacity of farmers to adapt, and climatic and economic conditions. The challenge for Burkina will therefore be to establish a new equilibrium and find the means to accelerate the transition from extensive to intensive agriculture.

3.38 The prerequisites for such a change exist already, since it is mainly a matter of consolidating past gains, even if the international economic environment in which the agriculture sector will have to evolve threatens to remain difficult. As may be seen from Table 37, the outlook for world prices of the commodities of most concern to Burkina is quite unpromising. Likewise, in the domestic market, any rapid increase in the purchasing power of the population is unlikely. Nevertheless, Burkina can combine an expansion of its domestic market, where quite a substantial volume of unmet demand still exists, with an aggressive policy for diversifying its exports and its agroindustries. Possible productivity gains achieved through coherent, carefully designed subsectoral strategies suggest in themselves that an average growth rate in the vicinity of 5 percent a year could be achieved. It may very well prove lower, however, if extensification continues to be the mainstay of sector growth. The results of our projections are summarized in Table 38.

Table 37: Projected World Prices of Key
Agricultural Commodities, 1988-2000
(at current prices)

	1988	1989	1990	1995	2000
Cotton (\$/kg)	1.40	1.48	1.68	2.23	2.63
CFAF/kg	390	444	504	669	789
Groundnuts (oil) \$/t	547	624	653	957	1,034
CFAF '000/t	152.5	187.2	195.9	287.1	310.2
Sorghum \$/t	100	102	91	112	155
CFAF '000/t	27.8	30.6	27.3	33.6	46.5
Maize \$/t	108	110	96	123	166
CFAF '000/t	30.1	33	28.8	36.9	49.8
Rice \$/t	303	297	250	313	377
CFAF '000/t	84.5	89.1	75	93.9	113.1
Sugar \$/t	337	401	455	406	575
CFAF '000/t	93.9	120.3	136.5	121.8	172.5
Beef \$/t	2.49	2.57	2.54	34.21	4.53
CFAF/kg	694.1	771	762	1,026	1,359
Nominal exchange rate	278.77	300	300	300	300

Source: World Bank.

3.39 It should be emphasized that these projections were made to test assumptions about increases in total land area cultivated, crop yields, and the value of output, and that they should not be interpreted in absolute terms. What, then, are the main sources of growth likely to be? What can each subsector be expected to contribute? There is no real chance of either a major change in the structure of production, or the discovery of a new miracle crop like cotton was in the past. Food crops, cotton, livestock and forestry will continue to be the main activities. However, each activity could be infused with a new dynamism, while the combined impact of initiatives under an aggressive diversification policy could lead to an appreciable increase in value added in the sector.

Table 38: Agriculture Sector Growth Prospects, 1988-1997
(Z p.a.)

	1988-1992	1993-1997
Agricultural production	+4.8	+4.4
of which:		
Cereals	+4.5	+4.0
Other food crops	+6.0	+4.5
Seed cotton	+6.0	+6.0
Other cash crops	+4.5	+5.0
Livestock	+2.5	+3.0
Forestry	+3.5	+3.5

Source: Mission estimates.

Cotton

3.40 Cotton, with its recent growth in output of 19.4 percent per annum, should continue to be a driving force in the economy. Some slackening of that pace would be desirable in order to focus on stability of the production system and environmental protection. Nonetheless, as indicated in Table 38, an increase in output of over six percent per annum could be achieved with a modest yearly increase of three percent in the land area devoted to this crop, (mainly in the South and Southwest), and with a comparable increase in yields, resulting in an average yield of approximately 1,550 kg/ha. Based on world price projections, and taking into account an increase in the productivity of the ginning process, revenues from cotton would rise by 10.8 percent per annum in current prices, and by 6.7 percent in constant 1985 prices (Annex II, Table 9.27). Expanded cotton cultivation would mean expansion of the cereals crops grown in rotation with it, or even of legumes such as the cowpea, as well as higher yields. It would also create inter-regional and inter-industry trade links within Burkina, mainly in the form of demand for draft animals, but also for farm equipment and services. In the short- and medium-term, the priority would be to reverse the decline in cotton yields (down in both 1987/88 and 1988/89), and to reestablish financial equilibrium in the cotton subsector. In order to avoid new deficits, another medium-term concern should be to reduce the production cost of cotton, by combining an adjustment in producer prices with higher productivity at all levels of production, marketing, and processing.

Food Crops

3.41 Food crops would continue to be the main subsector in terms of area under cultivation, output, and employment. Cereals, the principal food crops, can reasonably be expected to grow by around 4.5 percent per annum (barring unforeseen drought), if only to meet the annual 3.3 percent natural increase in domestic demand, which will reach 2.2 million tons by 1997. This expansion, partly the result of a moderate expansion in crop area, would be achieved mainly

by improving yields south of the 750-mm isohyet. Sorghum and maize would be the principal crops involved, given that one assumes that production increases will be concentrated in the South and Southwest (Annex II, Table 9.28). However, this subsector could prove more dynamic if domestic demand for processed food, as well as for animal feed, were to increase. Technology for processing traditional cereals for human consumption would have to be developed. As far as animal feed is concerned, it would be a question of producing meal or other types of feed to supplement livestock diets. This approach, already tested in Burkina, would have the additional advantages of generating cash income in rural areas, and creating processed feed stocks which could be used to cover any seasonal or year-to-year grain shortfalls. Another source of added strength food crop production would be crop diversification, particularly a move toward legumes and tubers wherever agroecological conditions and soil quality permit, and toward dry-season crops (legumes and tubers) wherever small-scale irrigation is possible -- with an eye to both the domestic and export markets. Aggressive research into the agronomy of fruit and vegetable production should lead to much more rapid expansion in this subsector. In contrast, rice would be grown only under rainfed conditions, or under those irrigation systems where output could be kept competitive with imports. Burkina's comparative advantage should be taken into account when large, irrigated rice-growing systems (Bagrè, Sourou, Kompienga) are being evaluated.

Livestock

3.42 Livestock is a subsector worth reviving, not only for its production of meat, milk and eggs, but also for its role in stabilizing farming systems (by providing organic matter and animal traction). As noted earlier, this subsector appears to have been somewhat overlooked in recent years: there is little information on herd size, livestock productivity, or related trade flows. In view of the move in recent years to promote the use of animal traction and foster small-scale livestock and dairy operations, overall subsector growth of between 2 and 4 percent a year could reasonably be expected. If efforts were stepped up, however, the rate of growth could be higher. Subsector strategy would be based on four key elements:

- (a) Reliance on, and revival of, the comparative advantages afforded by the various agroecological zones. The Eastern, Western and Sahelian zones would concentrate mainly on breeding and raising of cattle, while the South and Southwest would be primary users of animal traction and the main areas for the fattening of animals (based on crop by-products and grazing in woodland, range and fallow areas). Since the domestic market for beef is a narrow one, the development of fattening activities presupposes a search for new export markets or the recapture of markets in neighboring countries.
- (b) Systematic integration of livestock into other production systems, not only for animal traction (oxen, donkeys or camels) but also as a source of organic fertilizer and an aid to rational management of ground cover and agricultural by-products.

- (c) Promotion of the dairy industry, to ensure supplies for both urban and rural areas, and improve the general nutritional status of the population.
- (d) Promotion of commercial breeding of small livestock -- poultry (eggs and meat) and small ruminants -- not only for the domestic market but also for export to coastal countries where Burkina has remained competitive.

