AFRICAN DEVELOPMENT FUND

BURKINA FASO

ENERGY SECTOR REFORM SUPPORT PROGRAMME (PARSE)

PROGRAMME APPRAISAL REPORT

RDGW/ECGF

July 2018

Document traduit
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CURRENCY EQUIVALENTS
30 May 2018

Currency Unit  CFAF (XOF)
UA 1 = XOF 780.95
UA 1 = EUR 1.19
UA 1 = USD 1.44
UA 1 = CHF 1.42
UA 1 = DKK 8.87
UA 1 = SDR 1.0

FISCAL YEAR
[1 January – 31 December]
## ACCRONYMS AND ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABER</td>
<td>Burkina Faso Rural Electrification Agency</td>
</tr>
<tr>
<td>ADF</td>
<td>African Development Fund</td>
</tr>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>ARSE</td>
<td>Electricity Sub-sector Regulatory Agency</td>
</tr>
<tr>
<td>CGAB</td>
<td>General Framework for the Organization of Budget Support Operations</td>
</tr>
<tr>
<td>COTEVAL</td>
<td>Technical Committee for the Verification of Draft Bills</td>
</tr>
<tr>
<td>CSP</td>
<td>Country Strategy Paper</td>
</tr>
<tr>
<td>DGCOOP</td>
<td>General Directorate of Cooperation</td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
</tr>
<tr>
<td>ESDPL</td>
<td>Energy Sector Development Policy Letter</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDE</td>
<td>Electrification Development Fund</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>MCIA</td>
<td>Ministry of Commerce, Industry and Handicrafts</td>
</tr>
<tr>
<td>ME</td>
<td>Ministry of Energy</td>
</tr>
<tr>
<td>MINEFID</td>
<td>Ministry of Economy, Finance and Development</td>
</tr>
<tr>
<td>PASCACAF</td>
<td>Accelerated Growth Strategy and Business Climate Support Programme</td>
</tr>
<tr>
<td>PASE</td>
<td>Energy Sector Support Programme</td>
</tr>
<tr>
<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
</tr>
<tr>
<td>PIMA</td>
<td>Public Investment Management Assessment</td>
</tr>
<tr>
<td>PNDES</td>
<td>National Economic and Social Development Plan</td>
</tr>
<tr>
<td>PPP</td>
<td>Public-Private Partnership</td>
</tr>
<tr>
<td>SME/SMI</td>
<td>Small- and Medium-sized Enterprise/Small- and Medium-sized Industry</td>
</tr>
<tr>
<td>SONABEL</td>
<td>National Electricity Corporation of Burkina Faso</td>
</tr>
<tr>
<td>SONABHY</td>
<td>National Hydrocarbons Corporation of Burkina Faso</td>
</tr>
<tr>
<td>TADAT</td>
<td>Tax Administration Diagnostic Assessment Tool</td>
</tr>
<tr>
<td>TFP</td>
<td>Technical and Financial Partner</td>
</tr>
<tr>
<td>UA</td>
<td>Unit of Account</td>
</tr>
<tr>
<td>WAEMU</td>
<td>West African Economic and Monetary Union</td>
</tr>
</tbody>
</table>
PROGRAMME INFORMATION

INSTRUMENT : Sector Budget Support (SBS)
PBO DESIGN MODEL : Multiple Tranche Operation

LOAN INFORMATION

Client Information
BORROWER : Burkina Faso
EXECUTING AGENCY : Ministry of Economy, Finance and Development

Financing Plan

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADF Loan in UA</td>
<td>10 000 000</td>
<td>5 000 000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>15 000 000</td>
</tr>
</tbody>
</table>

Financing by Other Technical and Financial Partners (*)

<table>
<thead>
<tr>
<th>Partner</th>
<th>In F.E.</th>
<th>In CFAF</th>
<th>In F.E.</th>
<th>In CFAF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>116 725 897 450</td>
<td>92 651 189 650</td>
<td></td>
</tr>
<tr>
<td>I. Grants</td>
<td></td>
<td>EUR 2 300 000</td>
<td>EUR 1 600 000</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>1 508 701 100</td>
<td>1 049 531 200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>9 509 400 000</td>
<td>2 553 450 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>6 559 570 000</td>
<td>2 637 250 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td>4 116 525 000</td>
<td>4 116 525 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank</td>
<td>25 795 350 000</td>
<td>12 218 850 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Union</td>
<td>69 236 261 350</td>
<td>28 499 112 950</td>
<td></td>
<td></td>
</tr>
<tr>
<td>II. Loans</td>
<td>78 104 564 000</td>
<td>47 046 814 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank</td>
<td>42 087 150 000</td>
<td>14 934 150 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AfDB</td>
<td>7 809 500 000</td>
<td>3 904 750 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IMF</td>
<td>28 207 914 000</td>
<td>28 207 914 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>GRAND TOTAL</em></td>
<td>194 830 371 450</td>
<td>139 698 003 650</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*) Financing in the form of general and sector budget support (water, sanitation, agriculture and health).

Key Information on ADF Financing

<table>
<thead>
<tr>
<th></th>
<th>ADF Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Currency</td>
<td>EUR</td>
</tr>
<tr>
<td>Interest Type</td>
<td>Fixed</td>
</tr>
<tr>
<td>Interest Rate Margin*</td>
<td>0%</td>
</tr>
<tr>
<td>Service Charge</td>
<td>0.75% per annum on the disbursed and outstanding loan amount</td>
</tr>
<tr>
<td>Commitment Fee</td>
<td>0.50% per annum on the undisbursed loan amount, commencing 120 days after signature of the Loan Agreement</td>
</tr>
<tr>
<td>Other Charges</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Tenor</td>
<td>40 years</td>
</tr>
<tr>
<td>Grace Period</td>
<td>5 years</td>
</tr>
<tr>
<td>Repayment</td>
<td>Half-yearly instalments</td>
</tr>
</tbody>
</table>

*where applicable
<table>
<thead>
<tr>
<th>Time Frame – Main Milestones (expected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concept Note Approval</td>
</tr>
<tr>
<td>Programme Approval</td>
</tr>
<tr>
<td>Effectiveness</td>
</tr>
<tr>
<td>Completion</td>
</tr>
<tr>
<td>Last Disbursement</td>
</tr>
</tbody>
</table>
# Programme Executive Summary

<table>
<thead>
<tr>
<th>Programme Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Programme Name/Number: Energy Sector Reform Support Programme / SAP Code: P-BF-KZ0-001</td>
</tr>
<tr>
<td>• Geographical Scope: Nationwide</td>
</tr>
<tr>
<td>• Overall Schedule: Two-tranche programme-based operation to be implemented over twenty-four months, from June 2018 to June 2020</td>
</tr>
<tr>
<td>• Financing: UA 15 million ADF loan to be disbursed in two tranches</td>
</tr>
<tr>
<td>• Operational Instrument: Energy sector budget support</td>
</tr>
<tr>
<td>• Sector: Economic governance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Programme Outcomes and Direct Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The programme seeks to increase the national electrification rate from 20.07% in 2016 to 25% in 2019, particularly in rural areas where the rate is expected to rise from 3.2% to 6% thanks especially to the substantial investments being made with the support of the Burkina Faso Rural Electrification Agency (ABER). The improvement of the internal governance of the National Electricity Corporation of Burkina Faso (SONABEL), in accordance with the performance contract signed with the Government, should help to reduce overall distribution losses from 14.5% in 2017 to 13.25% in 2019, improve the sector’s financial balance and reduce State subsidies. Lastly, the improvement of the public investment and public-private partnership (PPP) management framework will help to increase investments in the energy sector to 0.6% of GDP, against 0.4% in 2016. The contribution of private energy producers to energy supply is expected to rise sharply from 25 MW to 208.5 MW.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Alignment with Bank Priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The programme will support the Government in implementing the energy sector reform aimed at creating conditions for inclusive access to energy. Therefore, it is consistent with Pillar I of Burkina Faso’s CSP 2017-2021, which seeks to promote access to electricity. PARSE will contribute to achieving two of the Bank’s High 5s, namely “Light up and Power Africa” and to “Improve the quality of life for the people of Africa”. The measures and reforms to be implemented will have an impact on energy production and access by the low-income population to electricity in the medium term.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Needs Assessment and Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Bank’s support is justified by the need to continue and consolidate the actions initiated in 2015 under the Energy Sector Support Programme (PASE). The support provided by the Bank under PASE helped to improve the sector’s financial balance and to ensure the regular supply of fuel to SONABEL’s thermal power plants. However, the sector remains fragile as its financial balance is guaranteed only through State subsidies.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Harmonization</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Government embarked on a major reform that led to the adoption of Law No. 14-2017 laying down general regulations governing the energy sector in April 2017. This law seeks to provide the country with a legal and regulatory framework for promoting access to quality energy services and ensuring energy efficiency. The Bank is already working in collaboration with the authorities through the implementation of major investment projects in the sector. Hence, it is appropriate to support the sector reform.</td>
</tr>
</tbody>
</table>

• A General Budget Support Organization Framework (CGAB) is being signed by TFPs. This new framework is expected to lead to the adoption of common reform matrices in various key sectors and the coordinated monitoring of their implementation. |

• A group of TFPs has been set up in the energy sector, with the World Bank as leader. The Bank participates in group meetings through its Country Office in Ouagadougou and through e-mail. The Bank team held discussions with the World Bank during PARSE’s preparation. |
<table>
<thead>
<tr>
<th>Bank’s Value Added</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ The Bank’s main comparative advantages in conducting dialogue on sector reforms are its sound knowledge of the sector and strong commitment to the implementation of energy projects. The Bank is one of Burkina Faso’s key external partners in the energy sector with six operations approved since it began operating in the country. This has, among other things, helped to increase the power generation capacity and to electrify more than a hundred localities with about 760,000 inhabitants. Other operations ongoing include the Electrification Project for the Semi-Urban Areas of Ouagadougou and Bobo Dioulasso (PEPU) approved in September 2016 and the West African Power Pool (WAPP) North Backbone Grid Interconnection Project (Nigeria-Niger-Burkina Faso-Benin) approved in December 2017.</td>
</tr>
<tr>
<td>▪ All these operations and others being prepared are dialogue instruments to be used by the Bank to improve the sector’s governance. It will participate in dialogue through the Burkina Faso Country Office (COBF) and during supervision missions carried out by energy and governance specialists.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contribution to Gender Equality and Women’s Empowerment</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Statistics indicate that women face inequalities in access to energy services daily. In addition, lack of electricity (frequent and prolonged power cuts) has harmful social consequences as it slows down economic activities. The programme will contribute to improving access to energy, particularly in rural areas where poverty is widespread. Regarding energy and gender policies and strategies, the programme will support gender-sensitive budgeting in the energy sector. An audit of gender mainstreaming in the energy sector will be carried out to assess the gender dimensions in energy planning.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Policy Dialogue and related Technical Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Under the programme, an agreement has been reached with the Government to hold dialogue on public finance management in view of its impact on the effectiveness of investments in the energy sector. Therefore, the Government will update its public finance reform plan based on PEFA 2017, and (i) adopt a draft law on the harmonization of development planning instruments with WAEMU’s harmonized public finance framework; (ii) develop and adopt sector policies, strategies and action plans; and (iii) design and validate annual performance plans for all ministries as from the 2018 budget. Concerning public procurement, dialogue will be continued on public procurement audit and control, the information system and the building of the professional capacity of various actors.</td>
</tr>
<tr>
<td>▪ The dialogue will be conducted by the Bank’s Burkina Faso Country Office (COBF) and experts during field supervision missions. The Bank will provide technical assistance to sector entities in the areas not covered by other TFPs for the sector operations being prepared.</td>
</tr>
</tbody>
</table>
## RESULTS-BASED LOGICAL FRAMEWORK

| Country and Programme Name: BURKINA FASO – Energy Sector Reform Support Programme (PARSE) |
| Programme Goal: Creating an enabling environment for improved access to energy |

### Impact

<table>
<thead>
<tr>
<th>Results Chain</th>
<th>Indicator</th>
<th>Baseline Situation/Target</th>
<th>Means of Verification</th>
<th>Risks/Mitigation Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inclusive economic growth driven by improved access to quality energy services</td>
<td>GDP growth rate</td>
<td>5.4% on average between 2015 and 2017/6% on average between 2018 and 2020</td>
<td>IMF reports</td>
<td></td>
</tr>
<tr>
<td></td>
<td>National electrification rate (households with electricity in the country/total number of households)</td>
<td>20.07% in 2016/23% in 2019</td>
<td>Ministry of Energy (ME)</td>
<td></td>
</tr>
</tbody>
</table>

### Outcomes

<table>
<thead>
<tr>
<th>Outcome 1: Increased public and private investments in the energy sector</th>
<th>Public investments in the energy sector (commitment basis as a percentage of GDP)</th>
<th>0.4% of GDP in 2016/0.6% of GDP in 2019</th>
<th>Ministry of Economy, Finance and Development (MINEFID)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Installed capacity by independent producers</td>
<td>25.5 MW in 2016, including solar energy: 25.5 MW/208.5 MW in 2019, including solar energy: 108.5 MW</td>
<td>ME</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Outcome 2: Improved financial situation of the energy sector</th>
<th>State subsidies to SONABHY and SONABEL as a percentage of budgetary expenditure</th>
<th>3% in 2017/2% in 2019</th>
<th>MINEFID</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate of total (technical and non-technical) losses during distribution</td>
<td>14.5% in 2017/13.25% in 2019 (N.B.: the norm is 7% of losses)</td>
<td>SONABEL</td>
<td></td>
</tr>
</tbody>
</table>

| Outcome 3: Improved access to power in rural areas | National rural electrification rate | 3.2% in 2016/6% in 2019 | ME | Political and security risk due to terrorist attacks |

### Component 1: Improve the Energy Sector Regulatory and Investment Management Regulatory Framework

<table>
<thead>
<tr>
<th>Outputs</th>
<th>Indicators</th>
<th>Target</th>
<th>Means of Verification</th>
<th>Risks/Mitigation Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Adoption of the implementing instruments of Law No. 14-2017/AN laying down general regulations governing the energy sector in order to operationalize the energy sector reform</td>
<td>Implementing instruments adopted Six (6) decrees and one (1) order adopted in October 2017</td>
<td>At least 3 decrees adopted before end-June 2018 and 3 others before May 2019, namely: - Decree laying down specifications applicable to power distribution concession holders; - Decree laying down the terms and conditions for determining and revising tariffs - Decree laying down the terms and conditions for the procurement of surplus power produced from private photovoltaic solar installations (%)</td>
<td>ME</td>
<td></td>
</tr>
<tr>
<td>1.2 Financial autonomy granted to the Electricity Sub-sector Regulatory Agency (ARSE) to make it more operational in regulating the sector</td>
<td>Application of instruments relating to the energy royalty to ensure ARSE’s financial autonomy. The energy royalty computational and sharing mechanism is not implemented in 2017</td>
<td>The mechanism for the financing of ARSE through the energy royalty implemented in 2018 and 2019</td>
<td>ME</td>
<td></td>
</tr>
<tr>
<td>1.3 Revision of the institutional and organizational framework of the Ministry of Energy to adapt it to new reform guidelines</td>
<td>Instruments laying down the organization of the Ministry of Energy and redefining the duties of sector entities A diagnostic study on overlap between the duties and responsibilities of entities is being designed</td>
<td>The diagnostic study is finalized in 2018 and a decree laying down the organization of the Ministry of Energy is adopted in 2019</td>
<td>ME</td>
<td></td>
</tr>
<tr>
<td>1.4 Validation of the updated electricity sub-sector strategy and action plan</td>
<td>Strategy paper The strategy paper is being updated in accordance with the new sector policy adopted in 2017</td>
<td>The strategy and action plan are adopted in 2018, and public and private investment projects are updated</td>
<td>ME</td>
<td></td>
</tr>
<tr>
<td>1.5 Preparation of the investment project maturation guide and the ex-ante project evaluation guide</td>
<td>Report on the investment project maturation guide and the ex-ante project evaluation guide The guides are being prepared</td>
<td>The investment project maturation guide and the ex-ante project evaluation guide are adopted in 2019</td>
<td>Ministry of Economy, Finance and Development</td>
<td></td>
</tr>
<tr>
<td>Activities</td>
<td>Financial Governance and the Promotion of Energy Inclusion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------</td>
<td>---------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.6 Adoption of a new investment code that provides for incentives for the production of renewable energy</td>
<td>Instrument on the Draft Investment Code</td>
<td>The Draft Investment Code is being prepared</td>
<td>The Draft Investment Code is adopted by the Council of Ministers and tabled before the National Assembly in 2019</td>
<td></td>
</tr>
<tr>
<td>1.7 Adoption of a new public-private partnership (PPP) management framework</td>
<td>Bill on the revision of the PPP management framework</td>
<td>The current framework poses financial risks to the State and investors. The bill on the revision of the PPP management framework is being prepared</td>
<td>Bill adopted in 2019</td>
<td></td>
</tr>
<tr>
<td>Component II: Support the Enhancement of Energy Sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Design of an electricity sub-sector financial model by ARSE to better manage the sector’s financial balance</td>
<td>Electricity sub-sector financial model</td>
<td>Absence of a financial model in ARSE to better manage electricity pricing</td>
<td>Financial model developed in 2019</td>
<td></td>
</tr>
<tr>
<td>2.2 Implementation of the performance contract signed between the State and SONABEL to improve the latter’s financial situation and reduce overall distribution losses</td>
<td>Evaluation of the implementation of the performance contract</td>
<td>The report on implementation at end-2017 is being validated</td>
<td>The report on implementation in 2017 and 2018 is validated</td>
<td></td>
</tr>
<tr>
<td>2.3 Conduct of the independent audit of the financial situation and internal governance of the Burkina Faso National Electricity Corporation (SONABHY)</td>
<td>Audit report</td>
<td>An auditor is being recruited</td>
<td>The audit report is finalized and an implementation plan is adopted in 2019.</td>
<td></td>
</tr>
<tr>
<td>2.4 Establishment of the Burkina Faso Rural Electrification Agency (ABER) to improve investment in rural areas</td>
<td>Instrument defining ABER’s status and duties</td>
<td>The instrument transforming the Electrification Development Fund (FDE) into an agency with greater autonomy is being prepared</td>
<td>The instrument defining ABER’s status and duties is adopted and ABER’s strategic plan is validated in 2019</td>
<td></td>
</tr>
<tr>
<td>2.5 Conduct of an audit of gender mainstreaming in the energy sector to assess gender dimensions in energy planning, budgeting and institutional capacity building</td>
<td>Audit of gender mainstreaming in the energy sector</td>
<td>The audit of gender mainstreaming in the energy sector has not been conducted</td>
<td>Audit conducted in 2019</td>
<td></td>
</tr>
<tr>
<td>2.6 The energy sector gender dimension mainstreamed in the budget circular</td>
<td>Gender-sensitive budget circular</td>
<td>Absence of an energy sector gender dimension in the 2018 budget circular</td>
<td>Gender dimension mainstreamed in the 2019 budget circular</td>
<td></td>
</tr>
</tbody>
</table>

**Total Resources:** UA 15 million
ADF Loan – PBS: UA 15 million

**Fiduciary risk:** PEFA 2017 identified a weakness in budget credibility. In addition, delays in auditing the accounts of the main accounting stations weaken the external public expenditure control system.

