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Report No. 114714 -BF

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A PROPOSED

DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 17.8 MILLION
(US$25 MILLION EQUIVALENT)

AND A PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF EURO 43 MILLION
(US$50 MILLION EQUIVALENT)

TO

BURKINA FASO

FOR THE

SECOND ENERGY AND FISCAL MANAGEMENT DEVELOPMENT POLICY FINANCING

November 15, 2017

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, 2017)

Currency Unit =	CFA Franc (CFAF)
US$1.00 =	SDR 0.71190085
US$1.00 =	CFAF 563.63
US$1.00 =	EURO 0.85980826

ABBREVIATION AND ACRONYMS

ADB	African Development Bank
ARCOP	Regulatory Authority of Public Procurement *(Autorité de régulation de la Commande Publique)*
ARSE	Regulatory Authority for the Energy Sector *(Autorité de Régulation du Secteur de l'Energie)*
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
CFAF	African Financial Community Franc (*Franc de la Communauté Financière Africaine*)
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
CSP	Concentrated Solar Power
DDO	Distillate Diesel Oil
DeMPA	Debt Management Performance Assessment
DGB	General Directorate for the Budget (*Direction Générale du Budget*)
DGCOOP	General Directorate in charge of Cooperation (*Direction Générale de la Coopération*)
DGD	General Directorate for Tax *(Direction Générale des Impôts)*
DGI	General Directorate for Customs (*Direction Générale des Douanes*)
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
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
EIA	Environmental Impact Assessments
ESDF	Electricity Sector Development Fund
EU	European Union
FDI	Foreign Direct Investment
GCC	Growth and Competitiveness Credits

GDP	Gross Domestic Product
GEE	Energy and Extractives
GHG	Greenhouse Gas
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
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contribution
IPP	Independent Power Producer
IRS	Internal Revenue Service
ISA	International Standards of Auditing
kV	Kilovolt
kWh	Kilowatt hour
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*)
MFM	Macroeconomics and Fiscal Management
MIGA	Multilateral Investment Guarantee Agency
MPC	Monetary Policy Committee
MT	Medium Term
MTEF	Medium-Term Expenditure Framework
MV	Medium Voltage
MW	Megawatt
MWP	Mega Watt Peak
NDC	Nationally Determined Contribution
NPV	Net Present Value
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Assessment
PER	Public Expenditure Review
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
PIU	Project Implementation Unit
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
PS	Permanent Secretary
PV	Photovoltaic
SCADD	Strategy for Accelerated Growth and Sustainable Development (*Stratégie de Croissance Accélérée et de Développement Durable*)
SCD	Systematic Country Diagnostic
SDR	Special Drawings Right
SESA	Strategic Environmental and Social Assessment
SME	Small and Medium Enterprises
SONABEL	State-owned Electricity Provider *(Société Nationale d'Electricité du Burkina)*
SONABHY	Public Oil Importing Company *(Société Nationale Burkinabè d'Hydrocarbures)*
SORT	Systematic Operations Risk-rating Tool
US$	United States dollar
US$c	United States cent
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union
WAPP	West African Power Pool
WBG	World Bank Group

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BURKINA FASO

SECOND ENERGY AND FISCAL MANAGEMENT DEVELOPMENT POLICY FINANCING

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

Borrower:	Burkina Faso.
Implementation Agency:	Ministry of Economy, Finance and Development (MEFD).
Financing Data:	IDA grant in the amount of SDR 17.8 million (US$25 million equivalent) and an IDA credit in the amount of EURO 43 million (US$50 million equivalent) on standard IDA terms for grant and credit. The credit has a final maturity of 38 years including a grace period of six years.
Operation Type:	Second and final 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) enable private sector participation in the energy sector and diversify the energy mix; 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: below CFAF 1 billion. • Improved financial performance of the state-owned electricity provider *(Société Nationale d'électricité du Burkina* -SONABEL*)*, as measured by Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA). Baseline 2015: CFAF 14 billion. Target 2018: CFAF 40 billion or higher. • Reduction in customer's outstanding bills due to SONABEL (as measured by client receivables). Baseline in 2015: CFAF 55 billion. Target in 2018: below CFAF 39 billion. ***Enabling private sector participation in the energy sector and diversifying the energy mix*** • Solar PV capacity (percent of total installed capacity). Baseline 2015: 0. Target 2018: 15 percent. • Capacity available on the interconnected network, excluding guaranteed imports (percent 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. • Number of IPPs under standardized competitive process. Baseline 2015: 0 percent. Target 2018: 1. ***Strengthening tax collection and public procurement processes*** • An increase in VAT revenues. Baseline 2015: 6.0 percent of GDP. Target 2018: 7.0 percent of GDP. • An increase in non-VAT tax revenues. Baseline 2015: 8 percent of GDP. Target 2018: 10 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)? Yes*
Operation ID:	P163283

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

1. INTRODUCTION AND COUNTRY CONTEXT

1.1. **This program document proposes the second and final operation in a programmatic series of two Development Policy Financing (DPF) operations designed to support energy and fiscal reforms in Burkina Faso.** The proposed second DPF is a single-tranche disbursement of US$75 million equivalent, of which SDR 17.8 million (US$25 million equivalent) as an IDA grant and Euro 43 million (US$50 million equivalent) as an IDA credit. The policy program supported by this DPF series aims at: (i) improving the financial sustainability of the energy sector; (ii) enabling private sector participation in the energy sector and diversifying the energy mix; and (iii) strengthening tax collection and public procurement processes.

1.2. **Burkina Faso's economy has recovered in 2016 and continues to improve.** Following a slowdown in 2014 and 2015, growth has rebounded at 5.9 percent in 2016, and is projected to accelerate to 6.4 percent in 2017 for several reasons. The renewed political stability after the 2015 Presidential elections has restored confidence, brought back foreign investors and donors, and helped increase domestic demand. Favorable climatic conditions have led to higher agricultural output, particularly for cotton, while mining activities have remained strong.

1.3. **Fiscal performance has, however, deteriorated, and fiscal space for Government's ambitions to address large deficits in infrastructure and social services has narrowed.** The fiscal deficit widened to 3.3 percent in 2016 as increases in the wage bill and current transfers were only partially offset by improved tax collection. In 2017, the fiscal deficit will further deteriorate to an estimated 6.5 percent of Gross Domestic Product (GDP), owing to substantially higher public investment under the new national plan for economic and social development plan (PNDES) as well as higher recurrent expenditure. In this context, fiscal risks remain associated with a large wage bill and a narrow economic base for domestic revenue mobilization. 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 financial situation of state-owned enterprises and agencies, notably in the energy sector.

1.4. **The Government aims to increase access to electricity in an affordable and sustainable manner by shifting the generation mix towards renewables and cheaper imports.** This strategy will also gradually reduce the fiscal burden of the sector. Burkina Faso has one of the lowest electrification rates in Sub-Saharan Africa at 18 percent, with only 4 percent in rural areas, where most of the poorest households live. Electricity tariffs are very high (24 cents per kilowatt hour (kWh)), yet do not cover the full cost of service (26 cents per kWh). The resulting quasi-fiscal deficit represented 1 percent of GDP in 2014[1]. 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. 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 must be shifted toward least-cost sources, procured in a timely, transparent and cost-effective manner; and (ii) the sector, currently relying on budget transfers through fuel subsidies, has to be positioned on a financially stable trajectory. These two challenges are closely

[1] M. Kojima and C. Trimble, *Making power affordable for Africa and viable for its utilities*, World Bank, 2016.

connected. Shifting the energy mix would structurally reduce the cost of generation[2] from 20 to 18 cents/kWh by 2030[3] and help improve the financial situation of the energy sector.

1.5. **Improving the financial sustainability of the sector and leveraging private investment in cheaper electricity sources is critical to extend reliable and affordable access to electricity.** Diversifying the energy mix towards least cost options, namely solar and affordable imports from neighboring countries, will gradually bridge the gap towards full cost recovery electricity tariffs, thereby reducing the need for recurrent transfers to the sector. By attracting private sector in electricity generation, the Government intends to focus scarce public resources on the access agenda. Sector creditworthiness is critical to crowd-in commercial financing in new and cost-effective generation capacities, which would ultimately help secure the delivery of more electricity to households and firms, and therefore lay the basis for greater growth and better living standards. This strategy is fully aligned with the World Bank Group (WBG) principles of the "Cascade", to optimize the use of limited concessional resources by enabling private sector participation to deliver sustainable and affordable infrastructure services.

1.6. **Poverty remains high despite improvements over the decade preceding the October 2014 insurrection.** With a Gross National Income (GNI) per capita of US$660 in 2016, Burkina Faso is among the 20 poorest countries in the world. The 2014 Household Survey indicates that poverty has decreased to 40.3 percent in 2014 from 46.7 percent in 2009, reflecting strong economic growth. Poverty continues to be overwhelmingly concentrated in rural areas, which are home to 90 percent of poor households, due to limited improvement in agricultural productivity. These poor rural households often have no or low levels of literacy, have more than six children, and have low access to basic services and infrastructure. While inequality remains moderate, economic growth has been weakly pro-poor. Most households in Burkina Faso are vulnerable: almost two out three households reported having been negatively impacted by a shock in 2014 (mostly climatic hazards, followed by price volatility and insecurity).

1.7. **To support the Government's reforms in the areas of energy and fiscal management, the series is organized around three pillars:**

- **Pillar 1: Improving the financial sustainability of the energy sector.** The objective is to establish financial stability in the energy sector through a set of complementary measures. DPF1 supported the clearance of accrued cross-arrears between the state-owned electricity provider (SONABEL), the public oil importing company (SONABHY), and central government. DPF2 supports the clearance of arrears and the allocation of adequate funds in the 2018 budget to ensure timely budget transfers to the sector. It also introduces measures to reduce fuel costs for electricity generation, and to improve the collection of revenue through a revenue protection program, with a focus on the small number of high value consumers.

- **Pillar 2: Enabling private sector participation in the energy sector and diversifying the energy mix.** The objective is to enhance planning and implementation of a national strategy, develop an enabling framework to attract private sector participation in electricity generation and diversify electricity generation, and thus help the Government reach its ambitious objectives on access and energy mix diversification by 2025. The program supports the establishment of the structure in charge of sector planning at the Ministry of energy, the new regulatory framework

[2] *ie*. excluding transmission and distribution costs, which are parts of the overall cost of electricity service currently estimated at 26 cents per kWh.
[3] Source: Tractebel/Nodalis, MT Strategy and Roadmap for Burkina Faso, June 2016 (See Figure A5.8).

creating of a competitive wholesale electricity market, and a standardized competitive process to cost-effectively procure new projects by Independent Power Producers.

- **Pillar 3: Strengthening tax collection and public procurement processes.** 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. In this second operation, emphasis is also on procurement procedures, with the issuance of relevant regulations that operationalize the 2016 procurement code for more efficiency and transparency.

1.8. **The proposed DPF series is closely aligned with the 2016-2020 PNDES and an integral part of the WBG strategy.** It has been prepared in coordination with other partners, including the International Monetary Fund (IMF), and incorporates results of the Systematic Country Diagnostic[4] (SCD 2016), lessons from previous development policy operations in Burkina Faso and 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. **Burkina Faso's economy recovered in 2016 and continued to improve in 2017.** Growth averaged 6 percent per year between 2005 and 2013, thanks to sound macroeconomic management, combined with favorable prices for cotton and gold and large aid inflows. Economic growth slowed down in 2014 and 2015 to about 4 percent as a result of a difficult political context, unfavorable weather conditions and a decline in commodities prices. In 2016, economic growth returned to its historical average. Despite the difficult security context and following the return to political stability with the election of a new President, Parliament and mayors, growth reached an estimated 5.9 percent in 2016 and is expected to continue to accelerate to a projected 6.4 percent in 2017, supported by increased public investment, good agricultural performance, and continued expansion of gold mining.

2.2. **Economic growth 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, but the number of poor has remained about the same in 2014 as in 2003 – approximately 7 million owing to a high fertility rate averaging 6 children per women. Poverty continues to be predominantly rural where poverty rate is 3.5 times higher than in urban areas and where 80 percent of the poor reside and involved primarily in agriculture with low productivity. The relatively weak performance of the agricultural sector reflects that many households did not find opportunities to increase their income during this period. According to the 2014 households survey (EMC 2014), two thirds of households reported that they were exposed to shocks, mostly natural hazards representing 40 percent of vulnerability against 25 percent for price volatility.

2.3. **The external current account deficit (including grants) improved in 2016 and is expected to increase slightly in 2017.** The current account deficit narrowed to 7.1 percent of GDP in 2016, down from 8 percent in 2014 and 8.6 percent in 2015. This improvement was driven by export performance both in terms of volumes and values for gold and cotton which account for roughly 80 percent of total exports.

[4] Report No. 114393

Overall, the value of exports increased by 12 percent in 2016. In 2017, the current account deficit is projected to increase to 8.2 percent of GDP, owing to higher investment-related imports**.** It continues to be financed by Foreign Direct Investment (FDI) (in particular by new mining companies) and concessional aid inflows.

2.4. **The fiscal deficit widened to 3.3 percent of GDP in 2016 and is projected to deteriorate to 6.5 percent of GDP in 2017.** The wage bill increased to 8 percent of GDP, 0.9 percentage points of GDP higher than in 2015, mostly due to the adoption of a new salary scale for public workers and the integration of contract staff into permanent civil service. Recurrent transfers are projected to increase by about 0.8 percent of GDP. Part of this increase (estimated at about 0.3 percent of GDP) arises from arrears clearance in the energy sector—a prior action supported by this Development Policy Operation (DPO). The other part is increased transfers to public enterprises, including implications of recent wage increases. On the revenue mobilization front, the authorities have implemented tax reforms on mining royalties, corporate income taxes and value added tax (VAT) which have helped raise tax revenue collection to 15.5 percent of GDP in 2016, in line with revenue collection levels before the slowdown. In 2017, tax revenue collection has continued to improve and is expected to reach 16.4 percent of GDP. The increase in revenue falls short, however, of government targets and the large increase in capital expenditures in 2017 (from 7.6 percent of GDP in 2016 to 10.2 percent of GDP), which reflects the implementation of projects under the national development plan (PNDES). Execution of foreign-financed projects (and levels of the corresponding project grants) were low. However, domestically-financed capital expenditures are expected to increase to 7.9 percent of GDP in 2017, up from 5 percent in 2016. The widening of the fiscal deficit has, to a large extent, been financed by borrowings on the regional market.

2.5. **The Government has initiated reforms to improve the financial sustainability of the energy sector and reduce the cost of electricity service.** Budget transfers to the electricity sector have been significant, amounting to CFAF 86 billion in 2010-2013. They have also been relatively inefficient, fragmented (with fuel subsides to SONABHY, compensation subsidies and investments subsidies to SONABEL), and paid with delay (CFAF 28 billion arrears in 2014-2015). With the ongoing reforms supported by the DPO series, the Government aims at reinforcing transparency and predictability in budget transfers to the sector, while gradually passing through fuel price variations to electricity tariffs. It also aims at diversifying the energy mix towards cheaper sources to reduce the cost of electricity service (with investments in least cost options, generation costs would decrease by 22 percent by 2030 - see Figure A7.5).

2.6. **Monetary and exchange rate policies are managed at the regional level by the Central Bank of West African States (BCEAO) which has recently tightened monetary conditions**. Broad money supply growth slowed to 11.8 percent in 2016, after increasing by 19.3 percent in 2015. Credit to the private sector grew 12 percent in 2016, up from the 8.4 percent the previous year. As a result of the sharp drop in food prices that followed the good harvest, and lower fuel prices, average consumer prices declined 0.2 percent in Burkina Faso in 2016, well below the West African Economic and Monetary Union (WAEMU) norm of 3 percent. In December 2016, the BCEAO changed its monetary policy by raising the cost of refinancing in local currency for commercial banks operating on the regional market. This policy has contributed to increasing the cost of funds for commercial banks operating in the region and therefore limited their lending capacity. However, in March 2017, the Monetary Policy Committee (MPC) reduced the reserve requirement ratio to 3 percent deposit, from 5 percent. This has helped provide additional liquidity on regional financial markets. Foreign exchange reserves are pooled at the regional level. In 2016, a wider current account deficit at the WAEMU level and a lower financial account surplus have led to a reduction in the region's external buffers, with regional reserves falling to an estimated 4.1 months of the following year's imports, down from 5.1 months in 2016. Regional reserves are projected at 3.9 months of imports in 2017.

2.7. **Burkina Faso's financial sector is sound but of limited scope**. The domestic banking sector is healthy, and the Central Bank has pursued its efforts to enhance compliance with regional prudential norms. The non-performing loans ratio stood at 10.2 by end-June 2016 while the capital to risk-weighted assets ratios of Burkinabe banks was, at 10.6, broadly in line with the WAEMU average of 11.6. However, the credit portfolio of local banks remains highly concentrated among a few large clients and few sectors of economy, leaving aside small and medium firms and the rural economy. The degree of monetization of the economy remains extremely low, as the broad monetary base (M2) only accounts for less than 40 percent of GDP.

2.8. **Public debt levels in Burkina Faso remain moderate owing to sound fiscal management in the past decade.** In 2016, total public debt stood at 37.6 percent of GDP, including 26.5 percent of GDP in foreign-currency denominated debt. The Government has ambitious investment plans under the PNDES, but has given priority to obtaining external loans under concessional terms. Domestic debt increased to 11.1 percent of GDP in 2016, up from 9.5 percent of GDP in 2015.

Table 2.1: Selected Economic and Financial Indicators, 2013-2020

	2014	2015	2016 (e)	2017 (p)	2018 (p)	2019 (p)	2020 (p)
	Annual percentage change, unless otherwise indicated						
National income and prices							
Real GDP	4.3	3.9	5.9	6.4	6.0	6.0	6.0
Per capita GDP	1.0	0.8	2.9	3.4	3.1	3.0	3.0
Per capita GDP (In US$ Atlas Method)	627	631	650	672	693	714	739
Imports (f.o.b.)	-9.3	3.3	7.9	15.1	3.7	3.8	7.5
Exports (f.o.b.)	4.0	2.2	12.0	9.2	2.4	3.4	7.5
GDP deflator	-0.6	-3.1	6.3	2.0	2.0	2.0	2.0
Consumer price inflation (e.o.p.)	-0.1	1.3	-1.6	2.0	2.0	2.0	2.0
Fiscal Accounts	Percent of GDP, unless otherwise indicated						
Revenues	21.4	20.7	20.3	20.6	22.0	23.3	23.7
Expenditures	23.3	22.9	23.6	27.1	27.0	26.3	26.2
General Gov. Bal., incl. grants (commit.)	-1.9	-2.2	-3.3	-6.5	-5.0	-3.0	-3.0
Selected Monetary Accounts	Annual percentage change, unless otherwise indicated						
Broad Money (M3)	9.3	19.3	11.8	12.1	13.6	14.3	14.5
Credit to the private sector	16.3	8.4	12.0	9.9	14.8	15.3	15.5
Balance of Payments	Percent of GDP, unless otherwise indicated						
Current Account Balance	-8.0	-8.6	-7.1	-8.2	-8.1	-7.9	-7.7
Imports (f.o.b.)	24.4	25.0	24.0	25.4	24.4	23.4	23.3
Exports (f.o.b.)	22.3	22.7	22.6	22.7	21.5	20.6	20.4
Services, net	-6.9	-7.5	-6.9	-6.8	-6.5	-6.3	-6.1
Incomes, net	-2.9	-3.2	-2.0	-1.8	-1.7	-1.5	-1.4
Current transfers	3.9	4.5	3.1	3.0	3.0	2.8	2.6
Foreign Direct Investment	2.3	2.1	2.6	3.4	2.9	2.1	2.1
Gross Reserves, BCEAO (in billions of USD)	13.2	12.4	10.4	12.2	13.1	14.6	16.0
In months of next year's WAEMU imports	4.8	5.1	4.1	3.9	4.3	4.5	4.7
Total Public Debt	30.9	36.0	37.6	34.7	35.4	34.0	34.1
External Debt	21.8	25.9	26.5	23.3	23.8	24.1	24.4
Terms of Trade	-5.5	13.2	8.7	0.4	-0.6	-0.7	-1.3
Other memo items							
GDP nominal (CFAF billions)	6,120	6,163	6,935	7,509	8,119	8,774	9,519

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

Table 2.2: Consolidated Operations of the Central Government, 2014-2020

	2014	2015	2016	2017	2018	2019	2020
	(In percent of GDP, unless otherwise specified)						
Total Revenue and Grants	21.7	20.7	20.3	20.6	22.0	23.3	23.7
Tax revenues	15.5	15.1	15.5	16.4	17.0	17.8	18.0
Non-tax revenues	2.0	1.9	2.2	1.6	1.9	1.9	1.9
Grants	4.2	3.7	2.6	2.5	3.1	3.6	3.3
Expenditure	23.6	22.9	23.6	27.1	27.0	26.3	26.2
Current expenditure	14.6	15.0	16.1	16.9	16.7	16.3	16.0
Wages and compensation	7.2	7.6	8.0	8.0	8.0	7.8	7.8
Goods and services	1.7	1.8	1.8	1.9	1.9	1.6	1.5
Transfers	5.0	4.9	5.3	6.1	5.8	5.6	5.4
Interest	0.7	0.7	0.9	0.9	1.0	1.2	1.3
Domestic	0.5	0.5	0.7	0.6	0.8	1.0	1.0
External	0.2	0.3	0.2	0.3	0.2	0.3	0.3
Capital expenditures	9.1	8.1	7.6	10.2	10.3	10.0	10.2
Domestically financed	5.6	5.7	5.0	7.9	6.5	5.7	6.1
Foreign financed	3.5	2.5	2.6	2.2	3.8	4.4	4.1
Overall Balance (commitment)	-1.9	-2.2	-3.3	-6.5	-5.0	-3.0	-3.0
Cash basis adjustment	1.2	-1.4	1.3	0.0	0.0	0.0	0.0
Financing	0.7	3.6	2.0	6.5	5.0	3.0	3.0
External (net)	0.8	1.4	1.5	0.8	2.1	2.0	1.9
Domestic (net)	-0.1	2.1	0.5	5.7	2.9	1.0	1.1

Sources: Burkinabe authorities; World Bank staff estimates and projections.

Table 2.3: Balance of Payments Financing Requirements and Sources, 2014-2020

	2014	2015	2016	2017 (p)	2018 (p)	2019 (p)	2020 (p)
	(In millions of USD)						
BOP financing requirements and Sources							
Financing requirements	**-1158**	**-1447**	**-1417**	**-1556**	**-1295**	**-1327**	**-1224**
Current Account deficit	-988	-893	-828	-1044	-1111	-1167	-1243
Amortization of loans	-63	-56	-66	-81	-84	-91	-99
Other Short term capital outflows	-107	-497	-523	-432	-99	-69	118
Financial Sources	**1158**	**1447**	**1417**	**1556**	**1295**	**1327**	**1224**
FDI and portfolio investments (net)	113	222	317	454	425	336	368
Capital grants	405	260	278	371	440	583	418
Short term debt disbursements	10	8	25	25	8	17	17
Long term debt disbursements (excl. IMF)	-320	569	675	241	391	432	440
Net change in foreign assets of the central bank	947	387	123	469	32	-42	-17
IMF credit (net) incl Prospective financing	-3	13	11	-17	37	15	20
Financing gap	0	0	0	0	0	0	0

Sources: Burkinabe authorities; World Bank staff estimates and projections.