Crop Diversification

3.43 Crop diversification would be promoted either as a means of import substitution, to improve the typical food basket or supply agroindustry, or for export purposes. The essential requirement would be to create conditions in which private initiative, both individual and collective, could flourish: by granting land tenure rights, by creating incentives for the establishment of agroindustrial enterprises and joint ventures with foreign industries or importers, and by streamlining air and surface transport contracts and regulations. It would not be a question of simply promoting one or two products, but rather of leaving the private sector the latitude to develop a broader range of small-scale activities. Their cumulative effect could be an appreciable increase, between 4 and 5 percent, in sector value added. A systematic review should also be made of the comparative advantages and competitiveness of a number of products already established in Burkina such as confectionery groundnuts, sesame, cashew nuts, fruits and vegetables, as well as of new products, such as tobacco, saffron (kharthame), medicinal or aromatic plants, and natural gums. Some crops like shea nuts will still be gathered in the wild. As for livestock, new breeds of animal, particularly small ruminants, could be introduced -- for wool production, for instance. The agronomic or animal husbandry requirements for several products are already known, but the production and marketing systems that would make them competitive still need to be determined. Close collaboration between agronomic research (public or private), agroindustrial research and market research would be essential for successful implementation of this type of diversification strategy, the results of which would be visible only in the medium or long term.

Forestry

3.44 In the forestry subsector, a strategy should be formulated that knits together possibly contradictory concerns such as protection of the ground cover, protection of watershed and fallow areas, and satisfaction of energy needs. Total demand for wood products is currently estimated at 3.5 million tons and would rise to 4.7 million tons in ten years, even if allowance is made for the fact that fuelwood and charcoal will be partially replaced by other sources of energy. In theory, Burkina possesses sufficient forest resources to meet these needs. However, given current methods of exploitation, sustainable supply amounts to only 2.5 million tons, meaning that these resources are overexploited by 900,000 tons per annum. Over the next ten years, the cumulative deficit would be 13.9 million tons, equivalent to 6,600 km² of forest (Annex II, Table 9.30). It would therefore be advisable to plan, as an initial step, to stabilize subsector activity. Our projections are based on this assumption, and

on a rate of subsector growth dictated by the rate of population growth. In the longer term, it would be possible to begin stratifying goals and programs according to the level of degradation or the potential output of the country's various agroecological zones. Where circumstances permit, forestry could become an income-producing activity in areas south of the 900-mm isohyet; in contrast, to the north of that line, where protection of forest resources is essential, it would be sound policy to introduce a system of economic or tax incentives, including an adjustment of domestic energy pricing policy or negative taxation for communities undertaking forest protection projects.

Goals and content of a medium- and long-term strategy for the agriculture sector

3.45 As indicated above, the prospects for growth in the agricultural sector give reason to expect economic growth for Burkina over the coming decade. The period 1989-1997, with agriculture as the engine driving the economy, would become a time for modernization and for investment in human, industrial and service resources. Since agriculture would be oriented toward meeting domestic demand, but also progressively toward export activities, it would provide jobs as well as stimulate demand for rural services and industries. The share of the agricultural sector in GDP would remain constant at around 40 percent, or could even increase slightly, before declining in the following decades as a new dynamic for the economy emerged, based on industry and services. Preparation for the long term would therefore be a primary goal during the decade ahead. In these circumstances, what should be the key elements of a development strategy for the agriculture sector over the medium and long term?

Goals: Food Security and Growth

3.46 If past gains and continuing constraints (outlined in Chapter II.A) are measured against one another, then food security and growth should undoubtedly be the chief goals of a sectoral development strategy for the next decade. The performance of the last few years shows that, even though the country's ability to meet its food needs has improved overall, Burkina is still a long way from enjoying food security. Whether one looks at regions, income groups, age groups or gender, major disparities are still apparent, and OFNACER and other intervention mechanisms have proved unable to respond to present needs. Malnutrition rates among infants remain high (between 20 and 40 percent), as do the resulting morbidity rates. Domestic food supply is still very much at the mercy of fluctuating weather conditions, so that Burkina continues to depend on food aid to satisfy demand. Major efforts are still needed to assure the supply of food; foremost among them would be conservation of the country's land capital, diversification of its food sources, and management of surpluses produced in some of its regions. Steps would also have to be taken to assure the demand, and, therefore, the purchasing power, of deficit groups, whether through income generation, rural land rights, better terms of trade between producers and consumers, or improved food aid administration. This approach would have to be complemented by initiatives in family planning and education. One way for the Government to consolidate current initiatives and reinforce their effectiveness would be to institute a food security action plan emphasizing identification of the most vulnerable groups, accurate targeting of programs, and coordination of food aid.

3.47 Important as it is to the country's economic progress, growth in the agricultural sector is equally important to the attainment of food security. Conservation of land will occur through increases in the productivity of labor and the fostering of rural savings. Rural and urban incomes can be raised and inter-regional trade can be developed by diversifying crops and increasing crop yields. Export earnings will serve to finance food imports in deficit years.

Priorities for Sectoral Development

3.48 In order to achieve the goals outlined above, taking into account the sector's problems and taking full advantage of its development potential, the strategy needed should be based on four priority lines of action:

(a) Protection of the agroecological environment

The population explosion is the factor that looms largest in the degradation of Burkina's natural resources, as seen in diminished soil fertility, wastage of runoff waters and reduced ground cover. Loss of this production capital is the greatest threat to the country's food security. Emigration to neighboring coastal countries and internal migration toward previously undeveloped areas, which long enabled the inhabitants of overcrowded regions to survive, are now becoming increasingly difficult. What does the future hold, then, in this regard? Recent changes in land use patterns in the most degraded parts of the Central Plateau indicate a readiness on the part of population groups and government agencies alike to put a stop to the process of deterioration. Preventive measures should also be envisaged in the recently occupied zones of the South and Southwest, where production potential is still high: the emphasis should be on the preservation of ground cover, soil and water conservation, and the sustainability of the farming, forestry and grazing systems on which production depends. A long-term commitment on the part of the Government and donors will be essential in order to create the institutions and incentives that facilitate these types of investments in land.

(b) Improved economic efficiency

Examination of both incentive systems and production systems revealed numerous possibilities for increasing sectoral value added through improved management of resources and existing production capital. The medium-term goal would be to maximize returns on investments and redirect the allocation of resources (moving from consumption to investment and toward those subsectors with the highest growth potential).

(c) Strengthening of regional comparative advantages

Income generation throughout the country is essential if there is to be trade between food-deficit and food-surplus regions. The new pattern of regional specialization that has begun to emerge in the last few years should be encouraged, and would support a resurgence in certain areas of production such as livestock and forestry. The Sahelian and Eastern regions, and even the Western part of the country, may possibly recover their comparative advantage in cattle-farming. The South and Southwest would be devoted mainly to subsistence and cash crops, while the Central Plateau would pursue a new, mixed type of farming, based on its tradition of growing food crops, but with a possible specialization in small livestock (small ruminants, poultry) or in legumes (groundnuts, cowpeas) which are better suited to the soil structure. In the country's Sudanian fringe, advantage would be taken of the potential for forestry.

