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Report No. 106670-BF

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED GRANT

IN THE AMOUNT OF SDR 32.8 MILLION
(US$45 MILLION EQUIVALENT)

AND A PROPOSED CREDIT

IN THE AMOUNT OF EURO 50.3 MILLION
(US$55MILLION EQUIVALENT)

TO

BURKINA FASO

FOR THE

FIRST ENERGY AND FISCAL MANAGEMENT DEVELOPMENT POLICY FINANCING

November 21, 2016

Macroeconomics and Fiscal Management Global Practice
Energy and Extractives Global Practice
Africa Region

BURKINA FASO - GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate as of October 31, 2016)

Currency Unit =	CFA Franc (CFAF)
SDR1.00 =	US$1.3738850000
US$1.00 =	CFAF 598.80140581
US$1.00 =	EURO 0.91286686

ABBREVIATION AND ACRONYMS

ARCOP	Regulatory Authority of Public Procurement *(Autorité de régulation de la commande publique)*
ARSE	Regulatory Authority for the Electricity Sector *(Autorité de Régulation du Secteur de l'Electricité)*
BCEAO	Central Bank of West African States *(Banque Centrale des Etats de l'Afrique de l'Ouest)*
BUNEE	National Environmental Agency *(Bureau National des Evaluations Environnementales)*
CFAA	Country Financial Accountability Assessment
CGAB	Multi-Donor Budget Support Group *(Cadre Général d'Organisation des Appuis Budgétaires)*
CIDPH	Inter-ministerial Committee for the Determination of Hydrocarbon Prices (*Comité Interministériel de Détermination des Prix des Hydrocarbures*)
CMS	Commercial Management System
CNT	National Transition Council *(Conseil National de Transition)*
CPI	Consumer Price Index
CPS	Country Partnership Strategy
CPF	Country Partnership Framework
CSLP	Strategic Framework for the Fight against Poverty *(Cadre stratégique de la Lutte contre la Pauvreté)*
DDO	Distillate Diesel Oil
DeMPA	Debt Management Performance Assessment
DGB	Directorate General for the Budget (*Direction Générale du Budget*)
DGCOOP	Directorate in Charge of Cooperation
DGMP	General Directorate for Procurement Contracts *(Direction Générale des Marchés Publics)*
DGTCP	General Directorate of the Treasury and Public Accounts (*Direction Générale du Trésor et de la Comptabilité Publique*)
DP	Development Partners
DPF	Development Policy Financing
DSA	Debt Sustainability Analysis
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
ESDF	Electricity Sector Development Fund
EU	European Union
FDI	Foreign Direct Investment
FSE	Special Fund for Energy
GCC	Growth and Competitiveness Credits
GDP	Gross Domestic Product
GNI	Gross National Income

GoBF	Government of Burkina Faso
GRS	Grievance Redress Service
HFO	Heavy Fuel Oil
HIPC	Heavily Indebted Poor Countries
HV	High Voltage
ICCR	Implementation Completion and Results Report
IDA	International Development Association
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPP	Independent Power Producer
IRS	Internal Revenue Service
LCDP	Least-Cost Development Plan
LDP	Letter of Development Policy
LV	Low Voltage
M&E	Monitoring and Evaluation
MCC	Meter Control Center
MEFD	Ministry of Economy, Finance and Development (*Ministère de l'Economie, des Finances et du Développement*)
MIGA	Multilateral Investment Guarantee Agency
MTEF	Medium-Term Expenditure Framework
MV	Medium Voltage
MWP	Mega Watt Peak
NPV	Net Present Value
PA	Prior Action
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Assessment
PER	Public Expenditure Review
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
POSEF	Country's Economic and Finance Sector Policy *(Politique du Secteur de l'Economie et des Finances)*
POSEN	Energy Sector Policy *(Politique Sectorielle de l'Energie)*
PNDES	National Plan for Economic and Social Development *(Plan National de Développement Economique et Social)*
PPA	Power Purchase Agreement
PPP	Public-Private Partnerships
PRGB	Budget Management Reform Plan (*Programme de Renforcement de la Gestion Budgétaire*)
PRSP	Poverty Reduction Strategy Paper
SCADD	Strategy for Accelerated Growth and Sustainable Development (*Stratégie de Croissance Accélérée et de Développement Durable*)
SCD	Systematic Country Diagnostic
SDR	Special Drawings Right
SENELEC	Senegal state-owned electricity provider *(Société Nationale d'électricité)*
SME	Small and Medium Enterprises
SONABEL	State-owned electricity provider *(Société Nationale d'électricité du Burkina Faso)*
SONABHY	Public oil importing company *(Société Nationale des Hydrocarbures)*
SORT	Systematic Operations Risk-rating Tool
SSA	Sub-Saharan Africa
VAT	Value Added Tax
WAPP	West African Power Pool
WAEMU	West African Economic and Monetary Union
WBG	World bank Group

Regional Vice President:	Makhtar Diop
Country Director:	Pierre Laporte
Senior Global Practice Director MFM:	Carlos Felipe Jaramillo
Senior Global Practice Director GEE:	Riccardo Puliti
Practice Manager:	Lars Christian Moller
Task Team Leaders:	Samba Ba and Alexis Madelain

BURKINA FASO

FIRST ENERGY AND FISCAL MANAGEMENT DEVELOPMENT POLICY FINANCING

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The World Bank team responsible for preparing this operation is led by Samba Ba (Task Team Leader, Senior Economist, GMF08) and Alexis Madelain (Energy Specialist, Co-TTL, GEE07) under the guidance of Lars Christian Moller (Practice Manager, GMF08), Charles Cormier (Practice Manager, GEE07), Pierre Laporte (Country Director, AFCF2), Cheick Kante (Country Manager, AFMBF), Erik Magnus Fernstrom (Practice Manager, GEE05), Jacques Morisset (Program Leader, AFCF2) and Christine Richaud (Lead Economist, GMFDR). The core team consists of Alassane Agalassou (Senior Energy Specialist, GEE07), Mariam Diop (Senior Economist, GMF08), Begnadehi Claude Bationo (Senior Operations Officer, AFCF1), Maimouna Mbow Fam (Senior Financial Management Specialist, GGO26), Mohamed El Hafedh Hendah (Senior Procurement Specialist, GGO07), Alpha Mamoudou Bah (Senior Procurement Specialist, GGO07), Leandre Yameogo (Senior Environmental Specialist, GEN07), Silvia Gulino Passera, (Operations Analyst, GMF01), Weneyam Hippolyte Balima (Research Assistant, GMF01), Catherine Compaore (Team Assistant, AFMBF), Maude Jean-Baptiste (Program Assistant, GMF08) and Wahida Obaidy (Team Assistant, GMF08). The peer reviewers are Sudeshna Banerjee (Lead Energy Specialist, GEE01) and Frederico Gil Sander (Senior Economist, GMF06).

SUMMARY OF PROPOSED GRANT AND PROGRAM
BURKINA FASO
FIRST ENERGY AND FISCAL MANAGEMENT DEVELOPMENT POLICY FINANCING

Borrower:	Government of Burkina Faso.
Implementation Agency:	Ministry of Economy, Finance and Development (MEFD).
Financing Data:	IDA grant in the amount of SDR 32.8 million (US$45 million equivalent) and an IDA credit in the amount of EURO 50.3 million (US$55 million equivalent) on standard IDA terms for grant and credit.
Operation Type:	First single-tranche operation of a programmatic series of two consecutive development policy financing (DPF) operations.
Pillars of the Operation and Program Development Objectives:	The Program Development Objectives (PDOs) and pillars of the operation are to support the Government efforts to: (i) improve the financial sustainability of the energy sector; (ii) diversify energy and improve the legal and institutional framework of the energy sector; and (iii) strengthen tax collection and public procurement processes.
Results Indicators:	***Improving the financial sustainability of the energy sector*** • Reduction of cross arrears between the Government, SONABHY and SONABEL. Baseline: arrears accrued by June 30, 2016: CFAF 140 billion. Target in 2018: CFAF 60 billion. • Improved financial performance of the state-owned electricity provider *(Société Nationale d'électricité du Burkina Faso* -SONABEL*)*, as measured by Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA). Baseline 2015: CFAF14 billion. Target 2018: above CFAF40 billion or higher. • Reduction in customer's outstanding bills due to SONABEL (as measured by client receivables). Baseline in 2015: CFAF 55 billion in 2015. Target in 2018: below CFAF 39 billion in 2018. ***Diversifying the energy and improving the legal and institutional framework of the energy sector*** • Maximum installed capacity for new solar photovoltaic plants (Mega Watt peak - MWp). Baseline 2015: 0. Target 2018: 77. • Capacity available on the interconnected network, excluding guaranteed imports (% of installed capacity). Baseline 2015: 52 percent. Target 2018: 62 percent. • Number of Independent Power Producer (IPP) projects having been signed and successfully negotiated. Baseline 2015: 0. Target 2018: 2. • Percentage of IPPs under standardized competitive process. Baseline 2015: 0 percent. Target 2018: at least 50 percent. ***Strengthening tax collection and public procurement processes*** • An increase in VAT revenues. Baseline 2015: 6.5 percent of GDP. Target 2018: 7.0 percent of GDP. • An increase in non VAT tax revenues. Baseline 2016: 9.5 percent of GDP. Target 2018: 10.5 percent of GDP. • A reduction in the number of days on average to complete a public procurement from the invitation to bid to contract signed and approved. Baseline 2015: 142 days. Target 2018: 100 days.
Overall Risk:	Substantial
Climate and disaster risks:	*Are there short and long-term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)? No*
Operation ID:	P157060

IDA PROGRAM DOCUMENT FOR A PROPOSED
FIRST ENERGY AND FISCAL MANAGEMENT DEVELOPMENT POLICY FINANCING
TO BURKINA FASO

1. INTRODUCTION AND COUNTRY CONTEXT

1.1. **This program document proposes the first operation in a programmatic series of two Development Policy Financing (DPF) operations designed to support energy and fiscal reforms in Burkina Faso.** The proposed first DPF is a single-tranche disbursement of US$100 million equivalent, 45 percent in the form of an IDA grant and 55 percent as an IDA credit. The policy program supported by the DPF aims at: (i) improving the fiscal stance of the Government; and (ii) strengthening the financial health of the energy sector to deliver secure, affordable and reliable electricity.

1.2. **After a series of external and domestic shocks, Burkina Faso's economic performance has improved in 2016.** Gross domestic product (GDP) growth is expected to rebound at 5.4 percent, closer to the historical average attained over the past decade, after a slowdown to 4.2 percent in 2014 and 2015. The renewed political stability after the Presidential elections organized in November 2015 has restored confidence, brought back foreign investors and donors, and helped increase domestic demand. Favorable climatic conditions have also led to a higher agricultural output, including cotton. In 2016, the Government should maintain its fiscal deficit at around 2.5 percent of GDP thanks to higher domestic revenue that has helped finance a 3 percent of GDP increase in capital expenditures. On the external front, the current account deficit has narrowed and was financed by a combination of Foreign Direct Investment (FDI) and public borrowing. Fiscal risks, however, still remain because the fiscal space has narrowed given the Government's ambition to address the country's large deficits in infrastructure and social services. The allocative and financial efficiency of the budget is weak, in particular due to slow and non-transparent public procurement procedures. Contingent risks are also associated with the deteriorating financial situation of the state-owned enterprises and agencies.

1.3. **The financially distressed energy sector has increased the burden on the Government's budget while the increasing power shortage is having a negative effect on economic activity**. The weak performance of the electricity sector has negatively affected household living conditions and firm productivity. Burkina Faso has one of the lowest electrification rates in Sub-Saharan Africa at 17 percent, with only 4 percent in rural areas, where most of the poorest households live. For those who have access, reliability has been deteriorating with increased power outages, which peaked at 340 hours in 2015. Electricity tariffs are very high, yet do not cover the full cost of production. The resulting quasi-fiscal deficit represents 1 percent of GDP. The high dependency on imported hydrocarbons for power generation results in significant exposure to macro shocks, triggered by fluctuating international oil prices and an extensive logistics chain, which is prone to disruptions. In the national strategy for the energy sector, the Government aspires to provide secure and affordable electricity to 100 percent of its urban and 40 percent of its rural population by 2025. To achieve this objective, there are two main challenges to address: (i) the energy mix has to be shifted toward cheaper sources, including renewables and imports; and (ii) the sector, and primarily the state-owned electricity provider (*Société Nationale d'Eélectricité du Burkina Faso* -SONABEL), has to be positioned on a financially stable trajectory. These two challenges are closely connected because the shift of the energy mix will reduce the cost of service and help improve the financial situation of the energy sector. Concurrently, improving the financial performance of SONABEL will not only help secure the delivery of more electricity to households and firms, but also contribute to making the sector more attractive to potential private investors in new and cost-effective generation.

1.4. **Poverty remains widespread despite high economic growth.** The 2014 Household Survey indicates that poverty has decreased to 40.3 percent in 2014 from 46.7 percent in 2009. While this represented an improvement, the number of poor remains approximately the same as in 2003, approximately 7 million, because of rapid demographic growth and the narrow base of economic growth over the past decade. Poverty continues to be overwhelmingly concentrated in rural areas, which are home to 90 percent of poor households, due to the limited improvement in agricultural productivity. These poor rural households often have no or low levels of literacy, report more than six children, and have low access to basic services and infrastructure. While inequality remains moderate, as the Gini coefficient of consumption was 0.353 in 2014, economic growth was neither pro-poor nor inclusive. Many households in Burkina Faso are vulnerable, as almost two out three of them are reported to have been negatively impacted by a shock in 2014. The most important of these shocks are climatic hazards followed by price volatility and insecurity.

1.5. **The newly elected Government, in place since early 2016, has moved forward in its vision to promote accelerated and inclusive growth.** The new National Economic and Social Development Plan (PNDES) was adopted in June 2016 through an intensive participatory process, including with the World Bank Group (WBG) and other partners. This strategy sets out three key priorities: (i) economic governance; (ii) human capital development; and (iii) structural transformation of the economy and private sector development. Among those priorities, fiscal policy and the energy sector play a prominent role because they will influence both the living conditions of households and the competitiveness of the private sector. A performing public sector is important for the delivery of infrastructure and services as well as effective management of the economy, while decent access to affordable and reliable energy is critical for economic development.

1.6. **The proposed series of DPF operations aims at supporting the Government in its effort to improve the performance of the energy sector and to improve fiscal management. It is designed around three pillars:**

- Pillar 1: The objective is to re-establish financial stability in the energy sector through a set of complementary measures. The first one is to clear the cross-arrears between the state-owned electricity provider, SONABEL, the public oil importing company, SONABHY, and the State, that have been accumulated over the past few years. The second action is to set pricing mechanisms for fuel and electricity tariffs that will gradually reduce the fiscal burden of the sector while preserving competitiveness and equity for customers. The last measure is to improve SONABEL's operational and commercial performance by reducing losses and boosting revenue.

- Pillar 2: The DPF series will support the improvement of the institutional and legal framework conducive to the timely implementation of the strategy aimed at leveraging private participation to shift the energy mix towards affordable imports and renewables. These two strategic orientations are crucial to increase generation capacity to meet electricity access objectives by 2025. Actions under Pillar 2 will strengthen Government's ability to plan sector development and attract private investments. Pillar 3: One key challenge for the Government will be to improve its fiscal performance, both by creating the fiscal space necessary to finance its ambitious investment program and by improving the efficiency of its spending. Actions under Pillar 3 aim at increasing tax revenue through reforms in tax policy and administration. Emphasis is also on procurement procedures, with the adoption of a new Code and decrees that will lead to a more comprehensive, efficient and transparent public procurement system.

- Pillar 3: One key challenge for the Government will be to improve its fiscal performance, both by creating the fiscal space necessary to finance its ambitious investment program and by improving the efficiency of its spending. Actions under Pillar 3 aim at increasing tax revenue through reforms in tax policy and administration. Emphasis is also on procurement procedures, with the adoption of a new Code and decrees that will lead to a more comprehensive, efficient and transparent public procurement system.

1.7. **The proposed series is not only closely aligned with the new government National Economic and Social Development Plan (PNDES)**, but also with the WBG strategy. It has been prepared in close coordination with other partners, including the International Monetary Fund (IMF), and incorporates lessons from previous budget support operations in Burkina Faso and in other low-income countries as well as results from past and ongoing analytical work. Risks, while manageable, remain substantial notably in terms of institutional capacity and social environment as described in the last section of this Program Document.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS

2.1. **After a decade of robust economic growth, Burkina Faso's performance has deteriorated slightly.** Between 2005 and 2013, sound macroeconomic management, combined with favorable prices for cotton and gold and large aid inflows, resulted in strong economic growth, averaging 6 percent per year, driven primarily by agriculture and services, and increasingly by the mining sector. On the demand side, growth was supported by domestic consumption and steady public investment growth, largely financed by aid inflows. However, GDP growth slowed down to about 4.2 percent in 2014 and 2015 as the result of: (i) worsening global market conditions for gold and cotton; (ii) the negative impact of Ebola outbreak elsewhere in the region on tourism and services; (iii) weather related shocks; and (iv) weakening investor confidence linked to the political uncertainty during the political transition. In 2016, real GDP growth is expected to reach 5.4 percent, reflecting the return to more stable political conditions after the election of a new President in November 2015 and relatively good climatic conditions that have helped boost agricultural output.

2.2. **Economic performance in recent years has been accompanied by poverty reduction but the number of poor remains high, especially in rural areas.** Between 2009 and 2014, the share of the population living below the national poverty line decreased from 46.7 percent to about 40.3 percent, which was insufficient to reach the 35 percent target envisaged in the Strategy for Accelerated Growth and Sustainable Development *(Stratégie de Croissance Accélérée et de Développement Durable - SCADD)*. Because of high demographic growth, the number of poor has remained about the same in 2014 as in 2003 – approximately 7 million. Poverty continues to be predominantly rural as more than 90 percent of the poor live in rural areas. The relatively weak performance of the agricultural sector reflects that many households did not find opportunities to increase their income during this period. Many households were hit by shocks, mostly natural hazards, affecting their welfare and preventing them from moving up the poverty line. There are also wide differences across regions and urban/rural areas[1], reflecting the acceleration in the urbanization rate observed in recent years.

2.3. **The external current account deficit including grants is projected to narrow to 7.7 percent of GDP in 2016 driven by a slight improvement in the trade balance as well as a recovery in current transfers.** Gold and cotton have remained the two most important commodities for Burkina Faso, accounting for approximately 80 percent of total exports in 2016. The current account deficit has been

[1] For fuller details, see Burkina Faso's Systematic Country Diagnostic under preparation.

traditionally financed by the combination of FDI and aid inflows. Net FDI inflows are expected to reach 2.5 percent of GDP in 2016, up from 2.0 percent of GDP in 2015, while other borrowing increased from about US$310 million in 2015 to US$493 million in 2016. As a result, the level of international reserves should be equivalent to 0.9 months of merchandise imports at end-2016 against only 0.6 months at end-2015.

2.4. **The fiscal deficit is expected to reach 2.5 percent of GDP in 2016, higher than in 2014 and 2015, but lower than the target agreed within the WAMEU, which is of 3 percent of GDP.** Domestic revenues have increased steadily to 18.3 percent in 2016, back to its pre-transition level after a significant decline in 2014 and 2015. On the expenditure side, the Government spent about 2.9 percent more in 2016 than in 2015. This increase is principally explained by higher capital expenditures financed by foreign sources, up by 1.8 percent of GDP, and higher transfers (up by 0.5 percent of GDP) as well as an increase in the wage bill (up by 0.3 percent of GDP).

2.5. **Monetary and exchange rate policies are managed at the regional level by the Central Bank of West African States (BCEAO). With a fixed CFAF-Euro parity and stable interest rates, inflation has remained low.** Broad money supply is expected to expand by 13.3 percent in 2016 against 19.9 percent in 2015. Credit to the private sector should grow by approximately the same rate as in recent years, around 28 percent in 2016. As a result of prudent monetary and fiscal policies, annual inflation has remained under 1 percent in 2016, below the West African Economic and Monetary Union (WAEMU) norm of 3 percent.

2.6. **Burkina Faso's financial sector remains sound**. The domestic banking sector remains healthy, and the Central Bank has pursued its efforts to enhance compliance with regional prudential norms. The capital to risk-weighted assets ratios of Burkinabe banks decreased since December 2012 from 12.4 to 11.2 in 2015, consistent with the WAEMU average of 11.6. The country also has the lowest non-performing loans ratio in the WAEMU region at 9.5 percent at end-2015. However, the lending portfolio of local banks remains highly concentrated among a few large clients, leaving aside most small and medium firms and the rural economy.

2.7. **Public debt levels in Burkina Faso remain moderate owing to sound fiscal management in the past decade.** Burkina Faso's nominal stock of public debt is expected to be around 31.7 percent of GDP at end-2016. Most of the debt is external (73.1 percent) and on concessional terms. Total external debt declined to 23.1 percent of GDP in 2016 from 23.8 percent of GDP in 2015. The main source of financing has been concessional debt and borrowing on the WAEMU regional markets. The Government has taken advantage of favorable conditions in the regional market and started to extend the maturity of its Treasury bond issuances from 3-6 months to 1-2 years.

Table 2.1: Selected Economic and Financial Indicators, 2013-2019

	2013	2014	2015	2016	2017 (p)	2018	2019
	Annual percentage change, unless otherwise indicated						
National income and prices							
Real GDP	5.7	4.2	4.0	5.4	6.1	6.3	6.5
Per capita GDP (In US$ Atlas Method)	706	708	620	652	692	734	781
Imports (f.o.b.)	21.3	-9.3	3.3	7.9	13.8	9.6	9.4
Exports (f.o.b.)	15.9	4.0	2.3	7.4	17.2	8.0	6.5
GDP deflator	-2.1	-0.9	3.7	1.9	1.9	2.0	2.0
Consumer price inflation (e.o.p.)	0.1	-0.1	1.3	0.6	2.0	2.0	2.0
Fiscal Accounts		Percent of GDP, unless otherwise indicated					
Revenues	19.0	17.5	15.9	18.3	18.9	19.3	20.0
Expenditures		23.6	21.5	24.4	26.5	26.8	27.5
General Gov. Bal., incl. grants (commit.)	-3.6	-1.9	-2.1	-2.5	-3.6	-3.5	-3.5
Selected Monetary Accounts		Annual percentage change, unless otherwise indicated					
Broad Money (M3)	11.3	11.9	19.9	13.3	18.4	15.9	15.3
Credit to the private sector	25.3	29.1	28.9	29.4	30.7	32.4	34.5
Balance of Payments		Percent of GDP, unless otherwise indicated					
Current Account Balance	-11.3	-8.1	-8.0	-7.7	-6.7	-6.5	-6.8
Imports (f.o.b.)	27.9	24.5	23.5	23.6	24.8	25.0	25.2
Exports (f.o.b.)	22.3	22.5	21.3	21.3	23.1	23.0	22.5
Foreign Direct Investment	3.6	2.3	2.0	2.5	2.6	2.6	2.6
Gross Reserves (in billions of USD, e.o.p.)	521.0	189.9	196.9	350.2	508.5	684.0	827.0
In months of next year imports	1.4	0.6	0.6	0.9	1.2	1.5	1.7
Total Public Debt	29.3	30.6	32.5	31.7	32.6	32.9	33.1
External Debt	21.9	22.0	23.8	23.1	22.3	22.3	22.0
Terms of Trade	-12.8	-5.5	13.3	8.7	0.4	1.9	0.2
Other memo items							
GDP nominal (CFAF billions)	5896	6086	6565	7049	7629	8274	8985

Sources: Burkinabe authorities; World Bank and IMF staff estimates and projections, November 2016.

Table 2.2: Consolidated Operations of the Central Government, 2013-2019

	2013	2014	2015	2016 (p)	2017 (p)	2018 (p)	2019 (p)
	(In percent of GDP, unless otherwise specified)						
Overall Balance (commitment)	-3.6	-1.9	-2.0	-2.5	-3.6	-3.5	-3.5
Cash basis adjustment	0.9	1.2	-1.4	0.0	0.0	0.0	0.0
Total Revenue and Grants	24.5	21.7	19.5	21.9	22.9	23.3	24.0
Tax revenues	16.8	15.5	14.2	16.0	17.2	17.6	17.9
Non-tax revenues	2.1	2.0	1.8	2.3	1.6	1.7	2.1
Grants	5.5	4.2	3.5	3.8	4.0	4.0	4.0
Expenditure	28.0	23.6	21.5	24.4	26.5	26.8	27.5
Current expenditure	13.9	14.6	14.1	15.2	14.7	14.6	14.6
Wages and compensation	6.0	7.2	7.1	7.4	7.2	7.2	7.2
Goods and services	2.0	1.7	1.7	2.0	1.9	2.1	2.1
Transfers	5.3	5.0	4.6	5.1	4.6	4.6	4.6
Interest	0.6	0.7	0.7	0.7	0.9	0.7	0.7
Domestic	0.4	0.5	0.4	0.5	0.6	0.4	0.4
External	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Capital expenditures	14.6	9.1	7.6	9.3	11.8	12.2	12.9
Domestically financed	10.1	5.6	5.3	5.2	7.3	7.9	8.7
Foreign financed	4.5	3.5	2.3	4.1	4.5	4.3	4.2
General Government Financing	2.8	0.7	3.4	2.2	3.5	3.5	3.5
External (net)	0.6	0.8	1.4	1.7	1.3	2.1	2.0
Domestic (net)	2.2	-0.2	2.0	0.6	2.2	1.4	1.5

Sources: Burkinabe authorities; World Bank and IMF staff estimates and projections, November 2016.

Table 2.3: The Balance of Payments Financing Requirements and Sources, 2013-19

	2013	2014	2015	2016 (p)	2017 (p)	2018 (p)	2019 (p)
				(In billions of FCFA)			
BOP financing requirements and Sources							
Financing requirements (US$)	-737.5	-534.5	-543.3	-578.7	-553.9	-577.2	-652.3
Current Account deficit	-664.8	-488.5	-500.6	-544.2	-513.9	-540.8	-614.1
Amortization of loans	-27.5	-30.8	-42.7	-38.7	-42.8	-45.8	-47.5
Other Short term capital outflows	-44.8	-15.2	0.0	4.2	2.8	9.4	9.3
Financial Sources (US$)	-737.5	-534.5	-543.3	-578.7	-553.9	-577.2	-652.3
FDI and portfolio investments (net)	220.3	55.4	120.2	187.6	205	224.5	246.1
Capital grants	238.4	200.2	209.6	253.4	234.6	228.4	247.6
Short term debt disbursements	5.0	5.0	5.0	5.0	5.0	5.0	4.9
Long term debt disbursements (excl. IMF)	85.1	133.8	95.7	240.0	138.6	211.3	219.7
Change in reserves	187.7	141.6	82.3	-113.9	-18.3	-72.1	-46.8
IMF credit (net)	1.0	-1.6	30.3	-12.1	-14.8	-19.8	-19.3
Financing gap	0.0	0.0	0.0	18.7	3.7	0.0	0.0

Sources: Burkinabe authorities; World Bank and IMF staff estimates and projections, November 2016.