2.2 Macroeconomic Outlook and Debt Sustainability

2.9. **Economic prospects remain favorable for the short to medium term.** GDP growth is projected around 6 percent in 2018-2020, supported by the performance of the agriculture, services and mining sectors, together with sustained public investment (under a stable political situation). With good rainfall, cotton production will increase, helped by the implementation of the Agricultural Input Fund[5] and projected stable international prices. Stable gold prices coupled with recent discoveries of very high-grade gold are also expected to contribute to growth.

2.10. **The external current account deficit is projected to remain around 8 percent of GDP in the next two-three years.** Gold and cotton exports, and net current transfers will increase. But 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 FDI and mostly concessional Government borrowing.

2.11. **The fiscal deficit (including grants) is expected to narrow to 5 percent of GDP in 2018 and converge to the WAMEU target of 3 percent of GDP in 2019.** These projections are based on successful implementation of reforms that would raise domestic revenue mobilization by about 1.5 percent of GDP between 2017 and 2020, while grants will remain around 3 percent of GDP during this period. Over the medium term, the Government is considering the establishment of a Semi-Autonomous Revenue Authority by merging the Tax and Customs administrations, as well as improvements to tax administration (notably with respect to enforcement) in order to raise domestic revenue mobilization. Furthermore, new tax policy measures are to be identified during 2018. The IMF and the World Bank will be providing technical assistance and analyses in that respect.

2.12. **On the expenditure side, the adjustment is to be achieved mostly through reduced public investment, together with wage restraint and reduced transfers to SOEs.** Despite continuous pressures from civil servant trade unions, the Government is expected to contain the wage bill at 8.0 percent of GDP during the next 3 years. The authorities will enhance the biometric enrolment of civil servants in the Payroll System (SIGASPE[6]), and continue to improve the control of additional recruitments by redeploying civil servants from ministries with a high concentration of workers to priority areas. Also, at the request of the government, the World Bank will provide technical assistance for civil service and wage bill reform in 2018-2019. Concurrently, capital expenditures are projected around 10 percent of GDP over 2018-2020 to finance the ambitious investment program required to fill the existing gap in infrastructure and social services. This would be higher than the 8.1 percent average for 2014-2016, but below government's current projections.

2.13. **Many of the planned investments projects in the PNDES are to be financed through Public-Private Partnerships (PPP), which also carries risks.** The Government has also 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. The implementation of recommendations from the 2017 Public Investment Management Assessment (PIMA), with respect to

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[5] 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.

[6] The proportion of government ministries or entities using improved management tools increased to 23 per cent at the end of 2016, and is targeted at 40 percent by the end of 2017. Furthermore, the capacity of HR personnel is being strengthened, resulting in shorter processing times of HR actions in SIGASPE.

selection of projects, reduction of delays associated with procurement, coordination between central and local governments and management of PPPs, will contribute to further improve the selection of projects. The IMF is providing technical assistance to help Burkina Faso better plan, select and record PPP projects, and to analyze the fiscal risks associated with PPPs.

2.14. **Regional monetary policies are expected to continue containing inflation under the 3 percent WAEMU target.** The BCEAO could further tighten monetary policy if pressures on the external reserves of the region continues. It 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 GDP was 28.3 percent in 2016, and only 14 percent of households owned a deposit in a financial establishment as of 2014.

2.15. **The joint World Bank-IMF Debt Sustainability Analysis (DSA), conducted in October 2016, concluded that Burkina Faso remains at moderate risk of debt distress.** A benign external environment, in particular more favorable price projections for commodity exports, along with the prospects of increased gold production over the medium-term, could help offset the additional borrowing required to finance the higher fiscal deficit in 2016-2018. Under the baseline scenario, all relevant debt ratios are projected to remain comfortably below indicative thresholds over the projection period. Under the standardized stress test, the debt-to-exports ratio breaches the debt distress threshold around 2031 with the historical scenario, and 2026 with the "most extreme" scenario, which is the basis for the "moderate" assessment.

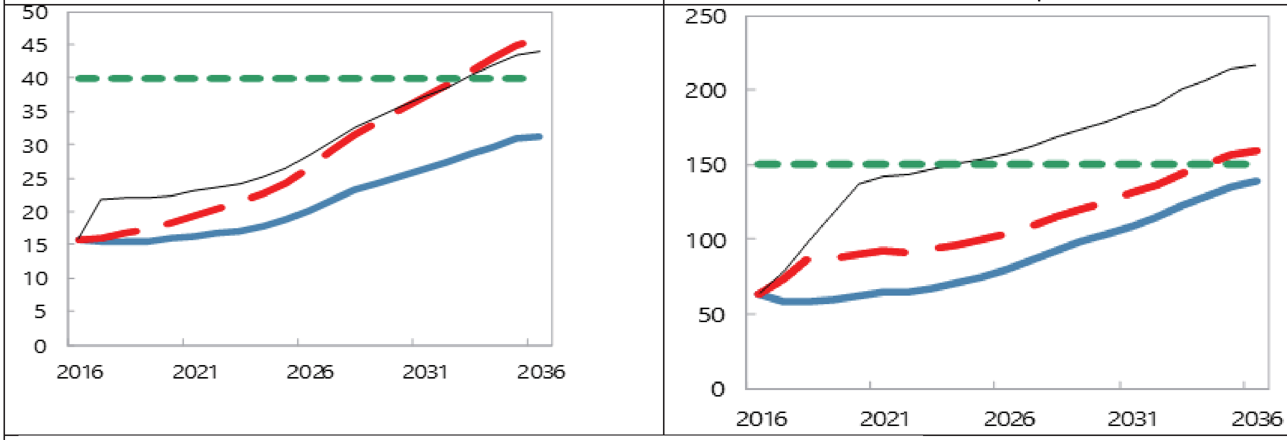
Table 2.4: Public debt and external debt stock composition

	2013	**2014**	**2015**	**2016**	**2017 (p)**
		(percent of GDP)			
Public debt	29.3	30.9	36.0	37.6	34.7
External debt	21.9	23.5	26.5	26.5	23.3
Domestic debt	7.4	7.4	9.5	11.1	11.4

Source: Burkinabe authorities and IMF estimates.

Figure 2.1: Debt sustainability analysis, 2016-2036

a. Public Debt Sustainability: Present value of debt-to-GDP ratio	b. External Debt Sustainability Analysis: Present value of debt -to-exports ratio



Baseline Historical scenario Most extreme shock 1/
Threshold

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure a. it corresponds to a one-time depreciation shock; in figure b. to an exports shock.

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

2.16. **The macroeconomic outlook is subject to exogenous risks and vulnerabilities, as well as policy risks, most notably on the fiscal side.** Downside vulnerabilities are mainly related to commodity price shocks or unfavorable weather and a narrowing fiscal space. Tax collection increases could be lower than projected, particularly if capacity and controls are not improved. An unstable security situation following terrorist attacks and further socio-political tensions could put pressure on the fiscal position and reduce growth. The wage bill could continue to grow, resulting in lower than projected domestically-financed investment spending. Fiscal consolidation could weigh in on medium-term growth, especially if it is achieved solely through reduced public investment. On the external front, volatility in international commodity prices could also hurt exports and tax revenues.

2.17. **Overall, Burkina Faso's macroeconomic policy framework for 2017-2019 provides an adequate basis for the proposed operation.** 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 planned fiscal consolidation, albeit challenging, can be achieved through the expected increased revenue and reduced public investment. Moreover, Burkina Faso should remain at moderate risk of debt distress in the medium to longer terms. Burkina Faso's monetary and exchange rate policies are managed at the regional level by the BCEAO, which anchors the country's monetary and price stability. With good agriculture and mining outturns, growth should be strong, around 3 percent in per capita terms.

2.3 IMF RELATIONS

2.18. **Burkina has performed broadly satisfactorily under the program supported by the IMF's Extended Credit Facility (ECF) that expired in September 2017.** The program aimed at consolidating macroeconomic stability, improving growth prospects, and intensifying efforts to reduce poverty. Through the ECF, the Government has implemented measures to reinforce the economy's resilience while promoting inclusive growth and accelerated poverty reduction. The seventh and final review of the ECF arrangement was completed in July 2017. Discussions towards a new IMF program started in November 2017. The World Bank and IMF teams work together through the standard institutional division of labor with a joint management action plan. This effective collaboration has been reflected in the complementarity between the prior actions 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 and a joint PIMA was conducted in March 2017.

3. THE GOVERNMENT'S PROGRAM

3.1. **The Government's program is articulated in its 2016-2020 National Economic and Social Development Plan (PNDES).** This Plan aims at an 8.5 percent real GDP growth rate and a decline in the poverty rate from 40.3 percent in 2014 to 35 percent by end-2020. The PNDES has three strategic pillars: (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 Strategy for Accelerated Growth and Sustainable Development 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. Government's strategy in the energy sector

3.2. **The electrification rate in Burkina Faso has barely kept pace with population growth over the past five years.** It remains low by regional standards at 18 percent, i.e., about 60 percent in urban areas and 3 percent in rural areas. Grid-connected electricity users suffer through load shedding and poor quality of service. Total installed generation capacity is 315 Megawatt (MW), comprised of 90 percent thermal and 32 MW of aging hydropower plants, all characterized by low availability (at about 70 percent). The network is interconnected with Côte d'Ivoire through a 225 kilovolt (kV) transmission line supplying 70MW. The interconnector with Ghana, currently under construction, will provide an additional 40 MW in early 2018. Electricity supply is just enough to precariously meet the demand which increases by 10 percent per year**.**

3.3. **The Government's new strategy for the sector is to increase access in an affordable and sustainable manner by gradually shifting the generation mix towards renewable energy and affordable electricity imports**. The Energy Sector Policy goal is to reach a 100 percent access rate in urban areas and 49 percent in rural areas by 2025. The investment plan aims at reducing dependency on imported fuels and ramping up renewable energy sources, notably solar, consistent with Burkina Faso's Intended Nationally Determined Contribution (INDC)[7], to reach 25 percent of installed capacity by 2025 (including 170 Mega Watt Peak (MWp) of solar photovoltaic (PV) plants). The country's strategy aims to structurally reduce the cost of electricity service, by (i) shifting the thermal-intensive energy mix towards cheaper sources, namely renewables and imports; (ii) increasing affordable imports through regional integration; and (iii) developing firm baseload capacity to meet peak demand and invest in the national grid to enable it to absorb intermittent solar power. With investments in least cost options, generation cost would decrease by 20 percent by 2025. In rural areas, the strategy is to pursue decentralized generation in renewable energy in areas where this technology is least cost (Burkina Faso's electricity sector and mid-term strategy is further detailed in Annex 8).

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7 Burkina committed to a reduction in emissions of 6.6 percent and up to 18.2 percent if concessional financing is made available for mitigation and adaptation. Priority actions N3 within the framework of adaptation projects is "*Diversification of energy sources (solar, Wind, Biogas)*", Intended Nationally Determined Contribution in Burkina Faso, September 2015.

3.4. **Although SONABEL ranks among the top 10 best performing utilities in Sub-Saharan Africa, the energy sector still relies on budget transfers to fully recover its costs.** Average electricity tariff of US$c24. per kWh, one of the highest in in the sub-region, is below the overall cost of electricity service estimated at US$c26. per kWh, in which fuel costs account for more than 40 percent. The gap is financed through subsidies, a Government's liability estimated at US$30 million in 2017, channeled through fuel purchases and paid to SONABHY. Despite competing fiscal priorities in a fragile security context, the Government has committed the resources needed to secure timely payment of subsidies and clear past accrued cross-arrears, needed to improve the financial sustainability of the sector (Pillar 1). Reducing the fiscal burden of the sector would rely, in the short term, on measures to optimize fuel consumption and improving billing and collection processes, and, in the medium term, on the diversification of the energy mix toward cheaper supply sources, procured in a transparent and competitive manner (Pillar 2).

3.5. **The Government is developing a new framework to attract private sector participation in electricity generation in a timely, transparent and cost-effective manner**. The private sector can play an important role to accelerate the deployment of power generation, in particular for renewable energy. Sector planning capacity needs to be strengthened with systematic competitive selection of the least-cost generation option to lower the cost of service, broaden energy security, attract serious private players and ultimately to make more energy available for industries and households. The new electricity law abrogates SONABEL's single buyer arrangement. It promotes competition for electricity supply through the creation of a competitive wholesale electricity market, and establishes a standardized competitive process to cost-effectively procure new generation capacities through IPPs. This approach is fully consistent with the WBG support guided by the principles of the "Cascade", aimed at optimizing the use of limited concessional resources by leveraging commercial capital to deliver sustainable and affordable infrastructure services.

B. Government's Strategy in Public Finance Management

3.6. **The Economic and Finance Sector Policy (POSEF) covering 2011 to 2020 is the government's subprogram which aims at addressing tax and PFM challenges.** The POSEF focuses on six pillars: (a) reinforcing the institutional and organizational capacity of the Ministry of Economy, Finance and Development; (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 WAEMU and Economic Community of West African States (ECOWAS). Its implementation is supported by most donors in the Multi-donor Budget Support Group, based on the findings of various 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 IMF 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 slowdown 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. **This DPF series is well aligned with two of the three strategic pillars of the 2016-2020 National Economic and Social Development Plan (PNDES)**: Pillar 1: economic governance; and Pillar 3: structural transformation of the economy and private sector development. The proposed operation will also impact the second pillar (human capital) since better access to electricity enables human development. Similarly, an increase in fiscal space and improved public procurement will raise resources allocated to pro-poor spending and enhance value for money. Also, improving the financial sustainability and the legal and institutional framework of the energy sector is expected to help better mobilize private resources for expanding access to electricity for all.

4.2. **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. The 2017 SCD placed energy service delivery among the ten top priorities to be addressed for the country.

4.3. **The Program Development Objectives (PDOs) are to support the Government's efforts to: (i) improve the financial sustainability of the energy sector; (ii) enable private sector participation in the energy sector and diversify the energy mix; 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 investments and transfers in the energy sector. Similarly, improved access to electricity will boost private sector activities and help collect additional revenues.

4.4. **Preparation of this DPF series has been informed by lessons learned from previous DPFs, the findings of the 2017 Systematic Country Diagnostic (SCD), and the Implementation Completion and Results Report (ICRR Report No. ICR00003713) of the Growth and Competitiveness Credits (GCC) series[8].** 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 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 Country Partnership Strategy (CPS) for FY13-FY16, and the 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 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 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

[8] P126207, P132210, P146640 and P151275.

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.

4.5. **A new DPF series is planned in the CPF under preparation and will support fiscal adjustment and continued progress on the structural reforms agenda.** While pillars for a new DPF series are being discussed with the authorities and other stakeholders, a new series could build on the reforms supported by this series in public financial management, fiscal policy and administration, and the energy sector.

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, fiscal management and public procurement.** This section provides details on these three pillars, starting with achievements in DPF1, a description of the context and main challenges. The selection of prior actions for the second operation, is discussed in detail along with the results that are expected to be achieved at the end of the entire series.

4.7. **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 (ADB), IMF and European Union (EU), have played a fundamental role in the operation's design. Annex 5 describes its nine prior actions and summarizes the analytical basis for each.

4.8. **Most prior actions are similar to the triggers that had been defined during the negotiations of the first operation in November 2016, with one exception and some other changes to improve the specification of actions or to incorporate recent developments.** Under the first pillar of this operation, government has accelerated the clearance of arrears in the energy sector (first trigger) during 2017, earlier than what had been anticipated at the time of the first operation. In the second and third pillar, however, two triggers have been reduced in scope to reflect recent developments and analysis (part of trigger 2, on fuel deliveries, and part of trigger 8, on the revision of VAT thresholds). A trigger was dropped (establishment of an electricity development fund) and a prior action was added (creation of a competitive wholesale electricity market). In light of the need to provide predictable and adequate resources for the energy sector, the establishment of an Electricity Sector Development Fund had been envisioned during the preparation of the DPF1. However, the authorities have decided not to proceed with this approach, taking into consideration risks to budgetary integrity and flexibility, as well as transparency and accountability risks. In the absence of a fund, predictability and regularity of current transfers rests with the functioning of the framework that was put in place to ensure clearing arrears and timely payment of transfers (prior action 1), together with adequate allocation and execution of the budget. Discussions are also underway on securing long-term resources. Changes to the policy matrix in this second operation are described below and summarized in a table in Annex 6. Overall, the scope and substance of the reforms supported by this series are adequate.

Pillar 1. Improving the financial sustainability of the energy sector

Achievements under DPO1 and recent developments. Cross arrears in the energy sector, amounting CFAF 140 billion in June 2016 have been cleared as of end-October 2017. This results from the clearance of SONABEL's outstanding fuel bills to SONABHY (PA1 of DPO1) and clearance by Government of accrued arrears for electricity consumption and fuel subsidies to SONABHY. With the new fuel price regime for electricity generation (PA2 of DPO1), the financial performance of SONABEL has significantly improved, as measured by the EBITDA increasing from 14 billion in 2015 to 36 billion in 2016 (see Table 4.1). As a result, SONABEL was able to honor timely payments to suppliers, for imports of electricity as well as for fuel purchases (to SONABHY), and reduce reliance on short-term commercial debt for operating expenses. Electricity bills from central and local authorities have been paid in a timely manner. The Revenue Protection Program approved by the Board of SONABEL (PA3 of DPO1) is currently under implementation. The delivery and installation of smart meters for large electricity customers has begun in September 2017.

Challenges

4.9. **The financial situation of SONABEL has significantly improved with the new tariff structure for fuel purchases, but the energy sector still relies on budget transfers to recover its costs.** The average electricity tariff of US$c24. per kWh, one of the highest in in the sub-region, is below the overall cost of electricity service estimated at US$c26. per kWh, in which fuel costs account for more than 40 percent. The gap is financed through fuel subsidies. The new transparent and flexible oil price structure for SONABEL (see Box A7.1), which was a prior action for the first operation[9] of this series and effective as of May 1, 2016, has capped fuel tariffs at thresholds to reflect SONABEL's break-even point, set at CFA 300 and 200 per liter for Distillate Diesel Oil (DDO) and Heavy Fuel Oil (HFO) respectively in 2017 and revised on a yearly basis by the sector regulator (*Autorité de Régulation du Secteur de l'Energie*, ARSE). As a result, SONABEL has shown in 2016 a positive operating profit (of CFAF 7 billion or US$11 million) for the first time since 2010. SONABHY is bearing the risk of payment of the subsidies to compensate for the difference between the capped tariff and the actual cost of fuel for electricity generation. In 2017 the cap for fuel subsidies is CFAF 21 billion (US$34 million), above which an electricity tariff adjustment would be triggered to pass through the change in fuel price increase[10].

4.10. **Efforts are being pursued to clear accrued cross-arrears and reinforce predictability in budget transfers**. Reinforcing transparency and predictability in budget transfers to the sector is necessary to ensure, in the short term, the security of the fuel supply chain. It is also a prerequisite to crowd-in significant amount of commercial lending in electricity generation to diversify the electricity mix towards cheaper sources in the medium term, and ultimately reduce dependency on fossil fuel for electricity generation (see below under Pillar 2 and Annex 8). Accrued cross-arrears in the sector have reduced from CFAF 140 billion in June 2016 to 95 billion in January 2017. The agreement signed between SONABEL, SONABHY and the Government on October 13, 2016 was a prior action for the first operation (see Annex 7). The clearance of SONABEL's fuel payment arrears to SONABHY[11], partially reconverted into long-term debt, has contributed to improve SONABEL's cash position and reduce its exposure to short-term commercial debt. A committee with representatives of the ministry of Finance, SONABEL, SONABHY, CIDPH and the regulator has been established to monitor the clearance of the balance of accrued arrears and prevent the accumulation of new arrears by ensuring timely payment of fuel subsidies paid to SONABHY and of electricity bills of central and local authorities and agencies to SONABEL. However,

[9] P157060.
[10] The current estimation for fuel subsidies for electricity generation in 2017 is CFAF 18 billion.
[11] Of which CFAF 40 billion have been cleared and CFAF 26 billion will be reimbursed by SONABEL over 10 years at 2.5% interest rate, cf. *Convention entre la SONABHY et la SONABEL portant titrisation et règlement de la créance de la SONABHY par la SONABEL*, signed on March 9, 2017.

payments have been delayed by lengthy processes in the treatment of fuel quantities declared by the Customs Department.

4.11. **Fuel costs management is and will remain critical to control the costs of electricity service over the medium term.** With electricity tariffs among the highest in the sub-region in a country where the average income is among the lowest, reducing the fiscal burden of the sector would primarily rely on reducing the cost of electricity service. Fuel represents 40 percent of the overall cost of service. It will remain a key factor, even though gradually shifting the energy mix toward cheaper power imports (through the West Africa Power Pool - WAPP) and renewable energy would ultimately reduce the sector dependency on oil. Efforts to rationalize fuel consumption at SONABEL plants would also contribute to reducing the overall cost of electricity service. The Government opted not to open SONABHY's monopoly for fuel imports for power generation nor to introduce competition for fuel deliveries from SONABHY storage facilities to SONABEL plants. Based on comparable experience in the sub-region, efficient fuel supply chains can be achieved under state monopoly or market competition regimes, if pricing structures are transparent, as well as systematically and rigorously enforced. The new fuel price structure, transparent and revised on a monthly basis, supported under DPF1, and the revision, in 2016, of the regulated tariff for fuel delivery to SONABEL facilities paid to fuel transporters, have contributed to securing the availability of cheaper HFO for electricity generation, as well as to significantly reducing fuel costs for SONABEL (from CFAF 66 billion in 2015 to CFAF 50 billion in 2016). SONABEL has also carried out an Audit[12] with recommendations to optimize specific fuel consumptions. In addition, a thorough audit of SONABHY operations will be carried out[13] to draw recommendations for improving the performance of the fuel supply chain.

4.12. **SONABEL's billing and collection processes are being strengthened.** While the utility has traditionally been 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 A7.1), distribution losses and commercial performance have deteriorated since 2010 (see Figure A7.2). 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, as well as lack of investments in generation, including rehabilitation of idle capacity (see below under Pillar 2). 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 has prepared an action plan to improve timely invoicing and collection of electricity bills, notably for public and para-public entities. SONABEL's 1,425 High-voltage (HV) clients, representing 0.3 percent of the company's customers[14], 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

4.13. **Sustained financial viability of the sector would require efficient operations over the value chain and investments in cheaper electricity sources to reduce the cost of electricity service over time.** With the clearance of cross-arrears and the new fuel price regime, SONABEL has generated positive net incomes since 2016 and its financial ratios should gradually improve and reach targets defined under the performance contract *("contrat-plan")* in 2018. SONABEL's projected incomes and financial ratios for the period 2016-2018 are presented in Table 4.1. Budget transfers would nonetheless continue to be needed as long as the electricity tariff is structurally below the overall cost of service. Reducing generation costs

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[12] *Rapport n. 02-DACG-2015 sur les consommations spécifiques dans les centrales thermiques SONABEL.*
[13] Financed through the IDA-financed PASEL project (P128768)
[14] The utility serves more than 500,000 clients.

would result from shifting the energy mix towards cheaper sources (see Pillar 2), which will take some time (see Annex 6). In the meantime, improving the operational and commercial performance of the utility, as well as the efficiency of the fuel supply chain would consolidate the financial sustainability of the energy sector.

