1. Country and Sector Background

Burkina Faso has implemented a wide range of macroeconomic reforms under a series of stabilization and structural adjustment programs supported by the Bank, the IMF and other donors that have led an average growth rate of 5.7 percent over the period 1996-1999 versus 3 percent between 1980 and 1993. More specifically, reforms carried out over the past five years covered the following areas: (i) trade and price liberalization and taxation, (ii) privatization (or liquidation) of 44 public enterprises, (iii) banking sector restructuring, and (iv) specific actions to support growth in mining and agriculture and livestock. Some of these reforms have been supported by a number of Bank-financed projects, including a Private Sector Assistance project aimed at improving the institutional environment for private activities, which closed on June 30, 2000. Recent economic reforms have not made a dent in the poverty situation of the country however. About 45.3 percent of the population still live below the official poverty line of US$3.55/person per day, against 44.5 percent in 1994. The Government has carried out a number of studies to better analyze the challenges it is facing; including a deep analysis of the characteristics and determinants of poverty and a comprehensive study of competitiveness and long-term sources of growth in Burkina Faso. The latter identified four major constraints to growth: (i) weak human resources, low labor productivity and high unemployment, (ii) weak infrastructure, high input costs, (iii) limited size of the formal sector, and (iv) weak institutional capacity. The Government has realized that acceleration of growth is critical for poverty reduction but to achieve this, it will need to address the above issues in a coherent and sustained way: Government involvement in productive and commercial activities through public enterprises: The Government is still involved in 53 enterprises, of which 11 are big enterprises fully owned by the State that are mainly
involved in public utilities; 18 smaller enterprises that are also fully or majority owned by the State; and 24 small enterprises in which it holds only a minority shareholding. The PE sector represents some 20,000 jobs. These enterprises suffer from insufficient equity due to the lack capacity of the State to contribute to investment needs. The Government is expected to make a decision on the list of PEs to be privatized by the end of pre-appraisal. Under-developed infrastructure and high costs: Despite the efforts initiated by the Government, Burkina Faso has among the highest unit costs of production in the entire Union Economique et Monétaire des États de l’Afrique de l’Ouest (UEMOA / WAEMU) region, in addition to underdeveloped infrastructure in most areas and poor quality of services. These high factor costs are translated into high transaction costs in a non-competitive environment, and have not been conducive to foreign investment and the expansion of the private sector in general. As a result, the situation by sub-sector is as follows: Telecommunications: (i) limited access of the population to telecommunication services (only 5 lines per 1,000 people) as a result of lack of public financing and competition in service provision, (ii) high prices due to monopoly and high costs of investment and operations, (iii) nascent regulatory authority which needs to become operational to deal with a multi-operator environment as the market opens up, and (iv) internet development restricted by a limited number of phone lines and high price of bandwidth. Power Sector: The distribution network is inadequate (servicing only 9 percent of the total population) and power prices are high compared with neighboring countries with similar GDP size and smaller population. This is due to a number of factors, including the high cost of generation due to an inadequate power system planning and the poor performance of SONABEL, in charge of electricity production and distribution. Per capita consumption was about 22kwh in Burkina Faso, compared with 100kwh in Cameroon, 200 kwh in Senegal and 270 kwh in Côte d’Ivoire. The power sector-related issues will be addressed under a separate investment operation. Transport: As a landlocked country, the transport system and its efficiency are critical for the development of its trading activities with neighboring countries and the rest of the world. The transport infrastructure of Burkina consists of: (a) a low density network of interurban roads (9,000 km of which about 2,000 km are paved); (b) a 622 km single metric railway line connected to the Ivorian line; (c) a road freight station in Ouagadougou; (d) two international airports (Ouagadougou and Bobo-Dioulasso); and about 7,000 km of rural roads and a vast network of rural paths. To improve the efficiency of its transport system, the Government has taken steps to liberalize and involve the private sector in the provision of various services. Jointly with Côte d’Ivoire, Burkina has succeeded to privatize the Abidjan-Kaya railway, which has improved significantly the quality of service and increased freight volume. The Government is introducing private participation in urban transport and road maintenance and is about to close the privatization of Air Burkina, the national carrier. It intends to further improve the sector efficiency by developing a multi-modal transport system (including roads and railways, which represent 60 percent and 40 percent of the freight respectively) and pursuing air transport reform which is critical for linkages to international markets (e.g. non-traditional exports such as flowers, fruits and vegetables). Insufficiently conducive business environment: Burkina Faso’s legal and regulatory framework as well as administrative barriers to private investment still need further improvement. The Government has already carried out a major overhaul of
