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PERFORMANCE AUDIT REPORT

BURKINA FASO

STRUCTURAL ADJUSTMENT CREDIT
(CREDIT 2281-BUR)

ECONOMIC RECOVERY CREDIT
(CREDIT 2590- BUR)

February 8, 2000

Operations Evaluation Department

Abbreviations and Acronyms

AIDS	Acquired Immune Deficiency Syndrome
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BICIA-B	Banque Internationale pour le Commerce, L'Industrie et l'Agriculture du Burkina
BND-B	Banque Internationale de Développement du Burkina
CAS	Country Assistance Strategy
CBC	Conseil Burkinabè des Chargeurs
CBMP	Comptoir Burkinabè des Métaux Precieux
CCP	Comptes Cheques Postaux
CDP	Congrès pour la Démocratie et le Progres
CET	Common External Tariff
CFAF	Communauté Financière Africaine Franc
CGP	Caisse Générale de Peréquation des Prix des Produits de Grande Consommation
CNCA	Caisse Nationale de Crédit Agricole du Burkina
CNE	Caisse Nationale d'Epargne
CNR	Conseil National de la Révolution
CSPPA	Caisse de Stabilisation des Prix des Produits Agricoles
EMRSO	Economic Management Reform Support Operation
ERC	Economic Recovery Credit
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
GNP	Gross National Product
HIV	Human Immunodeficiency Virus
ICOR	Incremental Capital-Output Ratio
ICR	Implementation Completion Report
IFC	International Finance Corporation
NGO	Non-Governmental Organization
OED	Operations Evaluation Department (World Bank)
OFNACER	Office Nationale des Céréales
ONAC	Office Nationale du Commerce Extérieur
ONPE	Office Nationale pour la Promotion de l'Emploi
PFP	Policy Framework Paper
PID	Public Institutional Development
PR	President's Report
QR	Quantitative Restriction
SAC	Structural Adjustment Credit
SOFITEX	Societe Burkinabè des Fibres Textiles
WAEMU	West African Economic and Monetary Union

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Office of the Director-General
Operations Evaluation

February 8, 2000

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Audit Report on Burkina Faso - Structural Adjustment Credit (Credit 2281-BUR) and Economic Recovery Credit (Credit 2590-BUR)

Attached is the Performance Audit Report for the Burkina Faso Structural Adjustment Credit (SAC, Credit 2281-BUR) in the amount of SDR 60.0 million (US$80.0 million equivalent) and the Economic Recovery Credit (ERC, Credit 2590-BUR), in the amount of SDR 18.0 million (US$25 million equivalent). SAC I was approved on June 4, 1991, and closed with a two year delay on June 30, 1995. The ERC was approved on March 29, 1994, and closed on schedule on June 30, 1995.

The two credits supported a program of structural reform intended to restore growth. The SAC aimed to improve public resource management and development expenditure programming, reduce the economic role of the public sector, promote private sector growth, and alleviate poverty during the adjustment period. The ERC supported the devaluation of the CFA franc in January 1994 and a continuation of the reform program.

Implementation of the reform program was mixed. Successes included an improvement in the Government's overall financial position, the establishment of a more rational tax and expenditure structure, banking sector reform, and the elimination, privatization or restructuring of some key parastatals. Increased budgetary allocations were made to education and health, with tangible results. GDP growth picked up after the devaluation of the CFAF, averaging 5 percent p.a. since then, while inflation has been contained. However, adjustment proceeded more slowly than expected, due to unfavorable economic conditions throughout the CFA zone prior to the devaluation, the slow process of achieving a consensus on the desired extent of private participation in the economy, lack of government capacity, unsatisfactory institutional arrangements and lingering political opposition. Privatization, civil service reform and trade and price liberalization achieved only partial success, and in certain key areas, including private sector development, rationalization of the public investment program, and structural changes to the civil service, reform efforts have made little progress.

Based on the mixed implementation of the program; the slow rate of reform in the civil service, the public investment program and the environment for private sector development; and the slow progress toward raising the efficiency of the Burkinabè economy, the outcome of the SAC is rated marginally satisfactory, its institutional development impact modest, and its sustainability uncertain. Bank and Borrower performance are rated satisfactory, despite some shortcomings. The EVM rated project outcome as satisfactory and institutional development as negligible. The PAR rates the outcome of the ERC as satisfactory, mainly because of its success in supporting the devaluation, its institutional development impact as modest, and its sustainability uncertain. Bank performance is rated satisfactory because of its role in convincing decision makers of the need for the devaluation, and that of the Borrower, also satisfactory. The EVM rated outcome and Bank performance as highly satisfactory, institutional development impact as negligible, and sustainability as likely.

The key lesson from these projects is that the constraints to reform—including government capacity and ownership and the degree of support in the country more broadly—must be appraised realistically; slower than expected implementation can lead to a loss of internal coherence of the program, delays in concrete results, and adverse political reactions. Fast disbursing loans are not always well suited to supporting reforms which require long-term monitoring and supervision.

The draft PAR was sent to the Government of Burkina Faso for comment; the comments received are attached as Annex A to the report.

Contents

This report was prepared by Derek White (consultant), with Alice Galenson as the Task Manager. Geri Wise provided administrative support.

Preface

This is a Performance Audit Report (PAR) on the Structural Adjustment Credit (SAC I), in the amount of SDR 60.0 million (US$80.0 million equivalent) and the Economic Recovery Credit (ERC), in the amount of SDR 18.0 million (US$25 million equivalent). SAC I was approved on June 4, 1991, and closed on June 30, 1995. The ERC was approved on March 29, 1994, and closed on June 30, 1995.

The PAR is based on the Implementation Completion Reports (ICRs) on the two projects prepared by the Africa Regional Office and issued on February 15, 1996, the President's Reports, the legal documents, project files, related economic and sector work, discussions with Bank staff, government and Central Bank documents, and background papers prepared by Burkinabè academics. The PAR provides a critical assessment of the two projects in the context of the structural adjustment process that began in Burkina in the early 1990s and is still underway.

An OED mission visited Burkina Faso in January 1999 to discuss project performance with Burkina Government officials, members of the banking and business communities, university economists, and World Bank field staff. Their generous cooperation and assistance in the preparation of this report is gratefully acknowledged.

The draft PAR was sent to the Government of Burkina Faso for comment; the comments received are attached as Annex A to the report.

Ratings and Responsibilities

Performance Ratings

	EVM	*PAR*
Structural Adjustment Credit (Credit 2281)		
Outcome	Satisfactory	Marginally Satisfactory
Sustainability	Uncertain	Uncertain
Institutional Devt. Impact	Negligible	Modest
Borrower Performance	Satisfactory	Satisfactory
Bank Performance	Satisfactory	Satisfactory
Economic Recovery Credit (Cr. 2590)		
Outcome	Highly Satisfactory	Satisfactory
Sustainability	Likely	Uncertain
Institutional Devt. Impact	Negligible	Modest
Borrower Performance	Highly Satisfactory	Satisfactory
Bank Performance	Highly Satisfactory	Satisfactory

Key Project Responsibilities

	Structural Adjustment Credit (Credit 2281)		
	Task Manager	*Division Chief*	*Director*
Appraisal	J. Ingram	Lawrence Hinkle	Mike Gillette
Completion	H.-M. Boehmer	N. Okonjo-Iweala	Olivier Lafourcade

	Economic Recovery Credit (Cr. 2590)		
	Task Manager	*Division Chief*	*Director*
Appraisal	Anne Doize	Jean-Louis Sarbib	Katherine Marshall
Completion	H.-M. Boehmer	N. Okonjo-Iweala	Olivier Lafourcade

1. BACKGROUND

POLITICAL BACKGROUND

1.1 Burkina achieved independence in 1960. Following six years of civilian, one-party rule, a military coup in 1966 led to the establishment of military rule that persisted, in one form or another, for the next twenty-five years, until 1991.

1.2 In August 1983, Captain Sankara was installed as president. The Sankara regime, which lasted from 1983 to 1987, espoused self-help and resorted to strong state intervention and coercive measures, such as forced field labor, in an effort to accelerate economic and social development. Private sector activity was discouraged and there was political interference in the management of enterprises. Many external donors, who were attacked as enemies of the people, withdrew their support. However, the Government saw NGOs as allies in its self-help campaign.

1.3 Although the regime achieved important social advances, its economic policies lacked coherence. Moreover, Sankara became increasingly authoritarian and isolated, while resentment over his autocratic approach festered, particularly among the middle classes. In late 1987, internal divisions in Sankara's ruling coalition led to a coup, Sankara's assassination, and the installation of the present incumbent, Captain Blaise Campaoré, as president. In June, 1991, a nominal constitutional democracy was established in Burkina. However, President Campaoré and the ruling CDP (Congrès pour la Démocratie et le Progrés) dominate parliament and the apparatus of the state, so that Burkina is effectively a one-party state.

