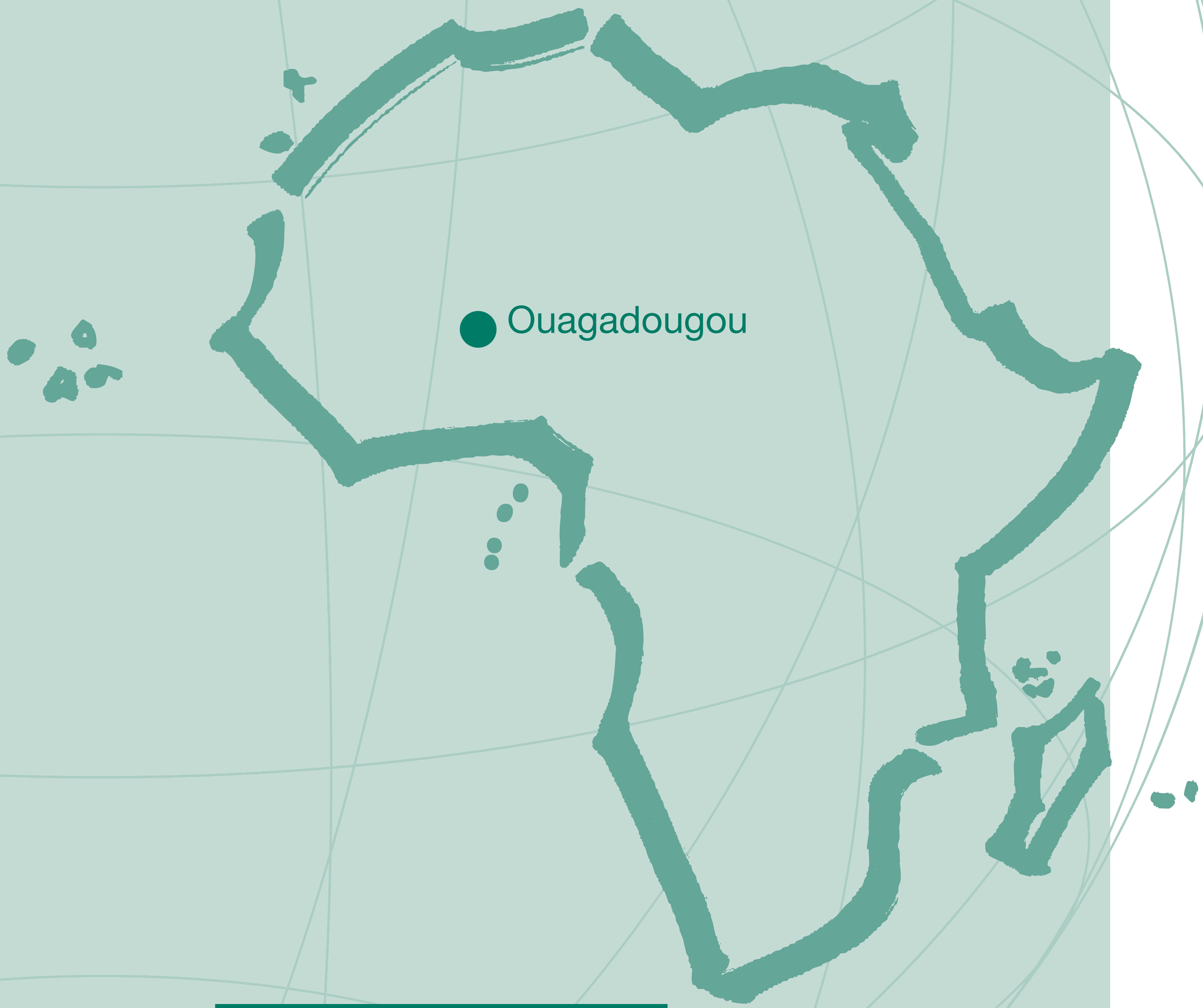
Burkina Faso



key figures

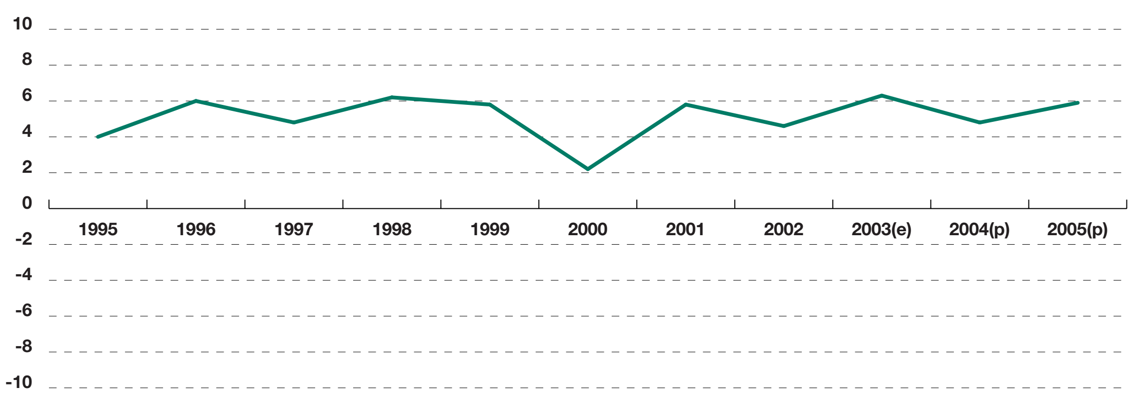
- Land area, thousands of km^2 274
- Population, thousands (2002) 12 624
- GDP per capita, $ (2002) 223
- Life expectancy (2000-2005) 45.7
- Illiteracy rate (2002) 74.3

WHEN THE SITUATION in neighbouring Côte d'Ivoire deteriorated in mid-2002, there were fears that the border closing (in September of that year) would cause a sharp economic downturn in Burkina Faso, via inflation and the collapse of growth. This did not happen, however, and the growth of 4.6 per cent in 2002 expanded to an estimated 6.3 per cent in 2003 thanks to speedy action by the government (and landlocked Burkina's other neighbours) to avoid road congestion and a break in the flow of exports and imports. The private sector adapted too and found other routes through Ghana, Togo and Benin.

