

POSITIVE RESULTS IN A NUMBER OF AREAS BUT LIMITED INFLUENCE ON GROWTH

SUPPORT TO INVESTMENT CLIMATE REFORMS

The World Bank Group's (WBG) involvement in investment climate (IC) reform in Burkina Faso began in 2006 and is still on going. Initially, WBG assistance sought to address Burkina Faso's disappointing performance in the Doing Business (DB) rankings, with the objective of creating "an improved investment climate as measured by the Doing Business indicators". Overtime, emphasis on DB-related reforms has progressively diminished, and growing attention was paid to other themes.

WBG reform assistance has been articulated in two phases. During the first phase, running from early 2006 through mid-2011, the focus was on five IC reform themes, namely: (i) the reform of business registration; (ii) the simplification of procedures for construction permits; (iii) the reform of property registration; (iv) the streamlining of business licensing mechanisms; and (v) legal reforms linked to DB-indicators (labor legislation, enforcement of contracts, etc.). During implementation, the scope of work was expanded, with the launch of activities targeting (vi) trade logistics and (vii) alternative dispute resolution (ADR) mechanisms. The second phase, started in mid-2011 and expected to continue until mid-2015, is much more selective than the previous one, focusing

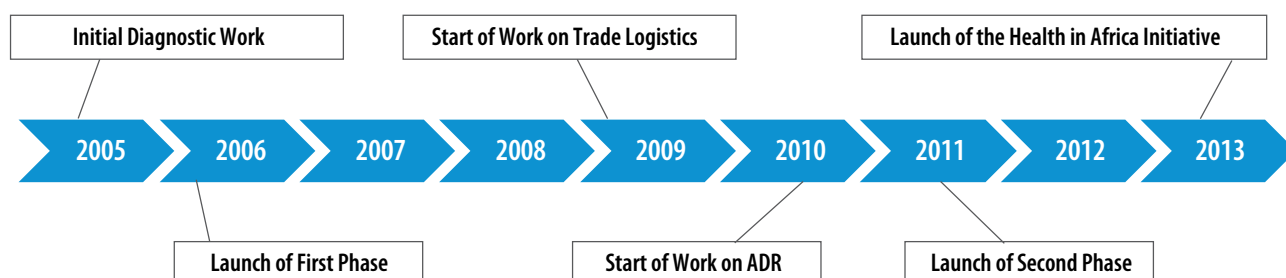
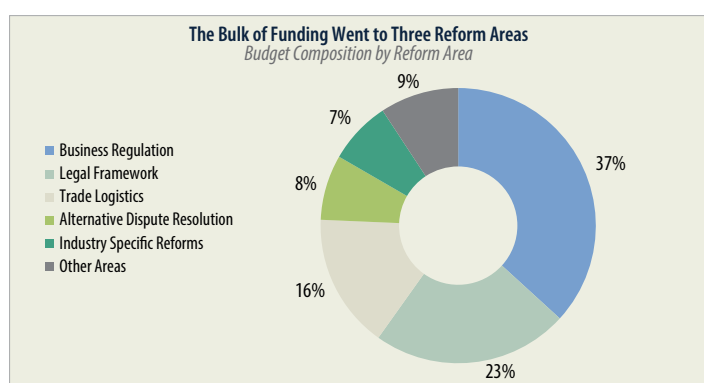
BURKINA FASO – KEY FACTS

Burkina Faso is a medium-sized landlocked country with a population of 16.9 million, a GDP of US\$ 11.6 billion and a GNI per capita (Atlas method) of US\$ 670 (2013). Over the 2006-2013 period, GDP grew at an average of nearly 6% per annum. The economy is largely dominated by natural resources-based activities, with agriculture (cotton) and extractives (gold) accounting for the bulk of exports. Starting in the early 1990s, the country enjoyed a long period of political stability, under a strong but increasingly autocratic leadership. However, political tensions began to emerge in the 2010s, eventually leading to an abrupt change in power, following the uprising of October 2014.

on just two reform areas: business licensing and debt resolution & bankruptcy proceedings. Since late 2013, additional reform assistance focusing on the health sector was launched. The WBG program had a total budget of US\$ 6.1 million. Three quarters of available funds have been allocated to three reform areas: the reform of business regulations (which includes business licensing and construction permits), legal reforms linked to DB indicators, and trade logistics.