1.4 The Campaoré administration sought to reunify the country by fostering political openness, decentralizing political power, and adopting a more pragmatic and tolerant attitude toward the middle classes and business leaders. Economic and social policy became more pragmatic and balanced. Political, economic and social moderation gained ground and the Government sought renewed support from the international donor community. A renewed dialogue with the Bank began in June-July, 1988, and led to the preparation of a Country Economic Memorandum in December, 1989.

1.5 A worsening of Burkina's economic situation in 1989 led to acceleration of the Government's reform efforts and preparation, with the Bank and the IMF, of the first Policy Framework Paper (PFP), for which the Government assumed much of the initiative and responsibility. In the Burkinabè tradition, the proposed reform program was the subject of public debates in mid-1990 to which all political and economic groups were invited and in which the Bank participated. The PFP, covering 1991-93, was adopted in 1991. In June, 1991, the Bank's Board approved a Burkina structural adjustment loan (SAC 1).

ECONOMIC BACKGROUND

1.6 **Severe Basic Constraints**. Burkina is a land-locked country with limited natural resources, heavily dependent on agriculture, mostly subsistence farming. About 84 percent of the population is rural. Semi-arid land and erratic rainfall imply precarious living conditions for the bulk of the people. Burkina is one of the poorest countries in the world, ranked 172nd out of 175 countries in the UNDP 1997 Human Development Index. Per capita GNP is estimated at US$240

(1997). Adult illiteracy is about 80 percent. Primary school enrollment averages 40 percent—only 30 percent in the case of girls. The incidence of HIV is high (7 percent of adults). Institutional development is low.

1.7 Rapid population growth (currently estimated at 2.8 percent p.a.) and rising population density have led to increasing degradation of the natural environment, as well as heavy out-migration of young adults to the Ivory Coast, Ghana and Togo, where an estimated 3 million or so Burkinabè now reside. Migrant remittances, averaging 6 percent of GDP over 1986-90, have traditionally made important contributions to GNP, national savings, and the balance of payments. Burkina's main exports are cotton, livestock and gold.

1.8 **Inefficient Public Enterprise Sector**. Throughout the period from independence until President Campaoré's accession to power, the state played the leading role in economic development and a large, economically pervasive public enterprise sector was established. The state owned, fully or in part, the water, electricity and telecommunications utilities; the banks and financial institutions; virtually all of the manufacturing and mining operations; the air and ground transport, road haulage and shipping enterprises; the companies involved in importing and distributing petroleum products; the companies marketing grain, animal hides and meat; the cotton monopoly; hotels, real estate and a dam; and the Chamber of Commerce.

1.9 In 1991, the parastatal sector comprised 96 enterprises. Partial results covering 30 enterprises showed operating losses of CFAF 6.7 billion (roughly US$26 million), but tax and duty exemptions added US$27 million. Some of the largest enterprises were having difficulty servicing their debts. Moreover, some enterprises were either heavily protected or monopolies, so their unhealthy financial situation considerably understated their economic inefficiency.

1.10 **Major Banking Sector Difficulties**. West African Central Bank (BCEAO) audits in 1989 and 1990 established that Burkina's state-owned banking system was suffering from severe portfolio problems; four of the eight state-owned banks were technically bankrupt, with negative net worth. A major cause of the precarious position of the sector was forced lending on public housing projects.

1.11 **Severe Fiscal Difficulties and Misdirected Investment**. Over 1986-90, the Government, under the Five Year Popular Development Plan, had embarked on a large-scale public investment program. Gross domestic investment averaged 22 percent of GDP over 1986-89. Much was in large infrastructure projects with low or negative economic returns. This low efficiency was reflected in the very high ICOR of 7.3 percent for 1985-90. The program also contributed to the large budget deficit which, before grants, averaged over 13 percent of GDP over 1986-89, prior to dropping to an average of 8.3 percent over 1989-90, when public capital expenditures were sharply curtailed. The deficit was partly financed by the accumulation of arrears. By 1990, accumulated arrears reached CFAF 83.4 billion (US$321 million), equal to a year's fiscal revenue. Also contributing heavily to the budgetary deficits in the late 1980s was the growth in the government wage bill, which had risen from 54 percent of current expenditure in 1986 to 65 percent in 1989.

2. OBJECTIVES AND DESIGN OF THE CREDITS[1]

INTRODUCTION

2.1 **Support for Basic Government Policy Shift**. The Government's apparent willingness to embark on a fundamental program of reform entailing, *inter alia*, large-scale withdrawal of the state from its heavy involvement in economic activities and the creation of an enabling environment for a greatly expanded and more vigorous private sector found expression both in the Policy Framework Paper and in a Letter of Development Policy submitted to the Bank. These documents elicited support from the Bank in the form of three structural adjustment loans during the 1990s, as well as sustained IMF support.

2.2 The structural adjustment program supported by SAC I entailed measures implemented prior to approval of the loan and measures to be implemented under the terms of the loan. In most areas of the program, important actions had already been taken by the Government prior to loan approval (Annex C).

2.3 **Supporting Projects**. The structural reforms under SAC I and the ERC were supported by, and integrated with, sector projects in environmental management, education, and public works and employment (FY91); agricultural sector adjustment, transport, and public sector institutional development (FY92); food security and private sector assistance (FY93); health/nutrition and population/AIDS (FY94); urban services and urban environment (FY95); post-primary education and mining capacity-building (FY97); and agricultural services (FY98). SAC I was followed by the Economic Recovery Credit (FY94) and the Economic Management Reform Support Operation (FY99).

LOAN CHARACTERISTICS

SAC I

2.4 **The First Structural Adjustment Loan (SAC 1)**, a comprehensive and detailed structural adjustment project, was approved in June 1991. The Government's reform policies supported by the loan were set out in a detailed Letter of Development Policy submitted beforehand to the Bank. A large number of specific actions were to be taken under the terms of the loan, which was for the equivalent of US$80 million, releasable in three tranches, the first for US$40 million and the second and third for US$20 million each, conditional upon the satisfactory completion of certain core actions. Conditions for negotiations, Board presentation, and release of the second and third tranches are summarized in Annex C. Disbursement was expected to be completed within 24 months of effectiveness.

[1] SAC I and the ERC are considered together, since both supported the Government's overall program of structural adjustment. Moreover, neither the Bank's nor the Government's contribution to the ICR for the ERC separately evaluates the 52 actions comprising the 1994 action program supported by the ERC.

The ERC

2.5 **The Economic Recovery Credit (ERC)** was prepared and approved quickly to support the Government's January 1994 decision, taken in conjunction with its twelve partners in the CFA zone, to devalue the CFA franc from 50 CFAF = 1 FF to 100 CFAF = 1 FF. It also supported the Government's continued commitment to the reform process, as set out in its Statement of Economic and Social Development Policies, submitted to the Bank in March 1994. The Statement included an Action Matrix for 1994 specifying 52 separate actions to be taken by specific dates in three broad areas. The loan was for the equivalent ofUS$25 million, to be released in one tranche shortly after effectiveness.

MAIN AREAS FOR REFORM

SAC I

2.6 The main areas for reform under the SAC I program were the following:

- **Improving public resource management and development expenditure programming**
    - Curbing and restructuring non-priority current expenditures
    - Focusing expenditures on priority sectors for economic development (health, education, road maintenance, revenue services)
    - Strengthening expenditure monitoring, accounting and auditing
    - Improving investment project selection, programming and coordination
    - Improving civil service management

- **Reducing the economic role of the public sector and promoting growth of the private sector**
    - Reforming and shrinking the public enterprise sector via privatization, liquidation and the application of commercial principles and conditions to the operation of public enterprises
    - Reforming the banking sector via: consolidation, financial rehabilitation, privatization, and, if required, liquidation; limitation of government capital involvement in banks to 25 percent; strengthening of loan-recovery efforts and institutional arrangements; conversion of the Postal Checking System into an independent financial institution; review of roles of non-bank financial institutions
    - Phased elimination of price controls on imported goods; elimination of price controls on domestically produced goods; and modification of petroleum product pricing and marketing
    - Implementation of trade reforms via: abolition of export taxes and permits; elimination of QRs on all but five imports by December 1993, with equivalent protective import duties imposed as needed; elimination of "standard" values; administrative improvements; and the initiation of tariff reform (January 1993)
    - Implementation of regulatory and administrative reforms, including: revisions to the Investment Code and the Commercial Code and related laws, the Mining Code, land tenure laws, and the Labor Code; review of taxes applied by the shippers' council

(CBC), the national foreign trade office (ONAC), and the Chamber of Commerce; simplification of procedures applied to foreign investors and the establishment of new enterprises; elimination of mandatory hiring through the national employment agency (ONPE); actions on recommendations by Chamber of Commerce, FIAS/MIGA and others relating to the removal of obstacles to private investment

- **Alleviating poverty during adjustment**

  - Increased efforts to improve primary education via: increased budgetary allocations, implementation of actions according to Education IV project time-table
  - Implementation of health sector action plan in accordance with future health project
  - Implementation of a public works and employment project in urban areas
  - Financial restoration and strengthening of the Social Security Fund
  - Carrying out of first installment of permanent household survey to establish factual foundation for policies to alleviate poverty

2.7 **Tranche Release Conditions.** The conditions to be fulfilled for release of the second tranche were: satisfactory implementation of the 1991 investment budget, approval of satisfactory current and investment budgets for 1992 using new nomenclature, promulgation of new labor and investment codes, and the establishment of a law consolidation committee. Conditions for third tranche release were: satisfactory implementation of the 1992 current and investment budgets, approval of a satisfactory 1993 budget using the new nomenclature, reduction of the state's capital holdings in two banks (CNCA and BICIA) to no more than 25 percent, implementation of a satisfactory petroleum product pricing policy, revision and updating of commercial law, and elimination of price controls and quantitative controls on imports on the basis of agreed time-table.