Above all, the economy benefited in 2002 and 2003 from good world prices for abundant cotton harvests. Burkina survived the Ivorian crisis despite its structural weaknesses, such as lack of diversification (the dominance of cotton), dependence on external funding, very poor health and education facilities, and very little success in reducing poverty. The cotton harvest is expected to be good in 2004 and should boost growth, which could reach 4.8 per cent. However, the strength of the euro, cotton price uncertainties, and still unpredictable medium-term effects of the Ivorian situation (especially the rapid deterioration of roads and an expected drop in remittances from abroad) could hurt the economy over the next two years.

Despite the Ivorian crisis, good growth performance has been achieved owing to the dynamism of the cotton sector.

Figure 1 - **Real GDP Growth**



Source: IMF and domestic authorities' data: projections based on authors' calculations.

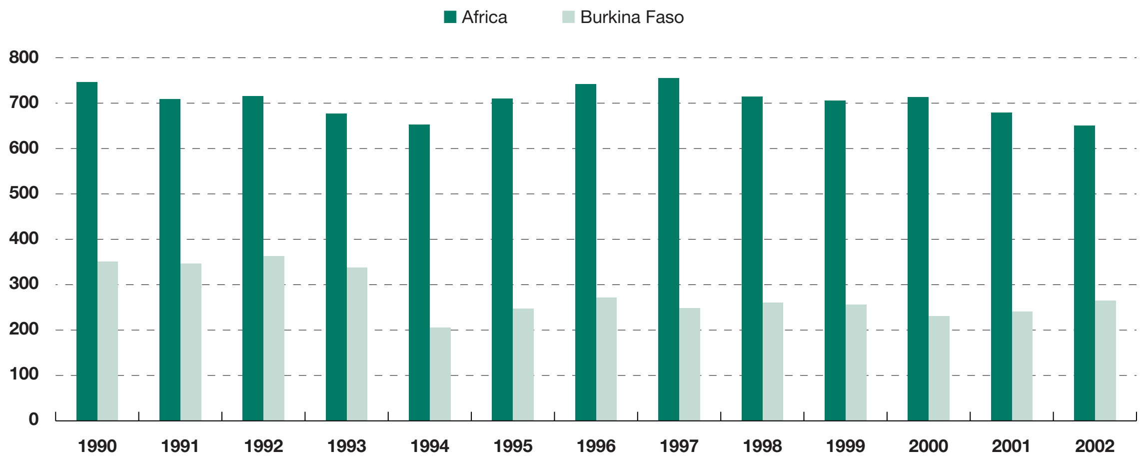
Recent Economic Developments

A robust primary sector (estimated by authorities to have grown in volume by 11 per cent) was one of the motors of growth in 2003 after a disappointing previous year (+0.3 per cent). An excellent 2002/03 cotton harvest (about 406 000 tonnes) made up for for middling results in exports of livestock (badly hit by the Ivorian border closure) and cereals.

Satisfactory rainfall, few pest problems, good prices for growers (185 CFA francs per kg of cottonseed), and a greater area sown[1] produced a record 2003/04 cotton harvest of about 500 000 tonnes. This excellent

1. The return home of many Burkinabe from Côte d'Ivoire partly accounts for this.

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



Source: IMF.

performance allowed the state-owned cotton marketing monopoly Sofitex to offer 205 CFA francs per kg of cottonseed for the 2004/05 season[2]. Problems getting inputs to growers and moving exports were feared after the border closure, but the situation was eased by shipping goods through the ports of Tema, Cotonou and Lome. The government also provided a 3.2 billion CFA franc ($5.4 million) subsidy to soften the effect of higher prices of inputs for farmers. Regular rainfall also helped produce a record increase in cereals production (estimated by the authorities at 16.8 per cent).

Cotton is vital to the country's economy; it accounted for 57 per cent of exports by value in 2002 (97 per cent of it is exported) and involved 200 000 farms. The industry is well run and growers work closely with each other and with Sofitex. However, the government, in agreement with the World Bank, has begun to open up the sector. Bids were invited to revive Sofitex activities in the Ouagadougou region and in Fada N'Gourma in the east, which together account for 17 per cent of total production. The two winning firms are expected to start operating by June 2004.

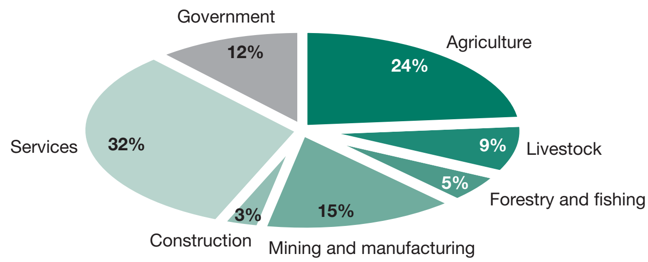
The aim is for these large international firms to provide growers, especially in the Fada region, with resources and skills to improve their land, much of which is virtually untouched or only farmed by primitive methods and thus ripe for improvement. Granting a free hand until further notice to the successful bidders has raised doubts about whether this provides them with enough incentive to do better than Sofitex.