Table 4.1. SONABEL's projected incomes and financial ratios 2017-2018

	Actual			**Projections****	
	2014	**2015**	**2016**	**2017**	**2018**
EBITDA[1] (CFAF million)	**15,660**	**14,298**	**36,571**	**44,494**	**50,101**
Net incomes (CFAF million)	**(11,189)**	**(17,695)**	**6,104**	**6,590**	**9,040**
Av. tariff per kWh (CFAF)	90.28	90.48	91.46	92.46	92.44
Av. income per kWh (CFAF)	131.45	140.41	133.53	141.91	142.61
Av. cost per kWh sold (CFAF)	140.87	151.87	132.67	138.80	135.72
Av. cost per kWh injected (CFAF)	117.85	126.92	119.20	116.76	113.20
DSCR[1] (target* > 1.2)	1.10	0.80	-2.97	1.23	1.50
Net debt / CFADS[2] (target*<7)	8.13	11.69	-2.29	3.45	2.58
LT debt / Equity (target*<2)	2.25	1.91	2.64	2.19	1.57
ROE[3] (target*>4%)	-0.16	0.00	0.5%	3.0%	3.8%

*as set in SONABEL's performance contract ("contrat plan", 2015) ** 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 (CFADS); [4] Return on Equity.

4.14. **The Government committed resources to clear accrued arrears in 2017 and is making budgetary allocations to secure payments for electricity bills and subsidies going forward (Prior Action 1).** In 2017, the Government cleared the FCFA 95 billion of accrued arrears due to SONABEL and SONABHY. This was achieved through payments of FCFA 60 billion to SONABEL and SONABHY and a CFAF 35 billion tax credit to SONABHY[15]. Details are provided in Table 4.2 hereafter. The 2018 budget allocates adequate resources for fuel subsidies to SONABHY (FCFA 21 billion in the current draft budget law, above which electricity tariff adjustment would be triggered if necessary). In addition, SONABEL and the authorities are currently designing a permanent arrangement[16] to ensure timely payment of electricity consumption by public clients, expected to be implemented by the end of 2018. The objective is to prevent new arrears that may affect the performance of the two state-owned enterprises, increase their financing costs and damage their creditworthiness and ability to operate efficiently.

Table 4.2. Clearance of accrued arrears to SONABEL and SONABHY

FCFA billion	Arrears as of end of September, 2017
Fuel subsidies arrears (to SONABHY)*	72
Outstanding bills (to SONABEL)	19
Compensation subsidies arrears (to SONABEL)**	4
Total	**95**

* including subsidies pending payment or paid for fuel supply over the year 2017
**under the old tariff regime whereby subsidies were paid to SONABEL, balance net from SONABEL's liability vis-à-vis the central government.
Sources: Monitoring Committee of the Agreement between the Government, SONABEL and SONABHY, Sept. 12, 2017; Treasury Department, *Status of subsidies payment to SONABHY as of Oct. 10, 2017, Mécanisme de traitement des dossiers de subvention aux hydrocarbures, Mécanisme d'apurement des arriérés de paiement des factures d'électricité de l'Etat et de ses démembrements.*

4.15. **SONABEL has reduced fuel costs by optimizing the fuel mix and implementing the recommendations of the Audit on fuel consumption (Prior Action 2)**. Marketers have shown no interest

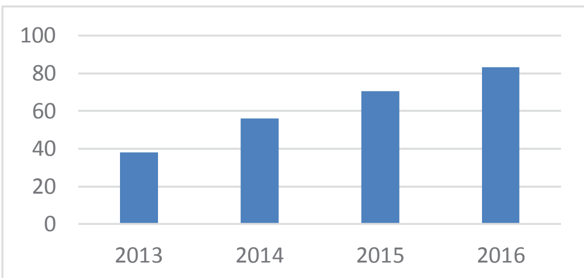
[15] The tax credit will be used by SONABHY in 2018 to pay its fiscal and custom obligations, averaging FCFA 150 billion per year over 2014-2016.

[16] The "Contrat Plan" between SONABEL and the State includes provisions for prepayment arrangements with public clients. SONABEL already experiments in some localities an upfront payment mechanism based on past consumption, with ex post reconciliation against actual consumption.

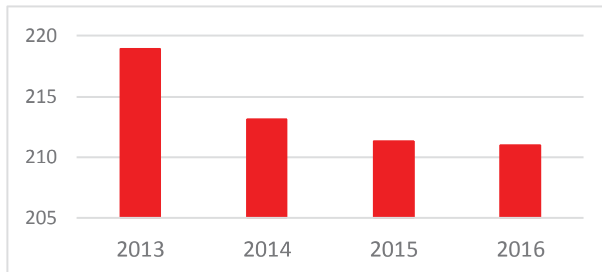
in participating in fuel deliveries to SONABEL plants, without guaranties in place to mitigate the risk of timely payment of fuel subsidies. The regulated tariff for fuel delivery to SONABEL facilities has been revised in early 2016 to align it with other clients[17], notably mining companies. This has contributed to secure availability of cheaper HFO for electricity generation. The HFO ratio reached 82 percent in 2016, above the target of the performance contract (80 percent) and compared to 57 percent in 2015. Optimizing the use of HFO has generated a yearly net financial gain of CFAF 10 billion (US$19m). In parallel, SONABEL has implemented key recommendations[18] of the Audit report N.02-DACG-2015 to reduce specific fuel consumption from 232 g/kWh in 2011 to 211 g/kWh in 2016. Overall, fuel costs for SONABEL have decreased by 24 percent in 2016 compared to 2015. Targets for the optimization of fuel used for electricity generation, set in the performance contract for 2015-2019 signed between SONABEL and the Government[19], have been met in 2016.

Figure 4.1. Optimization of fuel consumption

HFO used in the fuel mix (in % of total fuel)



Fuel specific consumption (in g/kWh)



Sources: SONABEL Annual report and Draft Report n.1/DACG/2017

4.16. **SONABEL has started the implementation of a revenue protection program to improve billing and collection processes (Prior Action 3)**. This program will reduce commercial losses by capturing, permanently, revenues from a high-value segment of customers representing 37 percent of its current sales. It will reduce client receivables by 30 percent by 2018. This would ultimately facilitate the implementation of electricity tariff adjustments. 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 percent of customers: metering, billing, collection, unpaid bills, new services, communication through call centers, agencies, and internet CMS incorporation are supported through the ongoing PASEL Project (P128768). SONABEL has deployed the smart metering system. It has been articulated with the billing system and successfully tested with the first smart meters installed for HV customers in September 2017.

[17] From 48 to 69 CFAF per liter.

[18] Notably including maintenance works, a fuel metering system, and systematic quality analysis of fuel before unloading.

[19] *Contrat plan 2015-219, Article 14*: Share of HFO, as percentage of total fuel: 80 percent; specific fuel consumption: below 225g/kWh.

Prior Actions for the proposed second operation:

Prior Action 1: To reduce inter-agency arrears and promote transparency and predictability in the energy sector, the Recipient has: (a) cleared its arrears as accrued until October 10, 2017 to SONABEL for electricity bills and compensation subsidies and to SONABHY for fuel subsidies; and (b) allocated adequate funds in the draft 2018 Budget Law, approved by the Recipient's Council of Ministers to cover the projected maximum of fuel subsidies paid to SONABHY for fuel delivered to SONABEL's plants.

Prior Action 2: To improve its financial performance, SONABEL has optimized its fuel costs throughout 2016 by: (a) implementing Article 14 of the Performance Contract regarding fuel mix ratios aimed at decreasing dependence on higher cost energy sources; and (b) implementing the recommendations of the 2015 Audit Report regarding specific fuel consumptions.

Prior Action 3: To improve billing and collection processes, SONABEL has deployed the information and monitoring system for the smart meters pursuant to 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: below CFAF 1 billion.
Indicator 2: Improved financial performance of the state-owned electricity provider *(Société Nationale d'Electricité du Burkina* -SONABEL*)*, as measured by Earnings before Interest, Tax, Depreciation and Amortization (EBITDA).
Baseline 2015: CFAF 14 billion. Target 2018: 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. Target in 2018: below CFAF 39 billion.

Pillar 2. Enable private sector participation in the energy sector and diversify the energy mix

Achievements under DPO1 and recent developments. Priority rehabilitation of existing plants identified in the national strategy for the sector (Prior action 4 of DPO1) has brought back 30 MW capacity, which was instrumental to minimize the outages during the 2017 peak season. To monitor the implementation of the national investment plan and ensure it reflects the least cost development option, the Government has established and appointed the head of the Permanent Secretariat for Sector Planning. Also, the new legal and regulatory framework for the sector, approved in April 2017, abrogates SONABEL's single buyer arrangement, introduces competition on the wholesale electricity market and provides for a standardized competitive process to select IPPs in a timely, transparent and cost-effective manner. Furthermore, significant progress has been made to mobilize private sector participation in the diversification of the energy mix towards cleaner and affordable sources.

Challenges

4.17. **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 letter of sector policy, a prior action of the first operation, has articulated the approach of the Government to achieving the overall targets of the national strategy in the energy sector. The Government is targeting a dramatic scale-up of renewable energy generation by 2030, primarily through utility-scale solar 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 Figure A8.1). The strategy also includes in the reinforcement of the national grid to enable it to absorb intermittent solar power and reduce losses, and 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[20]. The sector's mid-term strategy is further detailed in Annex 6.

[20] See Table A8.2.

4.18. **Lack of effective sector planning to meet peak demand and accommodate the increase of PV plants, as well as weak legal and regulatory frameworks, had been hampering the implementation of this strategy**. The shift towards intermittent solar electricity needs to be properly articulated with investments in the rehabilitation and extension of thermal generation assets to meet evening peaks and avoid system-wide blackouts. The Government's capacity to plan the development of the electricity sector and continuously update it as the sector evolves needed to be strengthened. 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 off-taker, SONABEL, needs to be improved and sustained (cf. Pillar 1 discussed above).

4.19. **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 A8.2). As much as 75 percent of these investments can be leveraged from the private sector[21]. Nevertheless, despite private sector interest for investments in generation, none of the recently launched IPPs have been brought to financial close to date due to (a) limited transactional capacity within the Ministry of Energy and SONABEL; (b) the absence of a standardized competitive process and bankable bidding documents available to select IPPs in a timely, transparent, and cost-effective manner; and (c) the limited creditworthiness of the utility. These factors have resulted in (a) protracted negotiations; (b) the need for sovereign guarantees and credit enhancement mechanisms, which add to contingent liabilities; and (c) proposed tariffs above the opportunity cost of electricity. As part of the prior actions for the first operation, a transaction advisor has been recruited to support the Government to (i) establish 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, to closure.

Reforms and medium-term objectives

4.20. **The Permanent Secretariat for the National Commission for Energy Sector Planning (PS/NCESP) monitors the implementation of the national investment plan to ramp up affordable imports and renewable energy sources (Prior Action 4)**. The PS/NCESP has been established at the Ministry of Energy[22]. It monitors investment planning and supervision, in close collaboration with SONABEL, the national agency for renewable energy and energy efficiency (*Agence Nationale des Energies Renouvelables et de l'Efficacité Energétique*, ANEREE), the electrification agency (Agence Burkinabè de l'Electrification Rurale, ABER) and ARSE. It will oversee technical studies[23] needed to continuously update the national investment plan and ensure it reflects least-cost development options to extend electricity access. Based on the Government's strategy for the electricity sector (see Annex 8), the investment plan identifies and sequences the technology, timing and location of investments to increase access to electricity services to 45 percent of households in 2025 (see Table A8.3 for planned sources of capacity expansion). Regional integration[24] and solar PV development will be critical to meet growing demand

[21] New business models to leverage private investments in mini-grid are also considered, as part of a broader revision of the electrification policy, with the establishment of the Electrification Agency, ABER (former FDE).

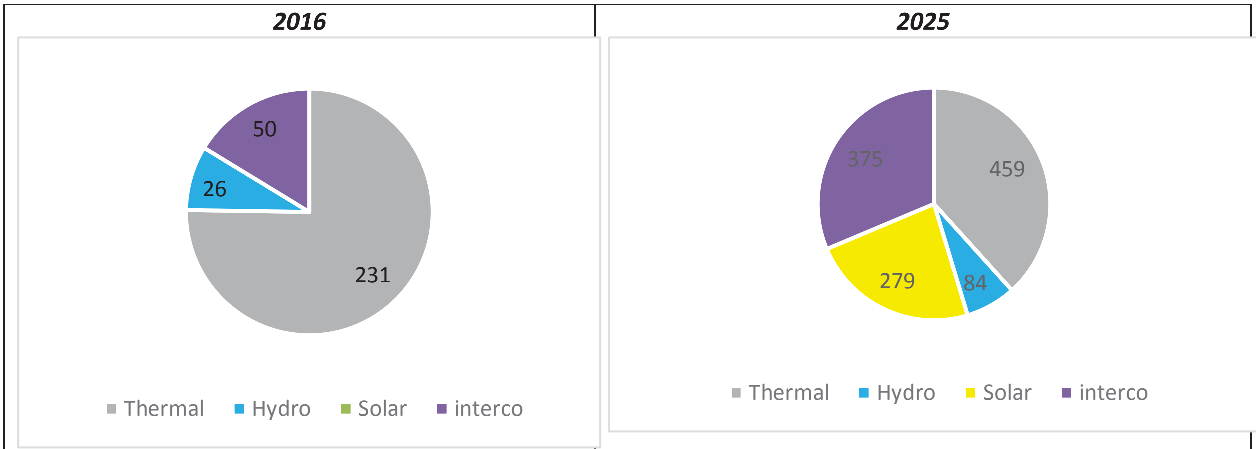
[22] By Decree N. 2017-0350/PRES/PM/ME dated April 6, 2017. The head of the PS/NCESP has been appointed by the Decree N.2017-1017/PRES/PM/ME dated October 27, 2017.

[23] Notably the ongoing update of the least cost development plan and the grid stability study for renewable integration, including storage deployment (supported by the PASEL project - P128768).

[24] IDA is supporting the interconnexion with Ghana (P094919) and the Northcore project (interconnexion with Nigeria – P162933).

while reducing the overall cost of electricity services. Burkina Faso aims to increase the share of renewable generation capacity up to 25 percent of domestic capacity by 2025. Improved sector planning and transaction capacity[25] will speed up implementation of the national strategy in the energy sector.

Figure 4.2. Installed capacity in 2016 and 2025 (in MW)



Sources: Ministry of Energy, *Plan Directeur, Production -Transport – Distribution et d'Electrification Rurale, 2017-2025*, final report, September 2017.

4.21. **The new electricity law promotes competition for electricity supply through the creation of a competitive wholesale electricity market (Prior Action 5).** The new electricity law N.014-2017/AN approved by the Parliament and promulgated on April 20, 2017, abrogates SONABEL's single buyer arrangement. It introduces competition on wholesale electricity markets by enabling large customers to source their electricity supply directly to generation companies[26] and granting third party-access to the transmission network managed by SONABEL. This reform, which ends SONABEL's monopoly for electricity supply will allow critical segments of the economy to benefit from less costly power supply and contribute to the development of efficient generation assets, while gradually introducing some competition to SONABEL. In a country where the mining industry currently relies on self-generation to meet energy needs due to reliability issues, it will contribute to power–mining integration. Industrial customers would be anchor customers to facilitate investments in generation by mitigating the perceived off-take risk, and would generate economies of scale to extend access to the unserved population. The law also strengthens the regulator's mandate, including in tariff setting and licensing of new private sector entrants.

4.22. **The authorities have established a standardized competitive process to cost-effectively procure new generation capacities through IPPs (Prior Action 6).** The Decree N. 2017-1012-PRES/PM/ME /MICA/MINEFID defines the standardized competitive process to select IPP in a timely, transparent and cost-effective manner. This standardized process, by fostering competition in the supply of electricity, is more likely to lead to least-cost supply options, compared to negotiated deals or unstructured request for proposals[27]. With a specific set of technical and commercial criteria defined upfront, the structured process will reduce variations among the bids, simplify the evaluation and shorten the negotiation with prequalified sponsors[28]. Bid evaluation will be based on quantitative criteria such as the electricity tariff,

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[25] Including technical assistance and transaction support - Prior action 5 of DPF1.

[26] The law also allows auto-producers to sell solar PV electricity surplus to SONABEL and eligible customers.

[27] Even if competitive, the unstructured requests for proposals used in 2014 to select sponsors have contributed to delaying the financial closure of planned IPPs.

[28] Standardized bidding documents notably include functional and performance specifications, draft concession and PPA contracts, as well as the security package and financing structure.

thereby increasing transparency. With de-risking options set up front, the process is expected to reduce tariffs and delays in reaching financial closure.

Box 4.6 – Ongoing selection process for seven small-scale grid connected solar PV plants

The Government has recently engaged in a fast track process to select promoters for seven new solar PV projects totalizing 100 MWp (ranging from 5 to 30 MWp individually), based on provisions of the Law N.042-2017/AN[29] on simplified procedures to award PPP projects. This temporary law, promulgated on July 13, 2017 and valid until January 12, 2018, allows direct negotiations to award PPP projects in various sectors, including energy.

After consultation with the World Bank team and recommendations from their transaction advisor, the authorities have decided to introduce competition in the process by providing the 15 shortlisted candidates with standardized bidding documents, including draft concession & PPA contracts, financing structure and security package, with the option to bid for up to 3 sites totalizing up to 30 MWp. To comply with the tight timeline, selection will be based on Return on Equity criteria with an "Open Book" approach to build up the electricity tariff, capped at a pre-set ceiling (above which authorities would cancel the project).

Although limited in scope, this pragmatic approach will nonetheless enhance competition, facilitate evaluation and shorten negotiation until contract award. Economies of scale in procuring larger scale solar project are expected to lower unit costs. Transaction costs should also be lower with fewer selected sponsors. The Government has requested technical assistance to efficiently monitor the "Cost-Plus" approach, for which support will be provided through the ongoing PASEL Project.

Prior Actions for the proposed second operation:

Prior Action 4: To improve governance and planning, the Recipient's Council of Ministers has: (a) approved the National Investment Plan, to shift the energy mix towards cleaner and affordable sources and extend access to reliable electricity services; and (b) established the Permanent Secretariat for the National Commission for Energy Sector Planning at the Ministry of Energy pursuant to Decree N.2017-0350/PRES/PM/ME.

Prior Action 5: To foster competition in the electricity sector, the Recipient has created, by law N.014-2017/AN, a competitive wholesale electricity market framework, providing direct access between generation companies and large consumers and third party-access to the network.

Prior Action 6: To cost-effectively procure electricity, the Recipient's Council of Ministers has established a structured and standardized competitive process to select Independent Power Producers pursuant to chapter IV of Decree N.2017-1012 /PRES/PM/ME/MICA/MINEFID.

Expected results for Prior Actions 4, 5 and 6:

Indicator 4: Solar PV capacity (percent of total installed capacity). Baseline 2015: 0. Target 2018: 15 percent

Indicator 5: Capacity available on the interconnected network, excluding guaranteed imports (percent 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: Number of IPPs under standardized competitive process.
Baseline 2015: 0. Target 2018: 1.

[29] Loi N.042-2017/AN *portant allègement des procédures de contractualisation du programme des projets de partenariat public-privé.*

Pillar 3. Strengthening tax collection and public procurement processes

Achievements under DPO1 and recent developments.

The first operation had supported the: (a) increase in control and monitoring of taxpayers through improved coordination between the Customs and the Tax Administration; (b) collection of taxes on debtors through the issuance of court orders (garnishment); and (c) introduction of a new tax on buildings. The first action contributed to verifying corporate tax declarations and reducing the incidence of fraud. From June to December 2016, the percentage of fraudulent taxpayers (using fake Identifier Numbers) decreased from 3.6 percent to 2.2 percent. This new control has also helped move 26 enterprises exporting more than CFAF 1 billion to the supervision of the Directorate in the Tax Administration in charge of Large Enterprises. The results in terms of amount collected (CFAF 9 billion) through the garnishment procedure demonstrates the relevance of the second action to use the commercial banks to help address the issue of increasing tax debtors in Burkina Faso. For the third action, data are not yet available on results achieved so far. On the procurement system, the National Assembly enacted the new Code that has: (i) raised public procurement thresholds, (ii) shortened the competition timeframe in public procurement tenders, public service license contracts and PPP contracts; (iii) reduced the approval time for contracts; (iv) eliminated the double reviews of contracts financed with external resources, and (v) relaxed the conditions for approval of decisions of award commissions, contract selection, public service licenses and private partners.

A. Tax collection

Challenges

4.23. **Low performance in fiscal revenue mobilization undermines sustainable economic development.** At 15.5 percent of GDP in 2016, the tax revenue to GDP ratio recovered to pre-2014 crisis levels but is among the lowest in the WAEMU and still far below the WAEMU target of 20 percent. VAT, accounting for about 40 percent of total tax revenue, has a very low collection productivity, since collected revenues are only 20-25 percent of the potential tax base. This situation results from weak controls, inadequate IT infrastructure and training, a lack of focus on creditworthy taxpayers and the accumulation of VAT arrears.

4.24. **Weak tax performance has also been the result of complex procedures, preventing the proper identification and monitoring of taxpayers and contributing to increase the cost of tax compliance**. Though some measures have recently been implemented to strengthen the efficiency of revenue collection, including interconnection of the General Directorate for Tax (*Direction Générale des Impôts*, DGI) and the General Directorate for Customs (*Direction Générale des Douanes*, DGD) databases (which has made it possible to detect more than 250 cases of fraud), systematic cross-checking of information between the two Directorates is needed (Prior action under the first operation of this DPF series). 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 at the 150th place out of 190 countries on the Cost of Doing Business indicator for paying taxes in 2017, reflecting burdensome 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 Sub-Saharan Africa). Other weaknesses include complex payment processes that raise the cost of compliance and weak enforcement of sanctions.

4.25. **Weaknesses in tax collection limit government's ability to finance public spending, notably on infrastructure and social services.** 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. Broadening the tax base and improving collection capacities is therefore crucial for improving the credibility of fiscal policy management.

4.26. **DPF2 supports efforts to further improve VAT collection and to establish a new tax code which will reduce complexity in the taxation system, enhance transparency and reduce evasion.** The introduction of standardized invoicing (as a requirement for most firms under the normal imposition regime) is an important step to combat fraud with respect to the administration of the VAT (prior action 7). Following a communications campaign, the General Directorate for Tax (*Direction Générale des Impôts*, DGI) launched a country-wide operation to ensure it is being used.

4.27. **The new General Tax Code will help combat tax evasion and broaden the tax base (prior action 8).** Successive budget laws have introduced multiple and fragmented changes into the Burkina taxation system and related fiscal procedures, leading in some cases to conflicting interpretations and loopholes. The new General Tax Code harmonizes and simplifies existing tax procedures. It is expected to help combat tax evasion and protect the tax base, notably for the corporate income tax, property taxes, VAT and taxes on mining activities. It also provides better control of exemptions and the elimination of some tax expenditures on the corporate income tax and the property tax. It also introduces: (i) improvements to controls and verifications; and (ii) a customer service approach clarifying the rights and obligations of taxpayers, and establishing mechanisms to resolve disputes and redress grievances. The objective of these measures is to facilitate nondiscriminatory tax enforcement and increase taxpayer compliance.

