

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Date: 05/01/2017  
Report No.: AB7893

<b>Operation Name</b>	SECOND ENERGY AND FISCAL MANAGEMENT DEVELOPMENT POLICY FINANCING
<b>Region</b>	AFRICA
<b>Country</b>	Burkina Faso
<b>Sector</b>	Central government administration (40%); General energy sector (60%);
<b>Operation ID</b>	P163283
<b>Lending Instrument</b>	Development Policy Financing
<b>Borrower(s)</b>	Government of Burkina Faso
<b>Implementing Agency</b>	
<b>Date PID Prepared</b>	May 1, 2017
<b>Estimated Date of Appraisal</b>	September 15, 2017
<b>Estimated Date of Board Approval</b>	November 6, 2017
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

**I. Key development issues and rationale for Bank involvement**

Burkina Faso is a low-income landlocked country in a volatile Sahel region without recourse to any major natural hydro or thermal energy resources, and its electricity tariffs are amongst the highest in Africa. Provision of a secure, affordable, diversified supply of energy remains a major challenge in Burkina Faso. The mainstay of the country's energy supply has therefore been reliance on imported Diesel and Fuel Oil to power Burkina's ailing fleet of power plants. The dependency on imported hydrocarbons results in significant exposure to macro shocks triggered by fluctuating international fuel prices and an extensive logistics chain, prone to disruptions, to import petroleum products via ports in Cote d'Ivoire, Ghana or Togo. Electricity tariffs in Burkina are amongst the highest in Sub-Saharan Africa, averaging 22 US cents per kWh. Yet, even these high tariffs do not reflect full costs of service<sup>1</sup>. Average electricity tariffs have been stagnant since 2007 despite significant cost increases driven by increasing fuel and imports costs. The national utility, SONABEL – *Société Nationale d'électricité du Burkina Faso*, has therefore relied on public subsidies and on-lending from the Government to sustain operations and maintenance. The financial situation of SONABEL has significantly deteriorated since 2011, with shrinking cash flows and growing debt and payables. Its losses reached CFAF 11 billion and 14 billion in 2014 and 2015 respectively. Electricity supply has not kept pace with rapid demand growth averaging nearly 10% p.a., leading to increasing supply deficit. The growing deficit have resulted in load shedding averaging 180 hours of outage time per annum since 2009. With no remaining spare capacity, Burkina had to rely on emergency diesel rental production in 2011-12 to meet electricity demand and offset effects of poor hydrology and interruptions of supply from Cote d'Ivoire. The pace of electrification has been low and the access rate in Burkina Faso has barely grown over the past 5 years and remains low by regional standard at 18 percent, i.e. about 40 percent in urban areas and 3 percent in rural areas.

<sup>1</sup> In 2014, cost of electricity service was around FCFA 140 per kWh, whereas average tariff was FCFA 127 per kWh.

Persistence of high poverty levels raises serious questions regarding the effectiveness of Burkina Faso's growth model in advancing the Government's development objectives. Despite the lower than envisaged growth rates in the 2010-2015 Strategy for Accelerated Growth and Sustainable Development (*Stratégie de Croissance Accélérée et de Développement Durable – SCADD*), poverty in Burkina Faso declined, but slightly. The findings of the 2014 Households Survey (*Enquête Multidimensionnelle Continue – EMC 2014*) indicate that poverty has decreased to 40.3 percent in 2015 from 46.7 percent in 2009, only diminishing by 1 percent per year. Indeed, at 40.3 percent in 2014, the poverty headcount remains relatively high in Burkina Faso. Poverty continues to be overwhelmingly concentrated in rural areas, which are home to 90 percent of poor households. These poor households often have no or low level of literacy, and more than 6 children. Inequality remains high, and the Gini coefficient of consumption was 0.353 in 2014. The vast majority of households in Burkina Faso are vulnerable, as almost 2 out of 3 of them reported to be hurt by a shock in 2014. Moreover, the economy appears to have weakened in the wake of 2014 political crisis and during the transition. While growth rates are expected to recover, transforming economic growth into a broad-based poverty reduction will remain among the country's most pressing policy challenges. Current shortcomings in public resource mobilization and public finance management are limiting the ability of Government to improve services delivery. Though, the Government's program supported by the IMF's Extended Credit Facility (ECF) continues to address fiscal pressures induced by demand for better services delivery as well as by the weaknesses of the energy sector, it is important for Burkina Faso to take the opportunity of the decrease in oil prices, and further implement policy and structural reforms for economic growth and poverty reduction. The availability of cheaper and reliable electricity supply would help improve the welfare of households and business development.

