

Burkina Faso



key figures

• Land area, thousands of km ²	274
• Population, thousands (2004)	13 393
• GDP per capita, \$ (2003)	328
• Life expectancy (2000-2005)	45.7
• Illiteracy rate (2004)	72.5

Burkina Faso

BURKINA'S VERY HIGH GROWTH RATE of 8 per cent in 2003 showed the economy's resilience in the face of the worsening crisis in neighbouring Côte d'Ivoire, even if part of it was due to one-off factors such as excellent cotton and record cereal harvests. An external shock of this kind should have had not only economic consequences (from closure of the trade corridor through Côte d'Ivoire, congestion and premature deterioration of roads and fewer remittances from Burkinabè workers abroad) but also social fall-out caused by the large-scale return home of mostly impoverished expatriate workers.

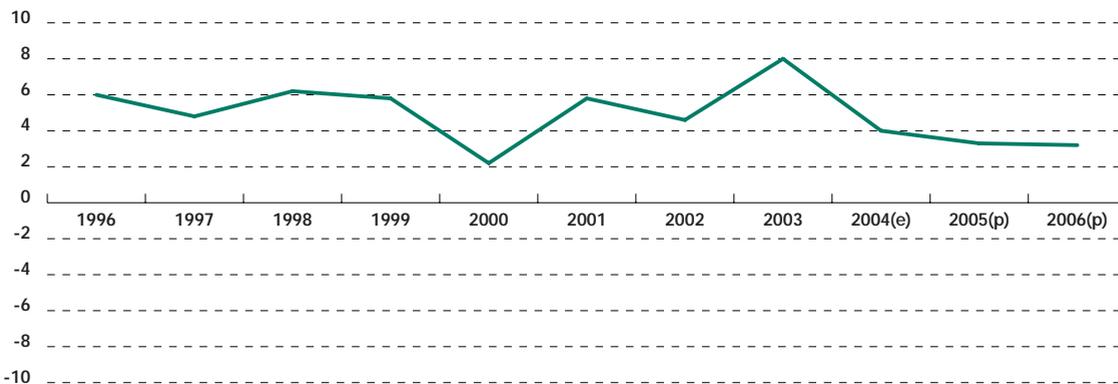
The government and the private sector adapted to the situation, however, coming up with practical solutions and calling on regional solidarity. It was a display of the quality of institutional development in

one of Africa's poorest countries and was recognised by the technical and financial partners, who give Burkina Faso strong support.

A return to more modest growth (4 per cent) in 2004 and relatively poor prospects for 2005 (3.3 per cent) are a reminder the country is still very little diversified, with very few comparative advantages, and that its social and economic development (which is fairly slow, even disappointing) is very vulnerable to the weather, insects, terms of trade and the euro/dollar exchange rate. The challenge for Burkina Faso is to diversify economically to reduce this vulnerability and make more use of growth to reduce poverty.

Deterioration in the terms of trade has made cotton prices unpredictable.

Figure 1 - Real GDP Growth



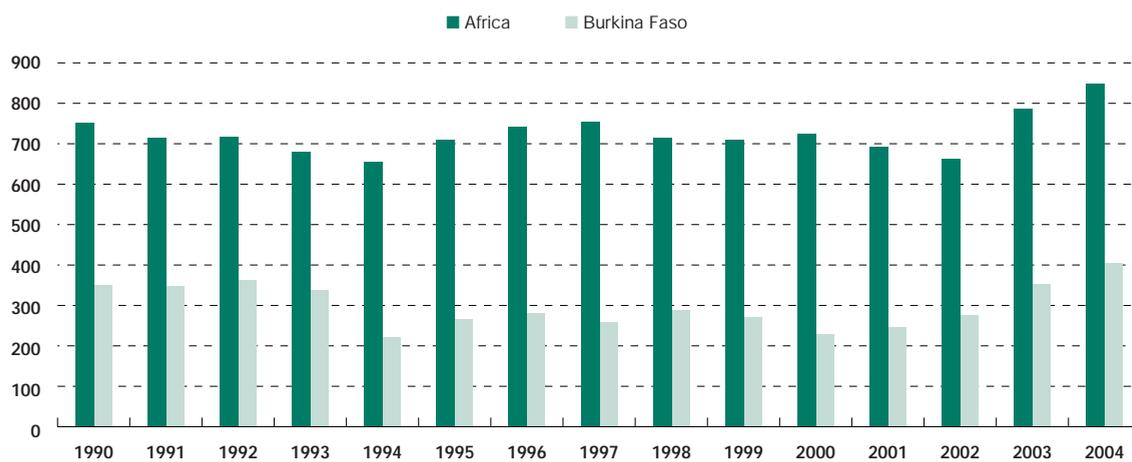
Source: Data from the IMF and domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

The primary sector (31 per cent of GDP in 2003 and occupying 80-90 per cent of the workforce) expanded by 10.7 per cent in 2003 and was the engine of national growth, but is expected to shrink by 2.7 per cent in 2004.

This development is mainly due to an estimated 14 per cent drop in cereals production in 2004 after a big rise of 16.3 per cent in 2003. The very sharp fall in cereals prices after the excellent 2003 harvest may have contributed by pushing farmers to switch to other cash crops, mainly cotton. But the chief reason was almost certainly lack of rain, especially in the north,

Figure 2 - GDP Per Capita in Burkina Faso and in Africa (current \$)



Source: IMF.

and its uneven distribution. Damage done by desert locusts should not be exaggerated, since it was mainly in the north, which yields only a small part of the cereals harvest, especially in a drought year like 2004.

However, though lower, the national output of 3.1 million tonnes (2.6 million available) in 2004 was still enough for local consumption (2.45 million). Surpluses expected in the main growing regions should make up for the shortfall in the north, but the primitive structure of the domestic market makes sending them there a difficult matter. The cereals sector lacks organisation and proper storage, marketing and export facilities.

The cotton harvest was again very good in 2004/05 and was expected to be between 560 000 and 570 000 tonnes after the 480 600 tonnes of 2003/04 which, with good prices and movement of the crop not too big a problem despite the closed Ivorian border, enabled the cotton marketing monopoly Sofitex to pay growers a large bonus¹ in 2004/05. The sharp rise in the price to growers (210 CFA francs/kg compared with 185 in 2003/04) very probably partly accounted for the 11.8 per cent increase in land under cotton. Yields were also up about 6 per cent.