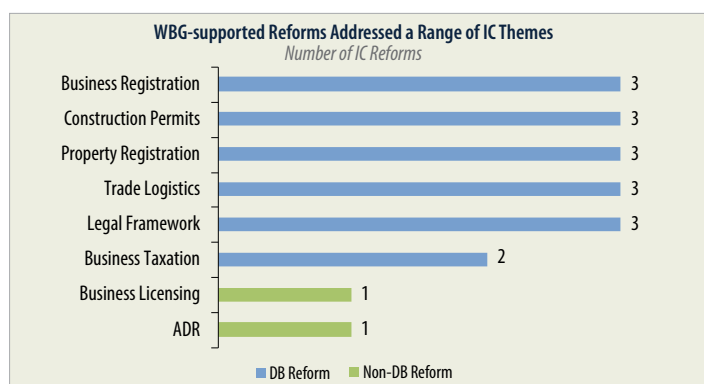
WBG reform work has been actively supported by the Investment Climate Facility for Africa (ICF), which provided funding in excess of US\$ 4 million to cover for expenses not eligible under WBG advisory services projects (e.g. the refurbishment of Commercial Courts in Ouagadougou and Bobo Dioulasso).

Program implementation has been fairly smooth. The WBG managed to overcome the government's initial skepticism (the accuracy of DB rankings was hotly disputed, in some cases with good reason) and this paved the way to a fruitful cooperation with all the concerned parties.



RESULTS OF IC REFORM EFFORTS

The WBG program was quite successful, contributing to the implementation of 19 IC reforms over the 2007–2013 period. The bulk of IC reforms concerned DB-related themes, with particularly positive results regarding business registration procedures, construction permits, property registration, trade logistics, and the overall legal framework for private operations. Non DB-related reforms concerned business licensing and ADR mechanisms. WBG-supported reforms greatly contributed to improve Burkina Faso's DB rankings, with the country passing from the 163rd position in 2006 to the 154th place in 2013. A similar improvement is shown also by other indicators used to assess the quality of the business environment, namely the World Bank's Regulatory Quality Indicator and the Heritage Foundation's Economic Freedom Index.



ACHIEVEMENTS IN SELECTED REFORM AREAS

Construction Permits and Property Registration. WBG activities greatly contributed to improve the conditions for real estate transactions. This involved the setting up of two dedicated one-stop-structures, the *Centre de Facilitation des Actes de Construire* (CEFAC) and the *Guichet Unique Foncier* (GUF), dealing respectively with construction permits and land registration. The establishment of CEFAC was paralleled by a drastic simplification of procedures and documentation: as a result, the time required to handle applications for construction permits is usually less than one month, well within the three-month limit stipulated in relevant legal texts. Finally, the WBG was successful in advocating the reduction of a particularly onerous tax on property transfers, that was reduced twice (in 2007 and 2008), passing from 15% to 8%.

Business Registration. The reform of business registration procedures started before the launch of the WBG program, with the setting up of a one-stop-shop structure, the *Centre de Formalité des Entreprises* (CEFORE). The WBG helped in further streamlining the registration process, successfully

advocating the elimination of certain obligations (e.g. the registration of the articles of incorporation with tax authorities) and the reduction of registration fees. In addition, WBG was able to mobilize additional financing from the ICF to support the progressive decentralization of registration services, with the opening of CEFORE offices in other urban centers.

Trade Logistics. Early WBG work on trade logistics focused on the simplification and consolidation of procedures and documentation, leading to the prolongation of the validity of import export documents and the elimination of police escorts on low risk inbound and transit freight cargo. Later work aimed at improving border clearance procedures, namely through a better integration of customs operations with neighboring countries (in particular, with Togo). Detailed customs statistics are not available, but all indications are that the average clearing time has declined, although forwarding agents still report a high share of physical inspections.

