WORLD BANK GROUP
AFRICA REGION, PRIVATE SECTOR UNIT

Summary of
Investment Climate Assessment: Burkina Faso

Burkina Faso has enjoyed positive growth in recent years estimated at 6 percent 1994 and 2004. This has enabled a stark 8% reduction in the poverty rate which currently stands at approximately 46.4% (2003). Although encouraging signs, they cannot mask the important constraints facing Burkina, the primary one being the need to diversify its economy away from over reliance on volatile primary products towards a more stable and sustainable private sector led growth which will strengthen current poverty reduction efforts. To do this will require improvements to the investment climate. The recent Investment Climate report analyzes the current situation of the investment climate to contribute to the ongoing discussion on the development of the private sector in the country.

Macroeconomic Framework and Productivity

Findings from this report suggest that firms in Burkina Faso operate within a correct macroeconomic environment. GDP growth has been growing stronger since devaluation and the accompanying structural and liberalizing reform efforts. These efforts have translated into certain privatization, tariff reduction and investment promotion activities that are beneficial to private sector activity.

However, recent analysis of firm productivity levels underlines the ongoing weakness of Burkinabe firms within an increasingly competitive global environment.

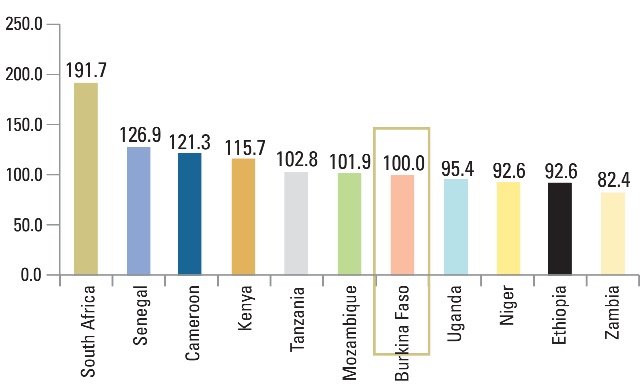
Labor productivity remains relatively low in manufacturing in Burkina Faso when compared to other African countries such as Senegal or Cameroon, and significantly lower than that of South Africa and 5 times lower than that of China. Labor productivity in Burkina Faso is around \$3,105 per employee on the basis of the 2005 accounting data. Moreover, estimates of production functions suggest that Total Factor Productivity (TFP) in Burkina Faso is inferior to that of a number of East African comparators and those in the French zone (notably Cameroon and Senegal). Persistently low productivity makes it more difficult to maintain a competitive manufacturing industry and does not allow the private sector to generate enough employment and contribute to growth.

In addition, in spite of recent growth and a correct macroeconomic framework, the country still faces serious structural problems, that of persistently high poverty levels, unpredictable growth that remains overly dependent on its cotton industry and weak FDI inflow. It is also notable that in spite of signs of economic recovery, private investment levels remain low, averaging approximately 11.7% of GDP since 1994. This performance suggests that efforts until now are not enough to restore investor confidence in Burkina, and that additional measures will be critical if Burkina wishes to improve its investment climate and attractiveness to investors.

Investment Climate Constraints

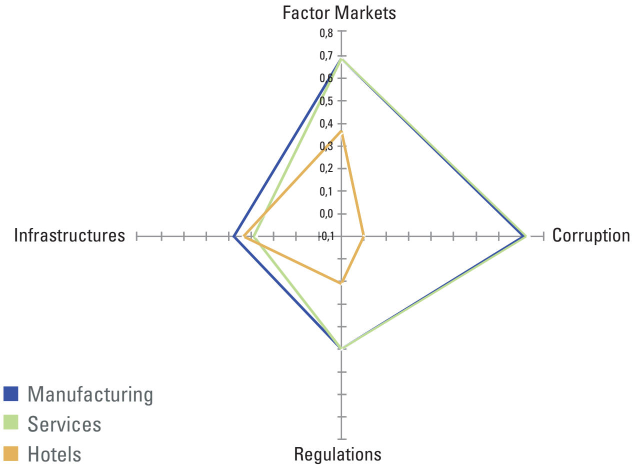
The survey results show that the investment climate in Burkina Faso in 2005/2006 is not favorable to the private sector from an international perspective, whatever

Figure 1. Total factor productivity in Burkina Faso is similar to other sub-saharan countries, but is still lower than in the best performing countries.



the sector. Results from the Enterprise Survey suggest that many serious issues remain (see figure 2). The most striking are linked to corruption (perceived as strong), inconsistencies in the application of regulations, a low efficiency of the judiciary, a relatively heavy tax burden, and finally problems of access and costs of financing. In addition, infrastructure is perceived as a major constraint to doing business in Burkina Faso.