The sector reached an important milestone in July 2004 when Sofitex handed some of its marketing

operation over to two foreign firms – Socoma, a subsidiary of the French firm Dagriss, in the Fada N’Gourma region, and Faso Coton, a subsidiary of the Swiss firm Paul Reinhart, in the Ouagadougou area. But Sofitex still controls 85 per cent of cotton sales nationwide. The switchover did not involve layoffs and both firms seemed to perform well in their first season.

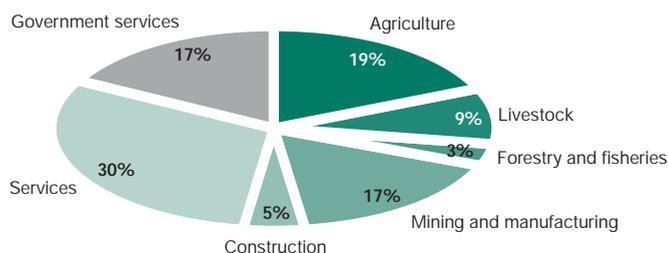
The partial reopening of the border with Côte d’Ivoire, as well as the reorganisation of Burkina’s trade to pass through other countries, led to a 20 per cent increase in livestock exports and the sector grew about 2.5 per cent in 2004. Associated activity in the north offset some of the losses from the bad cereals harvest there.

The agriculture sector may have another difficult year in 2005 mainly because of the drop in world cotton prices since mid-2004. The 2004/05 harvest is far from being all sold through futures contracts (which can also be reversed) and Sofitex has temporarily pulled out of the market, banking on a recovery in world prices.

It already seems clear Sofitex will suffer losses anyway when the 2004/05 harvest is sold since the price (excluding the bonus) it pays to growers is much higher

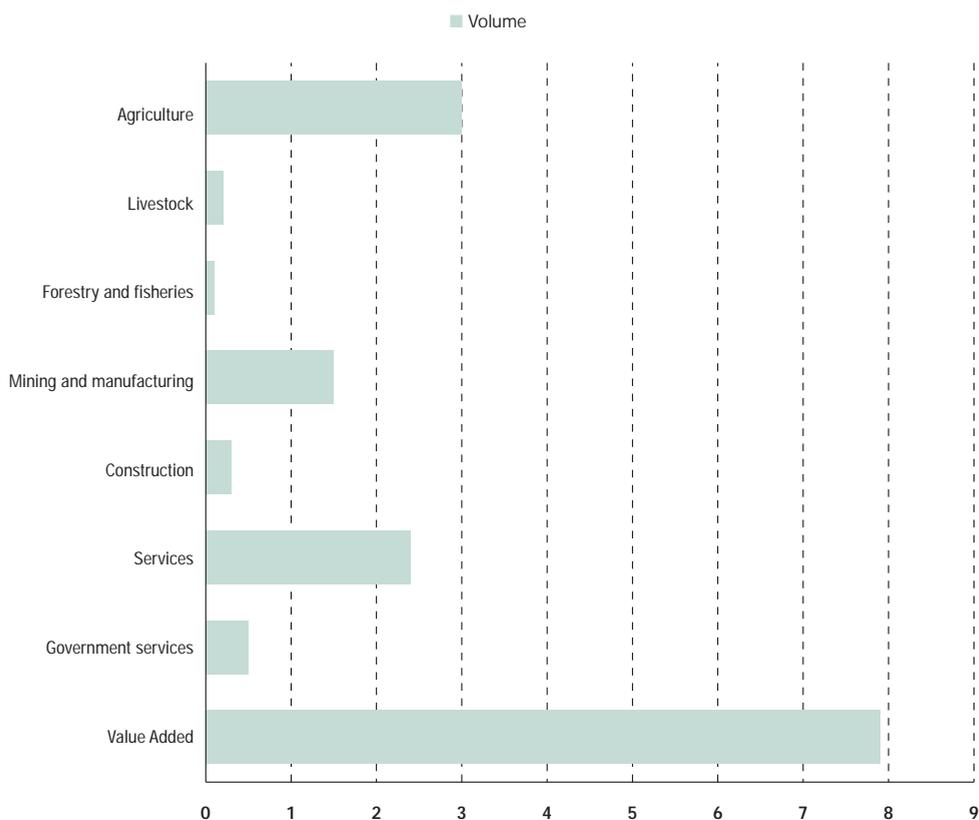
1. The bonus is a share in the proceeds of the harvest in t-1 added to the guaranteed price to the grower for the harvest in t.

Figure 3 - GDP by Sector in 2003 (percentage)



Source: Authors' estimates, based on data from the ministry of finance and budget.

Figure 4 - Sectoral Contribution to GDP Growth in 2003 (percentage)

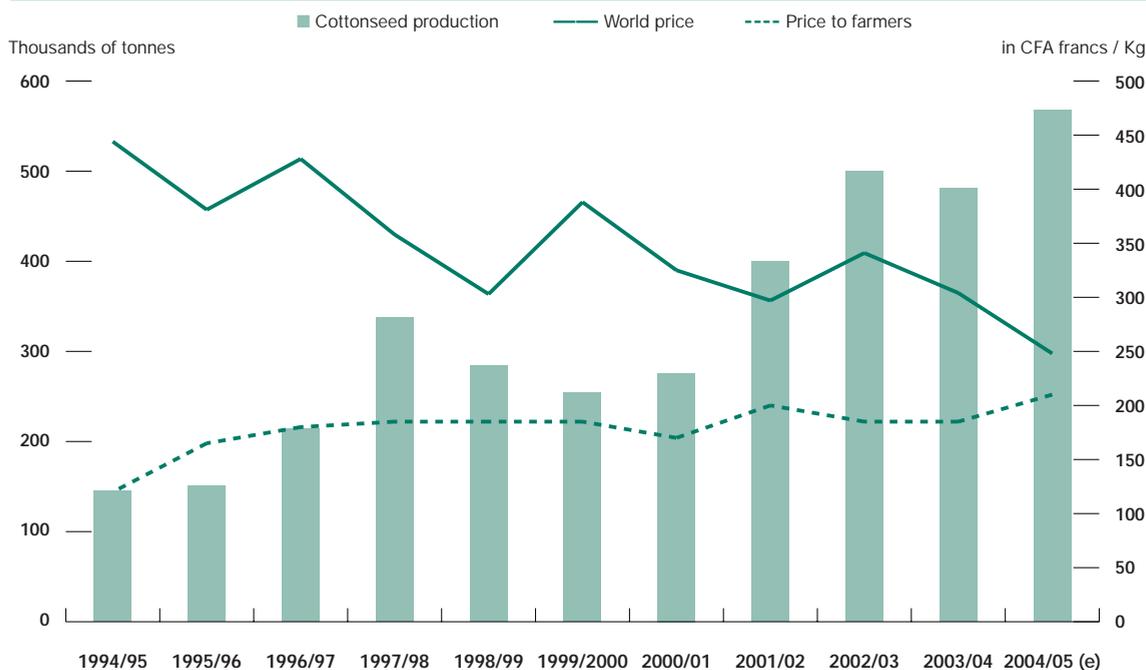


Source: Authors' estimates, based on data from the ministry of finance and budget.

