



CREATING MARKETS IN BURKINA FASO

GROWING BURKINA FASO'S PRIVATE SECTOR AND
HARNESSING IT TO BOLSTER ECONOMIC RESILIENCE

Country Private Sector Diagnostic

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Abbreviations and acronyms

AFCFTA	African Continental Free Trade Area	GP	Global Practice
AFREA	Africa Renewable Energy Access Program	GSP	Generalized System of Preferences
AGOA	African Growth and Opportunity Act	GSMA	<i>Groupe Spéciale Mobile Association</i>
AML/CFT	Anti-Money Laundering / Combatting the Financing of Terrorism	GVA	Gross value-added
ARCEP	<i>l'Autorité de régulation des communications électroniques et des Postes</i>	HFO	Heavy Fuel Oil
BCEAO	<i>Banque centrale des états de l'Afrique de l'Ouest</i>	ICAO	International Civil Aircraft Organization
BOAD	<i>Banque Ouest Africaine de Développement</i>	ICT	Information and Communications Technology
BRVM	<i>Bourse Régionale des Valeurs Mobilières</i>	IDA	International Development Association
CAGR	Compound Annual Growth Rate	IFC	International Finance Corporation
CAR	Capital adequacy ratio	IMF	International Monetary Fund
CFAF	<i>Communauté Financière Africaine Franc</i> (African Franc Financial Community)	IPP	Independent Power Producer
CIR-B	<i>Comité Interprofessionnel du Riz du Burkina Faso</i>	ISGS	Islamic State in the Greater Sahel
CNSS	<i>Caisse Nationale de Sécurité Sociale</i> (National Social Security)	IT	Information Technology
CPF	Country Partnership Framework	ITES	Information Technology Enabling Sector
CPIA	Country Policy and Institutional Assessment	JIP	Joint Implementation Plans
CPSD	Country Private Sector Diagnostic	JNIM	<i>Jama'a Nusrat ul-Islam wa al-Muslimin</i> (Group for Support of Islam and Muslims)
CREPMF	<i>Conseil Régional de l'Epargne Publique et des Marchés Financiers</i>	KWH	Kilowatt hour
CRRH	<i>Caisse Régionale de Refinancement Hypothécaire</i>	LONAB	<i>Loterie Nationale Burkinabè</i> (National Lottery of Burkinabè)
DFS	Digital Financial Services	LPI	Logistics Performance Index
DPO	Development Policy Operation	MFD	Maximizing Finance for Development
EBA	Enabling the Business of Agriculture	MFI	Multinational Financial Institutions
ECF	Extended Credit Facility	MOU	Memorandum of Understanding
ECOWAS	Economic Community of West African States	MSMES	Micro, Small and Medium Enterprises
EIU	Economist Intelligence Unit	MT	Million Tons
EMC	<i>Enquête Multisectorielle Continue</i>	MW	Mega Watt
FAO	Food and Agriculture Organization	NEPAD	New Economic Partnership for Africa's Development
FDI	Foreign Direct Investment	NPL	Non-performing loan
GDP	Gross Domestic Product	O&M	Operations and Maintenance
GEDI	Global Ecosystem Dynamics Investigation	ODA	Official Development Assistance
GIE	<i>Groupements interets économiques</i>	OECD	Organization for Economic Co-operation and Development
		ONEA	<i>Office National de l'Eau et de l'Assainissement</i> (National Water and Sanitation Office)
		OPEX	Operating expense

PNDES	<i>Plan national de développement Economique et social</i> (National Economic and Social Development Plan)	SONABHY	<i>Société Nationale Burkinabè d'Hydrocarbure</i> (National Hydrocarbon Company of Burkinabè)
PPP	Public-Private Partnership	SONAPOST	<i>Société Nationale des Postes du Burkina Faso</i> (National Postal Company of Burkina Faso)
PSIA	Poverty and Social Impact Assessment	SOPA FER-B	<i>Société de Gestion du Patrimoine Ferroviaire du Burkina</i> (National Railway Management Company of Burkina)
Q3	Quarter Three	SSA	Sub-Sahara Africa
R&D	Research and Development	TFP	Total Factor Productivity
RCPB	<i>Réseau des Caisses Populaires du Burkina</i>	UCOBAM	Cooperatives Maraicheres et Agricole du Burkina
SAM	Social Accounting Matrix	UEMOA	Union Economique et Monétaire Ouest Africaine
SCADD	<i>Priorités pour la Reduction de la Pauvreté et la Prospérité Partagée</i>	UN	United Nations
SCD	Systematic Country Diagnostic	VAT	Value-added tax
SEZ	Special Economic Zone	WAAPP	West Africa Agricultural Productivity Program
SME	Small and Medium Enterprises	WAEMU	West African Economic and Monetary Union
SOE	State-Owned Enterprise	WBG	World Bank Group
SOFITEX	<i>Société Burkinabè des Fibres Textiles</i> (Fiber and Textile Company of Burkinabè)	WEF	World Economic Forum
SONABEL	<i>Société Nationale d'Electricité du Burkina Faso</i> (National Electricity Company of Burkina Faso)	WGI	Worldwide Governance Indicators

Executive Summary

A small landlocked economy in the heart of West Africa's French-speaking Sahel, Burkina Faso is characterized by its modest economic size, with a total GDP of about US\$13 billion, and rapid population growth, with one of the highest per capita birth rates in the world (5.3 births per woman). It is also one of the world's poorest countries, with an extreme poverty headcount of 40 percent and an annual GDP per capita of just US\$650. Arising from the legacy of its turbulent political history, together with a difficult environment and isolation from the main trade corridors, the country faces daunting development challenges. Less than 20 percent of the Burkinabè population have access to electricity (less than 1 percent in rural areas), less than one-third of adults are literate, and 75 percent of the rural population live further than 2 km from a road in good or fair condition.

Burkina Faso needs to create 300,000 jobs annually to match its demographic growth,¹ while about 90 percent of its workers are in the informal sector. The Burkinabè population is growing at almost 3 percent per year but the country does not create enough jobs to absorb its additional population into the labor force. Though the unemployment rate is low, at less than 7 percent, inactivity is widespread, making up over one-third of the working age population. In addition, employment does not necessarily provide a pathway out of poverty, since informality is prevalent, representing close to 85 percent of the non-farm workforce.

Private investment is low, representing just US\$1.5 billion annually. Despite sustained robust economic growth over the past two decades—an average of 6 percent annually—driven by cotton and gold exports, private investment is low at 13 percent of GDP. While in the past this was the result of the pervasive role played by the public sector, this is no longer the case. Burkina Faso has opened most of its sectors and the government does not generally crowd out private activities. Thus, low private investment seems to arise from the limited investment opportunities

inherent to Burkina Faso's underdeveloped private sector. Economic activity outside gold and cotton is indeed mostly concentrated, small-scale, and with low productivity. Also, private investors are severely constrained by a poor investment climate and limited private sector-facing government capacities, entailing inefficient, cumbersome, and opaque procedures. More importantly, critical enabling sector bottlenecks in energy, transport/logistics, and skills, undermine any competitive advantages Burkina Faso may have. In these three respective areas, Burkina Faso is among the world's worst-performing countries and the additional costs entailed erode expected returns on investment. Specifically, in Burkina Faso, investment decisions must factor in some of the highest energy and transport costs in West Africa, with low reliability coupled with acute skills shortages in certain competencies.

Compounding the considerable development challenges that it faces, Burkina Faso is currently confronted by acute security and climatic threats, together with emerging fiscal risks. On the security front, the situation has deteriorated dramatically since 2015, with the expansion of a Sahel-wide political crisis from Mali into Burkina Faso. Since 2016, terrorism has caused numerous fatalities in three high-profile attacks in the capital city, Ouagadougou, together with smaller scale, but repeated, militant attacks in the northern, eastern, and western regions. Meanwhile, threatening livelihoods and exacerbating existing vulnerabilities, climate-change induced natural hazards are becoming more frequent and costly. Over the past 10 years, the country has faced two major droughts affecting over 5 million people. It is estimated that 34 percent of the country's land area is already degraded as a result of climate change and desertification.² This percentage is likely to grow over the coming two decades, given that the average temperature is set to rise by 2.3 degrees Celsius. In addition, fiscal risks have increased as a result of current expenditure slippage, increased military spending, and difficulty in broadening the fiscal base. The subsequent fiscal consolidation that is

now foreseen—in the magnitude of about 3 percent of GDP—could further weigh down economic activity and erode previous development gains.

Against this background, higher investment from the private sector is essential to support growth. However, the previous growth drivers are no longer sustainable. First, gold and cotton, drivers of economic activity over the past decade, are both vulnerable to global commodity price fluctuations and climate shocks. Second, investment is set to decrease, partly through the negative impact of fiscal consolidation on public investment, which currently accounts for about 50 percent of total investment. Third, the compounded impact of rising security, climatic, and fiscal risks could ultimately dampen investor confidence and hinder medium-term growth prospects. Thus, boosting private sector investment will be paramount in providing more and better jobs for a growing population confronted with deteriorating livelihoods. This calls for comprehensive approaches—at both national and regional levels—to support private sector participation and proactively develop those sectors that are most likely to create jobs, while also offering adequate risk-return for private investors.

This Country Private Sector Diagnostic (CPSD) therefore investigates whether opportunities exist for the private sector to contribute more substantially to Burkina Faso’s development. In this regard, the CPSD

aims to identify: (i) the opportunities for achieving development objectives through increased private sector investment; (ii) the obstacles and risks to achieving that growth; and (iii) the actions needed to remove those constraints and realize those opportunities. Specifically, in the case of Burkina Faso, the CPSD is conceived as an analytical platform for action to operationalize the government’s private sector development plan, the World Bank’s Country Partnership Framework (CPF), and IFC’s strategic approach with concrete recommendations aimed at: (i) promoting increased private sector investment within five years in the sectors that can have significant development impact; and (ii) alleviating the cross-cutting and sector-specific obstacles to do so. The CPSD concludes that significant opportunities for the private sector to contribute to Burkina Faso’s development do indeed exist but should be carefully harnessed in a sequenced and synergetic fashion.

Despite emerging threats, the Burkinabè economy is showing some signs of resilience and investors in many sectors still desire to expand, although many have failed so far. Notwithstanding security, climatic, and fiscal risks, the outlook for growth remains positive, with real annual GDP growth forecast to average about 6 percent over the medium term. In addition, despite a weak business enabling environment, Burkina Faso has one of the best governance frameworks in Africa.

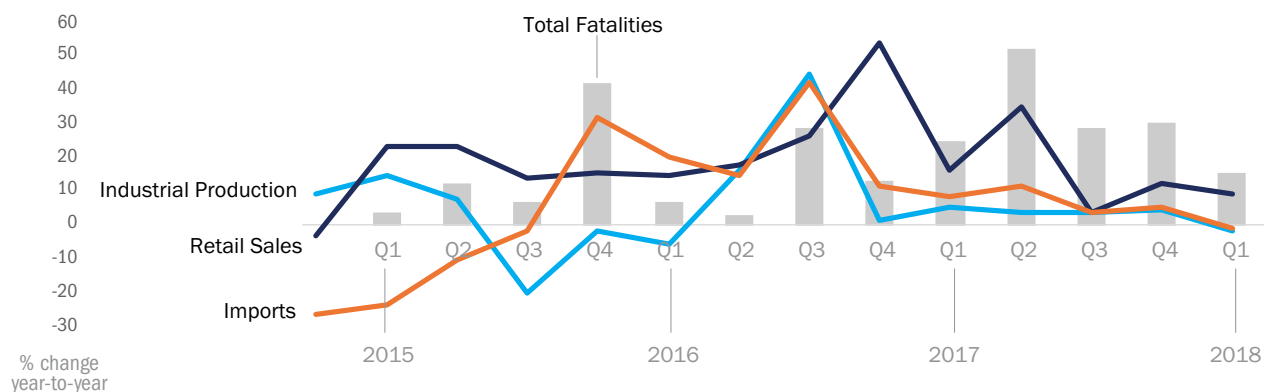


FIGURE 1: Heightened security risks have to date only had a limited impact on economic activity

Source: ACLED, BCEAO, and IMF DOTS.