The ERC

2.8 The ERC supported a continuation of the Government's structural reform efforts. The main measures were as follows:

- **Macroeconomic policies**

  - Exchange rate realignment

  - Taxation and revenue measures, including 1994 budgetary revenue targets and rationalization of a number of taxes and tariffs

  - Public expenditure measures, including a ceiling on the government wage bill, increases in civil service salaries, a ceiling on spending on secondary and higher education scholarships, adequate allocations to primary education and health, elimination of external arrears and reduction of domestic arrears, specific allocation for road maintenance, adequate provision of project counterpart funds, formulation of 3-year public expenditure program for 1995-97

- Monetary measures, including limits on credit to the Government and the economy and a large increase in the Central Bank discount rate

- Wage and price measures, including setting an inflation target of 31percent for 1994, limiting minimum wage increases to 10 percent, raising utility tariffs, abolishing price controls imposed after the devaluation, raising producer cotton prices by 40 percent, and increasing petroleum product prices by 25-40 percent.

- **Structural policies**

  - Restructuring of the banking system, including liquidation of the state development bank (BND-B) and privatization of four state commercial banks

  - Privatization of six public enterprises and submission to Parliament of proposal to divest eighteen other enterprises

  - Revision of the Mining Code and related legislation

  - Decisions on roles of the Price Control Office (CGP) and the Agricultural Price Stabilization Office (CSPPA), revised tasks for the Burkinabè Precious Metals Agency (CBMP), liquidation of the National Cereals Office (OFNACER), implementation of performance contract with the Textile Fiber Company (SOFITEX); operating reforms and financial restructuring of Air Burkina, liquidation of the Air Transport Company.

- **Priority action plan for primary education and health**

  - Increased budgetary allocations to Ministry of Primary Education for materials, textbook lending scheme, fee subsidies to the poor, feeding program and 1400 extra teachers

  - Formulation of streamlined procedures for hiring new teachers

  - Hiring of 2350 new primary school teachers

  - Contract for school construction and equipment

  - Reducing expenditure on higher education scholarships in favor of expenditure on education

  - Increased budgetary allocations to the Ministry of Health for materials, stock of generic drugs, training for, and introduction of, cost recovery under the essential and generic medicines program

  - Implementation of UNICEF contract for drug distribution and cost recovery

- Establishment of scheme to distribute inexpensive generic drugs at controlled prices through pharmacies

3. IMPLEMENTATION

PUBLIC FINANCE AND PUBLIC INVESTMENT

3.1 Implementation of the SAC I program was mixed. The government was successful in cutting the wage bill, but revenues deteriorated and the deficit increased from 8.3 percent of GDP in 1991 to 11 percent in 1994. Little progress was initially made in improving the programming and monitoring of government expenditures and none in rationalizing public investment. However, increased budgetary allocations were made to education and health, with tangible results, and military expenditures continued to decline in relative terms. Positive changes were the strengthening of the tax and customs administrations, the introduction of the value-added tax in July 1993, and the abolition of specific taxes.

3.2 Since 1994, solid results have been achieved. The overall deficit was cut, while the primary current balance rose from 0 percent of GDP in 1994 to 4 percent in 1997. Burkina's excessive dependence on taxes on external trade has been reduced and the share of taxes on domestic production of goods and services has increased. The expenditure shares of primary education and health have continued to rise and the share of military expenditures has stabilized. A transparent, computerized budgeting, payments, and monitoring system for government expenditures is in place and Ministry of Civil Service and Ministry of Finance payroll data are now reconciled. The Burkina expenditure budgeting and monitoring system has become a model for Africa.

3.3 However, more needs to be done. Domestic arrears were still being reduced in 1997. The Government's capacity to collect taxes and circumvent fraud and evasion need to be strengthened. Improved ways to collect taxes from the informal sector need to be found. Revenue losses associated with the forthcoming adoption of the WAEMU Common External Tariff (CET) will need to be offset by such measures. Finally, grants remain a very significant part of total government receipts, equal during 1994-97 to over a third of the total. Close to 80 percent of the public investment program is financed by foreign grants and loans. As noted, this part of the government budget is largely donor-driven and does not contribute efficiently to Burkina's growth.

FINANCIAL SECTOR REFORM

3.4 Here again, implementation under SAC I was mixed. The restructuring of the banks and most of the other proposals were carried out without major difficulty (banking system rehabilitation was completed in October 1994) but the privatization/liquidation process turned out to be very slow and difficult, while the planned restructuring of the national savings bank (CNE) and the postal checking system (CCP) has yet (January 1999) to be completed.

3.5 Burkina's commercial banking system initially comprised eight banks. As noted, five were in financial distress and four technically bankrupt. Under the restructuring, three small banks were merged, leaving six. A small bank partly owned by the Libyan government was not regarded as a problem. The state development bank continued to experience losses and in August 1993, the Government decided to liquidate it.

3.6 Initially, there was little support in the Government or BCEAO for privatization of the banks, no formal procedures were established for the divestitures, and the Bank had concerns about the quality of bank audits, the institutional machinery for privatization, and the transparency of the bank privatization process. Of the four banks slated for privatization, one was privatized in December 1994 and two more in May and June of 1996 (five years after SAC I was approved). The state development bank was finally liquidated in early 1997. As of the end of 1997, the privatization of the remaining bank (the national agricultural credit bank), which performs partly social functions not carried out by the commercial banks, remained to be completed.

3.7 The very slow pace of bank privatization is attributable to numerous factors: failure to establish beforehand the necessary conditions for privatization and the availability of foreign and local partners; the poor initial financial position of the banks, which led to difficulties in finding private sector partners; initial government revenue and financing shortfalls; slow recovery of non-performing loans by the state collection agency; the Government's need to be assured of responsible and competent operation of the privatized banks; the alleged failure of private sector partners to abide by agreements; lack of political will/political opposition; slow government administrative and political processes; slow Bank responses; Bank/Government coordination problems; and problems with some of the independent audits.

PUBLIC ENTERPRISE REFORM AND PRIVATE SECTOR DEVELOPMENT

3.8 The parastatal sector comprised 96 enterprises in 1991, of which about 15 were non-commercial. The commercial enterprises pervaded the formal sector. The public enterprise sector as a whole was not only financially non-viable but highly inefficient in economic terms.

3.9 The public enterprises were typically poorly managed, often with extremely unclear accounting. Their generally poor and unclear financial situation made the task of selling them difficult. The privatization process was not only extremely cumbersome but further impeded by frequent changes in the composition of the Privatization Commission. Further difficulties arose from the limited financial resources of potential Burkinabè purchasers, from the unavailability of financing from the banks and from the lack of active government support for Burkina's private sector. Partly as a result, the larger enterprises were mostly acquired by foreign interests or their local contacts. This fueled the public's perception that Burkina's key national enterprises were being taken over by foreigners and that the privatization process represented a clearance sale of public assets redounding to the benefit of a few individuals.

3.10 Political opposition to privatization came particularly from the unions. The state's decision to retain a 25 percent stake in a number of the public enterprises appears to have originated in the desire to mollify the unions, but is now perceived by some as contributing to state-private sector cronyism.

3.11 As of 1996, only 13 out of a total of 38 enterprises slated for privatization/liquidation[2] had been privatized. Moreover, the Government did not avail itself of the opportunity to reduce its holdings below 25 percent when it had the opportunity to do so. By early 1999, out of the 38 enterprises, 21 had been privatized, 8 were in process, 4 had been liquidated, and 5 were being liquidated. Thus, eight years after the initiation of the process, only 26 enterprises had actually been privatized or liquidated out of an original universe variously defined as comprising between 76 and 96 enterprises, i.e., a third or less. The overall process has not only been extremely slow but remains only partial. In particular, the Government has not privatized the electric, telephone and water utilities or the companies involved in cotton production and marketing,[3] petroleum importing, and rice importing.