than the world price. So it will not be able to offer growers a bonus on the 2005/06 price and may even try to negotiate a no-bonus price much closer to the world price. Because of the growers' production costs, a sharply lower price could put them off sowing a new crop in 2005, so a substantially smaller 2005/06 harvest cannot be ruled out.

Good prices for gold have kept prospectors busy in the large-mine sector and the new mining law has made the sector more attractive. A total of 170 exploration permits have been granted, many in 2004. The mines at Kalsaka (Cluff Mining) and Taparko (High River Gold) are being built and should start to produce in 2005 or early 2006. Other sites are being

Figure 5 - Cotton production and prices in Burkina Faso



Note: Production and farmers' prices are based on cottonseed over a growing season. The world price is for cotton fibre, so it has been converted into the equivalent of cottonseed at a conversion rate of 42 per cent and is the average price over a calendar year (year n+1 for a crop in n/n+1).

Source: Ministry of the economy and development and World Bank.

explored and may be ready to produce in two or three years' time, including those at Mana (Semafo) and at Essakane (Orezone), potentially one of Africa's biggest gold deposits (55.6 tonnes) but technically difficult to exploit.

The government's priority is developing large mines but it also wants to develop the small mine sector, which is losing ground but on some estimates provides a living for up to 50 000 alluvial miners and their families. The scheduled privatisation of the national precious metals board CBMP, which handles regulation, production and marketing, is a sign the government wants to revive the sector. Alluvial mining production (hard to measure because of fraud) is about 400 kg a year.

The secondary sector (including extractive industries) was only 22 per cent of GDP in 2003 and is mainly cotton ginning, agri-business and construction. The effect of the Ivorian crisis on the Burkinabè economy and its industry in particular seems to be limited despite higher transport costs. Big firms in the

southwest, such as the Grands moulins du Burkina flour mill, Sosuco (sugar), Sitec (vegetable oils) and the Société africaine de pneumatique tyre factory (which uses Ivorian rubber), were badly affected however.

On the whole, the business sector quickly adapted when the Côte d'Ivoire crisis worsened in 2002 by using alternative routes to the sea, shipping goods through the ports of Lomé (Togo), Cotonou (Benin) and Tema and Takorady (both in Ghana). The secondary sector, which grew 6.9 per cent in 2004 (9.5 per cent in 2003) was carried forward by strong ginning activity as a result of the good 2003/04 harvest. The construction industry was also very robust due to major urban building activity such as the Zaca neighbourhood in Ouagadougou.

The services sector (47 per cent of GDP in 2003) was the only one to see growth accelerate in 2004 (6.8 per cent, compared with 6 per cent in 2003). This was because of the vigorous mobile phone sub-sector and also transport, which was partly due to

Table 1 - Demand Composition (percentage of GDP)

	1996	2001	2002	2003	2004 (e)	2005 (p)	2006 (p)
Gross capital formation	25.5	19.6	18.6	18.8	20.6	20.9	21.6
Public	12.6	12.8	10.9	9.2	10.6	10.8	11.1
Private	12.9	6.8	7.7	9.6	10.0	10.2	10.5
Consumption	92.3	94.2	94.1	93.2	91.0	93.1	93.8
Public	14.7	22.6	22.1	20.9	21.6	22.0	21.6
Private	77.5	71.6	72.0	72.4	69.5	71.2	72.2
External sector	-17.8	-13.8	-12.7	-12.1	-11.7	-14.1	-15.4
Exports	11.0	9.2	9.0	9.0	10.3	9.0	7.9
Imports	-28.8	-23.0	-21.7	-21.1	-22.0	-23.1	-23.4

Source: Data from the ministry of finance and budget; estimates (e) and projections (p) based on authors' calculations.

closure of the Ouagadougou to Côte d'Ivoire railway line and the need to find alternative routes. Burkina Faso also benefited from the informal trade that developed with the rebel-controlled areas of central and northern Côte d'Ivoire after the *de facto* splitting of the country into two.

The very good primary sector results gave the country 8 per cent growth in 2003 but the sector's levelling-off, especially with the drop in cereals production, should slow growth to about 4 per cent in 2004. During 2004, public investment (up about 15 per cent) and private investment (plus 5 per cent) were much more vigorous than household consumption, which was stable. Weak domestic savings meant the current account balance remained negative and continued to hamper domestic growth. But this negative contribution was less in 2004 as exports rose 13.5 per cent and imports 4.8 per cent.

The sale of the 2003/04 cotton harvest before world prices fell limited the effect on 2004 growth of this significant deterioration in national terms of trade. This will probably not happen in 2005, when the price to growers is expected to fall, and possibly production as well, reducing income from cotton below the levels of the past two years. This decline will only partly be offset by switching to other crops. A big new rise in oil prices could significantly push up the cost of electricity and the pump price of petrol.

Changes in the euro/dollar parity will either ease or aggravate these trends. A new slide in the dollar against the euro would help soften the impact of an oil

price rise but would also reduce cotton revenue in CFA francs a little further and make the secondary and services sectors less competitive. But even slightly better cereal harvests after the mixed results of 2004 could prop up individual consumption. So the assumption is that there will be moderate growth of 3.3 per cent in 2005.

Macroeconomic Policies

Fiscal and Monetary Policy

Burkina Faso's expected performance in 2004 suggests it will be hard to meet the West African Economic and Monetary Union (WAEMU/UEMOA)'s goal of convergence by 31 December 2005. As in previous years, the country will not comply with the key primary criterion of having a zero or positive ratio of basic fiscal balance to nominal GDP. This is chiefly because of the light tax burden of 11-12 per cent, which does not comply with secondary criteria of having a tax revenue to GDP ratio of at least 17 per cent and a ratio of wage-bill to tax revenue of less than 35 per cent.