The economy's dependence on agriculture (33 per cent of GDP in 2002) is worrying, especially as farming is mostly geared towards private consumption, often poorly organised (except for the cotton sector), and outdated (with high illiteracy among farmers). The cereals sector is a good example, with major production (247 billion CFA francs – $421.5 million – out of a total farm output of 542 billion CFA francs – $925.2 million), but poor organisation and strong price fluctuations destabilise production. Thus in 2003, much higher output (about +23 per cent for maize) far exceeded storage capacity and caused prices to collapse (by about 40 per cent for maize), which may in turn cause a slump in production in 2004/05.

Increased gold output may help reduce dependence on agriculture. The steady price of the metal and reform of the mining law has revived prospecting and several quite big operations should start up soon. Prospecting is well advanced at Mana-Wona (the firm Semafo), Essakane (Orezone), Youga (bought from Ashanti Goldfields by Etruscan), Kalsaka (Cluff Mining) and

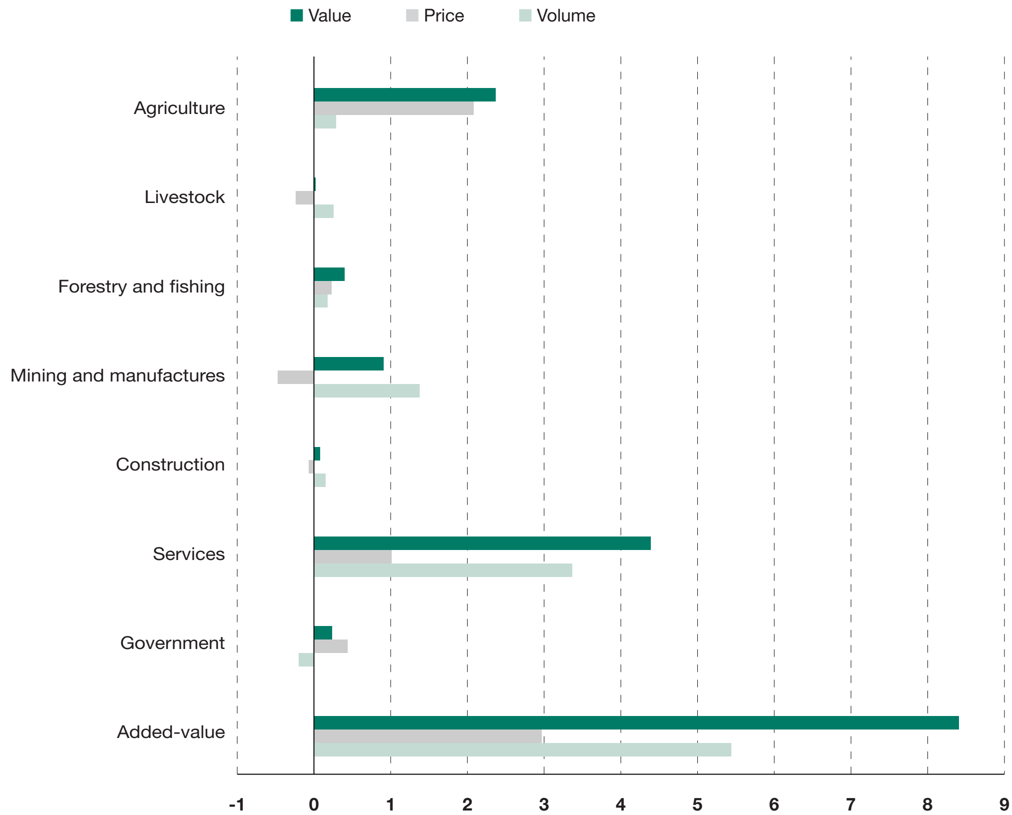
2. These prices should be a strong incentive to growers and Sofitex predicts a 2004/05 harvest of some 600 000 tonnes.

Figure 3 - GDP by Sector in 2002



Source: Authors' estimates based on Ministry of Economy and Finance data.

Figure 4 - Sectoral Contribution to GDP Growth in 2002



Source: Authors' estimates based on Ministry of Economy and Finance data.

Taparko (High River Gold). Two of the firms have announced they will begin mining in 2005 – Etruscan at Youga, where accessible reserves are put at 21 tonnes and annual production at 3 tonnes (starting date at the end of the year), and High River Gold at Taparko, with reserves of around 20 tonnes and annual production 3 tonnes (starting early in the year). Total production in 2005 could therefore be about 4-5 tonnes.

Gold production is meanwhile in the largely informal hands of alluvial miners whose output is hard to measure but is socially and economically important. The country's mining potential is mostly limited to gold, since extracting heavy metals such as manganese or zinc is ruled out by high non-mining costs (50-60 per cent of the total), mainly transport. Major investments would be needed and profit demands would require

Figure 5 - **Evolution of Cotton Production and Price in Burkina Faso**

Note: Production and price to producers are for cottonseed based on each harvest. International prices are for cotton fibre; the conversion rate of 42 per cent has thus been applied to produce the cottonseed equivalent. This corresponds to the calendar year average (year n+1 for a harvest n/n+1).

Source: IMF and World Bank.

large-scale polymetallic operations (to cushion against price fluctuations), which would be hard to organise in Burkina.

In 2002, industry accounted for about 18 per cent of GDP and barely 11 per cent of exports. It is dominated by agro-industry and cotton ginning. The weak industrial sector illustrates the problem of economic diversification in the face of very high factor costs (expensive electricity and strict labour laws), heavy taxation of the small number of firms, and few comparative advantages, especially in human resources.