Specifically, converging international indicators show that corruption is much less prevalent in Burkina Faso than in its coastal neighbors. Burkina Faso has significant opportunities to diversify its agriculture value chains beyond cotton, with favorable natural endowments and comparative advantages in some cereals, fruits and nuts, and oilseed crops, as well as in livestock. Burkina Faso is among the world's top ten recipients of gold exploration budgets from global mining companies. This suggests that security risks have not deterred investment in mining and that the spectacular expansion of mining since 2008 may continue going forward. Finally, Burkina Faso may perceive investment dividends from its recent initiatives to join the G20 Compact with Africa, and its move to open diplomatic relations with the People's Republic of China.

Over a five-year time horizon, it will be essential for Burkina Faso to address as a priority a number of bottlenecks if it is to grow and harness its private sector to bolster economic resilience, especially in agriculture where Burkina Faso has a comparative advantage. At the same time, the catalytic potential of mining value chains and ICT applications should also be harnessed, as both sectors have the potential to alleviate some of the enabling sector bottlenecks, while also contributing toward improving the performance of high-potential agriculture value chains.

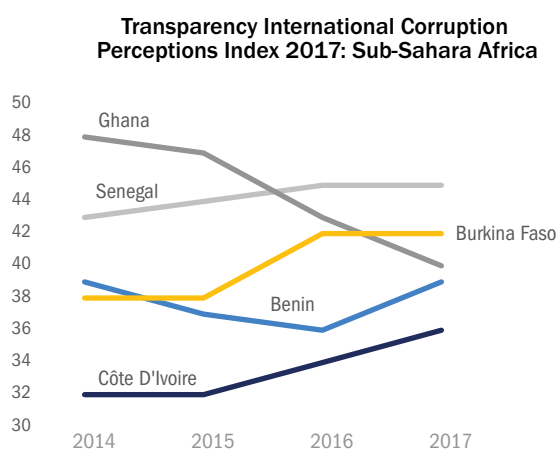


FIGURE 2: Corruption is less prevalent in Burkina Faso than in neighboring countries

Source: Transparency International.

Seizing these opportunities requires sequenced and complementary pathways accompanied by suitable policy reforms. Specifically, Burkina Faso can seize this potential by: (i) alleviating critical enabling=sector bottlenecks, including through private sector solutions; (ii) diversifying agriculture beyond cotton with the value chains that can have comparative advantage; (iii) leveraging the catalytic sectors—mining and ICT—to stimulate agriculture and develop the critical enabling sectors; and (iv) tapping into regional opportunities to fully seize the benefits of regional integration.

i. Alleviating critical enabling sector bottlenecks, including through private sector solutions. Critical enabling sector bottlenecks in the areas of power, transport/logistics, and skills are the most binding constraints to private investment in Burkina Faso. The country currently is one of the world's worst performers in these three areas, given insufficient financial resources, erratic sectoral policies, and insufficient government capacities in planning and execution. Alleviating these bottlenecks is a pre-condition to boosting private investment, as it will significantly improve Burkina Faso's comparative advantage by reducing factor costs for private operators. While there are opportunities for the private sector to address these major impediments, this also requires complementary public interventions to improve sector performance. In these three areas, the priority should be to strengthen the institutional environment and improve private sector-facing government capacities, to scale up private sector participation.

ii. Diversifying agriculture beyond cotton with the value chains that can have comparative advantage. Burkina Faso has a comparative advantage that is not fully seized in cereals, particularly rice and maize, fruits and nuts, mangoes, cashew, peanuts and shea, oilseed and sesame crops, as well as livestock. While the country is one of Africa's leading cotton producers, these significant opportunities will help diversify agricultural production and exports with the objective of improving sustainability, promoting domestic transformation, and ultimately increasing value addition. To do so, Burkina Faso can leverage its favorable eco-climatic conditions in the

western part of the country, leverage structured producer organizations in select value chains, as well as its strategic location at the heart of West Africa’s Sahel region that allows it to export such products toward landlocked and non-landlocked neighboring countries. At the same time, seizing these as yet underdeveloped opportunities will require improving the rural investment climate, developing rural infrastructure, defining standards and certifications, strengthening value chains, managing climatic risks, and work to structure other value chains (mango, shea butter, sesame, cashew, aviculture, etc.) in the same way as the cotton value chain is currently organized. This could be done through a cluster approach, already tested in Burkina Faso.

iii. **Leveraging the catalytic sectors to stimulate agriculture and develop the critical enabling sectors.** ICT applications and mining value chains—both of which have expanded considerably over the past decade—have a strong catalytic potential to alleviate some of the enabling sector bottlenecks while, at the same time, contributing to improving the performance of high-potential agriculture value chains. In ICT, while costs and reliability remain a concern, Burkina Faso has been one of the continent’s most rapid adopters of mobile money. Going forward, further developing the underlying infrastructure could help to unleash the ripple effects of ICT applications. Meanwhile, Burkina Faso is currently among the world’s top ten countries for gold exploration. Going forward,

Unfavorable country context	Landlocked 1,000 km away from sea	Narrow economic base GDP size = \$13B	Rapid population growth 300,000 jobs needed annually
Weak private investment	Limited opportunities outside of gold and cotton	Private sector dominated by informal unproductive firms	Poor enabling environment and limited institutional capacity
Emerging threats	Looming security risks	Rising climate hazards	Shrinking fiscal space

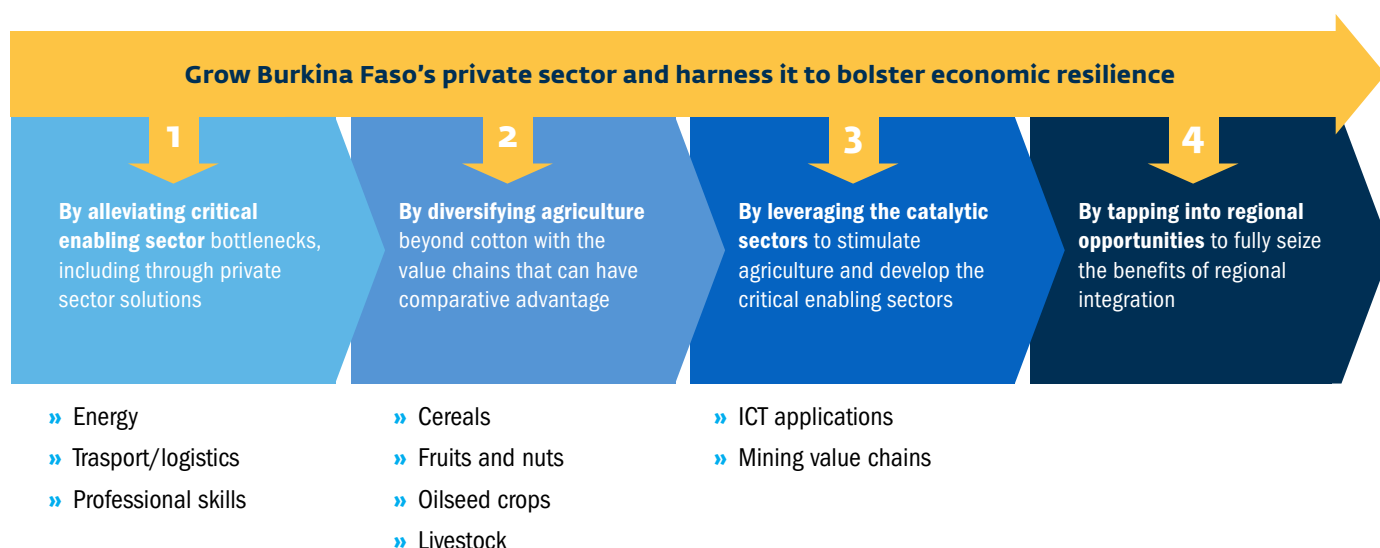


FIGURE 3: An analytical framework for the Burkina Faso CPSD

Source: CPSD team.

stronger mining value chains could help to develop power infrastructure, since the mines in operation have almost as much installed energy capacity as the national utility,³ while supporting the development of high-potential agriculture subsectors. Harnessing this potential requires proactive approaches to building strategic alliances and developing tailor-made solutions in the form of shared infrastructure, as well as buyer-supplier and/or anchor financing schemes.

iv. Tapping into regional opportunities to fully seize the benefits of regional integration. Burkina Faso is a founding member of the West African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS). Therefore, investment opportunities in Burkina Faso should be considered within the broader regional market of almost 400 million people, including a common currency area of 120 million people. Intra-regional trade and investment constitute interesting opportunities for private sector operators to achieve significant economies of scale and diversify their markets. Furthermore, regional integration should help to improve the overall enabling business environment, while supporting the formation of strong (sub) regional value chains. Though regional integration offers an outlet for Burkina Faso's high-potential agriculture value chains, regional competition makes it even more fundamental to improve the enabling infrastructure and investment climate.

This CPSD proposes a platform for action aimed at boosting Burkina Faso's development through greater private sector investment. The remainder of the report provides an overview of: (i) the private sector environment; (ii) the cross-cutting constraints to the private sector; (iii) the critical enabling sector bottlenecks to the private sector; (iv) the opportunities for the private sector; and (v) a series of priority private sector focused recommendations. ■



I. Private Sector Environment

The following section provides a detailed overview of the private sector environment in Burkina Faso, considering the country context, the structure of the economy, and the respective size of the public and private sectors, as well as a typology of Burkinabè firms.

A. COUNTRY CONTEXT

As a land-locked country located more than 1,000 km from the sea in the heart of West Africa's French-speaking Sahel, Burkina Faso has a unique recent political history. Formerly Upper Volta ("*Haute Volta*"), Burkina Faso gained independence from French rule on August 5, 1960. A country of relatively peaceful ethnic and religious coexistence, Burkina Faso has faced four *coup d'états* and four attempted *coup d'états* in its 58 years of existence. Between the first *coup d'état* in 1966 and 2015, the country was dominated by leaders emanating from the armed forces, including during the revolutionary regime of Captain Thomas Sankara, who changed the country's name to Burkina Faso (a combination of different

languages meaning the land of upright people, "*le pays des Hommes intègres*") between 1983 and 1987. The long reign of Blaise Compaoré, which followed the assassination of Sankara, lasted for 27 years until a popular uprising ousted him in just two days, making it "a rare case in which popular mobilizations succeeded in toppling a sitting president" (Harsch, 2017). This citizens' awakening and the subsequent return to democratic rule after elections in 2015 have created considerable hope, but the country nonetheless continues to face tremendous development challenges.