The country's problem of increasing and diversifying its exports means it does not comply with the secondary criterion of having a current external deficit (not counting grants) of under 5 per cent. As in 2003, it should meet the three other primary criteria, because the public debt was 42.5 per cent of GDP at the end of 2004, and the secondary criterion of the ratio of domestically financed investment to tax revenue.

Burkina Faso has been satisfactorily carrying out an International Monetary Fund (IMF) sponsored poverty reduction and growth facility (PRGF) since June 2003 and the IMF's second and third reviews of it were successfully completed by February 2005, when the country had had three loans totalling 13.76 million Special Drawing Rights (SDRs) (\$20.9 million) out of a total of 24.08 million SDRs available under the programme.

The 2004 budget deficit (including grants) should be about 3.5 per cent of GDP, less than the originally-planned 5.4 per cent. The draft 2004 budget had included a 35 per cent increase in capital spending (from 9.1 per cent of GDP in 2003 to 11.2 per cent in 2004). Despite a good budgeted investment execution rate (at least in commitments) of nearly 70 per cent in the first nine months, the whole-year increase is not thought to have been more than 15 per cent due to the

Table 2 - Public Finances (percentage of GDP)

	1996	2001	2002	2003	2004 (e)	2005 (p)	2006 (p)
Total revenue and grants^a	21.3	18.0	16.8	17.7	17.6	16.2	18.4
Tax revenue	11.8	10.3	10.7	11.0	11.1	11.3	11.5
Oil revenue	8.6	7.0	5.3	5.4	5.2	3.7	5.7
Total expenditure and net lending^a	19.8	21.9	21.3	20.6	21.1	21.2	21.5
Current expenditure	10.6	10.4	11.2	10.5	10.8	10.9	10.8
<i>Excluding interest</i>	9.7	9.6	10.4	9.8	10.1	10.2	10.2
Wages and salaries	5.1	4.7	4.6	4.6	4.6	4.7	4.5
Interest	0.9	0.8	0.7	0.7	0.7	0.7	0.6
Capital expenditure	9.2	11.6	10.2	9.1	10.4	10.6	10.9
Primary balance	2.4	-3.0	-3.8	-2.2	-2.8	-4.3	-2.5
Overall balance	1.5	-3.9	-4.5	-2.9	-3.5	-5.0	-3.1

a. Only major items are reported.

Source: Data from the IMF and the ministry of finance and budget; estimates (e) and projections (p) based on authors' calculations.

country's limited capacity to absorb investment. But this rise was still quite strong and capital spending was 10.4 per cent of GDP in 2004 (up from 9.1 per cent in 2003). Current spending (10.8 per cent of GDP), especially on wages and salaries (4.6 per cent of GDP), is reckoned to have been stable in 2004.

The collection rate of current revenue (except grants) and of tax revenue under the PRGF, was about 75 per cent by the end of September 2004 and remained in step with GDP to end up at a steady 17.6 per cent of GDP for the whole year. Tax revenue (mainly from cotton) rose in response to the good economic performance in 2003, with personal and company tax, as well as that on goods and services, all performing better.

About 80 per cent of the government's funding needs were met by external sources.

The draft 2005 budget, based on a 3.5 per cent growth prediction, is much the same as the previous

one, though it includes an increase in the deficit (including grants) to 5.8 per cent of GDP. Expenditure relative to GDP is stable, but tax revenue is set to rise from 11.3 per cent of GDP in 2003 to 12.2 per cent in 2004 (mainly through better collection). The increased deficit is mostly due to a significant fall in grants.

However the actual deficit may not exceed 5 per cent of GDP (including grants) because of lower spending than budgeted, assuming growth is about 3.3 per cent. But this is not at all certain. Implementation of the budget will have to take account of the expected deterioration of local economic conditions during the year. Growth of under 3 per cent would probably cut into tax revenue (especially from the cotton sector). Several question marks also hang over public spending.

The main uncertainty is about the price of oil and its effect on public finances. The government wants to

pass on any price increase to the pump price but the social repercussions of this may be a problem. Cutting taxes on oil products would mean losses for the state oil monopoly and for tax revenue. A new oil price rise could also push the government to increase its subsidy to the state electricity firm Sonabel, which put up its prices for the first time in a decade in October 2004 to pay for the higher cost of its fuel.

A budget subsidy for Sonabel has been negotiated with the Bretton Woods institutions for 2005, based on an expected oil price of \$40-\$45 a barrel. If it went above \$45, Sonabel would have to increase its rates again and/or reduce operating costs. But it may get other subsidies, given that 2005 is a presidential election year.

The government's attitude is also unclear in respect of the state cotton firm Sofitex, which will suffer major losses in 2005 (from sale of the 2004/05 crop) because of the fall in world prices, which are much lower than the 175 CFA francs/kg ex-bonus price to the grower, and could reach nearly 20 billion CFA francs (\$37.8 million), about 0.7 per cent of the year's predicted GDP. They could be very large in 2006, too, if the price to the grower stays about the same and is not aligned to the world price.

The government has said Sofitex should be able to cope with the 2005 losses without public subsidies and has so far refused to intervene in negotiations between Sofitex and growers to fix a price for the 2005/06 harvest. But Sofitex may not be able to handle new losses and government help, which could unbalance the budget, may be needed. But, again, 2005 is an election year and excessive government spending cannot be entirely ruled out.

Major progress has been made in boosting tax collection and also in transparency and implementation of public spending. Funding sources have recognised this progress and Burkina Faso was one of the first countries to get external aid in the form of budget support. Decentralisation of spending authorisations and payments advanced in 2004, along with customs computerisation. A division was set up at tax headquarters to handle large firms.

Work remains to be done in making budget and taxation matters more transparent and effective. A new system to give taxpayers a single tax identity number has been delayed for technical reasons. Budget implementation needs to be quicker and more transparent (remedying slowness in submitting an accounts settlement bill to the state Accounts Court for auditing, for example, and reducing unauthorised spending). The tax collection rate is still insufficient due to the size of the informal sector and non-payment of taxes by much of the farming sector, especially cotton growers. Monitoring of public debt is still inadequate.