its business laws by adopting new business laws under the OHADA treaty. However, it still needs to carry out a number of additional critical reforms to significantly improve the judicial system which faces a number of issues, among which are: (i) an insufficient number of judges and courts (for example, even though the judicial code foresees courts over the whole territory of Burkina, most courts are concentrated in Ouagadougou and Bobo-Dioulasso, the main two cities); (ii) the lack of operating expenditures; (iii) the slowness of decision making (long delays before judgments are rendered) and publication of decisions, (iv) a lack of accountability and impartiality of judges; (v) the lack of equipment; and (vi) the lack of knowledge of the general public (including business people) of their rights. Administrative barriers are still very cumbersome for enterprise creation and throughout their life which also contribute to high transaction costs. For example, to create a company in Burkina, a small entrepreneur will have to go through numerous steps and pay duties of up to 20 percent of its capital before he can even start activities. FIAS has assisted the Government in simplifying registration procedures and decrees are being currently prepared by the Government for the implementation of the recommendations. With respect to taxation, corporate tax has been reduced from 45 percent to 35 percent in line with the sub-region. The Government intends to undertake a comprehensive study on marginal effective tax rate in order to further reduce taxation levels and bring them in line with other WABMU countries corporate tax, simplify the tax system to remove complex and cumbersome procedures and broaden the tax base. With the assistance of the Bank, the Government has already prepared the terms of reference and the study will be initiated in the near future. This work on taxation is primarily being handled by the macroeconomic team, and coordination will be ensure as needed. Weak private sector: Burkina’s entrepreneurs consist mainly of traders who are lacking international exposure and experience, and who have not yet acquired or mastered modern management methods and standards for their enterprises. As a result, in addition to the improvement of the incentive system and the business environment, specific actions are required to broaden the enterprise base and build capacity within the business community. Unfortunately, in the past, there has not been coordination among donors. As a result, there has been a large number of initiatives with low impact on the development of entrepreneurs. The donor community has therefore agreed to do a joint assessment of the three main institutions providing direct support to entrepreneurs. This assessment will be carried out in December 2000/January 2001 and, based on the results, there will be an agreement among all stakeholders on which program would meet the needs of the Burkinabé entrepreneurs and what should be the contribution of each donor. As a result, employees are not well trained and this constitutes an obstacle to new technology adoption, worker productivity improvement and new products development. Access to financial services is a major constraint for SMEs and farmers. The GOB has carried out a major reform of the banking sector, which is now healthy. However, this reform has not yet resulted in a significant increase in financial intermediation, which remains shallow. Access to financial services is quite limited (only 4 percent of the population has a bank account and about the same proportion has access to microfinance services). Private sector savings are low, as is private sector investment. In spite of some donors’ involvement in the development of microfinance institutions, there is a lack of diversity of financial services, particularly services to satisfy the needs of SMEs, and of investment financing in general. Given the typology of the private
sector in Burkina Faso, there is a need to work on several fronts, namely to: (i) further develop and structure the microfinance system; (ii) enhance capacity of MFIs; and (iii) identify new instruments and mechanisms to meet micro and SMES’ finance needs. To increase competitiveness and value-added, agriculture and livestock commodity chains need improvements. The performance of the livestock and agricultural sector in Burkina is irregular. About 87 percent of the rural households (or about 1.3 million agro-pastoral farms) live from subsistence farming and extensive livestock practices with a low productivity rate. Government sectoral development strategy calls for (i) policy change (e.g. price, market policy reform and liberalization) for agriculture, agro-industry and related services profitable, (ii) an increase in sector productivity through improved skills, technology and adequate market incentives; and (iii) diversification of production systems and exports. Structural changes to improve commodity chains will be necessary to unleash the growth potential. Actions are particularly needed to improve the value chain for a number of sub-sectors such as the cotton agro-industry, vegetable oils, livestock, and fruit and vegetable.