2.2 Macroeconomic Outlook and Debt Sustainability

2.8. **Economic prospects are favorable for the short to medium term.** GDP growth is projected to gradually recover to its pre-transition level and reach 6.1 percent and 6.3 in 2017 and 2018-2019, respectively. The recovery path is based on the expected solid performance of the agriculture and service sectors, supported by the recovery of the mining sector (two new gold mines are expected to start production soon and large reserves of manganese are available). The production of the cotton sector is projected to increase because of implementation of the Agricultural Input Fund[2], stable international prices, and relatively good rainfalls. Stable gold prices and robust output performance, coupled with recent discoveries of very high-grade gold are also expected to contribute to growth. However, this positive outlook is subject to a series of exogenous risks and vulnerabilities (commodity prices, worsening global economic environment, and political instability) as well as to policy risks, most notably on the fiscal side (low implementation capacity for public investment, underperformance of tax and customs revenues and a high wage bill).

2.9. **The external current account deficit is projected to narrow to about 6.5-6.8 percent of GDP in the next two-three years, down from 7.7 percent of GDP in 2016.** This trend will be supported by higher exports, of both gold and cotton, and net current transfers. Concurrently, imports will also rise as a result of higher investment spending, particularly public investments. These projections, however, are highly sensitive to international prices of cotton and gold on the export side, and to petroleum prices on the import side. The projected current account deficit will continue to be financed by the combination of FDI and concessional and non-concessional borrowing from the Government, including by IMF disbursements under the current Extended Credit Facility (ECF) supported program and World Bank budget support.

2.10. **The fiscal deficit is expected to stabilize at around 3.5 percent of GDP in 2017 onwards, which would be slightly higher than the WAMEU target of 3 percent of GDP in 2019.** These projections are based on successful implementation of reforms that will lead to an increase in domestic revenue mobilization by about 1.6 percent of GDP between 2016 and 2019, while grants will remain around 4 percent of GDP during this period. Moreover, the Government is expected to contain the wage bill (down by 0.2 percent of GDP during the next 3 years) and reduce oil subsidies. The authorities will enhance the biometric enrolment of civil servants in the Payroll System (SIGASPE), and improve the control of additional recruitments by redeploying civil servants from ministries with a high concentration of workers to priority areas. Concurrently, capital expenditures will jump by 3.6 percent of GDP in order to finance the ambitious investment program required to fill the existing gap in infrastructure and social services. Related to the public investment system, the Government has started to improve its administrative capacity in planning and selection of projects as well as to reduce delays in procurement processes and the under-execution rates, including in the energy sector. A Public Investment Management Assessment (PIMA) will be conducted to seek further improvements in the selection of projects.

2.11. **Regional monetary policies are expected to continue containing inflation under the 3 percent WAMEU target.** The Central Bank has improved its operational efficiency through recent initiatives such as the electronic platform to computerize liquidity injections and absorptions and the auction of government securities. Further gradual improvements are expected with the objective to increase the depth of the domestic financial sector, which remains largely underdeveloped. The ratio of total credit to

[2] The Agricultural Input Fund provides a guarantee to cotton companies for fertilizer procurement through their respective commercial banks, and fertilizer imports follow a competitive bidding process. The Fund is secured by a dedicated account in a commercial bank.

GDP is only 29.3 percent in 2016, while only 14 percent of household owned a deposit in a financial establishment as of 2014.

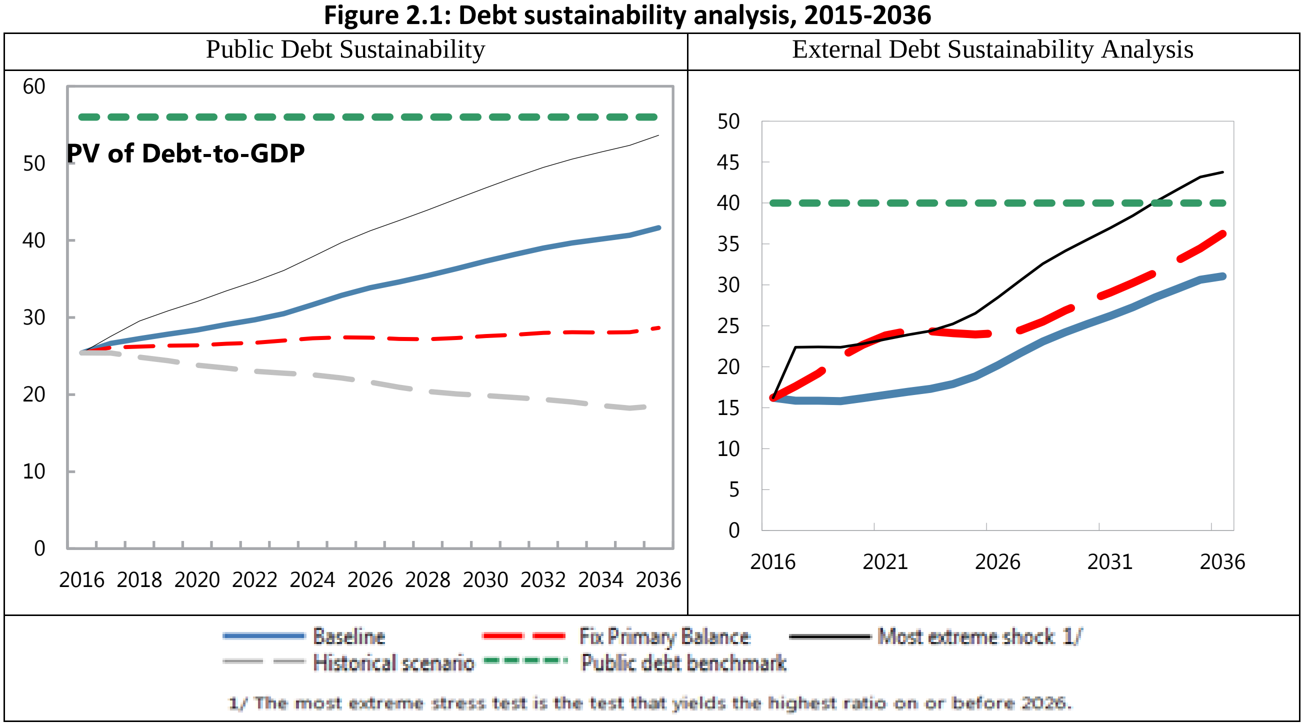
2.12. **The joint World Bank-IMF DSA, conducted in October 2016, has confirmed that Burkina Faso remains at moderate risk of debt distress.** A less pessimistic external environment, in particular more favorable price projections for commodity exports, along with the prospects of increased gold production over the medium-term, help to offset the additional borrowing required to finance the small increase in the fiscal deficit projected in the next few years. Under the baseline scenario, all relevant debt ratios are projected to remain comfortably below indicative thresholds over the projection period. Under the most extreme standardized stress test, the debt-to-exports ratio breaches the debt distress threshold around 2026, which is the basis for the "moderate" assessment.

Table 2.4: Public debt and external debt stock composition at End 2015 (LIC - DSA, October 2016)

	2013	2014	2015	Percent
Public debt	1,733.7	1,863.5	2,134.9	100
External debt	1296.0	1341.0	1,561.4	73.1
Domestic debt	437.6	522.5	573.5	26.9
	(percent of GDP)			
Public debt	29.3	30.6	32.5	
External debt	21.9	22.0	23.8	
Domestic debt	7.4	8.6	8.9	

Source: Burkinabe authorities and IMF estimates, October 2016

Figure 2.1: Debt sustainability analysis, 2015-2036



Source: Joint World Bank – IMF LIC-DSA, October 2016

2.13. **Overall, Burkina Faso's macroeconomic policy framework for 2016-2019 provides an adequate basis for the proposed operation** with downside vulnerabilities mainly related to commodity price shocks and possibly to a narrowing fiscal space. While the economy will remain vulnerable to a range of shocks, Burkina Faso should continue on a positive trajectory of economic expansion as a result of structural reforms and prudent fiscal as well as monetary policies. The policy framework under the IMF ECF program establishes necessary conditions for the proposed operation to achieve its objectives. Burkina Faso's monetary and exchange rate policies are managed at the regional level by the Central Bank of West African States (BCEAO) which contributes to the country's monetary stability and controlled inflation. Burkina Faso's fiscal position is projected to remain stable thanks to a stronger effort to mobilize more revenue while shifting from current to capital expenditures. Burkina Faso should remain at moderate risk of debt distress in the medium to longer terms.

2.3 IMF RELATIONS

2.14. **Burkina has performed well under the program supported by the IMF's Extended Credit Facility (ECF).** The program aims at consolidating macroeconomic stability, improving growth prospects, and intensifying efforts to reduce poverty. Through the ECF, the Government is implementing measures to reinforce the economy's resilience while promoting inclusive growth and accelerated poverty reduction. The sixth review of the ECF arrangement and the Article IV consultation, conducted between October 18 and29, 2016, has been positive with a staff-level agreement reached for an expected official approval by IMF Board of Directors by mid-December 2016. The World Bank and IMF teams work together through the standard institutional division of labor with a joint management action plan. The World Bank staff provided inputs to the IMF team in areas of WBG competence, including the agriculture, mining, energy, water and sanitation sectors, as well as governance and public administrative reform. This effective collaboration is reflected in the complementarity between the prior actions (PA) supported by the proposed operation and the performance criteria and structural benchmarks used in the program supported by the ECF. The World Bank team participates in IMF review missions and IMF staff regularly share their macroeconomic and financial analyses with World Bank counterparts. In addition, a joint IMF-World Bank DSA was prepared in October 2016.

3. THE GOVERNMENT'S PROGRAM

3.1. **The Government's program is articulated in its 2016-2020 National Economic and Social Development Plan (PNDES), which is the successor to Burkina's policy framework for 2010-2015, the Strategy for Accelerated Growth and Sustainable Development (*Stratégie de Croissance Accélérée et de Développement Durable* - SCADD).** This Plan, which covers the years 2016-2020, was formally adopted by the Council of Ministers in July 2016. It aims at an 8.5 percent real GDP growth rate and a simultaneous decline in the poverty rate from 40.3 percent in 2014 to 35 percent by end-2020. The PNDES is based on three strategic axes: (a) economic governance; (b) human capital development; and (c) structural transformation of the economy and private sector development. Indeed, the PNDES intends to consolidate the gains from the implementation of the SCADD and considers access to energy (electricity, hydrocarbon and renewable energies) as among the most binding constraints to achieve structural transformation of the economy and private sector development.

A. Energy Sector Policy and Challenges

3.2. **The electrification rate in Burkina Faso has barely grown over the past five years and remains low by regional standards at 17 percent**, i.e., about 40 percent in urban areas and 3 percent in rural areas. Installed capacity totals 315 Megawatt (MW), comprised of 90 percent thermal and 32 MW of aging hydropower plants, all characterized by low availability. The network is interconnected with Côte d'Ivoire through a 225-kV transmission line with a power purchase agreement, guaranteeing a 50-MW supply with an additional 30 MW optional, which is just enough to ensure a precarious equilibrium between demand and supply during non-peak periods.

3.3. **Many factors have contributed to the deteriorating performance of the power sector, which resulted in frequent power shortages in 2015-2016 and compounded the challenges of poor access to electricity.** Firstly, investments over the past 15 years have not kept up with high demand, which has resulted in a capacity shortage. Poor maintenance and rehabilitation has meant that the availability of the existing power plants remain low at about 52 percent. As the cost of service is relatively high compared to other Sub-Saharan African countries, tariffs are among the highest in the region, but are still insufficient to cover operating costs. As a result, load shedding averaged 180 hours of equivalent outage time yearly since 2009 and peaked at 340 hours during 2015. The country relied on emergency thermal rentals in 2011-2012 to meet electricity demand because of dry hydrology and interruptions of supply from Côte d'Ivoire in the context the 2011 post-election crisis. In the medium term, the objective in the sector is to reduce the dependency on imported and expensive fossil fuels and gradually shift the generation mix towards renewable energy and affordable imports of electricity (Burkina Faso's electricity sector and mid-term strategy is further detailed in Annex 6).

3.4. **The ability of the sector to address these challenges is constrained by a distressed financial situation and the absence of a comprehensive strategy to diversify the energy mix.** SONABEL's deficit arises from a mix of underpricing, weak sector regulation, inefficiencies along the value chain, and high dependence on fuel. The financial distress of the energy sector, should it persist, would lead to further underinvestment in the maintenance and development of the network, ultimately affecting SONABEL's operational performance and quality of service, while increasingly exposing the economy to the sector risks through local banks and suppliers. Improving the financial sustainability of the sector (Pillar 1) is a prerequisite to materialize overdue investments in generation and extend access to electricity services in the country. Structurally reducing the cost of production to make it more affordable would require a shift in the energy mix, which will take some time. Improving the legal and institutional framework to attract private sector participation in electricity generation will be critical to achieving this objective (Pillar 2).

3.5. **In October 2013, the Council of Ministers adopted an Energy Sector Policy *(Politique Sectorielle de l'Energie - POSEN 2014-2025)*, but its implementation has been delayed due to the political crisis in 2014 and the transitional context in 2015.** The POSEN, which covers the 2014-2025 period, was prepared based on the implementation of the previous SCADD and underscored the importance of energy to support economic growth in Burkina Faso. The POSEN is grounded in the vision of *"a Burkina Faso energy sector that depends on endogenous resources and regional cooperation, ensures universal access to modern energy services and affirms its driving role in sustainable development"*. One of its objectives is to provide universal access to energy services notably by improving the country's energy supply and developing modern energy supply services in rural areas. The policy seeks particularly to: (i) build national, institutional and energy management capacity; (ii) liberalize the electricity sub-sector; (iii) control the cost of energy inputs; (iv) ensure better energy coverage of the country; (v) promote other sources of energy (renewable energy); and (vi) sensitize the population to more efficient use of energy. The Government's goal is to achieve: (a) a 100 percent access rate to electricity services in urban areas and 49 percent in rural communities; (b) an 80 percent market penetration of improved cook stoves in urban households and 90 percent for rural ones; and (c) a 40 percent penetration rate of cooking gas in urban areas and 10 percent rural, all to be achieved by target year 2025. Governance of the sector is presented in Annex 7.

B. Government's Strategy in Public Finance Management

3.6. **The Economic and Finance Sector Policy (POSEF) for the period 2011 to 2020 constitutes the government's subprogram which aims at addressing tax and public finance management challenges in Burkina Faso.** The POSEF focuses on six pillars: (a) reinforcing the institutional and organizational capacity of the Ministry of Economy, Finance and Development (MEFD); (b) improving the macro fiscal framework and promoting performance-based budget management; (c) enhancing revenue mobilization and fiscal management; (d) strengthening budgetary planning and efficiency of public expenditure; (e) improving the efficiency of public accounts and financial systems; (f) instituting an effective control system, audit of public finance, and mechanisms to fight corruption and fraud; and (g) developing close collaboration with the West African Economic and Monetary Union (WAEMU) and Economic Community of West African States (ECOWAS). Its implementation is supported by most donors in the Multi-donor Budget Support Group (*Cadre Général d'organisation des Appuis Budgétaires* - CGAB), based on the findings of various public financial management (PFM) diagnostics.

3.7. **Though the 2013 Public Expenditure and Financial Assessments (PEFA) highlighted that significant progress has been made in some areas, tax collection and the procurement system need strengthening.** Compared to the 2010 PEFA, the 2013 edition revealed improvements in the areas of comprehensiveness and transparency of the budget, policy-based budgeting with the introduction of multi-year programmatic budgets for all sectoral ministries, and internal controls, as well as compliance with good practices in budget preparation, approval, and amendment procedures. However, the assessment reports identified a number of critical shortcomings in revenue forecasting, effectiveness in collection of tax payments, procurement, and external audits. The fourth and fifth reviews of the ECF-supported program reported that revenue collection has declined by 2 percentage points of GDP since 2013, due to poor performance of tax administration, tax fraud, and the decline in retail fuel prices and gold prices, as well as to the decline in economic activity resulting from the political instability. On procurement, despite transposition and implementation efforts of WAEMU Directives, gaps remain in the country's ability to fully leverage the advantages envisaged by the procurement reforms.

4. THE PROPOSED OPERATION

4.1 LINK TO THE GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

4.1. **The proposed operation for an equivalent of US$100 million is the first in a programmatic series of two single-tranche DPFs.** The rationale for such a programmatic approach is the cascading nature of the reforms supported by this operation that not only need to be consolidated over time but also require significant behavioral changes to produce the expected results. For example, reforms in energy and procurement as well as tax mobilization can only become fully effective after a certain period of time.

4.2. **This DPF series is designed to address the growing challenges associated with implementation of the 2016-2020 National Economic and Social Development Plan (PNDES)**. The focus is on two of the three strategic pillars of the government's program: Pillar 1: economic governance; and Pillar 3: structural transformation of the economy and private sector development. However, the proposed operation will also impact the second pillar (human capital) since better access to electricity will improve the well-being of many households and thereby increase the learning capacity of their members. Similarly, an increase in fiscal space and improved spending capacity by the State will enhance the value for money of resources allocated to social sectors, including education and health.

4.3. **Selectivity has been a guiding principle in the preparation of this DPF series.** The determination of the specific areas was made in close collaboration with the Government, taking into account the major binding constraints identified in the PNDEs and the comparative advantage of the World Bank. Such selectivity also accounted for the complementarity with the current and projected portfolio of WBG as well as other interventions by partners and stakeholders, including in the areas of agriculture, transport, water, health, social protection, and private sector development.

4.4. **Within this context, the Program Development Objectives (PDOs) are to support the Government's efforts to: (i) improve the financial sustainability of the energy sector; (ii) diversify the energy mix and improve the legal and institutional framework of the energy sector; and (iii) strengthen tax collection and public procurement processes**. There are mutually reinforcing complementarities among these three pillars since the creation of additional fiscal space through higher revenue mobilization will help finance additional expenditures in the energy sector. Similarly, improved access to electricity will boost private sector activities and help collect additional revenues.

4.5. **The DPF series proposes a combination of cross-cutting and specific actions**. This balance is necessary because cross-cutting actions help to address weaknesses in the overall preparation and implementation of the budget. For example, all sectors are suffering from low levels of domestic revenue and inefficient procurement procedures. A degree of granularity is however useful to address specific deficiencies and promote rapid implementation of the proposed actions in the energy sector. While this first DPF primarily aims at reestablishing a sound financial foundation in the energy sector, the second operation in the series will focus on structural reforms necessary to enhance the country's capacity to deliver secure, affordable and reliable electricity through increased private sector participation and a shift towards a more affordable energy mix, including renewables. Overall, this series will contribute to the Government's objective to achieve accelerated and more inclusive growth by increasing fiscal space and improving the efficiency of government spending as well as by promoting better access to reliable and affordable electricity by households and firms.

4.2 Prior Actions, Results and Analytical Underpinnings

4.6. **This operation is built around three pillars that aim at supporting the Government's effort in the areas of electricity and fiscal management.** This section provides details on these three pillars, starting with a description of the context and main challenges. The selection of prior actions for the first operation, and indicative triggers for the second operation, is discussed in detail along with the results that are expected to be achieved at the end of the series.

Pillar 1. Improving the financial sustainability of the energy sector

Challenges

4.7. **The financial situation of SONABEL has significantly deteriorated since 2011, with shrinking cash flows and growing debt and payables.** SONABEL losses reached CFAF 11 billion (US$19 million) and CFAF 18 billion (US$31 million) in 2014 and 2015, respectively. The company's debt ratio has reached unsustainable levels, which has resulted in heavy debt service payments. SONABEL's gross margin has been affected by rising fuel prices, amplified by inefficiencies in the fuel supply chain and the fuel price structure. Its cash position suffers from growing receivables, mostly from public sector clients and was exacerbated by the partial payment of subsidies by the central administration. These subsidies were expected to compensate SONABEL for the absence of electricity tariff adjustments in recent years. (*For further details of SONABEL's financial situation, see Annex 5*).

4.8. **Poor transparency, low predictability and intermittent disbursement of subsidies by the central government contributed to SONABEL's growing financial distress.** Since 2012, only 20 percent of the CFAF 45 billion (US$78 million) expected compensation subsidies have been actually paid to SONABEL and none of them were paid on time. It forced the utility to increasingly rely on costly short-term debt from local banks. Facing shrinking cash flows, SONABEL increased its payables, mainly to the state-owned public company with monopoly over import and storage of fuel, *Société Nationale des Hydrocarbures* - SONABHY (the total amount of arrears was CFAF 66 billion at end-2015). The accumulation of cross-arrears between SONABEL, SONABHY and the Government ultimately brought the sector into a vicious spiral of financial distress, which in turn led to severe cuts in operation and maintenance expenditures as well as in increased financing costs.

4.9. **As fuel is and will remain an important component of the Burkina Faso's energy mix, it influences considerably SONABEL's cost.** Fuel represents 40 percent of the overall cost of service. It will remain a key factor, even though shifting the energy mix toward cheaper power imports (through the West Africa Power Pool) and renewable energy would ultimately reduce the sector dependency on oil. Improving quality and security of the fuel supplied by SONABHY would have a major impact on SONABEL's performance. Based on comparable experience in the sub-region, efficient fuel supply chains can be achieved under state monopoly or market competition regimes, provided that pricing structures are transparent, as well as systematically and rigorously enforced.

4.10. **The existing fuel-price regime prevented SONABEL from benefiting from the decline in global oil prices**. Since 2013, SONABEL has purchased fuel from SONABHY for its electricity generation at a negotiated price when oil prices on international markets had reached a peak. The formula to set fuel prices was opaque (*see old price regime details in Box A5.7*) and has not been regularly enforced, thereby preventing SONABEL from benefiting from the international oil price decline starting in early-2014. SONABHY appears to have absorbed most of the profit windfall attributable to lower generation costs, while SONABEL was paying an excessive price.

4.11. **SONABEL's financial performance is also influenced by its operational and commercial performance.** The utility is characterized by relatively low rates of transmission and distribution losses and good performance in collection, ranking among the top 10 best performing utilities in Sub-Saharan Africa (see Figure A5.2). However, distribution losses and commercial performance have deteriorated since 2010 (see Figure A5.3). Total losses increased from 16 to 18 percent, mostly driven by an increase in distribution losses, resulting from suboptimal investments and maintenance expenditures in the network. In recent years, the utility has also underperformed in bill collection: customer receivables have significantly increased from CFAF 32 billion to CFAF 54 billion between 2010 and 2014, mostly driven up by delayed payments from public and para-public entities. SONABEL is currently preparing an action plan to improve timely invoicing and collection of electricity bills. The utility serves more than 500,000 clients. SONABEL's 1,425 High-voltage (HV) clients, representing 0.3 percent of the company's customers, account for 37 percent of its sales of electricity. Prevalence of prepayment is limited, and 86 percent of customers are on post-payment.

Reforms and medium-term objectives

4.12. **The Government program aims at improving the financial sustainability of the sector by a combination of three actions: (i) the clearance of accumulated arrears between SONABEL, SONABHY and the Government; (ii) the adoption of new price adjustment mechanisms for electricity and fuel used for electricity generation; and (iii) efficiency gains along the entire value chain.** With these measures, SONABEL will generate increasingly positive net incomes starting in 2016. Financial ratios will gradually improve and reach targets defined under the performance contract ("contrat-plan") in 2018. SONABEL's projected incomes and financial ratios for the period 2016-18 are presented in Table 4.1. In the medium term, improving the governance and the efficiency of the fuel supply chain will structurally improve the financial sustainability of the energy sector.

4.13. **The clearance of the stock of arrears (PA#1) has been initiated through an agreement signed between SONABEL, SONABHY, and the Government on October 13, 2016**. This agreement provides for the clearance of those arrears through a combination of cash payments and debt rescheduling over the next few years. Budget allocations have already been included in the 2016 Revised Budget Law and in the draft 2017 Budget Law so that the Government can pay part of its arrears to SONABEL and SONABHY. The remainder will be paid through budget allocations in FY18 and FY19. Similarly, the clearance of SONABEL's arrears to SONABHY has followed a two-part process. An exceptional CFAF 40 billion payment from SONABHY has cleared part of SONABEL's CFAF 66 billion arrears to SONABHY. The remaining CFAF 26 billion will be converted into debt to be repaid over 10 years at a 2.5 percent interest rate (*see details in Box A5.7 in Annex 5*).

4.14. **The Government will take measures (Trigger 1) to reinforce predictability of payments for electricity bills and subsidies.** The 2018 budget will (i) allocate resources needed to ensure timely payments of electricity bills owed to SONABEL by state-owned enterprises and para-public agencies; and (ii) determine an annual subsidy cap for budget transfers to the sector (see below PA# 2).

4.15. **SONABEL's new tariff regime will improve the financial performance of the utility and will provide transparency in electricity sector subsidies budgeting (PA#2)**. Under the new fuel price structure (PA#2) implemented as of May 1, 2016, SONABEL pays fuel "market" price[3], capped at a threshold revised on a yearly basis that reflects SONABEL's break-even, currently fixed at CFAF 300 and 200 per liter for Distillate Diesel Oil (DDO) and Heavy Fuel Oil (HFO), respectively (*details on old and new price regimes are presented in Box A5.7*). The sector regulator, ARSE, reviews SONABEL's financial projections to approve, in a transparent and credible manner, proposed revisions of yearly fuel price thresholds and supports the authorities in determining annual subsidy caps limiting budget exposure and triggering tariff revisions. Above this ceiling, SONABHY receives a subsidy, paid quarterly, to compensate for the difference. Thus, the amount of Government subsidies to the sector will vary with the actual cost of fuel supply. The total amount of annual subsidy is capped at a pre-defined ceiling revised annually, above which electricity tariff adjustments would be triggered to pass through the delta in the fuel-cost increase. Annual subsidy caps for 2016 and 2017 have been capped at CFAF 17 billion p.a. Hence, subsidies will act as a buffer between the increase in fuel-supply cost and end-user electricity tariff adjustments. Given current electricity tariff levels (on the high end as per regional benchmarks) and its fuel dependency, the coupling of an oil price threshold with a subsidy cap, which would cushion potential tariff increases, was deemed more appropriate and politically more viable than a full fuel-pass-through. Once Burkina significantly improves its fuel mix and reduces the cost of service with the commissioning of interconnections with Ghana and Niger by 2017 and 2022, respectively, it will be in a better position to shift towards fully cost-reflective tariffs (see table A5.4).

[3]Determined by CIDPH and revised every month based on oil actual CIF price and various costs (import duties, fees, transportation, etc.).

Table 4.1. SONABEL's projected incomes and financial ratios 2016-2018

	Actual		Projections**					
			Clearance of arrears to Sonabhy			*Clearance of arrears and fuel tariff adjustment*		
	2014	**2015**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**
EBITDA[1] (FCFAm)	**15,660**	**14,298**	**28,581**	**44,141**	**44,040**	**33,078**	**44,494**	**50,101**
Net incomes (FCFAm)	**(11,189)**	**(17,695)**	**(23,987)**	**(17,166)**	**(782)**	**1,091**	**6,590**	**9,040**
Av. tariff per kWh (FCFA)	90.28	90.48	91.06	92.46	92.44	91.06	92.46	92.44
Av. income per kWh (FCFA)	131.45	140.41	143.23	141.91	142.60	143.23	141.91	142.61
Av. cost per kWh sold (FCFA)	140.87	151.87	158.48	150.97	142.42	142.43	138.80	135.72
Av. cost per kWh injected (FCFA)	117.85	126.92	132.63	125.99	118.79	119.20	116.76	113.20
DSCR[1] (target* > 1.2)	1.10	0.80	-1.84	0.75	1.05	-3.03	1.35	1.41
Net debt / CFADS[2] (target*<7)	8.13	11.69	-5.34	8.84	5.13	-2.21	3.45	2.58
LT debt / Equity (target*<2)	2.25	1.91	6.48	10.00	8.38	2.64	2.19	1.57
ROE[3] (target*>4%)	-0.16	0.00	-13.1%	-9.6%	-0.4%	0.5%	3.0%	3.8%

*as set in SONABEL performance contract dated 2015 ("contrat plan") ** Sources: SONABEL's financial model
[1] Earnings Before Interest, Taxes, Depreciation and Amortization; [2] Debt Service Coverage Ratio; [3] Cash Flow Available for Debt Servicing;[4] Return on Equity

4.16. **The financial performance of SONABEL will be further improved by measures to lower the cost and strengthen the security of fuel supply to SONABEL (Trigger 2)**. It will rely on the introduction of competition for fuel deliveries to SONABEL and implementation of key recommendations from an audit on fuel consumption in SONABEL power plants. Open competition for fuel supply to SONABEL on the local market will increase the security of supply, while reinforcing the efficiency of the supply chain will significantly improve SONABEL financial performance, notably through optimization of the fuel mix and the reduction of transport losses. The audit report on fuel consumption that will detail key measures is currently being prepared and should be available by early-2017.