Alternative Dispute Resolution. The WBG program substantially contributed to the strengthening of the *Centre d'Arbitrage, de Médiation et de Conciliation de Ouagadougou* (CAMC-O), through the provision of training for arbitrators and mediators and assistance for improving internal procedures for case management. As a result, CAMC-O's ability to offer ADR services greatly improved, and the center is currently able to handle disputes with good turnaround times (e.g. arbitration cases are usually heard within 3 months, compared to a benchmark of 6 months).

EASIER ACCESS TO ADR IS HIGHLY APPRECIATED BY FOREIGN INVESTORS AND GOVERNMENT ENTITIES

The increased availability of ADR services is particularly appreciated by foreign investors, who mainly value the confidentiality of proceedings. Disputes involving foreign investors (mostly active in mining and banking), account for 95% of the value of cases handled by CAMC-O. Government entities also use CAMC-O's services for resolving legal disputes and the 'arbitration clause' is increasingly used in contracts where public entities are party.

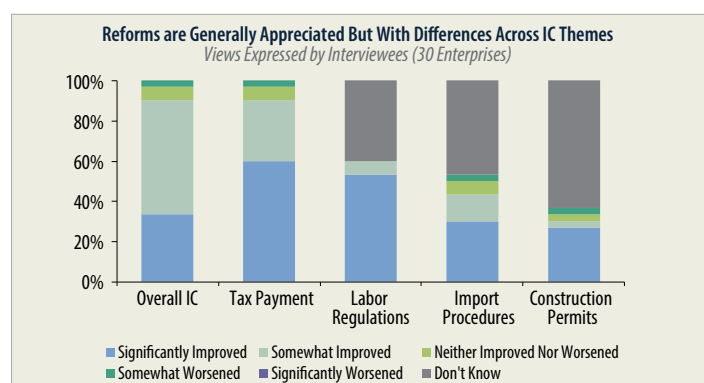
Business Licensing. The improvement of business licensing procedures is a central IC reform theme in Burkina Faso. The WBG helped to set in motion a far reaching regulatory review process with the setting up of central secretariat for regulatory reform (*Secrétariat Permanent chargé du suivi des réformes des licences d'affaires*) and the screening of more than 100 pieces of regulation. Work is still largely ongoing, but some positive results have already been achieved in the health and education sectors (see box).

BEYOND RED TAPE CUTTING: THE REFORM OF PRIVATE EDUCATION LICENSING

The reform involved the general overhauling of the regulatory framework for the establishment and operations of private schools as well as the delegation of certain powers from the Ministry to regional directorates. Initiated in 2010, the reform process was progressively extended to cover post primary schools, pedagogical schools, and higher learning institutions. The reform entailed only marginal cost savings for private promoters as its primary objective was to increase the predictability of the licensing process, in order to provide prospective entrants with a clear reference framework.

PRIVATE SECTOR'S VIEWS ON IC REFORMS

Attitudes towards IC reforms were assessed through interviews with local small and medium enterprises (SME). The Burkinabe private sector is broadly appreciative of IC reforms, although the assessment is not uniform. Regarding overall IC developments, 90% of the firms interviewed expressed a positive assessment, but only one third considered the IC to have 'significantly improved', the rest finding the situation to have 'somewhat improved'. Regarding specific IC themes, views were more variegated, with a significant share of interviewees unable to provide an assessment due to lack of direct experience. The vast majority of interviewees expressed a positive assessment on tax payment procedures, an area in which however WBG was scarcely involved. Changes in labor regulations (which instead were actively supported by WBG) were also considered positively by a solid majority of respondents ("the fixed term contract was a real reform"). The share of non-respondents was very high in the case of construction permits and import procedures, but positive views largely prevailed among those able to express an opinion.