2. Objectives
With a 5.7 percent growth rate per annum over the 1996-99 period, Burkina Faso’s economy has been one of the best performing countries in West Africa. Nevertheless, its real GDP per capita is still as low as US$230 and about 45 percent of the population live below the poverty line. In order to reduce the high incidence of poverty, Burkina Faso is aiming to achieve sustained higher growth rates. The achievement of this objective hinges on the ability of Burkina Faso to improve the supply response of the economy by rolling back the government, improving its overall business environment as well as the quality of its infrastructure, and ensuring sustained development of its indigenous private sector while attracting foreign direct investment. The proposed project is one of the Bank’s proposed instruments to assist the Government implement its recent Poverty Reduction Strategy which spells out long-term development objectives based on lowering input costs and increasing factor productivity, encouraging private initiative and supporting activities to generate income and create jobs, particularly in rural areas. The project objective is to assist Burkina Faso improve the competitiveness of its economy through private sector development, mitigation of SME constraints and improved linkages to markets. To achieve that objective, the project will provide support to: (i) roll back overextended government through privatization and actions to foster competition; (ii) promote the development of a strong and competitive private sector through a streamlined business environment, effective business development services (BDS), microfinance services to micro, small and medium enterprises (SMEs) and improved linkages to markets.

3. Rationale for Bank’s Involvement
The Bank has played a key role in the donor coordination committee in order to bring the issues of efficiency of allocation of resources and better coordination of programming activities to discussion. As a result, the last two missions were multi-donor missions, in particular with the European Union and CIDA. In addition, the Bank has a comparative advantage in addressing the issues at the center of the project: It has a recognized knowledge advantage on issues of telecommunications sector reform with unique international experience in helping client countries design and
implement telecommunication sector policies and establish regulatory frameworks. Under the previous operation, the Bank provided substantial support which brought about concrete results such as establishing policy and legislation in the telecom sector; awarding two mobile licenses and establishing the regulatory framework. It has a large pool of specialized skills within the World Bank Group staff (including an active role of the IFC) which can be flexibly deployed according to needs.

4. Description
The tables below show the various project components and costs *:

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<th>Components/Activities</th>
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<td>Development and implementation of a rural telecommunications strategy and funding mechanisms Developing new ICT services: Development of a strategy to develop a National Information Infrastructure Establishment of Internet (IP) backbone Implementation of a priority actions and applications (i) Education services (on-line training) (ii) Market information and linkages (e.g. agriculture products; handicrafts)</td>
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5. Financing

Total Project Cost 27

6. Implementation
Previous experience from the recently completed private sector development project has demonstrated that there is a need to decentralize responsibilities and to simplify procedures so as to better monitor activities. As the result, there will be a small overall coordinating unit and three technical units for each of the components of the project. The overall coordination unit will retain the operational and financial management/disbursement functions. It is also proposed that the private sector be involved in the management of the component providing direct support to entrepreneurs. The Government has already considered setting up a competitiveness committee to oversee the implementation of the program. It is proposed that this committee be open to the private sector.

7. Sustainability
There are several types of sustainability factors: Institutional
sustainability: The Government will ensure that the policy and regulatory framework guarantees fair competition among various private players. In order to assure the sustainability of the expected outcomes, the Government needs to maintain its commitment to transparency of the privatization transactions and provide the required budgetary support, the amount of which will be defined during the project. Enterprise development: If successful, the project should lead to considerably strengthening the capacity of the private sector with the emergence of a new type of entrepreneurs capable of identifying new opportunities and taking advantage of them.

8. Lessons learned from past operations in the country/sector

Implementation experience from the recently closed Private Sector Assistance Project (Cr-2472-BUR) shows that technical assistance is not a substitute for weak government commitment. In the absence of a shared vision among all stakeholders on what a project is expected to achieve, little change can be expected. The Bank has provided support to the Government to develop the new development strategy based on an in-depth analysis of the problems the economy is facing. This vision is now well articulated in the PRSP submitted to the Board on June 27, 2000. The Government has subsequently prepared a private sector strategy that has been discussed with the private sector as well as a detailed program that was approved by the Cabinet meeting of July 14, 2000. To ensure program ownership and to facilitate public-private partnership, it is important that the private sector be involved in project preparation and execution. To that effect, the Bank team will assess the capability of the public-private committee to play this role. This will be discussed in depth with the private sector during the next mission. It is also proposed that the project manager be selected from the private sector with in depth understanding of private sector issues. Close donor coordination is also essential to develop synergy and increase project’s impact potential. The Bank has been working more closely with the other donors. A donor consultation committee has been established and is led by CIDA (Canada). During the definition of the project, several meetings took place with both the Government and the private sector in order to identify priorities and the comparative advantages of the various donors. In that regard, it has been agreed that the judiciary reforms would be handled by the European Union.

9. Program of Targeted Intervention (PTI) N

10. Environment Aspects (including any public consultation)

Issues: Since the project will have a privatization component, it will require a partial environmental assessment. The main environmental issues relate to the need to mitigate environmental hazard and risk factors adequately in the plants and operations of the public enterprises (PEs) concerned, prior to their divestiture. While the PB divestiture program does not include major PEs in sectors where significant environmental issues can be expected to arise, there will be nevertheless review and analysis, and where warranted, mitigation and clean up.

11. Contact Point:

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Note: This is information on an evolving project. Certain components may not be necessarily included in the final project.

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