4.28. **Building on reforms supported by this series, a combination of new tax policy measures and continued improvements to administration will be required in the medium term to create space for government's public investment plans.** On VAT administration, the emphasis will continue to be on combatting fraud. In this respect, changing the threshold of VAT liability could help improve the performance of this tax. The current low threshold of VAT liability (annual turnover of CFAF 50 million) entails a large number of taxpayers, with associated opportunities for fraud. Government is undertaking a study in this respect, which will be a basis for the selection of the appropriate threshold and the segmentation of taxpayers.

Prior Actions for the proposed second operation:

Prior Action 7: To combat fraud and improve revenue collection, the Recipient's Ministry of Economy, Finance and Development has introduced standardized VAT invoicing for the majority of firms under the Standard Tax Regime, as set out in Directive 00044 dated February 15, 2017.

Prior Action 8: To increase tax revenue collection, the Recipient's Council of Ministers has approved the draft General Tax Code and submitted it to the National Assembly for enactment.

Expected results for Prior Actions 7 and 8:

Indicator 8: An increase in VAT revenues. Baseline 2015: 6 percent of GDP. Target 2018: 7 percent of GDP.

Indicator 9: An increase in non-VAT tax revenues. Baseline 2015: 8 percent of GDP. Target 2018: 10 percent of GDP.

B. Public procurement system

4.29. **In Burkina Faso, another fiscal challenge remains the efficiency of public spending**. Procurement remains one of the most challenging bottlenecks of budget execution, in particular the investment budget. A 2014 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 notably due to 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

4.30. **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, approved in 2016 and supported by the first DPF, is based on the principles of equal treatment, non-discrimination, economy, efficiency and transparency. It regulates the institutional framework for procurement, defines the overall organization of the procurement system, establishes clear guidelines for the use of single-source procurement in line with international standards, and provides adequate provisions for contract implementation. The number of steps in the process of procuring goods and services under this new code was reduced and eliminate the double review in projects financed by donors in Burkina.

4.31. **To ensure the proper and diligent implementation of the new Procurement code, this second operation focuses on the adoption of related regulations** (Prior Action 9). The emphasis is on effective implementation by organizing the functioning of the (i) procurement process; (ii) sanctions; and (iii) the Regulatory Authority. The next step for the authorities will be to tackle the main remaining obstacles to the effectiveness of the new regulatory framework, by removing the obligation to advertise procurement opportunities only in the Review of public procurement (*Revue des marches publics*), eliminating the centralization of this advertising at the DGCMEF, and creating an effective electronic tracking system of public procurement.

Prior Action for the proposed second operation:

Prior Action 9: The Recipient has proceeded with the implementation of the Procurement Code by adopting: (a) a decree defining procurement procedures; (b) ministerial orders to clarify obligations regarding annual procurement plans, public procurement deadlines and archiving; and (c) a decree setting the mandate, organization and functioning of the Public Procurement Regulatory Authority.

Expected result for Prior Action 9:

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.

4.32. **On the results framework, good progress has been achieved toward the 2018 targets.** As summarized in Table 4.3, efforts continue to clear cross arrears. The financial performance of SONABEL also improved significantly owing partially to the new tariff regime. Priority rehabilitation of existing power plants has brought back online an additional 25 MW that was instrumental to minimize the outages during 2016 peak season. The availability of SONABEL's plants reached 70 percent in March 2017 compared to 52 percent by mid-2015. On VAT collection, the increased control and monitoring of taxpayers through better coordination between the Customs and the Tax Administration contributed to improve performance from 6.0 percent of GDP in 2015 to 6.4 percent in 2016.

Table 4.3: Results Indicators

Result Indicators	Baseline 2015 (unless indicated)	December 2016	Target in 2018:
Indicator 1: Reduction of cross arrears between the Government, SONABHY and SONABEL.	CFAF 140 billion (June 30, 2016)	CFAF 95 billion	Below CFAF 1 billion
Indicator 2: Improved financial performance of the state-owned electricity provider *(Société Nationale d'électricité du Burkina -* SONABEL*)*, as measured by Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA).	CFAF 14 billion	CFAF 36.5 billion	CFAF 40 billion or higher
Indicator 3: Reduction in customer's outstanding bills due to SONABEL (as measured by client receivables).	CFAF 55 billion	CFAF 58 billion	Below CFAF 39 billion
Indicator 4: Solar PV capacity (percent of total installed capacity).	0	0	15 percent
Indicator 5: Capacity available on the interconnected network, excluding guaranteed imports (percent of installed capacity).	52 percent	70 percent, as of March 2017	62 percent
Indicator 6: Number of Independent Power Producer (IPP) projects having been signed and successfully negotiated.	0.	0	2
Indicator 7: Number of IPPs under standardized competitive process.	0	0	1
Indicator 8: An increase in VAT revenues.	6.0 percent of GDP	6.4 percent of GDP	7 percent of GDP
Indicator 9: An increase in non-VAT tax revenues.	8 percent of GDP	9.2	10 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.	142 days	*NA*	100 days

4.3 Link to the CPF, Other World Bank Operations and the WBG Strategy

4.33. **The proposed second and final operation in a programmatic series of DPFs is an integral part of the WBG's assistance to Burkina Faso under the IDA/IFC/MIGA Country Partnership Strategy (CPS) for FY13-FY16 (Report number 78793) and the CPF under preparation for FY17-FY20.** The CPS, endorsed by the Board on September 19, 2013, is fully aligned with the Strategy for Accelerated Growth and Sustainable Development (SCADD) and the PNDES. 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 PNDES adopted by the Government on October 3, 2016. The CPF under preparation aims to support the PNDES goals in areas that are consistent with the WBG's comparative advantage and the priorities identified in the 2016 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. By supporting the country's strategy for diversifying the energy mix towards renewables, the proposed operation will contribute to the IDA Policy Commitment to 'Increase the use of DPOs that support climate co-benefits'.

4.34. **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 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. Overall, WBG support to the electricity sector should help increase the country's power production capacity and sector reforms. Technical assistance to support the Government in planning and structuring new generation and transmission capacity associated with mining projects as anchor power consumers (P165245) will help make effective the competitive wholesale electricity market enabled by the new electricity law (Prior Action 5). 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 two projects. The Economic Governance and Citizen Engagement Project (P155121), approved on February 18, 2016, seeks to enhance domestic revenue mobilization and improve the use of public resources by strengthening accountability mechanisms, revenue collection systems, and public expenditure management. The Burkina Faso e-Government Project (P155645), approved January 18, 2017, aims to improve capacity and use of Information and Communication Technology by the public administrations and agencies (i) for the provision of information and public e-services and (ii) to foster entrepreneurship in the digital economy, with a specific focus on agriculture and rural areas.

4.4 Consultations and Collaboration with Development Partners

4.35. **The design of the proposed operation is based on reforms included in the PNDES, which benefited from broad stakeholders' consultations in the country including a consultative group held in December 2016:** The proposed operation is well aligned with the top objectives of the PNDES**.** Further to the wide consultations with the national stakeholders in June 2016 to ensure ownership of the new policy framework, the Government presented the PNDES to the donor's conference in Paris in December 2016. The consultative group resulted in mobilizing roughly US$36 billion for the financing gap of US$11.2 billion. In designing the proposed operation, further meetings were organized between the Government and the WBG on the energy reforms as well as on fiscal management issues. Moreover, the WBG opened the meetings to other donors involved in the energy and PFM reforms agenda.

4.36. **The World Bank collaborates with development partners in Burkina Faso, including through sectorial dialogue frameworks.** In the context of the PNDES, the government designed a new monitoring and evaluation system consisting in 14 sectorial dialogue frameworks and set up the monitoring unit within the Prime Minister's office. The World Bank is a member of three of the sectorial dialogue frameworks, including the Economic and governance group, which handles budget support.

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 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.[30] 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.[31] Improved and more reliable access to electricity

[30] 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.

[31] 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.

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$0.24 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. Beyond this cap, the Government has to allocate subsidies to close the financing gap.[32] 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 HV 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 must 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 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. Social protection measures such as conditional cash transfers could be explored by the Government and implemented to mitigate this adverse impact on poor consumers. Given the progressive nature of the tax system, the broadening of the tax base is expected to primarily target large entrepreneurs currently evading their tax obligations and is not expected to affect the poor entrepreneurs. Its simplification through the adoption of the new tax code should also protect entrepreneurs against abusive taxation.

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. **The reforms supported by the DPF series are not directly focused on the promotion of gender equality, but they may provide indirect benefits to the extent they contribute to raising access to electricity and increasing the fiscal space to finance such objectives.** Some gender issues are partially driven by an insufficient allocation of resources to key services. The proposed second 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 enrollment of girls and delivery maternal health care services. The WBG will continue to have a focus on these aspects in the dialogue with the Burkinabe authorities in line with the PNDES and CPF.

[32] 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).

5.2 Environmental Aspects

5.9. **The reforms and policy actions supported by the proposed operation are not likely to have significant negative effects on the country's environment, forests and other natural resources**. The institutional framework relating to the environment is underpinned by the Constitution promulgated on June 11, 1991. This institutional framework for environmental governance revolves around three main actors: (i) the State and its subdivisions, especially the Ministry of Environment, Green Economy and Climate Change as well as other ministerial departments and administrative divisions (provinces, department, and villages); (ii) local communities; and (iii) the private sector and civil society. Burkina Faso has a legal and regulatory framework governing the preparation of Environmental Impact Assessments (EIA)[33], Environmental and Social Impact Assessments (ESIA) and Strategic Environmental and Social Assessment (SESA).

5.10. **The assessment of potential impacts related to actions supported by the DPO will rely on the existing national legal and regulatory framework and will be monitored and addressed through national procedures.** The national environmental protection agency *(Bureau National des Evaluations Environnementales,* BUNEE*)*, is institutionally empowered to review and clear environmental assessment instruments such as EIA; ESIAs; Environmental Audits; and SESA. BUNEE is tasked with reviewing and approving environmental assessments instruments, and ensuring the monitoring of mitigating measures. Key challenges are enforcement and the weakness of the legal framework for management of environmental issues, although the SESA decree of 2015 addressed some of these weaknesses[34]. Through World Bank and other financial/donor agencies, progress has been made in enhancing both monitoring and enforcement functions. In addition, staff of BUNEE have benefited from several World Bank safeguards training for Project Implementing Units (PIU).

5.11. **As per OP 8.60, the World Bank assessed whether specific country policies supported by the DPF series are likely to cause significant effects on the country's environment, forests, and other natural resources**. The assessment concluded that the policies supported by the proposed DPF are not likely to have negative impacts on the country 's natural assets. All the actions supported throughout the operation are policy-oriented; they do not support direct investment in environmentally impactful investments or involve policy actions with significant environmental consequences.

5.12. **Prior actions designed to improve the financial sustainability of the energy sector, enabling private sector participation, and diversifying the energy mix are largely environmentally neutral**. The reform program will have significant positive effects by helping shift the energy mix from traditional biomass and fossil fuels to imported electricity and renewable energy notably solar power. Households in Burkina Faso, particularly rural households, are highly dependent on biomass (fuelwood, charcoal, and plant wastes) for their daily energy requirements. The reform programs supported under the energy sector would help reduce deforestation, lower local pollution and reduce greenhouse gas (GHG) emissions. The accrual of environmental benefits emanating from the reduction in emissions of air pollutants and the associated decrease in health risk and decrease in GHG emissions, supports Burkina

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[33] Decree 2001-342/PRES/PM/MEE of July 17, 2001 defines the scope, content, and procedures for undertaking EIA. This decree was improved upon by Law No 006-2013/AN of March 2, 2013 on the environment code in Burkina Faso, in particular its articles 5 sub-paragraphs 4 and 17 to 23, outlining the procedures for an Environmental and Social Impact Assessment (ESIA) and the importance of public consultations. Finally, the decree No 2015-1187 provides conditions and procedures for the preparation of Strategic Environmental and Social Assessment (SESA). The decree clarifies and classify civil works, installations, and activities that could be a subject of an SESA or ESIA including the three-tier classification of A, B, and C depending on the severity and magnitude of impacts.

[34] In addition, there are challenges in terms of qualified staff, vehicles for field visits and sometimes funds to pre-finance field missions.

Faso's commitment to carry out climate actions as outlined in its Nationally Determined Contribution (NDC) to the Paris Climate Agreement. One of the NDC targets[35] relates to investments in solar, renewable and hybrid energy based mini-networks and small wind systems, which some of the reforms in the DPO will facilitate. With respect to fiscal management reforms, the activities supported by the proposed operation are expected to have neutral or positive effects on Burkina's environment.

5.3 PFM, Disbursement and Auditing Aspects

5.13. **The Government has adopted an update of the POSEF covering 2011 to 2020 which includes integrated PFM 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 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 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.

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 *(Loi organique relative aux lois de finances – LOLF)* 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 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 International Standards of Auditing

[35] *Conditional part of the mitigation target: Solar, Renewable and energy based mini-networks and small wind systems*, Burkina Faso, Intended Nationally Determined Contribution, Climate Policy Team, WBG, 2016, p.19.

(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 second 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 CGAB. Regarding budget transparency, annual budgets, quarterly budget execution reports, mid-year budget reviews, and annual settlement laws are available online at www.dgb.gov.bf.

5.17. **The proposed second operation would consist of a single-tranche disbursement of US$75 million equivalent,** provided on standard grant terms in the amount of SDR 17.8 million (US$25 million equivalent), and credit terms in the amount of EURO 43 million (US$50 million equivalent), 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 Government of Burkina Faso 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. **Strengthening monitoring and evaluation is critical for the successful implementation of the PNDES objectives as well as for this DPF series**. 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. Day-to-day monitoring of the program will be the responsibility of the Directorate in charge of Cooperation (DGCOOP) within the MEFD. While staff mobility within this ministry and other line ministries has somewhat resulted in weakening monitoring capacity, the recent appointment of a coordinator of programs in the Directorate in charge of Cooperation is promising in addressing this issue.

5.20. **As in the first operation, MEFD will be responsible for coordinating and reporting to the World Bank on progress for this second operation.** The World Bank multi-sectoral team will undertake supervision missions and provide technical assistance where needed. The institutional arrangements for the preparation and execution of this operation are within the established framework of the monitoring and evaluation mechanism under the PNDES performance matrix. Recently, the dialogue on the PNDES has been escalated to the Prime Ministry through a unit of coordination covering the fourteen sectorial dialogue frameworks. This second DPF series is 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 remains with the Ministry of Energy, and with the Ministry of Trade which supervises the SONABHY. 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 monthly, which will monitor progress against program objectives.

5.21. **The 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 World Bank is currently supporting Burkina Faso and other WAEMU countries to harmonize poverty assessment methods, which will help monitor this DPF series results framework.

5.22. **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 moderate (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. **Political and governance risks (M)**: Following the 2014-2015 events, Burkina Faso has undergone a political transition. However, security threats related to terrorism have heightened, with the recent terrorist attacks that struck the capital Ouagadougou and the northern part of the country.

6.3. **Macroeconomic risks (M):** ***The country is vulnerable to external shocks which could threaten the attainment of tax collection objectives, as well as weaken government's willingness and ability to continue improving the financial sustainability of the energy sector.*** 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. This kind of risk would translate into a slowdown in growth, reduced fiscal revenues and a larger current account deficit. 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. Prudent fiscal management would lessen the effects of commodity price shocks.

6.4. ***In addition, higher than projected fiscal deficits partly due to higher wage bills and continued energy subsidies constitute a source of risks.*** This 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. However, 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 operation is designed to help 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 build fiscal buffers. The proposed operation will contribute to addressing these above issues in close collaboration with the IMF through its focus on fiscal management reform.

6.5. **Institutional capacity for implementation and sustainability (S):** Lack of capacity at the Ministry of Energy, at the ARSE and at the MEFD 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 and Citizen Engagement Project would help to mitigate this risk. The World Bank in collaboration with the IMF, the ADB as well as the EU will continue to provide technical assistance to support the strengthening of the Recipient's capacity in the area of energy sector, tax administration and fiscal management.

6.6. **Environmental and social risks (S):** Climatic shocks could reduce economic activity and therefore jeopardize domestic revenue mobilization targets and narrow fiscal space for infrastructure and social expenditures. Climate 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. IDA's electricity sector support project (P128768 and P149115) and the first phase of the Inter-zonal Transmission Hub Project of the WAPP Program (P094919), currently under implementation, are strengthening capacity to assess, mitigate, manage and monitor environmental and social risks associated with investments in the electricity sector.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Indicative Triggers		F
Prior Actions for DPF1	**Prior Actions for DPF2**	
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.	**Prior Action 1:** To reduce inter-agency arrears and promote transparency and predictability in the energy sector, the Recipient has: (a) cleared its arrears as accrued until October 10, 2017 to SONABEL for electricity bills and compensation subsidies and to SONABHY for fuel subsidies; and (b) allocated adequate funds in the draft 2018 Budget Law, approved by the Recipient's Council of Ministers to cover the projected maximum of fuel subsidies paid to SONABHY for fuel delivered to SONABEL's plants.	**Indicator 1:** between the SONABEL. Baseline: arre CFAF 140 billic Target in 2018
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 2:** To improve its financial performance, SONABEL has optimized its fuel costs throughout 2016 by: (a) implementing Article 14 of the Performance Contract regarding fuel mix ratios aimed at decreasing dependence on higher cost energy sources; and (b) implementing the recommendations of the 2015 Audit Report regarding specific fuel consumptions.	**Indicator 2:** Im the state-own *Nationale d'él* as measured b Depreciation a Baseline 2015: Target 2018: a
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.	**Prior Action 3:** To improve billing and collection processes, SONABEL has deployed the information and monitoring system for the smart meters pursuant to the Revenue Protection Program.	**Indicator 3:** outstanding measured by c Baseline 2015: Target 2018: b

Prior Actions and Indicative Triggers		F
Prior Actions for DPF1	**Prior Actions for DPF2**	
Pillar 2 – Enabling private sector participation in the energy sector and diversifying the energy mix		
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.	**Prior Action 4:** To improve governance and planning, the Recipient's Council of Ministers has: (a) approved the National Investment Plan, to shift the energy mix towards cleaner and affordable sources and extend access to reliable electricity services; and (b) established the Permanent Secretariat for the National Commission for Energy Sector Planning under at the Ministry of Energy pursuant to Decree N.2017-0350/PRES/PM/ME.	**Indicator 4**: S installed capac Baseline 2015: Target 2018: 1 **Indicator 5**: interconnectec guaranteed im Baseline 2015: Target 2018: 6
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).	**Prior Action 5:** To foster competition in the electricity sector, the Recipient has created, by law N.014-2017/AN, a competitive wholesale electricity market framework, providing direct access between generation companies and large consumers and third party-access to the network. **Prior Action 6:** To cost-effectively procure electricity, the Recipient's Council of Ministers has established a structured and standardized competitive process to select Independent Power Producers pursuant to chapter IV of Decree N.2017-1012 /PRES/PM/ME/MICA/MINEFID.	**Indicator 6:** N Producer (IPP) successfully ne Baseline 2015: Target 2018: 2 **Indicator 7:** standardized c Baseline 2015: Target 2018: 1
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.	**Prior Action 7.** To combat fraud and improve revenue collection, the Recipient's Ministry of Economy, Finance and Development has introduced standardized VAT invoicing for the majority of firms under the Standard Tax Regime, as set out in Directive 00044 dated February 15, 2017.	**Indicator 8:** Ar Baseline 2015: Target 2018: 7

Prior Actions and Indicative Triggers		F
Prior Actions for DPF1	Prior Actions for DPF2	
Prior Action 7. The Council of Ministers of the Recipient has: (a) strengthened the administrative process through the introduction of Garnishment[36] 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.	**Prior Action 8:** To increase tax revenue collection, the Recipient's Council of Ministers has approved the draft General Tax Code and submitted it to the National Assembly for enactment.	**Indicator 9:** revenues. Baseline 2015: Target 2018: 1
Prior Action 8. The Council of Ministers has approved a new procurement code and submitted it to the National Assembly for enactment.	**Prior Action 9:** The Recipient has proceeded with the implementation of the Procurement Code by adopting: (a) a decree defining procurement procedures; (b) ministerial orders to clarify obligations regarding: Annual procurement plans, Public procurement deadlines and Archiving; and (c) a decree setting the mandate, organization and functioning of the Public Procurement Regulatory Authority.	**Indicator 10:** days, on ave procurement contract signe Baseline 2015: Target 2018: 1

[36] Definition: In fiscal Laws and francophone jurisdictions, garnishment (*Avis à Tiers Détenteur - ADT*) is an administrative process requiri 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

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 03 NOV. 2017

N°2017-02786/MINEFID/SG/DGCOOP/DSPF

Le Ministre

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

Objet : Lettre de politique de développement

Monsieur le Président,

Permettez-moi tout d'abord de vous exprimer, au nom du Gouvernement et du peuple burkinabé, toute notre gratitude pour votre soutien constant et celui de votre auguste institution aux efforts de développement du Burkina Faso. Qu'il me soit également permis de saluer l'engagement de la Banque mondiale à travers son programme d'appuis budgétaires qui demeure sans conteste la formule la plus achevée de l'aide publique au développement pour les pays bénéficiaires.

Il convient d'indiquer que la première opération du programme d'appuis budgétaires en cours en faveur du Burkina Faso est intervenue en 2016, permettant notamment d'enclencher un processus de renforcement de 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.

Comme résultats, il peut être cité principalement ceux ci-après :

- la mise en place d'un mécanisme d'apurement des dettes croisées Etat-SONABEL-SONABHY ayant abouti au règlement effectif desdites dettes ;
- l'adoption et la mise en vigueur de la Lettre de Politique Sectorielle de l'Électricité ;
- l'opérationnalisation de la facture normalisée, notamment pour les grandes et moyennes entreprises, afin d'assurer une meilleure traçabilité des opérations réalisées par les contribuables en matière de TVA, elle sera généralisée en 2018 ;
- l'adoption d'un nouveau Code des Marchés Publics ayant permis d'améliorer la transparence dans la commande publique.

Je me réjouis également de la disponibilité de la Banque mondiale à poursuivre son accompagnement au renforcement des actions et réformes déjà engagées dans le secteur de l'énergie notamment, inscrit au nombre des priorités de notre Plan de développement économique et social (PNDES) 2016-2020.

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Aussi, ai-je l'honneur, au nom du Gouvernement du Burkina Faso, de solliciter auprès de la Banque mondiale un appui budgétaire national au titre de l'année 2017.

La présente Lettre de politique de développement (LPD) retrace, d'une part, l'évolution économique et sociale du Burkina Faso en 2017 et, d'autre part, donne les perspectives économiques et financières pour 2018. Elle prend appui sur le Plan national de développement économique et social (PNDES) et sa matrice de performance 2016-2020 validée conjointement par le Gouvernement et les partenaires technique et financiers.

La Lettre décrit les politiques publiques et sectorielles mises en œuvre par le Gouvernement pour réduire substantiellement la pauvreté et fait ressortir également les réformes du Gouvernement pour soutenir le secteur de l'énergie et renforcer la performance des finances publiques.

I. Situation économique récente

L'activité économique s'est déroulée dans un contexte de retour à une vie constitutionnelle normale, d'une pluviosité favorable, d'un retour de la confiance des investisseurs et d'une bonne tenue des cours de l'or et du coton. Et ce, en dépit d'un contexte sécuritaire difficile, avec des attaques terroristes à Ouagadougou en janvier 2016 et des incursions djihadistes dans la partie nord du territoire, ainsi que d'un front social tendu, marqué par de multiples mouvements des partenaires sociaux.