(d) Modernization and technological progress

Very significant gains in productivity are within reach in Burkina if techniques already introduced there are adopted: improved cropping practices would increase average cotton yields by 25 percent, and new varieties are available that increase ginning yields by three or four points; varieties of sorghum planted in the Sudanian zone in Côte d'Ivoire yield 50 percent more than the varieties planted under comparable conditions in Burkina. Although the integration of crop production and livestock breeding makes available both organic fertilizer and animal traction, two important factors for increased productivity, this combination is not widely used in Burkina. Techniques for the conservation of water and soil resources and for restoration of both woody and herbaceous ground cover are known and have been tested, but are still not in common use. The goal, then, would be to implement an aggressive policy of intensification of traditional production systems, stratified by agroecological zone. Focused mainly on resource conservation in degraded zones and on improved cropping and animal husbandry practices in less degraded zones, this intensification policy could also include promotion of modern, high-yield farming wherever agroecological conditions permit (in the Southwest, for instance).

Requirements for Implementation: Outline of a Short- and Medium-Term Reform Program

3.49 As was noted in Chapter II.A, the inherent vitality of the agricultural sector has resulted in what must be considered quite remarkable short-term growth for a Sahel country. All the same, an inventory of the constraints prevailing in its institutional and economic environment would lead

to the conclusion that Burkina has been lucky. In a good many countries, government intervention through mechanisms similar to those employed in Burkina has led to declines in agricultural output and productivity. Moreover, Burkina is far from having achieved its growth potential, the standard of living of most of its population is still extremely low, and its trade balance is deteriorating. As we also noted in preceding paragraphs, the challenge Burkina now faces is that of achieving accelerated and equitable growth over the medium and long term. For the rural sector, the task will be to foster change in production structures -- to shift from what is essentially subsistence agriculture to "market-oriented" agriculture (in other words, to agriculture based on both domestic and external trade) -- and to diversify sources of income. What steps can Burkina take to facilitate growth and develop markets in this sector?

3.50 The solutions to the problem raised by this challenge are more a matter of making a general effort to organize and reinforce subsectoral policies and of pressing ahead with current initiatives than of instituting major reforms. Their success would depend in part on adjustments to incentive policies and the institutional environment through a streamlining of current regulations, and in part on a sustained commitment to the conservation of land. Within the framework of a short and medium term program, the following reforms could be considered:

Adjustment of Incentive and Fiscal Policies

3.51 In Chapter II.A, it was pointed out that the numerous regulations and other instruments governing prices have had only a marginal effect on the stabilization of most products, making it difficult to determine whether taxation of the agricultural sector has been positive or negative. The regulatory burden on domestic and foreign trade also impedes any clearing of internal markets, reduces the benefits Burkina could derive from foreign trade, and impairs development of its comparative advantages. Policy adjustments which address this problem could include:

- (a) Eliminating official consumer prices, administered prices for agroindustrial products, regulated profit margins for marketing and official producer prices for food. The underlying principle would be to enable producers to respond to market signals, whether from the international or the domestic market, and make agriculture more competitive. This liberalization of pricing regulations would also favor arbitrage between domestic markets and enable entrepreneurs to diversify their activities on the basis of domestic and external market signals.
- (b) Restructuring the stabilization system: The aim here would be to smooth out fluctuations in prices and incomes rather than, as was the case in the past, to stabilize them -- an aim that has been achieved only partially. as suggested in Chapter II.A. For food crops, fluctuations would be smoothed out mainly by changing the way stocks are managed, increasing private sector stocks (individual or community

deregulating external trade (automatic granting of import or export licenses) and market clearing through pricing mechanisms. As regards cash crops, two principles should be retained: the separation of accounts or of crop-specific stabilization mechanisms geared to each crop's particular features of production, marketing and processing, and the determination of producer prices on the basis of world prices. Furthermore, it would be wise to move toward some system of managing stabilization funds whereby each group within the production chain (farmers, industrialists, the Government) would contribute to, and benefit from, its particular fund.

- (c) Refocusing subsidies: The general principle would be to limit subsidies to very specific objectives or target groups. In the past, priority has been given to investments in land, whose cost or scale outstripped the capacity of the rural communities -- for example, watershed protection plans, restoration of soil fertility through application of base dressings, or restoration of ground cover (herbaceous or woody) in certain very degraded zones. Another priority would be to supply target groups as part of a food security action program.

- (d) Managing food aid carefully: The objective would be to make food aid an effective instrument for mobilizing external resources and managing the balance of payments. However, in food-surplus years, food aid has actually led to a decline in local production, which goes counter to the goals of food security and growth discussed earlier. Since Burkina currently has only very partial control over food aid flows, it would be well advised to improve the planning, coordination and implementation mechanisms related to such assistance. This would require close collaboration between the Government and donors, and between the donors and the NGOs. It would also be a question of determining how food aid would be allocated to particular target groups, the prices at which food aid would be placed on the market, and the procedures that should be followed in building up, distributing and managing stocks.

3.52 In addition to the reforms just outlined, two additional issues call for further study: (a) Rationalization of the fiscal system: As noted already, the agriculture sector is currently taxed on an essentially indirect basis. The comprehensive study of the fiscal system in Burkina recommended in Chapter III.B should, therefore, include an examination of a direct tax system for agriculture, as well as a systematic analysis of the impact of taxation on the competitiveness of the country's major agricultural and agroindustrial activities. (b) Revision of agricultural protection: The aim here would be to ascertain the current level of protection afforded the agriculture sector and the impact on the sector of measures to protect the industrial sector. The need for, and level of, what would constitute effective protection for the sector as

a whole and for certain activities in which Burkina enjoys a comparative advantage should also be assessed. This should be done in light of such goals as providing incentives for modernization of the production system or for investments in land, and correcting distortions inherent in the structure of prices, wages and the exchange rate.

Reorganization of the Institutional Environment

3.53 In support of its pricing and trade regulations, Burkina has set up a series of institutions that intervene in the market. A second way to facilitate agriculture sector growth would be to adapt and simplify the present institutional environment. Judging by recent sector performance, the primary concern should be the restructuring of marketing boards, particularly OFNACER and CSPPA. Even the partial review that was possible in Chapter II.A suggests that they have failed to accomplish their goals. OFNACER, which now intervenes in only a very small segment of the market (roughly 10 percent), should concentrate on setting up a market information system, administering the country's security stocks and, during a transitional phase, seeing to the provisioning of food-deficit zones and the coordination of food aid. As for CSPPA, a distinction should be drawn between its commercial functions (which could be handed over to private enterprises or professional agencies involved in the marketing and export of foodstuffs), and its responsibility for management of stabilization activities, on which it should concentrate its attention. In addition, studies should be undertaken in connection with the restructuring of FASO YAAR, whose commercial activities could be handed over to the private sector, and in connection with the role of the CGP.

3.54 The other main component of a reorganization of the institutional environment would be to improve the administration of public sector expenditure. With regard to both investment and recurrent expenditure, the objective should be to set up a system of evaluation criteria that would result in the establishment of spending priorities. At present, as indicated in Chapter I.C, the investment program is dictated more by the preferences of donors than by those of the Government. The principle of complementarity between public and private investments should be respected. In addition, introduction of the kind of three-year rolling plan recommended in Chapter III.B as part of the effort to improve management of public investment would need to be coordinated at the sectoral level.

3.55 As far as recurrent expenditure is concerned, the Government's existing policy of giving priority to support services for producers (extension and research, literacy training, promotion of village-based associations, land-use management) should be retained over the long term. On the basis of these priorities, it would be useful to examine how the performance of the institutions in question might be improved.