There was great concern in late 2002 and early 2003 about the possible effect of the Côte d'Ivoire crisis on Burkina's industry. However, the impact seems to have been small, since the industrial sector (except mining) grew by an estimated 6 per cent in 2003 (compared with 4.7 per cent in 2002) and some firms, especially agro-industries, benefited from local products replacing Ivorian imports. Industries such as chemicals, metalworking and construction, which depend heavily on intermediate imports suffered more from the higher cost of these goods. The Ivorian crisis seems to have caused firms already in great difficulty, such as the Grands Moulins du Burkina Faso (GMB) milling company, to shut down, and further damaged others, such as the sugar company SN-Sosuco and especially those in the Bobo-Dioulasso and Banfora areas not far from the Ivorian border.

The services sector contributed about 44 per cent of GDP in 2002. Its growth in 2002 (10.8 per cent) and 2003 (estimated at 4 per cent) was mainly due to the buoyant transport sub-sector, especially road haulage, which was much in demand, after the border closure and suspension of the railway line between the two countries (from Ouagadougou to Kaya), to carry goods through Ghana, Togo and Benin (including those coming from Mali and Niger).

The economy grew by 4.6 per cent in 2002 and by an estimated 6.3 per cent in 2003, largely owing to public investment (which rose by 11.1 per cent in 2003) and

Table 1 - **Demand Composition** (percentage of GDP)	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Gross capital formation	**26.6**	**28.4**	**28.0**	**26.8**	**27.6**	**27.0**	**26.8**
Public	13.4	14.5	14.7	12.6	13.4	13.1	13.0
Private	13.1	13.9	13.3	14.1	14.2	13.9	13.8
Consumption	**87.1**	**90.3**	**87.9**	**87.9**	**85.9**	**86.0**	**87.1**
Public	16.2	18.0	17.3	17.1	16.6	16.0	15.9
Private	70.9	72.3	70.5	70.8	69.3	70.0	71.2
External Sector	**-13.7**	**-18.6**	**-15.8**	**-14.7**	**-13.5**	**-13.0**	**-13.9**
Exports	15.6	10.5	10.5	10.3	10.2	10.9	10.7
Imports	-29.3	-29.1	-26.4	-25.0	-23.7	-23.9	-24.6

Source: Ministry of Economy and Finance data; projections based on authors' calculations.

to strong consumer demand (up by an estimated 5.9 per cent) created by higher income from the cotton sector. Remittances from Burkinabe workers abroad were still important and did not fall as much as expected because of the Ivorian crisis. The 350 000 or so Burkinabe who returned from Côte d'Ivoire in 2003 brought their savings back with them. The robust internal demand produced a growth in imports (by an estimated 3.8 per cent) and foreign trade made a negative contribution to growth in 2003.

Growth prospects for 2004 are good (estimated at 4.8 per cent) but some big questions remain. The abundant 2002/03 cotton harvest and an expected good one in 2003/04 will keep household consumption at a healthy level. However, the strength of the euro may do increasing damage to exports, including cotton, as well to the national budget through lower tax revenue (and thus lower government spending), so overall household consumption may decline. There may also be medium-term effects of the Ivorian crisis. For example, very heavy road traffic has significantly damaged road surfaces, which may slow growth in the next two years. Remittances by Burkinabe still in Côte d'Ivoire may fall sharply as well, and the savings brought back by returnees in 2003 may have constituted a peak[3].

Macroeconomic Policy

Fiscal and Monetary Policy

Since the WAEMU/UEMOA convergence, stability, growth and solidarity agreement came into effect in December 1999, macroeconomic policy has aimed to comply with its convergence criteria to prepare for economic integration in 2005. In 2002, all first-level criteria were respected except those relating to overall budget out turn (which remained negative) and one second-level criterion (capital expenditures on domestic finance which are higher than 20 per cent). In 2003, the overall budget deficit should have been considerably reduced and all first-level criteria should be close to being met.

Great progress has been made in stabilising public finance under IMF supervision since 1991. This success, along with continuing budgetary problems, led the IMF in June 2003 to extend for three years the country's access to the poverty reduction and growth facility (PRGF), which the country had previously benefited from until December 2002.

The budget deficit was held to 5 per cent of GDP (including grants) in 2002 and was expected to reach

3. The reopening of the border in November 2003 is not expected to normalise trade immediately since the political situation in Côte d'Ivoire is still extremely tense.

4.5 per cent (97 billion CFA francs – $141.5 million) in 2003 – higher than the rough target of 59.9 billion CFA francs ($102.2 million) set under the PRGF but not alarming. It was entirely caused by the unexpectedly sharp drop of about 70 billion CFA francs ($119 million) in grants in 2003. Budget performance was satisfactory, with government revenue more than 9 billion CFA francs ($15.3 million) over the PRGF target thanks to higher tax revenue (company tax, VAT and customs duties).

The increase in revenues was due to stronger than expected growth and the movement of some imports through Ghana (thus subject to the WAEMU/UEMOA common external tariff) that would normally go through Côte d'Ivoire. Government spending was brought under control, to 31 billion CFA francs ($52.9 million) below the PRGF target, though this figure is deceptive as it is largely explained by capital spending which undershot the target by some 32 billion CFA francs ($54.6 million).