3.12 In parallel with the privatization/liquidation program, the Government was to take measures to encourage domestic and international investment in new enterprises by creating institutional, legislative, regulatory and contract enforcement support for private business activity. The Bank's Private Sector Assistance Project, approved in March 1993, was to support implementation of the measures initiated under the SAC, reorganize institutional support for private entrepreneurs, and promote measures to strengthen financial intermediation.

3.13 The Private Sector Assistance Project has not achieved its goals. An August 1998 mission concluded that the key actions on private sector support, the main focus of the project, had hardly started and that, without greater commitment to the project's success, the Government was unlikely to achieve its aims. The IFC has noted that, in the mining area, (the only area judged by IFC to have the potential to attract significant foreign investment), continuing policy deficiencies and an unfinished privatization agenda are limiting activity. IFC has also drawn attention to Burkina's excessive and ineffective regulation, which is hampering private investment in general, as well as to Burkina's poor, high-cost infrastructure.

3.14 Electricity, water, domestic transport, and non-urban telephone call costs in Burkina remain generally considerably higher than those in neighboring countries. The Government's and the Bank's failure to address the problem of the high costs of basic services in Burkina has been a serious flaw in the private sector development strategy.

[2] Twelve under July 17,1991, legislation, 9 under January 29, 1992 legislation, 1 under December 20, 1993 legislation, and 19 under July1, 1994 legislation, for a total of 41 (38 excluding three banks). (IMF Recent Economic Developments, August, 1998). The Bank's PR for the EMRSO gives slightly different figures, i.e., 24 enterprises in the first phase and 20 in the second. It also indicates that the initial universe of public enterprises was 76. There are evidently differences between documents in the way public enterprises are defined.

[3] The cotton monopoly, SOFITEX, is not being privatized but 30 percent of its capital is being opened to participation by private farmer groups. The effects of this step on SOFITEX's performance are unclear.

CIVIL SERVICE REFORM AND IMPROVED GOVERNANCE[4]

3.15 The share of the wage bill declined from 57 percent of current expenditure in 1991 to 48.5 percent in 1994 and 48 percent in 1997. However, achieving some of the other objectives, such as modifying the legal regimes governing civil servants' remuneration and promotion, has been very slow and difficult. Fundamental structural reform has yet (January 1999) to be implemented.

3.16 Concordance between the Ministry of Civil Service administrative files and Ministry of Finance payroll data was not achieved until 1998. A civil service census was conducted prematurely and is judged a wasted effort. It was not until 1998 that the National Assembly approved laws establishing the distribution of responsibilities between the central government and the new, decentralized entities; setting out the rules for creating, organizing and managing civil service structures; and revising the legal regime for civil servants.

3.17 The civil service salary structure established by the new law is complex and allows for a combination of seniority and performance promotion. Under the new regime, there will be greater future recourse to contractual and locally recruited staff. However, the reclassification of civil servants into permanent and contractual employees under the new law does not apply to existing civil servants. Civil service management reform is being introduced on a pilot basis in the Ministry of Civil Service and is to be extended to other ministries in 2000. Reorganization of the Ministry of Finance and the Statistical Office is to be completed in 1999.

3.18 A major reason for the slow pace of civil service reform has been the need to address the concerns of the unions, which have been very reluctant to give up the protection afforded by permanent positions and the previous, seniority and training-based, promotion system, which assured civil servants considerable independence from political influence. The new system, based on job performance and, for many, renewable contracts, is seen as potentially open to political manipulation and abuse.

3.19 Reflecting the absence of a unifying vision of the improvements required to realize good governance in a restructured economy, progress in this area has been mixed. Weaknesses remain in the establishment of a transparent and supportive legal framework for private enterprise, as well as in the provision of adequate institutional and financial support. Laws and mechanisms are also needed to eliminate anti-competitive business behavior. Major reforms are needed in the administration of justice, particularly as it applies to the enforcement of business contracts.

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[4] The implementation of civil service reform was supported by the Public Institutional Development Project (PID), approved in June 1992, which financed technical assistance and equipment, studies, the preparation of revisions to the structure of civil service wages and remuneration, and wage planning and forecasting. The support of unions and other social groups for the reform program was sought through a program of training seminars. The Government agreed, under the PID, to replace training-based promotion with performance-based promotion and to study new ways to motivate civil servants. The PID also financed studies on ways to strengthen civil service training; pilot actions to improve productivity; and the development of performance indicators and monitoring. Apart from reform of the civil service, the PID also sought improved budgetary management, public procurement reform, legal and judicial reform, and better communication of economic policy. Unfortunately, it ran into very considerable initial difficulties resulting from government mismanagement. In addition, the PID was an elaborate and diffuse project, which made both government implementation and effective Bank supervision difficult. These problems all contributed to delays in implementing civil service reform.

3.20 Little progress has been made in improving the Government's capacity for economic management and long-term policy formulation. There is also a need for greater government transparency and the elimination of corruption, including putting a stop to the extraction of bribes by police and customs officials. Little, if any, progress has been made in improving Burkina's statistical base. A critical deficiency is that the national accounts are not providing reliable, up-to-date information on which to assess the effectiveness of the Government's economic policies.

LIBERALIZATION OF EXTERNAL TRADE AND PRICES

3.21 Prior to the initiation of reform, taxes were levied on nearly all exports, imports were subject to numerous taxes, customs duties were highly dispersed, prior import authorization requirements for goods competing with domestic production were pervasive, import authorizations or technical visas were required for other goods, and imported goods were subject to higher mandatory profit margins than those on domestically produced goods, making them less competitive. The average level of nominal import protection was 70 percent. The high tax levels and complexity of the system encouraged fraud and led to the proliferation of import duty exemptions.

3.22 Prior to SAC I, the Government had abolished prior export authorizations for all products except cereals, abolished the state export monopolies except for those handling cotton and gold, and abolished all export taxes. Under SAC I, it eliminated all QRs by the end of 1993 except for those that were kept on five products for security, health and environmental reasons. In 1993, a regionally coordinated simplification of the tariff schedule reduced the number of rates and lowered spreads, reducing the overall effective rate of protection. However, the reform was poorly implemented and an accompanying proliferation of exemptions substantially diluted its effectiveness.[5]

3.23 The adjustment program was ostensibly[6] fairly successful in liberalizing prices. It provided for the removal of profit margins on most imports, while price controls on locally produced goods except rice, sugar and wheat flour were eliminated in 1991. The pricing of rice, sugar and wheat flour was to be reviewed under the Agriculture SECAL. Under SAC I, the role the Staple Goods Price Equalization Fund (CGP) was limited to importing and wholesaling rice.[7] The export functions of CSPPA, the agricultural price stabilization fund, were privatized and it stopped intervening in the markets. The marketing and pricing of cereals was liberalized and OFNACER, the grain marketing agency, was liquidated.[8] After initial difficulties, the pricing of petroleum imports was simplified and made more transparent, with the introduction, in early 1994, of a single *ad valorem* tax and the elimination of price stabilization. In late 1994, greater flexibility in petroleum pricing was introduced through the medium of price reviews every four months.

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[5] Under the EMRSO, the Government is committed to implementing the WAEMU external tariff, reducing the maximum tariff rate to 20 percent, by 2000. Protection will be further reduced by the reduction in the statistical tax from 4 to 1 percent, as well as the elimination of the special intervention tax (TSI).

[6] Notwithstanding the apparent changes in the price regime governing agricultural products, informed observers report that there has been little discernible impact on the actual prices of most agricultural commodities.

[7] However, rice is now alleged to be subject to oligopolistic price fixing.

[8] However, there is little evidence of any impact of price liberalization on cereals production.

HUMAN RESOURCE DEVELOPMENT AND THE ALLEVIATION OF POVERTY

3.24 Under SAC I, budgetary allocations to primary education and health were to be increased and related sector projects were to ensure that they were effectively used. Poverty was to be addressed through sectoral adjustment loans in transport and agriculture and the financial restoration and strengthening of the social security fund. A household survey was to establish a factual foundation for future policies to relieve poverty and a public works and employment project was to be undertaken in urban areas.

3.25 The implementation of this component was successful. Increased budgetary allocations were made to health, education and the maintenance of infrastructure, while the linked projects in the health and transport sectors ensured highly effective use of the additional funds. Under the Priority Action Plan, incorporated into SAC I as an additional condition of third tranche release, the Government renewed its commitment to health and primary education, enabling substantial progress to be made toward realization of higher levels of primary school enrollment. Under the ERC, the Government introduced temporary price controls on kerosene and school supplies and reduced taxation of certain consumer goods, in order to limit post-devaluation price increases.

3.26 Over 1992-97, current expenditures on primary education rose from 12.1 to 15.8 percent of total current expenditures, while health and social action expenditures rose from 11.6 to 12.5 percent. In the health sector, progress was made in decentralizing health care delivery, in granting financial autonomy to health centers, and in introducing partial cost recovery.