**Mitigation measure:** The Government adopted the programme budget principle in 2017 and has embarked on the reform of the public finance management system.
I. THE PROPOSAL

1.1 This proposal submitted for Board approval concerns a UA 15 million ADF loan to finance the Energy Sector Reform Support Programme (PARSE).

1.2 PARSE is a continuation of the Energy Sector Support Programme (PASE) financed by the Bank in 2015 through an energy crisis response budget support (CRBS) to Burkina Faso. PASE¹ was the Bank’s rapid response to enable the country to mitigate the effects of the crisis that had seriously disrupted its petroleum product and power supplies. The Programme enabled Société Nationale Burkinabè d’Hydrocarbures (SONABHY, the national oil company) to replenish its petroleum products safety stock, thus ensuring the regular supply of fuel to the thermal power generation units of the national power utility, SONABEL. It also supported the signing and implementation of performance contracts between these two corporations and the Government in order to improve the sector’s financial situation by clearing crossed-debts, among other things. To strengthen the financial balance and increase investments in the sector, the Government initiated a comprehensive reform in 2016 that led to the adoption of Law No. 14-2017/AN laying down the general regulations of the energy sector in April 2017. An “industrial and handicraft processing” sector policy paper was also adopted to set the country’s major energy targets for the next decade. Following a request submitted to the Bank by the Government, there are plans to support the implementation of this major reform through this operation.

1.3 PARSE’s main objective is to create conditions for inclusive access to energy in Burkina Faso. More specifically, it seeks to: (i) improve the legal and institutional framework of the energy sector; (ii) strengthen the governance of key sector entities; (iii) establish a framework conducive to public and private investment; and (iv) increase investments in energy in rural areas.

1.4 PARSE will be implemented in the form of a multi-tranche sector budget support² (SBS) programme covering the 2018 and 2019 financial years. It will be financed by a UA 15 million ADF loan. In keeping with the Bank’s policy on programme-based support operations (PSOs), disbursement will be made in two respective tranches of UA 10 million and UA 5 million, subject to fulfilment of a number of conditions precedent. The multi-tranche programme-based approach provides predictable financing to the Government, while promoting dialogue on short- and medium-term reforms. It has the added advantage of reducing transaction costs and increasing efficiency for the Bank and the country.

¹ See the Technical Annex on the main outcomes and lessons from PASE’s implementation.
² In this multi-tranche approach, the Board identifies and approves the conditions precedent to the disbursement of each tranche at the same time during the approval of PARSE. It is no longer necessary to solicit the Board’s approval for the disbursement of the second tranche.
2.1 Political Situation and Governance Context

2.1.1 Overall, the political situation in Burkina Faso over the last two years has been stable, since the popular uprising that led to the organization of general elections in November 2015, but the security environment remains volatile. Drawing lessons from the serious crisis of 2014 sparked off by the former President’s attempt to amend the Constitution to allow him to run for a third consecutive term, the new authorities have adopted measures to strengthen democracy and the rule of law. In his address to the nation in January 2018, the Head of State announced the imminent holding of consultations on the adoption of a new constitution to further strengthen the transfer of political power by reinforcing the provisions on the limitation of the number of presidential terms. In contrast, the security situation has been marked by an upsurge in terrorist attacks. The North is the most vulnerable region in the country. Burkina Faso troops deployed to secure the region is constantly under attack from armed jihadist groups. The capital, Ouagadougou, has not been spared. Over the past twelve months, it has suffered three terrorist attacks resulting in more than sixty casualties. The Government has embarked on the restructuring of the Defence Forces to provide an effective response to the security issue. The security threat poses a serious risk to the country’s socio-economic prospects, particularly public finance. Military and security spending, which already represented 1.6% of GDP in 2016, increased by 21% in 2017. It is expected to further rise by 50% in 2018 due mainly to substantial military investments. The country is a member of the G5 Sahel (Mali, Burkina Faso, Niger, Chad and Mauritania), and contributes to the operationalization of the multinational anti-jihadist force set up with the support of the United Nations and many external partners.

2.1.2 Regarding governance, the country has made significant progress in the past three years. Politically, republican institutions have been established and strengthened with the holding of free and fair presidential and parliamentary elections after the October 2014 popular uprising. Burkina Faso was ranked 21st out of 54 countries assessed in the 2017 Mo Ibrahim Index of African Governance with a score of 53.7, above the average for the entire continent (50.8). The country has made significant progress regarding legal proceedings, public access to information and the fight against corruption. According to the Transparency International’s Corruption Perceptions Index, the country was ranked among the 10 least corrupt countries in Africa in 2017. It occupies the 74th position out of 180 countries worldwide. The new authorities have introduced legislative reforms to intensify the fight against corruption, with notably the adoption of the Law on the prevention and repression of corruption in March 2015. In November 2015, the Supreme State Audit and Anti-corruption Authority (ASCE-LC), which was initially under the authority of the Prime Minister’s Office, was raised to a Supreme State Institution by Organic Law No. 82-2015/CNT of 24 November 2015 laying down the powers, organization and functioning of the ASCE-LC. Since then, the ASCE-LC has carried out and published the results of annual budget management audits. Specialized judicial poles in charge of economic issues were established in 2017 to accelerate the judgment of corruption and related offences. They have not yet been operationalized. Civil society organizations (CSOs), particularly the National Anti-corruption Network (RENLAC), are also actively involved in the fight against corruption.

2.2 Recent Economic Developments, Macroeconomic and Budget Analysis

2.2.1 The acceleration of economic recovery that began in 2016 continued in 2017 albeit with a deteriorating budget deficit. Thanks to political normalization, economic growth has been driven
mainly by the agricultural sector, particularly the cotton sub-sector, and mining activities, as well as increased public investments. In 2017, Burkina Faso’s economic context was marked by army worm and grain-eating bird attacks on crops as well as an uneven spatial and temporal distribution of rainfall. However, agricultural production has benefited from the availability of sufficient quantities of fertilizers and improved seeds. Economic growth was estimated at 6.4% in 2017, compared with 5.9% in 2016 and 3.9% in 2015. Inflation has remained below the 3% West African Economic and Monetary Union (WAEMU) convergence criterion. The financial situation over the last three years has been characterized by a growing budget deficit. At end-2017, the deficit reached 6% of GDP (cash basis), compared with 2.1% in 2016. This deficit is aggravated by the social pressure exerted on the payroll and increased security spending, public investment and transfers/subsidies. The pressure on the payroll mostly emanates from the 2016 integration of contract staff into the civil service and the resulting harmonization of remuneration. It is also worth mentioning the recurrent strikes that are motivated by persisting inequalities in salaries between ministerial departments. In March 2018, the Government signed a three-year programme backed by the Extended Credit Facility of the International Monetary Fund (IMF) and undertook to implement measures to reduce the budget deficit to at most 3% of GDP at end-2019, in line with the WAEMU convergence criterion ceiling. These measures include (i) improving the mobilization of tax revenue by initiating tax reforms and enhancing the performance of revenue collection services; (ii) streamlining the payroll; and (iii) rationalizing investment expenditure and better controlling subsidies, especially in the energy sector. Estimated at 24.2% of GDP at end-2017, the public debt is still sustainable. However, the Government should continue to conduct a cautious fiscal policy by prioritizing concessional loans and limiting contingent commitments to the energy sector. Annex 4 presents the state of relations between the country and the IMF.

### Table 1

**Key Macroeconomic Indicators (%) of GDP, unless otherwise indicated**

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth rate (%)</td>
<td>5.9</td>
<td>6.4</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Inflation rate (end of period)</td>
<td>2.7</td>
<td>2.3</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Current account balance – including grants</td>
<td>-7.2</td>
<td>-8.4</td>
<td>-8.0</td>
<td>-8.0</td>
</tr>
<tr>
<td>Broad money (annual variation in %)</td>
<td>11.8</td>
<td>15.6</td>
<td>12.7</td>
<td>14.2</td>
</tr>
<tr>
<td>Public debt – including external debt</td>
<td>38.3</td>
<td>38.3</td>
<td>41.0</td>
<td>41.3</td>
</tr>
<tr>
<td>Including contract staff in the public sector</td>
<td>38.4</td>
<td>42.2</td>
<td>24.6</td>
<td>24.3</td>
</tr>
<tr>
<td>Gross official reserves (months of imports)</td>
<td>4.0</td>
<td>4.1</td>
<td>3.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Budget balance, including grants (cash basis)</td>
<td>-2.1</td>
<td>-6.0</td>
<td>-5.0</td>
<td>-3.0</td>
</tr>
</tbody>
</table>

Source: Estimates by the IMF and Burkina Faso authorities.

### 2.3 Economic Competitiveness

2.3.1 **Burkina Faso’s economy is highly uncompetitive due to numerous constraints on the private sector, which is composed almost exclusively of poorly structured micro- and small-sized enterprises (MSEs).** Apart from the emerging extractive industrial sub-sector, the economy is dominated by informal traditional primary and tertiary sectors. Women play a key role in the informal sector which accounts for almost 60% of the national economy, excluding ore mining. Despite the country’s substantial agri-food potential, the manufacturing industry is still underdeveloped. The share of manufacturing industries is small and represents only 4% of GDP. In the energy sector, although power generation has been opened to the private sector, very few private investments have been made so far. Nonetheless, the country has implemented many institutional and regulatory reforms to improve the business environment and promote private sector development. These include the establishment of Business Development Centres (CEFORE), the reform of the Labour Code, the establishment of the Ouagadougou Arbitration, Mediation and
Conciliation Centre (CAMCO), the establishment of approved management centres, and tax and land tenure reforms. However, Burkina Faso’s private sector is still constrained by high factor costs, particularly power generation where the country has recorded its worst score in the World Bank’s Doing Business 2018 ranking (179th out of 190 countries). The time taken to connect to the power network is more than the average in sub-Saharan Africa and the cost is thrice higher. The main structural weaknesses of the economy that affect its competitiveness are (i) the low productivity of the primary sector dominated by subsistence farming which is subject to rainfall variations; (ii) lack of access to financial services; (iii) inadequate skilled human resources needed for the structural transformation of the production system, and high cost of factors of production (energy and transportation).

2.3.2 The energy context is characterized by the country’s dependence on imported fossil energy, the predominant use of biomass and the sector’s precarious financial balance. Despite the progress made in recent years in terms of power generation and distribution, the electricity access rate is still one of the lowest in sub-Saharan Africa. From 2011 to 2016, the national electricity coverage rate rose from 27.42% to 33.55% (compared with an average of 42.8% in sub-Saharan Africa). The national electrification rate has risen from 15.59% to 20.07% with a wide disparity between urban (from 51.72% to 66.46%) and rural areas (from 1.83% to 3.20%). Public investments with own resources estimated at about CFAF 30 billion in 2013 dropped sharply in 2014 due to the socio-political crisis. Since then, investment in the sector has picked up, particularly in 2018 when the Government more than tripled the investment budget. Power supply is still low amid an ever-growing demand. During the 2011-2016 period, firm power increased from 264 MW to 325 MW. Electricity consumption went up from 856.6 GWh to 1317.1 GWh, of which 37.7% was imported and 62.9% generated locally, mainly from thermal power plants. Renewable energy represents only 14.33% of domestic production, which is too small to impact the overall cost of production in the country. During the same period, demand experienced an average annual growth of 13%. Compared with other countries in the sub-region, the cost of electricity in Burkina Faso is very high. Although the financial situation of the energy sector has improved, it remains fragile. SONABEL’s financial situation improved significantly in 2016 from a deficit of about CFAF 11 billion to CFAF 17.6 billion in 2014 and 2015 to a surplus of CFAF 5.1 billion in 2016. Its self-financing capacity also increased from CFAF 5.3 billion in 2015 to CFAF 29.5 billion in 2016. However, its financial debt increased, from CFAF 200 billion in 2014 to CFAF 211 billion in 2016.

2.3.3 To mitigate the effect of rising oil prices on electricity cost, the Government grants annual subsidies to SONABEL of about CFAF 20 billion, representing 1.2% of budgetary expenditure. These subsidies place a strain on public finance and contribute to worsening the budget deficit. Similarly, the maintenance of fixed pump prices of petroleum products cost about CFAF 37 billion in subsidies in 2017. Under the programme with the IMF, the Government has undertaken to place a cap on subsidies for pump prices of petroleum products and power generation at CFAF 25 billion and CFAF 21 billion per annum, respectively. In the event of a major increase in world oil prices, the authorities intend to implement the automatic fuel pump price adjustment mechanism to reduce the budgetary risks due to the subsidies (see Annex 5 for a detailed analysis of the energy sector).
2.4 Public Finance Management

2.4.1 The public finance management system in Burkina Faso is based on a legal and regulatory framework that is in line with international standards. Over the past ten years, the country has embarked on a sustained process of public finance management reforms, with the main objective of enhancing budget management efficiency by effectively aligning it on public policies. The reforms initiated in 2013 have led to the transposition of the 2009 WAEMU Harmonized Public Finance Framework Guidelines into the national legal framework with the effective shift to use of the programme budget in January 2017, among others. Furthermore, many reforms have been implemented to improve domestic resource mobilization and streamline the public expenditure channel. However, it is worth noting that in spite of the implementation of these major structural reforms, some weaknesses persist and continue to impede budgetary effectiveness and efficiency. Major variations still exist between the initial budget and the final budget executed in terms of the amounts of revenue and expenditure as well as their composition.

2.4.2 There are weaknesses in public investment management in terms of the selection of priority projects included in the Public Investment Programme (PIP). This situation, which affects budget credibility, is mainly due to weak budget planning and preparation capacity. According to the PEFA 2017 assessment, there are no regulatory provisions governing the ex-ante conduct of public investment project feasibility studies. The National Project and Programme Studies and Preparation Fund (FONEPP) established in 2011 for this purpose is not yet fully operational. In addition, there is no formal mechanism for monitoring major investment projects. Furthermore, the public-private partnership (PPP) regulatory and institutional framework has weaknesses, particularly regarding the assessment of recurring costs and induced liabilities that may aggravate budgetary risks. The use of this financing method is expected to increase, especially in the energy sector. Based on the PEFA 2017 assessment results, the Government undertook to update its five-year public finance strategy in order to design the Three-Year Action Plan 2018-2020 that is expected to be adopted during the second quarter of 2018.