An Active Policy for Managing Natural Resources

3.56 Over the long term, preservation of the country's land (soils, water, ground cover) remains the greatest constraint on development of the agricultural sector and on food security, as noted above. Although its National Village Land Management Program and its Environmental Action Plan put Burkina a step ahead

of most Sahelian countries as far as natural resource management is concerned, decisions still must be taken on numerous questions: What kind of overall institutional framework would make it possible to combine the need for nationwide coordination with decentralization of responsibilities down to village level? To what extent would the recognition of land rights conflict with the interests of certain traditional groups and government entities? How can a balance be struck between the need for regulation of resource use (protection of fauna and forests, rational management of water resources) and the need to leave each farmer free to choose his crops on the basis of market indicators and the features of his particular agroecological zone? Pilot projects have given promising results on both the institutional and technical aspects of introducing land-use plans or land management contracts between village communities and government agencies, although a sustained commitment on the part of the Government will be needed to move from the pilot phase to a phase of nationwide implementation. Other parallel efforts are needed, two of them particularly important: formulation of an energy pricing policy that would provide incentives for restoring ground cover in degraded zones and for more rational use of renewable forestry resources; and a population redistribution policy that would establish a new equilibrium between zones that have reached a population saturation point, and those where available resources are consistent with an increased population density.

Conclusion

3.57 The challenge facing Burkina in the agricultural sector is that of maintaining the growth rate of approximately 5 percent seen in the last few years. The sector strategy suggested here should enable it to achieve that. Evaluation of recent performance shows that Burkina possesses many of the assets necessary to successfully pursue of such a strategy, although sustained efforts will still be necessary. Donors need to make a special effort to support Burkina's own priorities and choices. All in all, the anticipated benefits are worth the effort. Agricultural sector growth will be the springboard for raising income levels and nutritional status among the population as a whole, for improving the trade balance and, one hopes, for protecting and renewing natural resources.

(ii) Industrial Policies

3.58 As we saw in Chapter II.B, the industrial sector has so far played only a modest role in Burkina's development. The agricultural sector, despite the very favorable prospects over the course of the next ten years, will encounter increasingly serious development constraints, for the most part inherent in the country's natural resource endowment. In the long term, therefore, it is particularly important that industry and services gradually take over from agriculture as the catalyst for economic activity and employment. The development prospects of the industrial sector are analyzed in detail in Annex I.

3.59 The main avenue for industrial development in the long-term lies in the exploitation of Burkina's domestic resources which are mainly agricultural. The industries that have potential for the domestic and export markets are located upstream or downstream of agricultural production. Other sectors with interesting potential include mining (though it is very unclear whether the deposits identified can be profitably exploited, except perhaps for zinc at Perkoa), construction and public works, and tourism. Development of construction and public works could promote upstream the working of deposits of construction materials (limestone, clay, marble, etc.) and the establishment of a construction materials industry enjoying natural protection because of high transportation costs. Generally speaking, however, a country's industrial success no longer depends solely on the availability of raw materials or energy. It is based also on its command of technologies, its procurement and distribution channels, the quality of its telecommunications network, the overcoming of its transportation problems, the availability of, and expertise in, certain services (data processing, banking, and so on) and its general efficiency and competitiveness.

3.60 In the medium term, in addition to the lack of clear comparative advantages, Burkina's landlocked situation, small domestic market and current state of competitiveness of the economy -- in terms of the relative prices of tradable and nontradable goods and services -- are major obstacles to the development of competitive industries for both export and domestic markets. However, a number of initiatives can be envisaged immediately which would create a more favorable environment for the recovery of industry, allow enterprises to optimize capacity and domestic resource utilization, inject the discipline of a certain degree of competition, and prepare the industrial sector to redirect its activities partly toward export markets as soon as the international competitiveness of Burkina's economy has been restored. These initiatives would comprise a combination of measures to improve the psychology of the marketplace, economic studies and practical reforms.

3.61 In manufacturing, the present inflexibility of investment, labor, pricing, marketing and foreign trade regulations, high energy costs, a high level of wages and social contributions and the other constraints mentioned in Chapter II mean that the creation of new enterprises is only feasible within the existing protectionist framework. However, this means compensating for inadequate overall comparative advantages by very high protection, expensive to the public -- Government and consumers -- without laying the foundation for efficient industrialization in the long term. In contrast, general relaxation of Burkina's battery of laws and regulations, coupled with a dynamic export incentive policy, could create decisive comparative advantages over competing countries, particularly Côte d'Ivoire. For investors, these advantages would be enhanced by a labor force whose energy and skills are unanimously recognized. While liberalization of regulations does not preclude affording certain types of protection and concessions for developing enterprises, these should be temporary and aimed solely at enhancing the enterprises' true ability to compete: The initial cost to the community would be recovered in the form of export receipts, lower domestic prices, growth of the enterprises, and creation of jobs.

The Informal Sector and Small-scale Enterprises

3.62 It is clear that the informal sector plays a considerable role in Burkina Faso, as much in agriculture, commerce and other services as in industry. Not only is the informal sector well adapted to the needs of a predominantly agricultural and rural country, but its strength derives from the fact that it is spared the regulations and procedures about which most modern-sector enterprises complain. This is particularly true in a country where the structure of industrial wages is relatively high in relation to per capita GDP, and/or the modern sector's international competitiveness is impaired by the real exchange rate. Informal-sector activities are commonly -- and not without reason -- equated with smuggling; it is therefore difficult to accept that promotion of the informal sector can form part of an effective industrial policy. Moreover, the term "informal sector" covers a whole series of quite disparate activities, poorly understood and rarely studied. It is therefore difficult to turn a theoretical interest in the informal sector into a precise, specific and accurately targeted action program. Finally, any intervention by the public authorities in the informal sector's domain often has the opposite effect to the one sought: instead of stimulating the sector's activity, it inhibits or frightens the small entrepreneur, who displays infinite ingenuity in evading the vigilance of the Government and its agents.

3.63 We believe, however, that expansion of the informal sector, and progressive advancement of its technological level could confer real benefits on Burkina's economy in terms of developing of an industrial network, training entrepreneurs and creating jobs. We therefore feel that the Government should give serious consideration to a policy promoting the informal sector and micro-enterprises. Such a policy could consist of some of the following elements:

- (a) initiatives aimed at reassuring the informal sector about the Government's intentions; these initiatives would include a series of political pronouncements (at the highest level) on the economic and social importance of the informal sector, a sustained and trustful dialogue with some of the sector's more active entrepreneurs, and finally a number of gestures, both symbolic and significant, aimed at calming the anxieties of these entrepreneurs and their colleagues (elimination or relaxation of controls considered to be particularly constraining by the informal sector);
- (b) an effort to gain a better understanding of the informal sector's current situation and prospects, its structure and methods, and its achievements and aspirations. This task would necessitate the involvement of pragmatic sociologists and imaginative industrial economists. It could be carried out in collaboration with one or more NGOs well established in the sector and should cover the entire range of informal-sector activities: secondary and tertiary, urban and rural;

- (c) on the basis of such a survey, development of an action program aimed at the most dynamic elements of the informal sector; this action program would aim in particular to create, in the "no man's land" that separates the modern and the informal sectors, an industrial free zone, that is, an area in which the most sophisticated micro-enterprises could operate without constraint, particularly with respect to wage and employment regulation, and enjoy a variety of benefits (partial tax exemption, for example) while having the potential to grow beyond the customary size of informal businesses and adopt more complex and modern production techniques. It could also include mechanisms enabling them to secure public contracts, obtain bank credit (through a guarantee fund) and receive technical assistance in project design and preparation, the organization of production and financial and commercial management.