## **II. Proposed Objective(s)**

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

## **III. Preliminary Description**

This program document proposes the first operation in a programmatic series of two development policy financing (DPF) operations designed to support policy reform programs undertaken by the Government of Burkina Faso in the energy sector and in public finance management. The proposed first DPF is a single-tranche disbursement of US\$80 million equivalent, 45 percent in the form of an IDA grant and 55 percent as an IDA credit provided on standard IDA terms. The policy program supported by the DPF is essential for improving the financial health of the energy sector as well as the fiscal stance of the Government and laying the foundation for the implementation of medium term efficiency gains to help the long term sustainability of the energy. The actions supported under each of the three pillars are designed to help advance the Government's priorities under the PNDES and the energy policy (*Politique Sectorielle de l'Énergie - POSEN 2014-2025*). Actions supported under Pillar 1 will help re-establishing financial stability in the energy sector by clearing the cross-debts between the state-owned electricity provider – SONABEL, the public oil importing company - SONABHY and the State. Actions will address the fuel pricing and subsidy mechanisms as well as the revenue protection program. Under pillar 2, DPF1 provides support for more clarity on future policy directions, including a new Energy sector policy letter

and the recruitment of a transaction advisor to streamline the pipeline of Independent Power Producer (IPP) projects. Actions under Pillar 3 aim at monitoring taxpayers between DGI (Tax Administration) and DGD (Customs Directorate); improving VAT billing and VAT collection; revising the procurement code and the tax code leading to a more comprehensive, efficient and transparent taxation system.

#### **IV. Poverty and Social Impacts and Environment Aspects**

##### *Poverty and Social Impacts*

The implementation of the measures included in this proposed operation is expected to have positive impacts on poverty reduction and shared prosperity. Indeed, the measures are expected to have positive direct impacts both poor and non-poor households by improving the performance of the electricity sector, contributing to economic growth and expanding income opportunities. The proposed reforms would benefit the firms and households who would be able to improve their access to energy and reduce their reliance on more expensive back-up generation. Consumers will benefit from better quality and more reliable electricity supply, enabling productive uses of electricity for both women and men to improve the quality of their lives. The prior actions related to Public Finance Management and Procurement will also have positive indirect effects on poverty by increasing the government's fiscal space and its ability to implement socially beneficial programs through the PNDES.

The reforms which are included in this operation are expected to have a positive impact on gender equality. Some gender issues are partially driven by an insufficient allocation of resources to key services. The proposed operation includes measures to promote resource mobilization as well as transparency in public resource management. These measures will contribute to gradually correct gender disparities through better resource allocation in education and in health that can ease girls' and women's access to basic social services.

##### *Environment Aspects*

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

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

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

On the proposed Energy and Fiscal Management Development Policy Financing, all projects on World Bank Group financing and others are under environmental and social assessments with Category B triggered for all of them: P128768 and P149115, Electricity Sector Support Project; P094919, The First Phase of the Inter-Zonal Transmission Hub Project of the WAPP (APL3) Program). These projects have safeguards specialists as an integral part of the project implementation unit. In general, the borrower's capacities in terms of implementing, supervising, monitoring and evaluating the environmental aspects are ensured. Particularly, the National Environmental Agency (*Bureau National des Evaluations Environnementales, BUNEE*), which oversees all projects expected to have adverse or positive environmental potential impacts, has the capacity to conduct high-quality environmental assessments. The framework, established at the national, regional and international levels, provides further assurances that the policy actions to be implemented under the DPF on energy and fiscal management will comply with sound environmental protection standards.

#### **Tentative financing**

Source:		(\$m.)
BORROWER/RECIPIENT		0
International Development Association (IDA)		50
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	50

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