2.5 Inclusive Growth, Poverty Situation and Social Context

2.5.1 The social situation in Burkina Faso is characterized by a declining trend in poverty though the levels remain relatively high. Burkina Faso’s socio-economic situation is characterized by considerable inequalities: (i) territorial inequalities (with 40% of poor people in 2015, 47% of them in rural areas and 14% in urban areas); (ii) social inequalities (with 20% of the population facing food insecurity, great disparities and lack of access to basic social services by the underprivileged segments of the population); and (iii) social emergencies among women (50.4% of the population and 24.2% of the population involved in the formal sector in 2015) and youths (aged 0-24 years: 12 million with 8% of the those in the 20-24 age bracket unemployed). According to the latest UNDP Africa Human Development Report (2016 edition), Burkina Faso is one of the poorest countries in the world. It is ranked 185th out of 188 countries, with a Human Development Index (HDI) of about 0.402. The latest Continuous Multi-sector Survey (CMS) on household living conditions carried out in 2014 shows that the incidence of poverty has certainly dropped, from 46.7% in 2009 to 40.1% in 2014, but there are still significant inequities nationwide as indicated above. The incidence of poverty is higher among women than men (52% against 48%). As regards health, the policies implemented have helped to significantly improve the use of health services by the population. However, the difficulties faced in gaining access to energy oblige millions of people to resort to using traditional biomass, resulting in a health crisis with high levels of deaths due to pneumonia, chronic obstructive lung disease and lung cancer. In the basic education sector, many
children of school age still lack access to basic education although it is compulsory. The gross primary school enrolment rate among 6-11 year-old children is 83.7% and the gross secondary school enrolment rate is about 40%. The literacy rate stands at 34.5%.

2.5.2 Progress in promoting gender equality is still slow. According to the 2016 Human Development Report, the country ranks 146th out of 149 countries in the Gender Inequality Index. Many constraints persist, particularly women’s low level of education and limited access to productive resources (land and financial resources). Concerning health indicators, it should be noted that the total fertility rate (5.6 children per woman in 2014) and the population growth rate (about 3%) are among the highest in the world. In Burkina Faso, women face daily inequalities in accessing energy services. The link between gender equality and energy poverty is considered in energy and gender policies and strategies. However, specific intervention strategies have not been designed to address gender-related energy challenges. Nevertheless, sporadic initiatives have been taken in favour of underprivileged households to improve their access to electricity (see Technical Annex 7 for a comprehensive gender analysis).

III. GOVERNMENT’S DEVELOPMENT PROGRAMME

3.1 Government’s Overall Development Strategy and Short-term Priorities

3.1.1 The National Economic and Social Development Plan (PNDES) 2016-2020 adopted in July 2016 is the benchmark for Burkina Faso’s development. It focuses on three strategic thrusts: (i) reform institutions and modernize the administration; (ii) develop human capital; and (iii) promote economic growth and employment enhancing sectors.

3.1.2 Government’s new energy sector vision is reflected in the “industrial and artisanal transformation” sector policy adopted in December 2017. The main objectives of the vision are to: (i) diversify the energy mix by increasing the share of renewable energy in power generation, with special emphasis on solar energy; (ii) strengthen the conventional power generation park; (iii) promote energy efficiency; and (iv) strengthen regional cooperation by developing interconnections. By 2027, the Government intends to achieve: (i) a national electrification rate of 80% (45% in 2020); (ii) an urban electrification rate of 90% (75% in 2020); and (iii) a rural electrification rate of 30% (19% in 2020). There are plans to increase, in the short term (i.e. at end-2019), the supply capacity (local production and imports) from 325 MW to 1,000 MW, 30% of it from renewable energy, with the participation of private actors through public-private partnerships (PPPs). The national electrification rate is expected to rise to 25% and 6% in rural areas. PARSE is consistent with Thrusts 1 and 3 of the PNDES. It will help to create an environment conducive to investment in the energy sector and to revitalize other sectors of the economy by improving access to energy.

3.2 Obstacles to Implementing the Energy Sector Development Programme

3.2.1 The main constraints faced by the country in the energy sector include: (i) inadequate power supply due particularly to difficulties in mobilizing public and private financing to invest in the energy sector; (ii) the small share of renewable energy in the national energy mix despite the country’s considerable solar potential; and (iii) the precarious financial balance of the sector with the resultant heavy dependence on State subsidies. The low level of private investment in energy production in Burkina Faso is due mainly to the general sector regulatory and management framework which so far does not provide sufficient guarantees to the private sector. The reform initiated by the Government in 2016 which led to the adoption in 2017 of a new law laying down the
general regulations governing the sector is undoubtedly a significant step towards attracting investors. Nevertheless, major implementing instruments are still to be adopted and some key entities, notably the Electricity Sub-sector Regulatory Agency (ARSE), are not fully operational. It should also be noted that the public-private partnership regulatory framework is still incomplete and the current investment code does not promote renewable energy.

3.2.2 The major short-term challenge facing the Government regarding inclusive access to energy is to ensure the effective implementation of the sector reform by adopting the key implementing instruments of the new law governing the energy sector. This reform should be accompanied by the revision of the PPP framework, the investment code and the operationalization of the entities involved in energy regulation and management.

3.3 Participation and Consultation Process

The preparation of the operation was carried out in consultation with all the stakeholders during the programme preparation and appraisal missions. The operation preparation team held working sessions in Ouagadougou with the public administrative entities involved in reforms implementation, civil society organizations and private sector representatives to record their concerns and suggestions and, lastly, with the other TFPs operating in the energy sector (World Bank, AFD, JICA, EIB and BOAD). Civil society and private sector representatives underscored the difficulties faced in having access to electricity in general and the related costs that they consider to be high. They wished that the Government would increase electricity supply at affordable rates. Discussions with public administrative entities led to an agreement on key measures to be implemented and monitored through PARSE. Discussions with TFPs focused on the operations of each partner to strengthen complementarities.

IV. BANK SUPPORT FOR THE GOVERNMENT’S STRATEGY

4.1. Linkage with the Bank’s Strategy

4.1.1 The Bank’s Country Strategy Paper for Burkina Faso (CSP 2017-2021) comprises two pillars: Pillar I - Promote Access to Electricity, and Pillar II - Develop the Agricultural Sector for Inclusive Growth. PARSE is in line with CSP 2017-2021 Pillar I and will contribute to achieving two of the Bank’s “High 5s”, i.e. “Light up and Power Africa” and “Improve the quality of life for the people of Africa”. The programme is also aligned on the Bank’s Gender Strategy and Regional Integration Policy and Strategy (RIPS) for the 2014-2023 period, which focuses on policies aimed at reinforcing energy security, building the capacity of energy agencies and mainstreaming sustainable development. The programme intends to support measures and reforms that will impact energy production and the connection of low-income population segments and rural areas to the power distribution network in the medium term.

4.2. Compliance with Eligibility Criteria

4.2.1. The proposed sector budget support (SBS) operation is in keeping with the Bank’s Policy on Programme-Based Operations adopted in March 2012 (ADF/BD/WP/2011/38). The analysis of the country’s readiness shows that Burkina Faso meets the conditions for use of SBS. Concerning general conditions, it should be noted that the political situation has remained stable since the holding of the 2015 general elections, which led to the election of a new President of the Republic and members of the National Assembly. In addition, the country has enjoyed macroeconomic stability
for many years now and economic growth has accelerated over the past three years. The signing of a financial programme with the IMF in March 2018 confirms the authorities’ commitment to maintain a stable macroeconomic framework. Regarding technical conditions, the country has adopted a strategy paper (the National Economic and Social Development Plan, PNDES) for the 2016-2020 period. At the sector level, the Government has adopted a policy paper titled “Industrial and Artisanal Transformation 2018-2027”, which outlines Burkina Faso’s priorities in the energy, mining, industrial and handicraft sectors over the next decade. With regard to coordination, the country has, in conjunction with TFPs, established a framework for consultation on policies and operations in key sectors. In the energy sector, the Bank is a member of the sector group, which is led by the World Bank. The budget support framework established in 2005 is being updated. Overall, the fiduciary framework in Burkina Faso is acceptable, although it has weaknesses underscored by the 2016 PEFA assessment of the public finance management system. The Economic and Financial Sector Policy (POSEF) and the priority action plan are being updated to take into account the recommendations of the 2017 PEFA assessment. Annex 2 presents details on the fulfilment of conditions precedent by Burkina Faso.

4.3. Collaboration and Coordination with Other Partners

4.3.1. PARSE was prepared in consultation with all stakeholders during the preparation and appraisal missions. The General Framework for the Organization of Budget Support Operations (CGAB) that is being updated should lead to the adoption of common reform matrices in various key sectors and coordinated implementation monitoring. To ensure its effectiveness, the programme preparation team held working sessions with other TFPs operating in the energy sector (World Bank, AFD, JICA, EIB and BOAD). The operations of TFPs in the sector, which are in line with the concerns of all stakeholders, mainly seek to increase energy supply (construction/reinforcement of power generation plants and development of regional interconnections) and improve the population’s access to electricity. The EIB financed the construction of the Zagtouli photovoltaic power plant (33 MW) and the West African Development Bank (BOAD) the reinforcement of the Bobo-Dioulasso thermal power plant. The French Development Agency (AFD) and the European Investment Bank (EIB) are currently financing the construction of the Ghana-Burkina Faso interconnection line, and the World Bank, the African Development Bank (AfDB) and AFD are financing the construction of the Nigeria-Niger-Burkina-Benin interconnection line. Regarding electricity access, the World Bank is funding an electricity access project to the tune of USD 41 million, including an institutional sector support (the Electricity Sector Support Programme – PASEL). Besides the public administrative entities directly involved in reforms, the other stakeholders will be consulted during the monitoring of PARSE’s implementation. (See Annex 8 for the table of TFP operations in the energy sector).

4.4. Linkage with Other Bank Operations

4.4.1. As at 30 April 2018, the total portfolio volume was UA 453 million for 17 active projects. The overall disbursement rate is estimated at 39% for an average age of 2.9 years. The sector distribution of the active portfolio comprises the transport sector (52%), the agricultural sector (16%), the water and sanitation sector (8%), the private sector (8%), the energy sector (14%) and the multi-sector (2%). The review carried out on 27 March 2018 considered the Bank’s portfolio to be fairly efficient with an overall score of 3.7 on a scale of 1 to 4. It has no problematic project. This level of performance is rising, compared to 2017 and 2016. It is attributable to the continued efforts made by the Bank and the Government to further improve project implementation. PARSE is in synergy with other Bank operations, for instance the Electrification Project for Semi-Urban Areas of
Ouagadougou and Bobo-Dioulasso (PEPU) approved in September 2016, the West African Power Pool (WAPP) North Backbone Grid Interconnection Project (Nigeria-Niger-Burkina Faso-Benin) approved in December 2017, the Urban and Rural Solar Energy Production and Access Programme that is being prepared, the South Backbone Grid Interconnection Project (Ghana-Burkina Faso-Mali) planned for 2020, a solar energy project in the form of a PPP with private sector financing from the Bank, and a study on the mapping of competences in the energy sector. In addition, the Programme complements a Sustainable Energy Fund for Africa (SEFA) grant to the country in August 2017 to establish a framework conducive to private sector investment in energy production, particularly in isolated mini-networks based on renewable energy. PARSE will contribute to establishing a legal and institutional framework conducive to the implementation of these projects. (See table on the portfolio in Annex 9).

4.4.2 PARSE’s design took into account lessons from the implementation of the Energy Sector Support Programme (PASE) and the Accelerated Growth Strategy and Business Climate Support Programme (PASCACAF).

Table 2: Lessons from Previous Bank Operations in the Country

<table>
<thead>
<tr>
<th>Main Lessons</th>
<th>Reflected in PARSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>PASCACAF – Define programme measures, taking into account its duration and the existing institutional and human capacity.</td>
<td>PARSE will be implemented over a two-year period to enable the implementation of key measures and reforms. The different entities involved have a good mastery of programme measures. They have already benefitted from technical assistance from TFPs in the past, notably the Bank and the World Bank.</td>
</tr>
<tr>
<td>PASCACAF completion report – Assist and support ministries to effectively supervise sector dialogue frameworks (SDFs).</td>
<td>The Bank is a member of the energy sector group. Accordingly, it participates in dialogue on reforms with the Ministry of Energy and other relevant entities.</td>
</tr>
<tr>
<td>PASE completion report – The need to ensure the proper coordination of TFPs in the preparation of budget support operations in countries undergoing political transition to promote social peace.</td>
<td>The operation is implemented in collaboration with other TFPs operating in the energy sector. During the preparation mission, discussions were held with the World Bank expert.</td>
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</tbody>
</table>

4.5. Analytical Works Underpinning the Programme

V. THE PROPOSED PROGRAMME

5.1. Programme Goal and Objective

PARSE’s main objective is to create conditions for inclusive access to energy by establishing a sector regulatory and management framework that is attractive to private investors and increasing investments in energy in rural areas. More specifically, the programme will contribute to: (i) improving the sector legal and institutional framework; (ii) strengthening the governance of key sector entities; (iii) establishing a framework conducive to public and private investment; and (iv) increasing energy investments in rural areas. Thus, the programme addresses the major challenges and constraints that the country faces in bridging the energy gap.

5.2. Programme Components, Objectives and Expected Outcomes

5.2.1 The programme comprises two complementary components: (i) Improve the Energy Sector Regulatory and Investment Management Framework; and (ii) Support the Enhancement of Energy Sector Financial Governance and Promote Energy Inclusion. The measures contained in the two components will contribute to creating the conditions needed to increase public and private investments in the sector, which are essential for inclusive access to energy.

5.2.2 Component 1: Improve the Energy Sector Regulatory and Investment Management Framework

This component seeks to support the Government in adopting the implementing instruments of the law on general regulations governing the energy sector in order to make the sector reform effective. It also seeks to strengthen the sector regulatory framework as well as the investment management framework to enhance public expenditure efficiency and attract more private capital.

(a) Problems and Constraints

Law No. 14-2017 laying down general regulations governing the energy sector adopted in April 2017 is a significant step towards the reform of the energy sector in Burkina Faso. This law introduces major innovations. It provides a comprehensive framework for the management and regulation of the entire energy sector, and establishes the liberalization of the electricity sub-sector and the consideration of community provisions in the establishment of the sub-regional electricity market (ECOWAS Energy Protocol, ECOWAS Directive on the Organization of the Regional Electricity Market and WAEMU Energy Policy). It also includes provisions for the promotion of renewable energy and energy efficiency. In addition, this law extends the regulator’s powers to the entire energy sector. However, the law is not yet fully enforceable. About 30 implementing instruments are still to be approved by the Government. Seven instruments were adopted in October 2017. The other instruments are expected to be adopted in 2018 and 2019 and should allow for a better regulation of the conditions for the review of electricity rates, the conditions of access by third parties to transmission networks, the conditions for power distribution in the country, the possibility for individual producers to sell their surplus power and the framework for the production and distribution of renewable energy.
In April 2017, the Law No. 14-2017 transformed the Electricity Sub-sector Regulatory Agency (ARSE), which had been established in 2007, into the Energy Sector Regulatory Agency. Its new duties authorize it to propose the rates applicable in the electricity sector, settle disputes between the various actors and ensure the financial balance of the sector as a whole. Until now, however, ARSE is not fully operational. It does not yet have a plan of action, or an analytical tool and financial autonomy to assert its authority. At the institutional level, many entities have been established in the sector, including the General Directorate of Renewable Energy (DGER), the General Directorate of Energy Efficiency (DGEE) and the General Directorate of Conventional Energy (DGEC). A National Renewable Energy and Energy Efficiency Agency (ANEREE) in charge of promoting the development of renewable energy and energy efficiency in Burkina Faso has also been set up. However, the increase in the number of entities alongside SONABEL and ABER has occasionally caused conflicts of competence. The Ministry of Energy is carrying out a diagnostic study on the issue in order to review the various duties of the entities.

Public and private investment management in Burkina Faso has improved remarkably in recent years, but it still has weaknesses that impede public expenditure efficiency and the attractiveness of private capital. The major constraints identified are: (i) weak multi-year programming resulting in wide gaps between projections and achievements; (ii) lack of an investment project maturation and ex-ante project evaluation guide; (iii) poor coordination between the Government’s development strategy and the investment plans of public-sector enterprises; (iv) weak public-private partnership (PPP) regulatory and institutional framework, particularly in terms of assessing recurrent costs and induced liabilities that may aggravate budgetary risks. Like other ministries, the Ministry of Energy still faces these constraints that impede growth and the efficiency of investments in the sector. In addition, the country’s current investment code has not provided for incentives for the promotion of renewable energy.

(b) Recent actions implemented by the Government

Regarding regulations, besides adopting the new energy sector law, the Government has set up a working group comprising officials of the Ministry of Energy and key sector actors (SONABEL, ARSE, etc.) to propose implementing instruments of the said law. In total, seven instruments have adopted so far, including Decree No. 2017-1016/PRES/PM/ME/MCIA/MINEFID of 26 October 2017 defining the duties and setting out the organization and functioning of ARSE and Decree No. 2017-1013/PRES/PM/ME/MCIA/MINEFID of 26 October 2017 defining the specifications of the independent power producer. There are plans to finalize and adopt the other major instruments by end-2019. Concerning ARSE’s operationalization, the Government has instituted an energy levy to strengthen its financial autonomy, but it is not yet in force.