Table 2 - **Public Finances** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Total revenue and grants[a]	**20.8**	**22.0**	**17.3**	**19.5**	**19.8**	**19.1**	**18.7**
Tax revenue	11.8	12.6	11.8	12.5	12.6	12.5	12.7
Grants	8.1	8.4	4.7	6.1	6.2	5.6	5.1
Total expenditure and net lending[a]	**21.1**	**27.0**	**25.1**	**24.5**	**24.3**	**22.6**	**22.2**
Current expenditure	12.2	12.2	11.9	12.9	12.0	11.9	11.7
Excluding interest	*10.7*	*11.1*	*10.9*	*12.0*	*11.2*	*11.1*	*11.0*
Wages and salaries	5.7	5.5	5.4	5.3	5.2	5.1	5.1
Interest	1.5	1.0	1.0	0.9	0.8	0.8	0.7
Capital expenditure	9.2	14.7	13.3	11.8	11.1	10.9	10.8
Primary balance	**1.2**	**-4.0**	**-6.8**	**-4.1**	**-3.7**	**-2.7**	**-2.8**
Overall balance	**-0.3**	**-5.0**	**-7.8**	**-5.0**	**-4.5**	**-3.5**	**-3.5**

a. Only major items are reported.
Source: IMF and Ministry of Economy and Finance data; projections based on authors' calculations.

The 2004 budget (adopted in December 2003) is little different from the previous year and is based on relatively optimistic (but credible) projected growth of 5.5 per cent. Projected growth in capital expenditure (+12 per cent), due to extensive road damage caused by heavier traffic, and higher tax revenue (+19.5 per cent) are positive aspects. Problems with capital spending commitments and tax collection (plus the problem of the strong euro) however, put these targets in doubt.

Despite good budget performances, government finances are still very structurally weak. Budgets largely depend on external funding (grants were 31 per cent of total revenue in 2003), which financed the entire public deficit (not including grants). Tax revenue is rising but it still only accounts for 12.5 per cent of GDP, well below the WAEMU/UEMOA convergence criterion of 17 per cent. It is held down by the narrow tax base, itself limited by the very low standard of living, especially in the countryside, and the size of the informal sector, which all means an excessive burden on the few companies in the formal economy.

Management of budgeted expenditure is also a weak point in the system and only 52 per cent of donor funds were disbursed in 2002. Use of HIPC funding is especially tricky and only 42.5 billion of 77 billion CFA francs ($131.4 million) worth of debt relief obtained between 2000 and 2003 had been taken up by early 2004. Such delays arise from problems in drawing up projects, partly due to lack of co-ordination between technical ministries and the treasury. Inadequate planning complicates actual spending and 49 billion CFA francs ($83.6 million) was committed but not spent at the end of 2003. Long, drawn-out procedures (drafting, signature) for awarding government contracts are a major cause of complication, as well as the current decentralisation of aid from some donors due to lack of capacity at local public and private sector levels.

Efforts have been made to strengthen government finances and an ambitious target of tax revenue equal to 14 per cent of GDP has been set for 2005 (the figure is more likely to remain below 13 per cent). The tax structure is to be streamlined and inspections stepped up to reduce the untaxed informal sector. Computerisation of collection (integrated revenue network) is planned and is a structural performance criterion in the June 2003 PRGF (customs computerisation has already started). An integrated expenditure network has been built and is being decentralised to Bobo-Dioulasso. Organisation of government personnel expenditure will be made easier by an integrated management and salaries system (SIGASPE). Some funding sources, especially in the European Union, are trying to encourage better use of funds (mainly grants) allocated as development aid by introducing results-based conditionality (in terms of real disbursements and quality of expenditure). An enhanced budget management plan adopted by the government in July 2002 is still being discussed with the World Bank, but its funding is not yet assured.

The country's membership of the CFA zone and the monetary discipline that goes with it are strong factors in controlling inflation. The Ivorian crisis raised fears of inflation due to more costly transport, which affected some finished (food, textile and health) products and intermediary goods such as petroleum products (22 per cent of imports), fertilisers (18.4 per cent) and construction materials (10.2 per cent). Though inputs for some sectors, such as construction and agriculture, cost more, inflation in 2003 was only 1.8 per cent, compared with 2.3 per cent in 2002). A very good cereals harvest, which is expected to cut the price of farm products by an average of 20 per cent, and the strong rise in the euro (to which the CFA franc is pegged), were major anti-inflationary factors. The euro should continue to play this role in 2004 but the deterioration of the roads could increase transport costs further. The collapse of cereals prices in 2003 could also lead to a drop in production in 2004 (for example, through a smaller average planted) and as a consequence, to inflation, which could reach 2.5 per cent in 2004 and decrease to 1.4 per cent in 2005.

External Position

The sharp rise in export earnings from cotton boosted total exports 11.3 per cent in 2003 (+4.6 per cent in 2002). The trade balance remained structurally weak however (with the deficit about 10 per cent of GDP in 2002 and projected at 9.3 per cent in 2003), the export jump showed the country's dependence on agricultural sales and thus its vulnerability to weather and drops in world prices. Farm products comprised 86 per cent of exports in 2002 (half of which were cotton) and prospects for diversification were very small. Only exports of gold (2.7 per cent of the total in 2002) are expected to increase as new mines open in 2005.