The Public Sector and Private Enterprises in the Modern Sector

3.64 In examining the parapublic sector, reference was made to the Government's intentions to conduct a systematic and quasi-continuous diagnostic study of the sector and its major enterprises. Combined with a review of effective protection rates throughout the industrial sector, this diagnostic study will provide the basis for determining not only the magnitude of necessary restructuring operations, but also a reasonable pace for future expansion of the industrial parapublic sector. Compared with the modern private sector, the parapublic sector is less handicapped by the constraints inherent in government regulation and salary structures. The Government has many mechanisms for direct and indirect subsidy at its disposal through which to support and protect this sector. However, the main limiting factor on expansion of the industrial parapublic sector is precisely the cost and risk that its development imposes on the current and future finance situation. In view of the resource constraints that development of the public sector will eventually encounter, it is assumed that, over the course of the next few years, the industrial enterprises in which the Government is the majority share holder will experience only moderate growth and that rehabilitation and restructuring will account for a substantial share of their investments.

Psychological Measures

3.65 The private sector in all its forms has suffered from the climate of uncertainty created by the political pronouncements of the preceding regime, which apparently attached little, if any, importance to the development of private enterprise. Even more than hostile statements, the Government's attitude of obliging enterprises to undertake investments, expenditures and management styles which ran contrary to their policies and interests did much to discourage any real recovery of private, modern-sector investment, domestic or foreign. The new Government has begun a change of attitude; however, it will take more time and energy to restore a climate of confidence between public authorities and the private sector than it took to create distrust and discouragement. Special efforts will be needed to establish a trusting and sustained dialogue between Government and enterprises. The purpose of this

dialogue would be twofold: to reassure the enterprises concerning the Government's purposes and intentions but also to identify obstacles of all kinds -- policies, administrative regulations, infrastructure, functioning of the public services -- that hinder the development of private and predominantly private mixed-capital enterprises and their activities.

Necessary Studies

3.66 The studies would have to cover a large number of topics:

- analysis of the competitiveness (in price and quality) and profitability of enterprises, both on the domestic and on the regional and world markets; identification of potential markets for these enterprises;
- detailed review of customs tariffs and quota restrictions and of their economic impact, as part of an analysis of effective protection rates;
- examination of the Investment Code and its impact on industrial performance; analysis of parafiscal obligations borne by the enterprises; study of the operations of the Autonomous Investment Fund (CAI).

Practical Measures

3.67 The Industrial Sector Annex presents a list of possible measures to stimulate growth of the modern industrial sector. They relate mainly to the customs regime, domestic trade, investment, public finance, and personnel management.

- (a) Customs regime. Foreign trade policy should pursue three main goals: to inject a bit more competition into the market by progressively eliminating monopoly positions and quota restrictions; to replace quotas by adequate and homogeneous tariff protection, and to introduce a system of special export incentives. Pending the results of a study on effective protection, action should be taken now to abolish export duties, simplify and rationalize customs tariffs, and gradually relax quota restrictions.
- (b) Domestic trade. In this area, the most serious constraint on enterprises is the system of price controls. In addition to the measures recently taken by the authorities to increase flexibility, they should now move to a system of a posteriori control of industrial prices. They should also review the system of setting trade margins and relax the constraints on distribution (prohibiting industries from marketing their own products).
- (c) Investment Code. Measures to rationalize the Investment Code could consist of harmonizing the different regimes

(notably the Grand Code and the Petit Code) simplifying the application documentation, making benefits automatically available to all enterprises meeting the eligibility criteria, lifting them progressively over time and extending them to investments for rehabilitating enterprises and making better use of existing capacity.

- (d) Public finance and taxation. One of the most important measures would be prompt and rapid settlement of public-sector debts to enterprises. In taxation, an important reform would be replacement of the turnover tax by a value added tax.
- (e) Personnel management. Essential long-range -- but also very difficult -- measures are those aimed at reducing the regulations governing employment and dismissal.

Enterprise Financing

3.68 Although this report has merely touched upon the problems of financial intermediation and the role of the banks in financing the economy, the Industrial Sector Annex stresses the enterprises' difficulties in obtaining credit. It is now generally admitted that tight credit management and strict interest rate control by the BCEAO have not promoted competition among the banks nor developed financial intermediation and credit -- particularly investment credit -- facilities in the UMOA countries (paras. 1.62-1.64). The serious crises suffered by a number of UMOA banking systems have led the BCEAO to review certain aspects of its monetary and credit policies, which should be reformed in the near future. The purpose of the reforms would be to revitalize the banks by replacing direct credit-management and interest-rate operations by more general, indirect interventions, on an enlarged money market, while improving management of certain forms of public-sector credit (crop credit, public enterprise lending) and strengthening the supervision of the banks.

3.69 As part of these reforms at the UMOA level, it would be desirable for Burkina, as well as for the other member countries, to replace bank-specific credit ceilings by more flexible regulations based on reserve and liquidity ratios, replace the sectoral credit goals imposed on the banks by a system of indirect incentives (such as guarantee funds or interest-rate subsidies for priority sectors), increase the range of financial instruments on the money market, and stimulate the development of cooperative-type financial institutions in order to increase financial savings mobilization. At the same time, the authorities must continue to grant banks complete autonomy over their credit decisions, and avoid demanding compulsory contributions from them for financing operations -- such as public housing construction programs--that imperil their financial situation and breed uncertainty.

(iii) Transportation

3.70 We have seen that over the course of the last 25 years, Burkina has built up substantial and diverse transportation infrastructures that appreciably reduce the constraints inherent in its position as a landlocked country. With

the improvement of a number of interregional links with Côte d'Ivoire, Ghana, Togo and Benin. Mali and Niger, Burkina has even become the hub for a considerable portion of the region's traffic. The development of a network of improved tracks has facilitated communication among rural communities, and between them and rural and urban markets and services. Finally, substantial investments have been made in the parallel development of various modes of transportation in order to adapt transport services to the diverse needs of potential users.

3.71 Today, however, Burkina faces a number of very complex problems: the country's infrastructure is in need of maintenance, at a cost which exceeds the resources that can be mobilized. Moreover, the cost is rising continually as the infrastructure ages. Many existing services have a low utilization rate, and it is becoming increasingly difficult to operate them profitably. Finally, a number of public enterprises that dominate the transportation sector face serious operating performance and financial management problems that call for restructuring and user cost-recovery programs.

3.72 The mere description of these key problems is indicative of the direction that future transportation policy must take: priority for maintenance expenditures and "rehabilitation" of existing infrastructure, improved management of the sector major public enterprises, as well as a policy of cost recovery to move the sector toward greater financial autonomy. As part of the preparations for a sectoral adjustment program, studies will be conducted to broaden the analysis of overall transportation problems, and identify the elements of a strategy for rehabilitation and balanced development of the sector. These studies will cover the problems of investment and maintenance, management and regulation, taxation and resource mobilization in each transportation subsector. This report will therefore be limited to raising two high-priority issues: maintenance and rehabilitation of the road network, and recovery of the RAN.

Rehabilitation of the Road Network

3.73 Today, the Burkinabè Government possesses the necessary management tools to enable it to organize maintenance of the road network economically and efficiently. The Direction Générale du Désenclavement Terrestre possesses all the data needed to program road maintenance on the basis of traffic priorities and available resources. Moreover, additional studies will enable the authorities to accurately assess the current state of the principal roads and ascertain the maintenance and rehabilitation works necessary to restore them to good condition.

3.74 In the roads sector, therefore, the main objective would be to assemble the necessary domestic and external resources to finance a coherent program of maintenance and rehabilitation for the existing system. In our view any financial resources available to the road sector should be allocated in priority to this maintenance and rehabilitation task. Investment expenditures for expansion of the network should therefore absorb only a modest share of resources; at this stage, we would suggest that this share remain below 35 percent.