As regards investment planning and management, the Government has opted to focus its actions in 14 strategic sectors and to adopt sector-specific policies that define the relevant priorities. Within this context, the “Industrial and Artisanal Transformation” Sector Policy Paper was adopted in December 2017 to define the priorities of the industrial, energy, mining and handicraft sub-sectors for the 2018-2027 period. The Ministry of Energy has begun to update the electricity sub-sector strategy and action plan for the next five years. The Government is planning to develop and adopt all sector project maturation and ex-ante evaluation policies and guides, and amend the investment code and the PPP law by 2019. Concerning public finance management, there are plans to update the Economic and Financial Sector Policy (POSEF) and the Three-Year Action Plan following the PEFA 2017 assessment.
(c) **PARSE–backed Measures**

In light of the foregoing and in a bid to operationalize the sector reform, the programme will, in 2018 and 2019, support: (i) the adoption of the implementing instruments of Law No. 14-2017/AN laying down general regulations governing the energy sector (see details of instruments in the matrix of measures presented in Annex 3); (ii) the operationalization of the Electricity Sub-sector Regulatory Agency (ARSE) by financing it through the energy levy and adopting its 2018-2020 action plan; (iii) the adoption of a new organizational framework for the Ministry of Energy to better define the duties of various sector entities; and (iv) the adoption of the updated electricity sub-sector strategy and action plan. To contribute to improving investment management and the attractiveness of private capital in the sector, the programme will support: (v) the preparation of the investment project maturation guide and the ex-ante project evaluation guide; (vi) the adoption of the draft bill laying down the investment code which, among other things, provides for incentives for the generation of renewable energy; and (vii) the adoption of the bill revising the public-private partnership management framework.

5.2.3 **Component 2 – Support the Enhancement of Energy Sector Governance and the Promotion of Energy Inclusion**

This second component of the programme seeks to improve energy sector financial balance in order to reduce Government subsidies and increase investments in rural areas for greater energy inclusion. It is worth noting that enhancing sector financial balance will contribute to reassuring private investors to invest in electricity generation and distribution in the country.

(a) **Problems and Constraints**

Burkina Faso’s energy sector is dominated by two State corporations - SONABEL and SONABHY, which respectively supply electricity and petroleum products. To date, the two corporations depend on Government subsidies for their financial balance, a situation which stems from the electricity and hydrocarbons price control measure taken by the Government. SONABEL generates power mainly from thermal energy sources at a high cost, thereby exerting additional pressure on Government subsidies. SONABHY is grappling with limited storage capacity, an inefficient petroleum product transportation system and cash flow constraints resulting from dysfunctions in the Government’s mechanism for granting subsidies. Subsidies owed SONABHY are estimated at CFAF 67 billion. However, it should be noted that the price structure of petroleum products in force since April 2017 was recently modified in April 2018 to take into account increase in petroleum product prices since that date.

Faced with a continuously widening energy gap, with a nearly 13% yearly average sustained increase in energy demand since 2012, the Government has only been able to maintain a quite limited energy access rate of 3.2% in rural areas in spite of the existence of the Electrification Development Fund (FDE). The country’s low power transmission infrastructure coverage rate, difficulties in managing distribution infrastructure in rural areas and high power grid connection costs have not allowed for any significant increase in access to energy in rural areas compared with urban areas. Concerning energy and gender policies, as underscored earlier on, the link between gender equality and energy poverty is being addressed, but specific actions to tackle energy challenges in terms of gender have not yet been identified.
Concerning the improvement of sector governance and financial balance, performance contracts have been signed between the Government and the two major sector State-owned corporations, SONABEL and SONABHY. The performance contract signed between the Government and SONABEL in June 2015 under PASE specifies the respective commitments of each party in achieving strategic objectives by 2019. They include: (i) investments to be made (by the Government and SONABEL) in generation, transmission and distribution infrastructure; (ii) the safety and quality of electricity supply; and (iii) preservation of SONABEL’s financial balance and improvement of its profitability. An implementation status of the performance contract is being prepared and should result in its updating. The performance contract between the Government and SONABHY also signed in 2015 concerned, among other things, the enhancement of the performance of the petroleum product supply system, the construction of storage infrastructure, better organization of petroleum product transportation and a pricing and subsidy system that ensures SONABHY’s financial balance. In pursuance of these contracts, the Government has settled its debts to SONABEL and SONABHY, thereby contributing to improving their financial situation. In 2017, the Government continued the settlement of its crossed-debts in the energy sector with the reimbursement of CFAF 23 billion in outstanding subsidies to SONABEL in October 2017. It also paid CFAF 37 billion to SONABHY in subsidies accumulated over the previous years. An additional CFAF 35 billion was paid to SONABHY in the form of tax credit that it can use to offset its tax liabilities to the Treasury. However, electricity and petroleum product price freezing, electricity distribution losses, inefficient petroleum product transportation and late payment of subsidies to SONABHY induce costs that adversely affect the sector’s financial balance. To review the price-fixing mechanism, SONABEL and SONABHY are planning to conduct tariff studies and financial audits. Furthermore, with regard to fuel price the Government in December 2017 launched a communication strategy to raise public awareness on the need to apply the automatic fuel price adjustment mechanism to reflect international petroleum product price trends. Ahead of the launching of this mechanism, studies on the impacts of such a measure will be carried out before end-2018 to identify mitigation measures for vulnerable groups. The implementation of the performance contracts will continue alongside the application of the automatic price adjustment mechanism. The Government intends to increase the share of renewable energy in national energy production to reduce production costs and subsidies in the medium term.

Regarding energy inclusion, it should be noted that the new energy law provides for the establishment of a rural electrification agency called Burkina Faso Rural Electrification Agency (ABER), to replace the Electrification Development Fund (FDE). ABER’s duty is to promote equitable electrification coverage of the national territory by developing less costly rural electrification, and to ensure delegated infrastructure project ownership. It is also expected, under the authority of the regulatory agency, to supervise electricity cooperatives and associations (COOPEL) that are public service delegates in rural areas. The establishment of ABER is expected to be formalized after the definition of its powers in relation to SONABEL, which is also operating in rural areas. Concerning gender issues, the Government will conduct an energy sector gender audit to assess the gender dimensions in energy planning. Gender-sensitive budgeting should be taken into consideration in the 2019 budget in five pilot ministries. In the Ministry of Energy, gender mainstreaming will be effective in the 2020 national budget circular letter to be prepared in 2019.
(c) PARSE-supported measures

To contribute to improve the energy sector’s financial balance, the following measures will be supported: (i) preparation of an electricity sub-sector financial model by ARSE for a better pricing policy; (ii) conduct of an independent audit of SONABHY (clarification of its assets and liabilities, overall profitability, capital structure, compliance of its accounting with international best practices and the status of its financial flows with the central Government); (iii) adoption of a comprehensive plan for the implementation of audit recommendations; and (iv) continuation of the implementation of the Government/SONABEL and Government/SONABHY performance contracts.

To increase access to energy by the most vulnerable segments of the population, the programme will support the following measures: (v) establishment of the Burkina Faso Rural Electrification Agency (ABER) through the transformation of the Electrification Development Fund (FDE) and the preparation by ABER of an action plan for the period 2018-2020; (vi) conduct of an energy sector gender audit to assess the gender dimensions of energy planning; and (vii) gender mainstreaming by the Ministry of Energy in the 2020 budget circular to be prepared in 2019.

Expected Programme Implementation Outcomes

At the end of the programme in 2019, the national electrification rate is expected to increase to 25% from 20.07% in 2016, especially in rural areas where the rate will increase from 3.2% in 2016 to 6% thanks to ongoing investments supported by ABER. Pursuant to the performance contracts, the improvement of SONABEL’s internal governance is expected to enable the reduction of overall distribution losses from 14.5% in 2017 to 13.25% in 2019. Lastly, the improvement of the public investment and PPP management framework will help to increase energy sector investments from 0.4% of GDP in 2017 to 0.6% of GDP in 2019, with a rise in the installed capacity of independent producers from 25 MW in 2016 to 208.5 MW in 2019, more than half of it from solar energy.

5.3. Policy Dialogue

Under the programme, it has been agreed with the Government to engage in dialogue to update the Economic and Financial Sector Policy (POSEF) and the Three-Year Action Plan, as well as to implement specific measures to ensure better public finance management, namely; (i) adoption of the bill to harmonize development planning instruments that are in line with the WAEMU harmonized public finance framework; (ii) preparation and adoption of all sector policies, together with strategies and action plans; (iii) preparation and validation of annual performance plans for all ministries starting from the 2018 budget; (iv) appointment of programme officers in all ministries and inclusion of the expenditure authorization service in their organization charts; and (v) adoption of regulatory instruments on the dematerialization of documents in the public expenditure chain. Concerning public procurement, dialogue will continue on: (i) the regular conduct of ex post procurement audits and controls; (ii) the continuation of initiatives to improve the public procurement information system; and (iii) the design of a strategy for the development of the professional capacity of actors involved in the contract award and execution process.
5.4. **ADF Loan Conditions**

5.4.1 **Measures Precedent**

Based on the dialogue between the Fund and the Government, the Government is expected to implement the measures precedent contained in the box below prior to programme presentation to the Boards of Directors.

| 1. | Implementing instruments of Law No. 14-2017/AN on the general regulations governing the energy sector: |
|    | - Copy of the order establishing the specifications applicable to energy audits in Burkina Faso (provided for by Decree 2017-1015 on energy audits); |
|    | - Copy of the decree on the specifications applicable to electricity distribution concession holders in Burkina Faso (Art.47); |
|    | - Copy of the decree laying down the terms and conditions for determining and reviewing electricity pricing (Art. 40 and 95); |
| 2. | Copy of the diagnostic study validated by the Minister of Energy laying down the powers of the various energy sector entities in order to define their scopes of action and avoid overlapping; |
| 3. | Copy of ARSE’s action plan for the period 2018-2020 validated by the ARSE Regulatory Board; |
| 4. | Copy of the Decision of ARSE’s Regulatory Board on the implementation of the mechanism for calculating and sharing the energy levy for the 2018 financial year, taking the sector’s financial balance into account. |

5.5. **Application of Best Practice Principles on Conditionality**

In accordance with the international consensus on best practices contained in the Bank Group Policy on Programme-Based Operations (PBOs)³, PARSE is in line with best practices on conditionality, namely country ownership, shared responsibilities, disbursement predictability and adoption of realistic measures. Bank financing was based on conditionalities discussed and shared with the other TFPs, in the absence of a matrix of common measures. All programme measures were proposed by the various Government entities and validated by the Government after verification of their realism. Disbursement predictability is ensured by the programme-based nature of the operation.

5.6. **Financing Needs and Arrangements**

5.6.1 The 2018 Budget Act shows a financing need of CFAF 423 billion, representing 5.4% of GDP. This financing gap is based on tax revenue projections of CFAF 1 608 billion (20.4% of GDP), against achievement of CFAF 1 238 billion (17% of GDP) in 2017. Following discussions with IMF staff under the ECF-backed three-year arrangement, the Government agreed to reduce its tax revenue projections and to freeze some capital expenditure in order to maintain the financing need at a sustainable level. Therefore, overall capital expenditure amounting to CFAF 264 billion provided for in the 2018 Budget Act was frozen and the financing need reduced to CFAF 395 billion, i.e. 5% of GDP. The financing need for 2019 is estimated at CFAF 260 billion, or 3% of GDP.

5.6.2 The Government’s fiscal policy for the period 2018-2020 gives priority to infrastructure capital expenditure (especially energy) and social and security spending. The Government intends

³ Cf ADF/BD/WP/2011/38/Rev.3/Approval of 29 February 2012.
to step up tax revenue mobilization by improving tax administration performance, adopting new fiscal policy measures (i.e. adoption of a new tax code and full implementation of the standardized VAT billing system) and improving the computer systems to enable data sharing between the tax administration and customs services. The wage bill should also be contained through better management of public service staff strength and subsidies granted to the energy sector. Furthermore, the Government will take measures to improve investment quality and efficiency by setting priorities and conducting cost-benefit analyses for projects, including PPPs. The legal and institutional framework for managing public investments and PPPs should be reinforced.

5.6.3 The financing gaps for 2018 and 2019 are fully covered by bonds that the Government plans to issue on the WAEMU community market, and budget support from TFPs. Considering the high financing needs in 2018 compared with 2019, most TFPs have pledged higher budget support amounts in 2018. Therefore, the projected budget support for 2018 and 2019 stands respectively at CFAF 194.8 billion and CFAF 139.6 billion. The Bank will contribute CFAF 7.8 billion and CFAF 3.9 billion, in that order.

Table 3 – Projected Financing Needs and Sources (in CFAF billion)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue and Grants</td>
<td>1,411</td>
<td>1,584</td>
<td>1,822</td>
<td>2,043</td>
</tr>
<tr>
<td>including budget grants</td>
<td>81</td>
<td>74</td>
<td>97</td>
<td>74</td>
</tr>
<tr>
<td>Total Expenditure and Net Loans</td>
<td>1,636</td>
<td>2,180</td>
<td>2,217</td>
<td>2,303</td>
</tr>
<tr>
<td>including: wage bill</td>
<td>1,119</td>
<td>1,264</td>
<td>1,372</td>
<td>1,378</td>
</tr>
<tr>
<td>including: capital expenditure</td>
<td>526</td>
<td>919</td>
<td>848</td>
<td>925</td>
</tr>
<tr>
<td>Overall Balance (commitment basis)</td>
<td>-226</td>
<td>-596</td>
<td>-395</td>
<td>-260</td>
</tr>
<tr>
<td>Accumulated Arrears ((\cdot) = Reduction)</td>
<td>87</td>
<td>160</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Overall Balance (cash basis)</td>
<td>-139</td>
<td>-436</td>
<td>-395</td>
<td>-260</td>
</tr>
<tr>
<td>External Financing (Net)</td>
<td>106</td>
<td>74</td>
<td>133</td>
<td>96</td>
</tr>
<tr>
<td>including Bank budget support</td>
<td>0</td>
<td>0</td>
<td>7.8</td>
<td>3.9</td>
</tr>
<tr>
<td>including budget support from the other TFPs</td>
<td>70.3</td>
<td>43.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Financing (Net)</td>
<td>32</td>
<td>366</td>
<td>262</td>
<td>164</td>
</tr>
<tr>
<td>Total Financing</td>
<td>138</td>
<td>440</td>
<td>395</td>
<td>260</td>
</tr>
<tr>
<td>Errors and Omissions</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>


5.7 Application of Bank Group Policy on Non-concessional Debt Accumulation

PARSE is consistent with Bank principles on concessional loans. Under the programme supported by the Extended Credit Facility concluded with the IMF in March 2018, the Government pledged to prioritize concessional loans, considering the constraints on its debt management capacity. However, the programme provides for a CFAF 200 billion non-concessional loan ceiling in 2018 to finance any top priority projects for which concessional financing is not available. PARSE, which is financed by an ADF loan, is in keeping with Government’s concessional debt commitments.
VI. PROGRAMME IMPLEMENTATION

6.1. Programme Beneficiaries

The direct programme beneficiaries are the reform implementation entities, i.e. the Ministry of Energy, the Ministry of Finance and Development, the Ministry of Industry and Trade, SONABEL, SONABHY, ARSE and ABER. The indirect beneficiaries are private sector operators, especially micro-, small-, and medium-sized enterprises whose activities heavily depend on energy, and operators wishing to invest in the energy sector. The programme will enable them to improve the competitiveness and productivity of SMEs, and facilitate private sector involvement in energy generation and distribution. The programme end-beneficiaries are the country’s population, 6% of whom will have regular access to electricity, especially rural dwellers. In addition to these direct beneficiaries, the population of Burkina Faso as a whole will benefit indirectly from major socio-economic spin-offs from the programme, thanks to improvement of public services (health, education, drinking water, etc.).

6.2. Social and Gender Impact

6.2.1 The recurrent crisis sparked off by the unavailability of energy in Burkina Faso compels millions of people to resort to traditional biomass (notably wood and charcoal), resulting in a public health problem, with high levels of deaths due to pneumonia, chronic obstructive lung disease and lung cancer. Statistics also show that women are facing daily inequalities accessing energy services. Furthermore, lack of electricity (frequent and prolonged outages) has harmful social consequences due to the slowdown in economic activities. The programme will contribute to improving access to energy, particularly in rural areas where poverty is widespread. Regarding energy and gender policies and strategies, PARSE will support gender-sensitive budgeting in the energy sector. Access to energy in rural areas is expected to increase from 3.2% in 2016 to 6% at end-2019. This should facilitate access to water by women thanks to electric water pumps, and promote their agricultural activities as well as small processing plants.

6.3. Environmental Impact and Climate Change

In accordance with the Bank’s environmental and social assessment procedures (ESAP), PARSE is classified under Environmental Category 3 because it will not have any direct or indirect negative environmental impact or any negative social impacts. As per ESAP, no action is required apart from environmental categorization. Overall, the improvement of energy sector management will have positive environmental impacts, especially by providing other cleaner energy alternatives to the population who are currently using fuelwood (firewood and charcoal). However, this objective can only be achieved if the environmental and social safeguards assessment framework is taken into account. The assessment of the said framework helped to identify support measures to be taken for programme and reform implementation. Therefore, the Bank will maintain dialogue with the country on the production and adoption of a sector guide for ESIAs. Concerning climate change, the PARSE has been classified under Environmental Category 3, in accordance with the Bank’s Climate Safeguards System (CSS). Apart from categorization, no climate change adaptation or mitigation action is required (see Annex 6 on Environmental Impact Assessment).
6.4. **Programme Implementation, Monitoring and Evaluation**

The Ministry of Economy, Finance and Development will be responsible for programme implementation. In this regard, it will ensure that the Ministry of Energy and the various relevant entities fully play their role in implementing reforms falling under their spheres of competence. The General Directorate of Cooperation (DG-COOP) will transmit periodic programme implementation status reports to the Bank. The DG-COOP will manage economic, technical and financial relations with technical and financial partners as well as non-governmental organizations.