4. OUTCOME

QUALITATIVE RESULTS

4.1 The overall execution of structural adjustment in Burkina has been only moderately successful. On the positive side, there was prior recognition within Burkina of the need for fundamental change[9] and a good advance understanding was reached between the Government and the Bank/IMF on what needed to be done. Moreover, the public was informed about the adjustment proposals. However, adjustment proceeded far more slowly than expected, due to a combination of highly unrealistic expectations on the Bank side, unfavorable economic circumstances throughout the CFAF zone prior to the 1994 devaluation, slow and cumbersome processes, lack of capacity, unsatisfactory institutional arrangements, the slow process of achieving a consensus on the desired extent of private participation in the economy, and lingering political opposition on the Burkinabè side. Furthermore, adjustment in some areas has been only partial, while in the area of privatization, the desired outcome is not being fully realized

4.2 The program has scored some notable successes. The Government's financial position has shown major improvement, budgetary management capacity has been greatly strengthened, a more economically rational tax and expenditure structure is in place, and appropriate priority has

[9] The Burkinabè, recognizing the need for change, tried "auto-ajustment" (self-help) during the 1980s, but discovered its limits as people were asked to do more and more. In 1987, they concluded that structural adjustment was necessary. The question was whether they should undertake it themselves or with outside assistance. They decided on the latter and this led to SAC I.

been accorded the priority sectors (notably, education, health, road maintenance, and revenue collection). The 1994 devaluation was effective and subsequent inflation contained. An initially ill-managed and bankrupt banking system has been restructured, rehabilitated, and substantially privatized, and is now operating satisfactorily as one of the strongest links in the economy. Bank technical assistance under the PID to the Ministry of Finance, notwithstanding early problems, has been highly effective. These visible successes did not come quickly or easily. They entailed persistent efforts by the Government, with the support of the Bank, the IMF and other donors, to overcome numerous obstacles.

4.3 Slow but significant progress has been made in privatizing the public enterprises, but the program has been timid and partial and not adequately supported by the promotion of new private sector activities and removal of the numerous economic, institutional, legal, and regulatory bottlenecks to domestic and foreign investment. Moreover, the emergence of monopolies and other forms of anti-competitive behavior threatens realization of consumer benefits, the competitiveness of the emerging private industrial structure, the efficiency of economic resource allocation, and the credibility of the program with the public. Trade and price liberalization was initiated early. Trade reform was subsequently partly undermined by the proliferation of tax and tariff exemptions, but is now proceeding swiftly with the introduction of intra-WAEMU free trade and the common external tariff. However, its effectiveness in stimulating intra-regional free trade is partly diluted by the existence of government and private monopolies, as well as by non-tariff barriers, including the pervasive extortion of bribes. Price liberalization has been less effective than hoped. Civil service reform has been partly successful, with the wage bill under control, fundamental legislative changes enacted, an analytical basis established for implementing a fundamental reform of the service, and a system of performance incentives introduced. Initial political opposition to civil service reform has largely dissipated. A major new challenge will be to implement the recent decentralization law, which will entail staffing and financing the new, decentralized entities, as well as assuring, through appropriate accounting, reporting requirements and close monitoring, honest and responsible discharge of their functions.

4.4 Little progress has been made in rationalizing the Public Investment Program, which, despite its relatively large size, appears not to be contributing as much as it should to raising productivity and per capita GDP. Civil service structural reforms have yet to be implemented, although a good foundation has been laid.

QUANTITATIVE RESULTS

4.5 The PFP for 1991-93 indicated that an objective of structural adjustment for 1991-94 was average GDP growth of 4 percent a year. Although GDP grew very strongly in 1991, this was attributable to exceptionally strong increases in cereals production—a result of satisfactory rainfall. Over 1992-94, the average increase was under 1 percent. The PFP was not only highly overoptimistic in suggesting such quick results from SAC I, but failed to take adequate account of the deepening regional depression associated with declines in agricultural commodity export prices and the perverse appreciation of the CFA franc. Even now, given the partial and incomplete character of the adjustment process so far and, particularly, the delay that has occurred both in establishing a dominant, vigorous, competitive private sector and in realizing a significant expansion in domestic and foreign investment, only a very limited impact from the structural adjustment program is to be expected.[10]

4.6 Even if the adjustment process were much further along and having a significant impact, it would be extremely difficult to separate its effects from those of the 1994 devaluation. In any event, Burkina's National Accounts, the statistical basis for analyzing macroeconomic developments in Burkina, have been compiled in final form only up to 1993.[11] More recent figures quoted by the Government, the Bank and the IMF are essentially projections incorporating assumptions about recent developments, including the impact of the devaluation. They therefore cannot be used with confidence to provide verification of the impact of such developments.[12] However, to the extent that they are indicative of broad trends, Burkina's macroeconomic statistics reveal a positive *combined* impact of the 1994 devaluation and structural adjustment. Real GDP growth averaged 5.2 percent a year over 1995-97 inclusive, compared with only 1.0 percent over 1992-94 (Annex D).

4.7 Between 1991 and 1997, gross domestic saving rose from 6.1 percent of GDP to 9.2 percent, while gross investment rose from 20.6 percent of GDP to 26.2 percent. Unfortunately, while public investment rose from 6.3 percent of GDP to 12.5 percent, private investment is estimated to have declined slightly, from 14.3 percent of GDP to 13.7 percent.

4.8 Although cereals production is estimated to have declined 7.4 percent over 1991-97, other crops registered strong increases, with oilseeds production rising 45 percent, tubers and root crops 135 percent, seed cotton 80 percent, and fruit and vegetables 29 percent. Exports of cotton increased 155 percent over the same period and exports of livestock jumped over 300 percent. Anecdotal evidence suggests a positive impact of the devaluation on cotton production, financing and exports, as well as on some areas of secondary manufacturing, such as cigarette production.

4.9 Other positive developments include an increase in taxes on goods and services from 2.2 percent of GDP in 1991 to 5.2 percent in 1997 and a reduction in taxes on international trade from 4.9 percent of GDP to 3.6 percent over the same period. Government current expenditure fell from 12.0 percent of GDP in 1991 to 10.1 percent in 1997, while government capital expenditure rose from 9.6 to 13.0 percent. Burkina's debt service ratio fell from a peak of 24.7 percent in 1994 to 15.9 percent in 1997.

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[10] With the modern sector accounting for only about 10 percent of GDP, it would take an extraordinary 20 percent annual growth in the sector to raise the GDP growth rate by 2 percent.

[11] The underlying reason is reported to be the diversion of qualified Statistical Office staff to undertake donor-driven surveys that carry highly attractive per diem field expense allowances.

[12] Estimates of agricultural, livestock, fishing, hunting and forestry production are particularly suspect (although statistics relating to cotton are reliable) and there are doubts as to the reliability of the balance-of-payments numbers. Exports and imports of goods and services are rough estimates. Mining production is estimated, as is private investment. Only about 60 percent of what is reported as public investment is, in fact, investment. The use of the Ouagadougou-based consumer price index as a general deflator introduces distortions into estimates of real output. Government financial statistics are regarded as reliable, although they do include some estimates.

5. OVERALL ASSESSMENT

SAC I

Relevance

5.1 The restructuring proposals were clearly relevant to Burkina's need to address the economic distortions and inadequate growth associated with many years of ideologically based state planning that had paid scant attention to the efficient allocation of economic resources. Moreover, in recognition of the fact that restructuring the Burkinabè economy required simultaneous actions on numerous, mutually reinforcing fronts, SAC I was comprehensive in scope and supported by consistent sector and project loans conceived within the SAC/country strategy framework, as well as, to some extent, discussions with the Government based on the annual PFPs.

5.2 However, Burkina, at the time the SAC was approved, was suffering, in common with its CFA zone partners, from deteriorating terms of trade coupled with a perversely appreciating real exchange rate. The combination was producing both increasing external disequilibrium and domestic economic decline. With a nominal devaluation of the CFA franc initially ruled out for complex political and institutional reasons, the Government and the Bank were obliged to rely on a very difficult process of internal wage and price compression, typically brought about by a protracted period of slow growth, to re-establish a competitive real exchange rate for Burkina. However, this was fundamentally at odds with the ostensible objective of the 1991-93 PFP program, endorsed by SAC I, of 4 percent real GDP growth. Furthermore, such a slow-growth environment would clearly make it difficult for the Government to implement the SAC I reforms, as well as for public support to be mobilized in their favor.

5.3 In retrospect, it is also clear that SAC I tried to do too much, too quickly, and did not establish clear priorities. It would have helped if the program had been based on a more profound understanding of Burkina's social, political and institutional constraints and had paid considerably closer attention to the interactions among, and sequencing of, the various elements of the reform package. In particular, the design of the project did not accord adequate priority to reducing Burkina's very high utility costs.