3.75 The studies to be conducted will enable the authorities to decide on the specific content of a comprehensive maintenance, rehabilitation and expansion program for the next four to five years. We can however indicate now that it will probably comprise the following main components:

- (a) routine maintenance of 8-10,000 km of roads and improved tracks;
- (b) strengthening of about 500 km of paved roads;
- (c) resurfacing of about 1,000 km of gravel roads;
- (d) construction of about 800 km of feeder roads, especially in high-immigration regions;
- (e) paving of a small number of high-priority roads handling rapidly growing domestic traffic or substantial transit traffic.

Railway Rehabilitation

3.76 As indicated earlier, RAN was, for a long time, an efficient means of transportation that played an important role in Burkina's foreign trade and economic development. Today, however, it is difficult to be optimistic about its future. Delays in implementing rehabilitation measures have been aggravated by the problems posed by the separation of RAN into two systems. Radical measures urgently need to be taken to prevent the operational and financial collapse of the railway.

3.77 Any railway recovery plan would probably include all the elements already contained in the 1983 rehabilitation program, particularly concerning capital restructuring, reduction of financial charges, reduction of wage costs, refocusing of operations on long-distance, heavy freight traffic, deregulation of rates and halting of all new investment (except for equipment replacement and spare parts). However, three additional problems are apparent today which will also determine the railway's future viability:

- (a) What are the future prospects for long-distance, heavy freight traffic by rail in view of the progress achieved in road transportation?
- (b) Given its capital structure, organization, labor force quality and available technical resources, can the Burkinabè company be transformed rapidly into a well-managed enterprise?
- (c) Will the Ivoirian company also achieve these standards? Will there be efficient technical and commercial coordination of the two networks?

Other Transportation Enterprises; Cost-Recovery Problems

3.78 Without going further into issues which will be dealt with in great detail in the context of preparations for the sectoral adjustment program, attention should be drawn to the need to undertake detailed diagnostic studies of the transportation enterprises (X9; two airlines), to study the regulations governing the carrier industry, including rate problems, and to look into ways of ensuring maintenance financing and efficient use of the existing infrastructure without impairing the viability and dynamism of the various transportation modes.

D. Human Resource Development

3.79 In Chapter II.D, we studied the recent evolution of the social sectors, particularly human resource development. We discussed the formidable demographic problem that Burkina already faces, the solution of which is crucial not only to the country's ecological equilibrium, but also to the effectiveness of a policy of broader coverage, access by the great majority of the people to basic education, harmonious development of urban housing, and integration of young people into the economically active population. In the present chapter, we shall study the broad lines of a strategy for the medium- and long-term development of the social sectors. On repeated occasions, the Burkinabè Government has sketched, more or less precisely, the main lines of this strategy. The important thing today is to translate this political will into realistic operational programs which will have a significant impact on the country's economic performance and the social welfare of its people.

(i) Population Policy

3.80 Family planning is an area in which Burkina has forged ahead of most other African countries. As indicated earlier, a national program was launched in 1985, the first results of which are very promising. Two types of actions need to be envisaged at this stage: information and awareness campaigns, and operational programs.

Heightening Awareness

3.81 The results of the 1985 census were to have been published in December 1988. The priority today is to make the best possible use of the census data to: (i) analyze demographic trends (population growth rate and structure; migratory flows); (ii) obtain a better understanding of the factors that explain mortality and fertility rates, and (iii) project the impact of demographic trends on macroeconomic and social aggregates, including, of course, health care, education, housing and employment. In parallel, the census data, and the analyses and projections based on them, should be widely distributed both among the national technical services and in every region of the country. The important thing is that all the programs designed by national economic and technical services take full account of the population phenomenon and its consequences, as formidable as they may appear. The awareness that the Government and the people now have of the impact of population growth on the problems of overexploitation of land and environmental degradation needs to be

translated naturally into diversified initiatives that will ultimately form a coherent and effective operational program.

Operational Programs

3.82 In parallel with an awareness campaign, important measures also need to be taken by the Government to step up the diffusion of family planning methods. Possible measures include the following:

- integration of family planning services into basic health services, in order to expand the family planning assistance network;
- as a corollary, systematic training of health workers in family planning methods;
- broadening of the types of drugs that public health staff are authorized to prescribe;
- involvement of agencies outside the public health system (such as NGOs) in the promotion of contraceptive methods and the distribution of contraceptives.

In parallel with these operational programs, steps should be taken to assess the consequences of certain policies in force -- or under consideration -- concerning population growth and family welfare. For example, the structure of the family allowances system undoubtedly creates difficult tradeoffs between population policy and other economic and social goals.

(ii) Public Health Policy

3.83 As we have seen, the Government has barely managed to keep health-sector budget allocations at 6 percent of total expenditures, the level which was reached during the period 1982-86. Given that health coverage in Burkina is below average for Africa, and that the demand for health care is growing as a result of the acceleration in population growth and in particular the more rapid growth of the target groups (mothers and children), and, finally, taking into account the role that the health services can play in the family planning program, it seems clear that the Government will have to allocate additional resources to the public health sector and mobilize additional external and private resources to supplement public-sector interventions.

3.84 On the basis of these very general considerations, two types of programs are suggested: a minimum program, intended solely to consolidate the progress achieved since 1980 and keep abreast of the surge in population growth, and a more ambitious program aimed at appreciably expanding basic health services coverage.

3.85 The essential purpose of the minimum program would be to keep pace with the growth of the target group (mothers and children), which will be on the order of 5 percent a year over the next few years. The program would therefore

aim to increase public health expenditures, in real terms, by at least 5 percent a year, which would imply consolidating or slightly increasing the health sector's share of budget expenditures. As for the structure of these expenditures, higher priority should be accorded in budget programming to primary health care and, for a period of three or four years, to non-salary expenditures, to ensure that the services possess the physical resources they need to function properly. However, even under this minimum program, steps should be taken to prepare the components of a more ambitious program designed both to mobilize additional resources and manage existing resources more efficiently. Regarding resources, one of the most important measures would involve increasing the contribution of patients, their families (assisted in some cases by a social security or health insurance scheme) and communities in financing health expenditures. This problem of cost recovery is under study; moreover, it should be possible, on the basis of the experience of certain NGOs and of household budget surveys, to tailor health-care financing schemes to the ability to pay of certain regions and target groups. The ultimate objective would be, in due course, to focus the Government's resources on personnel expenditures, with patients and communities assuming responsibility for other expenditures. Concerning the efficiency of services, the authorities should undertake a diagnostic study of the present state of the health system, in order to define roles and functions at each level more clearly, improve referral procedures, relieve the pressure on the two national hospitals and make better use of other services. They also need to develop a management tool for coordinated and coherent definition of health-sector goals (in general and at each level of care), resource management (personnel, drugs, other products) and appropriate budget allocations.