With an average annual per capita income of less than US\$700⁴ and an extreme poverty rate of about 40 percent (2014 estimate), Burkina Faso is one of the poorest countries in the world. A small economy, with a population of approximately 20 million people and

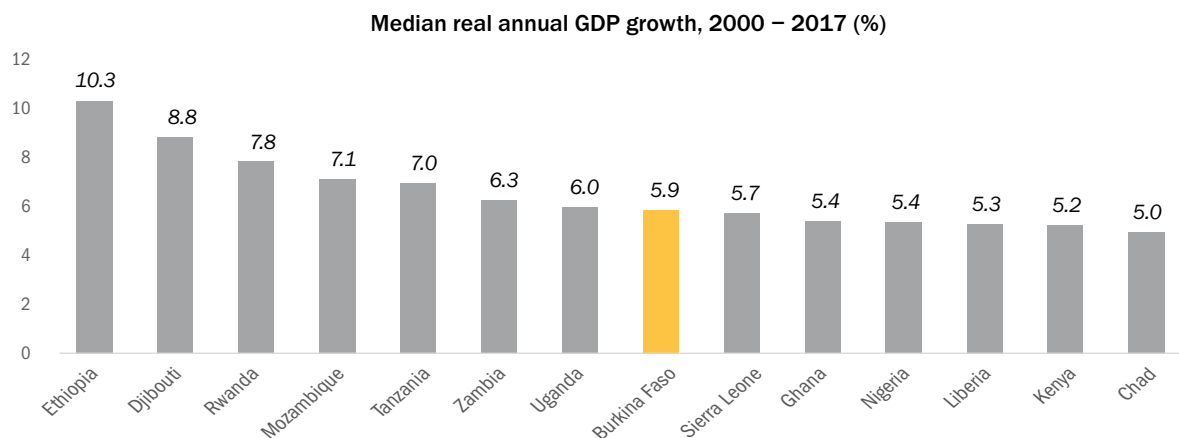


FIGURE 4: Burkina Faso has the highest GDP growth in West Africa

Source: World Bank WDI.

a total GDP size of about US\$13 billion, Burkina Faso faces considerable development challenges. It ranks 183 out of 189 countries in the 2018 Human Development Index and 144 out of 157 countries in the World Bank's Human Capital Index. About 90 percent of the population are not waged-employed and 80 percent of the population do not have access to electricity. At the same time, Burkina Faso has one of the highest fertility rates in the world (5.3 births per woman, on average). It is estimated that 300,000 additional jobs need to be created annually to absorb the growing youth population. In addition, global warming is increasing climate instability and the risk of natural hazards, while compounding existing vulnerabilities. It is estimated that 34 percent of the country's land area is already degraded due to climate change and desertification, while the average temperature is forecast to increase by more than 2 degrees Celsius over the next 20 years.⁵

More recently, terrorist attacks and heightened security threats from extremists have increased perceived country risks, thus jeopardizing investment and eroding confidence in Burkina Faso's institutions. Since the end of 2016, the security situation in northern Burkina Faso, on the border with conflict-affected Mali, has deteriorated and remains highly volatile, with military interventions, terrorist attacks, hijacking of vehicles, and targeted assassinations and kidnappings a constant threat. The compounded activism of regional terrorist groups, such as the Group for Support of Islam and Muslims (JNIM), the Islamic State in the Greater Sahel (ISGS), and the home-grown local insurgency Ansaroul Islam, have resulted in numerous terrorist attacks.

Despite these challenges, Burkina Faso has made significant progress in growth and poverty reduction over the past 15 years. Between 2000 and 2017, Burkina Faso consistently recorded high growth rates with an average of 6.2 percent and a median of 5.9 percent—the highest in West Africa and among the top 10 performers in Sub-Saharan Africa. Burkina Faso is one of Africa's largest cotton producers and in the top five African gold producers. The recent growth performance was driven by pro-poor sectors such as agriculture, (artisanal) mining and construction. Consequently, the bottom 40 percent of the population

reported an increase in consumption twice as large as that of the top 60 percent, and the extreme poverty rate fell from 53 percent of the population in 2003 to 40 percent in 2014.⁶

Burkina Faso is at a critical juncture: to sustain the high growth rates needed to create jobs, improve livelihoods, and build resilience increasing private sector investment will be crucial going forward. The sustainability of growth is at stake with the economy needing to add 300,000 jobs annually, while current fiscal woes, characterized by a weak contribution to micro, small and medium enterprises, are challenging the financing of social and development needs. In addition, though growth has remained resilient, the compounded effects of rising security, climatic, and fiscal risks could dampen investor confidence and hinder medium-term growth prospects. Thus, given that government expenditure is projected to decline, it will be critical to reinvigorate the engines of growth by harnessing Burkina Faso's assets through increased private sector development, which depends on more private funds for infrastructure.

Approaches to private sector development for Burkina Faso need to be considered at the regional level, since the country's landlocked situation presents both a challenge and an opportunity. While Burkina Faso is dependent on coastal countries, it could at the same time serve as a regional hub, given that the country shares more than 3,000 km of border with its six direct neighbors, five of which are part of the WAEMU. For Burkina Faso, enhanced regional integration offers economies of scale and streamlined production processes among the countries of the region, making companies more competitive in international markets. This would help to create a larger market alongside a more favorable business climate that is able to attract and stimulate increased private investment into the region. Several initiatives have been started in this direction, such as the Lomé-Ouagadougou-Niamey Corridor and the joint special economic zone (SEZ) between Burkina Faso (Bobo-Dioulasso), Côte d'Ivoire (Korhogo) and Mali (Sikasso), which aim to encourage the creation and growth of public and private industrial activities, including through joint infrastructure.

B. STRUCTURE OF THE ECONOMY

Burkina Faso's narrow economic base constrains structural transformation and job creation. Agriculture accounts for about 60 percent of employment and just over one-third of GDP. It is dominated by subsistence farming and operates below capacity, with a productivity of CFAF 160,000 (US\$290) per hectare compared with about US\$650 in the whole Sub-Saharan Africa.^{7,8} With about 450,000 tons produced annually, Burkina Faso is one of the largest cotton producers in Africa and the thirteenth-largest producer globally.⁹ Apart from cotton, other traditional crops mainly include sorghum, small millet and maize, which account for 60 percent of agricultural output. Burkinabè agriculture could, however, face land speculation challenges as real estate developers grab cultivable land. Most Burkinabè firms (both formal and informal) are in the commercial and services sector, which contribute about half of GDP.¹⁰ With sustained urban migration—the urban population is growing at 5 percent annually and 29 percent of the Burkinabè population is already urbanized¹¹—employment in the tertiary sector has increased markedly from 23 percent of total employment in 2003 to 32 percent in 2014.¹² Wholesale and retail trade accounts for the bulk of these activities, but most are in the informal sector, with an average annual value-added of CFAF

550,000 (US\$1,000).¹³ With respect the formal services sector, 'other services' constitutes the main activity. The remainder of the country's industrial fabric is composed of manufacturing, mining, electricity, gas, water and public works companies, the last of which are underperforming and employ less than 10 percent of the population.

Over the past decade, Burkina Faso's economic expansion has been built on a narrow base, as the government sector alongside non-tradeable services, trade, administration, communication and mining contributed more than 80 percent of GDP growth between 2006 and 2013.¹⁴ Some of this growth story have been development partner-driven, as Burkina Faso received an average of US\$64 per capita in official development assistance (ODA) annually between 2006 and 2016.¹⁵ However, this is significantly lower than for comparable low-income Sub-Saharan African economies, such as Liberia, South Sudan, Rwanda, Sierra Leone, Mozambique, Guinea Bissau, Senegal, Mali and the Central African Republic.¹⁶ The relatively lower recent levels of ODA per capita arise from a stagnation during the 2014-16 period, marked by socio-political crisis. However, there are indications that ODA over current GDP has rebounded, reaching about 9.2 percent in 2017. Moreover, evidence suggests that ODA has been allocated to growth-led sectors.

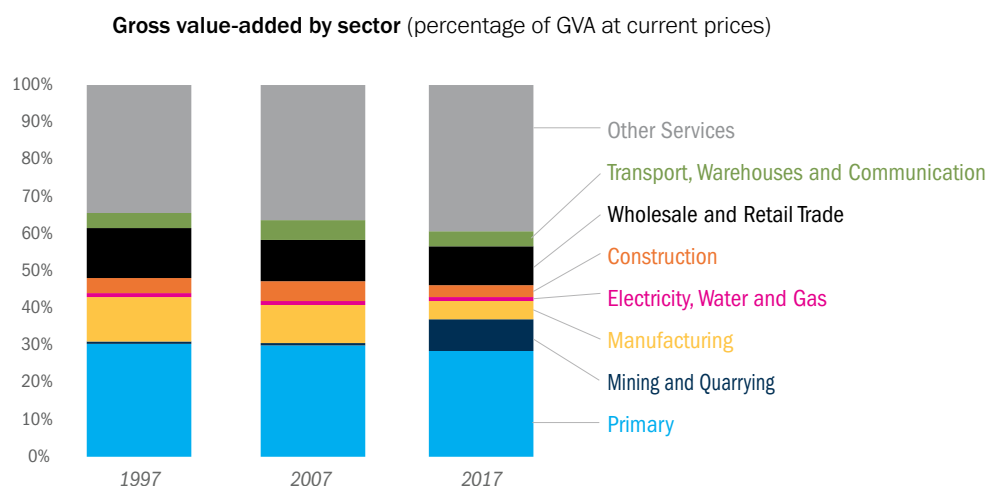


FIGURE 5: Apart from the spectacular expansion of mining since 2008, Burkina Faso's sector composition has remained largely unchanged

Source: BCEAO and IFC staff calculations.

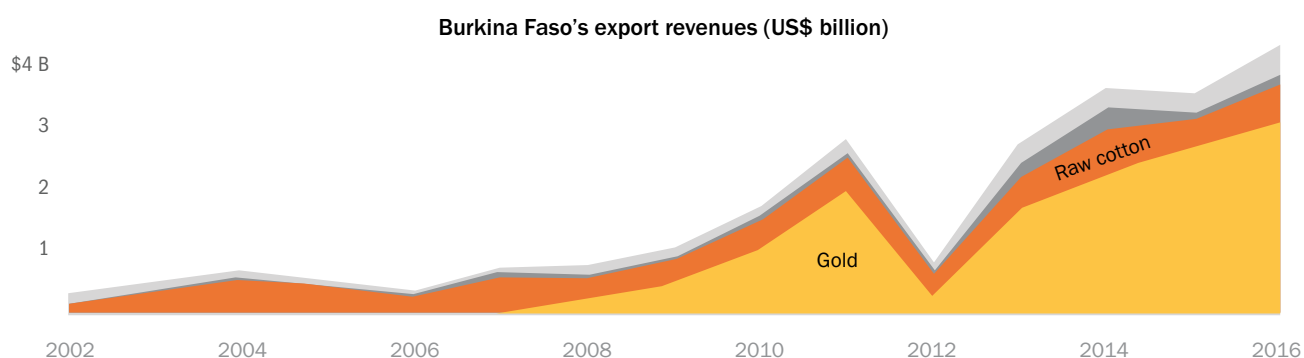


FIGURE 6: Gold and raw cotton account for most of Burkina Faso's export revenues

Source: Observatory of Economic Complexity.