The CFA franc is pegged to the euro, so Burkina Faso's monetary policy, handled by the Central Bank of West African States (BCEAO), depends largely on euro zone monetary policies. The bank lowered its intervention rates by 50 basis points in March 2004 (4 per cent for repo rates and 4.5 per cent for a discount rate at the end of 2004).

The consumer price index fell 0.4 per cent in 2004, largely due to cheaper food (-3.4 per cent) after the very good 2003 cereals harvest. But the cost of transport rose 2.9 per cent and electricity 10 per cent, the first effects on domestic inflation of dearer oil. The strength of the euro against the dollar has so far softened the impact of the oil price rise, but its effect on domestic prices in 2005 will have to be carefully watched. Inflation in 2005 is expected to reach 2.6 per cent because of the big rise in transport costs and come close to the WAEMU limit of 3 per cent.

External Position

Early estimates show Burkina Faso reduced its trade deficit (excluding services) as a percentage of GDP from 8.5 per cent in 2003 to 7.9 per cent in 2004 thanks to a 19 per cent rise in the value of exports due to record cotton sales (+ 23.5 per cent in value and volume) in the first half of 2004, before world prices plummeted. The value of imports grew 8.1 per cent mainly due to higher prices of oil, imports of which were 17 per cent higher by value, but only 2.7 per cent by volume.

Foreign trade figures in 2004 would have been better but for a sharp deterioration in terms of trade from mid-2004. Changes in the dollar/euro parity helped cushion the oil price rise (+ 24 per cent in dollars, + 14 per cent in CFA francs), but it cancelled out the gains from the roughly 10 per cent higher dollar price of cotton at which the 2003/04 harvest was exported. The big deterioration in terms of trade should affect the trade balance in 2005, since the 2004/05 harvest will fetch much less than in 2004 while the price of oil may remain high. The trade deficit may reach 10.1 per cent in 2005.

Burkina Faso has a structural trade deficit because of its low level of exports, which were only about 8 per cent of GDP in 2004 compared with an average 26.5 per cent in other WAEMU countries and comprise only a few mainly agricultural items, such as cotton (63 per cent of exports in 2004) and livestock (13 per cent). So export earnings are very vulnerable to changes in the euro/dollar parity and in the price of cotton, which is very erratic.

Limited diversification is possible (into fruit and vegetables and forestry products such as gum Arabic) but in the short-term the only export diversification in sight, from 2005-06, is development of the large-mine gold sector. The country also has to import a substantial amount of machinery, intermediate goods and oil products.

The geographical pattern of its trade has also changed substantially. Exports to the European Union (EU)

measured in dollars fell 5 per cent between 1999 and 2003, while those to Asia grew 13 per cent, mostly due to cotton exports. Burkina Faso's cotton sales to Asia doubled between 1999 and 2003 and Asia bought nearly 68 per cent of the crop in 2003, 36 per cent of it going to China. The EU only accounted for 23 per cent of Burkinabè exports and the WAEMU 8.3 per cent. The source of imports is more stable, with 59 per cent coming from the EU and 16 per cent from WAEMU countries.

The country's goods, services and revenue deficit in 2004 of some 325 billion CFA francs (\$614 million, 11.3 per cent of GDP) entails heavy dependence on foreign aid, mostly in the form of grants, loans and debt relief by technical and financial partners. Foreign direct investment only amounted to 10 billion CFA francs (\$18.9 million) in 2003 and probably no more in 2004. Formal remittances from Burkinabè working abroad have fallen substantially since the start of the Ivorian crisis, from 44.5 billion CFA francs (\$84 million) in 2000 to about 20-30 billion CFA francs (\$40-60 million) since 2001. But informal remittances are probably large.

Burkina Faso's great need for external funding, due to its structural weakness and small growth of exports, explains why, after reaching completion point under the Heavily Indebted Poor Countries (HIPC) Initiative in May 2002, the ratio of debt (at net present value – NPV) to exports grew to exceed the 150 per cent limit and was nearly 205 per cent at the end of 2004.² The IMF reckons this ratio should slowly fall back below 150 per cent by about 2012-13.

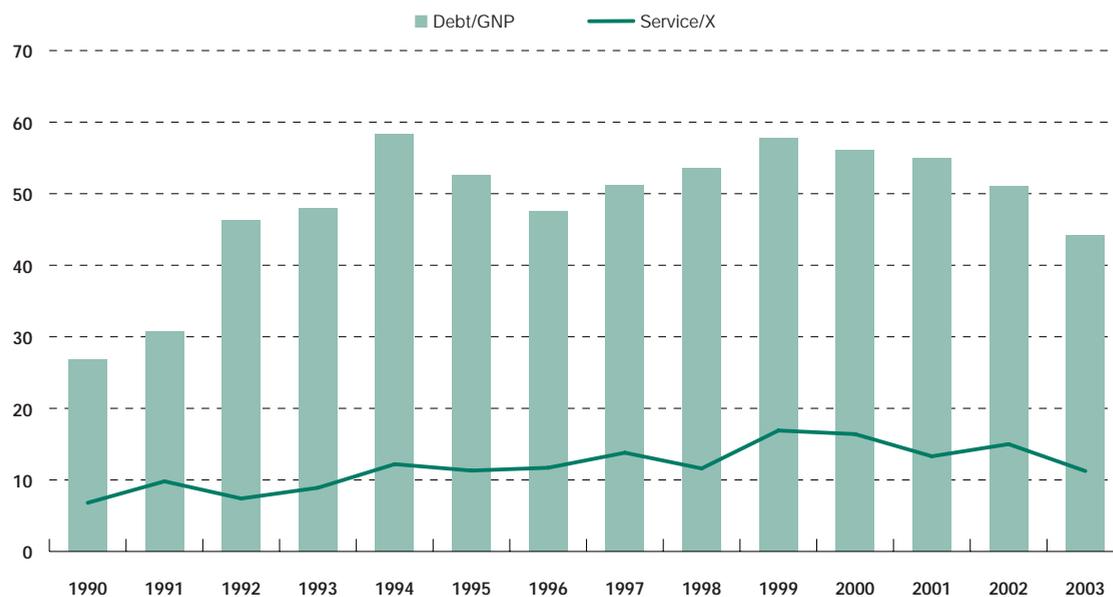
Table 3 - Current Account (percentage of GDP)

	1996	2001	2002	2003	2004 (e)	2005 (p)	2006 (p)
Trade balance	-13.3	-10.1	-9.3	-8.5	-7.9	-10.1	-11.3
Exports of goods (f.o.b.)	9.4	7.9	7.6	7.7	9.1	7.9	6.8
Imports of goods (f.o.b.)	-22.7	-18.0	-16.9	-16.2	-17.0	-18.0	-18.1
Services	-6.1	-3.7	-3.4	-3.5			
Factor income	-0.7	-0.9	-0.6	-0.5			
Current transfers	9.4	4.4	4.1	5.2			
Current account balance	-10.8	-10.3	-9.2	-7.3			

Source: Data from the BCEAO and the ministry of finance and budget; estimates (e) and projections (p) based on authors' calculations.