En effet, la croissance économique a enregistré une reprise en s'affichant à 5,9% en 2016 contre 4,0% en 2015 et au-dessus du taux annuel moyen d'environ 4% de la période 2014-2015. Cette performance est la résultante d'une bonne orientation des secteurs primaire, secondaire et tertiaire.

Pour ce qui est du taux d'inflation annuel moyen, il a connu une baisse, se situant à - 0,2% en 2016 contre 0,9% en 2015.

L'exécution des opérations financières de l'Etat se solderait par un déficit global base engagement de 3,1% du PIB à fin décembre 2016 contre 2,0% une année plus tôt (337,2 milliards de FCFA).

A fin décembre 2016, le niveau de mobilisation des ressources par les régies de recette est de 1 232,04 milliards FCFA sur une prévision annuelle révisée de 1 286,83 milliards FCFA, soit un taux de mobilisation de 95,74%. Par rapport à l'année 2015 où la réalisation était de 1 051,93 milliards FCFA, il ressort une progression de 17,12% (+180,11 milliards FCFA).

II. Etat de mise en œuvre du Plan National de Développement Economique et Social (PNDES)

Le Gouvernement du Burkina Faso a adopté le 20 juillet 2016, le Plan national de développement économique et social (PNDES) comme référentiel de toutes les interventions des acteurs du développement socioéconomique au Burkina Faso sur la période 2016-2020. L'objectif global du PNDES est de transformer structurellement l'économie burkinabè, pour une croissance forte, durable, résiliente, inclusive, créatrice d'emplois décents pour tous et induisant l'amélioration du bien-être social. En 2016, l'activité économique s'est déroulée dans un contexte marqué par un climat sécuritaire et social difficile caractérisé par une forte demande sociale dans presque tous les secteurs et par les multiples attaques terroristes qu'a subies le pays.

La politique budgétaire a donc consisté à soutenir la croissance avec une augmentation des dépenses sociales et une réponse aux dépenses d'investissement sécuritaire. Ce qui a entraîné une révision des dépenses budgétaires pour l'année 2016, hausse, rendue possible par les bonnes performances observées au niveau de la mobilisation des recettes.

A l'image de la reprise de l'activité économique enregistrée en 2016, la mise en œuvre du PNDES a également permis de réaliser des acquis majeurs. Les principaux résultats sont présentés selon les trois axes stratégiques du plan que sont : (i) Réformer les institutions et moderniser l'administration ; (ii) Développer le capital humain ; et (iii) Dynamiser les secteurs porteurs pour l'économie et les emplois.

A) Axe 1 : Réformer les institutions et moderniser l'administration

Le Gouvernement du Burkina Faso a inscrit son action dans la mise en œuvre de réformes et de modernisation des institutions et de l'administration visant la consolidation de la paix, la sécurité, la justice et les droits humains ainsi que l'amélioration de l'efficacité de ses interventions.

*En matière de réforme des institutions et de modernisation de l'administration, les principaux résultats obtenus sont relatifs à l'amélioration de l'accès aux services de jus*tice et à la réduction du temps de traitement des affaires civiles et commerciales ainsi que le renforcement de la redevabilité et de la lutte contre la corruption à travers la prise des décrets d'application de la loi dite anti-corruption. *Concernant la justice*, l'accès physique aux services judiciaires et l'efficience de l'administration judiciaire se sont accrus, matérialisés par la réduction du rayon moyen d'accès à un Tribunal de grande instance (TGI), de 60,3 km à 59 km, du temps moyen de traitement d'une affaire civile qui est passé de 2 mois 21 jours à 2 mois 7 jours. En outre, trois décrets d'application de la loi portant prévention et répression de la corruption au Burkina Faso ont été pris. *En matière de sécurité*, le progrès accompli concerne l'amélioration du taux de maillage de sécurité, établi à 60% contre 56,8% en 2015 et le renforcement des capacités opérationnelles des forces de défense et de sécurité. Grâce au recrutement et à la formation d'agents de sécurité, le ratio agent de sécurité par habitant s'est amélioré puisqu'il s'est établi à un (1) agent de sécurité pour 800 habitants contre un (1) agent pour 948 habitants en 2015. Il en est de même du maillage du territoire national en services de sécurité opérationnels. *En matière de gouvernance économique et locale,* les progrès accomplis concernent le basculement des ministères au budget-programme pour compter de l'exercice budgétaire 2017, et l'adoption du Schéma national d'aménagement et de développement durable du territoire.

B) Axe 2 : Développer le capital humain

Deuxième pilier du PNDES, l'action du Gouvernement dans ce domaine visait à bâtir un capital humain de qualité pouvant apporter une contribution plus significative au développement du pays.

A cet effet, les progrès notables enregistrés en 2016 se situent au niveau de l'accès à l'éducation, à l'enseignement supérieur, à la santé et de l'amélioration de l'état nutritionnel. L'accès à l'eau potable et à l'assainissement et l'amélioration de l'insertion socioprofessionnelle des jeunes sont également des domaines où les progrès ont été conséquents.

Au niveau de l'accès aux services de santé, grâce en partie à la mise en œuvre de la mesure de gratuité des soins pour les femmes enceintes et les enfants de moins de 5 ans, l'accès des enfants aux soins de santé s'est accru et la mortalité infra-hospitalière chez l'enfant a nettement reculé, s'établissant à 56,4 pour 1000 en 2016 contre 63,1 pour 1000 en 2015. Les progrès ont également été constants en matière de lutte contre le VIH/SIDA, avec une baisse modérée de la prévalence du VIH/SIDA de 0,9% en 2015 à 0,8% en 2016 en raison des programmes de sensibilisation et de la prise en charge médicale des personnes vivant avec le VIH/SIDA. En effet, l'accès des personnes vivant avec le VIH/SIDA aux ARV s'est accru, puisque la proportion de personnes justifiant des traitements ARV effectivement sous ARV est de 93,4% en 2016 pour une cible de 90%. L'accès des femmes enceintes aux ARV pour la PTME est passé de 89% à 92% en 2016.

En matière d'éducation et d'enseignement supérieur, des efforts importants ont été engagés afin de doter le système éducatif et d'enseignement supérieur de salles de classe, de bâtiments administratifs et pédagogiques. Outre les infrastructures, un des acquis les plus significatifs enregistrés se rapporte à l'atteinte des cibles de la parité garçon/fille jusqu'au niveau secondaire. Le nombre d'étudiants par habitant a connu également une évolution satisfaisante, atteignant 513 étudiants pour 100 000 habitants en 2016 pour une cible de 478 étudiants.

Par ailleurs, les efforts se sont poursuivis pour promouvoir la *recherche et l'innovation* afin qu'elles soient au service de la transformation structurelle de l'économie.

En ce qui concerne la promotion de l'emploi décent et la protection sociale pour tous, particulièrement pour les jeunes et les femmes, des résultats obtenus concernent les volets : (i) Travaux à Haute intensité de main-d'œuvre (5 000 jeunes recrutés) ; (ii) Renforcement des capacités d'auto emploi (formation de 4200 jeunes diplômés) ; (iii) Insertion de 1769 jeunes diplômés formés aux métiers.

En matière d'amélioration du cadre de vie, d'accès à l'eau, à l'assainissement et aux services énergétiques de qualité, le résultat le plus net enregistré a trait à la mise en place des systèmes de collecte des ordures, avec une évolution du pourcentage de communes dotées d'un système fonctionnel de gestion des déchets solides qui s'est établi à 22,29% en 2016 contre 13% en 2015. En revanche, en matière d'accès à l'eau potable et à l'assainissement domestique, les avancées enregistrées ont été bien en dessous des résultats escomptés. En effet, le taux d'accès à l'eau potable et le taux d'assainissement ont été respectivement de 72,4% et 19,8%, pour des cibles respectives de 73,5% et 21%.

C) Axe 3 : Dynamiser les secteurs porteurs pour l'économie et les emplois

Dans le domaine de la dynamisation des secteurs porteurs pour l'économie et les emplois, les acquis majeurs enregistrés en 2016 portent notamment sur le renforcement de la mise sur marché des produits nationaux, avec notamment un recul de la part des produits alimentaires de consommation dans les importations de biens et une tendance à la diversification de la base des produits exportés. Des acquis indéniables sont également à relever en ce qui concerne le développement des infrastructures routières, énergétiques et hydrauliques.

En effet, en matière de promotion du secteur primaire pour la sécurité alimentaire, l'emploi décent et l'approvisionnement de l'agro-industrie nationale dans le respect des principes du développement durable, les actions engagées en matière de production agricole ont permis de porter le taux de couverture des besoins céréaliers de 96% en 2015 à 102% en 2016. En matière de production animale, les actions entreprises en faveur de la santé animale ont permis de porter le taux de couverture vaccinale de la volaille contre la maladie de New Castle à 41% en 2016 contre 40% en 2015. Grâce à l'accroissement de la production d'alevins et l'ensemencement des plans d'eaux, la production de poissons s'est accrue, s'établissant à 22 070 tonnes de poissons pour une cible de production en 2016 de 22 000 tonnes.

Concernant le développement et la promotion de la compétitivité des secteurs de l'industrie et de l'artisanat, les résultats atteints sont contrastés. D'une part, les actions engagées ont permis d'accroître légèrement la part du secteur secondaire dans le PIB de 19,6% en 2015 à 20,0% en 2016. En revanche, la part de l'industrie manufacturière dans le PIB a reculé de 6,6% en 2015 à 6,2% en 2016. Dans le domaine du commerce et des industries de service, l'objectif est de réduire la part du secteur informel. En effet, en 2016, la part du secteur informel dans la valeur ajoutée du secteur tertiaire s'est même accrue, passant de 20,9% à 24,9%.

Dans le domaine de la mise en marché des produits nationaux, le processus de diversification a été enclenché avec l'élargissement de la base des produits exportés : sésame, noix de cajou, karité, etc. De même, la part des produits alimentaires de consommation dans les importations de biens a baissé, passant de 10,1% en 2015 à 9,6% en 2016.

Dans le cadre du *développement des infrastructures nécessaires à la transformation structurelle de l'économie*, trois barrages d'eau ont été réalisés dans les localités de Gourgou, Lallé et Bogré. De même, la proportion des retenues d'eau de surface avec protection des berges s'est aussi accrue, s'établissant à 15% pour une cible de 11,5%.

En matière d'infrastructures routières, les actions entreprises ont permis de faire passer le linéaire total de routes bitumées de 3 642 km en 2015 à 3 717 km en fin 2016 et celui des pistes rurales aménagées de 12

850 km en fin 2015 à 12 889,11 km en 2016, portant ainsi la proportion des routes bitumées à 24,5% contre 24% en 2015 et celle des pistes rurales à 27,9% contre 27%.

Au niveau des TIC, les investissements réalisés en 2016 pour réduire la fracture numérique concernent notamment la construction de la liaison en fibre optique Ouagadougou-Pô/ frontière du Ghana (180km) avec la bretelle de Manga à Bagrépôle et le démarrage de la mise en œuvre du projet G-CLOUD qui a permis de réaliser 20 Km de fibre optique dans la ville de Ouagadougou.

La protection de l'environnement n'est pas restée en marge de l'action gouvernementale. En effet, ce sont au total 8 528 hectares de terres dégradées des zones protégées qui ont été récupérés en 2016 et plus de 400 000 ha de forêt et de 982 881 ha d'aire de protection faunique qui ont été mis sous aménagement. En outre, 9,9 millions de plants ont été produits et 11 éco-villages créés.

III. Amélioration de la situation capacitaire de l'énergie et de l'assiette financière

A) Amélioration de la situation capacitaire de l'énergie

En ce qui concerne l'accroissement des capacités d'énergie installée, de nombreuses actions ont été réalisées ou engagées au cours de ladite année permettant d'enregistrer un accroissement de la puissance électrique cumulée installée de 321 Mégawatts en 2016 contre 300 en 2015. Il s'agit entre autres de : (i) l'achèvement de la construction de la 1ère centrale solaire de 1 MW crête de Ziga, (ii) l'équipement de 59 bâtiments publics, notamment les CSPS et les écoles en installation de plaques solaires.

A cela s'ajoutent, d'autres actions en phase de mise en œuvre telles que : (i) le renforcement de la centrale thermique de Kossodo par une capacité additionnelle de 50 MW, (ii) la réalisation d'une étude de faisabilité pour l'installation de plaques solaires au profit de bâtiments publics, (iii) la construction de la Centrale de Zagtouli d'une capacité de 33 MW, (iv) l'interconnexion avec le Ghana en vue d'importer 100 MW, (v) les interconnexions électriques internes (Ouagadougou et Ouahigouya, Kongoussi et Djibo, Kaya et Dori) avec le raccordement des localités de Bourzanga, Namsiguia, Bani, Yalgo, Tougouri et Pissila et (vi) la signature des contrats PPP et PPA pour la construction d'une centrale solaire photovoltaïque de 26 MWc à Zina par la société de Zina Solaire.

Les investissements des collectivités territoriales en matière d'énergie ont porté sur l'énergie solaire, l'acquisition de Plate-forme multifonctionnelle et de groupes électrogènes pour un montant global provisoire d'environ 1 milliard FCFA.

L'ensemble de ces actions, ont permis d'atteindre un taux de couverture électrique national de 33,55% en 2016 contre 33,32% un an plutôt. Quant au taux d'électrification national, il s'est affiché à 20,07% contre 18,83% en 2015. Ce taux est de 66,46% en milieu urbain et de 3,20% en milieu rural en 2016 contre respectivement 59,88% et 3,06% en 2015.

Enfin, la part des énergies renouvelables dans la production totale en 2016 a été de 14% contre 1% en 2015.

B) Amélioration de l'assiette financière

En ce qui concerne le financement du développement, plusieurs actions ont été réalisées en vue de la performance de la mobilisation de finances intérieures et extérieures. 44 conventions de financements ont été signées pour un montant global de 655 853 305 504 FCFA dont 169 406 376 718 FCFA au titre de la coopération bilatérale et 486 446 928 786 FCFA pour la coopération multilatérale en 2016. Une stratégie sur le règlement de la dette intérieure a été adoptée et a prévu des ressources budgétaires de 30 milliards FCFA et 29,464 milliards de FCFA respectivement pour le règlement des dettes dites régulières et irrégulières.

En outre, les capacités nationales de mobilisation des ressources et l'efficacité de la dépense publique ont été améliorées à travers, notamment l'opérationnalisation de la facture normalisée depuis le 1er mars 2017, la mise en œuvre du Système de liaison virtuelle pour les opérations d'importation et d'exportation (SYLVIE), la finalisation en cours du système de suivi satellitaire des marchandises en transit (Tracking), l'adoption du programme de projets PPP 2016 en conseil des ministres et la création de cinq (05) nouvelles Unités de vérification (UV) des dépenses.

Les recettes totales et dons ont connu en 2016, une progression de 10,4% par rapport à 2015. Cette performance est principalement liée à la hausse de 15,7% des recettes fiscales, permettant ainsi d'améliorer le taux de pression fiscale d'environ 1 point de pourcentage du PIB en le situant à 15,0% en 2016 contre 14,1% en 2015. Toutefois, le déficit budgétaire s'est creusé, s'établissant à 3,1% du PIB en 2016 contre 2,0% du PIB en 2015.

IV. Perspectives économiques et financières et objectifs à moyen terme

A) Au plan macroéconomique

En perspective, l'activité économique enregistrerait une accélération de son rythme de croissance en 2017, soutenue par le dynamisme des activités d'extraction et l'intensification des investissements dans les secteurs productifs. Le taux de croissance du PIB réel dépasserait 6,4% en 2017 contre 5,9% en 2016. La mise en œuvre du PNDES devrait permettre d'atteindre un taux de croissance de l'économie de 7,3% en 2018 et une croissance moyenne annuelle de 7,0% entre 2019 et 2020, portée par le dynamisme du secteur agro-sylvo-pastoral, la bonne orientation du secondaire et la vigueur du secteur des services (télécommunication, services financiers, transport).

L'inflation devrait demeurer dans la limite de la norme communautaire de 3% au maximum, et ressortir en moyenne annuelle à 1,8% sur la période 2018-2020.

Considérée comme année charnière et de démarrage effectif du PNDES, le Gouvernement a accéléré ses investissements structurants en 2017 et le déficit budgétaire qui en résulte s'établirait à 6,7% du PIB. En 2018, le déficit rapporté au PIB serait à 4,8%. Ces niveaux importants du déficit s'expliquent également par la prise en compte de dépenses rendues incompressibles du fait de la situation nationale et régionale. Il s'agit notamment de :

- ✓ la forte pression de la demande sociale consécutive à la crise socio-politique d'octobre 2014 ;
- ✓ en liaison avec cette crise socio-politique, la nécessité de la réconciliation nationale et de la consolidation de la démocratie avec l'organisation du référendum sur la nouvelle constitution et l'action du Haut Conseil pour la Réconciliation et l'Unité Nationale (HCRUN) ;
- ✓ l'héritage d'un important stock de dettes multiples qui doit être apuré pour ne pas dégrader la situation financière des sociétés d'Etat et asphyxier les privés prestataires et fournisseurs de l'Etat ;
- ✓ la recrudescence des attaques terroristes, un phénomène mondial et abject, qui impose des mesures fortes de sauvegarde de l'intégrité du territoire national mais aussi le renforcement de son rôle de verrou contre un débordement du terrorisme en dehors de la zone sahélienne, par un équipement conséquent des forces de défense et de sécurité. Le Gouvernement a dû engager la réalisation d'un Programme d'Urgence pour le Sahel (PUS).

L'impact de l'ensemble des dépenses y relatives s'établit à 190 milliards FCFA en 2017 et 187 milliards FCFA en 2018. En l'absence de celles-ci, le niveau des déficits serait de l'ordre de 4,09% du PIB en 2017 et de 2,71% du PIB en 2018.

Toutefois, le Gouvernement s'engage à maîtriser le déficit budgétaire global, en prenant les dispositions idoines pour le faire passer en-deçà de 3% du PIB d'ici 2019, conformément aux critères de convergence du déficit budgétaire de l'Union Economique et Monétaire Ouest Africaine (UEMOA). Pour ce faire, le Gouvernement déploiera des efforts afin d'accélérer la mise en œuvre des réformes pour notamment la mobilisation de ressources supplémentaires, à la fois internes et externes. L'accent sera mis également sur l'amélioration de l'efficience et de l'exécution de l'investissement (renforcement des capacités de conception et d'exécution) ainsi que la rationalisation des charges de fonctionnement (maîtrise de la masse salariale et des subventions, des dépenses d'exploitation, en particulier une utilisation plus efficace des véhicules, et des produits de consommation au sein de l'administration).

En perspective au cours de la période 2017-2019, les efforts viseront à lever les difficultés identifiées dans l'atteinte des résultats par axe et à renforcer le fonctionnement du dispositif de mise en œuvre, de suivi et d'évaluation.

Axe 1 : Ainsi, en matière de réformes des institutions et de modernisation de l'administration, *le Gouvernement poursuivra les réformes pour la promotion de la bonne gouvernance administrative et politique* à travers notamment le renforcement du dialogue avec le Parlement, l'accès et l'indépendance de la justice, le renforcement de la sécurisation des documents d'identité, la lutte contre l'insécurité, la réconciliation nationale, le renforcement de l'accès des populations à l'information juste, la protection des réfugiés au Burkina Faso et des Burkinabè de l'extérieur, le l'amélioration de l'efficacité des agents de la fonction publique, l'adoption et la mise en œuvre de la Stratégie nationale de promotion de la bonne gouvernance, etc.

Afin de promouvoir la bonne gouvernance économique, le Gouvernement entend également mener les actions dont les principales sont : l'élaboration des 14 politiques sectorielles, l'audit des marchés publics, la création de la caisse de dépôt et de consignation, la création de la banque de l'agriculture, la création de la banque pour le financement des PME/PMI, l'appui à la formalisation des entreprises informelles, etc.

Le renforcement de la décentralisation et la promotion de la gouvernance locale se poursuivront à travers notamment, l'adoption de la charte de la déconcentration, l'accroissement des transferts budgétaires aux collectivités territoriales, la réforme du cadre juridique et institutionnel de l'exercice de la tutelle administrative sur les collectivités territoriales, l'élaboration du projet de loi d'orientation en matière d'aménagement du territoire, l'élaboration de 13 Schémas régionaux d'aménagement et de développement durable du territoire, etc.

Axe 2 : Pour ce qui est du développement du capital humain, *la promotion de la santé des populations et l'accélération de la transition démographique* se matérialiseront, par la poursuite de la mise en œuvre de la politique de gratuité des soins au profit des enfants de moins de 05 ans et des femmes enceintes, la construction et l'équipement de 15 CMA, la mise en place de la fonction publique hospitalière, l'amélioration de l'état nutritionnel de la population, la promotion des pratiques innovantes en matière de planning familial, etc.

En matière d'éducation, d'enseignement supérieur et de formation, il s'agira surtout, d'accroître les effectifs à tous les niveaux, de diversifier les offres de formation, de former et d'encadrer le personnel enseignant, etc.

En ce qui concerne la recherche et l'innovation, le Gouvernement mettra en œuvre le Programme de renforcement des capacités du système national de la recherche et de l'innovation, créera trois technopôles, construira deux pôles d'excellence et un centre d'incubateur de technologie pour Bagrépôle, etc.

Concernant la promotion de l'emploi décent et de la protection sociale pour tous, la période 2017-2019 sera marquée par le financement d'environ 7000 microprojets, la poursuite de travaux à haute intensité de main-d'œuvre, le renforcement des capacités des jeunes à l'entreprenariat, le renforcement du cadre juridique et institutionnel du travail décent, la promotion du dialogue social, la lutte contre le travail des enfants et ses pires formes, la réalisation de la promotion de l'équité-genre en milieu du travail, l'amélioration et l'extension de la couverture sociale du secteur formel aux acteurs des économies informelles urbaine et rurale, le renforcement du cadre institutionnel et juridique favorable à la promotion de l'assurance maladie universelle, etc.

Pour améliorer le cadre de vie, l'accès à l'eau, à l'assainissement et aux services énergétiques de qualité, il est attendu, entre autres, la réalisation et la réhabilitation d'ouvrages d'approvisionnement en eau potable (forage, AEPS, etc.), la réalisation de latrines familiales et de latrines institutionnelles et publiques, la réalisation de 50 Km de réseaux d'assainissement collectif et semi-collectif à Ouagadougou et Bobo-Dioulasso, la création de 13 unités de recyclage de déchets plastiques dans les régions, l'achèvement des travaux d'interconnexion électrique Ouagadougou–Ouahigouya, la création d'un technopôle, l'électrification de 500 localités rurales, l'électrification des infrastructures scolaires et sanitaires dans 300 localités rurales, etc.

Axe 3 : Afin de dynamiser les secteurs porteurs pour l'économie et les emplois, *il est prévu le développement d'un secteur agro-sylvo-pastoral, faunique et halieutique productif et résilient, davantage orienté vers le marché.* Les actions à engager au cours de la période consisteront, entre autres, en la construction de petits ouvrages de mobilisation de l'eau, la mise à la disposition des producteurs à prix subventionné d'équipements d'exhaure, l'amélioration du taux de couverture des besoins alimentaires du cheptel, etc.

Pour développer un secteur industriel et artisanal compétitif, à forte valeur ajoutée et créateur d'emplois décents, il est envisagé notamment l'amélioration de la compétitivité des entreprises industrielles, l'adoption et la mise en œuvre de la loi d'orientation pour la promotion des PME, la mise en œuvre du projet de création et de mise en place d'incubateurs, de pépinières et d'hôtels d'entreprises dans le secteur agro-alimentaire, la promotion et la commercialisation des produits de l'artisanat, le renforcement des infrastructures culturelles et touristiques, l'entrée en production de nouvelles mines d'or.