4.17. **This operation supports SONABEL's engagement in a revenue protection program (PA#3)**. Such a program will reduce its commercial losses by capturing in a permanent manner revenues from a high-value segment of customers representing 37 percent of its current sales. The program consists of installing advanced metering infrastructure targeting HV and Medium Voltage (MV) and the creation of a Meter Control Center (MCC) to monitor consumption and enforce corrective action in real time. The program would potentially incorporate Low-Voltage (LV) customers over time. Implementation of MCC is complemented by incorporating a Commercial Management System (CMS) to support development of all commercial processes and activities involving 100% of customers: metering, billing, collection, unpaid bills, new services, communication through call centers, agencies, and internet CMS incorporation is ongoing in SONABEL with funds of the existing investment project and is expected to be finalized by end-2017. This approach will ensure sustainability of the company's good performance and develop its ability to prevent non-technical losses on the high-value customer segment in a permanent manner. The Revenue Protection Program (RPP), approved by the Board of Directors of SONABEL[4], will scale up the successful pilot program with the support of the PASEL project (Electricity Sector Support Project). It will reduce client receivables by 30 percent by 2018. This would ultimately facilitate, looking forward, the implementation of electricity tariff adjustments.

[4] Deliberation N. 001MEMC/SG/SONABEL/CA portant adoption d'un programme de protection des revenus de la SONABEL.

Prior Action #1: The Recipient, SONABEL and SONABHY have entered into a tripartite agreement to clear arrears accumulated between the Recipient, SONABHY and SONABEL; with an implementation process that includes: (a) a one-time payment of CFAF 40 billion from SONABEL to clear part of the accrued arrears to SONABHY; (b) the conversion of the remaining CFAF 26.6 billion due by SONABEL to SONABHY into a debt to be repaid over ten years; and (c) clearance of the Recipient's arrears to SONABEL for electricity bills and compensation subsidies in the amount of CFAF 45.48 billion over the period of three years between 2017-2019.

Prior Action #2: In order to improve the financial performance of SONABEL, the Recipient's ministries responsible for commerce, energy, and finance have approved an inter-ministerial decree that states the following: (a) the Regulatory Authority of the Electricity Sector (ARSE) shall review SONABEL's projections for each year's fuel prices; (b) the Recipient shall determine an annual subsidy cap limiting budget exposure, which triggers an electricity tariff revision implemented by SONABEL; and (c) the establishment of disbursement modalities aimed at ensuring timely disbursements of subsidies to SONABEL.

Prior Action #3: In order to improve its revenues, SONABEL's Board of Directors has approved a Revenue Protection Program which provides for the use of smart meters that will strengthen the management of high-voltage and medium-voltage customers' accounts.

Triggers for the second operation:
Indicative Trigger 1: The Council of Ministers has allocated adequate funds in the 2018 budget to: (a) cover the annual payment indicated in Prior Action 1 and; (b) cover the receivables from other state-owned enterprises and para-public agencies owed to SONABEL.
Indicative Trigger 2: To improve the financial performance of SONABEL: (a) the Council of Ministers has approved a legal framework to introduce competition for fuel deliveries from SONABHY storage facilities to SONABEL plants; and (b) the Ministry of Energy and Mines and SONABEL have implemented the recommendations of the audit report on fuel consumption, and approved regulations regarding invoicing to minimize leakages during transport.
Indicative Trigger 3: SONABEL has allocated funds and implemented the actions required in the first year of the revenue protection program.

Expected results for Prior Actions #1, #2, and #3:
Indicator 1: Reduction of cross arrears between the Government, SONABHY and SONABEL.
Baseline: arrears accrued by June 30, 2016: CFAF 140 billion. Target in 2018: CFAF 60 billion.
Indicator 2: Improved financial performance of the state-owned electricity provider *(Société Nationale d'Electricité du Burkina Faso* -SONABEL*)*, as measured by Earnings before Interest, Tax, Depreciation and Amortization (EBITDA).
Baseline 2015: CFAF14 billion. Target 2018: above CFAF 40 billion or higher.
Indicator 3: Reduction in customer's outstanding bills due to SONABEL (as measured by client receivables).
Baseline in 2015: CFAF 55 billion in 2015. Target in 2018: below CFAF 39 billion in 2018.

Pillar 2. Diversifying energy and improving the legal and institutional framework of the energy sector

Challenges

4.18. **The overall objective of the Government's strategy in the power sector is to reduce the country's dependency on imported and expensive fossil fuels and gradually shift the generation mix towards renewable energy and affordable imports of electricity from the sub-region**. The Government is targeting a dramatic scale-up of renewable energy generation by 2030, primarily through utility-scale Solar Photovoltaic (PV) power plants, to reduce generation costs, while also reducing exposure to foreign exchange risks. This strategy requires a scale up in power generation to fill the capacity deficit, and meet the significant growth in demand (see Table A6.2), from baseload technologies such as thermal power and interconnection that can compensate for the intermittency of solar power. The strategy also includes additional investments in the national grid to enable it to absorb intermittent solar power, and will require the deployment of firm baseload capacity, some of which can be provided by rehabilitation and extension of thermal generation assets and sourced through regional interconnectors. The sector's mid-term strategy is further detailed in Annex 6.

4.19. **Lack of effective sector planning to meet peak demand and accommodate the increase of PV plants, as well as weak legal and regulatory frameworks, have hampered the implementation of this strategy**. The shift towards intermittent solar electricity needs to be properly articulated with significant investments in the rehabilitation and extension of thermal generation assets to meet evening peaks and avoid system-wide blackouts. The outdated country sector master plan does not currently include those investments. The Government's ability to plan the development of the electricity sector and continuously update it as the sector evolves needs to be strengthened. The reorganization of the General Department of Energy has created fragmented responsibilities for sector planning. The rationale to establish new specialized agencies, notably for renewable energy and energy efficiency, and the definition of their mandates should draw from previous global and African experiences. Effective sector regulation needs to be established in a transparent and credible manner to provide adequate confidence for private operators and reduce demand for sovereign guarantees and credit enhancements. In order to attract private sector participation, the financial health, operational performance and market credibility of the single off-taker, SONABEL, needs to be improved and sustained (cf. Pillar 1 discussed above).

4.20. **The private sector can play an important role to accelerate the deployment of power generation, in particular for renewable energy.** To keep pace with increasing demand and increase diversity of supply, Burkina Faso needs to invest heavily in the power sector going forward. Recent projections point towards investments between US$800-US$1,500 million in the period up to 2030 (see Table A6.3). As much as 75 percent of these investments can be leveraged from the private sector. As per the experience in a number of countries, the private sector can be mobilized to bring capacity and know-how as well as financing. Mobilizing private financing for generation would free up scarce public resources for transmission and distribution network development, as well as grid reinforcement. This will help absorb intermittent solar power and enable interconnections with neighboring countries (Cote d'Ivoire, Ghana and Niger) which are able to supply cost-effective power to reduce overall cost of electricity service in the country (See Annex 6).

Reforms and medium-term objectives

4.21. **The letter of sector policy articulates the approach of the newly elected government to achieving the overall targets of the national strategy in the energy sector *(Politique Sectorielle de l'Energie - POSEN 2014-2025)* (PA#4).** The policy letter sets priorities in terms of investments, energy mix and private sector participation in the energy sector to shift towards more affordable electricity and increased access. It relies on the following six pillars: (i) develop electricity supply from renewable sources; (ii) develop firm baseload capacity, required to develop further solar PV plants; (iii) increase access to modern energy services; (iv) promote energy efficiency; (v) develop regional integration; and (vi) ensure availability of petroleum products. Private sector participation is expected to play a major role in increasing electricity supply over the next five years. This would help to ensure the financial viability of the sector, improve sector planning and procurement capacities, strengthen the role of the regulator and improve the investment climate for private operators. The Government will pursue decentralized generation in renewable energy in rural areas where this technology is least-cost.

4.22. **The Government, in close collaboration with the WBG, has prepared a roadmap for diversifying the energy mix of the country by 2030, which will serve as the basis for preparing the country's electricity sector Least-Cost Development Plan, LCDP (Trigger 4)**. The LCDP will identify and sequence the technology, timing, location and financing of specific investments, notably to ramp up solar PV development (see Figure A6.5). The Rural Electrification Plan will be developed in parallel. It will present the path to increase access to electricity services and meet Government's objective. Improved sector planning capacity will speed up implementation of the national strategy in the energy sector.

4.23. **The LCDP will be kept systematically updated jointly by the Ministry of Energy and SONABEL as the sector evolves (Trigger 5)**. The pipeline of projects identified would be procured in a timely, transparent and cost-effective manner, i.e., through a competitive process (see below). A dedicated unit, staffed with qualified resources from the Ministry of Energy and Mines and SONABEL, will be in charge of investment planning as well as preparation, procurement and negotiation of IPP projects, with the objective of keeping the least-cost development plan permanently updated and procuring new generation plants in a timely, transparent and cost-effective manner. This unit, which will be further supported by technical assistance and transaction advisory services for IPPs for grid-connected PV-Solar with storage, could be included in a new investment lending operation. The Council of Ministers will retain a monitoring role over implementation of the Least-Cost Development Plan, as any significant deviation has the potential to increase the fiscal burden on the sector.

4.24. **Cost-effective implementation of the LCDP requires bolstering government's capacity to negotiate mutually beneficial and bankable agreements**. None of the recently launched IPPs have been brought to financial close to date, due to (i) limited legal and transactional capacity within the Ministry and SONABEL; (ii) the absence of standardized competitive processes and bankable bidding documents available to select IPPs in a timely, transparent and cost-effective manner; and (iii) the non-creditworthiness of the utility, which led to lengthy negotiations with potential developers on sovereign guarantees and credit enhancement mechanisms.

4.25. **The "bankability" of core transactional documents and government commitments and obligations needs to be established and proven in initial IPPs to enable replication and lower unit cost**. Human capacity in PPP and sector regulation needs to be strengthened, initially through knowledge transfer from advisors embedded in the Ministry and utility, paired with broad-based capacity building. A transactions advisor has been recruited to support the Government to (i) streamline the IPP projects pipeline by establishing standardized bidding and transactional documents, which are currently critically missing; (ii) strengthen in-house capacities; (iii) prepare the new PPP legal framework; and (iv) bring specific front-runner transactions, for which contractual documentation have been negotiated[5], to closure (PA#5).

4.26. **Revision of applicable institutional, legal and regulatory frameworks for the electricity sector will clarify responsibilities among agencies and competition processes for private sector participation (Trigger 7).** A diagnostic of existing institutional arrangements will inform the preparation of a new electricity law, supported through the ongoing Electricity Sector Support Project (*Projet d'Appui au Secteur de l'Electricité*-PASEL, P128768) Expected in 2017, the law will, inter alia, set the new PPP legal framework based on international best practices, and clarify responsibilities and roles among key agencies, including the role of the regulator in tariff setting and licensing of new private sector entrants.

4.27. **Establishment of an Electricity Sector Development Fund will further strengthen predictability, transparency and governance of budget transfers to the sector (Trigger 6).** The advantage with a fund structure is the ability to mobilize funding from multiple sources through budget transfer, levies and taxes, and account for these separately from the government budget resources with clear triggers for disbursement and with full transparency to suppliers, banks and business partners needing security of payments, and establishing letters of credit. Separating the government's resources, commitments and obligations to the sector in a separate fund would, if well implemented, reduce the opacity of the current structure whereby cross debts and delays in transfers have created uncertainty and in some cases real added costs through interest rates on short-term credit facilities to manage liquidity challenges in the two parastatals. (*See Senegal case below*). Lessons learned from Senegal indicate that the ESDF would need appropriate governance arrangements, sufficient funding, and a sunset clause, as the ESDF is not needed once the financial equilibrium in the sector is reached, that is, once the revenues from the tariff are sufficient to cover the cost of service.

Box 4.1 Senegal – Special Fund for Energy
SENELEC, the Senegal State Utility, faces a similar dependency on imported fuel to power its thermal generation. During the period leading up to 2011 SENELEC's financial situation deteriorated to a point where it had difficulty importing necessary fuel and honoring payment obligations. To address this and to increase transparency, The Government of Senegal (GoSN) set up a special stabilization fund to support fuel provision for electricity generation (the Special Fund for Energy – FSE), in particular to reduce the risk of power outages during fuel price hikes and to finance priority sector projects that would put the sector onto a more sustainable path. The FSE became operational in July 2011 and it initially financed fuel supplies to SENELEC as well as investments in new infrastructure, particularly generation expansion. The Fund's revenues are financed through SENELEC contributions, as well as taxes on oil products, energy and telecommunications. FSE is also used to channel GoSN budget transfers to SENELEC for tariff compensation. An automatic fuel price adjustment mechanism was built into the tariff structure, and validated by the sector regulator (CRSE), it allows SENELEC to be compensated for revenue shortcomings according to the concession agreement when GoSN refuses to increase tariffs. Lower global oil prices in 2015 helped to reduce costs, reduce the burden of the electricity sector on the national budget, and restore financial viability in the short term. Direct transfers to the sector through the FSE have declined from 2.4 percent of GDP in 2012 to 0.4 percent of GDP in 2015 and are expected to be zero in 2016. The fund is managed as a special vehicle within the Ministry of Finance, and has only one full-time staff and additional roles are filled by part-time services from within the Ministry. Government is contemplating additional mobilization of funds through bonds and other instruments dedicated to large-scale power sector infrastructure or PPP financing. That said, there is a thriving debate in Senegal regarding the future of the FSE. Following its inception, the FSE ensured the timely payments to fuel suppliers, and has reduced the need for SENELEC to revert to expensive short-term debt. Therefore, the FSE is regarded in the sector as having reduced the uncertainty of cash flows to SENELEC, and it has therefore contributed to reduced power outages. However, the FSE has at times been called upon to finance expenditures that are not budgeted, for instance to pay for receivables from government agencies. Critics have indicated that the FSE has discouraged the development of proper treasury management skills, and led in some cases to off-budget flows that are not fully transparent. For that reason, the creation of a Special Fund for Energy should be undertaken with sound governance practices and a clear mandate. It does show considerable promise to enable Government to respond to high spikes in fuel prices and to ensure that funds are available to address the sustained high growth in demand.

[5] Concession Contract and the Power Purchase Agreement have been signed for the construction and operation of a grid-connected photovoltaic power plant of 26.8 MWp in the Mouton region, municipality of Zina.

Prior Action #4: In order to improve sector planning, the Council of Ministers of the Recipient has approved a strategy for the energy sector that sets the Recipient's priorities in the sector in terms of investments, energy diversification, and private sector participation over the period 2016-2020.

Prior Action #5: In order to encourage private sector participation, the Ministry of Energy and Mines of the Recipient has appointed a technical expert responsible for providing assistance and advisory services on the preparation and negotiations of a revised Public-Private Partnerships (PPP) legal framework, including, power purchase agreements (PPA).

Trigger for the second operation:
Indicative Trigger 4: The Council of Ministers has approved the Rural Electrification Plan to increase access to electricity, and the comprehensive Electricity Sector Master Plan, which will determine the least-cost expansion plans in terms of new investments, maintenance of existing power plant assets, and funding.
Indicative Trigger 5: The Ministry of Energy and Mines and SONABEL have established and operationalized a joint investment planning unit to develop and regularly update the least-cost development plan and competitively procure new generation plants in a timely, transparent and cost-effective manner.
Indicative Trigger 6: The Council of Ministers has established, on terms and conditions acceptable to the World Bank, an Electricity Sector Development Fund (ESDF) with *inter alia* appropriate governance arrangements, sufficient funding to meet its objectives as well as a sunset clause.
Indicative Trigger 7: The Council of Ministers has approved and submitted to the National Assembly the updated legal, institutional and regulatory framework for the electricity sector, which clarifies, *inter alia*, the roles and responsibilities of key agencies and the PPP legal framework.

Expected results for Prior Actions #4 and #5:
Indicator 4: Maximum installed capacity for new solar photovoltaic plants (Mega Watt peak - MWp). Baseline 2015: 0. Target 2018: 77
Indicator 5: Capacity available on the interconnected network, excluding guaranteed imports (% of installed capacity). Baseline 2015: 52 percent. Target 2018: 62 percent.
Indicator 6: Number of Independent Power Producer (IPP) projects having been signed and successfully negotiated. Baseline 2015: 0. Target 2018: 2.
Indicator 7: Percentage of IPPs under standardized competitive process.
Baseline 2015: 0 percent. Target 2018: 50 percent.

Pillar 3. Strengthening tax collection and public procurement processes

Challenges

4.28. **Low performance in fiscal revenue mobilization undermines sustainable economic development.** The tax revenue to GDP ratio was 15 percent in 2014, one of the lowest in WAEMU. The share of value added tax (VAT) in overall fiscal revenues has steadily declined from 41 percent in 2009 to 32 percent in 2014. This situation mainly results from a lack of focus on creditworthy taxpayers and the accumulation of VAT arrears (CFAF 35 billion at end-2014). As a result, the collection productivity of VAT was extremely low, equivalent to about 20-25 percent of the potential tax base.

4.29. **Weak tax performance has also been the result of complex procedures and multiple databases, preventing the proper identification and monitoring of taxpayers**. Though some measures have recently been implemented to strengthen the efficiency of revenue collection, including interconnection of the DGI and DGD (Customs) databases, which has made it possible to detect more than 250 cases of fraud, further actions are needed such as the systematic cross-checking of information between the two Directorates. In addition, there are delays in tax collection and high risks of fraud on tax exemptions and VAT refunds. Of particular concern in the area of tax collection is that Burkina Faso ranks 149th out of 185 countries on the Cost of Doing Business indicator for paying taxes in 2016. This poor ranking reflects the inefficiency of payment procedures with 45 tax payments per year for a single taxpayer and an average annual time cost of 270 hours (compared to an average of 297.9 hours for SSA). Other weaknesses include complex payments measures that raise the cost of compliance and weak enforcement of sanctions.

4.30. **Weaknesses in tax collection negatively affect budget reliability, creating significant gaps between planned and actual revenue.** Limited tax collection also has an impact on the treasury and often results in delayed payments, leading to low budget execution rates as a result of high unpredictability in the resource flows to service delivery agencies and accumulation of arrears. Expansion of the tax base and improved collection capacities are crucial for increasing domestic resources, which in turn ensure credible fiscal policy management. It is worth noting that the low threshold of VAT liability (annual turnover of CFAF 50 million) significantly reduces the performance of this tax. Currently, this low liability threshold entails a large number of taxpayers that is less efficient in terms of revenue, as the tax administration cannot ensure collection of the taxes due to the large size of this population and its geographic dispersion. These are the perverse effects of the quest for liability of the biggest number of taxpayers, notably those in the informal sector who collect VAT and do not remit them whereas suppliers from the formal sector request repayment to Tax Administration. Land tax collection also remains very low in Burkina Faso and needs to be strengthened. Furthermore, the lack of regulatory interpretative provisions of the fiscal law, and the absence of communications, heavily hinder taxpayers' understanding of their obligations and further depresses the compliance rate. A draft tax code is being developed and the regulatory measures needed to enforce it have yet to be undertaken.

4.31. **Another fiscal challenge concerns the efficiency of public spending**. Procurement remains one of the most important bottlenecks of budget execution, especially of the investment budget. A 2013 World Bank study on boosting capital expenditure in WAEMU countries showed that a significant part of the investment budget is neither spent as intended, nor actually translated into tangible development results due to, among others, weaknesses in the procurement system. These weaknesses, which are illustrated by long delays in the procurement process, include (a) inadequate capacities in the procurement units of sectoral ministries evidenced by poor quality of bidding documents; (b) duplication of redundant controls; (c) the low threshold of procurement methods and delegation of approval; and (d) lack of accountability mechanisms on service delivery that put pressure on the Government to monitor contracting delays. Contract management is also part of the problem, particularly for some activities in infrastructure such as road maintenance where the procurement process takes a long time and results in an important number of annual contracts that are neither cost effective nor manageable.

Reforms and medium-term objectives

4.32. **The proposed operation supports the actions undertaken by the Government to improve tax collection.** In the short term, the two main objectives are to (a) increase the control and the monitoring of taxpayers through an improved coordination between the Customs and the Tax Administration (PA#6); and (b) ensure better distribution of the tax effort among taxpayers, based on their level of income by improving the collection of taxes on debtors through the issuance of court orders (garnishment) and by introducing a new tax on buildings (PA#7). In the medium-term, the emphasis is on VAT collection by reorganizing its billing and increasing thresholds. The new Tax Code will aim at increasing taxpayer compliance by introducing a customer care approach through a simplification of tax and customs clearance procedures and a more accessible tax administration to citizens. All are mutually reinforcing complementarities among these actions and the structural benchmarks related to domestic resource mobilization under the ECF supported program.

4.33. **Strengthening public procurement management is a priority area.** The objective is to improve the efficiency, performance, and accountability of the public procurement process. Second-generation procurement reforms involve focused efforts to increase capacity and monitoring performance. The new procurement code will be based on the principles of equal treatment, non-discrimination, economy, efficiency and transparency. It will regulate the institutional framework for procurement, define the overall organization of the procurement system, establish clear guidelines for the use of single-source procurement in line with international standards, and provide adequate provisions for contract implementation. The number of steps in the process of procuring goods and services under this new code will be reduced. Furthermore, with the possibility of using country systems, the new code would help reduce the double review in projects financed by donors in Burkina. The new code will be followed by the adoption of new decrees that will ensure its proper implementation by organizing the functioning of the (i) procurement process, (ii) sanctions, and (iii) the Regulatory Authority.

Prior Action #6: In order to broaden the tax base, the Ministry of Economy, Finance and Development of the Recipient has improved the identification and monitoring of taxpayers by reconciling the DGI and DGD databases.

Prior Action #7: The Council of Ministers of the Recipient has: (a) strengthened the administrative process through the introduction of Garnishment[6] Procedures in the Budget Law 2017; and (b) established a new flat tax of 0.2% on properties in urban areas in the revised Budget Law of 2016.

Prior Action #8: The Council of Ministers has approved a new procurement code and submitted it to the National Assembly for enactment.

Triggers for the second operation:

Indicative Trigger 8. The Ministry of Economy, Finance and Development has adopted a policy which reorganizes the VAT billing and revises the eligibility criteria of VAT collection.

Indicative Trigger 9: To increase tax revenue collection, the Council of Ministers has submitted to the National Assembly for enactment the new General Tax Code *(Code Général des Impôts – CGI)*.

Indicative Trigger 10: The Government has issued relevant Decrees which operationalize the 2016 Procurement Code and proceeded with its effective implementation.

Expected results for Prior Actions #6, #7 and #8:

Indicator 8: An increase in VAT revenues. Baseline 2015: 6.5 percent of GDP. Target 2018: 7.0 percent of GDP.

Indicator 9: An increase in non VAT tax revenues. Baseline 2016: 9.5 percent of GDP. Target 2018: 10.5 percent of GDP.

Indicator 10: A reduction in the number of days on average to complete a public procurement from the invitation to bid to contract signed and approved. Baseline 2015: 142 days. Target 2018: 100 days.

4.34. **Preparation of this DPF series has been informed by lessons learned from previous DPFs, the findings of the Systematic Country Diagnostic (SCD) consultations, and the Implementation Completion and Results Report (ICRR) of the Growth and Competitiveness Credits (GCC) series**. The main lesson from the previous DPFs has been that in Burkina Faso, macroeconomic stability and social programs will not have a strong positive impact on poverty indicators necessary to achieve the Government's development objectives in the absence of broad-based economic growth. With this key lesson, the new DPF series built on the conclusions of the Performance and Learning Review of the CPS for FY13-FY16, and the preliminary findings of the SCD, to support reforms in key policy areas of energy sector and PFM, which would potentially help increase government's ability to address weaknesses in the power sector, in tax collection

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[6] Definition: In fiscal Laws and francophone jurisdictions, garnishment (*Avis à Tiers Détenteur - ADT*) is an administrative process requiring a third party who owes money to a tax debtor, to instead pay the money to satisfy a debt to the tax administration. The third party is served with a garnishment to pay funds to the tax administration.

and in public procurement processes. The main lessons learned include: (a) the need for stronger and longer term commitment and leadership for sensitive reforms such as in the energy sector; (b) greater realism to better reflect what can be achieved in a context of limited capacity;(c) simplifying design is important to ensure effective and successful implementation; (d) sustained follow-up of prior actions that can have cascading effects on the second and final operation of the series; and (e) leverage the impact of World Bank support to Government by providing in parallel policy-based support which focuses on the policy and institutional aspects underpinning the sector's reform program and an investment financing operation to tackle key investment needs in energy. These lessons informed the design of the proposed operation, which consolidated and built on the recommendations of the policy notes prepared in June 2016 for the new government, focusing on a set of obstacles that have created bottlenecks to more inclusive growth and better delivery of social services. Overall, effective implementation of the major policy areas supported by the series will help to sustain growth and reduce poverty in Burkina Faso.

4.35. **Extensive analytical work underpins each of the policy areas covered by the proposed DPFs.** Recent studies undertaken by the World Bank, the Government of Burkina Faso and its other development partners including African Development Bank, IMF and EU, have played a fundamental role in the operation's design. The table below describes its eight prior actions and summarizes the analytical basis for each.