2. Much of the increase is due to a fall in commercial interest rates used to calculate the NPV and to the fall in the value of the dollar against the euro.

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports)



Source: World Bank.

The external debt situation after the HIPC Initiative remains fragile however and highlights the need to boost its concessionality level from the current nearly 56 per cent, as well as to monitor and centralise the government's debt policy better. Certification by the national public debt committee (CNDP) is now needed for any government body wanting to take out a new loan. Increasing exports must be a longer-term priority. External public debt was nearly 945 billion CFA francs (\$1.785 billion – 37 per cent of GDP) at the end of 2004 – 87 per cent of total public debt.

The country obtained 16.4 billion CFA francs (\$31 million) in debt relief in 2004 from the Paris Club of nations under the HIPC Initiative, but little progress was made in negotiations for similar relief with creditors not belonging to the Club.

Structural Issues

The government continues to modernise and structurally reform key sectors of the economy, though with delays. However, spectacular progress has been

made by opening a one-stop business centre to speed up creation of new firms. Procedures have been simplified and new business applications can now be approved in three days instead of a month.

Labour law is also being revised to ease the rules about casual employment (abolishing the monopoly of the ONPE national labour office), redefine the right to strike (limiting strikes to professional reasons) and amend article 637 of the civil procedure code governing compensation for unfair dismissal. Legal decisions can no longer be enforced while an appeal is pending.

However, some measures are being implemented too slowly, such as the new mining law, passed in 2003 and raising great hopes in the sector, especially in respect of its tax clauses, which has still not been put into effect for reasons of gaps in legal procedure and the unfamiliarity of officials with its new terms. The country's business conditions, despite efforts, still suffer from over-costly factors of production, the large size of the informal sector and associated tax and customs fraud, as well as the weak legal structure. There is no commercial court and enforcing court rulings about business matters is sometimes a problem.

The government is trying, with the help of funding agencies, to boost local energy production to reduce one of the most crippling factors of production costs, the high price of electricity. The World Bank approved a \$63.58 million grant on 30 November 2004 to help fund, along with other agencies, an electricity development plan (PDSE) to link Ouagadougou and Bobo Dioulasso (338 km distant) and connect the capital to the Ivorian grid by 2007. Plugging into the Ghanaian grid has been put off until 2012.

The PDSE also includes, with World Bank funding, construction of a 14 MW power plant in Ouagadougou which the government says should be ready by March 2005. A 7 MW thermal plant, paid for by a government loan fund to increase supply to the Ouagadougou area, should also come on stream in late 2004 or early 2005. The Ouahigouya power plant should soon provide 3.6 MW now that Sonabel has taken over construction. A Danish government project to provide Ouagadougou with 18 MW of extra thermal power is awaiting approval by the debt approval authorities.

The country's total installed capacity was 172 MW in 2004, 104 MW of it in Ouagadougou. Though 61 centres now have electricity, nationwide coverage will remain very low until these projects are complete. The figure was around 11 per cent in 2003, with huge disparities between urban (57 per cent) and rural areas (2 per cent). Even so, this is an improvement on the 7 per cent coverage in 1999. The government wants to increase it to 15 per cent in 2005 and 60 per cent by 2015.

As noted, Sonabel raised its prices in October 2004 for the first time in a decade, by 10 per cent, in response to dearer oil. The poorest, and businesses, were spared. It was also part of a wider plan to bring Sonabel's rates closer to its production costs, ensure the viability of the electricity sector and cover the cost of the investments it has made. The technical and financial partners want an immediate 28 per cent rate increase, though the long-term aim is to reduce the price with the help of the recent and future investments. Sonabel has commissioned a rate survey that will be done by early 2005.

In the water sector, Ouagadougou is to be connected to the Ziga reservoir by 2007, which should solve the capital's water supply problems.

No major privatisation occurred in 2004, except for the Indépendance hotel and, as mentioned, some of Sofitex's operations. But progress was made in preparing for divestment of some public services privatisation of which is both complex and politically sensitive.

Privatising Sonabel, which began in 2001, moved forward a little in 2004 with the audit of its 2002 and 2003 accounts, completion of analysis of the energy sector and a decision to restructure the electricity sub-sector. The whole operation should be complete in the second half of 2006, when Sonabel will become a holding company, a strategic partner buying most of its capital. The energy sector will be split in two. Sonabel will continue running the present network, with its assets managed by a new government trust company, and rural electrification will be run by the government, NGOs, the private sector and local authorities, partly funded by the FDE development and electrification fund.

Privatisation of Sonabhy, the state oil importing monopoly, is at the same stage as Sonabel's. Audits of its accounts from 2002 to 2004 are underway. The sub-sector analysis has been done and a privatisation plan drafted to open a minority of its capital to private investors. The new firm will keep its monopoly of buying and storing oil products.

The first attempt to privatise the telecommunications firm Onatel produced no acceptable bids. The initial idea was to transfer 34 per cent of its capital to a strategic partner, with an immediate transfer of management supervision, and then in a second stage, set at four years later, sell 17 per cent more of its capital and then a final 7 per cent two years after that.

The initial investment required from the prospective partner, as well as the many years before obtaining a majority share, put would-be investors off. So the government resumed negotiations and offered a quicker management transfer, sale of the 17 per cent in three years instead of four and reduction of the requirements

for coverage and supply. The new plan was to be implemented by the second half of 2006 at the latest.

Ouagadougou airport is to be franchised and the one at Bobo Dioulasso to be under a leasing contract. Feasibility studies have been done and the process of inviting bids begun. Privatisation of the CBMP precious metals board, suspended in 2003, is back on the agenda. Other firms in the process of privatisation or being wound up include hotels, cinemas, transport and vehicle inspection. But privatisation, especially of Sonabel, Sonabhy and Onatel, may be delayed in 2005 as an election year is rarely the best time for such changes.