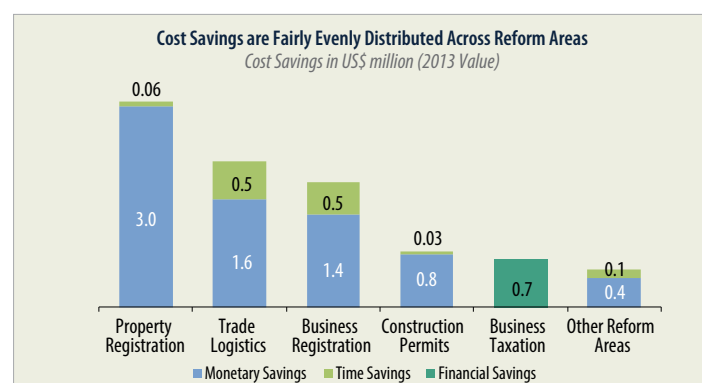


IMPACT OF IC REFORMS – REDUCTION OF COMPLIANCE COSTS

WBG-supported reforms significantly contributed to reduce the administrative burden faced by private businesses, resulting in significant private sector cost savings. In fact, over the 2007-2013 period, 14 reforms generated cost savings worth some US\$ 9.1 million. More than three quarters of total cost savings consist

of 'monetary savings', related to the elimination or reduction of fees and other out-of-pocket expenses. The remaining cost savings include 'time savings', generated by the decrease in the time required to handle administrative procedures, and, to a lesser extent, 'financial savings', linked to the cash flow benefits resulting from the introduction of more favorable payment modalities for certain fees or taxes (e.g. the reduction of the deposit taxpayers are required to pay when filing an appeal against an assessment made by the tax administration).

About one third of total cost savings (US\$ 3 million) refer to reforms of property registration, mostly thanks to the major reduction of the tax on property transfers. Significant results were also achieved in the areas of trade logistics (US\$ 2.1 million), thanks to the prolongation of validity of customs documentation and the elimination of trade escorts, and business registration (US\$ 1.8 million), with the reduction in the number and complexity of the procedures for the establishment of new firms, including the reduction of registration fees and other out-of-pocket expenses. IC reforms in other areas cumulatively account for cost savings worth some US\$ 2.1 million, with a combination of cost, time and financial savings.

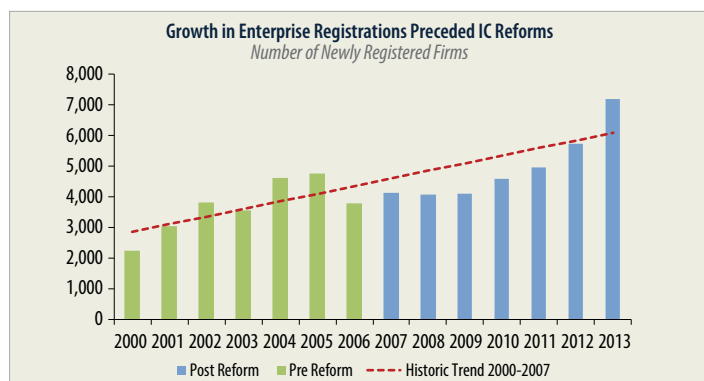


The value of cost savings has been increasing overtime, due to the coming on stream of new reforms and the increasing number of firms/transactions benefiting from earlier reforms. In relative terms, over the 2007-2012 period cost savings accounted for about 0.1% of private investment, and their importance grew from 0.03% in 2007 to about 0.15% in 2011 and 2012.