Table 4.2: Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
Pillar 1: Improving the financial sustainability of the energy sector	
Prior Action 1. The Recipient, SONABEL and SONABHY have entered into a tripartite agreement to clear arrears accumulated between the Recipient, SONABHY and SONABEL; with an implementation process that includes: (a) a one-time payment of CFAF 40 billion from SONABEL to clear part of the accrued arrears to SONABHY; (b) the conversion of the remaining CFAF 26.6 billion due by SONABEL to SONABHY into a debt to be repaid over ten years; and (c) clearance of the Recipient's arrears to SONABEL for electricity bills and compensation subsidies in the amount of CFAF 45.48 billion over the period of three years between 2017-2019.	*''IMF Staff report on the Fourth and Fifth Reviews Under the Extended Credit Facility Arrangement'' June 2016*
Prior Action 2. In order to improve the financial performance of SONABEL, the Recipient's ministries responsible for commerce; energy; and finance have approved an inter-ministerial decree that states the following: (a) the Regulatory Authority of the Electricity Sector (ARSE) shall review SONABEL's projections for each year's fuel prices; (b) The Recipient shall determine an annual subsidy cap limiting budget exposure, which triggers an electricity tariff revision implemented by SONABEL; and (c) the establishment of disbursement modalities aimed at ensuring timely disbursements of subsidies to SONABEL.	*"Public Expenditure Review in the Energy and Transport Sectors," World Bank, March 2013. ''IMF Staff report on the Fourth and Fifth Reviews Under the Extended Credit Facility Arrangement'' June 2016* *''Rapport sur l'approvisionnement en produits pétroliers du Burkina Faso et sur l'approvisionnement de la SONABEL'', Juillet 2016, Jean-Pierre Favennec.* *''SONABEL's Audit of charges and subsidies received from GoBF for the period 2010-13'', 2014*
Prior Action 3. In order to improve its revenues, SONABEL's Board of Directors has approved a Revenue Protection Program which provides for the use of smart meters that will strengthen the management of high-voltage and medium-voltage customers' accounts.	*''The benefits of Revenue Protection Program, United Illuminating Company'', March 2007*

Prior Actions	Analytical Underpinnings
Pillar 2: Diversifying energy and improving the legal and institutional framework of the energy sector	
Prior Action 4. In order to improve sector planning, the Council of Ministers of the Recipient has approved a strategy for the energy sector that sets the Recipient's priorities in said sector in terms of investments, energy diversification, and private sector participation over the period 2016-2020.	*''Medium Term Strategy and Roadmap for Burkina Faso's Energy Sector'', World Bank Executed Study by Tractebel/Nodalis, June 2016*
Prior Action 5. In order to encourage private sector participation, the Ministry of Energy and Mines of the Recipient has appointed a technical expert responsible for providing assistance and advisory services on the preparation and negotiations of a revised Public-Private Partnerships (PPP) legal framework, including, power purchase agreements (PPA).	*Independent Power Projects in Sub-Saharan Africa - Lessons from Five Key Countries, World Bank* *GoBF least-cost development plan, EDF, 2014.*
Pillar 3: Strengthening tax collection and public procurement processes	
Prior Action 6. In order to broaden the tax base, the Ministry of Economy, Finance and Development of the Recipient has improved the identification and monitoring of taxpayers by reconciling the DGI and DGD databases.	*"Policy Note on Macroeconomic management," World Bank, June 2016.* *''IMF Staff report on the Fourth and Fifth Reviews Under the Extended Credit Facility Arrangement'' June 2016*
Prior Action 7. The Council of Ministers of the Recipient has: (a) strengthened the administrative process through the introduction of Garnishment[7] Procedures in the 2017 Budget Law; and (b) established a new flat tax of 0.2% on proprieties in urban areas in the revised Budget Law of 2016.	"Policy Note on Macroeconomic management," World Bank, June 2016. *''IMF Staff report on the Fourth and Fifth Reviews Under the Extended Credit Facility Arrangement'' June 2016.*
Prior Action 8. The Council of Ministers has approved a new procurement code and submitted it to the National Assembly for enactment.	*"Policy Note on Governance and Public Administration," World Bank, June 2016.*

4.3 LINK TO THE CPF, OTHER WORLD BANK OPERATIONS AND THE WBG STRATEGY

4.36. **The proposed first operation in a programmatic series of two DPFs is an integral part of the World Bank's assistance to Burkina Faso under the IDA/IFC/MIGA Country Partnership Strategy (CPS) for FY213-FY16 (Report number 78793).** The CPS, endorsed by the Board on September 19, 2013, is fully aligned with the SCADD. Its objectives, as revised during the Performance and Learning Review exercise, include: (a) accelerate inclusive and sustained economic growth; (b) enhance governance to deliver social services more efficiently; and (c) reduce social, economic, and environmental vulnerabilities. To reinforce these three strategic objectives, the CPS encompassed two cross-cutting themes: governance and gender equity. The series remains well aligned with the priorities of the new National Economic and Social Development Plan (PNDES) adopted by the Government on October 3, 2016. The CPF under preparation for FY17-FY20 aims to support the PNDES goals in areas that are consistent with the WBG's comparative advantage and the priorities identified in the draft SCD, including energy and fiscal management; the series will therefore represent an important element of the WBG engagement in Burkina Faso over the next few years.

4.37. **The series is an important complement to other IDA and IFC lending investment projects.** Reforms under Pillar 1 of the proposed operation are linked to activities supported by the Burkina Faso

[7] Definition: In fiscal Laws and francophone jurisdictions, garnishment (*Avis à Tiers Détenteur - ADT*) is an administrative process requiring a third party who owes money to a tax debtor, to instead pay the money to satisfy a debt to the tax administration. The third party is served with a garnishment to pay funds to the tax administration.

Electricity Sector Support Project (P148768), including an Additional Financing approved in FY14, which seeks to: (i) increase access to electricity; (ii) improve the reliability of electricity supply; and (iii) improve the efficiency use of energy with financial support amounting to US$85 million. Overall, WBG support to the electricity sector should increase with an exceptional World Bank support amounting to US$80 million in order to increase the country's power production capacity and sector reforms. The new DPF series complements the objectives of the ongoing Public Sector Modernization Project (P132216), approved in July 2015, which uses many of the levers that proved successful to public financial management reforms in Burkina Faso under the CPS Pillar 2 and the cross-cutting theme of Governance. Also, reforms under Pillar 3 of the proposed operation are closely linked to activities supported by the Economic Governance and Citizen Engagement Project which was approved on February 18, 2016. This project seeks to enhance domestic revenue mobilization and improve the use of public resources by strengthening accountability mechanisms, revenue collection systems, and public expenditure management.

4.4 Consultations and Collaboration with Development Partners

4.38. **Consultations: The proposed operation supports the objectives of the PNDES, which has been developed through an inclusive participatory process.** The authorities have consulted with a wide range of stakeholders to ensure the broadest possible buy-in during the preparation of the PNDES. Consultations held in June 2016 involved government officials, Members of the National Assembly, representatives of civil society, the private sector, and Burkina Faso's development partners. In designing the proposed operation, further meetings were organized between the Government and the World Bank on the energy reforms as well as on fiscal management issues.

4.39. **Collaboration with other development partners: The World Bank team collaborates with donors in Burkina Faso, particularly with the IMF and the African Development Bank.** In Burkina Faso, budget support coordination was initiated following the adoption of the first 3-year strategy under the Poverty Reduction Strategy Framework in 2000, which encouraged aid harmonization and the use of country systems. The proposed new DPF series is designed in coordination with other members of the Multi-Donor Budget Support Group (*Cadre Général d'organisation des Appuis Budgétaires* – CGAB). It will be implemented in line with the framework of the CGAB, which has been in place since 2005. This framework helps in coordinating budget support in Burkina and improving the predictability of the national budget. Together, the CGAB accounts for more than 80 percent of total development aid to Burkina. Its budget support framework has been updated over time to facilitate a more focused and flexible approach, and it will continue to underpin donor coordination.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 Poverty and Social Impact

5.1. **The proposed DPF series is expected to help alleviate poverty and inequality in Burkina Faso.** Increased access to electricity, which is less than 20 percent nationwide today, would not only improve households' living conditions but also boost firms' productivity and thereby lead to more job opportunities over time. Concurrently, the ability of Government to collect additional revenue will help to fund more infrastructure and services, with concomitant benefits for the poor. Lastly, the efficiency gains achieved through faster and more transparent procurement procedures will also increase the value for money of public spending and improve the expected benefits for the population. These positive effects on poverty will however take some time to materialize fully, explaining why some mitigation measures are necessary in the shorter term, especially related to the electricity tariff policy.

5.2. **A primary objective of the proposed series is to increase access to electricity through higher energy production and distribution capacity, and lower costs, over time.** Among others, this combination will be achieved by shifting gradually to imported energy from the regional pool, renewable sources (e.g., solar), and off-grid solutions in rural areas. These sources are cheaper than current biomass and fuels and should therefore lead to lower electricity tariffs and/or subsidies from the central administration to the energy sector over time. Both will have pro-poor impacts by improving affordability for the poor or by releasing fiscal resources for other sectors.

5.3. **Higher access to electricity will help enhance household living conditions**. Today only one out of five households is connected to the national grid in Burkina Faso. Moreover, this average access rate masks significant variations across income groups since only 4 percent of the poorest quintile has access to electricity against almost 60 percent for the wealthiest quintile. The empirical literature suggests that improved access to electricity will bring higher benefits to the poor through the emergence of multiplier effects.[8] These effects may occur through better performance at school (children can do their schoolwork at home after school in better conditions with electricity) and improvements in the quality of life by providing the opportunity to use appliances (refrigerator, television, and iron, among others).

5.4. **The second channel through which improved access to electricity will help reduce poverty is the expected impact on firms' productivity**. Many firms are constrained by low access to electricity. Even when they have access, load shedding can be significant.[9] Improved and more reliable access to electricity will therefore help firms to produce more and at lower costs. Such positive impact can be especially important in highly energy-intensive sectors such as mining, fertilizers and agro-processing. Firms that are more competitive are more likely to increase their demand for labor, creating new jobs and making greater contributions to further poverty alleviation over time.

5.5. **An important aspect of the Government's strategy in the energy sector concerns the reform of the electricity tariffs**. Since the current average tariff, set at approximately US$0.21 per kWh, is already one of the highest in West Africa, the first operation supports the government's initiative to limit the pass-through from supply costs to tariffs by setting up a cap (see PA#2). Beyond this cap, the Government has to allocate subsidies to close the financing gap.[10] Such an initiative aims at ensuring the financial viability of the sector by sharing the adjustment costs between customers and taxpayers. Concurrently, the Government has increased the tariffs for high-voltage clients at peak hours to better manage demand and increase the financial burden on large consumers. Over time, the expected decline in the supply costs of energy should help reduce the reliance on subsidies and thereby lower the burden on taxpayers.

5.6. **Prior actions related to fiscal management are expected to have positive effects on poverty over the medium term.** The poor populations are the most dependent on essential public services. Improved tax collection will augment the fiscal space and free up supplementary resources for pro-poor spending. However, it has to be recognized that higher collection of indirect taxes (such as the VAT that is a tax on consumption) can lead to higher prices for some goods purchased from informal and/or small retailers

[8] For a summary, see C. Calderon and L. Serven, *Infrastructure and Economic Development in Sub-Saharan Africa*, *Policy*, World Bank Research Working Paper 4712, 2008. Their main finding is that, other things equal, infrastructure development is associated with reduced income inequality. Combined with the finding that infrastructure also appears to raise growth, the implication is that, under the right conditions, infrastructure development can be a powerful tool for poverty reduction.

[9] In the 2015 WEF competitiveness report, inadequate access to electricity was the fourth most severe constraint faced by firms after access to financing, corruption, and taxes.

[10] As explained in the preceding section, the amount of subsidies is also capped to avoid an excessive burden on the budget in case of an extreme shock on costs (i.e., a large increase in fuel prices).

and affect disproportionately poor households. Such negative impact is, however, expected to be limited because most informal firms will remain under the thresholds for VAT payment (see trigger 7). Social protection measures such as conditional cash transfers could be explored by the Government and implemented to mitigate this adverse impact on poor consumers.

5.7. **Implementation of the new public procurement code will further increase the efficiency of public spending**. Slow and non-transparent procedures contribute to substantial fiscal losses and reduce the impact of public expenditures on economic growth and poverty alleviation. The most important benefits are expected in implementation of the investment budget, which has been executed at a rate of 75 percent in recent years, with improvements expected to benefit infrastructure sectors such as transport and energy. The subsequent increase in the stock of infrastructure will in turn generate higher economic growth over time.

5.8. **While the reforms supported by the DPF series are not directly focused on the promotion of gender equality, they will provide the fiscal space necessary to finance such objectives.** Some gender issues are partially driven by an insufficient allocation of resources to key services. The proposed operation includes measures to promote tax collection as well as improvement in the procurement process that will help finance additional resource allocation toward the education and health sectors, with an emphasis on the enrolment of girls and delivery maternal health care services.

5.2 Environmental Aspects

5.9. **Implementation of reforms proposed in this operation is not expected to have large negative impacts on environment, forests, or natural resources.** As a landlocked Sahelian country, Burkina Faso satisfies its energy needs by using the following sources of energy: imported oil, electric power and thermal hydropower, renewable energy (solar) and wood fuel. To mitigate the negative impact of these fuel sources on climate change, Burkina Faso has implemented extensive reforestation programs, promoted the use of butane gas, and developed solar programs (e.g., Zaghtouli, Zina). To support these actions, laws and regulations have been adopted including the institutional aspects. Adoption by the National Assembly of the Text N° 2015-1187 related to conditions and procedures for implementing and validating strategic environmental assessments, environmental and social impacts studies, devotes an important component to investments in the energy sector with clear categorization of policies and programs on energy in terms of generation, transmission, distribution, research or maintenance of infrastructure.

5.10. **The reform program supported by the DPF series will help shift the energy mix from traditional biomass and fossil fuels to imported electricity and renewable energy.** A special emphasis will be on solar energy given the country’s climatic conditions. Such a shift will reduce deforestation, lower local pollution, and reduce GHG emissions.

5.11. **Related to fiscal management reforms, the activities supported by the proposed operation are expected to have neutral or positive effects on Burkina’s environment.**

5.12. **On the proposed Energy and Fiscal Management Development Policy Financing, all projects on World Bank Group financing and others are under environmental and social assessments with Category B triggered for all of them**: P128768 and P149115, Electricity Sector Support Project; P094919, The First Phase of the Inter-Zonal Transmission Hub Project of the WAPP (APL3) Program). These projects have safeguards specialists as an integral part of the project implementation unit. In general, the borrower’s capacities in terms of implementing, supervising, monitoring and evaluating the environmental aspects are ensured. Particularly, the National Environmental Agency *(Bureau National des Evaluations*

Environnementales, BUNEE), which oversees all projects expected to have adverse or positive environmental potential impacts, has the capacity to conduct high-quality environmental assessments. The framework, established at the national, regional and international levels, provides further assurances that the policy actions to be implemented under the DPF on energy and fiscal management will comply with sound environmental protection standards.

5.3 PFM, Disbursement and Auditing Aspects

5.13. **The Government has adopted an update of the Economic and Finance Sector Policy (POSEF) for the period 2011 to 2020 which includes integrated public finance management actions plan.** The subprogram of POSEF on PFM reforms aims at addressing the public financial management challenges highlighted in more recent assessments made of the PFM system. This includes the 2013 and 2010 Public Expenditure and Financial Assessments (PEFA), which highlighted significant progress made in the areas of comprehensiveness and transparency of the budget, policy-based budgeting with the introduction of multi-year programmatic budgets for all sectoral ministries, and internal controls, as well as compliance with good practices in budget preparation, approval, and amendment procedures. However, the assessment reports identified a number of critical shortcomings in revenue forecasting, effectiveness in collection of tax payment, availability of information on resources received by service delivery units, procurement, and external audits. The PFM reform program (*Programme de Réforme de la Gestion Budgétaire* – PRGB), has been updated with the support of most of the donors in the Multi-Donor Budget Support Group *(Cadre Général d'Organisation des Appuis Budgétaires* – CGAB).

5.14. **The Economic Governance and Citizen Engagement Project (P155121) effective in October 2016 supports implementation of the PFM reforms** and assists the Government of Burkina Faso (GoBF) in improving core areas of economic governance and citizen engagement, including (a) developing mechanisms for social accountability, transparency, and access to information on the management of public funds, including strengthening capacities of audit institutions, the judiciary, and civil society to fight fraud and corruption; (b) increasing fiscal space through the modernization of tax and customs systems and the improvement of revenue collection capacities; and (c) strengthening public expenditure management, including the procurement system efficiency and predictability and control in budget execution. Overall, the World Bank has assessed implementation performance of the public financial management reform program to date and Government's commitment to its improvement as satisfactory. It further finds the fiduciary environment to be adequate to proceed with the proposed operation.

5.15. **The Government is aligning its PFM systems with current WAEMU directives.** The Government has adopted the WAEMU Transparency Code and is aligning its national legislation with WAEMU's six new PFM directives. The National Transitional Committee (CNT – Parliament) enacted the directive on the Finance Act in November 2015. Alignment with the directives will ensure convergence of the system with international standards of public finance. Expected outcomes of this comprehensive reform included realistic and sustainable budget forecasts; overall spending amounts determined on the basis of a multi-year budget and economic planning; resources allocated more logically in order to achieve objectives; and better accountability from main authorizing officers (ministers and presidents of institutions).

5.16. **The IMF carried out an on-site safeguards assessment of the Central Bank of West African States (BCEAO) and found that progress has been made in strengthening the BCEAO's safeguards framework since 2013 when the last safeguards assessment was undertaken.** A continuing strong control environment is in place and all recommendations from the assessment have been implemented. These include strengthening the external audit arrangements by appointing an international firm with ISA experience for the audits of FY15-FY17, reinforcing the capacity of the audit committee with external expertise to oversee the audit and financial reporting processes, and adoption of International Financial Reporting Standards (IFRS) starting with the financial year 2015. The flow-of-funds arrangements between the BCEAO and Burkina Faso's Treasury have been reviewed based on an annual audit funded by the CGAB. Overall, the fiduciary risk of the proposed operation is rated "moderate". This rating is based on the current status of the PFM system and improvements observed in the central bank's safeguard framework, accounting systems and auditing arrangements. The Government has made progress in strengthening multiple aspects of public financial and budgetary management since the 2013 PEFA assessment, and its continuing efforts are supported by most of the donors in the Multi-Donor Budget Support Group *(Cadre Général d'Organisation des Appuis Budgétaires* – CGAB). Regarding budget transparency, most of the information related to annual budgets, quarterly budget execution reports, mid-year budget reviews, and annual settlement laws is available online at www.dgb.gov.bf.

5.17. **The proposed operation would consist of a single-tranche disbursement of US$100 million equivalent,** provided on standard grant terms for the 45 percent (SDR 32.8 million or US$ 45.0 million equivalent) and credit terms for the 55 percent (EURO 50.3 million), to be made available upon effectiveness and disbursed following satisfactory implementation of the development policy program and the maintenance of an adequate macroeconomic framework. The resources will be released upon effectiveness, provided that IDA is satisfied (i) with the program being carried out by the Recipient and (ii) with the adequacy of the Recipient's macroeconomic policy framework. The Recipient is the Government of Burkina Faso, represented by the Ministry of Economy, Finance and Development. The operation would follow IDA's standard disbursement procedures for development policy financings and would not be linked to specific expenditures. Once the financing agreement becomes effective, and upon receipt of a withdrawal application, and provided IDA is satisfied with the program being carried out by the Government and with the appropriateness of the country's macroeconomic policy framework, the proceeds of the grant will be deposited by IDA into an account designated by the GoBF at the BCEAO, where they will form part of the country's foreign exchange reserves. The Government will credit the local currency equivalent in its budget using the prevailing exchange rate. As a due diligence measure, IDA will obtain confirmation from the Government that the sum of the proceeds has been accounted for in the country's budget management system, including an indication of the exchange rate applied and the date of transfer. Confirmation will be expected within 30 days of disbursement. If, after being deposited in this account, the proceeds are used for excluded expenditures as defined in the Financing Agreement, IDA will require the Recipient to refund directly to IDA an amount equal to the amount of the payment promptly upon notice. Amounts refunded to the World Bank upon such a request will be canceled. No dedicated account is required.

5.18. **The closing date for the operation is June 30, 2019.**

5.4 Monitoring, Evaluation and Accountability

5.19. **The Ministry of Economy, Finance and Development (MEFD) is the designated implementing agency and has the responsibility for monitoring the overall execution of the measures outlined in the DPF series.** MEFD has experience in coordinating and implementing DPF and is the designated implementing agency. MEFD will be responsible for coordinating and reporting to the World Bank on progress. The World Bank multi-sectoral team will undertake supervision missions and provide technical assistance where needed. As with previous series, the institutional arrangements for the preparation and execution of this DPF series are within the established framework of the Multi-Donor Budget Support Group *(Cadre Général d'Organisation des Appuis Budgétaires – CGAB)* and in line with the PNDES performance matrix. Day-to-day monitoring of the program will be the responsibility of the Directorate in Charge of Cooperation (DGCOOP). Its oversight will be incorporated into the ongoing policy reform dialogue, including regular discussions with the IMF and other development partners. The technical responsibility for implementing the energy reforms will remain with the Ministry of Energy, and with the Ministry of Trade. PFM and procurement reforms will be implemented by the respective technical Units in the MEFD and the Regulatory Authority of Public Procurement *(Autorité de régulation de la commande publique - ARCOP)*, with overall coordination provided by DGCOOP. The sector ministries will furnish relevant information and documentation on the status of their respective reforms to the DGCOOP, which will monitor progress against program objectives. A results matrix that tracks the two operations in the series will provide concrete indicators and empirical benchmarks to monitor progress and facilitate ex-post evaluation following the end of the program in December 2018. The Government will update the 2014 Households Survey (*Enquête Multisectorielle Continue*) to contribute to improve the timeliness and quality of data, and facilitate the improvement of its M&E system.

5.20. **Grievance Redress**. Communities and individuals who believe that they have been adversely affected by specific country policies supported as prior actions or tranche-release conditions under a World Bank Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel that determines whether harm occurred, or could occur, as a result of World Bank's non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention and Bank management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND RISK MITIGATION

6.1. **The overall risk rating for the proposed operation is substantial**. The risk ratings in Table 6.1 follow the four-point rating scale from low (L), to medium (M), substantial (S), and high (H). The two most important categories for the proposed operation are: (a) Institutional capacity for implementation and sustainability (S), and (b) Environmental and social risks (S). Macroeconomic risks remain moderate though there still are downside risks in the medium term, particularly in relation to containing wage bill pressures. A description of each of these risks and their respective mitigation measures is provided below.

Table 6.1: Systematic Operations Risk-rating Tool (SORT)

Risk categories	**Rating (H, S, M, or L)**
1. Political and governance	Moderate
2. Macroeconomic	Moderate
3. Sector strategies and policies	Moderate
4. Technical design of project or program	Moderate
5. Institutional capacity for implementation and sustainability	Substantial
6. Fiduciary	Moderate
7. Environmental and social	Substantial
8. Stakeholders	Moderate
Overall	**Substantial**

6.2. **Macroeconomic risks (M):** The country is vulnerable to external shocks. Indeed, a larger than expected decline in cotton and gold prices, as well as larger than expected increase in oil imports and high oil prices may put pressure on Burkina Faso's macroeconomic framework. In addition, higher than projected fiscal deficits partly due to higher wage bills arising from the political transition and continued energy subsidies constitute a source of risks. These risks would translate into a slowdown in economic growth, reduced fiscal revenues and a larger current account deficit. The burdens of addressing a macroeconomic disruption induced by these risks could divert resources away from priority needs in the energy sector and reduce the government's efforts and ability to sustainably implement the agreed proposed reforms in the energy sector. To offset these risks, Burkina Faso's authorities are seeking to diversify the economy, so as to be less dependent on agriculture and energy imports, and to alleviate the budgetary impact of changes in oil prices by establishing an oil price indexation mechanism both for SONABHY's fuel pricing to SONABEL and the pump price. Structural reforms, including those supported by this operation, will contribute to partially mitigate these risks and reduce the effect of adverse changes in the external environment. Prudent fiscal policy that is implemented through the program supported by the ECF would lessen the effects of commodity price shocks. On the public servant wage bill, the authorities will continue to enhance the biometric enrolment of civil servants in the Payroll System and to improve the control of additional recruitments. The proposed DPF series will contribute to addressing these above issues in close collaboration with IMF team through its focus on fiscal management reform. The operation is designed to mitigate fiscal risks by supporting measures designed to reduce the burden from the energy sector and improve tax collection as well as the public procurement processes. Measures on tax collection would also help to build fiscal buffers.

6.3. **Institutional capacity for implementation and sustainability (S):** Lack of capacity at the Ministry of Energy, at the ARSE and at the Ministry of Economy, Finance and Development may delay the implementation of some measures supported by this operation, including improvements in investment policies, in the regulation of the energy sector and in Tax administration. To address this risk, the World Bank will increase its engagement at the technical level to ensure that the reforms implemented under this operation prove sustainable over the long term. The Additional Financing to the PASEL as well as the Economic Governance Support Project would help to mitigate this risk.

6.4. **Environmental and social risks (S):** Climatic shocks represent a serious threat to Burkina's agriculture sector, both food crops and cotton production, and consequently to rural livelihoods and food security. As a landlocked country in the environmentally vulnerable Sahel region, Burkina Faso suffers from an extreme and variable climate, with the possibility of both flooding and drought occurring within a few months of each other. Weather-related shocks may affect the pace of reform implementation. The realization of such kind of shocks could reduce the fiscal space and efforts of containing current expenditures.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Indicative Triggers		Result Indicators (by end 2018)
Prior Actions for DPF 1	**Indicative Triggers for DPF 2**	
Pillar 1 – Improving the financial sustainability of the energy sector		
Prior Action 1. The Recipient, SONABEL and SONABHY have entered into a tripartite agreement to clear arrears accumulated between the Recipient, SONABHY and SONABEL; with an implementation process that includes: (a) a one-time payment of CFAF 40 billion from SONABEL to clear part of the accrued arrears to SONABHY; (b) the conversion of the remaining CFAF 26.6 billion due by SONABEL to SONABHY into a debt to be repaid over ten years; and (c) clearance of the Recipient's arrears to SONABEL for electricity bills and compensation subsidies in the amount of CFAF 45.48 billion over the period of three years between 2017-2019.	**Indicative Trigger 1:** The Council of Ministers has allocated adequate funds in the 2018 budget to: (a) cover the annual payment indicated in Prior Action 1 and; (b) cover the receivables from other state-owned enterprises and para-public agencies owed to SONABEL.	**Indicator 1:** Reduction of cross arrears between the Government, SONABHY and SONABEL. Baseline: arrears accrued by June 30, 2016: CFAF 140 billion. Target in 2018: CFAF 60 billion.
Prior Action 2. In order to improve the financial performance of SONABEL, the Recipient's ministries responsible for commerce; energy; and finance have approved an inter-ministerial decree that states the following: (a) the Regulatory Authority of the Electricity Sector (ARSE) shall review SONABEL's projections for each year's fuel prices; (b) The Recipient shall determine an annual subsidy cap limiting budget exposure, which triggers an electricity tariff revision implemented by SONABEL; and (c) the establishment of disbursement modalities aimed at ensuring timely disbursements of subsidies to SONABEL.	**Indicative Trigger 2:** To improve the financial performance of SONABEL: (a) the Council of Ministers has approved a legal framework to introduce competition for fuel deliveries from SONABHY storage facilities to SONABEL plants; and (b) the Ministry of Energy and Mines and SONABEL have implemented the recommendations of the audit report on fuel consumption, and approved regulations regarding invoicing to minimize leakages during transport.	**Indicator 2:** Improved financial performance of the state-owned electricity provider *(Société Nationale d'électricité du Burkina Faso* - SONABEL*)*, as measured by Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA). Baseline 2015: CFAF 14 billion. Target 2018: CFAF 40 billion or higher.
Prior Action 3. In order to improve its revenues, SONABEL's Board of Directors has approved a Revenue Protection Program which provides for the use of smart meters that will strengthen the management of high-voltage and medium-voltage customers' accounts.	**Indicative Trigger 3:** SONABEL has allocated funds and implemented the actions required in the first year of the revenue protection program.	**Indicator 3:** Reduction in customer's outstanding bills due to SONABEL (as measured by client receivables). Baseline 2015: CFAF 55 billion. Target 2018: below CFAF 39 billion.