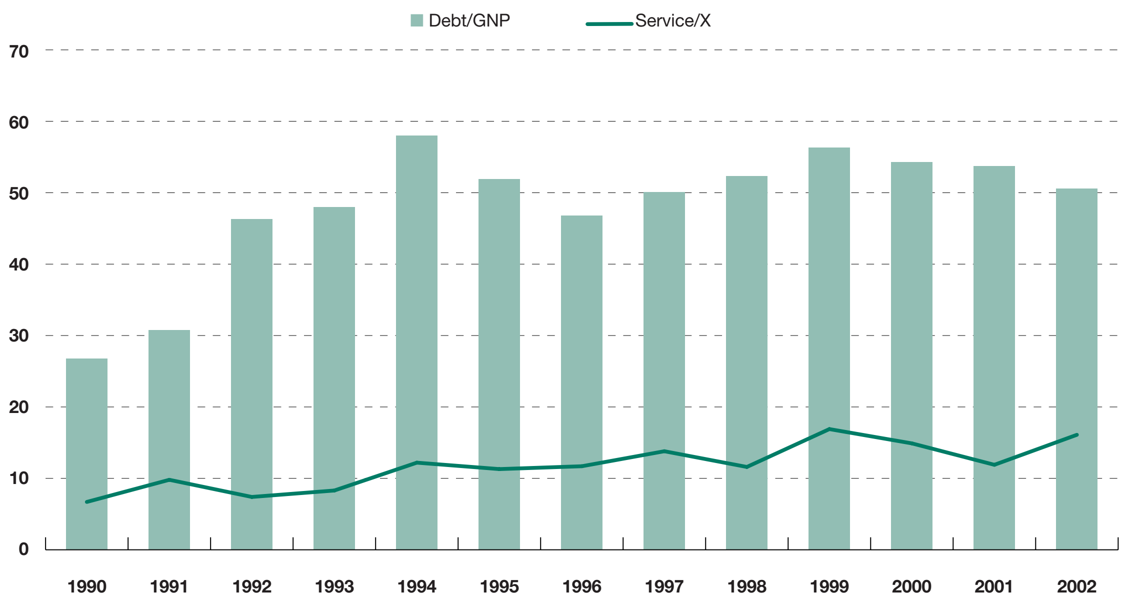
The sensitivity of the trade balance to agricultural exports mostly traded in dollars put it at the mercy of dollar/euro rate fluctuations. In 2002, and especially in 2003, the strong rise in the euro offset the combined benefits of higher cotton prices (+37 per cent in the FOB dollar price per tonne in 2003) and greater tonnage exported (up 8 per cent the same year), and total export revenue in CFA francs only rose 25 per cent in 2003. The strength of the euro may cause uncertainty among exporters in 2004. The country's poor economic diversification also explains the level of imports of intermediate goods and equipment (30 per cent of the total in 2002). The estimated 2.3 per cent growth of imports by value in 2003 was limited by the strong euro, which was a major factor in cheaper imports of oil (-7.3 per cent in CFA francs) and food (-25 per cent).

The large estimated current account deficit (mainly due to goods and services) of 10.7 per cent of GDP in 2002 (excluding external budgetary support) made the country acutely dependent on external funding. With a very small inflow of private capital (FDI is barely 2 per cent of the deficit, excluding grants), Burkina runs mainly on bilateral and multilateral grants and loans. Grants, budgetary support and project grants are a significant element (43 per cent of the current account deficit in 2002) and loans are on very soft terms. Burkina was one of the first countries to reach completion point under the enhanced HIPC Initiative in May 2002 and obtained nearly 77 billion CFA francs

Table 3 - **Current Account** (percentage of GDP)	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Trade balance	-9.7	-13.8	-11.6	-10.8	-9.3	-8.8	-9.7
Exports of goods (f.o.b.)	12.7	9.1	9.0	8.7	8.8	9.6	9.4
Imports of goods (f.o.b.)	-22.4	-22.9	-20.7	-19.5	-18.1	-18.4	-19.1
Services	-4.7	-4.8	-4.2	-3.7			
Factor income	0.5	-0.9	-1.0	-0.8			
Current transfers	10.2	5.4	5.0	4.6			
Current account balance	**-3.7**	**-14.1**	**-11.8**	**-10.7**			

Source: BCEAO data; projections based on authors' calculations.

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



Source: World Bank.

($131.4 million) in debt relief between 2000 and 2003 (24.2 billion in 2003 – $43 million). It is expected to receive an additional 22.7 billion CFA francs ($38.7 million) in 2004 and another 22.2 billion ($38.2 million) in 2005. The debt burden was reduced to 50.6 per cent of GNP in 2003 (about 150 per cent of exports NPV).

The country's heavy funding needs, continued use of credits, and structurally-limited export growth possibilities may increase the external debt again, and the ratio of NPV debt to exports could once more exceed 150 per cent. This seems likely, as the government has been reluctant to follow IMF requests to seek softer loans (with a 50 per cent instead of 35 per cent level of concessionality); since this would be refused by some funding sources and thus reduce total external funding. The IMF and the government eventually agreed on a 39 per cent component to be sought, but this may not be enough to halt the rising debt/exports ratio and quell fears of undermining the benefits of the HIPC programme.

Structural Issues

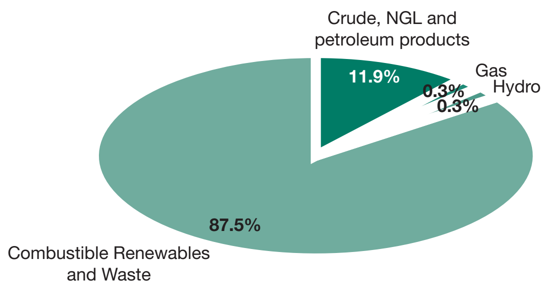
The government continued the modernisation and structural reform in 2002 and 2003 that had begun in the 1990s, notably a long-awaited revision in June 2003 of the 1997 mining law, which had been considered one of region's least investor-friendly. The new law reduced the tax on mining company profits from 35 to 25 per cent, customs duties on machinery imports from 7.5 per cent to 2.5 per cent during initial construction, and granted exemption from VAT. Mining companies can also now put their profits in offshore accounts. On the governance front, the national ethics council set up in June 2001 to monitor corruption published its first, rather blunt report in 2003. The UNDP's *Human Development Report* on Burkina Faso for 2003, entitled *Corruption and Human Development*, said however that, while the many bodies set up to fight corruption was proof of political sincerity, the effort was disorganised and poorly planned.

