I. Introduction and Context

Country Context

Burkina Faso is a low-income, landlocked, Sub-Saharan country with 16 million inhabitants and limited natural resources. During February and June 2011, the country experienced episodes of civil unrest unprecedented in the last 23 years. The Government has initiated a dialogue with different socio-political groups and stakeholders, responding to demands for institutional and political change.

Political Developments

In the aftermath of the social unrest in the spring of 2011, relative stability has returned to Burkina Faso. The new government appointed by President Blaise Compaoré in April 2011 has initiated a dialogue with stakeholders in response to demands for institutional and political change.

Corruption and lack of transparency continue to hamper the country. Earlier this year, a new government was appointed after the dismissal of the minister of justice following an allegation of improper conduct. The Department of Justice and Human Rights was then split, with the creation of a separate ministry responsible for human rights and civic promotion, led by the former minister of
secondary education. The dismissal of the minister of justice was a signal by the President that the government is committed to strengthening governance.

In recent months, Burkina Faso has received over 24,000 refugees from Mali. The Mali crisis implies a security risk for Burkina Faso and may worsen an already difficult food security situation.

Recent Economic Developments
GDP growth in 2012 is expected to be 7 percent, up from 4.2 percent in 2011. The 2011 slowdown versus 2010 (7.9 percent) followed a drought-related 20 percent fall in agricultural production. Since 2000, Burkina Faso has grown at an annual rate of approximately 5 percent driven by mining and cotton, versus the average 2 percent growth in the rest of West African Economic and Monetary Union (WAEMU).

2011 growth was driven by exports and investment. Total public and private investment was 15.6 percent of GDP. Private investment was driven by mining and services (restaurants, hotels, banking, and communication). Public investment fell from 7.8 percent of GDP in 2010 to 7.1 percent in 2011, in part as public spending shifted toward consumption and transfers in response to the 2011 unrest. Early 2012 estimates suggest a possible increase in both public and private investment. Exports benefited from high cotton and gold prices, and rose from 21.4 percent in 2010 to 25.7 percent of GDP in 2011. Growth in 2012 will be driven by both primary and secondary sectors. Primary sector performance is expected to improve from 2011 due to a better agriculture harvest. In parallel, the mining sector will continue to register strong growth, fuelled partly by high gold prices.

Mining continues to grow but is not a significant source of jobs. The number of mining companies active in Burkina has increased from 2 in 2003 to 7 in 2011, and gold production is now 32.6 metric tons. Despite the lead role of mining, its employment impact is marginal. The government therefore has committed to new investment programs in labor-intensive activities in agriculture (such as the Bagré growth pole) in addition to planned mining investments (Tambo mining). Also planned is civil service employment expansion in basic education and health.

The current account deficit in 2011 (excluding grants) was 5.9 percent. The current account (including grants) in 2012 is projected to remain in deficit at approximately 1.2 percent of GDP. Despite solid export performance from cotton and gold, high oil prices and more intensive use of non-oil imports for investment led to a deterioration in the trade balance.

Inflation was 5.1 percent in 2011. Food supply shocks pushed annual inflation to 5.1 percent in December, but this increase (compared to -0.3 percent in 2010) is expected to recede with government interventions in food supply chains. Broad money supply rose 10 percent in 2011, in part reflecting an increase in net foreign assets in the banks. Burkina’s banking sector remains healthy, and the banks observe regional prudential norms.

The overall fiscal deficit, including grants, stood at 2.4 percent of GDP in 2011, less than the previous year. Excluding grants, the deficit increased to 10.9 percent of GDP in 2011, from 9.1 percent of GDP in 2010, partly reflecting the cost of measures to address adverse shocks in 2011. A recent 5 percent increase in civil service salaries will add to the deficit in 2012.

Additional current spending measures were paid by cutting public investment. In response to civil unrest, the government lowered taxes on salaries, abolished the communal tax, paid housing allowances for military personnel, compensated small merchants for property damage, and fixed
prices of food items of vital importance to the poor.

However, these measures had a marginal impact on the fiscal deficit since the bulk of the expenditure increases were financed through a reallocation of investment expenditures from non-priority sectors. The primary fiscal deficit fell from $444 million in 2010 to $177 million in 2011 (5.0 percent and 2.0 percent of GDP, respectively). This large decrease resulted primarily from reducing investment spendings. Multilateral and bilateral development agencies including national and international nongovernmental organizations provided approximately US$100 million.