Prior Actions and Indicative Triggers		Result Indicators (by end 2018)
Prior Actions for DPF 1	**Indicative Triggers for DPF 2**	
Pillar 2 – Diversifying energy and improving the legal and institutional framework of the energy sector		
Prior Action 4. In order to improve sector planning, the Council of Ministers of the Recipient has approved a strategy for the energy sector which sets the Recipient's priorities in said sector in terms of investments, energy diversification, and private sector participation over the period 2016-2020.	**Indicative Trigger 4:** The Council of Ministers has approved the Rural Electrification Plan to increase access to electricity, and the comprehensive Electricity Sector Master Plan, which will determine the least cost expansion plans in terms of new investments, maintenance of existing power plant assets, and funding. **Indicative Trigger 5:** The Ministry of Energy and Mines and SONABEL have established and operationalized a joint investment planning unit to develop and regularly update the least cost development plan and competitively procure new generation plants in a timely, transparent and cost-effective manner.	**Indicator 4**: Maximum installed capacity for new solar photovoltaic plants (Mega Watt peak - MWp). Baseline 2015: 0. Target 2018: 77. **Indicator 5**: Capacity available on the interconnected network, excluding guaranteed imports (% of installed capacity). Baseline 2015: 52 percent. Target 2018: 62 percent.
Prior Action 5. In order to encourage private sector participation, the Ministry of Energy and Mines of the Recipient has appointed a technical expert responsible for providing assistance and advisory services on the preparation and negotiations of a revised Public-Private Partnerships (PPP) legal framework, including, power purchase agreements (PPA).	**Indicative Trigger 6:** The Council of Ministers has established on terms and conditions acceptable to the World Bank, an Electricity Sector Development Fund (ESDF) with *inter alia* an appropriate governance arrangements, sufficient funding to meet its objectives as well as a sunset clause. **Indicative Trigger 7:** The Council of Ministers has approved and submitted to the National Assembly the updated legal, institutional and regulatory framework for the electricity sector, which clarifies, *inter alia*, the roles and responsibilities of key agencies and the PPP legal framework.	**Indicator 6:** Number of Independent Power Producer (IPP) projects having been signed and successfully negotiated. Baseline 2015: 0. Target 2018: 2. **Indicator 7:** Percentage of IPPs under standardized competitive process. Baseline 2015: 0 percent. Target 2018: 50 percent.
Pillar 3 – Strengthening tax collection and public procurement processes		
Prior Action 6. In order to broaden the tax base, the Ministry of Economy, Finance and Development of the Recipient has improved the identification and monitoring of taxpayers by reconciling the DGI and DGD databases.	**Indicative Trigger 8:** The Ministry of Economy, Finance and Development has adopted a policy that reorganizes the VAT billing and revises the eligibility criteria of VAT collection.	**Indicator 8:** An increase in VAT revenues. Baseline 2015: 6.5 percent of GDP. Target 2018: 7.0 percent of GDP.

Prior Actions and Indicative Triggers		Result Indicators (by end 2018)
Prior Actions for DPF 1	**Indicative Triggers for DPF 2**	
Prior Action 7. The Council of Ministers of the Recipient has: (a) strengthened the administrative process through the introduction of Garnishment[11] Procedures in the Budget Law 2017; and (b) established a new flat tax of 0.2% on proprieties in urban areas in the revised Budget Law of 2016.	**Indicative Trigger 9:** To increase tax revenue collection, the Council of Ministers has submitted to the National Assembly for enactment the new General Tax Code *(Code Général des Impôts – CGI)*.	**Indicator 9:** An increase in non VAT tax revenues. Baseline 2016: 9.5 percent of GDP. Target 2018: 10.5 percent of GDP.
Prior Action 8. The Council of Ministers has approved a new procurement code and submitted it to the National Assembly for enactment.	**Indicative Trigger 10:** The Government has issued relevant Decrees that operationalize the 2016 Procurement Code and proceeded with its effective implementation.	**Indicator 10:** A reduction in the number of days, on average, to complete a public procurement from the invitation to bid to contract signed and approved. Baseline 2015: 142 days. Target 2018: 100 days.

[11] Definition: In fiscal Laws and francophone jurisdictions, garnishment (*Avis à Tiers Détenteur - ADT*) is an administrative process requiring a third party who owes money to a tax debtor, to instead pay the money to satisfy a debt to the tax administration. The third party is served with a garnishment to pay funds to the tax administration.

ANNEX 2: LETTER OF DEVELOPMENT POLICY

MINISTERE DE L'ECONOMIE, DES FINANCES
ET DU DEVELOPPEMENT

SECRETARIAT GENERAL

DIRECTION GENERALE
DE LA COOPERATION

BURKINA FASO
Unité - Progrès - Justice

Ouagadougou, le 21 NOV 2016

N°2016/ 02977 /MINEFID/SG/DGCOOP/DSPF

Le Ministre

A
Monsieur Jim Yong Kim,
Président du Groupe de la Banque mondiale
-Washington DC, USA-

<u>**Objet**</u> : Lettre de politique de développement

Monsieur le Président,

La présente Lettre de politique de développement décrit d'une part, le contexte d'élaboration du nouveau référentiel de développement, le Programme national de développement économique et social (PNDES), et d'autre part, présente l'évolution de la situation économique, les perspectives économiques et financières pour 2016 ainsi que les objectifs de développement à moyen terme du Burkina Faso, les perspectives sur la période 2016-2019. Elle retrace les politiques publiques et sectorielles mises en œuvre par le Gouvernement pour réduire substantiellement la pauvreté. La lettre fait ressortir également les réformes du Gouvernement pour soutenir le secteur de l'énergie et renforcer la performance des finances publiques.
En vue de soutenir son programme, le Gouvernement sollicite de la Banque Mondiale un appui budgétaire national au titre de l'année 2016, d'un montant équivalant à cent (100) millions de dollars des Etats-Unis, dont cinquante-cinq (55) millions de dollars des Etats-Unis sous forme de prêt et quarante-cinq (45) millions de dollars des Etats-Unis en termes de dons.

I. CONTEXTE ET ADOPTION D'UNE NOUVELLE STRATEGIE DE DEVELOPPEMENT, LE PNDES

Malgré les multiples chocs exogènes liés à la variation de la pluviométrie et des prix de ses produits d'exportations, le Burkina Faso a enregistré une croissance économique appréciable de l'ordre de 6% l'an au cours de la dernière décade. Au cours des deux dernières années, l'économie a été mise à rude épreuve par plusieurs chocs simultanés dont les plus importants ont été la baisse des cours de l'or et du coton respectivement de l'ordre de 27% et de 8% ainsi que les attaques terroristes. Ainsi, la croissance économique s'est située à 4% en 2014 et 2015.. Cependant, ce résultat n'a pas permis de réduire considérablement le niveau de pauvreté et les inégalités sociales. En 2014, l'incidence de la pauvreté est ressortie à 40,1% et le taux d'analphabétisme des personnes de plus de 15 ans était de 65,5%. Par conséquent, le niveau de l'Indice de développement humain (IDH) du Burkina Faso s'est situé à 0,420 en 2014, le classant dans la catégorie des pays à faible niveau de développement.

Il apparaît alors que les politiques de développement ont été insuffisantes pour créer de réelles dynamiques fortement créatrices de richesses nécessaires à l'amélioration durable du bien-être des Burkinabè. Afin de corriger les insuffisances observées, le Gouvernement installé en Janvier 2016 à la suite des élections présidentielles et législatives de Novembre 2015 après un an de transition politique, a élaboré et adopté le Plan national de développement économique et social (PNDES), comme nouveau référentiel de développement.

Le PNDES s'inscrit dans un schéma de développement axé sur une nouvelle dynamique de transformation structurelle de l'économie dans une perspective de maitrise de la démographie, générant des effets multiplicateurs cumulatifs et durables sur l'amélioration de la croissance du revenu moyen par habitant. Aussi, permettra-elle, de ce fait, la satisfaction des besoins fondamentaux, la réduction de la pauvreté, le renforcement des capacités humaines, la viabilité environnementale et l'équité sociale.

Ce faisant, il tient compte des enseignements tirés de la mise en œuvre des référentiels des politiques antérieurs qui ont planifié le développement du Burkina Faso, dans une optique d'interventionnisme étatique ou de libéralisme économique. Avec les plans 1960-1962, 1963-1967 (premier plan quinquennal), 1967-1970 (Plan-cadre de développement économique et social), 1971 (Plan intérimaire), les plans 1972-1976, 1977-1981, le Programme populaire de développement (PPD) 1984-1985 et le Plan quinquennal de développement populaire (PQDP) 1986-1990, l'État a été positionné dans un rôle d'entrepreneur. À l'inverse, avec les Programmes d'ajustement structurel (PAS) 1991-2000, le Cadre stratégique de lutte contre la pauvreté (CSLP) 2000-2010 et la Stratégie de croissance accélérée et de développement durable (SCADD) 2011-2015, l'entreprise privée a été considérée comme le moteur du développement.

Les retombées non significatives des politiques sont dues aux insuffisances structurelles du système productif national fortement exposé aux chocs exogènes, notamment aux aléas climatiques et à la volatilité des prix des principaux produits d'exportation (or et coton). Ces insuffisances sont : (i) la faible productivité du secteur primaire dominé par une agriculture de subsistance, (ii) le déclin du secteur manufacturier lié à la faible compétitivité des industries existantes et au faible développement de l'agro-industrie, (iii) une économie informelle, plus particulièrement, le secteur tertiaire et un faible accès des opérateurs économiques, surtout des Petites et moyennes entreprises (PME) aux services financiers, (iv) la faible diversification des exportations et (v) l'insuffisance de ressources humaines de qualité adaptées aux besoins de sa transformation structurelle.

Pourtant, l'économie burkinabè regorge d'énormes potentialités et de réelles opportunités, notamment : (i) les possibilités de productions agro-sylvo-pastorales, fauniques et halieutiques non encore exploitées, (ii) celles de développement de l'agro-industrie, des industries de services et de l'énergie solaire, (iii) la jeunesse de la main-d'œuvre, (iv) le grand marché alimentaire ouest-africain de plus en plus dynamique, (v) la libre circulation des biens et des personnes dans l'espace communautaire ouest-africain, (vi) l'accroissement de la demande mondiale de produits agricoles, notamment en Europe de l'Est, en Inde et en Chine, (vii) le développement et la baisse des coûts d'accès aux Technologies de l'information et de la communication.

Pour valoriser ces potentialités, le Burkina Faso fait face à des défis majeurs, à savoir : (i) la bonne gouvernance et de la qualité des institutions, (ii) la disponibilité et de l'employabilité de ressources humaines adaptées aux besoins de l'économie nationale, (iii) le développement des infrastructures routières, énergétiques et de la compétitivité des secteurs de production et de transformation des produits nationaux, pour un développement industriel durable, générateur d'emplois productifs.

Considérant ces contraintes, ces insuffisances et ces opportunités, le PNDES, en tant que référentiel national des interventions de l'État et de ses partenaires sur la période 2016-2020, vise une croissance cumulative du revenu par habitant à même de réduire la pauvreté, de renforcer les capacités humaines et de satisfaire les besoins fondamentaux, dans un cadre social équitable et durable.

Prenant appui sur le programme présidentiel, la vision Burkina 2025 et les engagements internationaux auxquels le Burkina Faso a souscrits, la vision du PNDES est : "*le Burkina Faso, une nation démocratique, unie et solidaire, transformant la structure de son économie et réalisant une croissance forte et inclusive, au moyen de modes de consommation et de production durables*".

Le PNDES se décline en trois axes stratégiques: (i) *Axe 1 :* réformer les institutions et moderniser l'administration, (ii) *Axe 2 :* développer le capital humain et (iii) *Axe 3 :* dynamiser les secteurs porteurs pour l'économie et les emplois.

Le processus de transformation structurelle prévoit l'utilisation de deux leviers complémentaires. Le premier consistera au renforcement des secteurs d'appui au développement industriel notamment, l'énergie, les infrastructures de transport, la technologie, la réforme du système éducatif et l'amélioration de la productivité du secteur primaire. Le second portera essentiellement, sur la construction d'un tissu industriel compétitif et durable.

Les impacts globaux attendus de la mise en œuvre du PNDES sont : (i) l'amélioration de l'efficacité des gouvernances politique, administrative, économique, locale et environnementale, (ii) l'émergence d'une économie moderne basée sur un secteur primaire évolutif, plus compétitif et des industries de transformation et de services de plus en plus dynamiques, permettant de réaliser un taux de croissance économique annuel moyen de 7,7% et créatrice d'au moins 50 000 emplois décents par an, (iii) la baisse de l'incidence de la pauvreté pour qu'elle soit inférieure à 35% en 2020, (iv) la maîtrise de la croissance démographique annuelle afin qu'elle soit ramenée à 2,7% en 2020, (v) l'accélération du niveau de développement du capital humain et (vi) le changement des modes de production et de consommation s'inscrivant dans une perspective de développement durable.

Le coût total induit par la mise en œuvre du PNDES est estimé à 15 395,4 milliards de francs CFA, pouvant être financés sur ressources propres de l'État à hauteur de 9 825,2 milliards de francs CFA, soit 63,8% du coût total. Il se dégage ainsi, un besoin de financement de 5 570,2 milliards de francs CFA, soit 36,2% du coût total.

II. SITUATION ECONOMIQUE RECENTE

Après une année 2015 marquée par une croissance économique ralentie à 4,0% contre 4,2% en 2014, l'activité économique a repris de manière graduelle durant la première moitié de 2016 et les perspectives pour l'année sont favorables. Elle a augmenté de 4,7 % au premier trimestre, reflétant l'impact des attentats terroristes de janvier, et de 8,3% au deuxième trimestre de 2016 (en glissement annuel) tirée par une nette reprise du secteur tertiaire. Les principaux indicateurs économiques reflètent cette situation générale favorable :

- L'inflation s'est établie, en glissement annuel, en baisse de 0,4% à fin septembre 2016. La décélération du niveau général des prix amorcée en juillet s'explique par la baisse des prix des produits alimentaires, notamment les céréales non transformées et les légumes. En moyenne annuelle, le taux d'inflation est ressorti à 0,6% à fin septembre 2016 contre 0,7% le mois précédent.
- Le taux de croissance du crédit au secteur privé semble avoir amorcé une timide reprise, en décalage toutefois par rapport à la reprise de l'activité. Après avoir décliné jusqu'à 3,9% en avril, il s'est établi à 6,5 % en juillet, toujours en net ralentissement comparé à la moyenne des trois années précédentes (17,4%). La décélération des crédits à l'économie à fin juillet 2016 comparativement aux années antérieures est expliquée notamment par la morosité de l'activité économique enregistrée en début d'année 2016 et par la baisse du prix du baril de pétrole qui a permis d'améliorer la trésorerie de la SONABHY. En contrepartie, les banques ont continué à accumuler des avoirs extérieurs, qui s'établissaient à 902,9 milliards de FCFA en juin 2016. La hausse des avoirs extérieurs nets des banques s'expliquerait notamment par celle de l'encours de leurs souscriptions aux titres publics des autres Etats de l'UEMOA.
- Le compte courant de la balance des paiements devrait s'améliorer en 2016, sous l'influence de nouvelle production d'or et de cours favorables d'or et de coton, passant d'un déficit de 8% en 2015 à un déficit de 7,7%. Au titre de l'année 2016, les importations devraient ressortir à 1661,9 milliards de FCFA, en hausse de 7,9% sur un an, imputable principalement aux importations de biens d'équipement et intermédiaires. Quant aux exportations, elles atteindraient 1501,1 milliards de FCFA en 2016, en progression de 7,4% sur un an, soutenues principalement par les exportations d'or. En revanche, les ventes de coton fibre se réduisent en valeur, en dépit de la hausse attendue de 7,6% du prix moyen.

Au niveau des finances publiques, conformément aux objectifs fixés, les recettes totales (hors dons) devraient s'améliorer à 18,3 % du PIB, pour presque retourner aux niveaux atteints avant la baisse enregistrée en 2014 et 2015. Le retour à un climat politique serein contribue à favoriser une collecte plus productive des recettes.

Cependant la baisse des prix à la pompe des hydrocarbures qui a entraîné une baisse des bases taxables desdits produits et les grèves des informaticiens ayant entraîné des ruptures de connexion sur l'ensemble du territoire national ont contribué à une baisse significative de la performance de l'Administration des Douanes au troisième trimestre. Afin de réduire l'écart par rapport aux prévisions, environ 2,600 dossiers manuels sont en cours de retraitement pour être ressaisis dans le système information SYDONIA en vue de leur prise en compte des liquidations dans les recettes douanières. Les réformes fiscales et mesures de renforcement des capacités entreprises durant l'année vont également contribuer à l'élargissement de l'assiette fiscale et à l'atteinte des objectifs fixés. Ces mesures comprennent notamment (i) l'intensification des actions de contrôle et de recouvrement ; (ii) l'adoption d'une stratégie d'optimisation de la communication et de la sensibilisation des contribuables au civisme fiscal ; (iii) la poursuite de la segmentation qui permet une bonne maîtrise des couches fiscales et l'amélioration de leur contribution ; (iv) l'activation du champ 44 de SYDONIA WORLD pour la saisie obligatoire des références de l'attestation de vérification COTECNA ; (v) le contrôle des entrepôts et des destinations finales des marchandises ; (vi) la réalisation du projet du Système de liaison virtuelle pour les opérations d'importation et d'exportation (SYLVIE) ; (vii) le suivi satellitaire des marchandises en transit ; (viii) le suivi des clauses fiscales et douanières des marchés publics financés sur ressources propres ; (ix) l'installation et l'exploitation du nouveau scanner à Ouaga-route ; et (x) l'intensification des actions de lutte contre la fraude. Les recettes non-fiscales ont également bénéficié de dividendes exceptionnels de la part de SONABHY, pour environ 0,5% du PIB.

Les dépenses courantes passeraient de 14,6 à 15,2% du PIB (comparé avec la première LFR), principalement en raison d'une augmentation de la masse salariale qui passerait désormais à 7,4% du PIB de 2016 (contre 7,2% dans la LFR et 6% en 2013) et des transferts courants qui attendraient 5.1% du PIB en 2016 (contre 4.7% dans la LFR et 5,3% en 2013). L'augmentation de la masse salariale provient essentiellement de l'impact de la loi 081 sur le statut des fonctionnaires. Ladite loi permet de mettre fin à la dualité du profil des agents de la fonction publique. Ainsi, le Gouvernement a opté d'harmoniser la rémunération à travers l'alignement des fonctionnaires sur les contractuels. Cette loi permet aux fonctionnaires et contractuels de se retrouver dans une nouvelle situation catégorielle, de classification et d'échelonnement. L'incidence financière estimative relative à l'opérationnalisation de la loi 081 en termes de charges nouvelles (l'apurement des avancements et la mise en œuvre du reversement dans la nouvelle grille indiciaire) est de 29, 096 milliards de FCFA dont 20,830 milliards de FCFA pour le reversement dans le nouveau classement indiciaire et 8,266 milliards de FCFA pour l'apurement des avancements. Cependant l'incidence prise en charge sur le budget de l'Etat, gestion 2016, dans le cadre de l'opérationnalisation de la loi 081 est de 25,89 milliards FCFA. .

Les dépenses d'investissement passeraient de 7,6 à 9,3% du PIB suite à l'intégration de nouveaux projets tels que le pôle de croissance du sahel ; le projet appui au financement adapté à l'agriculture familiale, l'opérationnalisation de la facture normalisée, le projet BID_UEMOA et le projet adaptation basée sur les écosystèmes.

Le déficit budgétaire global (base caisse) devrait s'établir à 2,5% du PIB en 2016, en léger retrait par rapport à 2015. Ce déficit devrait être financé par des ressources extérieures nettes de 118,2 milliards de FCFA ainsi que par un financement domestique (hors amortissements) incluant un montant de 165 milliards de FCFA d'émissions d'obligations et 303,5 milliards de FCFA de bons du trésor. Ce montant d'émissions impliquerait un sur-financement se traduisant par une accumulation de 142 milliards de FCFA de dépôts sur le compte du Trésor à la BCEAO, dans l'hypothèse d'un déboursement de tous les appuis budgétaires prévus. Cette accumulation s'explique par la volonté d'assurer une liquidité suffisante pour l'exécution du budget en fin d'année, étant donné les incertitudes liées au déboursement des aides budgétaires (l'enveloppe budgétaire inclut un montant de 138,3 milliards de FCFA en aide budgétaire (dons et prêts programme), dont seulement 39,9 milliards de FCFA ont été déboursés à fin septembre), et pour démarrer l'année 2017.

III. SITUATION DU SECTEUR DE L'ENERGIE

Au Burkina Faso, l'énergie reste inaccessible à une grande partie des populations et son coût élevé influe sur le pouvoir d'achat des ménages et la compétitivité des entreprises. La plus grande part de l'électricité produite est d'origine thermique, d'où sa forte dépendance aux hydrocarbures.

Les principaux traits caractéristiques de la situation énergétique du Burkina Faso peuvent être synthétisés comme suit : un fort potentiel solaire, une prédominance de la biomasse dans la consommation énergétique, un faible accès à l'électricité, une faible valorisation des ressources énergétiques endogènes (hydraulique, éolien et solaire), la faible disponibilité des capacités de production existantes, et une dépendance vis-à-vis des produits pétroliers importés.

Le pays fait également face à un déficit de l'offre d'électricité avec pour conséquence, un faible et inéquitable accès des populations au service électrique. Le faible accès à l'électricité ainsi que les disparités entre le milieu urbain et le milieu rural sont illustrés par le taux d'électrification. Au 31 décembre 2015, ce taux aux niveaux national, urbain et rural se situe respectivement à 18,83%, 59,88% et 3,06%. Les capacités de production nationales et les importations ne couvrent pas la demande sans cesse croissante de l'ordre de 13% par an, surtout en période de pointe (du mois de mars au mois de juin).

La production de l'énergie électrique a été libéralisée tandis que le transport et la distribution de l'électricité dans le premier segment relèvent du monopole accordé à la SONABEL sous le contrôle de l'Autorité de Régulation du Sous-secteur de l'Électricité (ARSE).

Quant aux activités de production et de distribution de l'électricité dans le second segment, elles s'exercent librement dans le respect des dispositions de la loi régissant le sous-secteur sous le contrôle du Fonds de Développement de l'Électrification (FDE) et de l'ARSE.

La période 2011-2015 a été caractérisée par d'importantes perturbations dans la fourniture de l'énergie électrique avec un déficit moyen de 25 GWh par an et des délestages de puissance pouvant atteindre 110 MW. Ces délestages ont affecté sérieusement les performances économiques et les acquis sociaux du Burkina Faso.

Cependant, au cours de la même période, d'importants projets d'investissement ont été exécutés dans le but de renforcer l'offre électrique et par conséquent, accroitre l'accès des populations surtout rurales au service électrique.

Les projets de renforcement des capacités de l'offre d'électricité ont permis l'installation de groupes électrogènes cumulant une puissance exploitable de 125,7 MW dont 71% à la centrale de Komsilga, 26% à la centrale de Bobo II et 3% dans les centrales des centres secondaires.

Quant aux projets d'électrification mis en œuvre, ils ont permis l'électrification de 387 nouvelles localités entre 2011 et 2015, portant le nombre total de localités électrifiées à 575. Ces réalisations ont permis de faire passer le taux de couverture électrique de 27,42% en 2011 à 33,32% en 2015. Sur la même période, le taux d'électrification national est passé de 15,59% à 18,83%. Les taux d'électrification urbain et rural sont passés respectivement de 51,72% à 59,88% et de 1,83% à 3,06%. Au regard de ces performances mitigées, beaucoup d'efforts doivent être consentis afin de permettre à l'ensemble de la population d'avoir accès à l'électricité et à moindre coût.

Dans le cadre de la mise en œuvre de la Politique sectorielle de l'énergie 2014 - 2025, le défi en matière de promotion de l'utilisation des énergies renouvelables est de porter à 50% la part des énergies renouvelables dans le mix énergétique à l'horizon 2025, en se basant sur une politique volontariste du Gouvernement et les opportunités offertes par les programmes communautaires de la CEDEAO et de l'UEMOA.

Au 31 décembre 2015, la part des énergies renouvelables dans la production d'électricité est de 6,4%. La production thermique (62,9%) et les importations (30,7%) occupent toujours les plus grandes parts dans l'offre totale d'électricité. Il s'agira donc d'accélérer les réformes en vue d'accélérer la mise en place des conditions et les investissements nécessaires à l'accroissement des énergies d'origines renouvelables à moindre coût, à travers le développement des partenariats publics privés, en assurant l'équilibre financier du secteur. Dans le domaine toujours des énergies renouvelables, on note l'exonération par la loi de finances 2013, de la TVA et des droits et taxes de douane sur les importations d'équipements solaires au Burkina Faso à compter du 1er janvier 2013, et ce, sur une période de cinq (05) ans. Nous enregistrons également l'installation de 2,2 MWc et de 1 646 lampadaires solaires ainsi que la réalisation de trois (03) centrales hybrides diesel solaires dans des localités rurales, pour une puissance cumulée solaire de 45 kWc.

En matière d'économie d'énergie, la mise en œuvre du Projet de Développement du Secteur de l'Électricité (PDSE) grâce au financement de la Banque mondiale, a permis de réaliser une économie de plus de 18% de la consommation annuelle d'électricité des bâtiments de la fonction publique et une réduction de la puissance souscrite de 21% soit des économies cumulées d'environ 1,2 milliard FCFA.

IV. PERSPECTIVES ECONOMIQUES ET FINANCIERES ET OBJECTIFS A MOYEN TERME

a. Au plan macro-économique

La croissance réelle du PIB devrait s'établir à 5.4% en 2016, soit un rebond de 1,4 points de pourcentage par rapport à 2015. Tenant compte des prix du pétrole relativement bas, de la bonne tenue des cours de l'or et du coton ainsi que d'une pluviométrie favorable, la reprise devrait s'étendre à tous les secteurs. Le secteur primaire devrait reprendre avec une hausse de sa valeur ajoutée de 3,8% en 2016 après une contraction de 1,2% en 2015, imputable principalement au rebond de la production agricole. En outre, le maintien de l'activité dans les secteurs secondaire (+4,1%) et des services (+5,2%) devrait consolider le dynamisme de l'activité économique. Ainsi, le secteur secondaire devrait tirer profit de la stabilité de l'activité d'extraction, de la poursuite des travaux d'investissement dans les infrastructures socioéconomiques, de la bonne tenue du sous-secteur de l'énergie renforçant le redressement de l'activité dans les manufactures. Quant au secteur des services, il bénéficierait de la bonne orientation de l'activité dans les télécommunications, les services financiers et dans une moindre mesure les services non marchands en lien avec les transferts de l'administration publique Dans un scénario plus optimiste, la production céréalière pourrait rebondir de 8% (6% dans le scénario de base), ce qui tirerait la croissance à 5,9%.

La croissance du crédit au secteur privé devrait rester faible à 9,2%, soit en dessous des taux de progression de 20 à 25% de ces dernières années avant la transition politique. Les avoirs extérieurs nets, par contre, pourraient connaître une croissance de l'ordre de 15% entraînant un taux de croissance de la masse monétaire à 13,3% en 2016 par rapport à 2015.

L'inflation annuelle devrait rester modérée et se situerait à 0,7% à fin 2016. Cette évolution résulterait du net recul de la fonction « produits alimentaires et boissons non alcoolisées » en raison des bonnes perspectives de récoltes attendues et de la baisse de la fonction transport. Elle traduit également la baisse des prix des produits pétroliers enregistrée sur l'année.