3.86 A more ambitious program, based largely on these specific and diagnostic studies, would then aim to increase appreciably the rate of health coverage. Without prejudging the results of the recommended studies, it is anticipated that this program would include, as the most urgent measures:

- the development and application procedures whereby patients and communities progressively assume responsibility for certain health expenditures;
- the development and implementation of recommendations, based on available or ongoing studies, concerning drug policy; this policy would set appropriate goals for the distribution of essential drugs (Sonapharm), determine the respective roles of the public and private sectors and, with respect to cost recovery, define the role of patients and communities. It would also seek to improve the procedures for writing prescriptions by health-care personnel;
- the installation of management tools, developed during a preparatory period, designed to improve coordination of responsibilities at the various levels and enhance the programming of goals and resources. This coordination and restructuring task should review the role of provincial directorates in resource and infrastructure programming and

management, as well as the role played by village health workers in improving health conditions in rural areas;

- the reorganization of hospital management with a view to introducing and progressively extending the system of financial autonomy for hospitals; eventually, the Government would limit its contribution to paying personnel salaries, and possibly to annual subsidies linked to the achievements of certain services under program contracts which would define precise goals and performance indicators. An experiment is under way for the Bobo-Dioulasso hospital;
- the promotion of private medicine, combined with studies of the methods and incentives through which to reorient this sector toward preventive medicine, generally neglected by private physicians.

3.87 Whatever the objective pursued, better resource allocation will require closer coordination of investment and recurrent expenditures. To achieve its stated goals, the Government may well find it necessary -- though this is not certain -- to increase the share of public investment allocated to public health. The essential, however, is not so much to construct new buildings, more or less properly used and maintained, but rather to optimize use of existing facilities, and, in particular, to ensure that major maintenance and rehabilitation occurs in a timely manner. Priority should be given in any new construction program to basic health centers, which the recipient communities should help to finance (in cash or in kind), and whose construction would have to be coordinated with the programming of personnel (both training and financing).

3.88 The bulk of public investment will depend on the availability of foreign aid (grants and highly concessional loans). In view of the special importance of public health expenditures to Burkina's economic and social future, the Government should consider allocating a growing share of the foreign aid in the health sector to financing high-priority recurrent expenditures. In this way, the necessary resources for a relatively ambitious program, aimed at appreciably improving primary health care coverage, could be put in place more quickly.

(iii) Education and Training Policy

3.89 Since education and training already accounts for a large share of the operating budget, it would be unrealistic to envisage even a modest increase in the next few years. Maintaining and then raising primary enrollment rates, despite accelerated population growth, will therefore be possible only through a fundamental restructuring of expenditures in the sector. A medium-term development program could therefore have two main components: concentration of resources on primary education, and restructuring of activities within each subsector.

Concentration of Resources

3.90 We believe that primary education operating expenditures could be increased by 8 percent a year in real terms, which would allow a significant increase in the primary enrollment rate. This would not necessarily mean increasing education's share in the budget, provided real growth of secondary and higher education expenditures (excluding scholarships) were limited to 2.5 percent a year and the nominal amount of funds earmarked for scholarships were held unchanged or significantly reduced.

Restructuring of Activities Within Each Subsector

3.91 The restructuring problem differs in primary, secondary and higher education:

- (a) In primary education, the main goals would be to enhance the system's general efficiency through better programming of sectoral goals and resources (teacher training); improve education quality (refresher and extension training of teachers, and more teaching aids, particularly books); and experiment with pedagogic techniques that make better use of teachers and facilities (multigrade classrooms, double shifts). In parallel, communities should be encouraged to raise their contribution to school construction and maintenance, and payment for school books should be left to the parents. These measures, implemented gradually, would eventually enable the Government to confine its contribution to salary financing, but only if it were clear that particularly disadvantaged areas could shoulder responsibility for primary school financing.
- (b) In secondary education, it would be a matter primarily of slowing the growth of the sector through more stringent selection at entry to the first and second cycles, and adopting stricter criteria for granting scholarships based on merit and, to the extent possible, family resources. Action would also be taken to improve the quality and efficiency of secondary education by strengthening scientific education and raising the teacher utilization rate (the number of pupils per classroom remains low). Concerning resources, steps should be taken to secure increased participation by communities in maintenance of facilities and by parents in management of stocks of teaching materials (e.g. books). Finally, the development of private education should be encouraged through greater freedom in setting fees, combined with strengthened quality control.
- (c) It is in higher education that restructuring is most important and urgent. Not only are costs extremely high, but the placement of graduates is becoming increasingly difficult. It therefore seems advisable to slow the growth of higher education, and in particular to limit the number

and freeze the total amount of scholarships, on the basis of more stringent selection criteria. In parallel with this dampening of growth, the authorities should accord relatively greater priority to the scientific streams, and perhaps consider regrouping and restructuring streams in light of foreseeable market needs. Of course, outside the public service, long-term employment projections are extremely difficult. Increasing priority should therefore be accorded to short streams which train technicians to meet changes in demand. As part of a detailed analysis of higher education prospects and resources, it would also be useful to examine the management of CENOU (which runs the university restaurant, the health insurance fund and leisure activities).

- (d) Technical and vocational education is expensive, and the return on it often mediocre. The establishment of conventional technical colleges must therefore be considered with great caution. In many instances, generalized use of short cycles and ad hoc training programs is more economical and effective if they are designed in cooperation with enterprises. However, it would be advisable to expand vocational training resources -- if necessary by levying a vocational training tax (assessed on turnover), with enterprises allowed to deduct training expenses they incur directly.

3.92 To conclude these remarks on the outlook for the education sector, it should be pointed out that, as in the health sector, coherent programming of needs, goals, investments and recurrent expenditures would provide a basis for deciding whether education's share of public investment should be increased, stabilized or reduced. Here again, resource constraints could lead the Government to channel part of external aid towards the financing of priority recurrent expenditures.

(iv) Urban Housing Policy

3.93 The urban housing sector offers the dual advantage of being both a key factor in the standard of living of a large segment of the population, and a potentially dynamic sector which, given a favorable environment, can be an engine of economic growth. Studies undertaken by the Government will serve to define the broad lines of its housing strategy and develop operational programs for implementing it. At this stage, one can only indicate the main issues around which this strategic thinking might revolve. We believe that these are, essentially: promotion of self-help housing construction; Government withdrawal from housing construction projects; establishment of financing mechanisms suited to the specific circumstances of Burkina Faso; measures to support the legal development of a rental market, and promotion of construction methods suited to Burkina's level of development and making use of local materials.

Promotion of Self-help Housing

3.94 Self-help construction currently is, and will remain for some time to come, the major source of housing in Burkina Faso. This makes the ongoing sites and services experiments interesting, and, from now on, the main problem will be to set up the necessary technical and financial sites and services mechanisms. The most suitable financial mechanism would be the recycling of funds collected by the Government when the lots are awarded. On the technical side, it is a matter of defining standards for outfitting sites which are compatible with the volume of financing likely to be committed. Institutions capable of installing the infrastructure to meet these service standards also need to be put in place. If these problems can be resolved satisfactorily, the sites and services concept represents an interesting compromise between unauthorized and unregulated squatter settlements -- currently the dominant practice in urban housing construction -- and systems based on direct government sponsorship of housing construction for rent or sale.

Government Withdrawal from Urban Renewal Schemes

3.95 Detailed financial statements would probably reveal an imbalance between the number of dwelling units built and the volume of public funds required to implement and manage these programs, the difficulty in adapting construction standards to the needs and ability to pay of social groups for which the programs were theoretically intended, and consequently inevitable distortions between the social goals of the programs and the standard of living of most of the families that have benefited under them. Experience with such programs in other countries shows that the public sector not only fails to implement them satisfactorily, in technical and financial terms, but moreover is rarely able to establish suitable management and maintenance systems. The Government will find it very difficult to withdraw from operations already completed or in progress, which threaten to absorb, for some years to come, the bulk of budgetary funds that can be allocated to urban housing policy. The Government should, at the very least, refrain from launching new programs and concentrate its resources on activities in which public-sector involvement serves chiefly to catalyze and guide other initiatives. Only in that way can limited public funds have a quantitatively significant impact on the sector.