Dans le cadre de la promotion du commerce et l'expansion des industries de services à forte valeur ajoutée et créatrices d'emplois décents, l'action du Gouvernement portera principalement sur l'opérationnalisation du programme de renouvellement du parc de véhicules poids lourds, la construction de 9 bureaux de postes, le démarrage des projets d'appui au développement intégré du beurre de karité, la création de deux Zones économiques spéciales, la mise en œuvre du projet de création d'un port sec multimodal dans la région du Centre, la mise en eau du barrage de Samendeni, etc.

B) Dans le secteur de l'Energie

Relativement à la puissance installée (en mégawatts) et au coût KWh d'électricité des hautes tensions (en FCFA), les actions entamées en 2016 seront poursuivies dont entre autres, la finalisation et la mise en service de l'interconnexion entre Bolgatanga au Ghana et Ouagadougou, le démarrage effectif des travaux de renforcement de la centrale thermique de Fada N'Gourma pour une capacité additionnelle de 7,5 MW et la mise en service de la centrale solaire photovoltaïque communautaire de Ziga, raccordée au réseau, d'une puissance de 1,1MWc. Ces actions devraient permettre d'améliorer la puissance installée de 325 à 650 d'ici à 2018 et de réduire le coût du KWh d'électricité des hautes tensions de 75 FCFA à 55 FCFA en 2018.

D'importantes réformes ont également été réalisées dans le secteur dans l'objectif global de réduire les déséquilibres entre l'offre et la demande d'électricité tout en améliorant la gestion des finances publiques du pays et la gouvernance.

En matière de soutenabilité financière du secteur de l'énergie, le Gouvernement burkinabé s'engage à poursuivre l'apurement du reliquat d'arriérés accumulés du fait des retards antérieurs dans le paiement (i) des consommations d'électricité de l'Etat, des collectivités territoriales et des structures parapubliques, (ii) des subventions dues à la SONABHY pour la fourniture de carburant aux centrales thermiques SONABEL et (iii) des subventions d'équilibre dues à la SONABEL d'une part et d'autre part à poursuivre le paiement régulier et diligent des subventions de carburant pour la production électrique, qui contribueront à améliorer durablement la soutenabilité financière du secteur de l'énergie. Le Gouvernement s'appuie également sur les mesures et réformes suivantes :

- allocation suffisante de ressources au titre du projet de loi de finances 2018 pour couvrir (a) l'apurement du reliquat d'arriérés à l'horizon 2019, (b) le paiement des factures d'électricité échues de l'Etat, des collectivités territoriales et des structures parapubliques, dues à la SONABEL ; et (c) le montant maximum de subvention à la SONABHY pour la fourniture de carburant aux centrales thermiques de la SONABEL ;
- afin d'améliorer sa performance financière, la SONABEL a optimisé ses charges de carburant, par (i) la mise en œuvre des dispositions du contrat plan 2015-2019 entre l'Etat et la SONABEL relatives au ratio de mix de carburant visant à réduire la dépendance aux combustibles les plus onéreux, et (ii) la mise en œuvre des recommandations du rapport d'Audit 02-DACG-2015 sur les consommations spécifiques des centrales thermiques ;
- afin d'améliorer l'efficacité de la facturation, des encaissements et du recouvrement de ses créances, la SONABEL a mis en œuvre les actions de son programme de protection des revenus (PPR), par l'acquisition de compteurs intelligents.

En matière de diversification du mix énergétique et amélioration du cadre légal et institutionnel du secteur de l'énergie, le Gouvernement s'engage à recourir à un processus de sélection compétitive transparent et standardisée pour l'acquisition, à moindre coût, de nouvelles capacités de production, y compris pour les projets de producteurs indépendants d'électricité. Ainsi les mesures suivantes ont été prises :

- le Conseil des Ministres a adopté le plan d'investissement national production-transport-distribution et d'électrification rurale 2017-2025, visant à accroître l'accès et identifiant la séquence d'investissements optimale ainsi que ses financements.
- le ministère en charge de l'énergie a établi le Secrétariat Permanent de la Commission Nationale de la Planification du Secteur de l'Energie, chargé de développer et tenir à jour le plan d'investissements optimal et de suivre sa mise en œuvre.
- afin d'encourager la compétition dans le sous-secteur de l'électricité, le bénéficiaire a établi, à travers la Loi N.014-2017/AN, un marché concurrentiel de vente d'électricité en gros, permettant aux clients éligibles de se fournir en électricité directement auprès de producteurs indépendants, avec, à cette fin, un droit d'accès au réseau de transport.
- afin d'encourager l'acquisition d'électricité à moindre coût, le conseil des ministres a adopté le décret portant conditions et modalités d'octroi des licences ou autorisations de production d'énergie électrique, qui précise le cadre réglementaire pour la sélection compétitive standardisée des producteurs indépendants d'électricité.

C) Dans le secteur des finances publiques

Concernant la gestion des finances publiques, les actions à mettre en œuvre consisteront à : (i) renforcer la gouvernance du patrimoine de l'État, (ii) évaluer le système de gestion des finances publiques selon la méthodologie PEFA, (iii) mettre en œuvre le plan d'action pour le renforcement de la gestion des investissements publics, (iv) auditer les marchés publics, (v) dématérialiser les documents de circuit de la dépense publique, (vi) réaliser l'évaluation nationale des risques de blanchiment de capitaux et de financement du terrorisme et (vii) organiser la session du conseil national de l'emploi de la formation professionnelle.

En matière du renforcement de la mobilisation des recettes budgétaire et des procédures de passation des marchés publics :

- le ministère de l'Économie, des Finances et du Développement a rendu effective la facturation normalisée de la TVA.
- pour améliorer la perception des recettes fiscales, le Conseil des Ministres a soumis à l'Assemblée Nationale le nouveau Code général des impôts (CGI).
- le gouvernement a publié les décrets adoptant le cadre réglementaire nécessaire visant à rendre opérationnel le Code des marchés publics de 2016 et à en assurer la mise en œuvre effective.

S'agissant du financement du développement, les actions viseront à : (i) élaborer le projet de cadastre fiscal, (ii) créer la caisse de dépôt et de consignation, (iii) moderniser les moyennes entreprises, (iv) élaborer le référentiel sur la division du travail et la complémentarité entre les PTF, (vii) élaborer le rapport sur la coopération au développement, (viii) créer la banque de l'agriculture, (ix) créer la banque pour le financement des PME/PMI et (x) mettre en œuvre le système de suivi satellitaire des marchandises en transit.

Le Gouvernement reste convaincu qu'avec le soutien de ses partenaires, notamment la Banque Mondiale, 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.

Pour le Ministre de l'Economie, des Finances
et du Développement, le Ministre Délégué
chargé du Budget

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

Yaka

Edith Clémence YAKA
Officier de l'ordre du Mérite Burkinabè

MINISTRY OF ECONOMY,
FINANCE AND DEVELOPMENT

GENERAL SECRETARIAT

DEPARTMENT
OF AID

No. 2017 -________ /MINEFID/SG/DGCOOP/DSPF

The Minister

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

Subject: Letter of Development Policy

Dear Mr. President,

Allow me first of all to express to you, on behalf of the Government and the people of Burkina Faso, our gratitude for your constant support and that of your august institution for the development efforts of Burkina Faso. May I also commend the World Bank's commitment through its budget support program, which without question remains the most comprehensive form of official development assistance for recipient countries.

It should be noted that the first operation of the ongoing budget support program for Burkina Faso took place in 2016, enabling the launch of a process to strengthen the Government's capacity to address the imbalances between the supply and demand for electricity, while improving the country's management of public finances and its governance.

The following principal results may be mentioned:

- the establishment of a State-SONABEL-SONABHY debt-clearing mechanism that resulted in the effective settlement of said debts;
- adoption and enforcement of the Sectoral Electricity Policy Letter;
- the operationalization of the standard invoice, especially for large and medium-sized companies, to ensure better traceability of the transactions carried out by corporate taxpayers in relation to VAT. This will be made universal in 2018;
- the adoption of a new Public Procurement Code that has improved transparency in public procurement.

I am also pleased by the World Bank's willingness to continue supporting the strengthening of the actions and reforms already undertaken in the energy sector, which is one of the priorities of our Economic and Social Development Plan (PNDES) 2016-2020.

Furthermore, I have the honor, on behalf of the Government of Burkina Faso, to apply to the World Bank for national budget support for the year 2017.

This Letter of Development Policy (LDP) outlines, on the one hand, the economic and social changes seen in Burkina Faso in 2017 and, on the other hand, sets out the economic and financial prospects for 2018. It builds on the National Economic and Social Development Plan (PNDES) and its 2016-2020 performance matrix, validated jointly by the Government and the technical and financial partners.

The Letter describes the public and sectoral policies implemented by the Government to fight poverty and also highlights the Government's reforms to support the energy sector and strengthen the performance of public finances.

I. Recent Economic Situation

Economic activity took place in the context of a return to normal constitutional life, favorable rainfall, a return of investor confidence and good gold and cotton prices. This was despite a difficult security context, with terrorist attacks in Ouagadougou in January 2016 and jihadist incursions in the northern part of the territory, as well as a tense social front, marked by multiple movements by social partners.

In fact, economic growth recorded a recovery, rising to 5.9% in 2016 compared to 4.0% in 2015 and above the average annual rate of around 4% for the 2014-2015 period. This performance is the result of the positive orientation of the primary, secondary and tertiary sectors.

As for the average annual inflation rate, it fell to a low of -0.2% in 2016 compared with 0.9% in 2015.

The execution of the financial operations of the State would result in an overall basic deficit commitment of 3.1% of GDP at the end of December 2016 against 2.0% a year earlier (337.2 billion FCFA).

At the end of December 2016, the level of resource mobilization by revenue authorities was 1,232.04 billion FCFA on a revised annual forecast of 1,286.83 billion FCFA, representing a mobilization rate of 95.74%. Compared to the year 2015 when the execution amounted to 1,051.93 billion FCFA, this represents an increase of 17.12% (+180.11 billion FCFA).

II. State of Implementation of the National Economic and Social Development Plan (PNDES)

On July 20, 2016, the Government of Burkina Faso adopted the National Economic and Social Development Plan (PNDES) as a reference document for all the interventions by socio-economic development actors in Burkina Faso over the 2016-2020 period. The overall objective of the PNDES is to bring about a structural transformation of Burkina Faso's economy, to create strong, sustainable, resilient, and inclusive growth, generating decent jobs for all and leading to the improvement of social well-being. In 2016, economic activity took place in a context marked by a difficult security and social climate characterized by strong social demand in almost all sectors and by multiple terrorist attacks in the country.

Fiscal policy has therefore been to support growth with an increase in social spending and a response to security investment spending. This led to a revision of budgetary expenditure for 2016, an increase made possible by the good performance observed in terms of revenue mobilization.

In line with the uptick in economic activity recorded in 2016, the implementation of the PNDES has also made it possible to achieve major gains. The main results are presented according to the three strategic pillars of the plan, namely: (i) Reforming institutions and modernizing the administration; (ii) Developing human capital and (iii) **Boosting growth sectors for the economy and jobs**.

A) Pillar 1: Reforming Institutions and Modernizing the Administration

The Government of Burkina Faso has taken actions to implement reforms and to modernize institutions and the administration, aimed at consolidating peace, security, justice and human rights as well as improving the effectiveness of its interventions.

In terms of institutional reform and modernization of the administration, the main results achieved relate to improving access to justice services and reducing the time taken to process civil and commercial cases, as well as strengthening accountability and the fight against corruption through the implementation of decrees implementing the so-called anti-corruption law. *With regard to justice*, physical access to judicial services and the efficiency of the judicial administration increased, reflected in the reduction in the average distance to reach a Tribunal de Grande Instance (TGI) from 60.3 km to 59 km, while the average processing time for a civil case fell from 2 months 21 days to 2 months 7 days. In addition, three decrees implementing the law on prevention and punishment of corruption in Burkina Faso were signed. *In terms of security*, the progress made includes the improvement of the security networking rate, which stands at 60% compared to 56.8% in 2015, and the strengthening of the operational capacities of the defense and security forces. Recruitment and training of security agents resulted in an improved per capita security agent ratio of one security agent per 800 inhabitants compared to one agent per 948 inhabitants in 2015. The same goes for the national network in terms of operational security services. *In terms of economic and local governance,* the progress made concerns the switch by ministries to the program budget for the 2017 fiscal year, and the adoption of the National scheme for planning and sustainable development of the territory.

B) Pillar 2: Developing Human Capital

The Government's action in relation to the second pillar of the PNDES was aimed at building a quality human capital that could make a more significant contribution to the country's development.

To this end, the notable progress recorded in 2016 is in terms of access to education, higher education, health and improvement of nutritional status. Access to drinking water and sanitation and improving the socio-professional integration of young people are also areas where significant progress has been made.

At the level of access to health services, thanks in part to the implementation of free care provision for pregnant women and children under 5, children's access to health care has increased and mortality in children outside of hospitals has fallen sharply, standing at 56.4 per 1000 in 2016 compared to 63.1 per 1000 in 2015. Progress has also been steady in the fight against HIV/AIDS, with a moderate decline in the prevalence of HIV/AIDS from 0.9% in 2015 to 0.8% in 2016 due to awareness programs and the provision of medical care to people living with HIV/AIDS. Indeed, the access of people living with HIV/AIDS to ARVs (antiretroviral drugs) has increased, since the proportion of people eligible for ARV treatment who are actually receiving ARVs was 93.4% in 2016, above the target of 90%. The access of pregnant women to ARVs for PMTCT (prevention of mother-to-child transmission) increased from 89% to 92% in 2016.

In the field of education and higher education, significant efforts have been made to provide the education and higher education system with classrooms, administrative and educational buildings. In addition to infrastructure, one of the most significant gains recorded is the meeting of gender parity targets up to secondary level. The number of students per capita also showed satisfactory progress, reaching 513 students per 100,000 inhabitants in 2016 for a target of 478 students.

In addition, efforts continued to promote *research and innovation* in order for these to serve the structural transformation of the economy.

With regard to the promotion of decent work and social protection for all, especially for young people and women, the results achieved relate to: (i) Labor-intensive work (5,000 young people recruited); (ii) Capacity-building for self-employment (training of 4,200 young people); (iii) Insertion in the labor market of 1,769 young people trained in the trades.

In terms of improving the living environment, access to water, sanitation and quality energy services, the clearest result recorded is the introduction of garbage collection systems, with an increase in the percentage of municipalities with a functional solid waste management system from 13% in 2015 to 22.29% in 2016. On the other hand, in terms of access to drinking water and domestic sanitation, the progress recorded was well below the expected results. The rate of access to drinking water and the sanitation rate were respectively 72.4% and 19.8%, compared to the respective targets of 73.5% and 21%.

C) Pillar 3: Boosting Growth Sectors for the Economy and Jobs

In the area of boosting growth sectors for the economy and jobs, the major achievements recorded in 2016 include the strengthening of the market for domestic products, notably with a decline in the proportion of consumer food products in imported goods, and a trend toward diversification of the base of exported products. Significant achievements are also to be noted with regard to the development of road, energy and hydraulic infrastructures.

In fact, in terms of promotion of the primary sector for food security, decent employment and the supply of national agribusiness in accordance with the principles of sustainable development, the actions undertaken in the field of agricultural production have made it possible to increase the cereal requirement coverage rate from 96% in 2015 to 102% in 2016. With regard to livestock production, the actions taken in favor of animal health made it possible to increase the poultry vaccination rate against Newcastle disease to 41% in 2016 compared to 40% in 2015. With increased fry production and seeding of water bodies, fish production has increased to 22,070 tons of fish vis-á-vis a 2016 production target of 22,000 tons.

Regarding the development and promotion of the competitiveness of the industry and craft industry sectors, the results achieved are mixed. On the one hand, the actions taken have slightly increased the share of the secondary sector in GDP from 19.6% in 2015 to 20.0% in 2016. On the other hand, the share of manufacturing industries in GDP fell from 6.6% in 2015 to 6.2% in 2016. In the field of trade and service industries, the aim is to reduce the share of the informal sector. However, in 2016, the share of the informal sector in the added value of the tertiary sector actually increased, from 20.9% to 24.9%.

In the field of the marketing of national products, the diversification process got under way with the enlargement of the base of exported products: sesame, cashew nuts, shea butter, etc. Meanwhile, the share of consumer food products in goods imports declined from 10.1% in 2015 to 9.6% in 2016.

As part of the *development of infrastructure necessary for the structural transformation of the economy,* three dams have been built in the localities of Gourgou, Lallé and Bogré. Meanwhile, the proportion of surface water reservoirs with bank protection has also increased, reaching 15% against a target of 11.5%.

In terms of road infrastructure, the actions undertaken have made it possible to increase the total length of paved roads from 3,642 km in 2015 to 3,717 km by the end of 2016, and that of upgraded rural roads from 12,850 km at the end of 2015 to 12,889 km in 2016, bringing the proportion of paved roads to 24.5% compared to 24% in 2015 and that of rural roads to 27.9%, against 27% in 2015.

At the level of ICTs, the investments made in 2016 to reduce the digital divide involve in particular the construction of the Ouagadougou-Pô / Ghana border (180km) fiber optic link with the Manga - Bagrépôle link and the launch of the G-CLOUD project, which installed 20 km of optical fiber cable in the city of Ouagadougou.

The protection of the environment did not remain outside the scope of government action. In fact, a total of 8,528 hectares of degraded lands in protected areas were restored in 2016, and more than 400,000 ha of forest and 982,881 ha of wildlife protection areas were placed under management. In addition, 9.9 million seedlings were produced and 11 eco-villages created.

III. Improvement of the Energy Capacity and the Financial Base

A) Improvement of the Energy Capacity

With regard to increasing the installed energy capacity, numerous actions were carried out or committed to over the year, recording an increase in the cumulative installed electrical power of 321 megawatts in 2016, against 300 in 2015. These projects include: (i) completion of the construction of the 1st solar plant with a peak of 1 MW at Ziga, (ii) the equipping of 59 public buildings, including schools and CSPS with solar panels.

In addition, other actions are in the implementation phase, such as: (i) the strengthening of the Kossodo thermal power plant with an additional capacity of 50 MW, (ii) the completion of a feasibility study for the installation of solar panels on public buildings, (iii) the construction of the Zagtouli power plant with a capacity of 33 MW, (iv) interconnection with Ghana to enable imports of 100 MW, (v) domestic electrical interconnections (Ouagadougou and Ouahigouya, Kongoussi and Djibo, Kaya and Dori) with the connection of Bourzanga, Namsiguia, Bani, Yalgo, Tougouri and Pissila, and (vi) the signing of PPP and PPA contracts for the construction of a 26 MW photovoltaic solar power plant in Zina by the Zina Solaire company.

Local government investments in energy related to solar energy, the acquisition of multifunctional platforms and generators for a provisional total amount of about 1 billion FCFA.

All of these actions made it possible to achieve a national electricity coverage rate of 33.55% in 2016, compared to 33.32% a year earlier. As for the national electrification rate, it stood at 20.07% against 18.83% in 2015. This rate is 66.46% in urban areas and 3.20% in rural areas in 2016, compared to 59.88% and 3.06% respectively in 2015.

Finally, the share of renewable energy in total energy production in 2016 was 14% compared to 1% in 2015.

B) Improvement of the Financial Base

With regard to financing for development, a number of actions have been taken in relation to the performance of domestic and external finance mobilization. Forty-four financing agreements were signed for an overall amount of 655,853,305,504 FCFA, including 169,406,376,718 FCFA for bilateral cooperation and 486,446,928,786 FCFA for multilateral cooperation in 2016. A strategy on the settlement of domestic debt was adopted and provided budgetary resources of 30 billion FCFA and 29.5 billion FCFA respectively for the settlement of so-called regular and irregular debts.

In addition, national resource mobilization capacity and the efficiency of public expenditure have improved, particularly through the operationalization of the standardized invoice from March 1, 2017, the implementation of the Virtual Link System for import and export operations (SYLVIE), the finalization currently underway of the satellite tracking system for goods in transit (Tracking), the adoption of the 2016 PPP project program by the Council of Ministers, and the creation of five new expenditure Auditing Units (UVs).

Total revenue and donations in 2016 increased 10.4% compared to 2015. This performance is mainly related to the 15.7% increase in tax revenues, thus improving the tax-GDP ratio by about 1 percentage point of GDP, to 15.0% in 2016 against 14.1% in 2015. However, the fiscal deficit widened to 3.1% of GDP in 2016 compared to 2.0% of GDP in 2015.

IV. Economic and Financial Outlook and Medium-Term Objectives

A) At the Macroeconomic Level

Looking ahead, economic activity should accelerate its growth rate in 2017, supported by the dynamism of mining activities and the intensification of investments in the productive sectors. The growth rate of real GDP should exceed 6.4% in 2017 against 5.9% in 2016. The implementation of the PNDES is expected to drive an economic growth rate of 7.3% in 2018 and an average annual growth of 7.0% between 2019 and 2020, boosted by the dynamism of the agricultural, forestry and pastoral sector, the positive orientation of the secondary sector and the vigor of the services sector (telecommunication, financial services, transport).

Inflation should remain below the maximum community norm of 3%, with an annual average of 1.8% over the 2018-2020 period.

Considered a pivotal year with the entry into implementation of the PNDES, the Government has accelerated its structural investments in 2017 and the resulting budget deficit is expected to be 6.7% of GDP. In 2018, the deficit relative to GDP should be 4.8%. These significant levels of deficit can also be explained by taking into account those expenditures that cannot be reduced, due to the national and regional situation. These concern most notably:

- ✓ the strong pressure of social demands following the socio-political crisis of October 2014;
- ✓ in connection with this socio-political crisis, the need for national reconciliation and the consolidation of democracy with the organization of the referendum on the new constitution and the action of the High Council for Reconciliation and National Unity (HCRUN);
- ✓ the legacy of a significant stock of multiple debts that must be cleared so as not to degrade the financial situation of state-owned companies and stifle private providers and suppliers of the State;
- ✓ the resurgence of terrorist attacks, a global and abhorrent phenomenon, which demands strong measures to safeguard the integrity of the national territory, but also the reinforcement of its role as a barrier against the overflow of terrorist actions outside the Sahelian zone, by means of equipping the defense and security forces. The Government was obliged to implement an Emergency Program for the Sahel (PUS).

The impact of all related expenditures amounts to 190 billion FCFA in 2017 and 187 billion FCFA in 2018. In the absence of these, the level of deficit would be around 4.09% of GDP in 2017 and 2.71% of GDP in 2018.

However, the Government undertakes to control the overall budget deficit, taking appropriate measures to reduce it to below 3% of GDP by 2019, in accordance with the budget deficit convergence criteria of the West African Economic and Monetary Union (WAEMU). To this end, the Government will make efforts to accelerate the implementation of reforms, including the mobilization of additional resources, both internal and external. Emphasis will also be placed on improving the efficiency and execution of investments (strengthening of design and execution capacities) as well as the rationalization of operating expenses (control of payroll, subsidies, and operating expenses, in particular more efficient use of vehicles and of consumer products within the administration).