Indeed, in 2017, agriculture (including fishery and livestock), water and sanitation, infrastructure of transport and communications, health, and economic governance, accounted for 68.8 percent of total ODA in Burkina Faso.¹⁷ At the same time, the strong expansion of gold mining since 2007 has had a “staggering” economic impact (Harsch, 2017), contributing to an expansion in exports of 300 percent. In 2009, the value of gold exports exceeded that of cotton, and Burkina Faso became Africa’s fourth-largest gold producer in 2014, behind South Africa, Mali, and Tanzania.¹⁸ In 2016, Burkina Faso exported gold worth a total of US\$3 billion, accounting for more than 70 percent of its total export revenues. With about US\$500 million worth of exports in 2016, cotton is the second-largest source of export revenues, comprising 12 percent of total exports. These two sectors are, however, highly vulnerable to fluctuations in world prices, which threaten the stability and sustainability of the country’s growth.¹⁹

Gold and cotton are the primary sources of foreign direct investment (FDI) into Burkina Faso. Anchored in the rapid expansion of gold and sustained economic growth, FDI increased markedly from 0.3 percent of GDP in 2007 to over 3.5 percent in 2017.²⁰ According to FDI market data, foreign investors announced a total of US\$1.7 billion worth of capital investments in Burkina Faso between 2010 and August 2018. Gold extraction accounts for 35 percent of these investments—with an additional 10 percent for related

chemical mining solutions—while the production and processing of raw cotton represents 22 percent. FDI in construction and business services is also significant, mostly driven by rapid urbanization and limited spillovers from the mining value chains. The US\$56 million recorded in financial services investment is part of the broader expansion strategy of Moroccan and South African financial institutions into Sub-Saharan Africa, while the US\$50 million in alternative/renewable energy investment showcases the recent development of solar energy in Burkina Faso.

TABLE 1: Use of remittance inflows at the household level in Burkina Faso

Reasons for transfers received	Amounts (CFAF, million)	Percent share
Family support	50,663.3	88.8
Education	2,979.9	5.2
Health	790.5	1.4
Baptism/wedding	126.8	0.2
Funerals	165.7	0.3
Support for agricultural production	515.4	0.9
Support for trading activities	62.7	0.1
Other	1,761.3	3.1
Total	57,065.9	100.0

Source: *Enquête Multisectorielle Continue 2014 (EMC, 2014)*.

Though Burkina Faso has a large diaspora, the effect of remittances on economic growth has so far been muted, given that remittances focus more on consumption than investment. According to the Burkinabè authorities' estimate, 7.5 million people constitute the Burkinabè diaspora across the world, with about 4 million living in Côte d'Ivoire. This high migration rate means that remittances are potentially a source of economic growth. In 2018, remittance inflows to Burkina Faso were estimated at US\$433 million, or 3 percent of GDP.²¹ However, evidence suggests that remittances from the diaspora focus more on consumption than investment, thus limiting their effect on economic growth. Indeed, according to a study by OECD conducted in 2017,²² the level of ownership of enterprises differs only by 1 percent between households receiving remittances and those without remittances, highlighting a low rate of remittance use for productive investments. In the same vein, at the micro level, 2014 household survey data reveal that about 89 percent of remittances were used for family support, with less than 1 percent invested in agricultural and trading activities.

FDI by sector (US\$ million), 2010-18

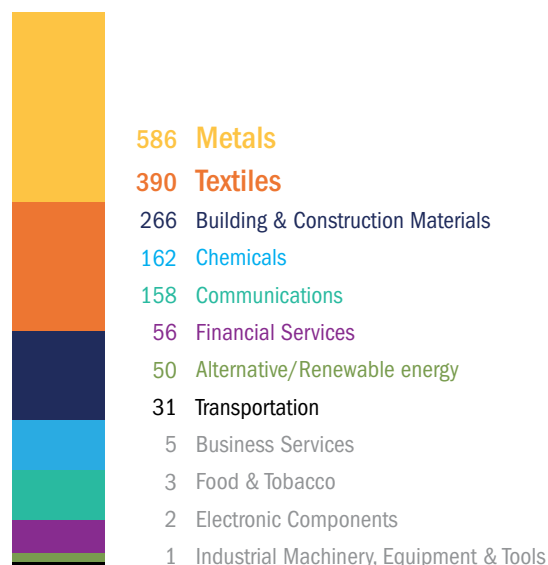


FIGURE 7: Gold and cotton account for most of Burkina Faso's FDI

Source: FDI markets.²³

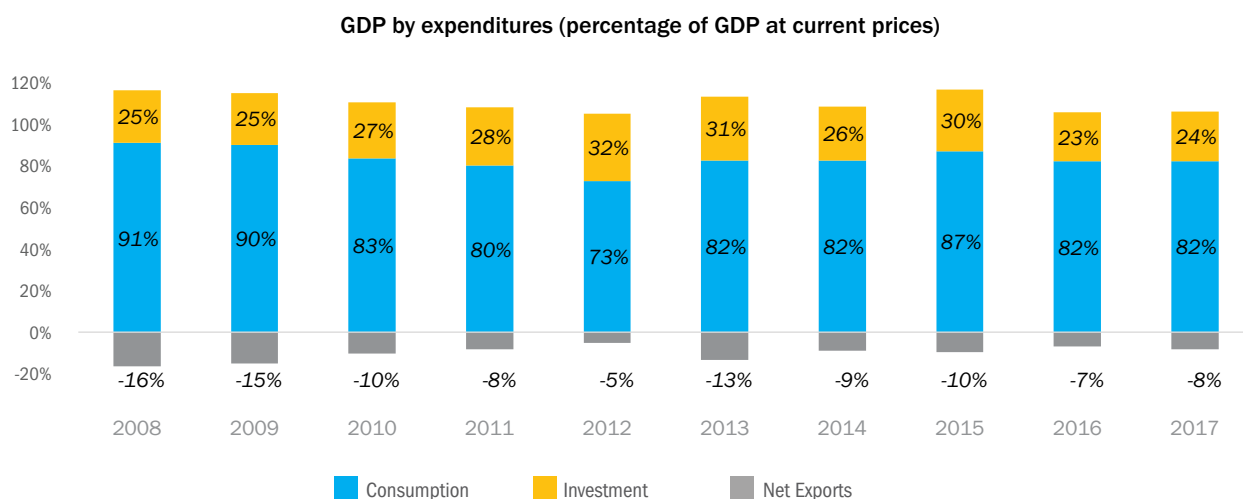


FIGURE 8: Economic growth is increasingly driven by investment and exports

Source: BCEAO.

Thus, while the sectoral composition of GDP has remained broadly stable, the expenditure side is slowly transforming. Historically, domestic consumption—with a sizeable import component—has been the main engine of growth in Burkina Faso. However, with the expansion of gold production, the net contribution of exports has increased significantly, and the trade deficit has progressively narrowed. Amid volatility—as large investments projects are not undertaken every year—the contribution of capital formation is also expanding.

Against this background, capital formation has become the main engine of growth, while total factor productivity (TFP) is low and declining, amid slow structural transformation. Although investment increased on the back of gold mining expansion, the sector remains an enclave, with limited spillovers to the rest of the economy. Meanwhile, the poor performance of enabling sectors—mostly energy, transport/logistics, and skills—is constraining productivity growth and job creation in farm and non-farm non-mining activities. This is further exacerbated by the low degree of sophistication and formalization of the Burkinabè economy, given that subsistence farming and informal non-tradeable services in urban areas together account for about 85 percent of employment and output.²⁴

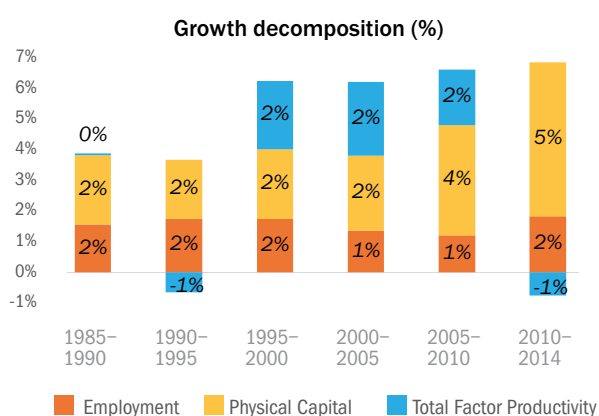


FIGURE 9: Capital formation has become the main engine of growth, while productivity is declining

Source: Penn World Tables and IFC staff calculations.

C. RESPECTIVE SIZE OF THE PUBLIC AND PRIVATE SECTORS

Historically, the public sector has been a major driver of economic growth in Burkina Faso. Before the late 1990s, the largest Burkinabè firms were poorly managed state-owned enterprises (SOEs),²⁵ in an atmosphere where there was little consistency and rationalization of economic policies, a lack of institutionalization of management for development results, and limited public spending effectiveness and accountability.²⁶ While the public sector accounted for the largest share of GDP, owners of private firms were often closely connected to elected officials.²⁷

However, in the late 1990s and early 2000s, Burkina Faso initiated a program of economic reforms based on the premise that the private sector should drive sustainable economic growth. This was laid out in a Letter of the Development Policy for the Private Sector (*“Lettre de politique de développement du secteur privé”*) adopted in 2002. This is still the viewpoint of the government today, and the National Economic and Social Development Plan²⁸ for 2016–20 enshrines approaches that foster a dynamic private sector.²⁹ This prompted a phase of privatization in 1997, with 18 public firms flagged for sale or liquidation.³⁰ By 2010, after a third wave of privatization, the program was broadly completed, leaving only 13 firms—in strategic sectors—under government ownership.³¹ The largest SOEs are active in oil importing and distribution (SONABHY), water (ONEA), the national lottery (LONAB), the mail service (SONAPOST), railways (SOPAFER-B), electricity (SONABEL) and social security (CNSS).³² Though it has lost its monopoly on marketing, SOFITEX (*Société Nationale des Fibres et Textiles*), Burkina Faso’s flagship cotton company, remains under state ownership, as the government recapitalized it while ceding a share of its stake to the cotton farmers’ association.³³

While the public sector still accounts for more than one-third of GDP, this does not seem to crowd out the private sector. The public sector remains a significant driver of growth: public consumption and investment represent 25 and 12 percent of GDP, respectively. Meanwhile, public investment makes up just under half of total investment. However, there are no restrictions

on private ownership, and public monopolies are circumscribed to the fuel importer, the electric and water utilities, and the national lottery.³⁴ Thus, the relatively large size of the public sector can also be seen as the result of Burkina Faso's narrow economic base, and tremendous social and development needs. Altogether public investment amounts to less than US\$1.5 billion, while the small size and widespread informality of Burkinabè firms severely constrains their ability to invest.