Resource mobilization remains satisfactory. The last three years have seen an increase in the pace of resource mobilization. Revenue collection stood at 16.9 percent of GDP in 2011; tax revenue made up 14.5 percent of GDP. Revenue collection has strengthened due to administrative efficiency gains and taxes on mining, on which the initial exemption period has ended. Royalties were US$34 million in 2011 versus US$24 million in 2010. At US$1.6 billion, 2011 revenues were close to IMF targets. Nevertheless, overall revenue collection will need to improve to approach the WAEMU target of 17 percent.

Good governance remains the main bottleneck to economic growth and poverty reduction. Burkina Faso’s score on the Transparency International Index fell from 3.1 in 2010 to 3.0 in 2011. Donors and civil society are supporting reforms toward rigorous governance in Burkina Faso. However, there has been no significant improvement in perceptions of corruption over the past five years.

Medium-Term Outlook

The overall outlook benefits from a more peaceful and stable environment than last year. The main short-term risk is a deterioration of food security as a result of the entry of 24,000 refugees from Mali and poor harvest. Medium-term macroeconomic prospects are positive. Economic growth could average 7 percent between 2012 and 2015 due to higher cotton and gold prices, a resilient services sector, and improved public investment in infrastructure.

The fiscal position is projected to be sustainable as revenue increases should pay for expenditure increases, particularly on investment. The external current account deficit is forecast to widen to more than 5 percent of GDP, driven by strong domestic demand for imports, particularly capital goods. High cotton prices are likely to benefit the sector in the coming years. Despite a projected decline in prices in 2012, the price of cotton is still projected to remain above $1 per pound, much higher than the historical average. Moreover, the reform of the agricultural input markets could have a significant impact on agricultural output. While mining revenues have been increasing due to favorable international prices, the challenge will be to use these revenues to benefit local communities and create employment.

Sectoral and Institutional Context

Limited access to modern energy sources. The electrification rate is about 13 percent (about 40 percent in urban areas and about 3 percent in rural areas). Per capita consumption of electricity by total population is only 50 kWh per year. About 90 percent of the population still relies on wood firewood and charcoal for the bulk of their energy needs. Total generation capacity in Burkina Faso is 256MW, which is insufficient to meet peak demand. Power demand is growing at close to 10 percent per annum. Electricity imports from Cote d’Ivoire and Ghana (via small cities at the border) are just enough to ensure a precarious equilibrium between demand and supply during non-peak
load periods.

Burkina Faso has no significant known fossil fuel resources. Petroleum product consumption is entirely dependent on imports (more than 500,000 tons annually) by road at high cost from ports over 1,000 km away. The country’s hydroelectric potential is limited, with less than 100 MW of potential capacity in five identified sites. Total hydropower plants installed capacity is only 35.9MW and highly vulnerable to erratic rainfall conditions, and other renewable sources of energy (such as solar) are not fully exploited. The combination of these various factors has hindered Burkina Faso’s ability to diversify its energy mix and expand access to electricity.

The country faces five main challenges in the electricity sector; the need to: (i) expand generation capacity to meet an increasing demand for energy services; (ii) provide security of supply in case of interruption of imports from neighboring countries; (iii) achieve sustainable supply of low cost electricity from neighboring countries; (iv) improve the efficiency and equity in energy services provision by reforming tariff and subsidy policy in a context of high supply costs, and by a sound demand side management strategy; (v) expand access of energy services to rural and peri-urban populations; and (vi) increase renewable share in the electricity generation mix.

Additional capacity to meet increasing demand for electricity services. The demand for electricity continues to grow at an average close to 10 percent a year in the Bobo-Dioulasso Regional Network (CRCB) and in the Ouagadougou Regional Network (CRCO). Additional power generation capacity is not following at the same pace, creating serious capacity constraints. The transmission interconnection from Ferkessedougou (Cote d’Ivoire) to Bobo-Dioulasso (Burkina Faso) in 2001 alleviated this situation to a certain extent, but shortages continued to be significant in the CRCO. When the Bobo Dioulasso-Ouagadougou transmission line was commissioned in December 2009 (with a planned transit capacity of 121MW), the provision of substantially cheaper hydro and gas-based electricity from Cote d’Ivoire helped reduce the production costs and supply gap in Burkina Faso. Unfortunately, during the first semester of 2010, supply from Cote d’Ivoire has been irregular and low (around 20-30 MW). Although transit levels improved thereafter, rising up to 80 MW, the supply constraints have worsened with Cote d’Ivoire’s difficult political crisis (which coincided with peak load periods in both countries). The situation has led to a substantial reduction (and sometimes an interruption) in power supply to Burkina Faso particularly in March and April 2011 when the transit on the line reached a low 16MW. To face the critical power supply situation, SONABEL has contracted 61MW of short-term emergency rental generators.