Efficacy

5.4 SAC I, for the reasons noted above, did not realize its objectives of contributing to the early restoration of Burkina's internal and external economic equilibrium and the rapid resumption of economic growth and employment. Devaluation of the CFA franc (not carried out until January 1994) was required to realize such aims. Even five years after the initiation of structural adjustment, it had made only a very limited contribution to the long-run objective of raising the efficiency of the Burkinabè economy because only very slow and limited progress had been made in implementing the central elements of the reform program, namely: privatizing the public enterprises; supporting the emergence of a vigorous, competitive private sector; and reorienting the public investment program towards support of private economic activity. Moreover, some of the state enterprises that were sold off re-emerged as private monopolies, and new private oligopolies have emerged. Little progress has been made in establishing a vigorous, competitive private sector and attracting new private investment.

5.5 However, the program did initiate the reform process, which continued after the 1994 devaluation supported by the Economic Recovery Credit. Reform is still under way, and shows no signs of being reversed. Moreover, the SAC I program tackled a number of immediate, difficult issues (notably, reducing the civil service wage bill, making a start on tax and expenditure reform, and rehabilitating the banking system). If sustained and deepened, the reforms have the potential to contribute substantially to raising Burkina's economic efficiency and long-term growth. The outcome of the program is therefore rated **marginally satisfactory.**[13]

Bank Performance

5.6 **Project Design.** SAC I represented a very comprehensive program to deal with Burkina's critical longer-term reform needs. The program was supported with sectoral programs and technical assistance. The Bank took great pains to work with the Government in the preparation of the program. It also made strong efforts to participate in the public discussion of the proposals and to enlist the support of the unions, which represented the most serious potential opposition.

5.7 However, although critically necessary in the long-term context, the program was not, as noted, directly relevant to the solution of Burkina's immediate economic difficulties, linked to the overvaluation of the real exchange rate. Furthermore, the Bank was overoptimistic in defining the scope of SAC I and in establishing action timetables, largely because it did not devote sufficient resources to understanding Burkina's social, political, institutional and technical constraints.

5.8 This shortcoming showed up particularly in relation to the privatization of the public enterprises, where the Bank does not appear to have adequately assessed the Government's ability to proceed quickly, nor analyzed the ability of the Burkinabè private sector to generate the resources needed for the acquisition of the enterprises being privatized. It was also apparent with regard to the banking and civil service reforms. The Bank was also unrealistic in its expectations regarding the short-term impact of the adjustment program on Burkina's growth. A significant design flaw was the failure to tackle from the outset the problem of Burkina's very high utility costs (electricity, telecommunications and water).

5.9 More attention was needed to the sequencing of, and interrelationships among, the various reforms. For example, privatization would have been more successful had it been preceded by a strengthening in the Government's ability to block the emergence of monopolies and other non-competitive structures. It would also have been more successful if other legislative, regulatory, institutional, judicial, and enforcement measures needed to assure the

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[13] The assessment of SAC I is based mainly on the results of the program as of 1996, when the ICR was completed. However, following the 1994 devaluation of the CFA franc, the structural adjustment program continued. As of early 1999, a number of components—particularly the public finances and banking sector reforms—have registered considerably more satisfactory results. However, the rating of the program would not be changed if a longer time horizon were taken as the basis of the assessment because of the excessive time taken to realize the improved, although still partial, results.

existence of a level playing field for private activity had been carried out and had attracted new domestic and foreign investment.

5.10 Earlier introduction of tariff reform without offsetting tax and tariff exemptions would have hastened the needed realignment of Burkina's industrial output in accordance with the country's pattern of comparative advantage. On the other hand, some aspects of civil service reform, notably those, such as the introduction of contract employment and performance-based pay increases provoking strong union and political opposition, could probably have been postponed. However, structural reforms to strengthen ability of the civil service to discharge its redefined responsibilities would have been very useful in several areas: e.g., the policy formulation functions of the Ministry of Finance; the functions of the judiciary with regard to the enforcement of commercial law; the business support responsibilities of the Chamber of Commerce; and the economic and business support activities of the statistical office. By no means all desirable sequences and synergies can be identified in advance. Efforts to realize them at the project design stage need to be supplemented by close and continuous analysis and effective supervision.

5.11 **Supervision**. There were four supervision missions, totaling approximately 182 staff field days, over the two-year period June/July 1991 - July 1993. Only two involved more than two people. Substantial intervals occurred between missions, including a 13-month interval between October/ November 1991 and December 1992. Total time allocated to supervision amounted to 185 staff-weeks. Supervision was primarily directed towards assuring proper fulfillment of the loan's tranche release conditions. Supervision did lead to effective Bank interventions in a number of important areas. However, the cessation of direct supervision after July 1993 seems to have left a significant gap and to have contributed to a loss of momentum in the program.

5.12 **Ratings**. The Bank's project preparation and initial and ongoing technical support efforts must be given quite high ratings, even though, in retrospect, they appear to have been over-elaborate and to have paid insufficient attention to country constraints; so, too, must the Bank's efforts at internal and external coordination through the medium of the CAS and PFP documents. On the other hand, the Bank's expectations regarding the speed of implementation of the program, the effectiveness of internal wage and price compression as the means to achieve a real exchange rate adjustment, and the realization of early economic results were all unrealistic. Supervision of the adjustment program was of high quality, but was insufficiently intensive and sustained. The depth and intensity of the macroeconomic dialogue also appear to have been inadequate. The thinness and intermittence of Bank supervision and dialogue appear to have contributed to the slow pace and partial implementation of the program, to its partial loss of coherence, and to the emergence of significant weaknesses. On balance, however, the Bank's performance is rated **satisfactory**.

Borrower Performance

5.13 The Government's performance was mixed. It carried out important reforms in public finance and banking and brought the government wage bill under control, but the privatization process was timid, partial, slow, cumbersome, and inadequately transparent. Government measures to establish a sound basis for private sector development were limited. Trade and price liberalization were only partial. Moreover, the toleration of bribery by most governments in the region has prevented full realization of the potential benefits of more liberal trade to consumers and producers. The objective of all governments in the region should be to establish unfettered movement of goods.

5.14 The emergence of private monopolies and oligopolies out of the privatization process and the Government's failure until very recently to begin to address the problem of high utility costs are troubling. Public awareness of the fact that private monopoly power has led to the enrichment of a few at the expense of the majority is partly undermining the acceptability of the reforms, as well as the credibility of the Government. If the public is to continue to support the reform program, it needs to be seen to be conferring positive social benefits. The Government also failed to rationalize the public investment program within the framework of a coherent long-term economic development strategy and to improve the statistical base. The unavailability of credible statistics means that Burkinabè economic policy-makers are to a considerable extent flying blind. Finally, concerns persist regarding the general quality of governance. On the whole, however, the Government's performance is rated **satisfactory**.

Institutional Development

5.15 Institutional development, supported by the PID, was stimulated by SAC I particularly in the Ministry of Economy and Finance and, to a lesser extent, the Ministry of the Civil Service and Institutional Development and the Prime Minister's Office. However, the proposed structural reform of the civil service is still pending and institutional development related to the establishment of a viable and competitive private sector remains limited. Institutional development impact is rated **modest**.

THE ECONOMIC RECOVERY CREDIT

Relevance

5.16 The central feature of the ERC, namely the January 1994, depreciation of the CFA franc, was highly relevant to Burkina's immediate economic needs, as it was to the needs of most members of the CFAF zone. While Burkina was less directly affected by the overvaluation of the CFAF than some other countries such as Cameroon and the Cote d'Ivoire, it was indirectly affected by the drop in expatriate worker remittances. Without the stimulus afforded by a devaluation, Burkina, again like most other CFAF zone countries, faced continuing fiscal and economic difficulties and great difficulty in reducing the debt service arrears that had built up. Moreover, in the absence of the economic improvement brought about by the devaluation, continuing with structural adjustment would have been more difficult and commitment to it could have slackened. The ERC thus not only addressed Burkina's need to restore external equilibrium and economic expansion but, in so doing, supported further reform efforts.

Efficacy

5.17 The devaluation was successful in that the ensuing bout of inflation was contained and a lasting real depreciation realized. This sparked a rapid revival in GDP growth, which averaged 5.2 percent a year over 1995-97 compared with under 1 percent over the previous three years. GDP growth was led by almost a doubling of exports (in current CFA franc terms) over 1993-97. Livestock exports are estimated to have quadrupled between 1993 and 1994, while cotton exports more than tripled over 1993-97. The improvement in the economic climate also facilitated a marked improvement in the Government's fiscal position, with the primary current balance rising from 0 percent of GDP in 1994 to 4.0 percent in 1997. Burkina's debt service ratio fell from 24.7 percent in 1994 to 15.9 percent in 1997. The outcome of the ERC project is rated **satisfactory**.