The government's December 2000 report on energy development policy said inefficiency in the sector was driving up production costs for businesses. The country's heavily subsidised (12 billion CFA francs – $20.5 million a year) energy supply is one of the most expensive in the region and an obstacle to economic diversification. Burkina's energy consumption is very low, traditional sources are dominant (85-87 per cent wood, 12 per cent oil-based and 2 per cent electricity), and modern forms of energy are virtually absent from the countryside. The report established four energy development priorities, since adopted by the government. First, the government is considering regulatory and institutional reforms in the sector, including liberalisation of the electricity supply, which would involve amending the 1998 law[4] and setting up a regulatory body.

The government also plans to boost national capacity by 30 MW before 2010 to end the frequent power cuts in Ouagadougou. The World Bank is anxious to avoid costly investment and will only fund thermal plants no bigger than 14 MW (7 MW was funded by the government in 2002) pending the connection of Ouagadougou to Bobo-Dioulasso and the Ivorian grid. Electricity will then be much cheaper at around 35 CFA francs/kWh (48 CFA francs in Ouagadougou owing to technical losses of current). The expansion project, costing some $95.2 million and mostly financed by foreign sources, is delayed and will not be complete before 2007. The government's ability to offer cheaper current to businesses is limited by the high cost of producing it and low generation capacity. The accounts of the state electricity company Sonabel are healthy. However, its electricity sector is in deficit and will require a rate increase.

The two other aspects of the government's energy policy are part of the PRSP. Rural electrifications are to be increased to 15 per cent by 2005 from the 12.5 per cent figure for 2003. A special development fund was created for this in 2003 and the government may use different sources (such as photovoltaic and biomass energy), some of which involve private firms (in the case of micro-networks). Secondly, backed by foreign creditors, Burkina has begun to modernise the use of traditional

Figure 7 - **Structure of Domestic Energy Supply in 1996**



Source: Ministère des mines, des carrières et de l'énergie.

4. This allowed independent supply companies but only selling to one purchaser.

energy sources, especially wood for heating, to ensure environmentally-sustainable development.

Privatisation hardly advanced in 2003 and Sonabel, which was to be sold in late 2002, will now not be sold until 2005. The firm's accounts were audited in preparation but the government's plan to change its status requires further thought about how to reform and open up the electricity sub-sector. Privatisation of other state bodies should be easier. Opening the state oil importer and storage monopoly Sonabhy, and the state telecommunications company Onatel to private investors is to be completed in 2004. Analysis of the oil sector has been undertaken and it should soon be partly opened up to competition. "Due diligence" should be carried out at Onatel in early 2004 and lead to disposal of 34 per cent of its capital and a management transfer, and then to a further 17 per cent sale of capital. Privatisation of the water firm Onea has not really begun owing to lack of a timetable and an in-depth analysis of the sub-sector.

Several state firms were consolidated in 2003, including obsolete bodies such as the regulatory Caisse Générale de Péréquation after liberalisation of the rice market and the end of subsidies for local producers. In other sectors, private companies simply took over from state firms, which led to closure of the pharmaceutical company Medifa, the National Well-Drilling Service, the National Farm Machinery Centre and the National Dam and Farm Irrigation Service.

The Ivorian crisis, especially the border closing, sparked fears that the transport network would become congested and the flow of goods to and from landlocked Burkina would become interrupted. About 80 per cent of the country's imports normally pass through its coastal neighbours, mainly via the port of Abidjan (44 per cent by volume before the crisis). The limited capacity of other major regional ports – Tema and Takoradi (Ghana), Cotonou (Benin) and Lome (Togo) – and their slower handling, outdated equipment, high or bogus charges, lack of security, pilfering and excessive bureaucracy thesefore added to these suspicions. In addition to the parlous state of their access roads (especially through Togo and Benin), raised fears they would not be able to cope with the increased volume of goods from Burkina Faso.

Suspension of the Abidjan-Kaya railway line, normally carrying 900 000 tonnes of freight a year, and the passage of Malian freight through Burkina (since Mali's border with Côte d'Ivoire border was also closed) raised additional fears of overcrowded Burkinabe roads, rapid deterioration in their physical state, slower haulage of goods and higher transport costs. It was also thought the southwest of the country around Bobo-Dioulasso, the centre of national economic activity, would be isolated. The impact of the crisis was reduced by the regional government's efforts to ease freight transport problems and steps taken by port authorities in Tema, Cotonou and Lome. However, Burkina's road network (15 272 km of graded roads, 87 per cent of them unsurfaced) was badly damaged by increased traffic and vehicles exceeding the 13-tonne maximum lading.

The crisis dramatically highlighted the inadequacy of the country's and region's road network and should encourage the government to expand them (within the framework of WAEMU/UEMOA and, in the longer term, NEPAD) to make Burkina a regional crossroads and turn its landlocked status into an economic asset. It also showed the need to modernise the national road network, a priority of the transport sector programme (PST-2) for 2000-10[5].