6.5. **Financial Management and Disbursement**

6.5.1. **Country Fiduciary Risk Assessment**

Overall, Burkina Faso’s fiduciary risk is deemed moderate and its trajectory is progressing towards low risk with the implementation of reforms and measures resulting from PEFA 2017. The full analysis of the fiduciary framework is presented in Technical Annex -1.

6.5.2. **Disbursement**

The proposed programme will be financed with a UA 15 million ADF loan and implemented from 2018 to 2019 using a multiple-tranche approach. The first tranche of UA 10 million will be disbursed in 2018 after programme approval by the Boards of Directors. The second tranche of UA 5 million will be disbursed in 2019 after fulfilment of disbursement conditions. The disbursements will be in accordance with the provisions of the CGAB Protocol and made into a special Treasury account opened in the books of BCEAO’s National Branch in Ouagadougou.

6.5.3. **Financial Management and Auditing**

Owing to the nature of the programme (sector budget support), financial resources will be used in accordance with national public finance regulations, including the contracting system. This budget support, to be disbursed in two tranches (2018 and 2019), will contribute to covering financing needs during the two years. To that end, the Ministry of Economy, Finance and Development will manage PARSE’s financial resources. The programme will be audited in accordance with the clauses set forth in the General Framework for the Organization of Budget Support Operations (CGAB). The Government of Burkina Faso submits the Audited Budget (“Loi de Finances” - LF) on the execution of the Appropriation Act (LF) to Parliament annually. The 2016 Audited Budget Bill, together with a Court of Auditors’ report on the execution of the LF and the general declaration of compliance between the management accounts and the country’s general account, has been transmitted to the National Assembly for consideration. The 2017 Audited Budget Bill is being finalized for transmission to the Court of Auditors. An independent budget support audit is conducted each year and the audit report forwarded to all the TFPs involved in budget support operations.

6.5.4 **Procurement**

The public procurement legal framework in force is based on Law No. 39-2016/AN of 2 December 2016 laying down general regulations governing public procurement, and Decree No. 2017-0049/PRES/PM/MINEFID setting out procedures for the award, execution and payment for public contracts and delegation of public services. It should be stated that the energy sector does not have specific or alternative procurement rules or procedures. Through the Ministry of Energy and SONABEL, the sector uses the same public procurement regulatory and institutional mechanism as
the other actors. Bank assessment considered that the public procurement system in general, and as applied particularly in the energy sector, can be a relatively acceptable basis if the corrective measures proposed are implemented.

Overall, the procurement risk was deemed "substantial". There is a major weakness in the contract award control process where all contracts within the control thresholds laid down by a project owner are controlled solely by the Directorate of Public Procurement and Financial Commitments Control without any limit and irrespective of the type or complexity of the procurement. Consequently, any use of the national public procurement system under Bank-financed operations would have a limited scope. Moreover, public contracts financed by donors and submitted for prior review do not go through country system control. According to the actors, the goal is to avoid double control of contracts (country and donor) in order to speed up the process. However, the disadvantage of such a mechanism is that it excludes the country from controlling contracts financed by donors (lack of ownership), and does not contribute to strengthening the system by enabling the actors to learn by practising. Furthermore, ex post controls are not regular. Moreover, PEFA 2017 rated public procurement D+, a performance which is below the required level. To enhance the effectiveness of the system, the Bank will maintain dialogue with the Government to improve the public procurement control systems, the information system and capacity building. (See Technical Annex-2 for full analysis).

VII. LEGAL INSTRUMENT AND AUTHORITY

7.1. Legal Instrument

The legal instrument that will be used under the programme is the ADF Loan Agreement signed between the ADF and the Burkina Faso for an amount not exceeding UA 15 billion.

7.2. Conditions for Fund Intervention

The conditions precedent to consideration of this programme by the Boards of Directors are described in paragraph 5.4.1. The Ministry of Economy, Finance and Development has transmitted to the Bank Office in Ouagadougou, documents attesting to the implementation of measures precedent. At this juncture, all the conditions have been fulfilled. The other conditions linked to Fund intervention are conditions precedent to effectiveness and disbursement.

**Condition Precedent to Effectiveness**

Effectiveness of the ADF loan shall be subject to: (i) the signature of the Loan Agreement by the Burkina Faso (the Borrower) and the Fund; and (ii) fulfilment by the Borrower of the conditions set forth in Section 12.01 of the General Conditions Applicable to African Development Bank Loan and Guarantee Agreements.

**Conditions Precedent to Disbursement:** in addition to the above-mentioned effectiveness conditions, the disbursement of the two loan tranches shall be subject to:

- Disbursement of the first tranche of UA 10 000 000: Copy of the energy sector strategy and action plan, approved by the National Development Policies Commission;
Disbursement of the second tranche amounting to UA 5 000 000: transmitting evidence of satisfactorily implementing the measures presented in Table 4 below.

### Table 4

<table>
<thead>
<tr>
<th>Condition Precedent to Disbursement of the Second Tranche</th>
<th>Factual Evidence of Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Component 1: Improve the Energy Sector Regulatory and Investment Management Framework</strong></td>
<td></td>
</tr>
<tr>
<td>1. Adoption of the following implementing instruments of Law No. 14-2017/AN laying down general regulations governing the energy sector:</td>
<td>Copy of the decrees adopted by the Council of Ministers</td>
</tr>
<tr>
<td>‣ Decree setting out conditions for purchasing surplus electricity produced by self-generation photovoltaic solar facilities</td>
<td></td>
</tr>
<tr>
<td>‣ Decree determining the level of the eligible customer and laying down conditions for return of the eligible customer to the price level (Section 39 of the law)</td>
<td></td>
</tr>
<tr>
<td>‣ Decree laying down conditions for the issuing, conclusion, renewal, duration, assignment, transfer, withdrawal and termination of concession contracts or any other form of delegation of public service, licences and authorizations</td>
<td></td>
</tr>
<tr>
<td>2. Adoption of the decree organizing the Ministry of Energy</td>
<td>Copy of the decree adopted by the Council of Ministers</td>
</tr>
<tr>
<td>3. Preparation of project maturation and ex-ante evaluation guides</td>
<td>Copy of the guides and the report of the validation workshop</td>
</tr>
<tr>
<td>4. Adoption by the Government of the investment code</td>
<td>Copy of the investment code adopted by the Council of Ministers and letter of transmission of the Code to the National Assembly</td>
</tr>
</tbody>
</table>

| **Component 2 – Support the Enhancement of Energy Sector Governance and the Promotion of Energy Inclusion** | |
| 5. Conduct of the audit of SONABHY and preparation of the action plan for implementing the recommendations | Copy of the audit report and of the action plan |
| 6. Operationalization of the Burkina Faso Rural Electrification Agency (ABER) and preparation by ABER of an action plan for the period 2019-2021 | Copy of the decree approving the status of the Burkina Faso Rural Electrification Agency (ABER) and copy of ABER’s action plan |
| 7. Gender mainstreaming in the energy sector and in the preparation of the 2020 Budget Act | Copy of the 2020 budget circular mainstreaming gender in the energy sector |

### 7.3. Compliance with Bank Group Policies

PARSE is in line with the Bank Group Policy on Programme-Based Operations (ADB/BD/WP/2011/68/Rev.3/Approval; ADF/BD/WP/2011/38/Rev.3/Approval), especially the instrument on sector budget support. No waiver of this policy is requested in this proposal.

### VIII. RISK MANAGEMENT

Table 5 below presents the overall risks that may affect programme implementation or the achievement of outcomes.
Table 5
Risks and Mitigation Measures

<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigation Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Political and Security Risk</strong></td>
<td>The Government is taking measures to reinforce the operational capacity of defence and security forces, improve intelligence gathering mechanisms and strengthen military and security cooperation with countries of the sub-region, notably the five G5 Sahel countries.</td>
</tr>
<tr>
<td>Terrorist movements, whose criminal activities are increasingly recurrent in the capital, Ouagadougou, may erode the trust of investors and the population and undermine the implementation of public policies.</td>
<td></td>
</tr>
<tr>
<td><strong>Economic and Financial Risks</strong></td>
<td>In March 2018, the Government and the IMF signed a three-year arrangement containing a number of measures to be implemented in order to maintain a sustainable macroeconomic framework, including the improvement of tax revenue collection, control of the wage bill and subsidies to the energy sector, as well as prudent debt management. If necessary, the country can resort to non-concessional loans to finance major investment projects. Furthermore, the Government is implementing climate change adaptation programmes and natural disaster response plans.</td>
</tr>
<tr>
<td>Economic growth is contingent upon climate hazards (floods, irregular rainy and dry seasons, etc.) and the international economic situation (fall in cotton prices and rise in oil prices). The financial situation could be affected by low domestic resource mobilization, high subsidies, social pressure-related transfers, and limited concessional debt capacity.</td>
<td></td>
</tr>
<tr>
<td><strong>Fiduciary Risk</strong></td>
<td>In 2017, the Government adopted the programme-budget principle, and is reforming the public finance management system. Moreover, it has undertaken to prepare the budget based on realistic revenue and expenditure projections, and to improve the internal and external control systems.</td>
</tr>
<tr>
<td>PEFA 2017 noted low budget credibility. There are still wide variations between the initial budget and the final budget executed with regard to the amounts of revenue and expenditure, and their composition. Moreover, the public expenditure external control system is weakened by the late audit of accounts of the major accounting headings.</td>
<td></td>
</tr>
</tbody>
</table>

IX. **RECOMMENDATION**

In light of the foregoing, it is recommended that the Boards of Director approve an ADF loan not exceeding UA 15 million to Burkina Faso to finance the Energy Sector Reform Support Programme.
ANNEX 1: Government’s Letter of Development Policy

MINISTRY OF ECONOMY, FINANCE AND DEVELOPMENT
---------------
SECRETARIAT GENERAL
---------------
GENERAL DIRECTORATE OF COOPERATION

No. 2018-________/MINEFID/SG/DGCOOP/DSPF

The Minister
To
Mr Akinwumi Adesina
President of the African Development Bank
Group
- Abidjan, Côte d’Ivoire -

Subject: Development Policy Letter

Mr President,

I wish, through this letter, to express to you the great satisfaction of the Government of Burkina Faso for your institution’s commitment to support the country in implementing the National Economic and Social Development Plan (PNDES). I also appreciate your readiness to continue, through the Energy Sector Reform Support Programme (PARSE) for the 2018-2019 period, to consolidate the achievements made thanks to the budget support you provided for the sector in 2015. To support this reform programme, the Government of Burkina Faso is therefore requesting a UA 15 million loan in the form of budget support from the African Development Bank (AfDB).

This Development Policy Letter (DPL) chronicles recent economic developments in Burkina Faso and presents the country’s medium-term economic and financial outlook. It also describes the public and sector policies implemented by the Government to significantly reduce poverty and highlights the reforms initiated to support the energy sector.
I. Recent Economic Situation

1. Lately, economic activity has been hampered by the upsurge in terrorist attacks, inadequate rainfall during two crop seasons (2015/2016 and 2017/2018) and numerous social demands. In spite of this very difficult context, the economic growth rate increased in 2016 and 2017. According to the latest estimates, the real GDP growth rate rose from 3.9% in 2015 to 5.9% in 2016 and 6.4% in 2017, that is an annual average of 5.4% during the 2015-2017 period. Overall, inflation, expressed by the general level of consumer price, was contained during the 2015-2017 period within the community standard of no more than 3%. It remained very moderate, at an average of 0.4%.

2. Concerning the budget, despite an unfavourable economic situation, in 2017 the country showed resilience in resource mobilization resulting in a 12.9% increase in revenue generated compared with a 15% increase in tax revenue at end-December 2016 and a 6.7% increase in grants. Total expenditure and net loans rose by 28.9% in 2017 with a 17.9% increase in current expenditure and a 49.8% increase in capital expenditure compared with the rate in 2016.

3. Between 2015 and 2017, the overall deficit on a commitment basis worsened, increasing from 2.2% of GDP in 2015 to 3.7% in 2016 and to 7.6% in 2017. The worsening of the deficit is attributable to the increase in payroll triggered by social pressures and rising security spending, public investment and current transfers. It was mainly financed by issuing Treasury bills and securities on the regional market.

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

4. On 20 July 2016, the Government of Burkina Faso adopted the National Economic and Social Development Plan (PNDES) 2016-2020 to serve as a benchmark for all the operations of socio-economic development actors in Burkina Faso during the 2016-2020 period. The overall objective of the PNDES is to ensure the structural transformation of Burkina Faso’s economy so as to promote robust, sustainable, resilient and inclusive growth that creates decent jobs for all and improves social well-being.

5. The implementation of the PNDES in 2017 helped to reinforce the economic growth rate and make structuring investments in human capital development, enhancement of governance and in infrastructure to support economic transformation. However, during that same year, the implementation of the plan was affected by an unparalleled wave of salary demands and an upsurge in terrorist attacks in the northern and north-western borders of the country with Mali and in the Sahelian part of the country. In addition, climatic hazards (early cessation of rainfall and army worm and grain-eating bird attacks) severely affected the agricultural sector.

6. The fiscal policy, therefore, consisted in supporting growth with an increase in social and security investment spending, resulting in an increase in the budget deficit despite the significant improvement in the capacity to mobilize domestic resources.
7. The implementation of the PNDES, like the resumption of economic activity in 2016, also helped to realize major achievements. The main outcomes of the PNDES are presented according to its three strategic thrusts, namely: (i) reform institutions and modernize the administration; (ii) develop human capital; and (iii) promote economic growth and employment enhancing sectors.

➢ **Thrust 1: Reform institutions and modernize the administration**

8. The Government of Burkina Faso has embarked on reforms and the modernization of institutions and the administration in order to consolidate peace, security, justice and human rights, as well as improve the effectiveness of its actions.

9. The main outcomes achieved include building the country’s resilience to terrorist threats by reinforcing the operational capacity of the defence and security forces, pursuing the implementation of public finance reforms with a shift to the use of the programme budget and improving performance in generated revenue collection. Achievements were also made in the area of justice, including the increase of access to justice, the rapid settlement of disputes, the humanization of the prison environment, and the strengthening of the judicial system with the recruitment of judicial personnel and officers of the court.

➢ **Thrust 2: Develop human capital**

10. Government’s action under the second pillar of the PNDES is aimed at building high quality human capital that can make a more significant contribution to the country’s development.

11. To that end, efforts at improving the delivery and quality of health care led to the equipping of regional general hospitals (CHR) and university teaching hospitals (CHU) with an autonomous oxygen production system, the upgrading of 14 health and social promotion centres (CSPS) into medical centres (CM), the standardization of health centres and the construction of new health centres (CSPS and CM). In addition, medical and paramedic personnel were recruited to strengthen the health system with qualified personnel. Similarly, efforts are being made to improve the quality of education through the construction of infrastructure and recruitment of staff at all levels of education.

12. *Regarding the improvement of the living environment and access to water, sanitation and high-quality energy services*, relatively significant achievements have been made in improving access to drinking water sources by urban and rural populations, constructing simplified drinking water supply systems (SDWSS), standalone water points, new equipped boreholes and manual pumps (MP) and rehabilitating water and sanitation infrastructure.

➢ **Thrust 3: Promote economic growth and employment enhancing sectors**

13. Major achievements made in 2017 within the framework of the implementation of policies to revitalize key economic growth and employment-enhancing sectors concern notably the opening up of the country internally and externally with a significant increase in the proportion of rural roads developed, the development of urban road networks, the tarring of new roads and the continuation and launching of the construction of other new road networks. Achievements also concern the increase in installed capacity, the connection of many localities to the SONABEL network, the
electrification of many villages with photovoltaic solar power and the construction of socio-economic infrastructure.

14. **Concerning the promotion of decent employment and social protection for all**, the Government has strengthened the project promoter financial support system by implementing youth and women’s empowerment programmes and the Burkina STARTUP project.

15. Regarding energy infrastructure, the main achievements made in 2017 concern notably the completion of the construction of the Ziga solar power plant (1 MWc), the Zagtouli solar power plant (33 MWc), the electrical grid interconnection (Burkina Faso section) with Ghana with an expected additional capacity of 100 MW as well as works to connect many provinces to the SONABEL network.

### III. Energy Sector Situation

16. The energy situation in Burkina Faso is characterized by the predominant use of biomass, low and unequal access to modern energy sources, inadequate development of endogenous energy resources and total dependence on imported petroleum products. In addition, the cost of power generation is one of highest in the world.