D. FIRMS' TYPOLOGY

The Burkinabè private sector is mostly composed of informal firms with low productivity. While most adults work in subsistence agriculture, informal enterprises account for 60 percent of non-agricultural employment in the private sector.³⁵ According to the data of the 7th industrial and commercial census of 2016, Burkina Faso has more than 99,261 non-agricultural enterprises, of which 90.9% are informal. These companies tend to be small (96.5% have less than 10 employees and have a turnover of less than FCFA 15 million), they generate only 11% of total

sales.³⁷ Across sectors, informal firms are four times less productive than formal firms.³⁸ Formal and informal non-agricultural firms are mostly concentrated in non-tradeable sectors—commerce and other services—while manufacturing only accounts for 16.9 percent of formal firms and 20 percent of informal firms, respectively. Scale is broadly low, as average annual value-added is CFAF 550,000 (US\$950).³⁹ Furthermore, firms are mostly concentrated in the capital city, Ouagadougou (55.4%) and in Bobo-Dioulasso (17.3%), and primarily owned by Burkinabè (98.3%), given that only 1.2 percent of firms are foreign despite the absence of restrictions on foreign ownership.⁴⁰

While entrepreneurship is mostly driven by household enterprises, firm creation is picking up with urbanization. Burkina Faso's urban population is growing at 5 percent annually. The transfer of the rural population that used to be employed in agriculture to urban areas underpins the rise in entrepreneurial activity. Data from the World Bank's Doing Business show that firms' registration has picked up while, according to the World Bank's Global Findex, the number of adults saving to start, operate, or expand a farm or business has risen. However,

GDP contributions at end of 2017 (% of GDP)

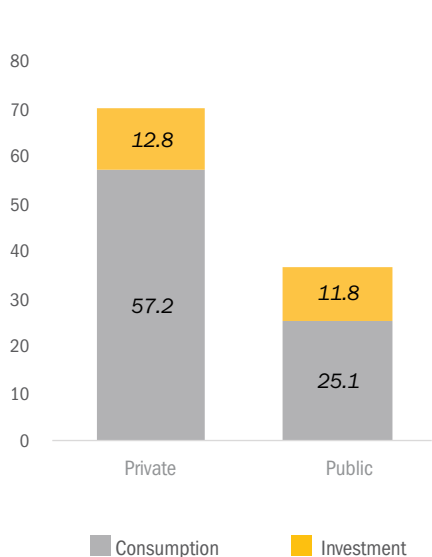


FIGURE 10: Assessing public sector size, GDP

Source: World Bank WDI.

Total investment (% of GDP)

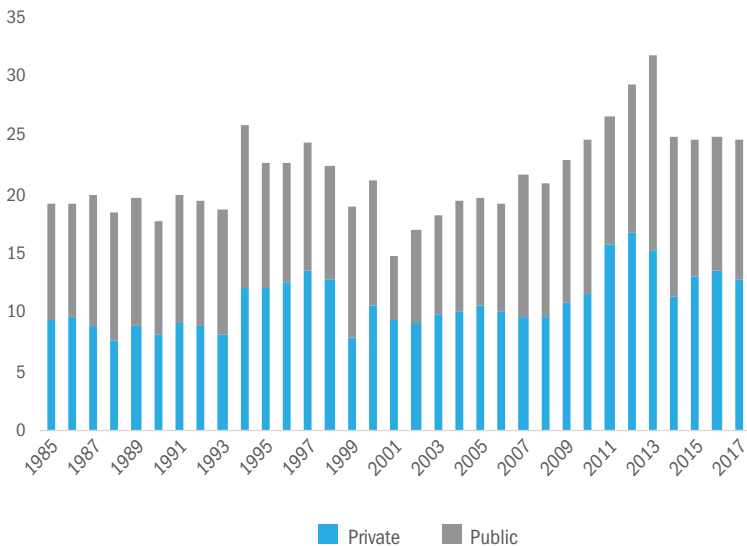


FIGURE 11: Assessing public sector size, investment

Source: World Bank WDI.

entrepreneurship tends to be more a necessity than a choice. Nascent firms face tremendous regulatory and investment climate constraints, while poor access to energy, finance, and skills severely hamper their competitiveness. The enabling environment for entrepreneurship is relatively poor. The country ranks 129 out of 137 countries in the 2018 Global Entrepreneurship Index, published annually by the Global Entrepreneurship and Development Institute, and ranks 23 out of 29 Sub-Saharan African countries. Burkina Faso is underperforming, especially in the areas of risk acceptance, human capital, risk capital, start-up skills, and internationalization.

Overall, the Burkinabè private sector is broadly concentrated. Across export and non-tradeable sectors, the four largest firms account for more than 95 percent of sales, as a result of limited competition, as well as high barriers to entry and factor costs.⁴¹ This concentration is even higher for exporting firms, as only 3.6% of companies export products or services, with the top 25 percent of exporters accounting for 99.2 percent of total exports and the top 1 percent of exporters accounting for over 70 percent of total exports.⁴²

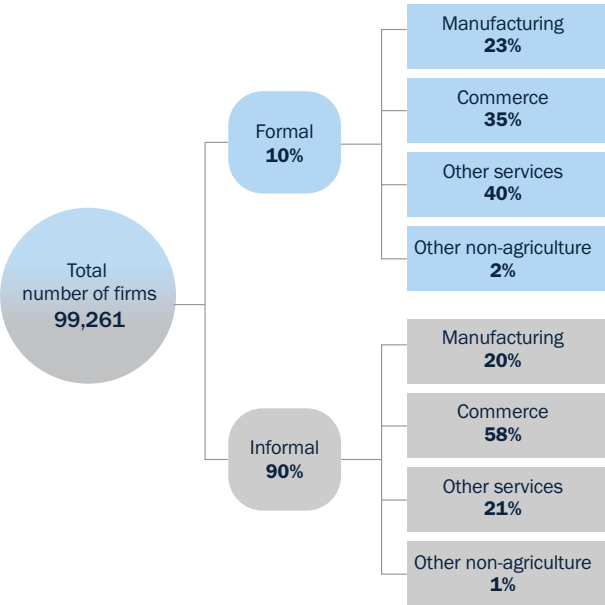
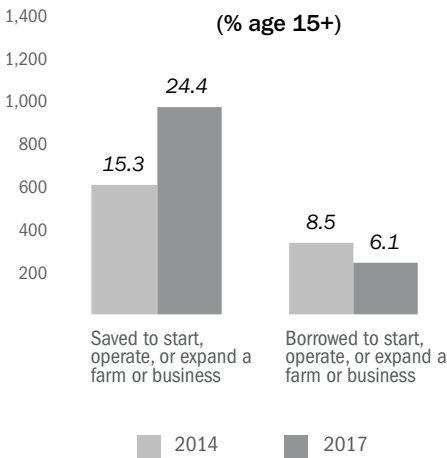
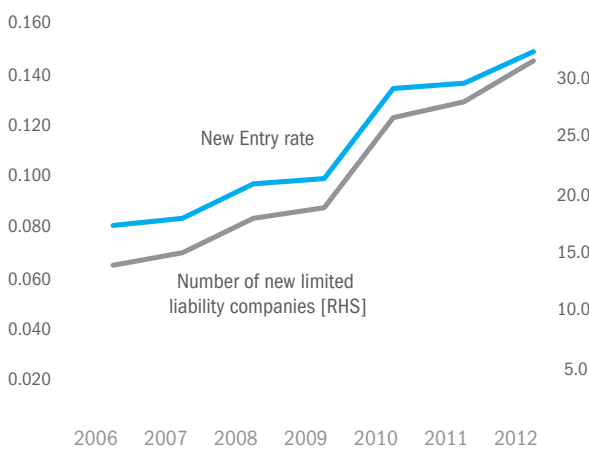


FIGURE 12: Unproductive informal firms predominate in Burkina Faso

Source: Burkinabe national authorities, data as of June 2019.
 Note: Figure extracted from World Bank, 2018 – Burkina Faso Jobs Diagnostic



FIGURES 13 and 14: Measures of entrepreneurship dynamism

Source: World Bank Doing Business and Global Findex.

Because formal employment is scarce and confined to the most competitive sectors, wages are not commensurate with Burkina Faso's labor productivity. The average monthly wage in the formal sector stands at CFAF 115,000 in Burkina Faso (roughly US\$200). This is lower than Côte d'Ivoire but significantly higher than Senegal or landlocked Mali and Niger. When considering labor productivity, the average monthly wage seems less competitive in Burkina Faso than elsewhere in the WAEMU, since labor productivity is higher in Senegal and Mali than in Burkina Faso. However, this might also reveal higher labor informality and greater skills' scarcity, since the monthly minimum wage is set at CFAF 34,664 in Burkina Faso (roughly US\$60), significantly lower than elsewhere in the WAEMU.⁴³ ■

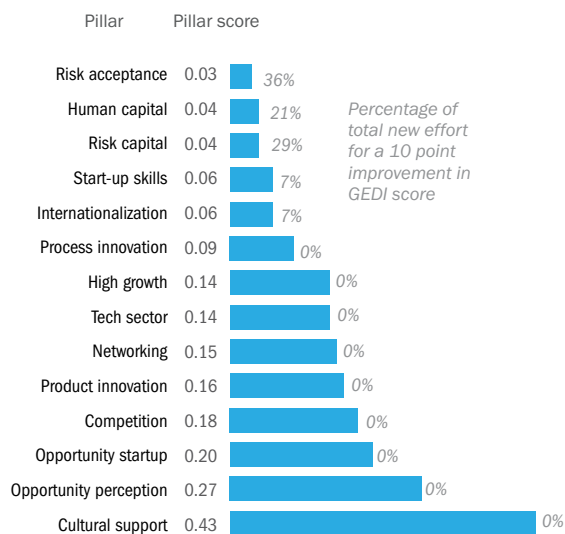


FIGURE 15: Global Entrepreneurship Development Institute (GEDi), Burkina Faso's pillar scores, 2018

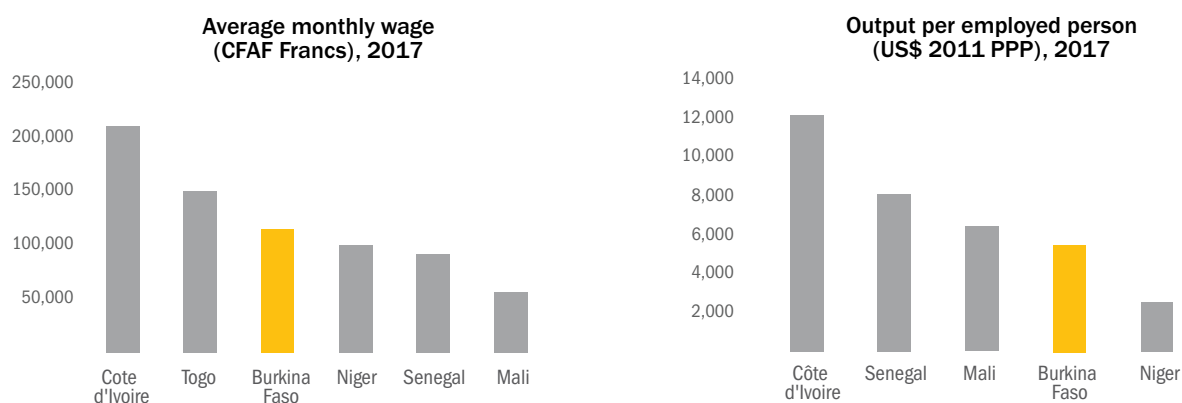
Source : http://thegedi.org/countries/Burkina_Faso

TABLE 2: Degree of concentration by sector Burkina Faso's private sector is highly concentrated

SECTOR	FIRMS		HERFINDAHL INDEX OF SALES		
	#	% of sales by top 4 firms	Formal	Informal	Combined
Mining of metal ores	9	100%	0.37	—	0.37
Motion picture, video and television program production, sound recording and music	162	100%	0.71	0.02	0.68
Financial service activities	25	99%	0.17	—	0.17
Wholesale trade	470	99%	0.17	0.03	0.14
Computer programming, consultancy and related activities	101	98%	0.72	0.33	0.72
Postal and courier activities	1,332	98%	0.37	0.02	0.30
Specialized construction activities	359	97%	0.04	0.03	0.03
Wholesale and retail trade and repair of motor vehicles and motorcycles	3,339	96%	0.21	0.01	0.20

Source: 2008 Enterprise Census.