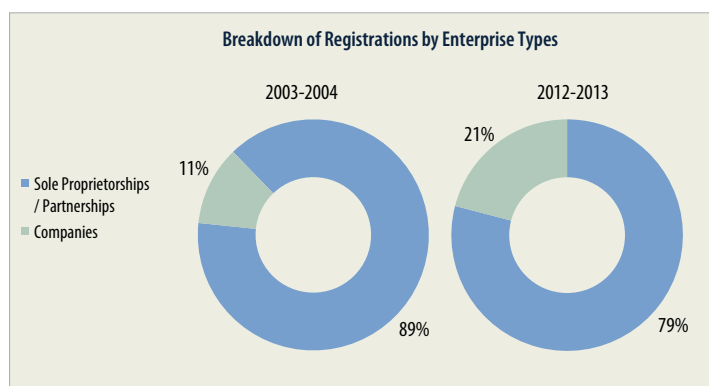
IMPACT OF IC REFORMS – ENTERPRISE FORMATION AND FORMALIZATION

Enterprise Formation. In Burkina Faso, the number of business registrations increased before the start of IC reforms, reaching a peak of some 4,800 new firms registered in 2005. In the intervening period to 2009, annual registrations declined to some 4,000 per year, followed by a new increase in following years. Extrapolating the trend prevailing in the 2000-2007 'pre reform period' to the

subsequent years, the number of actual registrations is usually significantly lower, exceeding the predicted values only in 2013. Overall, this suggests that IC reforms did not have an appreciable influence on the enterprise formation process.



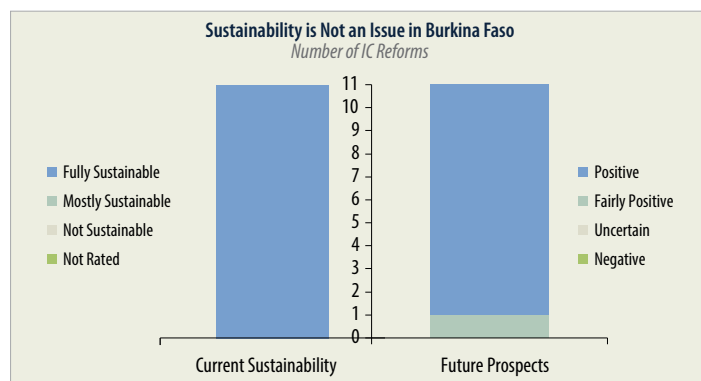
The reform of business registration procedures concerned all enterprise types, but they were ‘deeper’ for firms adopting a corporate form, i.e. limited liability companies and share companies. This contributed to a growing preference for companies over more ‘traditional’ enterprise types. Indeed, registration statistics show a marked increase in the incidence of companies, whose share in total registrations nearly doubled in less than a decade, passing from an average 11% in the pre reform years 2003-2004 to 21% in 2012-2013.



Formalization. The impact of IC reforms on the formalization of previously informal firms is difficult to gauge. About one third of the local firms interviewed operated informally prior to registration. In general, economic considerations (i.e. better access to customers, suppliers and finance) and/or pressure from government authorities were the main motivations for abandoning informality, although in some cases the simplification of registration procedures was mentioned as a facilitating factor. However, the number of available observations is quite limited (only seven firms), and no conclusive assessment is possible.

SUSTAINABILITY OF IC REFORMS

IC reforms implemented with WBG support display a high degree of sustainability. Indeed, all the 11 reforms analyzed in detail can be currently regarded as fully sustainable. The assessment is equally positive regarding future prospects, with only one reform possibly exposed to mild adverse developments.



The legal and regulatory reforms implemented with WBG support are still in force and the likelihood of policy reversal is very low. In the highly politically sensitive area of labor legislation, there is some pressure from trade unions to modify the Labor Code approved in 2007 with WBG support, which greatly increased flexibility in the hiring and firing of workers, and more generally, in managing the labor force (e.g. de facto endless renewal of fixed term contracts). In 2013, the Minister of Labor commissioned a review of the Labor Code, and this might lead to some amendments, but indications are that the spirit of the reform will not be significantly affected.

The institutions created or strengthened with WBG are fully functional and no adverse developments are expected. Actually, in some cases the reform process ignited by the WBG program has been continued by government authorities. For instance, in the area of business registration, the CEFOR, initially established in the capital city, is now operating in twelve urban centers, greatly extending the coverage of business registration services. There are occasional operational difficulties (e.g. the CEFAC in Ouagadougou is currently operating with a slim technical staff of only three), but these do not constitute a major threat to sustainability.