Looking forward to the 2017-2019 period, efforts will be taken to remove the difficulties identified in the fulfillment of the results by pillar and to strengthen the functioning of the implementation, monitoring and evaluation system.

Pillar 1: Thus, in terms of institutional reforms and the modernization of the administration, *the Government will continue the reforms to promote good administrative and political governance* by, among others, strengthening the dialogue with the Parliament, access to and independence of justice, strengthening the security of identity documents, fighting insecurity, national reconciliation, strengthening of access to accurate information, the protection of refugees in Burkina Faso and Burkinabés abroad, improving the efficiency of public officials, adopting and implementing the National Strategy for Promoting Good Governance, etc.

In order to promote good economic governance, the Government also intends to carry out a series of actions, principal among them being: the preparation of 14 sectoral policies, the audit of public contracts, the creation of the deposit and consignment fund, the creation of the agricultural bank, the creation of the bank for the financing of SMEs/SMIs, support for the formalization of informal enterprises, etc.

Strengthening of decentralization and promotion of local governance will continue, notably through the adoption of the devolution charter, increased budgetary transfers to local authorities, the reform of the legal and institutional framework for administrative supervision over local authorities, the drafting of the land use planning bill, the drawing up of 13 regional planning and sustainable development plans, etc.

Pillar 2: With regard to the development of human capital, *the promotion of health and the acceleration of the demographic transition* will take shape in the continued implementation of the free health care policy benefiting children under 5 years of age and pregnant women, the construction and outfitting of 15 CMAs, the establishment of the public hospital system, improvement to the nutritional status of the population, the promotion of innovative family planning practices, etc.

In the field of education, higher education and training, it will be necessary above all to increase staff numbers at all levels, to diversify the supply of training, to train and supervise teaching staff, etc.

With regard to research and innovation, the Government will implement the capacity building program of the national system of research and innovation, create three technopoles, build two poles of excellence and an incubator-center technology for Bagrépôle, etc.

Regarding the promotion of decent employment and social protection for all, the 2017-2019 period will be marked by the financing of about 7,000 micro-projects, continuation of labor-intensive works, capacity-building for young people in entrepreneurship, strengthening the legal and institutional framework for decent work, promoting social dialogue, combating child labor and especially its worst forms, promoting gender equity in the labor market, improving and extending the social coverage of the formal sector to actors in the urban and rural informal economies, strengthening of the institutional and legal framework favorable to the promotion of universal health insurance, etc.

To improve the quality of life, access to water, sanitation and quality energy services, planned actions include the construction and rehabilitation of drinking water supply structures (boreholes, AEPS, etc.), the construction of family latrines and institutional and public latrines, the construction of 50 km of collective and semi-collective sanitation networks in Ouagadougou and Bobo-Dioulasso, the creation of 13 plastic waste recycling units in the regions, the completion of the Ouagadougou-Ouahigouya electrical interconnection works, the creation of a technopole, the electrification of 500 rural villages, the electrification of school and health infrastructures in 300 rural villages, etc.

Pillar 3: In order to boost the growth sectors for the economy and jobs, *it is planned to develop a more productive and resilient agricultural, forestry, pastoral, wildlife and fisheries sector that is more market-oriented.* The actions to be undertaken during the period will include, among others, the construction of small water mobilization works, the provision of subsidized dewatering equipment to producers, improvements to the coverage rate of livestock feed requirements, etc.

In order to develop a competitive, high-value-added and decent-job-creating industrial and craft industry sector, plans include improvements to the competitiveness of industrial enterprises, the adoption and implementation of the orientation law for promotion of SMEs, the implementation of the project to create and set up business incubators and centers in the agri-food sector, the promotion and marketing of handicrafts, strengthening of cultural and tourist infrastructures, and the entry into production of new gold mines.

In the context of promoting trade and expanding high-value-added and decent-job-creating service industries, the Government's action will focus on the operationalization of the truck fleet renewal program, the construction of nine post offices, the start-up of integrated shea butter development projects, the creation of two Special Economic Zones, the implementation of the project for the creation of a multimodal dry port in the Central Region, the completion of the Samendeni dam, etc.

B) In the Energy Sector

With regard to the installed capacity (in megawatts) and the cost per kWh of high voltage electricity (in FCFA), the actions commenced in 2016 will continue, including the finalization and commissioning of the interconnection between Bolgatanga in Ghana and Ouagadougou, the effective start of works to boost the Fada N'Gourma thermal power plant with an additional capacity of 7.5 MW, and the commissioning of the grid-connected Ziga community photovoltaic power plant rated at 1.1 MW. These actions are expected to improve the installed capacity from 325 to 650 by 2018 and reduce the cost per kWh of high-voltage electricity from 75 FCFA to 55 FCFA in 2018.

Significant reforms have also been made in the sector with the overall objective of reducing imbalances between electricity supply and demand while improving the management and governance of the country's public finances.

With regard to the financial sustainability of the energy sector, the Government of Burkina Faso undertakes to continue clearing the remaining debts accumulated because of previous delays in the payment of (i) electricity consumption by the State, local authorities and parastatal structures; (ii) subsidies due to SONABHY for the supply of fuel to SONABEL thermal power plants; and (iii) balancing subsidies due to SONABEL on the one hand, and on the other hand the regular and diligent payment of fuel subsidies for electricity generation, which will contribute to the sustainable improvement of the financial sustainability of the energy sector. The Government is also relying on the following measures and reforms:

- sufficient allocation of resources under the 2018 Finance Bill to cover (a) the clearance of outstanding arrears by 2019; (b) the payment of over-due electricity bills by the State, local authorities, territories and parastatal structures, owed to SONABEL; and (c) the maximum amount of subsidy to SONABHY for the supply of fuel to the SONABEL thermal power plants;

- in order to improve its financial performance, SONABEL has optimized its fuel costs by (i) implementing the provisions of the 2015-2019 agreement between the State and SONABEL relating to the fuel mix ratio aimed at reducing the dependence on the most expensive fuels, and (ii) implementing the recommendations of the Audit report 02-DACG-2015 regarding the specific consumption of thermal power plants;
- in order to improve the efficiency of invoicing, receipts and the recovery of its receivables, SONABEL implemented actions as part of its income protection program (PPR), with the acquisition of smart meters.

With regard to the diversification of the energy mix and improvement of the legal and institutional framework of the energy sector, the Government is committed to using a transparent and standardized competitive selection process for the acquisition, at lower cost, of new production capacity, including the projects of independent electricity producers. In this regard, the following measures have been taken:

- the Council of Ministers adopted the national production-transport-distribution and rural electrification 2017-2025 investment plan, aimed at increasing access and identifying the optimal investment sequence and how it is financed.
- The Ministry of Energy has set up the Permanent Secretariat of the National Commission for Energy Sector Planning to develop and maintain up to date the optimal investment plan and monitor its implementation.
- In order to encourage competition in the electricity sub-sector, the beneficiary established, through Law N.014-2017/AN, a competitive wholesale electricity market, allowing eligible customers to purchase their electricity supply directly from independent producers, with a right of access to the transmission network granted for this purpose.
- In order to encourage the acquisition of electricity at lower cost, the Council of Ministers has adopted the decree on the terms and conditions for the granting of licenses or authorizations for the production of electrical energy, which specifies the regulatory framework for standardized competitive selection of independent electricity producers.

C) In the Public Finance Sector

Concerning the management of public finances, the actions to be implemented will consist of: (i) strengthening the governance of state assets, (ii) evaluating the public finance management system according to the PEFA methodology, (iii) implementing the action plan for strengthening the management of public investments, (iv) auditing public procurement, (v) digitalizing documents on public expenditure, (vi) conducting a national assessment of money laundering and terrorism financing risks, and (vii) organizing the national employment council session on vocational training.

In relation to strengthening the mobilization of budget revenue and public procurement procedures:

- the Ministry of the Economy, Finance and Development has implemented standardized VAT invoicing.
- to improve tax collection, the Council of Ministers has submitted the new General Tax Code (CGI) to the National Assembly.
- the government has issued the decrees adopting the regulatory framework necessary for the 2016 Public Procurement Code to enter operation and to ensure its effective implementation.

With regard to development finance, actions will aim to: (i) develop the project of a fiscal registry, (ii) create the deposit and consignment fund, (iii) modernize medium-sized enterprises, (iv) draw up the reference system on the division of labor and complementarity between TFPs, (v) prepare the report on development cooperation, (vi) establish the agricultural bank, (vii) establish the bank for financing SMEs/SMIs and (viii) implement the satellite tracking system for goods in transit.

The Government remains convinced that with the support of its partners, notably the World Bank, the implementation of this budget support program, whose measures and reforms are oriented toward the energy sector and public finances, will help promote the development of both sectors, consolidate the macroeconomic framework and support strong and inclusive economic growth for significant and sustainable poverty reduction.

I would like to reiterate our sincere thanks for your disposition, **Mr. President**, and that of your institution in supporting the government of Burkina Faso in its development efforts. Please accept my very best regards.

For the Minister of Economy, Finance
and Development, the Deputy Minister for the
Budget

Edith Clemence YAKA
Officer of the Order of Burkinabé Merit

ANNEX 3: IMF RELATIONS NOTE

INTERNATIONAL MONETARY FUND

COM
COMMUNICATIONS DEPARTMENT

Press Release No. 17/284
FOR IMMEDIATE RELEASE
July 14, 2017

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Completes Seventh and Final Review Under the Extended Credit Facility Arrangement for Burkina Faso and Approves US$6.2 Million Disbursement

- The economic outlook is positive, owing to a significant increase of public investment as well as positive prospects for the mining and agricultural sectors.
- To maximize the benefits of the planned increase in public investment, it will be important to pursue fiscal structural reforms that strengthen the budget and investment processes.
- Reforms should prioritize increasing fiscal space by enhancing revenue mobilization, containing the wage bill, and limiting the buildup of contingent liabilities from the energy sector.

On July 14, 2017, the Executive Board of the International Monetary Fund (IMF) completed the seventh and final review of Burkina Faso's program supported by the Extended Credit Facility (ECF). The decision was taken without a Board meeting[1] and enables the disbursement of SDR 4.47 million (about US$6.2 million), bringing total disbursements under the ECF arrangement that was approved in 2013 to SDR 55.64 million (approximately US$77.4 million).

Burkina Faso's program implementation remained satisfactory under the ECF arrangement. After averaging 4 percent over 2014-2015, real GDP growth accelerated to 5.9 percent in 2016. The current account deficit narrowed slightly to just below 7 percent of GDP as increased cotton and gold exports were offset by higher domestic demand for consumer goods and public investment related imports. Despite an increase in revenue collection, the fiscal deficit widened in 2016 to 3.1 percent of GDP on a commitment basis, marginally above the WAEMU convergence criteria. The increase in the deficit largely resulted from higher current expenditures, particularly the wage bill following adoption of a new salary grid for public servants. This was partially offset by a decline in domestically-financed public investment to 4.8 percent of GDP, a reduction of 0.5 percent of GDP compared to the previous year.

[1] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

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The outlook for Burkina Faso is generally positive, owing to a significant increase of public investment as well as positive prospects for the mining and agricultural sectors. IMF staff projects real GDP growth of about 6.5 percent over the medium term, with risks tilted to the downside. Principal among these are security risks, volatility in international commodity prices (gold, cotton, oil), negative environmental shocks to agriculture, and socio-political tensions.

The government's fiscal framework is appropriately anchored toward reaching a deficit of no more than 3 percent of GDP in 2019, consistent with the West African Economic and Monetary Union (WAEMU) convergence criteria. It is also geared toward achieving the economic and social development goals of the National Economic and Social Development Plan (PNDES), which entails significant investment in physical and human capital over the medium term. The authorities' intention to revise the original 2017 budget is welcome, as it would make for a more realistic framework that accounts for developments in the first half of 2017. The authorities' medium-term framework continues to retain some optimistic elements. Consequently, careful monitoring of budget execution and its financing is important, together with a readiness to adjust spending, if necessary.

To maximize the benefits of the planned increase in public investment, it will be important to pursue fiscal structural reforms that strengthen the budget and investment processes. Reforms should prioritize increasing fiscal space by enhancing revenue mobilization, containing the wage bill, and limiting the buildup of contingent liabilities from the energy sector. Strengthening investment efficiency through improved prioritization and selection of projects and institutional reforms to increase absorptive and implementation capacity are also priorities.

ANNEX 4: ENVIRONMENT AND POVERTY /SOCIAL ANALYSIS TABLE

Prior Actions	Significant positiv negative environm effects (yes/no
Pillar 1 – Improving the financial sustainability of the energy sector	
Prior Action 1: To reduce inter-agency arrears and promote transparency and predictability in the energy sector, the Recipient has: (a) cleared its arrears as accrued until October 10, 2017 to SONABEL for electricity bills and compensation subsidies and to SONABHY for fuel subsidies; and (b) allocated adequate funds in the draft 2018 Budget Law, approved by the Recipient's Council of Ministers to cover the projected maximum of fuel subsidies paid to SONABHY for fuel delivered to SONABEL's plants.	No
Prior Action 2: To improve its financial performance, SONABEL has optimized its fuel costs throughout 2016 by: (a) implementing Article 14 of the Performance Contract regarding fuel mix ratios aimed at decreasing dependence on higher cost energy sources; and (b) implementing the recommendations of the 2015 Audit Report regarding specific fuel consumptions	No
Prior Action 3: To improve billing and collection processes, SONABEL has deployed the information and monitoring system for the smart meters pursuant to the Revenue Protection Program.	No
Pillar 2 – Enabling private sector participation in the energy sector and diversifying the energy mix	
Prior Action 4: To improve governance and planning, the Recipient's Council of Ministers has: (a) approved the National Investment Plan, to shift the energy mix towards cleaner and affordable sources and extend access to reliable electricity services; and (b) established the Permanent Secretariat for the National Commission for Energy Sector Planning at the Ministry of Energy pursuant to Decree N.2017-0350/PRES/PM/ME.	No
Prior Action 5: To foster competition in the electricity sector, the Recipient has created, by law N.014-2017/AN, a competitive wholesale electricity market framework, providing direct access between generation companies and large consumers and third party-access to the network.	No
Prior Action 6: To cost-effectively procure electricity, the Recipient's Council of Ministers has established a structured and standardized competitive process to select Independent Power Producers pursuant to chapter IV of Decree N.2017-1012 /PRES/PM/ME/MICA/MINEFID.	No
Pillar 3 – Strengthening tax collection and public procurement processes	
Prior Action 7. To combat fraud and improve revenue collection, the Recipient's Ministry of Economy, Finance and Development has introduced standardized VAT invoicing for the majority of firms under the Standard Tax Regime, as set out in Directive 00044 dated February 15, 2017.	No
Prior Action 8: To increase tax revenue collection, the Recipient's Council of Ministers has approved the draft General Tax Code and submitted it to the National Assembly for enactment.	No

Prior Action 9: The Recipient has proceeded with the implementation of the Procurement Code by adopting: (a) a decree defining procurement procedures; (b) ministerial orders to clarify obligations regarding: Annual procurement plans, Public procurement deadlines and Archiving; and (c) a decree setting the mandate, organization and functioning of the Public Procurement Regulatory Authority.	No

ANNEX 5: PRIOR ACTIONS AND ANALYTICAL UNDERPINNINGS

Prior Actions	Analytical Underpinnings
Pillar 1: Improving the financial sustainability of the energy sector	
Prior Action 1. To reduce inter-agency arrears and promote transparency and predictability in the energy sector, the Recipient has: (a) cleared its arrears as accrued until October 10, 2017 to SONABEL for electricity bills and compensation subsidies and to SONABHY for fuel subsidies; and (b) allocated adequate funds in the draft 2018 Budget Law, approved by the Recipient's Council of Ministers to cover the projected maximum of fuel subsidies paid to SONABHY for fuel delivered to SONABEL's plants.	*''IMF Staff report on the Fourth and Fifth Reviews Under the Extended Credit Facility Arrangement'' June 2016*
Prior Action 2. To improve its financial performance, SONABEL has optimized its fuel costs throughout 2016 by: (a) implementing Article 14 of the Performance Contract regarding fuel mix ratios aimed at decreasing dependence on higher cost energy sources; and (b) implementing the recommendations of the 2015 Audit Report regarding specific fuel consumptions.	*Report on the fuel supply chain to SONABEL plants (''Rapport sur l'approvisionnement en produits pétroliers du Burkina Faso et sur l'approvisionnement de la SONABEL''), July 2016, Jean-Pierre Favennec.* *''SONABEL's Audit of charges and subsidies received from GoBF for the period 2010-2013'', 2014* *"Public Expenditure Review in the Energy and Transport Sectors," World Bank, March 2013.*
Prior Action 3. To improve billing and collection processes, SONABEL has deployed the information and monitoring system for the smart meters pursuant to the Revenue Protection Program.	*''The benefits of Revenue Protection Program, United Illuminating Company'', March 2007*
Pillar 2: Enabling private sector participation in the energy sector and diversifying the energy mix	
Prior Action 4. To improve governance and planning, the Recipient's Council of Ministers has: (a) approved the National Investment Plan, to shift the energy mix towards cleaner and affordable sources and extend access to reliable electricity services; and (b) established the Permanent Secretariat for the National Commission for Energy Sector Planning at the Ministry of Energy pursuant to Decree N.2017-0350/PRES/PM/ME.	*''Medium Term Strategy and Roadmap for Burkina Faso's Energy Sector'', World Bank Executed Study by Tractebel/Nodalis, June 2016*
Prior Action 5. To foster competition in the electricity sector, the Recipient has created, by law N.014-2017/AN, a competitive wholesale electricity market framework, providing direct access between generation companies and large consumers and third party-access to the network.	*''Medium Term Strategy and Roadmap for Burkina Faso's Energy Sector'', World Bank Executed Study by Tractebel/Nodalis, June 2016*
Prior Action 6. To cost-effectively procure electricity, the Recipient's Council of Ministers has established a structured and standardized competitive process to select Independent Power Producers pursuant to chapter IV of Decree N.2017-1012 /PRES/PM/ME/MICA/MINEFID.	*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 7. To combat fraud and improve revenue collection, the Recipient's Ministry of Economy, Finance and Development has introduced standardized VAT invoicing for the majority of firms under the Standard Tax Regime, as set out in Directive 00044 dated February 15, 2017.	"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. To increase tax revenue collection, the Recipient's Council of Ministers has approved the draft General Tax Code and submitted it to the National Assembly for enactment.	"Policy Note on Macroeconomic management," World Bank, June 2016.

Prior Actions	Analytical Underpinnings
	''IMF Staff report on the Fourth and Fifth Reviews Under the Extended Credit Facility Arrangement'' June 2016.
Prior Action 9. The Recipient has proceeded with the implementation of the Procurement Code by adopting: (a) a decree defining procurement procedures; (b) ministerial orders to clarify obligations regarding: Annual procurement plans, Public procurement deadlines and Archiving; and (c) a decree setting the mandate, organization and functioning of the Public Procurement Regulatory Authority.	*"Policy Note on Governance and Public Administration," World Bank, June 2016.*

ANNEX 6: CHANGES BETWEEN DPF1 INDICATIVE TRIGGERS AND DPF2 PRIOR ACTIONS

<table>
<tr><th colspan="2">Prior Actions and Indicative Triggers</th><th rowspan="2">Descriptions of Changes</th></tr>
<tr><th>Indicative Triggers for DPF2</th><th>Prior Actions for DPF2</th></tr>
<tr><td colspan="3">Pillar 1 – Improving the financial sustainability of the energy sector</td></tr>
<tr><td>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.</td><td>Prior Action 1: To reduce inter-agency arrears and promote transparency and predictability in the energy sector, the Recipient has: (a) cleared its arrears as accrued until October 10, 2017 to SONABEL for electricity bills and compensation subsidies and to SONABHY for fuel subsidies; and (b) allocated adequate funds in the draft 2018 Budget Law, approved by the Recipient's Council of Ministers to cover the projected maximum of fuel subsidies paid to SONABHY for fuel delivered to SONABEL's plants.</td><td>Changed to reflect government's commitment to clear arrears during 2017.</td></tr>
<tr><td>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.</td><td>Prior Action 2: To improve its financial performance, SONABEL has optimized its fuel costs throughout 2016 by: (a) implementing Article 14 of the Performance Contract regarding fuel mix ratios aimed at decreasing dependence on higher cost energy sources; and (b) implementing the recommendations of the 2015 Audit Report regarding specific fuel consumptions</td><td>Changed.
Part (a) of the trigger has been dropped. Marketers have shown no interest in supplying fuel to SONABEL, because of perceived risk of timely payment of fuel subsidies. The revision of the administered price for fuel transport to SONABEL facilities in early 2016 has contributed to securing the fuel supply to SONABEL, in quantity and quality.
Part of the prior action on invoicing during hydrocarbon transport is no longer relevant, since a benchmark has shown that fuel leakages were within industry standards.
The revised prior action will help reduce overall fuel costs for electricity generation.</td></tr>
<tr><td>Indicative Trigger 3: SONABEL has allocated funds and implemented the actions required in the first year of the revenue protection program.</td><td>Prior Action 3: To improve billing and collection processes, SONABEL has deployed the information and monitoring system for the smart meters pursuant to the Revenue Protection Program.</td><td>Unchanged (rewritten to clarify)</td></tr>
<tr><td colspan="3">Pillar 2 – Enabling private sector participation in the energy sector and diversifying the energy mix</td></tr>
</table>

Prior Actions and Indicative Triggers		Descriptions of Changes
Indicative Triggers for DPF2	**Prior Actions for DPF2**	
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.	**Prior Action 4:** To improve governance and planning, the Recipient's Council of Ministers has: (a) approved the National Investment Plan, to shift the energy mix towards cleaner and affordable sources and extend access to reliable electricity services; and (b) established the Permanent Secretariat for the National Commission for Energy Sector Planning at the Ministry of Energy pursuant to Decree N.2017-0350/PRES/PM/ME.	**Changed** Indicative trigger 4 and 5 have been merged into Prior Action 4. The national investment plan has been prepared by the authorities based on the existing master plan (2014) and recent studies on mix diversification (Tractebel / Nodalis, 2016; Tractebel, 2017). The master plan is being updated to emphasize renewable energy.
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 arrangement, sufficient funding to meet its objectives as well as a sunset clause.	**Prior Action 5:** To foster competition in the electricity sector, the Recipient has created, by law N.014-2017/AN, a competitive wholesale electricity market framework, providing direct access between generation companies and large consumers and third party-access to the network.	**Trigger 6 dropped and replaced by Prior Action 5.** Although an agreement had been reached to establish an Electricity Sector Development Fund during the preparation of the DPF1, the authorities have not pursued this approach, taking into consideration risks to budgetary integrity and flexibility, as well as transparency and accountability risks.
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.	**Prior Action 6:** To cost-effectively procure electricity, the Recipient's Council of Ministers has established a structured and standardized competitive process to select Independent Power Producers pursuant to chapter IV of Decree N.2017-1012 /PRES/PM/ME/MICA/MINEFID.	**Unchanged.** The wording has been narrowed to focus on the establishment of the IPP framework through secondary legislation (the new law was the object of Prior Action 6).
Pillar 3 – Strengthening tax collection and public procurement processes		
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.	**Prior Action 7.** To combat fraud and improve revenue collection, the Recipient's Ministry of Economy, Finance and Development has introduced standardized VAT invoicing for the majority of firms under the Standard Tax Regime, as set out in Directive 00044 dated February 15, 2017.	**Changed.** The revision of the eligibility criteria of VAT collection requires a study on VAT payers that will allow segmentation and provide a basis for selecting the appropriate threshold. The study will be carried out between September-December 2017.