Note: Table extracted from World Bank, 2018 – Burkina Faso Jobs Diagnostic.



FIGURES 16 and 17: Wages are relatively high...but this has not led to high labor productivity

Source: Authors' calculations based on domestic sources and Total Economy Database.

II. Cross-Cutting Constraints to the Private Sector

The following section covers the status of major cross-cutting constraints across the areas of macroeconomic management, governance and the investment climate, as well as access to finance.

A. MACROECONOMIC MANAGEMENT

Burkina Faso has posted a consistently strong macroeconomic performance over the past two decades. With average annual GDP growth of 6.2 percent between 2000 and 2017, the country recorded one of the strongest growth rates in Africa. This was mostly driven by the expansion of mining and services, while both exports and investment increased significantly.

Despite substantial downside risks, the outlook remains positive. GDP grew by 6.3 percent in 2017, up from 5.9 percent in 2016, on the back of rising gold mining and construction, as well as an expansionary fiscal policy. At the same time, the performance of agriculture was somewhat disappointing because of

weather shocks. Going forward, the services and mining sectors, as well as exports, should underpin medium-term economic growth. This positive outlook is nonetheless tilted to the downside, subject to substantial downside risks such as the international fluctuations in gold and cotton prices, and fiscal woes, as well as significant security and social risks.

The external position is broadly under control. While the current account deficit widened from 7.6 percent of GDP in 2016 to 9.7 percent in 2017, this was mostly due to capital imports for public investments and mining projects, while robust FDI inflows and external public borrowing fully financed these imports. In the medium term, it is expected that growing gold mining exports will help to support the current account position. While inflation picked up to reach 2.0 percent in 2017, the peg with the euro and the tight policy stance from *La Banque Centrale des États de l'Afrique de l'Ouest* (BCEAO) should help to underpin price stability in the near term.

Traditionally, Burkina Faso has pursued sound fiscal policies, but the fiscal deficit widened markedly in 2017. With over 21 percent of GDP in total government revenues, Burkina Faso ranks first among the eight WAEMU countries.⁴⁴ Tax revenues were at a robust 17.3 percent of GDP, while interest payments were broadly contained at 1.0 percent of GDP.⁴⁵ Furthermore, despite light taxation and shortcomings in collection,⁴⁶ mining has become a significant source of revenue, contributing about 16 percent of total government revenues in 2015.^{47,48} Over the past decade, fiscal deficits have been broadly contained within the range of 3 to 4 percent of GDP. This good track record

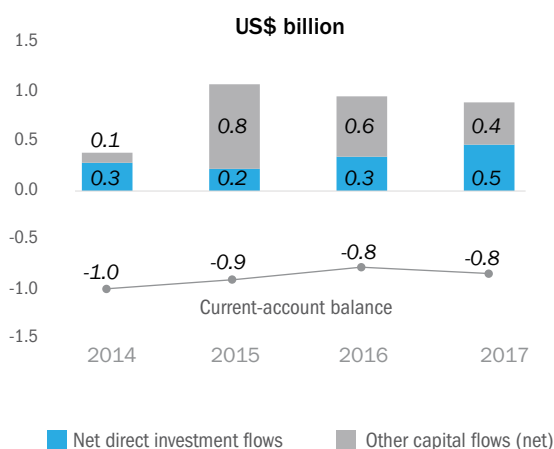


FIGURE 18: External imbalances are under control

Source: EIU.

notwithstanding, the fiscal deficit widened significantly to 7.8 percent of GDP in 2017, up from 3.5 percent of GDP in 2016, driven by higher capital expenditure and social unrest, including public sector strikes, which put upward pressure on wages and transfers. This unexpected slippage threatens the financing of priority social and security expenditures. To contain fiscal risks and create fiscal space for priority investments, as well as social and security spending, the US\$157.6 million extended credit facility arrangement concluded in March 2018 with the IMF aims to support Burkina Faso's fiscal consolidation efforts. The objective is to reduce the fiscal deficit to 3 percent of GDP (the WAEMU target) by 2019, including through improved investment selection and contained current expenditures. With a total public debt estimated at 42.5 percent of GDP in 2018, Burkina Faso is at moderate risk of external debt distress, according to the latest joint IMF-World Bank debt sustainability analysis (December 2018). Contingent on a sustained narrowing of the fiscal deficit, fiscal risks should progressively ease. However, this could prove difficult in a challenging security context, while the 2020 general elections are also looming.

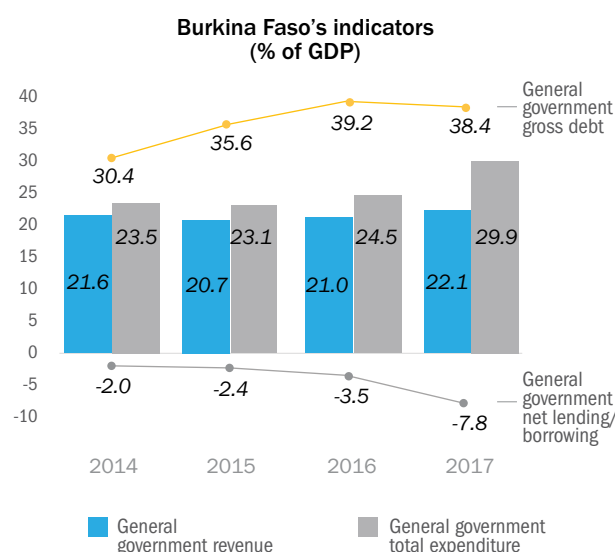


FIGURE 19: Fiscal risks increased significantly in 2017

Source: IMF: *Burkina Faso - Staff Report for the 2018 Article IV Consultation, First Review under the ECF, December 2018.*

B. GOVERNANCE AND THE INVESTMENT CLIMATE

The governance framework is significantly better in Burkina Faso than in other IDA countries. The World Bank's Country Policy and Institutional Assessment (CPIA) score for Burkina Faso in 2017 was 3.6, against an average 3.2 for International Development Association (IDA) countries and 3.1 for Sub-Saharan African IDA countries.⁴⁹ This ranks Burkina Faso at sixth among the Sub-Saharan African IDA countries and second in West Africa, just behind Senegal and before Ghana or Côte d'Ivoire.⁵⁰ This is corroborated by other international benchmarks, given that Burkina Faso ranks 74 out 180 countries in the 2017 Transparency International Corruption Perceptions Index,⁵¹ and 70 out of 113 countries in the 2017-18 Rule of Law Index of the World Justice Project.⁵² In both cases, Burkina Faso is among the best performers in West Africa, slightly behind Senegal, on a par with Ghana and slightly ahead of Côte d'Ivoire.

Although governance indicators deteriorated during the years surrounding the 2014-15 political transition, they have recovered noticeably since then. According to the World Bank's Worldwide Governance Indicators (WGI), Burkina Faso performs relatively well for the control of corruption, voice and accountability, as well as the rule of law. However, this performance deteriorated between 2010 and 2014, in the final years of the Blaise Compaoré regime, which had become "lethargic, inefficient, and unmotivated" (Harsch, 2017). With the peaceful political transition in 2014-15, the governance framework improved noticeably, even exceeding its pre-2010 record. For instance, Burkina Faso gained 15 percentile ranks for control of corruption and 12 percentile ranks for voice and accountability between 2014 and 2017.

Corruption is less prevalent in Burkina Faso than elsewhere in Africa. Global indicators of corruption perceptions show that the extent of corruption and bribery is less pronounced in Burkina Faso than in most African countries. For instance, in the 2017 Transparency International Corruption Perception Index, Burkina Faso ranked 74 out of 183 countries, slightly behind Rwanda, Senegal, and South Africa, but ahead of wealthier economies that have attracted high

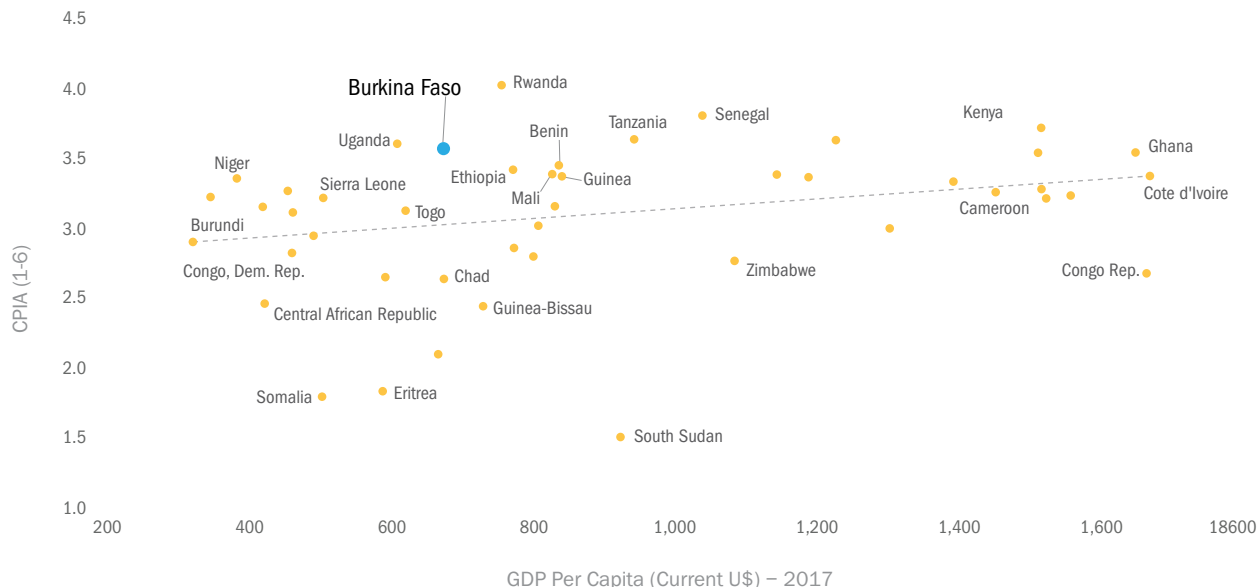


FIGURE 20: Burkina Faso's CPIA score is higher than its income per capita suggests

Source: World Bank CPIA and WDI.

levels of foreign investments in recent years, such as Ghana, Morocco, Côte d'Ivoire, Egypt, and Kenya.

The remaining governance gaps mostly relate to capacity and efficiency shortcomings. Although this has improved slightly since 2014, Burkina Faso underperforms for governance effectiveness, regulatory quality, and civil justice. This points to weak institutional quality and limited public administration capacities, as well as complex, centralized, and unclear procedures/regulations.⁵³ Meanwhile, deteriorating security conditions are significantly weighing down Burkina Faso's governance performance. While political stability and an absence of violence/terrorism used to be Burkina Faso's strongest WGI ranking, it now places the country among the bottom 20 globally, mostly due to the 2014-15 political transition and increasingly frequent terrorist attacks since then.