Financial Mechanisms Suited to Burkina's Specific Circumstances

3.96 It would be illusory to attempt to establish financing mechanisms which would give every household immediate access to a housing purchase or construction loan. Whatever efforts may be made in terms of interest-rate subsidies, loan maturities, and reductions of housing costs, a large percentage of urban families still cannot afford the monthly payment necessary to become home owners. Moreover, the monetary income of many households that could in principle afford to pay for housing is too irregular to be acceptable as a guarantee to even a "very understanding" lending agency. For this reason, the rental market and the financing of housing through "informal" -- notably family -- channels will continue to play an important role in the years ahead.

3.97 These caveats having been made, the efficiency of formal housing finance mechanisms can nevertheless be enhanced appreciably. While the potential borrowers certainly do not represent the disadvantaged classes (they

comprise chiefly civil servants and other wage-earners whose salaries are paid regularly into their bank accounts, thereby offering guarantees acceptable to lenders), their increased ability to obtain credit would both stimulate the activity of the sector and allow financing from informal channels to benefit the less well-off. To ensure that measures to develop the supply of housing finance are sustainable, it is essential that this be funded out of savings (household savings and holdings of institutional investors such as insurance companies and social security agencies), and not out of the national budget or external aid. Except as a temporary measure to gain leverage, public assistance and, above all, donor financing should not constitute a substantial share of the credit agency's resources. Subject to the findings of an ongoing study, it would seem best to separate the credit agency from savings institutions. As much as the credit agency has an interest in some degree of concentration so as to attain the "critical mass" required for sound risk management and the development of housing-specific knowhow, the savings institutions need to be close to the savers, for example through cooperative-type institutions, so as to create a climate of confidence based on small-scale facilities, physical proximity and a personalization of the institution .

Measures to Support the Legal Development of the Rental Housing Market

3.98 Rental housing by public or private investors -- the latter currently very rare or even nonexistent -- are ultimately addressed, whatever the original intention, to better-off groups in the population who in fact would generally prefer to be owners. We therefore feel that the Government should cease to subsidize rental or rental-sale operations, directly or indirectly, whether public or private. Moreover, the Government should reconsider its policy of heavily taxing rental income from better-class housing.

3.99 As in other African countries, renting out an extension of their dwelling can provide owner-families with a source of income that helps them to pay for the dwelling, while for the poorer renter, younger or more recently settled in town, it can be the only workable solution to his immediate housing problem until such time as his personal situation allows him, in his turn, to become an owner. At present we have only a partial picture -- which the ongoing study should complete -- of the constraints on this form of rental and of the measures that public authorities could take to encourage middle-class households to annex rental extensions meeting certain minimum sanitation standards to their dwellings. Alongside these incentives, consideration should be given to exempting such rental income -- which is in any event difficult to identify -- from tax. This principle could also be integrated into sites and services design (for lots of sufficient size) and into award rules (lots of suitable size would be awarded in return for a commitment to build a rental extension meeting certain standards within a prescribed time limit).

Promotion of construction methods adapted to the country's level of development and using local materials

3.100 Despite appearances, action to reduce the cost of construction and materials, and promote the manufacture of cheaper local materials, is beset by many difficulties. All the experiments conducted so far in new uses of materials -- even those involving a return to reputable traditional procedures

-- have demonstrated the vital importance of proper worksite organization and of training workers who will use these new or unfamiliar materials. Such innovation is therefore inseparable from measures or assistance programs to improve the management and functional organization of enterprises and raise the level of training of the labor force. The ongoing study should furnish data on the specific obstacles that construction enterprises face in Burkina Faso, together with recommended measures to help overcome them. Measures designed to raise productivity will, of course, directly reach only the formal-sector enterprises, which play a minor role in housing construction. Nevertheless, they will have repercussions on the entire construction sector, formal and informal: various surveys have shown that the informal sector copies and adapts formal-sector practices that it sees as good models but on the other hand, rightly or wrongly, veers away from models it sees as having failed. In sum, the authorities should take a particular interest in the technical performance of the formal sector, because it serves as a pilot activity, even though its role in urban housing production is minor.

(v) Employment Policy

3.101 As seen in Chapter II.D, while the employment situation is relatively healthy, population pressure, urban population growth and the structure of the education system can generate qualitative disequilibria between supply and demand that merit the Government's close attention. Employment prospects and policy cannot, of course, be separated from analysis of the outlook for the economy as a whole. Within a dynamic economy, most of the employment problems will resolve themselves, more or less harmoniously, due to job-seekers accepting employment in occupations that do not always match their skills and their aspirations. It seems however that certain measures can be taken to facilitate this adaptation and reorientation process.

3.102 First of all, it is important to obtain more detailed knowledge of the employment market, its structure and its evolution. Systematic study of employment as part of annual household surveys could facilitate the detection and analysis of trends and problems. Comparison of wage (and social security contribution) levels by type of occupation with those in other African countries, within and outside the franc zone, would provide a clearer picture of structural obstacles which retard the development of the modern sector. Finally, education policies could be adjusted to slow the formation of mid-level and particularly higher-level managers, and reduce the risk of a rapid rise in the number of skilled unemployed, which is particularly dangerous for the country's political and social stability. Finally, any action to reduce the constraints on expansion of the modern sector and to promote the development of the informal sector and small business could have a very positive impact on future employment trends and on the capacity of the economy to absorb its future managers and skilled labor.

3.103 On the basis of the economic growth projections made in Chapter III.A, certain indications can be put forward concerning the future of employment and its sectoral composition:

- (a) GDP growth is projected at around 5.1 percent a year, with the primary sector growing at 4.9 percent. In the primary sector, which created 800,000 jobs from 1975 to 1985 and which employed some 3.1 million people by 1985 (92 percent of all employed persons), it is difficult to put a figure on probable employment growth. The normal trend in a weakly industrialized country is toward a decline in the relative importance of primary-sector employment, which in Burkina is exceptionally high (the average for countries of comparable income level is about 72 percent). The sectoral growth projections indicated above will be largely achieved through faster growth of value added per job; on the basis of average annual growth of value added per job of 1.3 percent, which was maintained during the period 1975-85, primary sector employment could rise by about 3.5 percent a year over the next ten years, creating a total of about 1.3 million jobs.
- (b) In the secondary sector, the projected growth of value added would mean a 5.9 percent annual increase in the number of employed persons if expansion of the sector occurred with no change in value added per job. In the case of the tertiary sector, this growth would be 5.1 percent. We assume however that the acceleration of job creation in the informal sector will continue over the next ten years, entailing an appreciable decline in value added per job. On that basis, employment in these two sectors could grow by 7-8 percent a year, raising the number of employed males in the labor force by 52,000 in the secondary and 135,000 in the tertiary sector.
- (c) A total of close to 1.5 million jobs could be created over the period 1988-97. The number of job-seekers would most likely rise by 4 percent a year during that period, i.e. by 1.6 million in ten years. However, in the modern sector, the increase in managerial and technical jobs is unlikely to exceed 7-8 percent a year, equivalent to the creation of about 23,000 managerial positions (including 5,000 senior managers) over the ten years. Consequently, the growth of high-school graduates would have to be slowed to a maximum of 7 percent a year, and the number of university graduates (currently 750 a year) reduced to a maximum of 500 unless they are prepared to settle for jobs as mid-level managers or technicians.