17. As at 31 December 2017, the national, urban and rural electrification rates were 20.62%, 65.84% and 3.24% respectively and the national electricity coverage rate was 35.58%. Since 2012, the electricity demand has increased steadily and stands at about 13% on average annually, while the installed capacity was 327 MW and the energy consumed 1,603 GWh in 2016. This energy situation is the result of many factors including (i) the low installed capacity due to low public and private investment in the sector; (ii) inadequate sector regulation; (iii) the poor regulatory framework; and (iv) inadequate sector planning.

18. To improve access to quality energy services, ensure energy efficiency and promote economic competitiveness, the Government has initiated many reforms in the energy sector including the adoption in 2016 and 2017 of the Energy Sector Policy Letter (ESPL) and the “industrial and artisanal transformation” sector policy respectively. The objective, therefore, is to improve access to and the availability of energy through energy mix by increasing the share of renewable energy in current power generation, enhancing energy efficiency, and strengthening the conventional power generation park. To that end, the Government intends to increase (i) the national electricity coverage rate from 33.55% in 2016 to 80% in 2027; (ii) the national electrification rate from 20.07% in 2016 to 60% en 2027; (iii) the urban electrification rate from 66.46% in 2016 to 90% in 2027; (vi) the rural electrification rate from 3.2% in 2016 to 30% in 2027; and (v) the share of renewable energy in total energy production from 14.33% in 2016 to 50% in 2027.

19. To achieve these objectives, the Government undertook to first of all improve the weak regulatory framework through the (i) adoption of Law No. 14-2017/AN of 20 April 2017 laying down general regulations governing the energy sector, which was promulgated by Decree No. 2017-350/PRES of 26 May 2017; and (ii) preparation of 15 draft instruments (decrees and orders) for the implementation of the said law. Six of these instruments have been signed, while nine are in the process of being adopted.
20. Furthermore, to significantly address its overall energy vision, the Government embarked on (i) the reorganization of the Ministry of Energy by creating the General Directorate of Renewable Energy (DGER), the General Directorate of Energy Efficiency (DGEE) and the General Directorate of Conventional Energy (DGEC); (ii) the transformation of Electrification Development Fund (FDE) into the Burkina Faso Rural Electrification Agency (ABER) by Law No. 14-2017/AN of 20 April 2017 laying down general regulations governing the energy sector; (iii) the operationalization of the National Agency for Renewable Energy and Energy Efficiency (ANEREE); (vi) the formulation and adoption of the National Electricity Generation, Transmission, Distribution and Electrification Master Plan; and (v) the establishment and operationalization of the Permanent Secretariat for Planning.

21. To revitalize the electricity sector, particularly by increasing electric power supply and ultimately reducing the cost of a KWh, Burkina Faso has opted for the use of the public-private partnership (PPP) mechanism. To ensure greater efficiency, it will therefore review the legal and institutional framework of PPPs, including Law No. 20-2013 laying down the legal framework for public-private partnerships and its implementing instruments.

IV. Prospects for the 2018-2019 Period

(A) Macro-economic outlook

22. According to latest estimates made by the Ministry in charge of finance within the framework of the implementation of the PNDES, economic activity is expected to experience rapid growth in 2018. The real GDP growth rate is expected to rise to 7.0% in 2018, against 6.4% in 2017. In 2019, the value added of economic activities is expected to increase by 6.5%. During the 2020-2021 period, the value added of economic activities would increase to stand at 6.8% on average per annum.

23. The Government will continue to implement measures to fight against rising costs in the event of abundant rainfall and to maintain inflation within the community standard of 3% in 2018 and during the 2019-2021 period in the event of a positive trend in the price of a barrel of oil.

24. Concerning public finance, strong measures will be taken to enhance resource mobilization and achieve 2018 Appropriation Act forecasts with the aim of ensuring the execution of regulated expenditure as a preventive measure under the programme concluded with the IMF. Regarding total expenditure and net loans, measures and reforms are envisaged to streamline the current expenditure of the administration to generate savings to be used for investment.

25. The Government has undertaken to control the overall budget deficit by adopting appropriate measures to reduce it to below 3% of GDP by 2019, in keeping with West African Economic and Monetary Union (WAEMU) convergence criteria. To that end, it will implement actions to accelerate the implementation of reforms so as to especially mobilize additional domestic and external resources. Emphasis will also be laid on the improvement of investment efficiency and performance (building design and implementation capacity) and the streamlining of operating costs. Thus, the implementation of the Government’s financial operations is expected to reduce the budget deficit from 7.6% of GDP the previous year to 4.9% of GDP.

26. Many investment projects are being implemented in the energy sector to ensure access to energy services and increase the electricity coverage rate. These include the construction of fourteen (14)
solar power plants, the construction of three (3) thermal power plants with a cumulative capacity of 365 MW, the construction of four (4) hydroelectric power plants with a cumulative capacity of 40 MW; the reinforcement and extension of electric power transmission lines over 1 000 kilometres (90 kv, 133 kv, 225 kv and 330 kv), the construction of a low voltage (LV) line over 1 000 kilometres and the increase in the number of hydrocarbon storage facilities with a capacity of 355 600 cubic metres.

(B) Key PARSE Reforms and Measures

27. As a continuation of previous Bank reform support operations in the energy sector whose achievements it is expected to consolidate, PARSE’s main objective is to create conditions for inclusive access to energy by establishing an energy sector regulatory and management framework, improving its attractiveness to private investors and increasing investments in rural areas. It has two components, namely: (a) Improving the energy sector regulatory framework and financial equilibrium; and (b) Improving energy sector public and private investment framework. The expected programme outcomes in 2019 are: (i) an increase in the national electrification rate to 30% against 20.07% in 2016, especially in rural areas where the rate will increase from 3.2% in 2016 to 12% in 2019 thanks especially to ongoing investments supported by ABER; (ii) a reduction in overall distribution losses from 14.5% in 2017 to 13.25% in 2019 thanks to the improvement of SONABEL’s internal governance, in pursuance of the performance contracts; (iii) lastly, an increase in energy sector investments to 3% of GDP, with a rise in the number of projects financed through PPP following the improvement of the public investment and PPP management framework.

(A) Component 1: Improving the Energy Sector Regulatory Framework and Financial Equilibrium

28. With the adoption Law No. 14-2017/AN/ of 20 April 2017, the Government, while considering the community provisions provided for under the construction of the sub-regional electricity market, has liberalized the electricity sub-sector and strengthened the powers of the Energy Sector Regulatory Agency (ARSE) by extending its powers to the entire energy sector.

29. As part of the effective application of this law, seven instruments out of the planned thirty have been adopted by the Government. To continue to improve the energy sector regulatory framework and financial equilibrium, PARSE will support the following measures: (i) adoption of the implementing instruments of Law No. on the general regulations governing the energy sector; (ii) operationalization of the Energy Sector Regulatory Agency (ARSE) through its financing using the energy levy and the adoption of its action plan for the period 2018-2020, (iii) adoption of a new organization chart for the Ministry of Energy to better define the powers of the various energy sector entities; (iv) adoption of the updated electricity sub-sector strategy and its action plan; (v) preparation of the investment project maturation guide and the ex-ante project evaluation guide; (vi) adoption of the draft new investment code specifying, among other things, the renewable energy generation incentive measures; and (vii) adoption of the bill to revise the public-private partnership management framework.
Component 2 - Supporting the Enhancement of Energy Sector Governance and the Promotion of Energy Inclusion

30. Concerning energy sector financial sustainability, the Government has settled the outstanding arrears accumulated due to delays, prior to 2017, in the payment of: (i) electricity consumption by the Government and its agencies; (ii) subsidies owed SONABHY for the supply of fuel to SONABEL’s thermal power plants; and (iii) balancing subsidies owed SONABEL. Moreover, to improve its financial performance, SONABEL has optimized its fuel costs by: (i) implementing the provisions of the 2015-2019 performance contract between the Government and SONABEL on the fuel mix ratio designed to reduce dependence on more expensive fuels; and (ii) implementing the recommendations of the 02-DACG-2015 audit report on the specific consumptions of thermal power plants.

31. Although these actions have contributed to improving the financial situations of SONABEL and SONABHY, the freezing of the prices of electricity and petroleum products, electricity distribution losses, inefficient petroleum product transportation and delays in the payment of subsidies to SONABHY induce costs that adversely affect the sector’s financial equilibrium.

32. To contribute to improving energy sector financial equilibrium, the following measures will be supported under PARSE: (i) preparation of an electricity sub-sector financial model by the ARSE for a better pricing policy; (ii) conduct of an independent audit of SONABHY (clarification of its assets and liabilities, its overall profitability, the structure of its capital, compliance of its accounting with international best practices and the status of its financial flows with the central Government); (iii) adoption of a comprehensive plan for the implementation of audit recommendations; (iv) implementation of the Government/SONABEL and Government/SONABHY performance contracts; (v) conduct of an energy sector gender audit to assess the gender dimensions of energy planning; and (vi) gender mainstreaming in the 2020 budget circular to be prepared in 2019.

V. Programme Implementation Institutional Framework

33. The Ministry of Economy, Finance and Development will be responsible for programme implementation. To that end, it will ensure that the relevant ministries and entities of the Burkina Faso Administration fully play their respective roles in the implementation of reforms and measures falling under their spheres of competence. The General Directorate of Cooperation of the Ministry in charge of finance, which is responsible for monitoring budget support programmes, will be the technical implementation body.
34. The Government is convinced that, with the support of its partners, especially the African Development Bank, the implementation of this budget support programme, whose measures and reforms are geared towards the energy sector, will contribute to promoting the development of the sector, consolidating the macro-economic framework and supporting strong and inclusive economic growth for significant and sustainable poverty reduction.

I wish to reiterate our sincere thanks for your readiness and that of your institution to support Burkina Faso in its development efforts.

Please accept, Mr President, the assurances of my highest consideration.

Hadizatou Rosine COULIBALY/SORI
Officer of the National Order
## ANNEX 2

### Conditions for Use of Sector Budget Support

<table>
<thead>
<tr>
<th>Conditions</th>
<th>Target</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Conditions</strong></td>
<td><strong>Political stability</strong></td>
<td>The political situation has remained stable since the 2015 general elections which led to the election of a new President of the Republic and Members of the National Assembly. Although the security situation is volatile, the authorities are able to maintain an acceptable security atmosphere thanks to support from international forces and the coordination of the fight against terrorism within G5 Sahel.</td>
</tr>
<tr>
<td></td>
<td><strong>Economic stability and Government’s commitment</strong></td>
<td>The country has been experiencing macroeconomic stability over the past several years. Moreover, economic growth picked up over the past three years. Government’s commitment to maintaining a stable macroeconomic framework was confirmed by the signature in March 2018 of a financial arrangement with the IMF.</td>
</tr>
<tr>
<td><strong>Technical Conditions</strong></td>
<td><strong>Existence of a sector policy based on the PRSP and its implementation mechanisms</strong></td>
<td>In July 2016, the Government adopted a National Economic and Social Development Plan (PNDES) which is the country’s development benchmark for the period 2016-2020. In December 2017, a sector policy paper entitled “industrial and artisanal transformation” was also adopted to coordinate development actions in the energy, mining, industrial and handicraft sectors. The implementation mechanisms are being operationalized with the preparation of sub-sector strategies and action plans.</td>
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<tr>
<td></td>
<td><strong>Sustainable medium-term macroeconomic and financial framework</strong></td>
<td>Overall, the macroeconomic framework has been sustainable over the last three years with the support of the IMF and TFPs. According to projections adopted in the recent arrangement signed with the IMF, economic growth is expected to stand at an average of 6% over the period 2018-2020. Moreover, the budget deficit should reduce and stabilize at a maximum of 3% from 2019, in accordance with WAEMU convergence criteria.</td>
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<td></td>
<td><strong>Effective partnership between Burkina Faso and donors</strong></td>
<td>Concerning coordination, the country and TFPs have established a framework for consultation on key sector policies and operations. In the energy sector, the Bank is a member of the sector group whose leader is the World Bank. The budget support framework established in 2005 is being updated.</td>
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<td></td>
<td><strong>Satisfactory fiduciary review of the PFM system (use of country system)</strong></td>
<td>Overall, Burkina Faso’s fiduciary framework is acceptable, although there are weaknesses as pointed out by the public finance management system assessment conducted in 2016 using the PEFA methodology. The Economic and Financial Sector Policy (POSEF) and the priority action plan are being updated to take into account PEFA, PIMA and TADAT recommendations.</td>
</tr>
</tbody>
</table>
## ANNEX 3

### Matrix of Programme Measures

<table>
<thead>
<tr>
<th>Objectives</th>
<th>2018 Reform Measures</th>
<th>2019 Reform Measures</th>
<th>Impact Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Component 1 – Improving the Energy Sector</strong></td>
<td><strong>Regulatory and Investment Management Framework</strong></td>
<td><strong>Measure Precedent to Board Consideration of the Report</strong></td>
<td><strong>Condition Precedent to Disbursement</strong></td>
</tr>
<tr>
<td><strong>Improving the Energy Sector Regulatory Framework</strong></td>
<td></td>
<td>1. Adoption of the implementing instruments of Law No. 14-2017/AN laying down general regulations governing the energy sector – to operationalize energy sector reform</td>
<td>1. Adoption of the implementing instruments of Law No. 14-2017/AN laying down general regulations governing the energy sector</td>
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<tr>
<td></td>
<td></td>
<td>- Order laying down specifications applicable to energy audits in Burkina Faso (provided for by Decree No. 2017-1015 on energy audits);</td>
<td>- Decree laying down conditions for purchasing surplus power produced by self-generation photovoltaic solar facilities;</td>
</tr>
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<td></td>
<td></td>
<td>- Decree laying down specifications applicable to electricity distribution concession holders in Burkina Faso (Art.47);</td>
<td>- Decree determining the level of the eligible customer and laying down conditions for return of the eligible customer to the price level (Section 39 of the law);</td>
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<td></td>
<td></td>
<td>- Decree laying down conditions for determining and reviewing electricity pricing (Art. 40 and 95);</td>
<td>- Decree laying down conditions for the issuing, conclusion, duration, renewal, assignment, transfer, withdrawal and termination of concession contracts or any other form of delegation of public service, licences and authorizations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Responsible entities: DGEES and DAJC of the Ministry of Energy</td>
<td>Responsible entities: DGEES and DAJC of the Ministry of Energy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Evidence: copies of the two decrees adopted by the Council of Ministers and copy of the order issued by the Ministry of Energy</td>
<td>Evidence: copies of the three decrees adopted by the Council of Ministers</td>
</tr>
<tr>
<td><strong>Measure Precedent</strong></td>
<td><strong>Performance Measure</strong></td>
<td>2. Financial autonomy of the Energy Sector Regulatory Agency (ARSE) to make it more operational in regulating the sector</td>
<td>2. Financial autonomy of ARSE: ARSE’s report on the levy received in 2018 and Decision of the Regulatory Board on the 2019 energy levy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Decision of the Energy Sector Regulatory Board relating to the implementation in 2018 of ARSE’s financing mechanism through the energy levy</td>
<td>Responsible entities: ARSE and DGEES of the Ministry of Energy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Responsible entities: ARSE and DGEES of the Ministry of Energy</td>
<td>Evidence: copies of ARSE’s report and the Decision of the Regulatory Board</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Evidence: copy of the decision of ARSE’s Regulatory Board</td>
<td>Evidence: copies of ARSE’s report and the Decision of the Regulatory Board</td>
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25% in 2016
30% in 2019
45% in 2020
<table>
<thead>
<tr>
<th>Measures Precedent</th>
<th>Condition Precedent to Disbursement</th>
<th>Performance Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Operationalization of ARSE by providing it with an action plan Preparation by ARSE of its action plan for the period 2018-2020 Entity responsible: ARSE Evidence: copies of ARSE’s action plan and of the decision of the Regulatory Board adopting ARSE’s action plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Measure Precedent</strong></td>
<td><strong>Condition Precedent to Disbursement</strong></td>
<td><strong>Performance Measure</strong></td>
</tr>
<tr>
<td><strong>Condition Precedent to Disbursement</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Strategic framework: technical validation of the updated energy sector strategy and its action plan Entity responsible: DGESS of the Ministry of Energy Evidence: copies of the strategy and action plan transmitted to the National Development Policies Commission for validation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Measure Precedent</strong></td>
<td></td>
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</tr>
<tr>
<td>6. Adoption of a new investment code specifying, among other things, the renewable energy generation incentive measures Responsible entities: DGDI and the Ministry in charge of trade Evidence: copy of the draft investment code transmitted to the Council of Ministers after review by the Cabinet Meeting convened by the Prime Minister and the Technical Committee for the</td>
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<tr>
<td><strong>Condition Precedent to Disbursement</strong></td>
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<tr>
<td>5. Preparation of the investment project maturation and ex-ante evaluation guides Responsible entities: DGDI and the Ministry in charge of trade Evidence: report of the validation workshop and copies of the investment project maturation and ex-ante evaluation guides</td>
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</table>