Although transit levels from Cote d’Ivoire improved to around 50MW since July 2011, hence reducing the shortfall in generation capacity and load shedding, the situation remains fragile as the line is used to only less than half of its 120 MW capacity and the country is vulnerable to disruptions in supply from Cote d’Ivoire.

In order to avoid heavy reliance on a single supplier (Cote d’Ivoire) and to improve reliability of supply for the CRCO, the Government is also planning an interconnection with Ghana, with commissioning expected in 2015. This interconnection would extend the Ghanaian network through the Bolgatanga substation to the existing 132 kV Kompienga-Bagre-Ouagadougou transmission lines. The full completion of these interconnection lines will secure capacity for the medium term.

SONABEL has high electricity supply costs that stem in part from its complete dependency on imports for its large fuel needs for thermal generation electricity. Electricity tariffs in Burkina Faso are amongst the highest in sub-Saharan Africa, averaging 26 US cents per kWh. Yet, even these
high tariffs do not reflect full costs of SONABEL’s operations and investments. SONABEL has relied on public subsidies and on-lending from the Government for its operations and equipments needs.

To expand access to electricity, SONABEL is faced with limited options given the high cost of domestic generation. Developing interconnection with neighboring countries in order to import cheaper bulk supply electricity is a strategic priority for Burkina Faso. Despite additional costs due to recent disruptions of supply from Cote d’Ivoire and unusually poor financial results in 2010 (net income of only CFAF 698 million (US$1.6 million) and probably in 2011, SONABEL is however expected to achieve adequate financial performance indicators in 2012 and beyond, if there were normal electricity supply from Cote d’Ivoire. The interconnections with Cote d’Ivoire and Ghana will have a major positive impact on SONABEL’s finances, with a significant improvement in operating profitability, despite higher annual debt service.

An electricity tariff study is being prepared in the context of the Competitiveness and Enterprise Development Project. A Public Expenditure Review (PER) in infrastructure is also being finalized. The overarching objective of the planned PER on the energy sector is to provide the government with a set of evidence-based policy options to help Burkina Faso improve the efficiency and effectiveness of its public expenditures in the energy sector.

Improving energy efficiency and demand side management. Until recently, the response to capacity shortages on the CRCO was on the supply side, i.e. by increasing power generation capacity. Very limited demand-side management (DSM) options were considered. The Power Sector Development Project approved in 2008, initiated important demand side management activities by financing training, workshops, seminars audits and studies as well as the acquisition of software to better manage and monitor energy consumption in public buildings. In that context, 345 beneficiaries optimized their power consumption (equivalent to a reduction of demand of 10MW). Moreover, the software system made possible the cancellation of 250 inactive accounts, the replacement of obsolete meters, and identification of private meters within public buildings. Total savings are estimated at about US$ 2.0 million). Twenty five public buildings are being equipped with energy saving equipment. An aggressive DSM program on the CRCO would result in the more efficient use of electricity and a reduction in peak loads, which would in turn reduce pressure for more generation capacity in the short and medium term, and contribute to the financial sustainability of the utility.

Expanding access of energy services to rural and peri-urban populations: For Burkina Faso to reduce significantly the incidence of poverty, there is a crucial need to expand access to modern energy services. Only about 13 percent of the total population has access to electricity (about 40 percent in urban areas and about 3 percent in rural areas). This prevailing low level of access constitutes a severe handicap for the development of small- and medium-size productive enterprises and limits the impact of existing social programs.

In 2004, in the context of the sector’s restructuring, the electricity distribution segment was unbundled into two sub-segments. The first sub-segment covers the current perimeter of SONABEL and the second sub-segment covers all the areas outside SONABEL’s perimeter. Operations in the second sub-segment are eligible for financing through the Electrification Development Fund (Fonds de Développement de l’Electrification - FDE).
The FDE was created by decree on February 19, 2003 with the following mission: (i) promote an equitable energy access in rural areas; (ii) contribute to the implementation of the National Electrification Plan; (iii) develop, appraise, and tender the rural electrification projects identified by the central government, local governments, and by private investors or operators; and (iv) facilitate rural electrification programs by providing investment guarantees and subsidies and by financing feasibility studies. The FDE also acts as a technical quality regulator in the rural energy subsector.