Figure 2. Intensity of perception of constraints (Major =0, Very severe =1)



Corruption

Corruption issues are a major concern for entrepreneurs. Corruption contributes to increase operating costs for firms. It is a serious concern for almost 57 percent of the entrepreneurs in the formal sector and is perceived as a binding constraint to operations for managers of firms surveyed in other sectors of the economy. In this respect, Burkina Faso does not fare well in a comparative perspective; it belongs to a group of countries were this issue is perceived as extremely severe by managers. The cost of corruption is non negligible; the cost of "informal payments" ranges between 6 and 10 percent of firm's yearly turn-over, depending on the sector.

Infrastructure

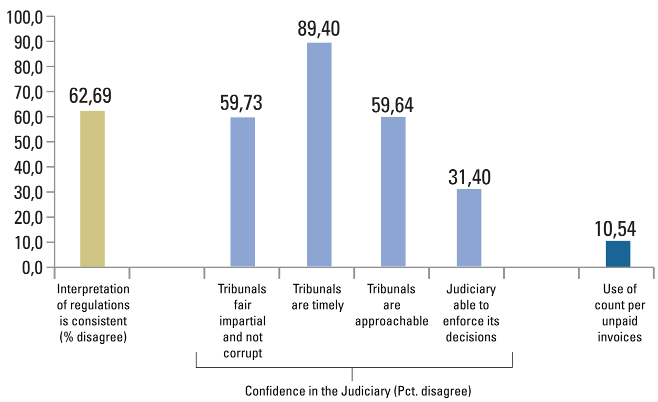
Infrastructure is crucial to firm productivity. These have very serious deficiencies in Burkina Faso. Problems linked to the supply of electricity and to transportation are major issues for up to 62 percent of firms surveyed. These have a significant impact on firm's performance; almost 5 percent of manufacturing firm's annual turnover is lost due to electricity shortages

Regulatory constraints remain severe

- *Tax rates* as well as *tax regulations* are among the important concerns for formal companies' managers (for about 76 percent of formal firms). The tax system is indeed focused on the collection of tax revenues from a limited tax base; in practice, a small number of formal firms and remains cumbersome.
- Managers have *low confidence in the consistency of the regulatory framework* and in the *judiciary*. Across sectors, almost 63 percent of the managers of formal firms consider that the interpretation and the application of regulations by civil servants are unpredictable. (see figure 3) Almost 60 percent of managers of manufacturing firms surveyed consider that the courts are unfair, partial and corrupted.
- The weight of regulations remains important. Managers spend nearly 10 percent of their time to solve administrative issues, depending on the sector.

Figure 3. Interpretation of regulation and confidence in judiciary

(percentage of firms who disagree).



NB: Exclusive to manufacturing firms.

Source: Enterprise survey in Burkina Faso 2006, World Bank.

Factor markets show some weaknesses

- Serious constraints still exist on the formal labor market including the absence of an educated work force, a weak development of professional training programs and losses from absenteeism due to labor force suffering from ill health. For a number of firms license procedures are costly and procedures themselves are often unclear. Finally, econometric analysis indicates a disconnect between labor productivity and wage levels.

- The proper functioning of the financial market and an unbiased access to financing is an important element for the development of any private sector. However, there is room for progress in this area too. Finance issues are an important impediment to firm's growth; access and cost of financing are two major constraints for firms, whatever the sectors. Data suggest that there is a differentiation in access to finance. Many companies, particularly among the smallest ones, do not even try to obtain formal financing (loans and overdrafts) which is mainly determined by the size of the company, the use of auditor to certify the accounts, the ownership as well as the access to export markets. Finally, banks usually require high levels of guarantees for loans, on average 123 percent of the value of the loan itself.

Conclusion and Recommendations

Since 1991 and the 1994 devaluation, many structural reforms were implemented in Burkina Faso. In spite of these significant efforts, the investment climate in 2005/6 is still not favorable to the private sector. Additional reforms are therefore necessary to increase firm's competitiveness and the performances of the private sector. These are presented below.

The improvement of external promotion efforts to improve the reputation of Burkina Faso as a business place, including an intensification of the public/private dialogue;

Corruption: A strengthened fight against corruption and further improvements of the regulatory framework to reduce firm's operating costs;

Factor Markets: Improvement in the functioning of factor markets to improves the quality of labor and the availability of financing for firms;

Infrastructure: The supply of better infrastructures services to contain production costs and allow for a more efficient distribution of firm's output;

This note is part of a series of summaries of analytical work of the Africa Private Sector Development Unit. It is based on the report *Investment Climate Assessment: Burkina Faso*. For more information, contact Melanie Mbuyi via email at mmbuyi@worldbank.org, or via telephone at (202) 473-9574. A copy of this report is also available online at www.worldbank.org/rped.