5.18 This dramatic improvement in Burkina's economic performance is clearly attributable to the devaluation rather than to the continuing structural reform supported by the ERC. Structural reform has in fact remained slow and incomplete. The effects of structural adjustment are likely to be substantial only if the process is sustained and deepened. Moreover, such effects are likely to make themselves felt only gradually, over the longer term.

Bank Performance

5.19 The Bank's performance is appropriately evaluated primarily with regard to the patient and persistent behind-the-scenes role that it played prior to the devaluation in convincing decision-makers in the CFAF zone of the need for a nominal devaluation of the CFA franc as the fastest and least economically damaging way of restoring the zone's external equilibrium and economic growth. The approval of fast-disbursing loans to provide fiscal and balance-of-payments support to CFAF zone members was appropriate in light of the major and immediate increase in the burden of external debt service payments resulting from the devaluation. Without such support, there would have had to be radical cutbacks in public services, or debt defaults.

5.20 The design of the loan as a one-tranche operation to provide urgent support to a decision already taken by the Government precluded the exercise of leverage to accelerate further structural reform. The action matrix agreed upon with the Government represented a statement of the Government's intentions rather than a set of legally binding commitments. With no fulfillment of tranche release conditions to be monitored, no supervision was carried out by the Bank. This was a drawback, because a number of important components of structural reform remained incomplete and the reform process did not accelerate as it might have done had the Bank retained leverage and been more active. However, based on the project as a whole, the Bank's performance is rated **satisfactory**.

Borrower Performance

5.21 In carrying out the devaluation, the Government took the necessary step, in conjunction with its CFAF zone partners, to improve its balance of payments, restore economic growth, and provide a congenial environment for further structural reform. It must also be credited with continuing to pursue, albeit hesitantly, some of the outstanding structural reform agenda. On the other hand, it has shown little zeal in the key areas of privatizing the public enterprises, establishing a vigorous, competitive, well supported private sector, encouraging new domestic and foreign investment, rationalizing public investment, carrying out necessary civil service structural reforms, improving the quality of governance and strengthening its economic policy formulation capabilities and the statistical system on which informed policy decisions must depend. Despite these shortcomings, the Government's performance is rated **satisfactory**.

Institutional Development

5.22 The project's impact on institutional development is rated **modest**, as for SAC I.

6. SUSTAINABILITY

6.1 Despite the slow pace of reform and the consequent delay in realizing tangible benefits, there is little evidence of government backsliding or of mounting opposition to the program. Moreover, progress continues. Nonetheless, the lack of clearly visible, positive results from structural adjustment is a matter for concern. Demonstration of positive results would be highly beneficial in consolidating political support for structural reform, adding needed momentum to the process. The sustainability of structural reform, and thereby of both projects, is rated as **uncertain**.

7. LESSONS

7.1 **Underestimated Constraints**. Perhaps the most important lesson to be learnt from the Bank's experience with structural adjustment in Burkina is that, notwithstanding meticulous project design, ample technical assistance, and apparently firm government and public support, it can nonetheless remain a very slow and difficult process if the government's implementing capacity is weak, there is lingering political opposition to important elements of the program, and the Government does not fully subscribe to the program's underlying economic rationale. Where, as a result, implementation of important components is slow and difficult, the internal coherence of an adjustment program can easily be lost and the anticipated beneficial results seriously delayed. This courts the risk of adverse political reactions and government backsliding.

7.2 **Need for More Realism and Longer-Term, Consistent Commitment**. The Bank needs to be considerably more realistic, not only about the time required to implement the components of an adjustment program, but also about the time required for it to realize tangible results. It needs a clearer understanding at the outset of the institutional capacity, social and political constraints. Identification of these constraints should be an integral feature of project preparation. Bank experience with structural adjustment in many countries is that it typically requires as much as a decade or more to complete successfully. On the Bank side, this calls for staff continuity, persistence and the institutional retention of a great deal of detailed knowledge if the government involved is to be adequately supported. Frequent Bank reorganizations and staff rotations are highly disruptive.

7.3 **Questionable Efficacy of Fast-Disbursing Loans**. Fast-disbursing loans with early tranche release dates have shown themselves to be somewhat ill-suited to providing support for structural adjustment. Such a process requires long-term monitoring and supervision. The Bank should monitor closely the effectiveness of alternatives, such as floating tranche loans, or series of smaller loans addressing successive adjustment priorities in the context of an agreed long-term adjustment strategy. Other vehicles should be considered as the basis for rapidly disbursing loans intended to meet emergency country financing requirements.

7.4 **Other Lessons**. Burkina's experience again confirms that resort to internal wage and price compression as the means to redress external economic imbalance is typically incompatible with rapid economic recovery and can be very costly in economic and social terms. For the CFAF zone, a nominal depreciation was clearly needed. Public finance and other reforms in Burkina, as elsewhere, could have been carried out more rapidly and successfully if the nominal depreciation of the CFA franc that finally took place in January 1994 had been carried out much earlier. The inflexible link between the CFAF and the French franc/Euro needs to be re-examined in order to ascertain whether it is in the CFA zone's best interests. Finally, the Bank's experience in Burkina suggests that elaborate technical assistance programs with numerous components are difficult both to implement and to supervise. Smaller projects focused on the key priorities seem likely to be more successful.

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Annex A

MINISTERE DE L'ECONOMIE ET DES FINANCES

SECRETARIAT GENERAL

DIRECTION GENERAL DE LA COOPERATION

BURKINA FASO
Unité - Progrès - Justice

Ouagadougou, le 12 JAN. 2000

COMMENTS RECEIVED FROM THE BORROWER

Le Ministre de l'Economie et des Finances

CASBM
N°00 . . 055 /MEF/SG/DGCOOP/OA.

A

Objet: Rapport d'évaluation rétrospective des projets Crédits d'ajustement structurel (crédit 2281-Bur), et Crédit de Redressement économique (Crédit 2590-Bur)

Réf: V/L du 15 décembre 1999

Monsieur René Vandendries Chef de Groupe par intérim Evaluation des Pays et Relations Régionales
Département de l'Evalution Rétrospective des Opérations.
1818 H Street NW
Washington, D.C. 20433
USA

Monsieur le Chef de Groupe,

J'accuse réception de votre lettre ci-dessus rappelée, par laquelle vous me transmettiez le Rapport d'évaluation rétrospective des projets Crédits d'ajustement structurel (crédit 2281-Bur), et Crédit de Redressement économique (Crédit 2590-Bur).

Après examen du rapport, je me réjouis de l'objectivité de l'appréciation que votre Institution fait des mesures et actions programmées et réalisées dans le cadre de ces crédits. Au demeurant, je reste convaincu de l'ampleur des efforts à fournir pour améliorer et pérenniser l'impact de l'ajustement structurel sur le développement du Burkina Faso.

Par conséquent, j'ai l'honneur de vous informer que la partie burkinabé marque son approbation sur les termes dudit rapport.

Veuillez agréer, Monsieur le Chef de Groupe l'assurance de ma parfaite considération.

Tertius ZONGO

Basic Data Sheet

STRUCTURAL ADJUSTMENT PROGRAM (CREDIT 2281-BUR)

Key Project Data *(amounts in US$ millions)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of current estimate*
Credit Amount	80.0	85.4	107%

Cumulative Estimated and Actual Disbursements (US$ thousands)

	FY92	*FY93*	*FY94*	*FY95*
Appraisal Estimate	40,000	60,000	80,000	80,000
Actual	41,191	41,229	60,896	85,393
Actual as % of appraisal	103	69	76	107
Date of final disbursement: March 28, 1995				

Project Dates

	Original	*Actual*
Initiating Memorandum	02/91	02/91
Negotiations	05/91	05/91
Board Approval	06/91	06/91
Signing	06/91	07/91
Effectiveness	07/91	09/91
Closing date	06/93	06/95

Staff Inputs (staff weeks)

	Total
Pre-appraisal/Appraisal	151.2
Appraisal/Board	14.7
Board/Effectiveness	10.3
Supervision	184.8
Completion	10.3
Total	371.3

Mission Data

	Date (month/year)	*No. of People*	*Staff Days in Field*
Pre-appraisal	10/90	9	33
Appraisal	02/91	13	24
Supervision I	06/91	2	9
Supervision II	10/91	5	12
Supervision III	12/92	5	14
Supervision IV	07/93	1	10
Completion	05/95	1	24

Basic Data Sheet

ECONOMIC RECOVERY CREDIT (CREDIT 2590-BUR)

Key Project Data (Amounts in US$ millions)

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Credit amount	25.0	26.0	104

Cumulative Estimated and Actual Disbursements (US$ thousands)

	FY94	*FY95*
Appraisal estimate	25,000	25,000
Actual	0	26,040
Actual as % of appraisal	0	104
Date of final disbursement	July 29, 1995	