Thus, the overall business enabling environment is weak. Although since 2004 more than 200 private sector-oriented reforms have been undertaken,⁵⁴ regulatory impediments—red-tape, tax regimes, customs and trade regulations—constitute a critical obstacle to private sector operations.⁵⁵ Burkina Faso ranks 151 out of 190 countries in the 2019 World

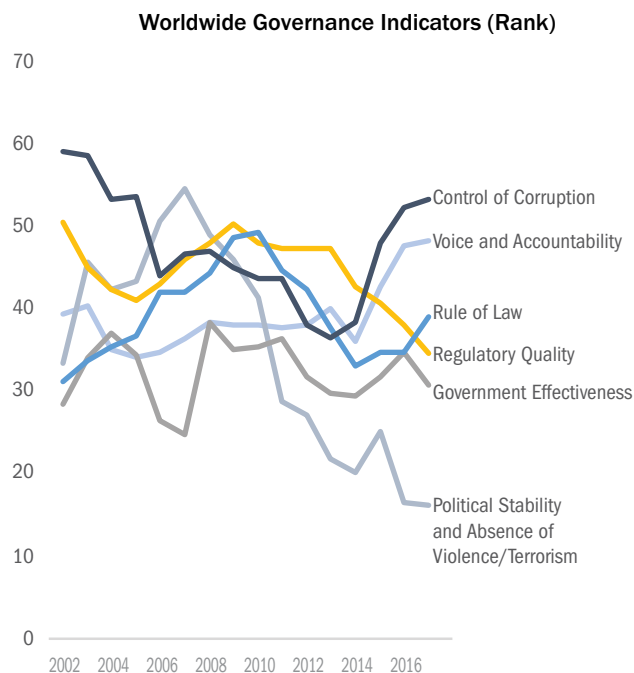


FIGURE 21: Governance Indicators in Burkina Faso are improving, notwithstanding a marked decline in political stability and increase in violence/terrorism

Source: World Bank WGI.

Bank's Doing Business, down from 143 in 2016, as the reform momentum has faded, while other countries continue to adopt pro-business reforms and regulations. Mirroring Burkina Faso's capacity and effectiveness shortcomings, Doing Business rankings are particularly low for getting electricity (181 out of 190), enforcing contracts (165/190), and paying taxes (153/190). However, the country has improved in the areas of starting a business (79th rank) and granting construction permits (58th).

The costs of doing business are high and pervasive in Burkina Faso. For example, the costs of starting a business amount to 42.5 percent of per capita income in Burkina Faso, compared with 8.1 percent in Niger. Similarly, enforcing contracts takes an average of 446 days, while 270 hours and 45 payments are required to comply with tax regimes. The delays (169 days) and costs (9,000 percent of per capita income) to obtain an electricity power connection are daunting in Burkina Faso. At the WAEMU level, Senegal ranks first for this indicator (127), followed by Côte d'Ivoire (143), whereas Burkina Faso is among the worst performers globally (181).

TABLE 3: Burkina Faso underperforms for justice and security

Rule of law index – World Justice Project

	Factor trend	Factor score	Regional rank	Income rank	Global rank
Constraints on government powers	▲	0.53	8/18	5/12	67/113
Absence of corruption	▲	0.44	5/18	3/12	69/113
Open government	–	0.46	6/18	4/12	77/113
Fundamental rights	–	0.60	3/18	1/12	48/113
Order and security	–	0.63	11/18	8/12	87/113
Regulatory enforcement	–	0.45	6/18	3/12	80/113
Civil justice	–	0.49	10/18	4/12	76/113
Criminal justice	–	0.45	4/18	1/12	58/113

Source: World Justice Project.

Despite a commitment to improve the investment climate, further reforms are needed. On the positive side, Burkina Faso has recently implemented several key reforms that make doing business easier. For instance, in 2018 it adopted a law that regulates all aspects of mediation as an alternative dispute resolution mechanism, it adopted the Law on Public-Private Partnerships, and adopted a new investment code and a law for the promotion of SMEs. The country has also made progress with reforms regarding business licenses, and launched a new credit information bureau. This has been supported by the formal structure created in 2017 for proposing and monitoring investment climate reforms. Backed by a decree,⁵⁶ this structure is made up of three entities: a steering committee to improve the investment climate, a technical secretariat, and technical sub-committees. However, the steering committee that was established has gradually lost momentum since 2017, as attendance and commitment have been poor. Critical additional business reforms are required in the areas of taxation, access to land, and the enforcement of contracts. These investment climate reforms will be most effective if they are accompanied by urgent actions to improve logistics, the provision of electric power, and marketable skills.

Private competition and advocacy continue to be challenges in Burkina Faso. A new Law on Competition was passed in April 2017 and enacted in May of the same year, aimed at harmonizing national and regional rules increasing the penalties payable by transgressing firms for violations of competition law, and increasing the protections offered to consumers through a more effective regulation of sales promotions. Implementation has been slow and could be further improved. Meanwhile, the Chamber of Commerce and Industry of Burkina Faso has become more organized and gained strength since 2017, but its advocacy efforts as the primary mouthpiece for the private sector could be improved. In particular, it could contribute to the organization of professional associations with a view to coordinate actions towards public authorities.

Since the 1990s, Burkina Faso has been implementing territorial development approaches and growth poles have been identified as major platforms to stimulate private sector activity and business climate reforms.

These growth poles are designated areas of the country where growth of identified value chains is fostered through a combination of infrastructure (electric power, irrigation canals, roads and railways) and services (logistics, the services of industrial parks and special economic zones, promotion agencies, etc.). A dozen growth poles have been identified in the country to maximize the potential of various regions. The Bagré Growth Pole, the first to be operationalized, has received both public funds and, in 2011, World Bank financing. The process of setting up this cluster has revealed the complexities in developing these growth poles. After stalling for several years and facing unanticipated delays, the project is now back on track to achieve its original objectives, and in March 2018 the World Bank's Board of Executive Directors approved US\$50 million in additional financing. Under the original project, 19 km of new irrigation canals have been constructed, which will irrigate an additional 2,500 hectares of land. This additional financing has enabled the initiation of construction on more than 200 km of new roads and the extension of the electric power network, all of which are necessary

to attract the private sector to the areas. While they are not silver bullets, growth poles have the potential to further boost private sector development in Burkina Faso, provided that their development is accompanied by related investment climate reforms. However, their success also requires strong political will from the government, and a commitment from development partners and financiers, as well as clear streamlining and sequencing.

While some efforts have been made and Burkina Faso performs well regionally, the PPP framework is still incomplete, and suffers from lengthy and opaque procedures. According to the infrascopes, Burkina Faso is within the regional average in terms of capacity to implement sustainable and efficient PPPs. To set an adequate legal framework conducive to public-private partnerships (PPPs),⁵⁷ a PPP Law was adopted in 2013⁵⁸ and the government created a specific Direction for the Promotion of PPP within the Ministry of Economy, Finance and Development, as well as a Commission, headed by the Prime Minister, to select PPP projects for approval. Though the National Development Plan intends to fund more than 50 infrastructure projects

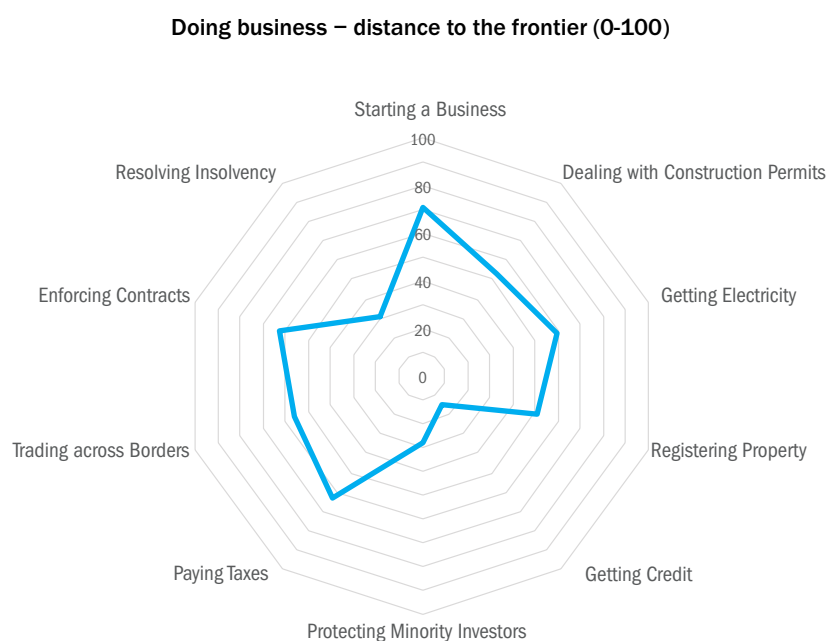


FIGURE 22: Sizeable Doing Business gaps remain

Source: *Doing Business 2019*.

through PPPs—in energy, transport, and water—limited government planning and execution capacities, together with a lengthy, cumbersome, and heavily centralized competitive tendering process continue to deter private investors. These shortcomings have resulted in the cancelation of several open-tender processes.

C. ACCESS TO FINANCE

The financial sector in Burkina Faso is dominated by the private sector and is relatively well-capitalized with sufficient liquidity.⁵⁹ The banking sector consists of 14 banks, with the three largest banks—Coris Bank, EcoBank, and Bank of Africa—being pan-African. Together, these three banks hold 55 percent of the total assets. The other banks include privately-owned domestic banks, and two small state-owned banks. The banks are adequately capitalized: the average capital adequacy ratio (CAR) is 13.75 percent *vis-à-vis* the norm of 8 percent by the BCEAO, and the liquidity ratio was 88 percent, higher than BCEAO's norm of 75 percent. The microfinance sector consists of 133 MFIs, with 130 of these being cooperatives. The microfinance sector is highly concentrated, with one MFI—*Réseau des Caisses Populaires du Burkina*, or RCPB—representing more than 73 percent of the clients and 70 percent of the deposits. While large MFIs appear to be in good health, a majority of medium and small MFIs are struggling to operate, with some having negative equity and/or negative returns. The digital financial services (DFS) sector is still in its infancy, although it is growing rapidly.

Despite the relative stability of the financial sector, there are emerging risks that need to be addressed. Though the liquidity ratio of the banking sector is in line with the BCEAO norms, it has nonetheless declined since 2015, and there remain wide variations in the performance of different banks. For example, though the gross level of NPLs in the banking sector is around 9 percent, two banks have gross NPLs of over 20 percent. In addition, the high concentration of credit continues to be a risk, and the credit of banks remains concentrated in large clients in the public works, oil, services and textiles sectors, which increases the sectoral risks faced by the banks. The level of

profitability of banks also remains low compared with other WAEMU countries, such as Côte d'Ivoire, Senegal, and Mali. For MFIs, the portfolio quality, as measured by the portfolio at risk indicators, has declined and is 4.95 percent, above the 3 percent norm mandated by the BCEAO. Profitability of MFIs remains low and the liquidity ratio is at the threshold. Most MFIs do not meet the coverage ratio of medium- and long-term financing with stable resources. Furthermore, regulatory oversight of the microfinance segment is weak, with the responsible regulatory teams being understaffed and having limited capacity.