The Bank-financed Energy Access Project currently under implementation supports (i) grid-based rehabilitation, expansion, and intensification in urban and peri-urban areas; (ii) access expansion to electricity services in rural, peri-urban and remote areas.

Sector Development Strategy

The Government’s strategy for the sustainable development of the energy sector revolves around the following actions: (i) creating an institutional, legal, and regulatory framework to enhance sector management through an adequate involvement of the main stakeholders and a better allocation of resources; (ii) improving the reliability and lowering the cost of electricity supply; (iii) increasing energy access in rural areas; (iv) promoting renewable energy; and (v) designing a sound demand-side management strategy.

Regional integration goals are pursued in the wider framework of the development of the West Africa Power Pool (WAPP), sponsored by the member states of the Economic Community of West African States (ECOWAS), which is designed to bring about economic benefits through the strengthening of the transmission network and other actions to facilitate electricity trade between member states and to strengthen energy security and efficiency. Other economic benefits include a reduction in energy prices and a possible deferment of the need for new power generation.

Against this background, the extension of the existing Cote d’Ivoire-Bobo Dioulasso transmission line to Ouagadougou financed under the Power Sector Development Project serves as a stepping stone towards a better integrated regional power market. To diversify and improve the reliability of supply for the CRCO, the interconnection with Ghana through the above-mentioned transmission line between Bolgatanga (Ghana) and Ouagadougou, is expected to be operational in 2015. To increase access to, and use of energy services to improve living conditions in selected rural, peri-urban, and urban areas, the current Energy Access Project under implementation supports Burkina Faso’s efforts in expanding energy access. Other donors such as the African Development Bank, the West Africa Development Bank, the Indian Government through EXIM Bank and the French Development Agency (AFD) are also assisting the GoBF with investments that will help increase electricity access.

Relationship to CAS

The 2010-2012 CAS for Burkina Faso is a transition strategy before the expected design of a joint assistance strategy by all the country’s technical and financial partners, that will be aligned with the new Strategy for Accelerated Growth and Sustained Development (Stratégie de Croissance Accélérée et de Développement Durable-SCADD) to be finalized and adopted by the end of this year – in replacement of the current Poverty Reduction Strategy Paper (PRSP) - and which will cover the 2011-2015 period. The present CAS is aligned with Burkina Faso’s development priorities as identified in the PRSP and the SCADD Concept Note and takes into account the country’s needs and realities as well as its specific development challenges.
The 2010-2012 is based on two strategic pillars: (a) minimizing economic vulnerability and promoting growth through economic transformation; and (b) improving both offer and demand of/for efficient and quality social service by supporting engaged governance and addressing constraints linked to lack of capacity.

By (a) improving the availability of energy supply, (b) improving access to electricity in rural areas, (c) promoting and enhancing energy efficiency, and (d) building capacity in the sector, the project will, under the CAS first pillar, help promote a favorable environment for private sector-led growth; and sharing growth through improved service delivery. Under the CAS second pillar, the project will help provide better quality services and support institutions in order to improve the delivery of social services

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project development objectives are to contribute to (i) improving the availability and reliability of electricity supply; (ii) increasing electricity access and (iii) enhancing rationale use of energy.

Key Results (From PCN)

In line with the focused objectives of the project, the following key PDO indicators are proposed:

- PDO1: Increased power generation capacity (14MW)
- PDO 2: Number of additional households with access to electricity services provided by SONABEL in Fada, Ouahigouya and selected rural areas, of which number of female beneficiaries
- PDO 3: Increased energy efficiency in public administration buildings

III. Preliminary Description

Concept Description

The proposed project whose cost is estimated at about US$ 50 million will include the following components

Component 1: Improve the reliability and availability of energy supply (US$ 16.4 million). This component will finance: The construction and supervision of 2 turnkey 7.5 MW diesel power stations. The objective of this component is to help SONABEL meet the additional generation needs in certain target areas and serve as a back-up plant during the operation of the line to face planned or unplanned outages related to the unavailability of the interconnection lines.