**Public investments in the energy sector (commitment basis as % of GDP)**
- 0.4% in 2016
- 0.6% in 2019

**Installed generation capacity of private producers**
- 25 MW in 2016
- 208.5 MW in 2019
<table>
<thead>
<tr>
<th>Verification of Draft Bills (COTEVAL)</th>
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<tbody>
<tr>
<td><strong>Condition Precedent to Disbursement</strong></td>
</tr>
<tr>
<td>6. Adoption of a new investment code specifying, among other things, the renewable energy generation incentive measures</td>
</tr>
<tr>
<td>Responsible entities: DGDI and the Ministry in charge of trade</td>
</tr>
<tr>
<td>Evidence: copy of the draft investment code adopted by the Council of Ministers and letter of transmission of the Code to the National Assembly</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Performance Measure</th>
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<tbody>
<tr>
<td>7. Adoption of a revised public-private partnership (PPP) management framework</td>
</tr>
<tr>
<td>Preparation and submission for adoption by Parliament of the bill on the revised legal regime of PPPs in Burkina Faso</td>
</tr>
<tr>
<td>Entity responsible: DPPP</td>
</tr>
<tr>
<td>Evidence: copy of the reviewed draft bill on the legal regime of PPPs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component II – Supporting the Enhancement of Energy Sector Governance and the Promotion of Energy Inclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Performance Measure</strong></td>
</tr>
<tr>
<td>8. Operationalization of ARSE by providing it with a financial model</td>
</tr>
<tr>
<td>ARSE will prepare (with the support of PASEL) an electricity sub-sector financial model to enable it to propose to the Government rates applicable in the energy sector and ensure the financial balance of the entire energy sector</td>
</tr>
<tr>
<td>Entity responsible: ARSE</td>
</tr>
<tr>
<td>Evidence: copy of the report on the preparation of the financial model</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th><strong>Performance Measure</strong></th>
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<tbody>
<tr>
<td>9. Implementation of the Government – SONABEL performance contract on the energy mix, the financial situation of SONABEL and the reduction of overall distribution losses</td>
</tr>
<tr>
<td>Government subsidies to SONABHY and SONABEL as % of budget expenditure</td>
</tr>
<tr>
<td>3% in 2017</td>
</tr>
<tr>
<td>2% in 2019</td>
</tr>
<tr>
<td>Overall rate of distribution losses (technical and non-technical losses)</td>
</tr>
<tr>
<td>13.54% in 2016</td>
</tr>
<tr>
<td>13.25 in 2019</td>
</tr>
<tr>
<td>11.00% in 2020</td>
</tr>
<tr>
<td>Responsible entities: SONABEL and DGESS of the Ministry of Energy</td>
</tr>
<tr>
<td>Responsible entities: SONABEL and DGESS of the Ministry of Energy</td>
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</tbody>
</table>

**Performance Measure**

8. Launch of an independent audit of the financial situation and internal governance of the National Hydrocarbons Corporation of Burkina Faso (SONABHY). The audit will, among other things, shed light on SONABHY’s assets and liabilities, its overall profitability and the structure of its capital, the compliance of its accounting with international best practices and the status of financial flows between SONABHY and the central Government

Entity responsible: SONABHY

Evidence: copy of the contract signed with an independent auditor of the Association of Auditors and beginning of the audit mission

**Condition Precedent to Disbursement**

10. Finalization of the audit report and adoption of an action plan for the implementation of recommendations

Entity responsible: SONABHY

Evidence: copies of the audit report and of the action plan for the implementation of recommendations

---

<table>
<thead>
<tr>
<th>Condition Precedent to Disbursement</th>
</tr>
</thead>
</table>

11. Establishment of the Burkina Faso Rural Electrification Agency (ABER) and preparation by ABER of an action plan covering the period 2018-2020 to increase investments and improve access to electricity in rural areas

Responsible entities: Ministry of Energy and ABER

Evidence: copy of the decree approving the statutes of ABER and copy of ABER’s action plan

**Condition Precedent to Disbursement**


Responsible entities: DGB and DGESS of the Ministry of Energy

Evidence: copy of the budget circular validated by the Council of Ministers

**Performance Measure**

13. Conduct of a gender-based energy audit in the energy sector to assess the

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**Promote Energy Inclusion**

<table>
<thead>
<tr>
<th>Condition Precedent to Disbursement</th>
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</thead>
</table>

Number of new localities in rural areas electrified in 2018 and 2019

National rural electrification rate

3.2% in 2016

6% in 2019
| | gender dimensions of energy planning, budgeting and institutional capacity  
| Entity responsible: DGESS of the Ministry of Energy  
| Evidence: copy of the audit report |
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431 USA

IMF EXECUTIVE BOARD APPROVES NEW US$157.6 MILLION ECF ARRANGEMENT FOR BURKINA FASO

On March 14, 2018, the Executive Board of the International Monetary Fund (IMF) approved a new three-year arrangement under the Extended Credit Facility (ECF) for Burkina Faso for SDR 108.36 million (about US$157.6 million or 90 percent of Burkina Faso’s quota) in support of the country’s economic and financial reform programme.

The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in cases of protracted balance of payments problems.

The program aims to achieve a sustainable balance of payments position, inclusive growth, and poverty reduction by creating fiscal space for priority security, social and infrastructure investment spending. It is also aimed at helping to catalyse official and private financing and build resilience to future economic shocks.

The Executive Board’s decision will enable an immediate disbursement of SDR 18.06 million (about US$26.3 million). The remaining amounts will be phased over the duration of the program, subject to semi-annual reviews.

Following the Executive Board discussion on Burkina Faso’s request, Deputy Managing Director Mitsuhiro Furusawa, and Acting Chair, made the following statement:

“Burkina Faso faces significant development challenges, which have intensified in the recent period due to security shocks and social unrest. The authorities are making strong efforts to improve security and meet the expectations of the population in the context of limited resources through the implementation of their national development strategy.

“The economic outlook is broadly favourable but also contains downside risks. Economic growth has accelerated and revenue collections have improved. The main risks to the outlook stem from security and domestic challenges.

“The authorities’ commitment to West African Economic and Monetary Union (WAEMU) convergence criteria concerning the overall fiscal deficit, revenue mobilization, the wage bill, and debt is welcome. The fiscal framework underpinning the new program, while ambitious, provides a credible path toward meeting the WAEMU convergence criterion for the overall fiscal deficit by 2019.

“The program is premised on the creation of fiscal space by increasing revenue mobilization through improved tax administration and new tax policy measures and by seeking to contain the public-sector wage bill. The budget also needs to be protected against the accumulation of contingent liabilities in the energy sector, including by setting a timeline for the implementation of the automatic pump fuel price adjustment mechanism.

XV
“It is of the utmost importance to improve the quality and efficiency of investments through prioritization and cost-benefit analysis for projects, including public-private partnerships (PPPs). There is also a need for strengthening the legal and institutional framework for public investment management and PPPs. The authorities’ decision to refrain from resorting to pre-financing arrangements in view of the fiscal risk such arrangements entail is welcome.”

Annex

Recent Economic Developments

Growth is estimated to have accelerated to 6.5 percent in 2017, from 5.9 percent in 2016, owing to higher agricultural output, particularly of cotton, increased mining activity, and a significant scaling up of public investment. Inflation remained subdued, with consumer prices rising by only 2 percent year-on-year in 2017. The current account widened as increases in exports of its stable commodities, gold and cotton, were outweighed by import demand that was buoyed by high levels of public investment, security spending, and increases in the public-sector wage bill.

GDP growth is expected to stabilize at 6 percent in 2018 and over the medium-term. Inflation should remain moderate, and the fiscal deficit is projected to converge to no more than 3 percent of GDP in 2019, consistent with the WAEMU convergence criterion. Key risks to the outlook relate to a further deterioration in the security environment and, on the external front, the price volatility of Burkina Faso’s major import and export commodities, namely oil, cotton and gold, as well as the vagaries of rainfall.

Program Summary

The new program aims to maintain macroeconomic stability while also creating fiscal space through enhanced domestic revenue mobilization and improved public spending. The program aims to bring the fiscal deficit to a sustainable level that is consistent with the country’s WAEMU commitments, while protecting critical spending on social services and priority public investments. Strengthened debt and public financial management, custom and tax administration reforms, and improved selection and analysis of large infrastructure projects, including public-private partnerships (PPPs), should underpin the authorities’ efforts to maximize the benefit of public spending while preserving macroeconomic and debt stability.

Background

Burkina Faso, which became a member of the IMF on May 2, 1963, has an IMF quota of SDR 120.4 million.

For additional information on the IMF and Burkina, see: http://www.imf.org/en/Countries/BFA
ANNEX 5

Energy Sector Situation

A. Context and Main Features of the Sector

1. Burkina Faso is facing an ever-increasing power demand, while supply is low and production cost very high. Electricity demand has risen by about 13% annually over the past decade, against an 8% increase in national supply, from 300 MW in 2011 to 321 MW in 2016. The national power supply is dominated by thermal power. In 2016, total energy generated on the electrical network stood at 1,603 GWh, made up of thermal (52.07%) and hydropower (8.63%) generation and energy imports (39.30%) from Côte d’Ivoire and Ghana. The predominance of thermal power generation in the energy mix, coupled with high costs of fuel supply, increases SONABEL’s production costs in a context where consumer electricity price has been frozen by the Government since the rate revision in 2006. Thus, in 2016, SONABEL’s average selling price per kWh stood at CFAF 133.79, against an average cost price per kWh of CFAF 133.65, hence a low profit margin of CFAF 0.14 per kWh sold. This situation compels the Government to subsidize the sector, with SONABEL receiving a balancing subsidy in order not to raise electricity rates, and SONABHY a subsidy to supply fuels to SONABEL at a preferential price. In this context, any increase in thermal power generation worsens the sector’s financial disequilibrium and increases the volume of subsidies, thereby exerting considerable pressure on public finance.

2. The key sector indicators are low and below the African averages. The national electrification rate stood at 20.07% in 2016, below the average electricity access rate in Africa estimated at 40% and at 32% for sub-Saharan Africa. Moreover, there are disparities in access to electricity between urban and rural areas in Burkina Faso. The electricity access rate in urban areas is 59.88%, against 3.06% in rural areas. The national electricity coverage rate (population living in electrified localities/total population ratio) was 33.35% in 2016.

3. Power supply is expected to increase in the coming years thanks to many implemented or ongoing projects, notably: (i) two World Bank-financed solar power plants with a combined capacity of 30 MWc, one 20 MWc plant in Koudougou and another 10 MWc plant in Kaya, the implementation of which is scheduled to begin in 2019; (ii) an IsBD-financed 50 MW thermal power plant in Kossodo; (iii) a 150 MWc solar power plant provided for under the ECOWAS programme for which financing has not been mobilized; (iv) the YELLEN multi-donor programme (AFD, AfDB, WB and Climate Funds) which provides for a 40 MW power plant in Ouga Nord with a storage option and 10 MWc capacity power plants without storage facilities in three sites (Dori, Diapaga); (v) a 100 MW thermal power plant in Ouaga Est through PPP. The contractor has already been identified and negotiations are to start soon. This project has benefited from the support of the AfDB Legal Support Facility; (vi) the 2x19 MWc PA and KOUDENI Project (PPP) to be signed soon, deadline 2020, PPP; (vii) the 17 MWc SCATEC project in Ziga, whose signature is in the pipeline, PPP, 2020 PPP; (viii) the 6 MWc Pat d’Oie project in Ouaga whose signature is imminent, 2020 PPP; (ix) the 50 MWc project financed by KfW in Koudeni, 2020; (x) 8 solar power plants with a combined capacity of 100 MWc, signature of PPPs without annexes; (xi) the 20 MWc Windiga Project, PPP and the construction of the 14 MW Bagré downstream hydropower plant whose contracting process is ongoing.
4. The above list of projects shows an increase in the tapping of the solar power potential (461 MWc) and the growing interest of the private sector owing to the reforms embarked on in the early 2000s and which have been accelerated since 2017 following the promulgation of the law regulating the energy sector.

5. Many ministries are involved in the electricity sub-sector, namely: (i) the Ministry in charge of energy; (ii) the Inter-ministerial Committee on the Determination of Hydrocarbons Prices (CIDPH); (iii) the Ministry in charge of trade which regulates consumer prices, including that of hydrocarbons which is the main electricity generation input; the Ministry in charge of finance which implements Government’s tax, monetary, financial and fiscal policy;

6. The other entities in the sector are:

   - **the National Electricity Corporation of Burkina Faso (SONABEL)** which is responsible for managing the first segment of the electricity sub-sector as provided for by the law. It has a monopoly over power transmission nationwide, while production and distribution are open to competition. It manages the electricity utility under conditions laid down by Law No. 14-2017/AN of 20 April 2017;

   - **the National Hydrocarbons Corporation of Burkina Faso (SONABHY)** which is responsible for importing and storing liquid and gaseous hydrocarbon; transporting, packaging, selling and distributing these products; constructing storage facilities to ensure sufficient energy security in Burkina Faso; supporting substitution energy research; and popularizing energy use or consumption techniques;

   - **the Electricity Sub-Sector Regulatory Agency (ARSE)** whose duties include ensuring the implementation of legislative and regulatory instruments governing the electricity sub-sector under objective conditions of transparency and non-discrimination, and protecting the interests of consumers and operators by taking all necessary measures to ensure healthy and fair competition in the sub-sector. It regulates, controls and monitors the activities of energy sector operators.

B. Sector Development Objectives and Policies

7. To implement the National Economic and Social Development Plan 2016-2020 (PNDES 2016-2020), the Government has established fourteen planning sectors, and embarked on providing them with sector policies. Considering that energy, industry and handicrafts are a powerful driver of Burkina Faso’s socio-economic development, the Government has prioritized them by dedicating a sector to them called “Industrial and Artisanal Transformation” (IAT). Led by the Ministry of Trade, Industry and Handicrafts (MCIA), the IAT sector also includes the Ministry of Energy (ME), the Ministry of Mines and Quarries (MMC) and the Ministry of Culture, Arts and Tourism (MCAT).

8. The overall objective of the IAT sector policy is to make the industrial and handicraft sector competitive and a creator of high value added and decent jobs. The strategies for each IAT sub-sector are being prepared and, pending their adoption, the strategic benchmarks for the energy sub-sector are the Energy Sector Policy Letter 2016-2020 (ESPL) adopted in 2016 and the Energy
Component of the Presidential Programme 2015–2020. The ESPL defines the national energy strategy for the period 2016-2020 hinged on the following six thrusts:

- Thrust 1: Develop renewable energy generation sources;
- Thrust 2: Step up thermal power generation;
- Thrust 3: Increase the population’s access to modern energy services;
- Thrust 4: Promote energy efficiency;
- Thrust 5: Promote regional energy cooperation;
- Thrust 6: Ensure the availability of sufficient quantities of quality hydrocarbons.

C. Key Ongoing and Future Sector Reforms

9. Burkina Faso embarked on energy sector reforms in the early 2000s to ensure equal access to modern energy by everyone and to enhance economic competitiveness. The adoption of Law No. 14-2017 laying down general regulations governing the energy sector, which is the key ongoing sector reform, will address the weaknesses of previous reforms. The objective of the law is to ensure effective, efficient, reliable, sustainable, sufficient and lasting energy supply in order to promote sustainable socio-economic development in Burkina Faso. The law comprises many innovations, including: (i) the regulation of the entire energy sector, with the exception of the hydrocarbons sub-sector; (ii) the consideration of community provisions provided for under the construction of the sub-regional electricity market; (iii) the elimination of segmentation as provided for in Law No. 53-2012, which allows for the setting up of independent electricity producers nationwide; (iv) the elimination of the principle of unique purchaser; (v) the possibility offered to some customers to choose their suppliers who may be within or outside the national territory (eligible customers); (vi) the introduction of specific provisions relating to the promotion of renewable energy and energy efficiency; (vii) the extension of the powers of the regulator to the entire sector, in accordance with the provisions defined by the Regulatory Agency, and the inclusion of financing conditions; and (viii) the definition of offences and penalties specific to the energy sector.

10. Besides the adoption of Law No. 14-2017, major reforms have been implemented in the energy sector to significantly address the Government’s overall energy vision. They include:

- the reorganization of the Ministry of Energy by creating the General Directorate of Renewable Energy (DGER), the General Directorate of Energy Efficiency (DGEE) and the General Directorate of Conventional Energy (DGEC);
- the operationalization of the National Agency for Renewable Energy and Energy Efficiency (ANEREE) on 30 December 2016. Its duty is to encourage, facilitate, coordinate and implement all operations aimed at developing renewable energy and energy efficiency in Burkina Faso.