The crisis in Côte d'Ivoire has seriously affected transport, especially road traffic to Burkina Faso. Before the crisis, two-thirds of the country's goods exports and imports passed through the port of Abidjan. The region's businesses, Burkinabè or Malian, quickly adapted to the loss of access by switching to routes through Ghana, Benin and Togo, whose governments co-operated to dispatch goods through their ports more easily.

The crisis had the effect of reviving major regional projects to build or improve main roads through WAEMU countries, among them Burkina Faso's transport sector programme PST-II 2000-08. This includes the surfacing of the road from Ouagadougou to Léo and the Ghanaian border and improving roads from Ouagadougou to Pô (towards Ghana), Bitou (towards Togo) and Fada-N'Gourma (towards Niger). Funding agencies are already extensively involved.

The measures to cope with the Ivorian crisis helped contain the higher transport costs but road traffic through Burkina Faso has increased three or four-fold in the last two years, causing serious damage to the roads, especially from overloaded vehicles, 70-90 per cent of trucks exceeding the 11.5 tonne weight limit set by the Economic Community of West African States (ECOWAS). Funding sources are supporting the installation from late 2004 of checkpoints with weigh

stations, as on the Bamako-Ouagadougou-Accra and Bamako-Ouagadougou-Niamey roads. But enforcing such rules at regional level is likely to be slow and difficult.

A mid-stage progress report on PST-II published in November 2004 was fairly positive, at least about implementation and funding of the road projects. The programme aims to keep in decent repair the existing 15 272 km (87 per cent unsurfaced) of good roads by 2008, tar 1 324 km and improve 12 000 km of rural tracks, out of the country's total network of 46 000 km. Technical and financial partners have paid little attention to the tourism and railway sections of the PST-II programme. Foreign-funded feasibility studies are being done for a new airport in Ouagadougou which should be ready in 2015.

The banking sector is fairly solid, though structurally over-exposed to the cotton sector. It has excessive short-term liquidity and bad loans are quite low – 4.6 per cent net (13.1 per cent gross) in September 2004, compared with 3.2 per cent at the end of 2003 (11.3 per cent gross). But the financial system's penetration is very small and bank credit to the economy is only 13 per cent of GDP, which makes funding small and medium-sized enterprises (SMEs) a big challenge.

Burkina Faso does not have its own official definition of a small and medium size enterprise (SME). For the tax authorities, an SME is an officially-registered firm with an annual turnover of 15-50 million CFA francs (\$30 000 - \$100 000). The commerce ministry defines an SME as one with 5-10 employees. No really up to date data exist on how many there are, even in the formal sector, but they provide very many jobs, especially if the informal sector is included, including the countless cotton and vegetable farms that sell their crops.

SMEs, whether formal or informal, have little access to traditional bank loans and applications by existing firms and especially those starting up are often rejected. When they are accepted,³ interest rates are very high

3. The propensity of banks to fund the services sector, notably expanding sectors such as health or new communications technology, is greater than for other sectors. Pre-funding of cotton activity is a special case because it is done through Sofitex and involves a thoroughly integrated sector, so is no problem as long as Sofitex is solvent.

(10-18 per cent) and loans are basically for working capital and rarely long-term (only 1 per cent of all loans to the private sector).

Many obstacles hamper growth of bank loans to SMEs. Firms are quick to denounce the banks as unadventurous but the legal environment and the dearth of viable projects are also factors. Mortgages are the most popular security with banks but are sometimes hard to set up. Property rights were effectively abolished during the 1983-87 revolutionary government in favour of “urban residence permits” and many houses are still occupied under this arrangement. Property law is being normalised but this will take time and involves the costly introduction of land titles.

Local firms are rarely financially sound and transparent. Furthermore, some rules of the Organisation for the Harmonisation of Business Law in Africa (OHADA), such as extending from eight to 45 days the wait before a firm’s assets can be seized in case of payment default, allowing it more time to put its affairs in order, may have increased the banks’ reluctance to fund SMEs.

The government and funding sources have done much to encourage the financing of SMEs, including non-financial help such as advice on making a funding application with the help of the new one-stop business centre mentioned earlier, the establishment in 2005 of an experimental registered management centre (CGA) to help firms organise their accounting, and helping people financially to get business advice and training (the EU).

Funding structures (sometimes long-established) such as Papme (Association to Promote and Support SMEs) are among a multitude of facilities, often redundant and financially shaky, that seem to dominate the scene. Papme, which was set up in 1995 and now struggles along since its main funder, the EU, pulled out in 1999, duplicates the advice and support work done by bodies more recently set up. Burkina Faso appears to need a coherent policy towards SMEs, perhaps merging the various facilities into a specialised bank or guarantee fund to finance them.

The government has not yet produced a policy towards the very vigorous local micro-finance sector, which is still too fragmented and weak (except perhaps the main network, the *Caisses populaires du Burkina Faso*) to provide intermediate funding (5-50 million CFA francs – \$10 000 - \$100 000). After a national micro-credit conference in October 2003, the government was to unveil a national plan but it involves wide consultation with all parties in the sector and has been delayed and will not be ready until mid-2005.

Political and Social Context

The political situation in the run-up to the 2005 presidential election is fairly stable. The “national days of forgiveness” in March 2002 and changes to the electoral system in that year have helped ease tensions created by the 1998 murder of journalist Norbert Zongo and the energetic civil society protests set off by the killing seem to have died down.

The opposition, which benefited from the electoral changes at the May 2002 parliamentary elections, remains divided and its leaders, such as Hermann Yaméogo and Gilbert Ouédraogo, have not managed to bring together all its components and present themselves as credible alternatives to President Blaise Compaoré. Under these circumstances the ruling Congress for Democracy and Progress (CDP) party is well-placed before this year’s vote.

Democracy is real in Burkina Faso, though political competition in the countryside is not as open as in urban areas. However, the CDP has yielded to the temptation to seek abolition of the ban on a third consecutive presidential term, laid down in the 1991 national constitution, and is campaigning for a third term for Compaoré, which the opposition and some civil society organisations oppose. A proposal to change the proportional voting system for local elections, to the predictable detriment of the opposition, is another backward step from the concessions made through the “days of forgiveness.”