Project Dates

	Original	*Actual*
Initiating Memorandum	01/94	01/94
Negotiations	03/94	03/94
Board Approval	03/94	03/94
Signing	03/94	03/94
Effectiveness	04/94	06/94
Closing Date	06/95	06/95

Staff Inputs (staff weeks)

	Total
Pre-appraisal/Appraisal	13.4
Appraisal/Board	2.9
Board/Effectiveness	9.8
Supervision	4.2
Completion	6.7
Total	37.0

Mission Data

	Date (month/year)	*No. of people*	*Staff days in field*
Appraisal	01/94	9	13
Completion	05/95	1	24

Conditions for SAC I Negotiations, Board Presentation and Tranche Releases

The following core actions were taken by the Government before negotiations of the proposed program:

(i) Government approval of a first Policy Framework Paper 1991-93;

(ii) transmittal to the Bank of the 1991 current and investment budgets including a reduction in military expenditures, a reduction in scholarships and current budgetary transfers, and a nominal reduction in the wage bill (para. 57);

(iii) elimination of all price controls on domestically produced products (para. 94);

(iv) elimination of all export taxes (para. 88);

(v) elimination of local purchase requirement (twinned imports) (para. 88);

(vi) elimination of import licensing requirements for 36 product groups as part of program to eliminate all import licensing by end 1993 (para. 88);

(vii) elimination of price margins on 107 imported products in accordance with the agreed upon action plan to eliminate price margins on all imported products by end 1993 (paras. 94, 95);

(viii) elimination of ideological tests as requirement for hiring of new employees (para. 100);

(ix) adoption of a public enterprise divestiture and privatization program (para. 75);

(x) elimination of automatic hiring of university and public administration school graduates (para. 61);

(xi) appointment of two receivers for restructuring of banks (para. 81);

(xii) agreement with the Association on a revised methodology for estimating recurrent costs (para. 68);

(xiii) submission to the Association of a Letter of Development Policy;

(xiv) transmittal to the Association of proposals for meeting the aggregate and sectoral wage bill targets in 1992 (paras. 60—62);

(xv) submission to the Association of revised PIP for 1991, 1992, and 1993 (para. 68);

(xvi) submission to the Association of proposals to merge the Integrated Project Rank (BIP) with the Computerized Unit for Project Monitoring (SISP) (para. 69); and

(xvii) creation of a technical secretariat attached to the SAL Interministerial Comission to supervise the application of new SAL regulations (para. 117).

The following core actions were taken by the Government as conditions of Board presentations:

(i) enactment of a new law on land tenure guaranteeing private ownership of land (para. 102);

(ii) agreement with the Association on EPICs to be converted into government agencies (EPAs), into state enterprises (SEs) and mixed capital enterprises (SEMs) (para. 76);

(iii) agreement with the Association on final lists of enterprises for which: (a) the status quo will be preserved, with regard to the level of Government's share participation; (b) the state's equity participation will be eliminated or reduced to maximum of 25 percent; and (c) receivership is envisaged in order to restructure them (before privatization) or liquidate them (para. 76);

(iv) agreement with the Association on a timetable for privatization beginning with the 12 enterprises that already have private share ownership and are profitable (para. 76);

(v) agreement with the Association on terms of reference for studies on the roles of OFNACER, CGP, and CSPPA in the context of a liberalized pricing system (para. 95); and

(vi) simplification of the "enquête de moralité" administered on all new foreign investors (paras. 99, 100).

The following are the core actions to be taken by the Government as conditions of second tranche release (anticipated in May 1992):

(i) the Borrower has approved a 1992 current and investment budget satisfactory to the Association, using the new nomenclature (paras. 66);

(ii) the Borrower has implemented the 1991 current and investment budget in accordance with targets in the priority sectors, and in a manner satisfactory to the Association (paras. 60, 66);

(iii) the Borrower has promulgated a new Labor Code (para. 100);

(iv) the Borrower has promulgated a new Investment Code (para. 99); and

(v) establishment by law of a law revision committee responsible for the consolidation of all laws (para. 99)

The following are the core actions to be taken by the Government as conditions of third tranche release (anticipated in February 1993):

(i) the Borrower has approved a 1993 current and investment budget satisfactory to the Association, using the new nomenclature (para. 66);

(ii) the Borrower has implemented the 1992 current and investment budget in accordance with targets in the priority sectors, and in a manner satisfactory to the Association (paras. 60, 66);

(iii) the Borrower has completed divestiture of its capital holdings in CNCA and BICIA to a maximum of 25 percent (para. 82);

(iv) the Borrower has implemented a new petroleum product pricing policy satisfactory to the Association (para. 95);

(v) the Borrower has revised and updated its commercial laws with a view towards publishing commercial legislation in consolidated form (para. 99); and

(vi) the Borrower has eliminated price controls and quantitative restrictions on imports according to an agreed schedule (paras. 90, 94, 95).

Source: President's Report, Burkina Faso – Structural Adjustment Program (SAL I), June 4, 1991, Report No. P-5562. Note: Para. numbers refer to PR.

Selected Economic Statistics

	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*% Change 91-97*
GDP								
Change in Real GDP (%)	10.0	2.5	-0.8	1.2	4.0	6.0	5.5	
Change in Primary Sector GDP (%)	20.7	1.2	1.3	-0.2	2.9	7.4	0.7	13.9
Change in Secondary Sector GDP (%)	0.4	4.8	-1.8	2.3	0.3	3.3	10.7	20.6
Change in Tertiary Sector GDP (%)	4.9	3.5	-2.1	1.6	2.0	6.5	7.9	20.9
Resource Use								
Consumption (% GDP - Curr. Pr.)	93.9	92.8	95.0	93.9	92.8	92.5	90.8	
Public Consumption ..	14.6	15.0	15.2	15.6	14.0	13.1	12.3	
Private Consumption ..	79.3	77.9	79.8	78.3	78.8	79.3	78.5	
Gross Domestic Saving ..	6.1	7.2	5.0	6.1	7.2	7.5	9.2	
Public Saving ..	4.2	2.9	3.0	2.5	3.7	4.8	6.0	
Private Saving ..	1.9	4.2	2.0	3.6	3.4	2.7	3.2	
Gross Investment ..	20.6	21.3	19.8	19.3	22.5	24.8	26.2	
Public Investment ..	6.3	9.1	8.0	7.0	9.3	10.9	12.5	
Private Investment ..	14.3	12.2	11.8	12.3	13.2	13.8	13.7	
Crop Production								
Cereals Production (000s metric tons)	2455	2477	2557	2492	2308	2482	2274	-7.4
Oilseed Crops ..	191	230	283	267	257	245	276	44.5
Tubers and Root Crops ..	156	139	176	174	300	347	367	135.3
Seed Cotton ..	167	163	115	145	151	214	300	79.6
Fruit and Veg. ..	350	364	379	394	411	430	451	28.9
Government Operations								
Government Revenue (% GDP)	13.3	11.8	12.6	11.0	11.6	12.3	13.0	
Government Tax Revenue ..	10.1	8.7	9.1	10.1	10.8	11.5	11.9	
Taxes on Goods & Services ..	2.2	1.9	1.8	4.4	4.5	4.6	5.2	
Taxes on International Trade ..	4.9	3.9	4.6	3.2	3.5	3.5	3.6	
Govt. Expenditure and Net Lending ..	21.5	20.9	22.9	22.1	20.9	21.3	22.8	
Overall Surplus/Deficit ..	-8.2	-9.1	-10.4	-11.0	-9.3	-8.9	-9.8	
Primary Balance ..	2.7	1.2	-0.4	0.0	2.0	3.0	4.0	
Current Expenditure ..	12.0	11.8	14.9	12.7	11.3	10.4	10.1	
Capital Expenditure ..	9.6	9.1	8.4	9.6	10.0	11.1	13.0	
Net Lending ..	0.0	0.0	-0.3	-0.3	-0.3	-0.2	-0.2	
Chges. in Dom. Arrears (Bil. CFAF)	-18.6	-2.0	0.0	-8.2	-18.6	-17.0	-10.4	
Chges. In Ext. Arrears ..	-14.0	-0.4	2.9	-6.0	-1.4	-0.2	0.0	
Balance of Payments								
Exports (Billions of CFAF)	75.9	62.9	74.5	104.4	118.2	118.3	146.2	
Of which: Cotton ..	29.3	25.0	22.2	31.7	51.2	49.6	74.6	154.6
Livestock ..	8.2	8.7	8.2	33.1	35.5	33.2	33.1	303.6
Imports ..	-138.2	-136.7	-153.0	-193.9	-242.2	-286.3	-317.6	
Trade Balance ..	-62.3	-73.7	-78.6	-89.6	-124.1	-168	-171.4	
Current A/C Balance ..	-25.4	-11.5	-18.6	16.5	-15.3	-47.5	-71.3	
Debt Service Ratio	13.8	20.9	22.1	24.7	22.9	18.3	15.9	