11. Other reforms intended to reassert Government’s commitment to developing renewable energy will be implemented in the medium term, especially the transformation of FDE into the Burkina Faso Rural Electrification Agency (ABER) whose Law No.14 – 2017/AN of 20 April 2017 has already been passed.
ANNEX 6

Analysis of Energy Sector Environmental Aspects

Regulatory and Institutional Framework

Burkina Faso has a real legal and regulatory arsenal that compels private or public project promoters to prepare an environmental impact assessment or an environmental impact notice and to seek the prior opinion of the Minister in charge of environment before any action. These instruments include:


(ii) Law No. 5/97/ADP of 30 January 1997 on the Environmental Code in Burkina Faso;

(iii) Law No. 6/97/ADP of 31 January 1997 on the Forestry Code in Burkina Faso;

(iv) Decree No. 98-322/PRES/PM/MEE/MCIA/MEM/MS/MATS/METSS/MEF of 28 July 1998 laying down conditions for opening and operating establishments classified as dangerous, unhealthy and obnoxious;

(v) Decree No. 2001-185/PRES/PM/MEE of 7 May 2001 laying down standards for discharging pollutants into the air, water and soil;

(vi) Decree No.2001-342/PRES/PM/MEE of 17 July 2001 laying down the scope of implementation, content and procedure of EIAs and EINs;

The activities that may have significant direct or indirect environmental impacts are classified into the following three (3) categories:

- Category A: Activities subject to environmental impact assessment;
- Category B: Activities subject to environmental impact notice;
- Category C: Activities that are not subject to environmental impact assessment or environmental impact notice.

The Energy Sector Reform Support Programme falls under the third category, in accordance with national regulations. This categorization is in line with that of the Bank’s Integrated Safeguards System.

In theory, these legal instruments should contribute to ensuring proper assessment and management of environmental and social impacts. The main problem is their rather low implementation rate.

Major constraint and weaknesses in assessing and managing environmental and social impacts in Burkina Faso
The following weaknesses can be mentioned in relation to the difficulties in implementing Burkina Faso’s regulatory framework:

(i) non-compliance with the obligation to conduct an ESIA for some projects that are subject thereto;

(ii) the existence of a general guide for the conduct of ESIAIs and of sector guides, especially in the industry, development and mining sectors, but none in the energy sector;

(iii) lack of sufficient resources, apart from those provided for in contracting, to ensure the implementation of all the mitigation and/or enhancement measures contained in the ESMP;

(iv) weak or inefficient monitoring of the implementation of the rules governing the management of environmental and social impacts, especially in case of a flaw in or poor implementation of ESMPs;

(v) poor environmental and social monitoring of the effective impacts of optimized project sites and implementation.

**Recommendations and actions envisaged under the programme:** to eliminate some of these constraints, a sector guide for the conduct of energy project ESIAIs will be prepared under the programme.

**Climate Change**

The programme is not vulnerable to climatic risks, which justifies its classification under Environmental Category 3 on the Climate Change Action Plan signed on 13 June 2018.
## ANNEX 7: Selected Macroeconomic Indicators

### Burkina Faso

Selected Macroeconomic Indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Unit</th>
<th>2000</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017 (e)</th>
<th>2018 (p)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National Accounts</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GNI at Current Prices</td>
<td>Million US $</td>
<td>2,902</td>
<td>11,788</td>
<td>11,961</td>
<td>11,225</td>
<td>11,553</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>GNI per Capita</td>
<td>US$</td>
<td>250</td>
<td>690</td>
<td>680</td>
<td>620</td>
<td>620</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>GDP at Current Prices</td>
<td>Million US $</td>
<td>2,618</td>
<td>11,951</td>
<td>12,397</td>
<td>10,425</td>
<td>11,449</td>
<td>15,128</td>
<td>15,128</td>
</tr>
<tr>
<td>GDP at 2000 Constant prices</td>
<td>Million US $</td>
<td>2,618</td>
<td>5,955</td>
<td>5,835</td>
<td>6,063</td>
<td>6,421</td>
<td>7,324</td>
<td>7,324</td>
</tr>
<tr>
<td>Real GDP Growth Rate</td>
<td>%</td>
<td>2,9</td>
<td>5,8</td>
<td>4,3</td>
<td>3,9</td>
<td>5,9</td>
<td>6,7</td>
<td>7,0</td>
</tr>
<tr>
<td>Real per Capita GDP Growth Rate</td>
<td>%</td>
<td>0,1</td>
<td>2,7</td>
<td>1,3</td>
<td>0,9</td>
<td>2,9</td>
<td>3,7</td>
<td>4,0</td>
</tr>
<tr>
<td>Gross Domestic Investment</td>
<td>% GDP</td>
<td>17,9</td>
<td>32,5</td>
<td>25,9</td>
<td>24,3</td>
<td>23,2</td>
<td>23,6</td>
<td>25,3</td>
</tr>
<tr>
<td>Public Investment</td>
<td>% GDP</td>
<td>10,9</td>
<td>16,5</td>
<td>11,0</td>
<td>11,6</td>
<td>11,4</td>
<td>11,4</td>
<td>10,9</td>
</tr>
<tr>
<td>Private Investment</td>
<td>% GDP</td>
<td>6,9</td>
<td>16,0</td>
<td>14,8</td>
<td>12,7</td>
<td>11,8</td>
<td>12,2</td>
<td>14,4</td>
</tr>
<tr>
<td>Gross National Savings</td>
<td>% GDP</td>
<td>3,5</td>
<td>7,4</td>
<td>13,4</td>
<td>5,3</td>
<td>8,5</td>
<td>9,3</td>
<td>8,7</td>
</tr>
<tr>
<td><strong>Prices and Money</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation (CPI)</td>
<td>%</td>
<td>-0,3</td>
<td>0,5</td>
<td>-0,3</td>
<td>0,9</td>
<td>-0,2</td>
<td>0,2</td>
<td>1,4</td>
</tr>
<tr>
<td>Exchange Rate (Annual Average)</td>
<td>local currency/US$</td>
<td>712.0</td>
<td>493.9</td>
<td>493.6</td>
<td>591.2</td>
<td>593.1</td>
<td>582.1</td>
<td>558.1</td>
</tr>
<tr>
<td>Monetary Growth (M2)</td>
<td>%</td>
<td>47,2</td>
<td>11,6</td>
<td>10,6</td>
<td>18,3</td>
<td>11,3</td>
<td>12,8</td>
<td>...</td>
</tr>
<tr>
<td>Money and Quasi Money as % of GDP</td>
<td>%</td>
<td>28,9</td>
<td>47,0</td>
<td>50,1</td>
<td>58,9</td>
<td>59,5</td>
<td>59,1</td>
<td>...</td>
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<tr>
<td><strong>Government Finance</strong></td>
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<td></td>
</tr>
<tr>
<td>Total Revenue and Grants</td>
<td>% GDP</td>
<td>19,5</td>
<td>24,4</td>
<td>21,6</td>
<td>20,9</td>
<td>20,6</td>
<td>21,3</td>
<td>23,5</td>
</tr>
<tr>
<td>Total Expenditure and Net Lending</td>
<td>% GDP</td>
<td>23,3</td>
<td>27,9</td>
<td>23,4</td>
<td>22,9</td>
<td>24,6</td>
<td>28,8</td>
<td>28,3</td>
</tr>
<tr>
<td>Overall Deficit (-) / Surplus (+)</td>
<td>% GDP</td>
<td>-3,8</td>
<td>-3,5</td>
<td>-1,9</td>
<td>-2,0</td>
<td>-3,7</td>
<td>-7,5</td>
<td>-4,9</td>
</tr>
<tr>
<td><strong>External Sector</strong></td>
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<td></td>
</tr>
<tr>
<td>Exports Volume Growth (Goods)</td>
<td>%</td>
<td>-29,7</td>
<td>48,4</td>
<td>16,7</td>
<td>-14,6</td>
<td>20,9</td>
<td>24,5</td>
<td>3,0</td>
</tr>
<tr>
<td>Imports Volume Growth (Goods)</td>
<td>%</td>
<td>-22,7</td>
<td>45,3</td>
<td>-15,4</td>
<td>-2,2</td>
<td>25,8</td>
<td>37,7</td>
<td>5,3</td>
</tr>
<tr>
<td>Terms of Trade Growth</td>
<td>%</td>
<td>-5,1</td>
<td>-7,6</td>
<td>-17,2</td>
<td>13,8</td>
<td>8,2</td>
<td>3,7</td>
<td>0,7</td>
</tr>
<tr>
<td>Current Account Balance as % of GDP</td>
<td>% GDP</td>
<td>-13,2</td>
<td>-11,4</td>
<td>-8,1</td>
<td>-8,6</td>
<td>-7,6</td>
<td>-7,2</td>
<td>...</td>
</tr>
<tr>
<td>External Reserves</td>
<td>months of imports</td>
<td>4,4</td>
<td>1,5</td>
<td>0,8</td>
<td>0,8</td>
<td>0,7</td>
<td>0,9</td>
<td>...</td>
</tr>
<tr>
<td><strong>Debt and Financial Flows</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Service</td>
<td>% exports</td>
<td>22,8</td>
<td>2,8</td>
<td>3,1</td>
<td>3,9</td>
<td>3,8</td>
<td>4,0</td>
<td>4,3</td>
</tr>
<tr>
<td>External Debt</td>
<td>% GDP</td>
<td>62,6</td>
<td>22,1</td>
<td>21,8</td>
<td>25,9</td>
<td>26,1</td>
<td>24,4</td>
<td>23,1</td>
</tr>
<tr>
<td>Net Total Financial Flows</td>
<td>Million US $</td>
<td>187</td>
<td>1,028</td>
<td>1,207</td>
<td>1,016</td>
<td>1,408</td>
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<td>...</td>
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<tr>
<td>Net Official Development Assistance</td>
<td>Million US $</td>
<td>180</td>
<td>1,045</td>
<td>1,123</td>
<td>997</td>
<td>1,023</td>
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<td>...</td>
</tr>
<tr>
<td>Net Foreign Direct Investment</td>
<td>Million US $</td>
<td>23</td>
<td>490</td>
<td>357</td>
<td>167</td>
<td>309</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>


Notes: ... Data Not Available (e) Estimations (p) Projections Last Update: May 2018
## ANNEX 8

### TFP Operations in the Energy Sector

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Implementation Period</th>
<th>Source of Financing</th>
<th>Total Project Cost (in CFAF thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity Sub-sector Support Project (PASEL)</td>
<td>2014 - 2021</td>
<td>World Bank (IDA) and the Government</td>
<td>86,577,200</td>
</tr>
<tr>
<td>Grid Reinforcement and Rural Electrification Project (PRIELER)</td>
<td>2010 - 2016</td>
<td>AfDB, Government, SONABEL, FDE, Subscribers</td>
<td>26,050,351</td>
</tr>
<tr>
<td>Bolgatanga (Ghana)- Ouagadougou (Burkina Faso) Electrical Grid Interconnection Project</td>
<td>2013 - 2017</td>
<td>Government, SONABEL, AFD, EIB, IDA</td>
<td>36,100,000</td>
</tr>
<tr>
<td>Rural Electrification Project TEAM-9</td>
<td>2012 - 2016</td>
<td>EXIM Bank India</td>
<td>13,544,000</td>
</tr>
<tr>
<td>Decentralized Rural Electrification Project in Ziro and Gourma Provinces (ERD-ZIGO)</td>
<td>2014 - 2018</td>
<td>Government, EU</td>
<td>7,080,474</td>
</tr>
<tr>
<td>Electrical Grid Extension and Reinforcement Project in Burkina Faso (PERREL)</td>
<td>2017-2021</td>
<td>Government, SONABEL, OFID</td>
<td>28,858,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>271,935,039</strong></td>
</tr>
</tbody>
</table>
## ANNEX 9

### Bank Portfolio in Burkina Faso – 31 May 2018

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Status</th>
<th>Approval Date</th>
<th>Completion Date</th>
<th>Age (years)</th>
<th>Amount Approved</th>
<th>Amount Disbursed</th>
<th>Disbursement Rate 31/05/2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project for the Electrification of Semi-Urban Areas of Ouagadougou and Bobo-Dioulasso</td>
<td>ONGO</td>
<td>9/21/2016</td>
<td>12/31/2020</td>
<td>1.74</td>
<td>27.23</td>
<td>5.36</td>
<td>19.7%</td>
</tr>
<tr>
<td>Multinational - Nigeria-Benin-Burkina Faso Electrical Grid Interconnection Project</td>
<td>APVD</td>
<td>12/17/2017</td>
<td>12/31/2022</td>
<td>0.50</td>
<td>50.00</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total Energy Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.74</td>
<td>77.23</td>
<td>5.36</td>
</tr>
<tr>
<td>Project to Develop Internal Accessibility Roads</td>
<td>ONGO</td>
<td>11/13/2013</td>
<td>12/31/2019</td>
<td>4.60</td>
<td>46.44</td>
<td>15.33</td>
<td>33.0%</td>
</tr>
<tr>
<td>Burkina-Faso Facilitation Corridor</td>
<td>ONGO</td>
<td>6/27/2012</td>
<td>12/31/2018</td>
<td>5.98</td>
<td>106.13</td>
<td>71.72</td>
<td>67.6%</td>
</tr>
<tr>
<td>Upgrading of National Road No. 4 (KN04) Gounghin-Fada</td>
<td>APVD</td>
<td>11/24/2017</td>
<td>12/31/2022</td>
<td>0.56</td>
<td>76.36</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total Transport Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.71</td>
<td>228.93</td>
<td>87.05</td>
</tr>
<tr>
<td>Bagré Growth Pole Support Project</td>
<td>ONGO</td>
<td>4/29/2015</td>
<td>4/30/2021</td>
<td>3.14</td>
<td>21.00</td>
<td>11.35</td>
<td>54.1%</td>
</tr>
<tr>
<td>Classified Forests Participatory Management Project</td>
<td>ONGO</td>
<td>11/28/2013</td>
<td>12/31/2019</td>
<td>4.56</td>
<td>7.67</td>
<td>3.26</td>
<td>42.5%</td>
</tr>
<tr>
<td>Cashew Development Project in the Camoe Basin for REDD-(PADA-REDD+)</td>
<td>ONGO</td>
<td>1/17/2017</td>
<td>12/31/2022</td>
<td>1.42</td>
<td>3.80</td>
<td>0.34</td>
<td>9.0%</td>
</tr>
<tr>
<td>Programme to Rebuild Resilience to Recurrent Food and Nutritional Insecurity in the Sahel - P2RS</td>
<td>ONGO</td>
<td>10/15/2014</td>
<td>12/31/2019</td>
<td>3.68</td>
<td>25.45</td>
<td>8.24</td>
<td>32.4%</td>
</tr>
<tr>
<td>Programme to Rebuild Resilience to Recurrent Food and Nutritional Insecurity in the Sahel - P2RS</td>
<td>ONGO</td>
<td>10/15/2014</td>
<td>12/31/2019</td>
<td>3.68</td>
<td>10.00</td>
<td>3.18</td>
<td>31.8%</td>
</tr>
<tr>
<td>PPF-Integration of Youths and Women into the Agro-Sylvopastoral Sectors</td>
<td>ONGO</td>
<td>5/25/2016</td>
<td>8/30/2018</td>
<td>2.07</td>
<td>0.60</td>
<td>0.21</td>
<td>35.4%</td>
</tr>
<tr>
<td><strong>Total Agriculture and Development Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.09</td>
<td>68.52</td>
<td>26.59</td>
</tr>
<tr>
<td>Sanitation Project for the Suburbs of Ouagadougou</td>
<td>ONGO</td>
<td>10/9/2013</td>
<td>5/31/2019</td>
<td>4.69</td>
<td>33.02</td>
<td>23.54</td>
<td>71.3%</td>
</tr>
<tr>
<td>Study on the Rehabilitation of the ‘NARE Groundwater Dam</td>
<td>ONGO</td>
<td>4/11/2016</td>
<td>12/29/2019</td>
<td>2.19</td>
<td>0.66</td>
<td>0.03</td>
<td>4.9%</td>
</tr>
<tr>
<td><strong>Total Water and Sanitation Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.44</td>
<td>33.68</td>
<td>23.54</td>
</tr>
<tr>
<td>Economic Transformation and Job Creation Support Project (PATECE)</td>
<td>ONGO</td>
<td>9/17/2014</td>
<td>4/30/2020</td>
<td>3.75</td>
<td>10.00</td>
<td>3.77</td>
<td>37.7%</td>
</tr>
<tr>
<td><strong>Total Multisector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.75</td>
<td>10.00</td>
<td>3.77</td>
</tr>
<tr>
<td>Private Sector - Africa SME Program - Fidelis</td>
<td>ONGO</td>
<td>6/19/2014</td>
<td>7/30/2017</td>
<td>4.00</td>
<td>2.00</td>
<td>2.00</td>
<td>100.0%</td>
</tr>
<tr>
<td>Support to the Shea Butter Value Chain</td>
<td>ONGO</td>
<td>7/12/2016</td>
<td>6/30/2019</td>
<td>1.93</td>
<td>0.72</td>
<td>0.01</td>
<td>1.0%</td>
</tr>
<tr>
<td>Grant of a Line of Credit to Coris Bank International</td>
<td>ONGO</td>
<td>11/23/2016</td>
<td>6/30/2019</td>
<td>1.57</td>
<td>31.97</td>
<td>31.97</td>
<td>100.0%</td>
</tr>
<tr>
<td><strong>Total Private Sector</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.00</td>
<td>34.69</td>
<td>33.98</td>
</tr>
<tr>
<td><strong>Total Active Portfolio</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.99</td>
<td>453.04</td>
<td>174.92</td>
</tr>
</tbody>
</table>