En ce qui concerne 2017, la croissance devrait continuer à se raffermir pour se situer entre 6 et 7%. Les principaux facteurs contribuant à cette bonne performance seraient l'activité minière, avec la mise en opération de deux nouvelles mines d'or, portant ainsi à dix (10) le nombre de mines industrielles en exploitation, ainsi que la mise en œuvre sur une année entière du programme d'investissements publics dans les domaines de l'énergie, des routes, des aménagements hydroagricoles, des infrastructures de télécommunications, etc. A moyen terme, la croissance pourrait se maintenir aux environs de 7% sous l'impulsion de la mise en œuvre du PNDES, notamment de l'amélioration progressive de l'approvisionnement en énergie. Le raffermissement de l'activité serait imprimé par la dynamique de l'ensemble des secteurs qui devraient bénéficier des actions prévues en matière d'investissement. Ainsi, le secteur secondaire connaîtrait la plus forte progression de sa valeur ajoutée du fait de l'expansion de l'activité minière associée à une production d'or plus importante d'au moins 41 tonnes d'or en 2017 et qui atteindrait plus de 46 tonnes à partir de 2018, ainsi que le début d'exploitation de la mine de manganèse à partir de 2020. A cela s'ajoute l'intensification des investissements notamment dans les infrastructures énergétiques en vue d'améliorer progressivement l'offre d'énergie au profit des manufactures et dans les infrastructures de transport, ces deux tendances devraient confirmer le redressement de la branche des bâtiments et travaux publics. La consolidation des actions dans le domaine agro-sylvo-pastoral à travers la poursuite de l'opérationnalisation des pôles de croissance (Bagré, Samendenni-Sourou, Sahel) et la vigueur de l'activité dans les services contribueraient au renforcement de l'activité économique sur la période. L'inflation devrait rester modérée (suivant l'évolution des prix à l'importation) et en dessous du critère de l'UEMOA de 3% tandis que le crédit au secteur privé devrait reprendre du rythme.

Pour accompagner le secteur privé à jouer pleinement son rôle de moteur de croissance dans le contexte d'opérationnalisation du PNDES, le Gouvernement entend entre autres poursuivre sa politique d'apurement de la dette intérieure, renforcer les actions d'amélioration du climat des affaires et de sécurisation des investissements et accélérer la mise en œuvre des réformes amorcées en 2016 pour plus de célérité et d'efficacité dans l'exécution des dépenses.

b. Dans le secteur de l'Energie

Pour faire face à ce déficit de capacité de production dans un contexte de fluctuation du cours des produits pétroliers et de demande sans cesse croissante de l'énergie électrique, il s'avère nécessaire d'une part, de se tourner résolument vers la mise en valeur des énergies endogènes renouvelables notamment l'énergie solaire pour accroître l'offre d'électricité et d'autre part, promouvoir l'efficacité énergétique afin de permettre aux ménages et aux entreprises d'avoir accès à une énergie durable et moins onéreuse. Il s'agira véritablement d'accroître la part des énergies renouvelables dans le mix énergétique, grâce à des actions vigoureuses de production d'énergie de source solaire.

C'est ainsi que la mise en œuvre du PNDES, l'objectif stratégique du du secteur de l'énergie, est d'assurer que «l'accès aux services énergétiques de qualité et l'efficacité énergétique sont garantis.» L'ambition est d'accroître le taux de couverture électrique national de 33,32% en 2015 à 80% en 2020, le taux d'électrification national, de 18,83% en 2015 à 45% en 2020, à travers la réhabilitation des centrales indisponibles, le renforcement de la production thermique pour assurer la fiabilité de l'approvisionnement et la stabilité du réseau, l'augmentation de la part des énergies renouvelables dans la production totale, de 6,4% en 2015 à 30% en 2020, Le renforcement de l'intégration régionale et la promotion de l'efficacité énergétique.

Afin d'assurer un développement rapide et soutenable du service électrique, les réformes engagées visent, à moyen terme, à (i) systématiser la planification continue du développement du secteur à moindre coût, pour assurer une meilleure intégration des projets solaires ; (ii) mettre en place un processus compétitif standardisé, transparent et efficace pour la sélection et le bouclage des projets de producteurs indépendants d'électricité ; (iii) renforcer le caractère transparent et prévisible des mécanismes de financements publics et d'optimisation tarifaire, garants de l'équilibre financier du secteur ; (iv) réduire les charges d'exploitation du service de l'électricité, notamment à travers l'optimisation de la filière d'approvisionnement en carburant ; et (v) renforcer le cadre institutionnel et réglementaire régissant un secteur électrique allant se complexifiant.

c. Dans le secteur des finances publiques

Le contexte actuel est largement marqué par l'héritage des des différents évènements que le pays a connu au plan économique, social et politique. La relance économique nécessite la mise en œuvre de de réformes ambitieuses dans le domaine des finances publiques. Ces réformes visent à améliorer la mobilisation des recettes à la moyenne historique de 14,5% du PIB. C'est dans ce sens que le Gouvernement a pris des mesures importantes pour renforcer les progrès déjà enregistrés dans ce domaine. Ces dernières comprennent : (i) le recensement exhaustif des moyennes entreprises pour assurer un meilleur suivi de la nouvelle stratification des entreprises, (ii) la mise en service des scanners dans les bureaux de douane, complété par un scanning des conteneurs par COTECNA (iii) la création d'une direction des enquêtes et de renseignement, (iv) le lancement du Système de Liaison Virtuelle pour les opérations d'Importation et d'Exportation (SYLVIE) et (v) l'utilisation du Système satellitaire de suivi des véhicules en transit. Les autres mesures envisagées consistent à la mise en place d'un dispositif performant de gestion et de suivi rigoureux des exonérations, le renforcement des dispositifs de contrôle des opérations dans le secteur minier et de collecte de la Taxe sur la Valeur Ajoutée (TVA). La mise en œuvre de ces mesures donne déjà des résultats satisfaisant permettant de minimiser l'impact des événements récents sur les recettes fiscales. Ainsi, à fin décembre 2016, les recettes totales devraient se situer à 18,8% du PIB contre un niveau de 18,5% du PIB en 2013, son niveau d'avant la crise.

Le Gouvernement du Burkina Faso a intégré le développement local comme une étape importante pour la réduction de la pauvreté. Ainsi, les efforts ont été entrepris au niveau local pour approfondir le transfert des compétences et des ressources au profit des collectivités territoriales. En effet, en 2016 est intervenu la signature de protocole d'opérations portant transferts des ressources aux collectivités.

Sur la base de l'expérience positive du programme d'appui aux collectivités financée par la Banque mondiale, le Gouvernement a accordé une priorité à la mobilisation des ressources au niveau des collectivités territoriales. Sur cette base, l'*Etude sur le potentiel fiscal et l'optimisation des recettes fiscales des communes urbaines et rurales du Burkina Faso* a conclu à des propositions importantes dont la mise en œuvre permettra d'augmenter de manière substantielle la mobilisation des finances au niveau local. Il s'agit entre autre : (i) de nouvelles clés de répartitions de certaines recettes entre le niveau national et le niveau local, des nouveaux transferts et des nouvelles créations d'impôts au profit des CT ; (ii) une refondation du système fiscal avec une prise en compte des spécificités régionales et communales; (iii) la x prise en compte de l'outil informatique dans tout le système ; (iv) l'instauration d'une synergie d'actions des acteurs dans un climat de transparence ; (v) la mise en place de systèmes d'appui assurant un renforcement des capacités des acteurs, de reconnaissance et d'encouragement du personnel de mobilisation des recettes communales ; (vi) une maitrise et une bonne orientation de l'offre de services publics au niveau local ; (vii) l'élaboration d'une feuille de route claire et pratique pour la mise en œuvre des réformes; (viii) l'élaboration d'une stratégie de communication pour une appropriation des reformes par l'ensemble des acteurs.

Au regard de l'importance des ressources publiques telles que projetées dans le financement du PNDES, Le gouvernement assurera la prise en charge de manière graduelle de ces réformes à travers les lois de finances afin d'assurer des recettes capturant l'ensemble des potentialités au niveau local. .

La question de la passation des marchés au niveau local constitue un goulot d'étranglement au niveau de l'exécution des budgets des collectivités locales. Aussi, le projet de code de la commande publique soumis au parlement pour adoption offre une opportunité pour lever les contraintes majeures à l'exécution des projets et programmes de l'Etat central mais aussi l'exécution des budgets des collectivités territoriales. Les décrets d'application de cette règlementation permettront d'adresser les difficultés liées à la procédure de passation des marchés au niveau local. A cet effet, le Gouvernement reste convaincu que l'opérationnalisation des Agence régionales de développement combinée avec la déconcentration du processus budgétaire contribueront à rendre efficace la passation des marchés au niveau des collectivités locales.

d. Mesures et reformes de l'année 2016

Au cours de cette année 2016, des reformes importantes ont été réalisées dans le secteur dans l'objectif global de renforcer la capacité du Gouvernement à adresser les déséquilibres entre l'offre et la demande d'électricité tout en améliorant la gestion des finances publiques du pays et la gouvernance. Il s'est agi dans un premier temps, en vue d'atteindre l'apurement de leurs dettes croisées, d'améliorer la situation financière du secteur de l'énergie avec la mise en œuvre des mesures suivantes :

i. La signature le 13 octobre 2016 et l'application par le Ministère en charge des Finances, la Société Nationale d'Électricité du Burkina Faso (SONABEL) et la Société Nationale des Hydrocarbures (SONABHY) du Protocole d'accord portant relations financières et fixation de prix de cession des hydrocarbures a la SONABEL, en vue d'apurer tous les arriérés accumulés entre les trois parties. Aussi, le Gouvernement s'est engagé par une Lettre d'engagement du ministre du budget en date du 18 novembre 2016 lue et approuvée par les Directeurs Généraux de la SONABEL et de la SONHABY, à rembourser les arriérées de factures, de services faits et de subvention d'équilibre a la SONABEL, ainsi que les arriérés dus à la SONABHY ;

ii. Afin d'améliorer la performance financière de la SONABEL, est intervenue le 13 octobre 2016 la signature par les Ministres du Commerce, de l'Énergie et des Finances de l'Arrêté interministériel N°2016-343 MINEFID/MCIA/MEMC portant modalité de fixation du prix de cession des hydrocarbures (DDO, Fuel) pour les Centrales thermiques de la SONABEL qui fixe les seuils déclencheurs, le plafond ainsi que les modalités de décaissement de la subvention de l'État au secteur. cet arrêté stipule que : a) l'Autorité de Régulation du Sous-secteur de l'Electricité (ARSE) examinera les projections de la SONABEL concernant les prix du carburant pour chaque année; b) le bénéficiaire déterminera un plafond annuel de subvention limitant l'exposition au budget, ce qui déclenche une révision tarifaire de l'électricité à mettre en application par la SONABEL; et c) l'établissement de modalités de décaissement visant à assurer le versement en temps voulu des subventions à la SONABEL.;

iii. L'adoption le 13 septembre 2016 par le Conseil d'Administration de la SONABEL de la délibération N°001 portant adoption d'un programme de protection des revenus de la SONABEL consistant à l'acquisition et l'installation de compteurs intelligents chez les clients double tarifs, moyenne tension et haute tension de la société, en vue d'améliorer ses revenus.

Dans un deuxième temps, les reformes et mesures entreprises devront permettre de renforcer les politiques d'investissement dans le secteur de l'électricité grâce à la mise en œuvre des reformes suivantes :

i. Dans le souci d'améliorer la planification sectorielle, le Conseil des Ministres lors de sa séance du 12 octobre 2016, a approuvé une stratégie pour le secteur de l'énergie qui définit les priorités du Burkina Faso dans ce secteur en termes d'investissements, de diversification énergétique et de participation du secteur privé, pour la période 2016-2020. Cette lettre de politique sectorielle contient plusieurs points dont une liste de cinq IPP pour soutenir l'offre d'énergie du Burkina sur le moyen terme.

ii. Afin d'encourager la participation du secteur privé, par le Marché N°26/00/02/80/2016/0097 relatif au «Service de consultant individuel pour conseil technique et juridique du Gouvernement du Burkina Faso en partenariat Public-Privé (PPP) dans le domaine de l'énergie» en date du 06 octobre 2016, le ministère de l'Énergie et des Mines a engagé un expert technique chargé de fournir une assistance et des services consultatifs sur la préparation et la négociation d'un cadre juridique révisé des partenariats public-privé (PPP), y compris les contrats d'achat d'électricité (PPA). Cet expert a déjà apporté ses services à travers la relecture des textes sur les IPP afin d'en assurer la conformité avec les normes et standards internationaux

Enfin, dans un troisième temps les réformes réalisées vont permettre d'accroître la mobilisation des recettes intérieures et le niveau de transparence dans la gestion des ressources publiques. Il s'agit de :

i. Afin d'élargir l'assiette fiscale, le Ministère de l'économie, des Finances et du Développement a amélioré l'identification et le suivi des contribuables en conciliant les bases de données de la DGI et de la DGD. Cette conciliation des bases de données qui vise à lutter contre la fraude, devra permettre de redresser certaines entreprises qui étaient déclarées au régime simplifié et de les classer au régime fiscal des grandes entreprises.

ii. Le Conseil des ministres a: a) renforcé le processus administratif en introduisant les procédures de saisie-arrêt (l'Avis-à-Tiers Détenteur – ADT) dans la loi de finances 2017; Et b) a établi un nouvel impôt uniforme de 0,2% sur les biens immobiliers en milieu urbain. Cette mesure vise à améliorer le niveau de recouvrement des impôts par une réduction sensible des écarts entre les émissions et les recouvrement.

iii. Le Conseil des ministres a approuvé le 12 octobre 2016 un nouveau code des marchés publics et l'a soumis à l'Assemblée Nationale pour adoption. Ce code des marchés publics vise à améliorer la transparence, la diligence et la célérité dans l'exécution des marchés publics pour une meilleure absorption des crédits budgétaires et de l'aide publique au développement.

Le Gouvernement reste convaincu qu'avec le soutien de ses partenaires notamment la Banque Mondiale à travers la mise en œuvre de ce programme d'appui budgétaire dont les mesures et reformes sont orientées vers le secteur de l'énergie et les finances publiques contribuera à promouvoir le développement des deux secteurs, à consolider le cadre macro-économique et à soutenir une croissance économique forte et inclusive pour une réduction significative et durable de la pauvreté.

Tout en vous réitérant nos sincères remerciements pour votre disponibilité et celle de votre institution à accompagner le Burkina Faso dans ses efforts de développement du Burkina Faso, Je vous prie de bien vouloir agréer, **Monsieur le Président**, l'assurance de ma considération distinguée.

Ministère de l'Economie, des Finances et du Développement
Le Ministre

Hadizatou Rosine COULIBALY/SORI

Chevalier de l'Ordre National

MINISTRY OF ECONOMY, FINANCE,
AND DEVELOPMENT

GENERAL SECRETARIAT

OFFICE OF
COOPERATION

NO. 2016/__________/MINEFID/SG/DGCOOP/DSPF

The Minister

To
Mr. Jim Yong Kim, President of the World Bank Group
Washington DC, USA

Re: Development Policy Paper

Mr. President:

This development policy paper describes the formulation of the new development benchmark, the National Economic and Social Development Program (PNDES), and presents the evolution of the current economic situation, economic and financial prospects for 2016, and Burkina Faso's medium-term development objectives as well as prospects for the 2016–2019 period. It describes the public and sector policies implemented by the Government to substantially reduce poverty. The paper also focuses on the Government's reforms designed to support the energy sector and boost the performance of public finances.

To support its program, the Government is asking the World Bank for national budget support for 2016 in the amount of one hundred (100) million US dollars, consisting of fifty-five (55) million US dollars in the form of a loan and forty-five (45) million US dollars in grants.

I. BACKGROUND AND ADOPTION OF NEW DEVELOPMENT STRATEGY (PNDES)

Despite multiple exogenous shocks caused by fluctuations in rainfall and in the prices of export products, Burkina Faso has experienced significant economic growth over the last decade, averaging around 6% yearly. In the last two years, the economy has been strained by simultaneous shocks, particularly lower gold and cotton prices (-27% and -8% respectively) and terrorist attacks. In 2014 and 2015, economic growth was around 4%. However, this growth did not significantly reduce poverty levels or social inequality. In 2014, the incidence of poverty was 40.1%, and the illiteracy rate among those over age 15 was 65.5%. Consequently, Burkina Faso's human development index (HDI) rating was 0.42 in 2014, putting it in the category of countries with a low level of development.

It therefore appears that development policies were insufficient to create the real wealth-creating dynamics needed to sustainably improve the wellbeing of the Burkina Faso population. To correct these insufficiencies, the Government that took office in January 2016 in the wake of the November 2015 presidential and legislative elections following a year of political transition prepared and adopted the National Economic and Social Development Plan (PNDES) as its new development benchmark.

The PNDES is part of a development approach that emphasizes the structural transformation of the economy while controlling population growth and generating cumulative and sustainable knock-on effects for improving growth in per capita income. This will make it possible to meet basic needs, reduce poverty, boost human capacities, and achieve environmental viability and social equity.

This takes into account the lessons learned from the implementation of the previous policy benchmarks used to plan Burkina Faso's development based on either State interventionism or economic liberalism. With the 1960–1962, 1963–1967 (first five-year plan) and 1967–1970 (Economic and Social Development Framework Plan) plans, the 1971 plan (Interim Plan), the 1972–1976 and 1977–1981 plans, the Popular Development Program (PPD) 1984–1985, and the Five-Year Popular Development Plan (PQDP) 1986–1990, the State was positioned as a contractor. Conversely, with the 1991–2000 Structural Adjustment Program (PAS), the 2000–2010 Poverty Reduction Strategic Framework (PRSF), and the 2011–2015 Strategy for Accelerated Growth and Sustained Development (SCADD), private enterprise was considered the driver of development.

The insignificant results of these policies are due to the structural insufficiencies observed in the national production system, which is very much exposed to external shocks such as weather events and volatility in the prices of the primary export products (gold and cotton). These insufficiencies are: (i) low productivity in the primary sector, which is dominated by subsistence farming; (ii) the decline in the manufacturing sector associated with the low competitiveness of existing industries and the weak development of agroindustry; (iii) an informal economy, particularly in the tertiary sector, and poor access to financial services for economic operators, especially small and medium enterprises (SMEs); (iv) little diversification in exports; and (v) inadequately qualified human resources ill-suited to the needs of structural transformation.

However, Burkina Faso's economy has enormous potential and real opportunities, particularly: (i) possibilities for agro-sylvo-pastoral, fishery, and wildlife production that are not yet being exploited; (ii) possibilities for developing agro-industry, service industries, and solar energy; (iii) a young labor force; (iv) the large and increasingly dynamic West African food market; (v) free circulation of goods and people within the West African Community; (vi) increasing worldwide demand for agricultural products, particularly in Eastern Europe, India, and China; and (vii) development and falling cost of access to information and communication technologies (ICT).

To develop this potential, Burkina Faso faces major challenges, namely: (i) the need for good governance and institutional quality; (ii) the availability and employability of human resources adapted to the needs of the national economy; and (iii) the development of road and energy infrastructures and the competitiveness of the domestic production and processing sectors geared toward job creation and sustainable industrial development.

Given these constraints, insufficiencies, and opportunities, as a national benchmark for intervention by the State and its partners for the 2016–2020 period, the PNDES targets cumulative growth in per capita income that will reduce poverty, boost human capacities, and meet basic needs in an equitable and sustainable social context.

Supported by the Presidential Program, the Burkina 2025 vision, and the international commitments made by Burkina Faso, the PNDES vision is one of *Burkina Faso, a democratic, united, and mutually supportive nation, transforming the structure of its economy and achieving strong, inclusive growth through sustainable consumption and production.*

The PNDES consists of three strategic dimensions: *(i) Focus 1: reforming institutions and modernizing the administration; (ii) Focus 2: developing human capital; and (iii) Focus 3: stimulating sectors that promote the economy and jobs.*

The structural transformation process calls for the use of two complementary forms of leverage. The first will consist of boosting sectors that support industrial development, particularly energy, transportation infrastructure, technology, educational reform, and improved productivity in the primary sector. The second will be aimed primarily at building a competitive and sustainable industrial fabric.

The overall impacts expected from the implementation of the PNDES are: (i) improved efficiency in political, administrative, economic, local, and environmental governance; (ii) the emergence of a modern economy based on an evolving and more competitive primary sector and increasingly dynamic processing and services industries that will achieve an annual economic growth rate of 7.7%, creating at least 50,000 good jobs per year; (iii) a drop in the incidence of poverty to below 35% by 2020; (iv) control over annual population growth, to be brought down to 2.7% by 2020; (v) accelerated development of human capital; and (vi) a change in production and consumption patterns with an eye toward sustainable development.

The total cost of implementing the PNDES is estimated at CFAF 15,395.4 billion, of which CFAF 9,825.2 billion, or 63.8% of the total cost, can be funded from the State’s own resources. This leaves a borrowing requirement of CFAF 5,570.2 billion, or 36.2% of the total cost.

II. RECENT ECONOMIC CONTEXT

While economic growth slowed to 4% in 2015 from 4.2% in 2014, economic activity rose gradually in the first half of 2016 and the outlook for the year is positive. Activity increased by 4.7% in the first quarter of 2016, reflecting the impact of the terrorist attacks in January, and by 8.3% in the second quarter of 2016 (year-on-year), driven by the sharp recovery of the tertiary sector. The main economic indicators show that the overall context is positive:

- Year-on-year inflation was down 0.4% in September 2016. The overall trend of price deceleration since July is due to the drop in the prices of food products, particularly unprocessed cereals and legumes. The yearly inflation rate fell to 0.6% in late September 2016 from 0.7% in the previous month.
- The growth rate of loans to the private sector shows modest signs of recovering, yet still lags behind other activities in recovery. After declining to 3.9% in April, it rose to 6.5% in July, which is still significantly below the three-year average (17.5%). The decrease in loans to the economy in late July 2016 compared with prior years is due primarily to the sluggishness of economic activity in early 2016 and the drop in oil prices, which improved the cash position of SONABHY. In return, banks continued accumulating foreign assets, which stood at CFAF 902.9 billion in June 2016. The rise in banks’ net foreign assets is mainly due to the outstanding amount of the subscriptions to government securities of other WAEMU countries.

- The current account of the balance of payments should improve in 2016 due to new gold production and higher gold and cotton prices (8% deficit in 2015 versus 7.7% deficit in 2016). Imports should total CFAF 1,661.9 billion for a 7.9% increase from last year due primarily to imports of equipment and intermediate goods. Exports—primarily gold—should amount to CFAF 1,501.1 billion, up 7.4% from last year. However, cotton sales have dropped in value despite the expected 7.6% increase in the average price.

In terms of public finances, in line with objectives, total revenue (excluding grants) should increase to 18.3% of the GDP, which is close to the level before the downturn in 2014 and 2015. A calmer political climate will improve revenue collection efforts. However, the decline in fuel prices has caused a drop in fuel tax revenues, and strikes by IT workers, which disrupted connections countrywide, led to much poorer third-quarter results by the Customs Authority. In order to bring these results more in line with forecasts, some 2,600 manual files are currently being reprocessed and reentered into SYDONIA's computer system so they can be accounted for in the customs revenues. Tax reforms and capacity-building for businesses during the year will also help to widen the tax base and to achieve the objectives set. This includes: (i) intensification of control and recovery; (ii) adoption of a strategy to optimize communication and to promote tax compliance; (iii) continuing efforts at segmentation, which will make it easier to monitor tax brackets and streamline tax payments; (iv) activation of field 44 of SYDONIA WORLD and enforcing the mandatory entry of the references appearing on COTECNA certification documents; (v) auditing warehouses and the final destination of goods; (vi) building a virtual liaison system for import and export operations (SILVIE); (vii) satellite monitoring of goods in transport; (viii) monitoring tax and customs previsions in public procurement contracts funded with own resources; (ix) installation and operation of the new scanner on Ouaga highway; and (x) increasing anti-fraud operations. Non-tax revenues also benefited from exceptional dividends from SONABHY, accounting to 0.5% of the GDP.

Current expenditures went from 14.6% to 15.2% of GDP (compared to the first Amending Finance Law, AFL), primarily as a result of payroll increasing to 7.4% of GDP (versus 7.2% in the AFL and 6% in 2013) and current transfers projected to reach 5.1% of GDP in 2016 (versus 4.7% in the AFL and 5.3% in 2013). The increase in payrolls is primarily due to Law 081 concerning civil servants, which prevents civil servants from holding dual status. The Government has thus decided to harmonize remuneration by aligning civil servants with contract workers. This law assigns new statuses and classifications to civil servants and contract workers. The estimated financial impact of operationalizing Law 081 in terms of new charges (regularization of salaries for promoted staff and implementation of payments under the new salary scale) is CFAF 29.096 billion, including CFAF 20.830 billion for payments under the new salary scale and CFAF 8.266 billion for the regularization of salaries. However, the impact of operationalizing Law 081 on the 2016 national budget is CFAF 25.89 billion.

Capital expenditures are projected to go from 7.6% to 9.3% of GDP following the integration of new projects such as the Sahel growth pole, the support project for financing adapted to family agriculture, the operationalization of the standardized invoice, the BID-UEMOA project, and the project for eco-system-based adaptation.

The total budget deficit (cash basis) is projected to be 2.5% of GDP in 2016, down slightly from 2015. This deficit will need to be financed by external resources totaling CFAF 118.2 billion, as well as by domestic financing (excluding amortizations), including an issue of CFAF 165 billion in bonds and CFAF 303.5 billion in treasury bills. This issuance will require over-financing in the amount of

CFAF 142 billion in deposits in the Treasury's account at the BCEAO, providing that all planned budget supports are disbursed. This increase results from the Government's commitment to having sufficient cash at year end for budget execution, given the uncertainties related to the disbursement of budget supports (the budget includes CFAF 138.3 billion in budget supports (program grants and loans), of which only CFAF 39.9 billion has been disbursed at the end of September), and at the beginning of 2017.

III. THE ENERGY SECTOR

Energy in Burkina Faso remains inaccessible to much of the population, and its high cost impacts both household purchasing power and corporate competitiveness. Most of the electricity is produced thermally, hence its heavy dependence on fossil fuels.

The main characteristics of the energy situation in Burkina Faso can be summarized as follows: (i) strong solar potential; (ii) predominance of biomass in energy consumption; (iii) poor access to electricity; (iv) limited development of endogenous energy resources (hydroelectric, wind, and solar); (v) poor availability of existing energy production; and (vi) dependence on imported petroleum products.

In addition, the country is facing a shortfall in power supply resulting in poor and inequitable access to electrical services by the population. Poor access to power and disparities between urban and rural areas are illustrated by the electrification rate, which as of December 31, 2015, stood at 18.83%, 59.88%, and 3.06% at the national, urban, and rural levels, respectively. Meanwhile, national production capacity and imports do not meet demand, which is growing steadily at around 13% per year, especially in peak periods (March–June).

Power production has been deregulated whereas transportation and distribution of electricity in the first segment fall under the monopoly granted to SONABEL under the control of the Electricity Subsector Regulatory Authority.

With regard to electricity production and distribution in the second segment, these operate freely in accordance with legal provisions regulating the subsector under the control of the Electrification Development Fund (EDF) and the Electricity Subsector Regulating Authority.

The 2011–2015 period was marked by major disruptions in electricity supply, with an average shortfall of 25 GWh per year and load-shedding that can reach 110 MW. These power cuts have seriously impacted Burkina Faso's economic performance and social progress.