The government’s legitimacy and Compaoré’s popularity remain strong and the country is fairly calm

(the return of Burkinabè fleeing the troubles in Côte d'Ivoire did not cause the disruption some feared), but there is growing discontent about corruption. The local anti-corruption NGO Ren-Lac says, in its annual survey of urban areas, that corruption is seen as growing in all sectors of society, especially health-care, along with customs, the police, education and public procurement.

The situation highlights the weakness of the legal system and the apparent lack of political will to halt corruption. The government anti-corruption co-ordination body HACLC (set up in April 2003) said in its first report in January 2004 that it had investigated 40 areas of government activity and found cases of embezzlement. It recommended measures to be taken to deal with such cases effectively. Prosecutions were begun shortly afterwards. Action in corruption cases highlighted by HACLC will be the responsibility of the legal system supported by the government, but nothing was done after previous government initiatives such as setting up a national ethics council and a council of "Wise Men", so observers are reserved about this latest move.

Burkina Faso is one of Africa's poorest countries and the UN Development Programme (UNDP)'s 2004 Human Development Report placed it 175th out of 177 countries listed. The ranking has raised questions, since countries at war for many years were placed higher, but life expectancy, literacy and school enrolment figures are certainly very low in Burkina Faso.

The country's anti-poverty policy is set out in a poverty reduction strategy paper (PRSP), of which a revised version was adopted in late 2004 for 2004-06 keeping the same priorities but focusing more on social sectors such as education and health that have been making little progress. Adoption of the new PRSP in autumn 2004 appears to have resulted from a thorough participatory and, for the first time, decentralised approach. Overall, national anti-poverty efforts have had mixed results in recent years.

A recent World Bank survey reported a drop in the poverty rate from 54.6 per cent in 1998 to 46.4 per cent in 2003 (though the 1998 figure, using a different methodology, was initially estimated at 45.3 per cent, which would mean poverty had actually increased). It compared poverty figures in the 2003 priority survey by the INSD national statistics and demography institute with the 1998 figures, adjusted to take account of a change of methods between the times of the two surveys. Poverty also fell more in the countryside than in urban areas, from 61.1 to 52.4 per cent.

The World Bank predicts that with steady annual economic growth of 5 per cent (a high estimate which does not allow for any external shocks), Burkina Faso could achieve the government's aim, included in the PRSP, of reducing poverty to 25-30 per cent of the population by 2015. The poverty rate, using the 2003 methodology, was nearly 60 per cent in 1994 (not 44.5 per cent as in an initial survey). This would mean that cutting poverty to 25-30 per cent would meet the target of reducing it by half between 1990 and 2015 and enable the country to fulfil the first of the UN Millennium Goals.⁴

Even so, social indicators record disappointing progress for a country with such steady economic growth (an annual average 5.8 per cent between 1994 and 2003) and with a government making an effort with solid support from funding agencies. But growth has brought little help to the poorest. The rural-urban divide is still deep and progress is very limited in education and health despite these areas' being PRSP priorities.

Much effort has been made to boost school enrolment and results are starting to show. Gross primary enrolment rose from 42 per cent in 2001/02 to 52.2 per cent in 2003/04, but this is one of lowest rates in the sub-region and the urban-rural enrolment disparity has worsened. The literacy rate, which increased from 18.9 per cent in 1994 to 21.8 per cent in 2003,

4. In 1994, as in 2003, the level of income used to calculate the national poverty rate was roughly the same as the one dollar a day (at purchasing power parity) used in the Millennium Development Goals, making poverty reduction comparable under either system.

according to a demography and health survey (DHS) in 2003, was one of the lowest in Africa.

The education system remains of poor quality, while demand for education steadily rises and access is difficult, with 36 per cent of pupils not having access to appropriate facilities, such as proper classrooms. Teachers are in short supply, with one for every 51 pupils on average. The INSD's 2003 poverty survey said only 40 per cent of pupils completed primary school (60 per cent in towns and only 30 per cent in the countryside).

In a bid to reduce the large regional disparities as well as the urban-rural one, the government provides totally free education in 20 priority provinces, an initiative which boosted girls' enrolment by 130 000 in 2004. Funding agencies have set up a common fund to help the education sector. Despite these steps, the PRSP targets of 70 per cent gross enrolment and 40 per cent literacy by 2010, as well as the Millennium Goal of universal basic education by 2015, would seem hard to meet.

Progress in health care has been even more meagre. The DHS showed infant mortality had dropped significantly, from 203 per 1000 in 1998 to 184 in 2003, but this was mostly among children less than a year old, while the chances of a child dying between the ages of one and five were virtually unchanged. The reduction was probably mainly due to good progress in expanding vaccination coverage for children up to 11 months old, since causes of child mortality (such as dysentery, respiratory infections, malaria and malnutrition) have not been significantly reduced.

The situation is just one sign of the weakness of the health system, which lacks adequate infrastructure and trained staff and so provides poor and expensive care. Disturbingly, use of health centres dropped from 58 per cent of the population nationally to 49.4 per cent between 1998 and 2003. In rural areas the decline was steeper, from 71 to 58 per cent. The alternative in towns and cities is provided by private doctors and in

the countryside by traditional healers, since regular treatment is usually too expensive for the very poor.

Burkina Faso officially has a "generalised" HIV/AIDS epidemic,⁵ with a 5.3 per cent infection rate among adults at the end of 2003, according to latest UNAIDS estimates. The 2003 DHS showed an infection rate of 1.9 per cent, reflecting different methods used (different sections of the population targeted). UNAIDS said its figures suggest the epidemic is levelling off. If so, this would be the first results of a battle against the disease that has included co-operation with traditional healers, whose influence in communities makes them essential partners.

Nationwide poverty reduction requires narrowing regional disparities as well as urban-rural ones, especially in access to social services, and is one of the revised PRSP's priorities. More co-ordination between funding agencies and with the authorities, as well as harmonising and simplifying the procedures of the technical and financial partners, is also needed.

Progress is being made in this with the common funds for health and basic education set up by the funding agencies and bringing the World Bank and the African Development Bank (BAD) into the Joint Budget Support for PRSP (JBS-PRSP) group that had comprised only bilateral European partners and the EU.

At a local level, the challenge is to strengthen capacity and governance and decentralise implementation of the PRSP, promoting local ownership of it through regional versions. So the new focus on village development councils and interest in implementing and assessing the PNGT-II national land management scheme are very encouraging developments.

5. An epidemic becomes "generalised" when more than 1 per cent of the population is infected.