Prior Actions and Indicative Triggers		Descriptions of Changes
Indicative Triggers for DPF2	**Prior Actions for DPF2**	
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)*.	**Prior Action 8:** To increase tax revenue collection, the Recipient's Council of Ministers has approved the draft General Tax Code and submitted it to the National Assembly for enactment.	**Unchanged.**
Indicative Trigger 10: The Government has issued relevant Decrees that operationalize the 2016 Procurement Code and proceeded with its effective implementation.	**Prior Action 9:** The Recipient has proceeded with the implementation of the Procurement Code by adopting: (a) a decree defining procurement procedures; (b) ministerial orders to clarify obligations regarding: Annual procurement plans, Public procurement deadlines and Archiving; and (c) a decree setting the mandate, organization and functioning of the Public Procurement Regulatory Authority.	**Unchanged.** The prior action specifies the regulations needed to implement the new code and reduce delays for procurement procedures.

ANNEX 7: ENERGY SECTOR ECONOMIC AND FINANCIAL ANALYSIS

1. **SONABEL is a relatively well-performing utility by 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[37]. The utility is characterized by relatively low loss rates and good performance in collection of billed amounts, ranking among the best performing utilities 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.

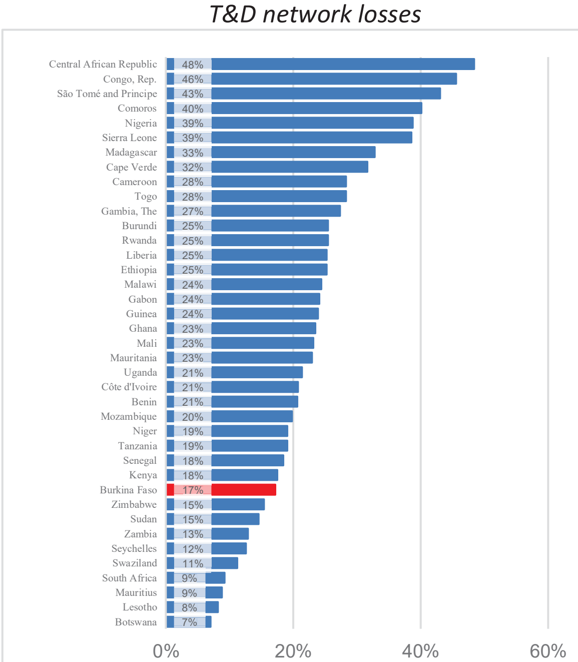
Table A7.1. SONABEL's operational data*

	2010	2011	2012	2013	2014	2015	2016
Total energy produced and purchased (GWh)	949	1,025	1,139	1,262	1,359	1,442	1,603
Total energy sales (GWh)	714	856	952	1,052	1,125	1,200	1,317
Energy sales – LV postpaid (GWh)	*455*	*496*	*552*	*613*	*661*	*686*	*724*
Energy sales – LV prepaid (GWh)	*30*	*32*	*37*	*39*	*50*	*59*	*70*
Energy sales – HV (GWh)[38]	*317*	*329*	*363*	*400*	*414*	*456*	*522*
Number of customers	362,165	401,476	436,250	472,441	508,449	544,825	585,634
Number of employees	1,495	1,530	1,510	1,610	1,648	1,603	1,711
Total length of line (km)	8,959	9,581	10,592	11,528	12,073	13,368	14,784
Distribution transformers (number)	2,263	2,409	2,571	2,735	2,959	3,218	3,607
Total losses (percent)	16.18	17.09	17.06	17.24	17.77	16.78	17.86
Transmission losses (percent)	*4.77*	*5.27*	*4.61*	*4.20*	*4.34*	*3.54*	*4.33*
Distribution losses (percent)	*11.41*	*11.82*	*12.45*	*13.04*	*13.43*	*13.24*	*13.53*
Collection rate (percent)	95.38	82.75	98.75	95.34	97.66	97.54	96.10

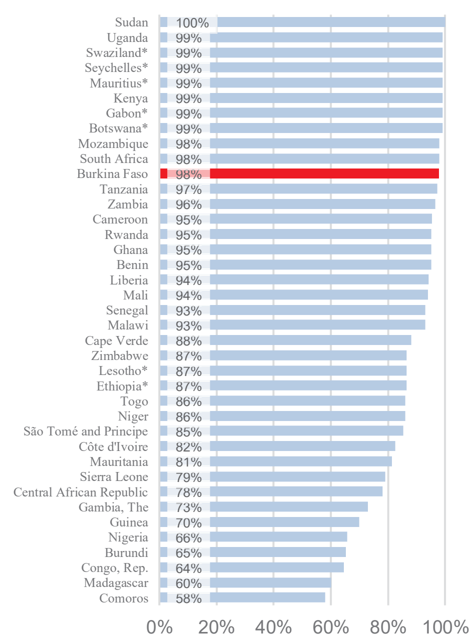
Source: Annual Reports.

Figure A7.1: SONABEL's operational and commercial performance: a regional comparison*

T&D network losses



Bill collection rates



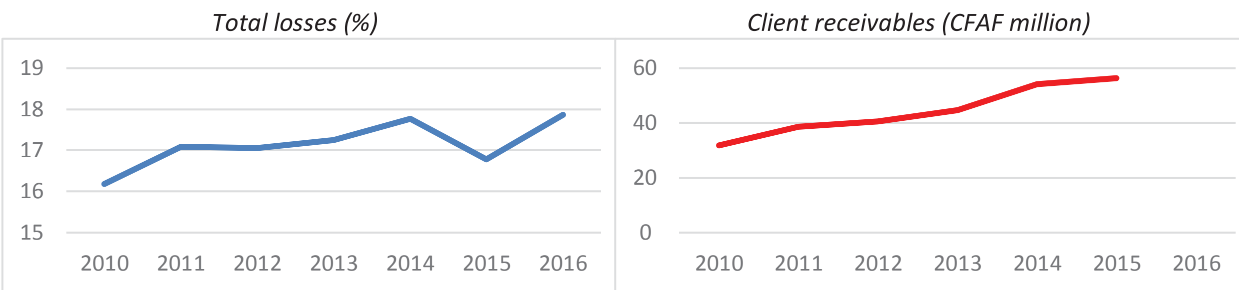
*Sources: Trimble, Chris; Masami Kojima, Ines Perez Arroyo, Farah Mohammadzadeh. Forthcoming. "The financial viability of electricity sectors in Sub Saharan Africa: quasi fiscal deficits and hidden costs"

[37] Maintenance of MW network is done "live", avoiding interruptions and proving that high technical skills are available.

[38] 1,425 HV clients, ie. 0.3 percent of Sonabel's clients, account for 37 percent of electricity sales.

2. **Distribution losses and client receivables have nonetheless increased since 2010.** Total losses increased from 16 to 18 percent, mostly driven by increases in distribution losses, but still compare well to neighboring countries. The increase in total losses results from suboptimal investments and maintenance expenditures in the network, as well as an increase in unbilled electricity. Customer receivables have significantly increased from CFAF 32 billion to 56 billion between 2010 and 2015, 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 A7.2. 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 tariffs are structurally below cost of service delivery[39]. The 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[40].

Figure A7.3: Electricity tariff vs. variable costs (EURc/kWh)

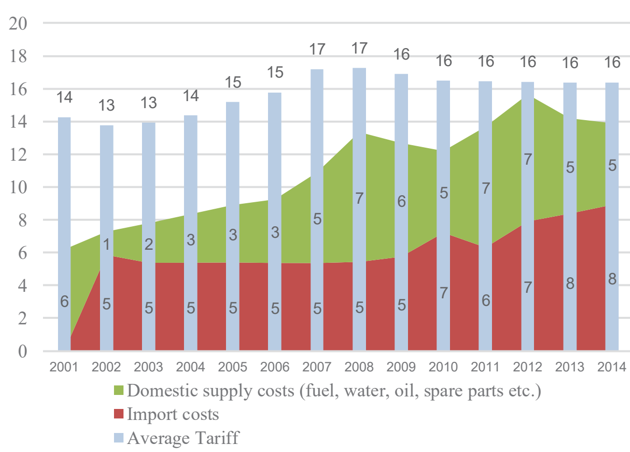


Figure A7.4: Debt ratio

[39] In 2015, cost of electricity service was around FCFA 139 per kWh, whereas average tariff was FCFA 122 per kWh.
[40] 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 improved with the new tariff structure for fuel purchase, but the energy sector still relies on budget transfer to fully recover its costs.** The new transparent and flexible oil price structure for SONABEL, prior action for the first operation and effective as of May 1, 2016, has capped fuel tariff at a threshold revised on yearly basis to reflect SONABEL break even. As a result, SONABEL, lost CFAF 11 billion (US$19 million) and CFAF 18 billion (US$31 million) in 2014 and 2015 respectively and had slightly positive incomes of CFAF 6 billion (US$10 million) in 2016. Above this ceiling, currently fixed at CFA 300 and 200 per liter for DDO and HFO respectively, SONABHY will receive subsidies paid on a quarterly basis, to compensate for the difference between capped tariff and actual cost of fuel. Annual subsidies cap for 2017 is CFAF 21 billion (US$34 million), above which electricity tariff adjustment would be triggered to pass through the delta in fuel price increase.

Table A7.2. SONABEL'S incomes and financial ratios 2014-2018

	Actual			Projections**	
	2014	**2015**	**2016**	**2017**	**2018**
EBITDA[1] (FCFA million)	**15,660**	**14,298**	**36,571**	**44,494**	**50,101**
Net incomes (FCFA million)	**(11,189)**	**(17,695)**	**6,104**	**6,590**	**9,040**
Av. tariff per kWh (FCFA)	90.28	90.48	91.46	92.46	92.44
Av. income per kWh (FCFA)	131.45	140.41	133.53	141.91	142.61
Av. cost per kWh sold (FCFA)	140.87	151.87	132.67	138.80	135.72
Av. cost per kWh injected (FCFA)	117.85	126.92	119.20	116.76	113.20
DSCR[1] (target* > 1.2)	1.10	0.80	-2.97	1.23	1.50
Net debt / CFADS[2] (target*<7)	8.13	11.69	-2.29	3.45	2.58
LT debt / Equity (target*<2)	2.25	1.91	2.64	2.19	1.57
ROE[3] (target*>4%)	-0.16	0.00	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

5. **The effort engaged to clear the stock of arrears in the sector, initiated in 2016, should be pursued**. The agreement signed between SONABEL, SONABHY and the Government on October 13, 2016 was a prior action for the first operation. The clearance of SONABEL's CFAF 66 billion arrears to SONABHY, partially reconverted into long term debt, has contributed to improve SONABEL cash position. SONABEL suffers from growing receivables, mostly from public sector clients and from delays in payment of subsidies by the central administration. Budget allocations were included in the 2016 Revised Budget Law and in the 2017 Budget Law so that the Government can pay part of its arrears to SONABEL and SONABHY. The remainder should be paid through budget allocations in FY18 and FY19.

Box A7.1. SONABEL revised fuel price structure and clearance of cross-arrears in the electricity sector

- Revised fuel price structure allows 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 bears 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**

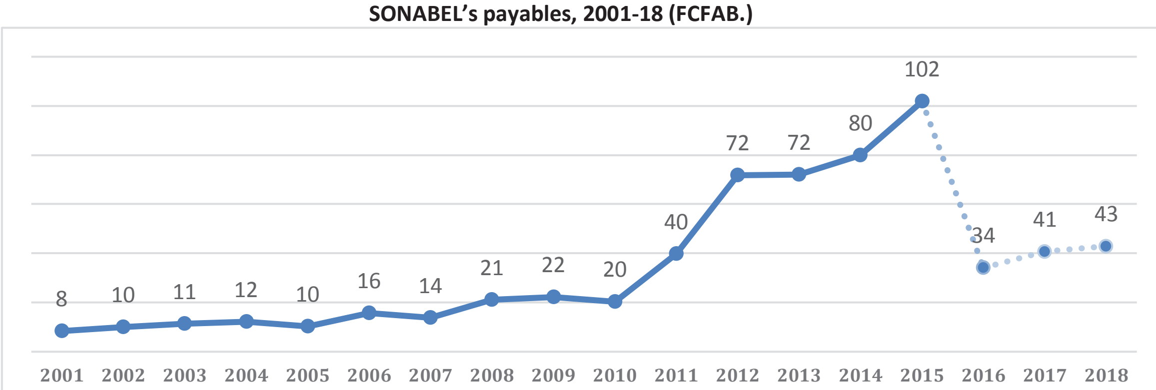
- The clearance of accumulated cross arears, initiated in 2016, has already reduced financing costs induced by SONABEL and SONABHY's shrinking cash flows. SONABEL's payables have been reduced to sustainable level with the cancellation of arrears to SONABHY and compensation for past due subsidies. The process is expected to be completed by the end of FY18.

Cross-arrears between SONABEL, SONABHY and the Government as of December 30, 2016

Items	Amount (CFAF million)
Fuel subsidies arrears (to SONABHY)*	61,000
Compensation subsidies arrears (to SONABEL)**	28,800
Outstanding bills (to SONABEL), including:	14,926
- *Reimbursable works*	*3,099*
- *Electricity bills (Ministers and State Agencies)*	*3,000*
- *National Day celebrations (11/12)*	*3,700*
- *Universities*	*3,700*
Total	**104,726**

Sources: Monitoring Committee of the Agreement between the Government, SONABEL and SONABHY dated Oct. 13, 2016, March 2, 2017
*including payments due as part of the new tariff regime
**under the old tariff regime whereby parts of sector subsidies were paid to SONABEL

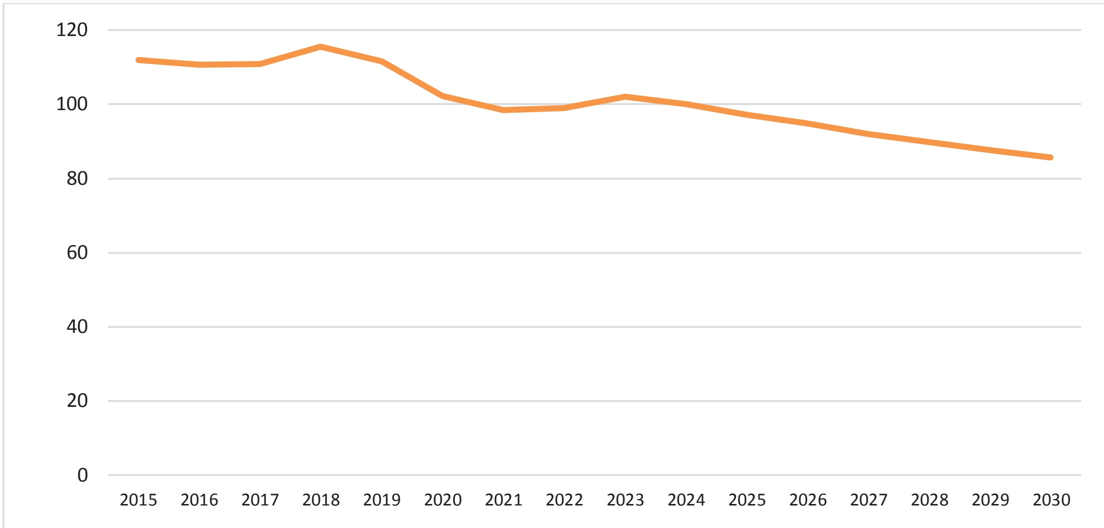
SONABEL's payables, 2001-18 (FCFAB.)



6. **Government's medium term strategy for energy sector recovery lies on diversification of the mix towards low cost renewables and cheaper imports.** The Government aims to increase its generation capacity by progressively shifting its energy generation mix towards cheaper imports and renewable electricity, as a way to reduce operating costs and mitigate sector dependency to oil price and FX exposure. The Government of Burkina Faso 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 8. Given the structure of the generation mix, fuel will remain a critical input for electricity service. Addressing energy sector imbalance would require an improvement in the upstream fuel supply chain

managed by SONABHY, currently characterized by high inefficiencies. Government's strategy to address those challenges includes 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.

Figure A7.5. Cost of Electricity Generation (CFAF per kWh)

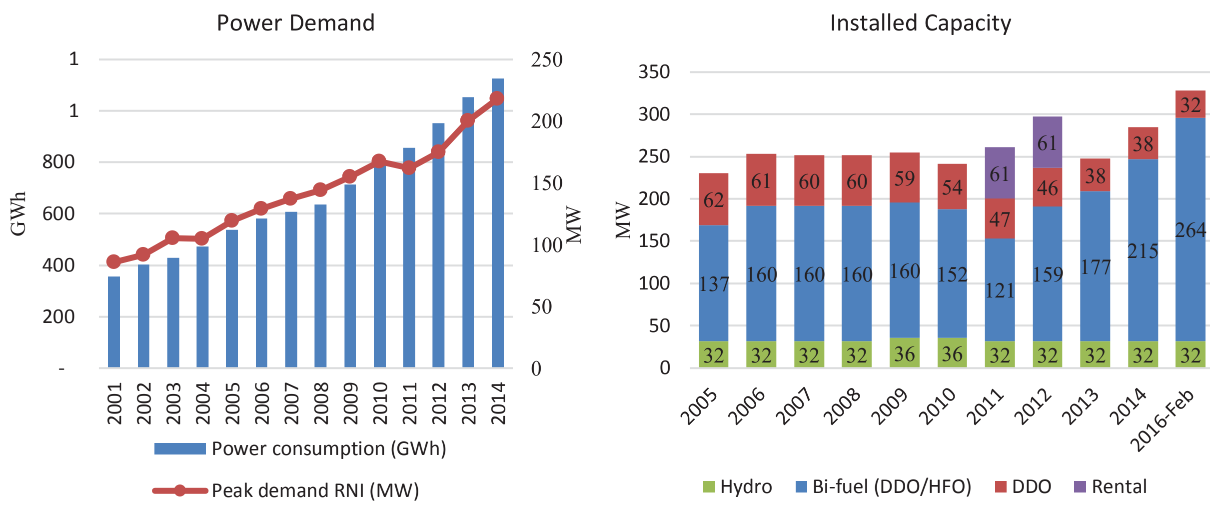


Source: Tractebel/Nodalis MT strategy and Roadmap for Burkina Faso, June 2016.

ANNEX 8: 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 2015-2016**. In 2015, installed capacity amounted to 315 MW, mostly produced from thermal[41], 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 A8.1: Demand – Supply analysis



2. **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, the Government of Burkina Faso 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 A8.1: 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.*

[41] 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.

3. **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.

4. **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 A8.2: Medium Term Power supply development scenarios 2015-2030[42]

	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 tends 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 Power**

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

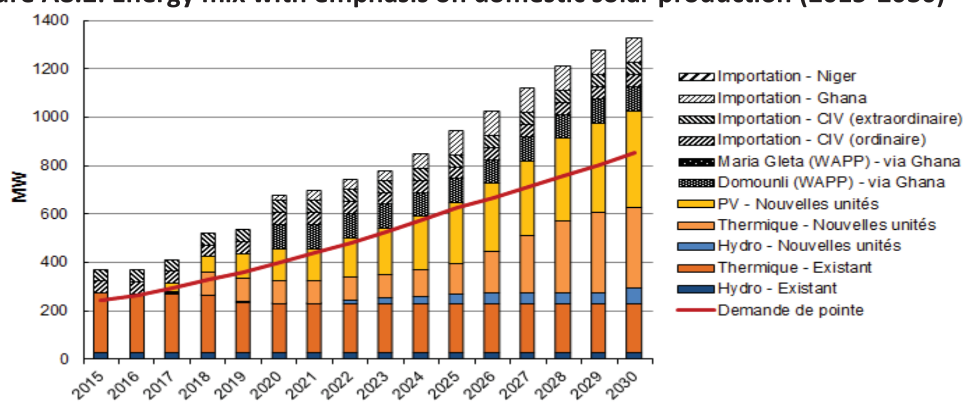
a) **Scale-up of Domestic Renewable Generation (primarily Solar Photovoltaic):** The Government of Burkina Faso's energy sector strategy promotes a dramatic scale-up of renewable energies within the national energy mix by 2030. The Government has initially planned for commissioning of 120 MWp of solar 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 Government launched two competitive bids in 2013 and 2016 for the development of 70 MWp and 80MWp solar PV plants

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

respectively. The first bid led to the shortlisting of five 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 WBG 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 [43] is due to be completed and operational by end of December 2017 adding an initial 40 MW 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 A8.2: Energy mix with emphasis on domestic solar production (2015-2030)[44]



c) **Develop firm baseload capacity:** The increase of domestic thermal generation capacity available is urgently needed to fill the increasing capacity deficit (see Table A8.1), 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, The Government of Burkina Faso 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 a 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 cost 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.

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

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

Table A8.3. Generation mix 2017-2025 (in MW)

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Existing plants	**Existing domestic capacity**	**257**	**258**	**258**	**256**	**229**	**229**	**229**	**229**	**229**	**229**
	Thermal	231	231	231	229	202	202	202	202	202	202
	Hydro	26	26	26	26	26	26	26	26	26	26
	Solar		1	1	1	1	1	1	1	1	1
Thermal projects	**New thermal capacity**				**7**	**157**	**157**	**157**	**157**	**257**	**257**
	Fada				7	7	7	7	7	7	7
	Kossodo					50	50	50	50	50	50
	Ouaga Est					100	100	100	100	100	100
	Ouaga Nord Ouest									100	100
Hydropower projects	**New hydropower capacity**			**2**	**2**	**2**	**2**	**2**	**16**	**16**	**58**
	Samendéni			2	2	2	2	2	2	2	2
	Bagré aval								14	14	14
	Bontioli										5
	Gongourou										5
	Folonzo										11
	Ouéssa										21
Solar PV projects	**New Solar PV capacity**			**53**	**53**	**161**	**161**	**278**	**278**	**278**	**278**
	Zagtouli 1			30	30	30	30	30	30	30	30
	Zina			23	23	23	23	23	23	23	23
	Zagtouli 2					15	15	15	15	15	15
	Koudougou					18	18	18	18	18	18
	Kaya					9	9	9	9	9	9
	Kodéni					15	15	15	15	15	15
	Pâ					15	15	15	15	15	15
	Patte d'Oie					6	6	6	6	6	6
	Zano					10	10	10	10	10	10
	Ziga 2					15	15	15	15	15	15
	Self-producers					5	5	5	5	5	5
	Regional Solar project Ph.1							45	45	45	45
	Solar IPPs 80MWp							72	72	72	72
TOTAL DOMESTIC CAPACITY		**257**	**258**	**313**	**318**	**549**	**549**	**666**	**680**	**780**	**822**
Interco.	**Total imports**	**50**	**50**	**100**	**150**	**150**	**150**	**150**	**250**	**375**	**375**
	Ivory Coast (Ferké-Ouaga)	50	50	50	50	50	50	50	50	50	50
	Ghana (Bolga-Ouaga)			50	100	100	100	100	100	100	100
	Nigeria (Northcore)								100	150	150
	Ghana (Bolga-Bobo)									75	75
TOTAL CAPACITY		**307**	**308**	**413**	**468**	**699**	**699**	**816**	**930**	**1,155**	**1,197**

Sources: Ministry of Energy, *Plan Directeur, Production -Transport – Distribution et d'Electrification Rurale, 2017-2025*, final report, September 2017