However, during the same period, major capital expenditure projects were carried out in order to boost the power supply and consequently increase the population's access to electrical services, particularly in rural areas.

Projects designed to boost the power supply capacity made it possible to install generating units with total exploitable power of 125.7 MW, with 71% of that power generated by the Komsilga facility, 26% by the Bobo II plant, and 3% by secondary plants.

Electrification projects already carried out electrified 387 new locations between 2011 and 2015, raising the number of electrified communities to 575. This made it possible to raise the electricity coverage ratio from 27.42% in 2011 to 33.32% in 2015. Over the same period, the national electrification rate rose from 15. 59% to 18.83%, with urban and rural electrification rates rising from 51.72% to 59.88% and from 1.83% to 3.06%, respectively. Given these mixed performances, major efforts need to be made to allow the entire population to have access to electricity at the lowest possible cost.

As part of the implementation of the 2014–2025 sector energy policy, the challenge in terms of promoting the use of renewable energy is to raise the portion of renewable energy in the energy mix to 50% by 2025 based on proactive government policy and the opportunities offered by the Community-wide programs offered by ECOWAS and WAEMU.

As of December 31, 2015, the share of renewable energy in electricity production was 6.4%. Thermal generation (62.9%) and imports (30.7%) still account for the greatest share of the total power supply. This means that reforms need to be speeded up in order to help establish favorable conditions and make the investments needed to increase energy from renewable sources at the lowest possible cost by developing public-private partnerships and ensuring the financial stability of the sector. In the area of renewable energy in particular, we should mention the 2013 budget law granting an exemption from customs duties and taxes on imports of solar equipment into Burkina Faso starting on January 1, 2013 for a period of five (5) years. We should also note the installation of 2.2 MWc and 1,646 solar streetlamps as well as the completion of three (3) hybrid diesel-solar plants in rural communities, for cumulative solar power of 45 kWc.

In terms of energy savings, implementation of the Power Sector Development Project (PDSE) with World Bank funding made it possible to achieve savings of more than 18% in annual power consumption by government buildings and a 21% reduction in contracted load, for cumulative savings of around CFAF 1.2 billion.

IV. ECONOMIC AND FINANCIAL OUTLOOK AND MEDIUM-TERM OBJECTIVES

a. Macroeconomic Context

Real GDP growth is expected to be at 5.4% in 2016, which is 1.4 points higher than in 2015. Given relatively stable oil prices, the steadiness of gold and cotton prices, and favorable rainfall, the recovery should extend to all sectors. The primary sector should also recover, with its added value rising 3.8% in 2016 after contracting by 1.2% in 2015. This increase is due primarily to the rebound of agricultural production. In addition, the continuation of activities in the secondary (+4.1%) and service (+5.2%) sectors should further strengthen the economy. The secondary sector should benefit from the stability of mining activities, capital works on socioeconomic infrastructures, and the health of the energy sub-sector, which aids in the recovery of factories. Regarding the service sector, it should benefit from the good performance of the telecommunications and the financial services industries, and to a lesser extent, of non-market services related to transfers by the government. In the best-case scenario, cereal production increases 8% (6% in the worst case), which would bring growth to 5.9%.

The growth rate of loans to the private sector should remain low at 9.2%, which is below the 20-25% rates in the years before the political transition. However, net foreign assets could experience a growth rate of 15%, which would bring the growth rate of the money supply to 13.3% in 2016.

Annual inflation should remain modest (0.7%) at the end of 2016. This trend is due to the net drop in prices for food and non-alcoholic beverages brought about by the positive agricultural outlooks and the drop in transportation prices. It also reflects the drop in prices for petroleum products.

Growth is projected to be between 6% and 7% in 2017. The primary factors driving this growth are mining activities with the entry into production of two new gold mines, bringing the total number of operational mines to ten (10), as well as the implementation of public investment programs in the areas of energy, roads, hydro-agricultural infrastructures, telecommunications infrastructures, and others. In the medium term, growth should be around 7%, boosted by the implementation of the PNDES and the gradual improvement of the energy supply. The growth of activity will be driven by the new impetus injected into all sectors slated to receive support in the form of investments. The secondary sector is projected to experience the highest growth in terms of added value due to the expansion of gold mining activities, with gold production projected to reach 41 tons in 2017 and in excess of 46 tons in 2018 and beyond, as well to the entry into production of the manganese mine in 2020. In addition, investments have increased in energy infrastructures with a view on increasing the energy supply for the benefit of manufacturing and in transportation infrastructures. This should further consolidate the recovery to the buildings and public works sector. Economic growth over this period should be pulled along by a dynamic agro-pastoral sector sustained by the continued operationalization of growth hubs (Bagré, Samendeni-Sourou, Sahel) and the vitality of the services industry. Inflation should remain modest (although dependent on import prices) and below WAEMU's criterion of 3% while loans to the private sector should regain momentum.

To ensure the private sector can be a propeller of growth during the operationalization of the PNDES, the Government intends to continue its policy of settling internal debt, take measures to improve the business environment and to secure investments, and to fast track the implementation of reforms begun in 2016, all in order to improve speed and efficiency in the implementation of expenditures.

b. The Energy Sector

To deal with this production capacity shortfall in a context of fluctuations in the price of petroleum products and constantly increasing demand for power, it has become necessary to shift resolutely toward developing renewable local energy sources, particularly solar power, in order to increase the power supply and promote energy efficiency and give households and businesses access to sustainable and less costly energy. This will be a matter of increasing the share of renewable energy in the energy mix through vigorous solar energy generation.

That is why the implementation of the PNDES has as the strategic goal for the energy sector of guaranteeing access to quality energy services and energy efficiency. The ambition is to increase the national electrical coverage rate from 33.32% in 2015 to 80% in 2020 and the national electrification rate from 18.83% in 2015 to 45% in 2020 by rehabilitating available power plants, boosting thermal generation to ensure a reliable supply and grid stability, increasing the share of renewable energy in total production from 6.4% in 2015 to 30% in 2020, and improving regional integration and the promotion of energy efficiency.

To ensure fast, sustainable development of electrical services, the reforms undertaken are aimed in the medium term at: (i) systematizing the ongoing planning of sector development at a lower cost to ensure better integration of solar projects; (ii) implementing a transparent and effective competitive process for selecting and confirming projects by independent electricity producers; (iii) enhancing the transparent and predictable mechanisms for public financing and rate optimization to ensure the sector's financial balance; (iv) reducing the operating expenses of the electrical services by optimizing the fuel supply sector; and (v) reinforcing the institutional and regulatory framework overseeing an electrical sector that is becoming increasingly complex.

c. The Public Finance Sector

The current context remains heavily influenced by multiple economic, social, and political events. Economic recovery requires ambitious reforms in the public finance sector. These reforms aim to raise tax revenues above the historical average of 14.5% of GDP. The Government has taken important measures to shore up what has already been achieved, such as: (i) an exhaustive survey of means used to enhance the monitoring of enterprise segmentation, (ii) the entry into operation of scanners at customs offices as well as scanning of containers by COTECNA, (iii) the creation of an office for inquiries and information, (iv) the entry into service of the virtual liaison system for import and export operations (SYLVIE), and (v) the use of a satellite system for monitoring transport vehicles. Additional measures include the establishment of an effective mechanism for managing and monitoring exemptions, and strengthening the monitoring of mining sector operations and the collection of value added taxes (VAT). Already, these measures have had positive impacts, namely mitigating the effects of recent events on tax revenues. By the end of December 2016, total tax revenues should represent 18.8% of GDP versus 18.5% in 2013 before the crisis.

The Government views local development as an important phase in poverty reduction. Actions have been carried out on the local level in order to promote the transfer of skills and resources to local communities. In 2016, the protocol for operations to transfer resources to local communities was signed.

Owing to the positive experience with the program to support local communities financed by the World Bank, the Government has decided to prioritize the funneling of resources to the local level. Based on the study of the tax potential and the optimization of tax revenues in urban and rural areas of Burkina Faso, several important proposals have been made, the implementation of which will substantially increase financing available on the local level. These include: (i) new models for dividing tax revenues between the national and local levels, new transfers and new taxes for the benefit of local communities, (ii) revision of the tax system to account for regional and local specificities, (iii) the implementation of a computerized tool system-wide, (iv) promoting a synergy of actions in a climate of transparency, (v) the establishment of systems to support the capacities of actors and to recognize and encourage staff involved in mobilizing local tax revenues, (vi) ensure control and effectiveness of public services on the local level; (vii) prepare a clear and practical roadmap for implementing the reforms, and (viii) prepare a communication strategy to promote the appropriation of reforms by all actors.

Given the amount of public resources expected to be devoted to financing the PNDES, the Government will gradually implement these reforms through finance laws in order to ensure a level of revenue that reflects the potential at the local level.

Public procurement is a bottleneck at the level of budget execution at the community level. The legislation for a public procurement code presently before parliament constitutes an opportunity to do away with major blocks to the execution of the State’s projects and programs, but also to the execution of budgets on the community level. The implementation decrees for this legislation will address difficulties pertaining to procurement procedures on the local level. To this effect, the Government is convinced that operationalizing Regional Development Agencies combined with the decentralization of the budget process will help to make procurement more efficient on the community level.

d. Measures and Reforms in 2016

Major reforms were carried out in the sector in 2016 with the overall objective of enhancing the Government's capacity to address imbalances between electricity supply and demand while improving the management of the country's public finances and governance. Initially, in order to discharge interlocking debts, this will involve improving the energy sector's financial situation by implementing the following measures:

i. The signing on October 13, 2016 and application by the ministry in charge of finance, the Burkina Faso National Electricity Company (SONABEL), and the National Hydrocarbon Company (SONABHY) of the memorandum of understanding establishing financial relationships and setting the price for the sale of fossil fuels to SONABEL with a view to clear all arrears between the three parties. As stated in a commitment letter from the ministry of the budget dated November 18, 2016, and approved by the Boards of Directors of SONABEL and SONABHY, the Government is committed to clearing arrears for invoices, services rendered, and the balancing subsidy to SONABEL, as well as arrears owed to SONABHY;

ii. In order to improve the financial performance of SONABEL, the ministries of trade, energy, and finances signed on October 13, 2016, Interministerial Decree n$^{o.}$ 2016-343 MINEFID/MCIA/MEMC establishing the method for setting prices for the sale of fossil fuels (DDO, fuel oil) for SONABEL's thermal plants, with SONABEL setting the trigger levels, ceiling, and conditions for disbursement of the State subsidy to the sector. This decree stipulates that: (a) the ARSE (regulatory authority for the electricity sub-sector) will assess SONABEL's projections of fuel prices on a yearly basis; (b) the beneficiary will determine an annual subsidy ceiling in order to limit budget exposure, leading to a revision of electricity tariffs by SONABEL; and (c) conditions for disbursement will be established that aim to ensure subsidies are paid to SONABEL in a timely manner;

iii. The adoption on September 13, 2016 by SONABEL's Board of Directors of Decision No. 001 adopting a program designed to protect SONABEL's revenues consisting of the acquisition and installation of smart meters for the company's dual-rate medium-voltage and high-voltage customers with a view to increase revenues.

Secondly, reforms and measures undertaken should make it possible to improve policies on investment in the electricity sector through the implementation of the following reforms:

i. At its meeting on October 12, 2016, the Council of Ministers approved a strategy for the energy sector, which sets forth the Government's priorities in terms of investments, energy diversification, and private sector participation for the 2016-2020 period. This Sector Policy Paper contains several points, including a list of five IPP in order to improve Burkina's energy supply in the medium term;

ii. The signing on October 6, 2016, of Contract N^{o} 26/00/02/80/2016/0097 relating to Individual Consultant Services for Technical and Legal Consulting for the Government of Burkina Faso in Public-Private Partnerships (PPP) in the Field of Energy in order to encourage private sector participation. Under this contract, the Ministry of Energy and Mines appointed a technical expert to provide assistance and consulting on the preparation and negotiation of a revised legal framework of public-private partnerships (PPP), including power purchase agreements (PPA). This expert has already reviewed the texts relative to IPP in order to ensure compliance with international standards.

Finally, the reforms so far carried out will increase both the mobilization of internal revenue and the level of transparency in public resources management:

i. The Ministry of Economy, Finance, and Development has improved the identification and monitoring of taxpayers by combining the databases of the DGI and the DGD in order to expand the tax base. Intended to combat fraud, this measure will reclassify as large enterprises some enterprises previously taxed under the simplified regime;

ii. The Council of Ministers has: (a) strengthened administrative procedures by incorporating Third Party Notification into the Finance Law of 2017; and (b) established a new flat-rate land duty of 0.2% for urban properties. This measure aims to strengthen tax collection by reducing the time gap between tax notices and tax payments.

iii. On October 12, 2016, the Council of Ministers approved a new public procurement code and submitted it to the National Assembly. This code aims to improve transparency, due diligence, and timeliness in the execution of public contracts in order to enhance the absorption of budget appropriations and official development assistance.

The Government remains convinced that support from its partners, particularly the World Bank through the implementation of this program of budget support for measures and reforms geared toward the energy sector and the public finance, will contribute to promoting the development of the two sectors, consolidate the macroeconomic framework, and support strong, inclusive economic growth for a significant and lasting reduction in poverty.

In conclusion, I wish to reiterate, **Mr. President,** our sincere gratitude for your willingness and that of your institution to support Burkina Faso in its efforts to develop as a nation.

Hadizatou Rosine COULIBALY/SORI

Chevalier de l'Ordre National

ANNEX 3: IMF RELATIONS NOTE

IMF Executive Board Completes Fourth and Fifth ECF Reviews for Burkina Faso and Approves US$26.2 Million Disbursement

June 13, 2016

Press Release No. 16/268

June 13, 2016

The Executive Board of the International Monetary Fund (IMF) today completed the fourth and fifth reviews of Burkina Faso's economic performance under an economic program supported by an Extended Credit Facility (ECF) arrangement.[1] The decision enables the disbursement of SDR 18.57 million (about US$26.2 million), bringing total disbursements under the arrangement to the equivalent of SDR 46.70 million (about US$65.9 million).

In completing the reviews, the Executive Board also approved the authorities' requests for the modification of performance criteria. The 36-month ECF arrangement was approved by the Executive Board on December 27, 2013 (see Press Release 13/542) for the equivalent of SDR 27.09 million (about US$38.2 million, or 45 percent of Burkina Faso's quota). An augmentation of access of 40 percent of quota was approved in June 2015 by the Executive Board, bring total access to SDR 51.17 million (about US$72.2 million).

Following the Executive Board's discussion today, Mr. Min Zhu, Deputy Managing Director and Acting Chair issued the following statement:

"Despite challenging internal and external circumstances, Burkina Faso's performance under the Fund-supported program has remained satisfactory. Although the terrorist attacks posed some setback to economic recovery, growth should regain momentum in 2016-17, underpinned by robust mining activity, improved energy supply and enhanced public investment execution. The main risks to this favorable outlook relate to the fragile security situation, the challenges of meeting pent-up social and investment demands, and the impact of further declines in commodity prices.

"The authorities' main objective for 2016 is to create adequate fiscal space for priority social and infrastructure spending, including implementation of their new development plan. To this effect, they are undertaking a broad package of tax and customs administration measures aimed at regaining the ground lost in domestic revenue mobilization. Continued efforts to contain recurrent spending, including the public wage bill and to address bottlenecks in project execution will be needed to allow public investment to recover quickly toward pre-crisis levels.

"The authorities are also seizing the opportunity of the oil price decline to address longstanding structural deficiencies in the energy sector. Full implementation of these measures will contribute to reducing state subsidies and contingent liabilities to the sector and support higher investments in electricity production. Going forward, it will also be important to take action to diversify the agriculture sector and provide a supportive environment to boost credit for the private sector."

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[1] The ECF is a lending facility that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems.

IMF COMMUNICATIONS DEPARTMENT - **Media Relations** E-mail: media@imf.org Phone: 202-623-7100

ANNEX 4: ENVIRONMENT AND POVERTY /SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Pillar 1 – Improving the financial sustainability of the energy sector		
Prior Action 1. The Recipient, SONABEL and SONABHY have entered into a tripartite agreement to clear arrears accumulated between the Recipient, SONABHY and SONABEL; with an implementation process that includes: (a) a one-time payment of CFAF 40 billion from SONABEL to clear part of the accrued arrears to SONABHY; (b) the conversion of the remaining CFAF 26.6 billion due by SONABEL to SONABHY into a debt to be repaid over ten years; and (c) clearance of the Recipient's arrears to SONABEL for electricity bills and compensation subsidies in the amount of CFAF 45.48 billion over the period of three years between 2017-2019.	No	Yes
Prior Action 2. In order to improve the financial performance of SONABEL, the Recipient's ministries responsible for commerce; energy; and finance have approved an inter-ministerial decree that states the following: (a) the Regulatory Authority of the Electricity Sector (ARSE) shall review SONABEL's projections for each year's fuel prices; (b) The Recipient shall determine an annual subsidy cap limiting budget exposure, which triggers an electricity tariff revision implemented by SONABEL; and (c) the establishment of disbursement modalities aimed at ensuring timely disbursements of subsidies to SONABEL.	No	Yes
Prior Action 3. In order to improve its revenues, SONABEL's Board of Directors has approved a Revenue Protection Program which provides for the use of smart meters that will strengthen the management of high-voltage and medium-voltage customers' accounts.	No	Yes
Pillar 2 – Diversifying energy and improving the legal and institutional framework of the energy sector		
Prior Action 4. In order to improve sector planning, the Council of Ministers of the Recipient has approved a strategy for the energy sector which sets the Recipient's priorities in said sector in terms of investments, energy diversification, and private sector participation over the period 2016-2020.	No	Yes
Prior Action 5. In order to encourage private sector participation, the Ministry of Energy and Mines of the Recipient has appointed a technical expert responsible for providing assistance and advisory services on the preparation and negotiations of a revised Public-Private Partnerships (PPP) legal framework, including, power purchase agreements (PPA).	No	Yes
Pillar 3 – Strengthening tax collection and public procurement processes		
Prior Action 6. In order to broaden the tax base, the Ministry of Economy, Finance and Development of the Recipient has improved the identification and monitoring of taxpayers by reconciling the DGI and DGD databases.	No	Yes

Prior Action 7. The Council of Ministers of the Recipient has: (a) strengthened the administrative process through the introduction of Garnishment Procedures in the Budget Law 2017; and (b) established a new flat tax of 0.2% on proprieties in urban areas in the revised Budget Law of 2016.	No	Yes
Prior Action 8. The Council of Ministers has approved a new procurement code and submitted it to the National Assembly for enactment.	No	Yes

ANNEX 5: ENERGY SECTOR ECONOMIC AND FINANCIAL ANALYSIS

1. **SONABEL is a relatively well performing utility as per regional standards on both technical and commercial operations**. The state-owned vertically integrated electricity utility serves more than 500,000 clients with 1,650 employees whose skills are developed in house in an operation training center[12]. The utility is characterized by relatively low loss rates and good performance in collection of billed amounts, ranking among the best performing utility in Sub-Saharan Africa. To achieve these results, bill collection is closely monitored and customers that do not pay their bills are systematically disconnected. 86 percent of customers are on post-payment.

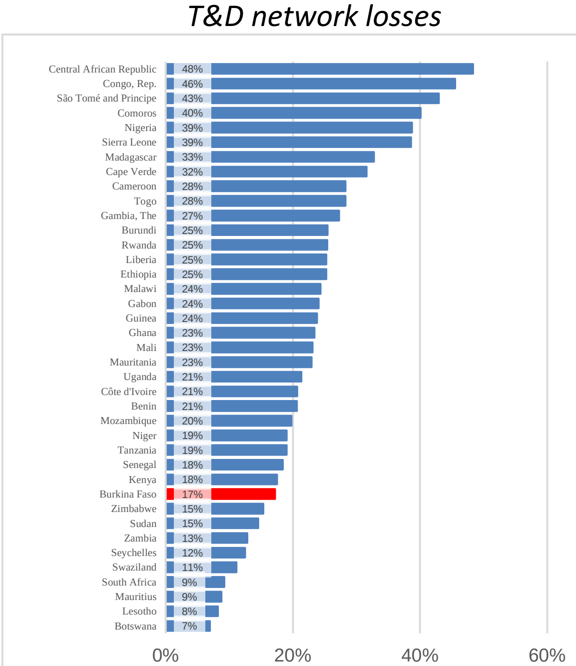
Table A5.1. SONABEL's operational data*

	2010	2011	2012	2013	2014	2015
Total energy produced and purchased (GWh)	949	1,025	1,139	1,262	1,359	1,442
Total energy sales (GWh)	714	856	952	1,052	1,125	1,200
Energy sales – LV postpaid (GWh)	*455*	*496*	*552*	*613*	*661*	*686*
Energy sales – LV prepaid (GWh)	*30*	*32*	*37*	*39*	*50*	*59*
Energy sales – HV (GWh)[13]	*317*	*329*	*363*	*400*	*414*	*456*
Number of customers	362,165	401,476	436,250	472,441	508,449	544,825
Number of employees	1,495	1,530	1,510	1,610	1,648	1,603
Total length of line (km)	8,959	9,581	10,592	11,528	12,073	13,368
Distribution transformers (number)	2,263	2,409	2,571	2,735	2,959	3,218
Total losses (percent)	16.18	17.09	17.06	17.24	17.77	16.78
Transmission losses (percent)	*4.77*	*5.27*	*4.61*	*4.20*	*4.34*	*3.54*
Distribution losses (percent)	*11.41*	*11.82*	*12.45*	*13.04*	*13.43*	*13.24*
Collection rate (percent)	95.38	82.75	98.75	95.34	97.66	97.54

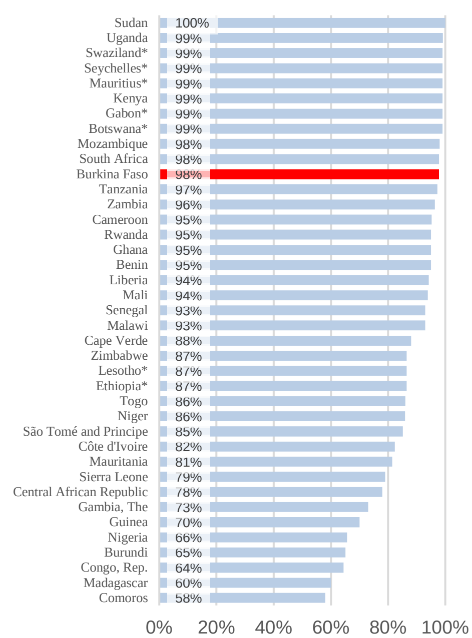
Sources : Annual reports

Figure A5.2: SONABEL's operational and commercial performance: a regional comparison*

T&D network losses



Bill collection rates

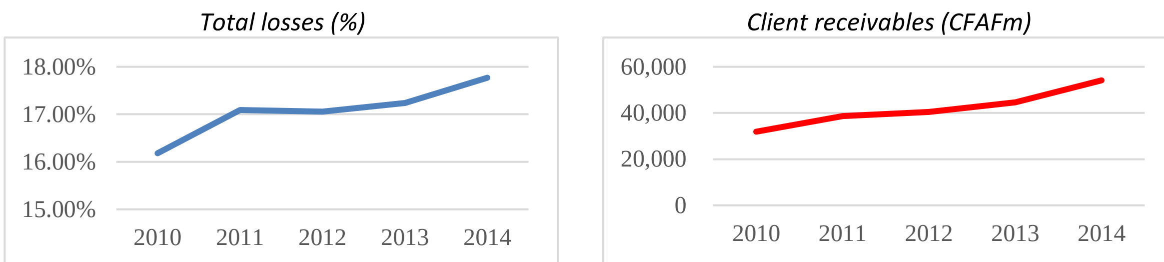


[12] Maintenance of MW network is done "live", avoiding interruptions and proving that high technical skills are available.
[13] 1,425 HV clients, ie. 0.3 percent of Sonabel's clients, account for 37 percent of electricity sales.

*Sources: Trimble, Chris; Masami Kojima, Ines Perez Arroyo, Farah Mohammadzadeh. Forthcoming. "The financial viability of electricity sectors in Sub Saharan Africa: quasi fiscal deficits and hidden costs"

2. **Distribution losses and client receivables have nonetheless increased since 2010.** Total losses increased from 16 to 18 percent, mostly driven by increase in distribution losses, but still compare well to neighboring countries. Increase in total losses results from suboptimal investments and maintenance expenditures in the network, as well as increase of unbilled electricity and underperformance in bill collection. Customer receivables have significantly increased from CFAF 32B to 54B between 2010 and 2014, mostly driven by public and para-public entities, which may signal, everything equal, a further deterioration of its commercial performance. SONABEL is currently preparing an action plan to improve timely invoicing and collection of electricity bills.

Figure A5.3. Total losses and client receivables, 2010-14*



*Source: SONABEL annual reports

3. **Electricity tariffs, though among the highest in the sub-region, do not fully reflect costs**. High costs stem from the country's almost complete dependency on imports for its large fuel needs for thermal electricity generation. Nonetheless, electricity tariff are structurally below cost of service delivery[14]. Average electricity tariff has been stagnant since 2007 despite significant cost increases driven by rising costs of fuel and other imports. Hence, SONABEL has relied on public subsidies and on-lending from the Government for its operation and equipment needs. In 2016, HV tariffs have been adjusted to reflect the marginal cost of service and better distribute the demand[15].

Figure A5.4: Electricity tariff vs. variable costs (EURc/kWh)

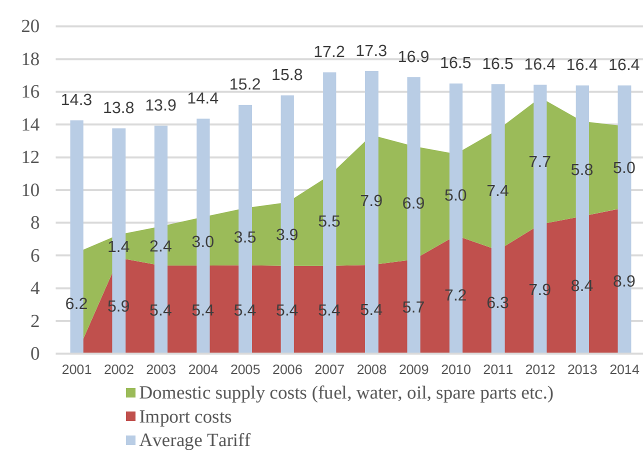
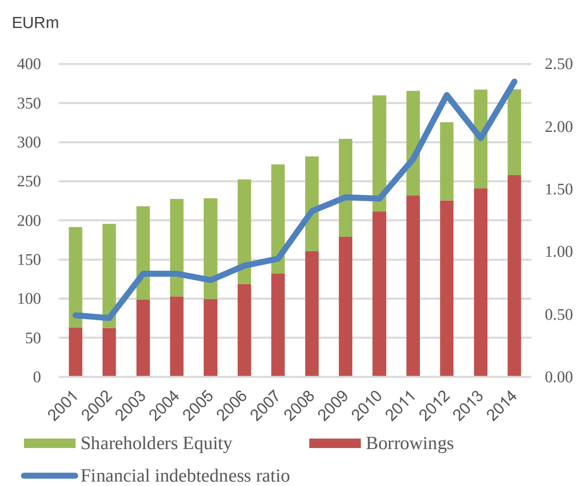


Figure A5.5: Debt ratio



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[14] In 2015, cost of electricity service was around FCFA 139 per kWh, whereas average tariff was FCFA 122 per kWh.