The banking sector was reformed in the 1990s and the banks are closely regulated by the BCEAO. The percentage of non-performing loans is below 5 per cent (though gross rates are higher, around 11-12 per cent). The banks have excess liquidity, which shows the flaws of a timid banking system that, for want of a mortgage system, only lends to big firms, the government or specific operations such as cotton sector credits. Microfinance remains insignificant despite efforts at streamlining and consolidation.

5. The current cost of PST-2 is put at more than 558 billion francs CFA ($953 million), funded by about 20 foreign creditors recruited since 2003 by the World Bank ($144 million), the European Union ($129 million), and the Burkinabe government.

Political and Social Context

Events in Côte d'Ivoire and skilful management of domestic politics strengthened the hold of the ruling Congrès pour la Démocratie et le Progrès (CDP) party, in power since 1987. President Blaise Compaore survived the storm of protest set off by the December 1998 murder of journalist Norbert Zongo, editor of the newspaper l'*Indépendant,* thanks to institutional reforms (changing the voting system in parliamentary elections) and publicly apologising for the state's brutalities since independence (the National Day of Forgiveness on 30 March 2002).

He thus calmed growing unrest partly caused by the partly fictitious nature of the regime's democratic initiatives, perceptions of rampant corruption by the country's political rulers, and lack of progress in reducing poverty. The voting system change allowed many opposition candidates to be elected to parliament in May 2002 but did not seriously challenge the CDP's grip. The opposition is very divided, has little credibility and its most radical elements, once quick to mount violent protests and stir up the population, lost their energy as they took up seats in parliament. Civil society groups that emerged after the Zongo murder have also faded.

The Ivorian crisis helped to foster strong patriotic feelings centred on the person of Compaore, who fiercely denounced (notably during the Marcoussis talks between the Ivorian government and rebels) the attacks on Burkinabe citizens in Côte d'Ivoire. The government also announced with great fanfare an urgent repatriation scheme (Operation Bayiri) for Burkinabe fleeing Côte d'Ivoire that was very popular. The Ivorian crisis largely eclipsed suspicions about Burkinabe involvement in diamond smuggling from Sierra Leone and gave the country a regional image of victim. Compaore is therefore in a very strong position and currently has no rival for presidential elections due in 2005, when he will be 55.

Behind the regime's apparent strength, however, are political weaknesses and dubious episodes such as the mysterious abortive coup against Compaore announced by state security police in October 2003. This was suspected variously of being a bid to frighten the opposition (the leader of the Socialist Forces Front was jailed), a bid to accuse foreign countries (Togo and Côte d'Ivoire) or score-settling inside the regime (the defence minister resigned). This affair led to a certain amount of doubt and skepticism.

The government also faces a tense socio-political situation, partly due to lack of progress over the years in combating the country's deep poverty. Burkina Faso is one of world's poorest countries and its health and social indicators are very low, even compared with its neighbours. In 2003, just over 46 per cent of the population lived below the national poverty line (income of 82 672 CFA francs – $141 – a year), 92 per cent of them in the countryside, according to a household poverty survey by the national statistics and demography institute INSD.

Despite official determination, very little has been achieved in the fight against poverty and the Millennium Development Goals for 2015 are unlikely to be met. The INSD survey said poverty increased by two percentage points between 1994 and 2003, mainly in the towns, where it nearly doubled from 10.4 to 19.9 per cent. Increasing urbanisation due to rural migration in a stagnant formal job market, growth of very precarious informal employment, and lack of public services partly explains this. Poverty has also deepened and hardened, leaving the poorest even further below the poverty line in 2003 than they were in 1994. This phenomenon is most pronounced in the countryside, where inequality among the poor has probably been aggravated by rapid agricultural modernisation (volume production rose 17 per cent between 2000 and 2003).

Lack of progress on the anti-poverty front is alarming in view of the active support of foreign funding sources for government efforts. Speedy arrival at HIPC completion-point freed up substantial resources to fight poverty and external budgetary support (grants and soft loans) is plentiful. Burkina is also a priority country for World Bank grants. This aid, which is mostly budgetary support the country can make use of as it pleases. However, it should have been used more effectively for development, but absorption problems, partial decentralisation of bilateral aid without suitable local capacity, and lack of interministerial co-ordination reduced the aid's effectiveness in alleviating poverty.

The weakness of the PRSP, which is supposed to co-ordinate and spell out anti-poverty priorities and action, is also cited as a reason for the meagre progress. The 2000-02 PRSP implementation report in December 2003 said the document was getting little attention from the authorities, that it had inadequate links to the national budget, and lacked a clear framework for implementation and assessment. The government is currently drafting a new action plan, prioritising sectoral policies to implement the PRSP. Extending it to drainage, the environment, anti-desertification, rural electrification and boosting small businesses is also planned.

The health situation is alarming. The INSD says life expectancy is only 45.4 years (one of the lowest in the region), morbidity very high (5.8 per cent), especially because of HIV/AIDS, juvenile and infant mortality is 104 per 1 000 births, while nearly a quarter of all children do not reach the age of five (197 per 1 000). Much progress has been made however in access to clean water, and 49 per cent of rural families obtained their supply from wells in 2003, compared with 38 per cent in 1994.

Education indicators are also disappointing, with less than a third of the population literate. Still, the most solid progress has been in this sector. The basic education ministry says gross primary enrolment, while very low, rose from 42.7 to 52.2 per cent between 2002 and 2003 (from 36.2 to 46 per cent for girls). The problems and challenges in this area are equally daunting, with poor quality teaching, schools without teachers, overcrowded classrooms, under-use of infrastructure, gender disparity, inadequate transfer from primary to secondary schooling, and very low enrolment in the countryside. Such weak health and education performances keep the country in a poverty trap and hinder its economic growth.