While the country’s future demand will be partly met through interconnection lines with neighboring countries such as Cote d’Ivoire, Ghana and Nigeria, Burkina Faso has to plan for a back-up generation given the delays recorded in the implementation of the interconnection projects and an increasing demand (of at least 10%). To mitigate such risk, SONABEL identified 5 cities located at more than 150 km of the main generation centers such as Ouaga and Bobo. These 5 cities, Ouahigouya, Dedougou, Fada N’gourma, Dori and Gaouacities, are considered “regional generation poles”.

Component 2: Improve access to electricity in rural areas (US$ 21.8 million). The component will finance grid based expansion in 41 communities through 33kV distribution lines. Those lines include the Bobo-Ouaga line which provides 33 kV on its overhead ground wire (cable de garde), the 33 kV distribution lines under construction from Pa and Kaya. Besides households, schools,
clinics, local administration facilities, recreational centers and production units in these areas will be connected.

The objective of the component is to expand electricity access to selected rural communities and improve living conditions of the populations and therefore help them develop revenue generating activities.

Component 3: Improve energy efficiency in selected public buildings (US$ 8 million). This component would finance: (a) the strengthening of the institutional framework to support demand-side management and energy efficiency initiatives; (b) investment mainly in energy efficient equipment; and (c) information, education, and communication to promote the rational and efficient use of electricity.

The approach, already initiated in the Power Sector Development Project which will close in July 2012, is to start showing results from interventions in the public administration buildings and gradually move into the commercial, industrial, and residential sectors in a learning-by-doing manner. Under the project, energy savings initiatives in selected public buildings have been estimated at US$ 2 million/year. Given the high energy cost in Burkina-Faso (one of the most expensive in the region), and the heavy reliance on fuel, energy saving initiatives become even more relevant.

Subcomponent 3.1 - Institutional and Capacity Strengthening. To ensure the sustainability of these activities and enhance the actions already undertaken under the earlier project, the sub-component will finance (a) a demand side management national action plan; (b) training activities in the public and private sectors (architects, engineers and other energy experts in private companies); (c) development of databases from energy audits, energy consumption surveys, site visits, and analyses of electricity consumption bills, to eventually produce a building code and appliance standards; (d) acquisition of equipments to support these activities.

Sub-component 3.2 – Investment in energy efficient equipments. The sub-component will finance energy audits in selected public buildings, analyses of electricity consumption bills, and procurement and the installation of energy efficient equipments such as capacity banks, 264 air conditioners, reflective films and energy saving lamps.

Subcomponent 3.3 - Information, Education, and Communication. The objective of this subcomponent is to support all information awareness campaigns, workshops, training, and education on demand-side management and energy efficiency. Demonstrations and pilot tests would also be supported to bring about behavioral changes in electricity utilization in the public administration buildings, and demonstrate potential of energy savings to commercial and residential customers.

Component 4: Institutional Strengthening and Capacity Development (US$ 3.8 million equivalent) This component will finance institutional strengthening of public sector energy agencies (to support scaling up of energy service expansion. It will also finance capacity development of energy service providers as well as outreach and partnerships initiatives.

Subcomponent 4.1: Institutional strengthening in the public sector (US$ 1.2 million). This subcomponent will finance training and equipment to strengthen the FDE, SONABEL, the General Directorat of Energy (DGE) will be on: (i) strengthening planning, management, and impact
assessment skills; and (ii) improving the legal, regulatory, and monitoring frameworks, including preparation of adequate taxation and pricing policies to support the development of energy service expansion activities.

Subcomponent 4.2: Capacity development of energy service providers (US$ 1.5 million). This subcomponent will finance capacity development of energy services cooperatives, local communities, NGOs, and private sector small- and medium-size enterprises (SMEs). The subcomponent will also finance specific training activities to help remove barriers preventing the development and sustainable use of renewable energy sources and technologies.

Subcomponent 4.3: Outreach and partnerships (US$ 1.1 million). This subcomponent will finance outreach and partnerships initiatives at the national, regional, and global levels to attract financing for scaling up energy access expansion in Burkina Faso. In a country where only 3 percent of the rural population has access to electricity, energy access expansion is a huge task that cannot be addressed by a single operation. The DGE needs to form alliances and partnerships with other institutions in the ministries of economy and finance, health, and education to ensure that energy programs are effectively designed to reinforce the impacts of social programs and to contribute to increase productivity. The subcomponent will also finance a sector syndication prospectus to help Burkina Faso present its energy access expansion program to major donors and to demonstrate its ability to effectively use financial resources available for energy sector development.

IV. Safeguard Policies that might apply

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