[15] As of 2016, HV tariff is CFA 140 and 70 per kWh for peak hours (10am-12am) and off-peak hours (12am-10am) respectively.

4. **The financial situation of SONABEL has significantly deteriorated since 2011, with shrinking cash flows and growing debt and payables.** Its losses reached CFAF 11 billion and 14 billion in 2014 and 2015 respectively. SONABEL's gross margin have been affected by the rise of fuel prices. The company's debt ratio has reached unsustainable levels[16], which incurred heavy debt service (CFA 8 billion in 2014). Its cash position suffers from increasing receivables[17], mostly from public sector clients and subsidies arears[18]. As a result, SONABEL stretched its payables, mainly to SONABHY (totalizing CFAF 66 billion in 2014), to conserve cash.

Table A5.2. SONABEL's Income Statement and credit ratios*

EURm	2010	2011	2012	2013	2014	2015
Energy revenues	132.2	141.0	156.4	172.3	184.4	196.7
Energy revenue growth (%)	10%	7%	11%	10%	7%	7%
Supply costs	(97.8)	(117.3)	(149.0)	(149.3)	(156.4)	(160.6)
Supply cost growth (%)	8%	20%	27%	0%	5%	3%
Gross margin	34.5	23.7	7.4	23.0	28.0	36.1
Gross margin (%)	26%	17%	5%	13%	15%	18%
Other operating revenues	26.1	38.3	37.9	26.7	31.1	25.2
o/w balancing subsidies	*0.0*	*11.2*	*7.8*	*0.5*	*0.0*	*0.0*
Other operating expenses	(30.5)	(44.7)	(44.6)	(33.9)	(37.6)	(38.9)
EBITDA	30.1	17.4	0.7	15.8	21.5	22.4
EBITDA margin (%)	19%	10%	0%	8%	10%	10%
EBIT	2.4	(18.0)	(29.2)	(13.8)	(12.3)	(19.5)
Net Income	**1.1**	**(23.1)**	**(22.3)**	**0.0**	**(17.1)**	**(27.0)**
Net margin (%)	1%	-13%	-11%	0%	-8%	-12%
Net Debt / EBITDA	6.2	11.8	295.7	12.8	11.0	9.0
Debt / Shareholders Equity	1.43	1.74	2.25	1.91	2.36	3.10

*Sources : Annual reports

5. **Government's strategy for energy sector recovery lies on diversification of the mix, improved operational performance along sector value chain, as well as on increased transparency in pricing and subsidies reform.** The situation of financial distress of the energy sector, should it persist, would lead to severe underinvestment in the maintenance and the development of the network, ultimately affecting SONABEL's operational performance and quality of service, while increasingly exposing the economy to the sector risks through local banks and suppliers. To pave the way back to the sector's financial equilibrium, the Government of Burkina Faso's has prepared a sector recovery plan that centres around three major axes of intervention: (i) increased generation, diversification of the country energy mix and foster regional integration; (ii) improved performance of the fuel supply chain; and (iii) pricing and sector subsidies reform.

- ***Increased generation, diversification of the energy mix and foster regional integration***. The GoBF aims to increase its generation capacity by progressively shifting its energy generation mix towards

[16] Debt/Equity ratio reach 2.36 in 2014, despite a CFA 17B recapitalization in 2013 by conversion of part of State's concessional resources on-lent to Sonabel.
[17] Non cash current liabilities increase from EUR51m in 2010 to EUR 175m in 2014.
[18] End of 2015, GoBF subsidies arears to Sonabel amount CFA 28B (12B and 16B for 2014 and 2015 respectively), whereas public and para-public electricity payments arrears amounted CFA 16B.

cheaper imports[19] and renewable electricity[20], as a way to reduce operating costs and mitigate sector dependency to oil price and FX exposure. GoBF is committed to relying on private sector participation to bridge the generation gap looking forward. Burkina's mid-term strategy for the sector is further discussed in annex 6.

- ***Improved performance of the fuel supply chain***. Given the structure of the generation mix, fuel is a critical input for electricity service. It represents alone 40 percent of the overall cost of service. Addressing energy sector imbalance in the long run would require an improvement in the upstream fuel supply chain managed by SONABHY, currently characterized by high inefficiencies (see annex 7). Government's strategy to address those challenges will include a set of operational measures to improve the performance of fuel supply operations for electricity generation based on the industry best practices, as well as institutional, legal and regulatory measures to enhance transparency, competition, reliability and predictability of the fuel supply for the purpose of electricity generation.

- ***Pricing and sector subsidies reform***. The fuel price structure has been opaque, complex and led to the accumulation of cross-arrears between GoBF, SONABHY and SONABEL and weakened the financial situation of the two state-owned companies doing so. Since 2013, following the surge in oil prices on international markets, SONABEL had purchased fuel for electricity generation at a preferential price[21] set by CIDH[22] to SONABHY, notionally compensated by the GoBF by a subsidy for incurred losses. However, since the oil price started declining below SONABHY's cost in 2014, SONABHY appears to have absorbed most of the profit windfall[23], the situation resulting in a *de facto* cross subsidy to SONABHY from SONABEL, which kept accumulating in return arrears to SONABHY. Electricity sector subsidies have been increasingly weighing on the national budget (amounting CFAF 86 billion in 2010-13), but inefficient, fragmented and not paid or paid with delay (CFAF 28 billion in arrears for 2014-15), which force the two companies to increasingly rely on costly short term debt from local banks. Electricity sector subsidies included: (i) fuel subsidies paid to SONABHY; (ii) compensation subsidies paid to SONABEL to balance its incomes despite the absence of tariff adjustments while costs increases and (iii) investment subsidies, i.e. GoBF concessional financing on-lent to SONABEL for specific investments[24].

6. **New fuel price structure and arrears clearance will help SONABEL to recover in the short term.** In order to pave the way back toward SONABEL's financial equilibrium, GoBF has taken two short term measures for (i) a transparent and flexible oil price structure for SONABEL and (ii) the clearance of SONABEL's arrears to SONABHY. SONABEL revised fuel price structure is effective as of May 1, 2016. SONABEL pays fuel "market" price (see box below), capped to a threshold that reflects SONABEL's break-even, currently fixed at CFA 300 and 200 per liter for DDO and HFO respectively[25]. Above this ceiling, SONABHY receives a GoBF subsidy to compensate for the difference[26]. The total amount of annual subsidy is capped at a pre-defined ceiling revised annually, above which electricity tariff adjustment would be triggered to pass through the delta in fuel cost increase. Annual subsidy caps for 2016 and 2017 have been

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[19] Notably imports from Ghana, through the Bolgatanga-Ouagadougou T-lines expected to be commissioned H2 2017.
[20] Mostly solar electricity potential, limited hydropower potential in the country having been already valorized (32MW).
[21] Sonabel fuel price was fixed in 2014 by the inter-ministerial order N°2013-038/MICA/MME/MEF dated October 3, 2013, at FCFA 405 and 280 per liter for DDO and HFO respectively, in an attempt to mitigate the impact on the sub-sector equilibrium.
[22] Inter-ministerial committee for determination of oil prices
[23] IMF, technical annex on energy sector reform, 2016
[24] 65 percent of Sonabel's debt is on-lending from GoBF, for which concessional terms are not systematically neither fully retroceded.
[25] Caps will be revised on yearly basis.
[26] Fuel subsidy is calculated every month and paid every quarter.

capped to CFAF 21 billon p.a. The clearance of SONABEL accrued cross arears in the energy sector[27] has started implementation with an exceptional CFAF 40B payment from SONABHY to the State to clear part of SONABEL's CFAF 66 billion arrears[28] to SONABHY, and equally reduced Government electricity bills arrears. The remaining CFAF 26 billion owed by SONABEL to SONABHY will be converted into debt to be repaid over 10 years at 2.5 percent interest rate. Budget allocation have been included in the Revised Law of Finance in 2016 and in the draft 2017 Budget so that the Government can pay part of its arrears to SONABEL and SONABHY. The remainder will be paid through budget allocations in FY18 and FY19. Together, these measures should alleviate SONABEL's need for recurrent subsidy in the short term, by generating positive net incomes starting 2016.

Box A5.1. SONABEL revised fuel price structure and clearance of cross-arrears in the electricity sector

- Revised fuel price structure will allow SONABEL to benefit from lower oil price and to pass though potential oil price increase to electricity end users if the pre-budgeted provisional subsidy is not enough to cover for SONABEL induced loss. SONABHY will bear subsidies payment risk.

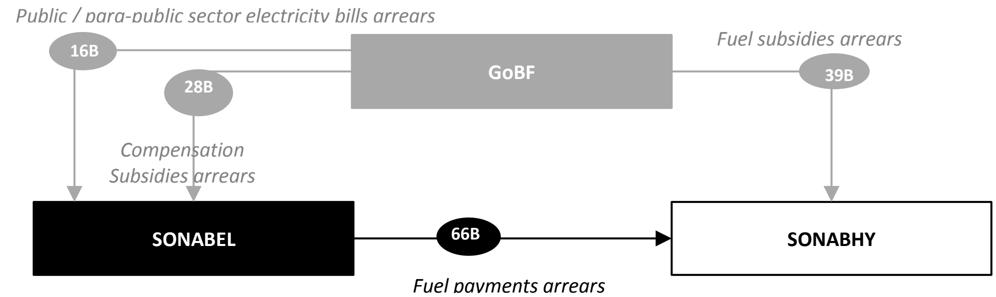
Old price structure – from Oct. 2013 until April 2016 (FCFA per liter)	**HFO**	**DDO**
Reference CIF price - Port of Lomé, Cotonou ("calculated" to include SONABHY margin)	315	335
Import duties, transport costs, fees and taxes	128	150
Sales price from SONABHY storage depot (post-tax)	443	485
Marketing fees and margin	14	15
Subsidy (no clear payment schedule)	-177	-95
Sales price to SONABEL (fixed)	**280**	**405**

New price structure – as of May 1, 2016 (FCFA per liter)	**HFO**	**DDO**
"Real" CIF price – Port of Lomé, Cotonou (update monthly by CIDPH based)	146	189
Import duties	13	14
Transport costs	70	68
Fees and import margin	23	23
Sale price (pre-tax)	251	294
Customs duties and taxes	12	26
Sales price from SONABHY storage depot (post-tax)	263	321
Marketing fees and margin	14	15
Subsidy (calculated monthly and paid quarterly)	-77	-36
Sales price to SONABEL (cap)	**200**	**300**

- The clearance of accumulated cross arears will reduce financing costs induced by SONABEL and SONABHY's shrinking cash flows. SONABEL's payables will be reduced to sustainable level with the cancellation of arrears to SONABHY and compensation for past due subsidies.

Cross-arrears as of end of 2015

[27] Through two memorandum of understanding, between SONABHY and GoBF, and SONABHY, SONABELand GoBF respectively.
[28] Made of CFA 5B of SONABHY'S dividend paid to GoBF in 2015 and 35B of SONABHY's profit windfall from sales to SONABEL from January to May 2016.



SONABEL's payables, 2001-18 (FCFAB.)

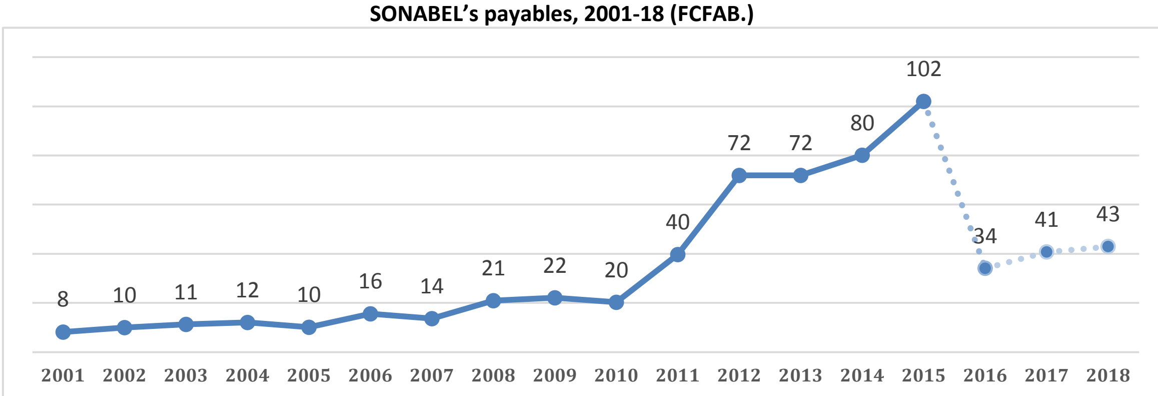


Table A5.3. SONABEL'S projected incomes and financial ratios 2016-2018

	ACTUAL		PROJECTIONS**					
			Clearance of arrears to SONABHY			*Clearance of arrears and fuel tariff adjustment*		
	2014	**2015**	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**
EBITDA[1] (FCFAm)	**15,660**	**14,298**	**28,581**	**44,141**	**44,040**	**33,078**	**44,494**	**50,101**
Net incomes (FCFAm)	**(11,189)**	**(17,695)**	**(23,987)**	**(17,166)**	**(782)**	**1,091**	**6,590**	**9,040**
Av. tariff per kWh (FCFA)	90.28	90.48	91.06	92.46	92.44	91.06	92.46	92.44
Av. income per kWh (FCFA)	131.45	140.41	143.23	141.91	142.60	143.23	141.91	142.61
Av. cost per kWh sold (FCFA)	140.87	151.87	158.48	150.97	142.42	142.43	138.80	135.72
Av. cost per kWh injected (FCFA)	117.85	126.92	132.63	125.99	118.79	119.20	116.76	113.20
DSCR[1] (target* > 1.2)	1.10	0.80	-1.84	0.75	1.05	-3.03	1.35	1.41
Net debt / CFADS[2] (target*<7)	8.13	11.69	-5.34	8.84	5.13	-2.21	3.45	2.58
LT debt / Equity (target*<2)	2.25	1.91	6.48	10.00	8.38	2.64	2.19	1.57
ROE[3] (target*>4%)	-0.16	0.00	-13.1%	-9.6%	-0.4%	0.5%	3.0%	3.8%

* as set in SONABEL performance contract dated 2015 ("contrat plan") ** Sources: SONABEL's financial model

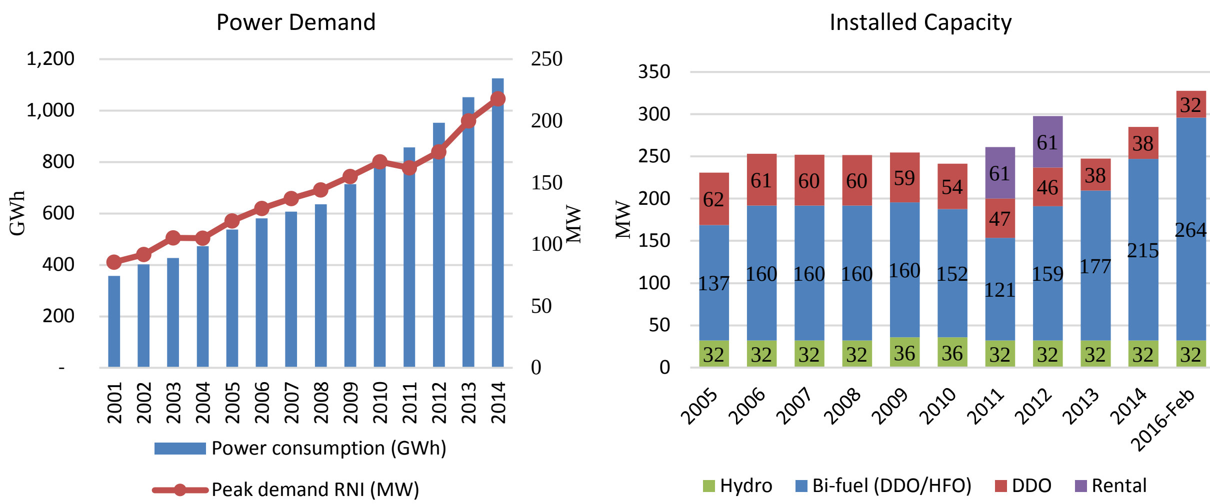
[1] Earnings Before Interest, Taxes, Depreciation and Amortization ; [2] Debt Service Coverage Ratio ; [3] Cash Flow Available for Debt Servicing ;[4] Return on Equity

7. **Sustained financial viability of the energy sector in the long term will however require the pursuit of the Government's strong engagement in sector reforms.** Electricity cost of service will only structurally reduce with the diversification of the energy mix and regional integration. To achieve this objective, GoBF will have to properly plan the development of the sector and set an adequate institutional and regulatory framework to leverage private financing for generation to free resources for the development of the transmission and distribution network.

ANNEX 6: BURKINA'S ELECTRICITY SECTOR MID-TERM STRATEGY

1. **Over the last 15 years, electricity supply has not kept pace with demand growth, leading to increasing capacity deficit with unprecedented load shedding in 2015-16**. In 2015, installed capacity amounted to 315 MW, mostly produced from thermal[29], characterized by low availability of about 50 percent. The network is interconnected with Cote d'Ivoire through a 225-kV with an increasingly unreliable power purchase agreement for a contractually agreed 50-MW supply. As a result, electricity supply is just enough to serve the non-peak periods. Over the period, energy consumption increased at a yearly compound average growth rate close to 10 percent. As a result, load shedding averaged 180 hours equivalent outage time yearly since 2009 and peaked during 2015 at **340 hours per annum.**

Figure A6.1: Demand – Supply analysis



Without additional baseload capacity, the peak power deficit would reach 85 MW by 2018 and 156 MW by 2020. Peak demand forecasts on the interconnected network amount to 296 MW in 2017 and 398 MW in 2020. Despite the expected increased capacity from the interconnection with Ghana, GoBF would still need to bring online 80 MW to avoid severe load shedding in 2017 and 2018, and commission more than 150 MW by 2020 to meet peak demand.

Table A6.1: Power supply deficit (2016-2020)*

Year	Peak Demand	Installed capacity	Available capacity	Guarantee available power	Peak power deficit	Interco		Net power deficit
						CdI	Ghana	
2016	270	315	165	152	118	50	0	68
2017	296	315	238	152	144	50	0	94
2018	327	315	238	152	175	50	40	85
2019	362	315	238	152	210	50	40	120
2020	398	315	238	152	246	50	40	156

**Sources: Tractebel, MT strategy and Roadmap for Burkina Faso, June 2016 ; WB team evaluation without additional domestic capacity.*

[29] Concentrated in 4 bi-fuel (HFO/DDO) plants: Komsilga (93.6 MW), Bobo II (68.0 MW), Kossodo (64.1 MW) & Ouaga II (38.4 MW); and 16 DDO-fired plants. Burkina also has 32 MW of hydropower ageing plants.

2. **The overall mid-term objective of the sector is to reduce dependency on imported and expensive fossil fuels and gradually shift the generation mix towards renewable energy and affordable imports of electricity.** This would also reduce exposure to fuel price volatility and foreign exchange risks. This strategy requires a scale up in power generation to fill the capacity deficit, and meet the significant growth in demand. It also requires additional investments in the national grid to enable it to absorb intermittent solar power, and will require the deployment of firm baseload capacity, some of which can be sourced through regional interconnectors. In rural areas, the strategy will be to pursue decentralized generation in renewable energy in those areas where this technology is least cost.

3. **The WBG, in close collaboration with the Government, has prepared a roadmap for the energy mix of the country for the period 2015-2030.** Its main results are summarized below.

Table A6.2: Medium Term Power supply development scenarios 2015-2030[30]

	Development Scenario		
	Emphasis on Domestic Thermal Generation	**Emphasis on Domestic Solar Production**	**Emphasis on Regional Imports**
Investment cost	**CFAF 794 billion (of which CFAF 233 billion Public Finance)**	**CFAF 897 billion (of which CFA 233 billion Public Finance)**	**CFAF 496 billion (of which CFA 148 Billion Public Finance)**
Aggregate Fuel Subsidies	**CFAF 805 billion**	**CFAF 568 billion**	**CFAF 451 billion**
Long-Run marginal cost (10% discount rate)	**113 CFAF/kWh**	**106 CFAF/kWh**	**103 CFAF/kWh**
Price/Cost volatility	**High (Exposure to Petroleum market fluctuations)**	**Medium (still exposed to Oil prices for complement; cost of Solar technologies tend to reduce over time)**	**Medium (Exposed to neighboring country supply reliability, import disruptions)**
Import Dependence	**High (need to strengthen strategic storage capacity for HFO and Diesel)**	**Medium (same as current situation for petroleum and regional imports)**	**High (High dependence on neighboring countries, notably Cote d'Ivoire and Ghana)**
Power system constraints	**Low (Capable to locate production close to demand)**	**High (Significant System challenges to integrate intermittent renewables)**	**High (Aggregate system risk including transmission constraints in neighboring exporting countries (Ghana and CI)**
Environmental and Climate impacts	**High (HFO - high contribution of CO2 and other pollutants)**	**Low (Reduction in long term projection of Thermal Power)**	**High (Imports of primarily thermal Gas (and Coal) Power**

4. **Burkina's medium term least-cost electricity supply expansion strategy will rely on rapid expansion of three main pillars of electricity supply :**

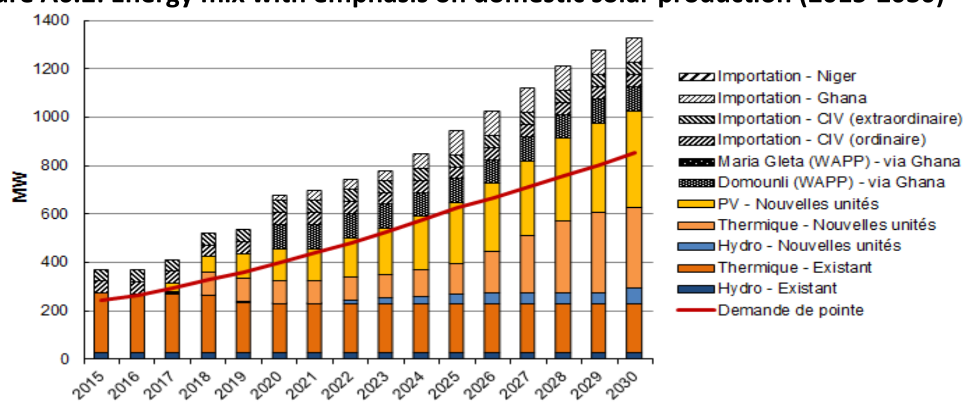
a) **Scale-up of Domestic Renewable Generation (primarily Solar Photovoltaic):** GoBF's energy sector strategy promotes a dramatic scale-up of renewable energies within the national energy mix by 2030. GoBF has initially planned for commissioning of 120 MWp of solar capacity by the end of 2018, roughly half of which is currently in advanced stages of development. Unfortunately, only one project (Zagtouli PV, 33 MW) has reached financial close and started construction (with public financing from EU, EIB and AFD). The GoBF launched two competitive bids in 2013 and 2016 for the development of 70MWp and 80MWp solar PV plants respectively. The first bid led to the shortlisting of 5

[30] Tractebel/Nodalis MT strategy and Roadmap for Burkina Faso, June 2016.

developers, none of which reached financial close so far. Additional investments in the national grid will be required to enable it to absorb intermittent solar power. As part of its ongoing engagement, the World Bank Group is exploring means to promote the financial closure of renewable energy projects.

b) **Increase regional Imports through WAPP integration:** To exit the vicious circle of increasing demand paired with ever costlier fuel based generation, Burkina Faso is actively engaging in regional transmission and generation projects through its membership in the West Africa Power Pool (under ECOWAS) with the objective to enhance the capacity to import power from both Cote d'Ivoire and Ghana, and eventually Niger and Nigeria. The First Phase of the Inter-zonal Transmission Hub Project of WAPP (APL3) Program [31] is due to be completed and operational by end of December 2017 adding an initial 40MW of imports with further expansion possible depending on supply surpluses and advance of longer term regional power projects such as Domunli, Maria Galeta and North Core interconnector.

Figure A6.2: Energy mix with emphasis on domestic solar production (2015-2030)[32]



c) **Develop firm baseload capacity:** The increase of domestic thermal generation capacity available is urgently needed to fill the increasing capacity deficit (see table A6.2), meet the significant growth in demand, and, in the medium term, balance supply fluctuations resulting from the two pillars above. Despite the expected increased capacity from the interconnection with Ghana, GoBF would still need to bring online 80 MW to avoid severe load shedding in 2017 and 2018, and commission more than 150 MW by 2020 to meet demand, which peaks in the early evening. The least cost option to meet baseload demand in Burkina includes of mix of rehabilitation of existing HFO fired generation, imported electricity from other West African countries (see above), as well as greenfield fossil fuel generation. While the costs of solar with storage has been coming down, concentrated solar power (CSP) and photovoltaic with storage (PV storage) are not yet cost competitive for baseload capacity, but this is likely to change over time.

[31] Ghana (Bolgatanga) – Burkina Faso (Ouagadougou) interconnection transmission line in 225kV.

[32] Tractebel/Nodalis MT strategy and Roadmap for Burkina Faso, June 2016.

ANNEX 7: ELECTRICITY SECTOR GOVERNANCE

1. **The Ministry of Energy and Mines is responsible for policy development on the generation, transmission and distribution of electricity, the control of energy infrastructure, and the promotion of sustainable energy systems. Following the elections and the appointment of a new Cabinet in January 2016 the ministry implemented several changes to its structure**. The *Direction Générale de l'Energie* (General Department of Energy - DGE) was created within the MME to ensure the development and the implementation of energy policies and strategy design. The Government decided in March 2016 to split DGE (General directorate of Energy) into three separate entities namely: the Directorate General for Conventional Energy (DGEC), the Directorate General for Renewable Energy (DGER), and the Directorate General for Energy Efficiency (DGEE). A new Agency for Renewable Energy and energy efficiency is to be created and will report directly to the Ministry of Energy and Mines. The existing Electricity Development Fund (FDE) will be reinforced and transformed in a full rural electrification agency.

2. **The Regulatory Authority for the Electricity Sector (ARSE) was formed in 2007.** Even after the decision to reverse the privatization process in the electricity sector in 2010, the Government maintained the ARSE which operates under the authority of the Prime Ministry with a mandate to regulate the operators of the sector, arbitrate disputes between operators and to ensure the preservation of economic conditions necessary for the sustainability of the sector while ensuring fair competition. While ARSE has been able to strengthen its capacity recently, the regulator remains marginalized in terms of influence over major sector regulatory aspects such as tariff reviews that are dealt with directly between Ministry of Energy and Mines and SONABEL and IPP selection process**.**

3. **SONABEL is the state-owned electric utility created in 1954. It is a vertically integrated utility which has a monopoly on electricity import/exports but not on generation or distribution.** No IPP is currently operating in the country. The utility serves more than 500,000 clients with 1,650 employees whose skills are developed mostly in house in an operation training center. SONABEL's financial situation worsened considerably during the period 2010-2014, as a result of high oil prices, temporary use of costly rental diesels (2011-2012) and fixed tariff levels not reflecting the increasing operating cost.

4. **SONABHY, a state-owned public company, has a monopoly over all imports and storage of petroleum products in Burkina Faso.** SONABEL is SONABHY's largest client, buying HFO and DDO for electricity generation at prices set by the Government (see hereafter). The company is characterized by (i) high fuel purchase price, (ii) high transport costs, (iii) high losses; (iv) high financial charges amplified by the absence of forex hedging practice; and (v) weak HR policies.

Figure A7.1: Energy sector structure, linkages and financial flows