Access to financial services has increased markedly, albeit from a low base, driven by digital financial services (DFS). According to the World Bank's Global Findex report, the percentage of adults with an account at a financial institution, or with a mobile money provider, increased to 43.2 percent in 2017, from 14.4 percent in 2014. This was driven by a sharp increase in mobile money accounts, the ownership of which increased to 33 percent in 2017 from 3 percent in 2014. Burkina Faso is also one of the 10 countries globally where a higher proportion of adults have mobile money accounts versus traditional accounts with financial institutions (23 percent). According to the BCEAO, the number of mobile money accounts has increased by 250 percent, from around 800,000 accounts in 2013 to 2.8 million in 2016. Lighter documentation requirements for opening mobile accounts (especially accounts with less than CFAF 200,000 of transactions per month) and improved convenience have helped make mobile money accounts an increasingly preferred solution. This usage of DFS is largely driven by digital payments, whereas access to other services, such as savings and credit through digital platforms, remains limited. However, at the same time, gender, income-based gaps have also increased, indicating gaps in access to DFS, though Global Findex data (2018) show that the rural-urban divide in accessing DFS is surprisingly small. The share of those over 15 years of age in rural areas who used a mobile phone or the internet to access an account in 2017 was 27 percent, versus 29 percent for all those over 15 years of age.

Access to credit remains a key issue for SMEs, while financial infrastructure and regional capital markets are underdeveloped. Banks' lending to the

private sector is skewed toward large corporates in trade, services, public infrastructure works and extractives, which cumulatively account for almost 80 percent of banks' total assets. The top 50 clients receive 40 percent of total credit (17 percent for the top five customers). The share of loans to SMEs (6 percent of total bank assets) and the agriculture sector (3.9 percent of total bank assets) remains low. This represents an imbalance in the economy, as the agriculture sector accounts for 27 percent of GDP, and SMEs represent the overwhelming majority of Burkina Faso's 99,261 firms.⁶⁰ Limited access to finance is particularly harmful for the development of agriculture/agribusiness. During the consultations for this report, several medium-scale farm owners indicated that collateral requirements were far beyond reach for sub-satisfactory maturities. Interest rate caps on the banking sector—at a high 15 percent—are a potential supply-side constraint for access to finance. Together with the payment guarantee stemming from government securities, this may restrict banks' lending to individuals and MSMEs. Access to bank branches is also limited: in Burkina Faso, there is one bank per square km, whereas in countries such as Rwanda and

Ghana, this figure is 17 and 5.2, respectively. The costs of opening and maintaining bank accounts are high, and the requirements for opening accounts are extensive. However, the rapid increase in DFS may render access to physical branches less significant.

Financial literacy is also low, and Finscope (2017) shows that over 75 percent of the population do not ask for financial advice or rely on their families. While micro and digital finance institutions are trying to fill the financing gap for SMEs, these products do not always meet customers' needs. In addition, financial sector processes and risk culture are not conducive to improving financial inclusion for firms and individuals. When bank financing is available for SMEs, it is usually small (covering only about 16 percent of the total investment), with high interest rates (anywhere from 7.75 to 15 percent),⁶¹ and of short duration (maximum of two years), with stringent collateral requirements, that are difficult for SMEs to meet. In addition, the absence of a functioning digital collateral registry impedes access to credit. Though Burkina Faso recently launched a new credit bureau, it covers only 1.1 percent of the adult population. In comparison, coverage in Côte d'Ivoire is about 9.6 percent of its adult population.⁶²

To address growing risks in the sector and increase access to credit and other financial services, regulatory reforms, capacity building, and infrastructure expansion will be key. Though financial institutions are showing a growing appetite for SME finance, the enabling environment could be improved. The oversight of the banking and microfinance sector by the BCEAO's banking commission needs to be strengthened to ensure compliance with prudential norms. Meanwhile, it should be noted that credit risk in Burkina Faso is under control, as NPLs have consistently remained low, including during the political crises of 2014 and 2015.⁶³ Regulatory changes to reduce the requirements for opening bank accounts, while safeguarding AML/CFT requirements, and reducing banking fees and charges, will also be important. Establishing refinancing mechanisms and lines of credit will be crucial to increasing the banks' access to long-term finance. Capacity-building of the banks will be important to enable them to develop innovative financial products that leverage

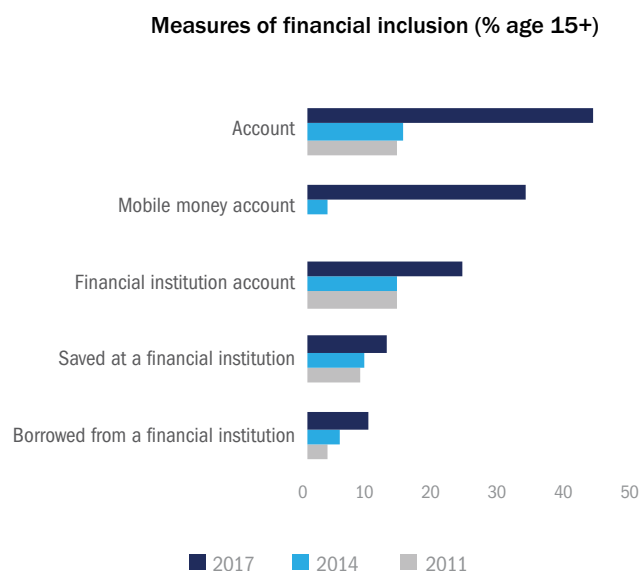


FIGURE 23: Access to financial services has improved markedly

Source: World Bank Global Findex.

technological solutions and address the needs of businesses. In the same vein, more could be done to develop agriculture and value chain financing. In addition, national financial literacy programs and financial inclusion strategies will be key to driving access to financial products and services. To increase access to DFS, it will be important to improve and expand the ICT infrastructure and connectivity and develop a clear legal and regulatory framework for agent banking, which reduces the costs and deposit requirements, and develop partnerships between the financial sector and Mobile Money Operators. This should be addressed by the BCEAO through ongoing work on a regional switch to offer interoperability that will help expand DFS.

Appropriate regulations, supporting policies, and financial infrastructure conducive to further expanding the range of non-loan finance sources available to SMEs are important priorities. Enhancing the access of underserved SMEs to finance could help to cultivate a subset of these firms over time, as a high-growth potential, strategic sector ‘corporate base’ that could be incubated for future listings on the sub-region’s capital market. This will require an appropriate regulatory framework, providing adequate protection of rights and contracts. Alternative financing solutions drawing on new business models and technologies—such as supply chain financing, seed and angel funding—may also help grow SMEs unable to access long-term bank finance, in a conducive context with adequate underpinning of the regulatory framework. ■

III. Critical Enabling Sector Bottlenecks to the Private Sector

The following section outlines the main private sector constraints and opportunities among the key enabling sectors of energy, transport, and skills.

The WBG's Systematic Country Diagnostic, as well as discussions with WBG staff and country experts, together with quantitative and quality evidence, show that energy, transport/logistics, and skills are the most critical enabling sectors for Burkina Faso, and that their poor performance is currently the most binding constraint to private sector development. In short, Burkina Faso is among the bottom five West African countries in these three areas. Overall, the poor performance of these sectors is impeding private sector development, but private sector solutions have the potential to significantly improve their performance.

A. ENERGY

Burkina Faso has one of the lowest levels of access to electricity in the world, with only 20.63 percent⁶⁴ of the population connected to the national grid in 2017. In West Africa, Burkina Faso is among the lowest five performing countries in terms of access to electricity, together with Guinea-Bissau, Liberia, Niger and Sierra Leone. Low-income groups are almost completely excluded from the national network, and there is a large gap between urban and rural areas, with an access rate of 65.76% in urban areas, compared to only 3.27% in rural areas.

With a total installed electricity capacity of around 324 MW,⁶⁵ Burkina Faso's installed capacity is extremely limited and highly dependent on neighboring countries, especially Côte d'Ivoire, to meet its demand. With no domestic gas or coal resources and limited hydro potential,⁶⁶ Burkina Faso relies on costly imported heavy fuel oil (HFO) and diesel and buys a large share of its electricity from neighboring countries. The national utility, SONABEL (*Société Nationale*

d'Electricite du Burkina Faso), has limited generation and subsequent technical capacities. In 2017, Burkina Faso imported about 36.9 percent of its electricity.⁶⁷ The development of regional interconnections within the West African Power Pool (WAAPP)—including the one recently built between Ghana and Burkina Faso with a supply agreement of 100 MW, and the forthcoming interconnections with Benin, Niger, Nigeria and Togo—will support Burkina Faso in becoming less dependent on Côte d'Ivoire. Moving forward, the establishment of a sub-regional energy exchange market would further serve to promote this objective.

The lack of reliability in the supply of electricity and the high cost of electricity for consumers are both major factors impeding Burkina Faso's private sector. For instance, without access to electricity, machinery for processing basic agricultural products cannot be used. SONABEL's technical performance is broadly weak, with transmission and distributions losses accounting for about 14.5 percent of total output—an increase from less than 12 percent in 2010-11.⁶⁸ Thus, frequent load shedding and “brownouts” are experienced by grid-connected consumers. This lack of reliability and low quality of electricity can damage equipment and hamper the competitiveness of the agro-processing, mining, manufacturing and ICT sectors. The cost of electricity production is above US\$0.25 per kWh, while electricity imports cost just US\$0.12 per kWh. Even if the end-consumer electricity price is subsidized⁶⁹ and differentiated between households and mines, the consumer price is still prohibitive, being almost three times the average for Sub-Saharan Africa. Burkina Faso is, just after Guinea Bissau, the country in the West Africa Economic and Monetary Union

(WAEMU) where the cost of electricity for end-users is the highest (US\$0.25 per kWh against an average of US\$0.21 per kWh in the WAEMU). Therefore, due to the lack of reliability when connected to the grid and the high cost of electricity, most mines/industrial companies own their own HFO or diesel generators, which are expensive to operate (with a cost of fuel/OPEX estimated around US\$0.20 per kWh). In turn, this means that the state-owned utility, SONABEL, is not retaining its largest and most creditworthy consumers.

Thanks to its excellent solar irradiation, solar generation could become the lowest-cost source of production in Burkina Faso and going forward will become the main source of new generation. The solar irradiation in Burkina Faso is between 5.5 kWh and 6.3 kWh per square meter per day, with the best irradiation in the Northern Sahel region. Solar energy is gaining in importance in Burkina Faso, with the recent financial close of the privately-owned 27 MW Zina Solaire supported by the IFC, and the launching in 2017 of the publicly-owned 32 MW Zagtouli Project. In the medium to long term, Burkina Faso could leverage its strong solar potential and the regional inter-connections under development to become an energy exporter in the sub-region.

Private sector solutions can help seize this potential and address power deficits at the same time. To meet its rapidly rising electricity demand in a sustainable and least-cost manner, Burkina Faso could leverage private sector investors with regards to generation. To meet increasing demand (13 percent per year) and meet its electrification targets, Burkina Faso plans to increase its installed capacity by 50 percent over the next five years. Given limited fiscal space, rising private sector interest in Burkina Faso and increasing competition between independent power producers (IPPs) in the region, a sustainable and least-cost deployment of generation could be achieved by further leveraging private sector investments. This could include the development of shared power infrastructure that would supply mines, while also electrifying remote areas. This would also help improve SONABEL's credit-worthiness and finance the necessary capital expenditures needed for additional generation capacity.

Burkina Faso recently modernized its regulatory framework to encourage private sector participation, while improving the financial health and attractiveness of its energy sector, but implementation is stalling. Supported by a World Bank Development Policy Operation (DPO), the tripartite agreement between SONABEL, SONABHY (the state-owned fuel

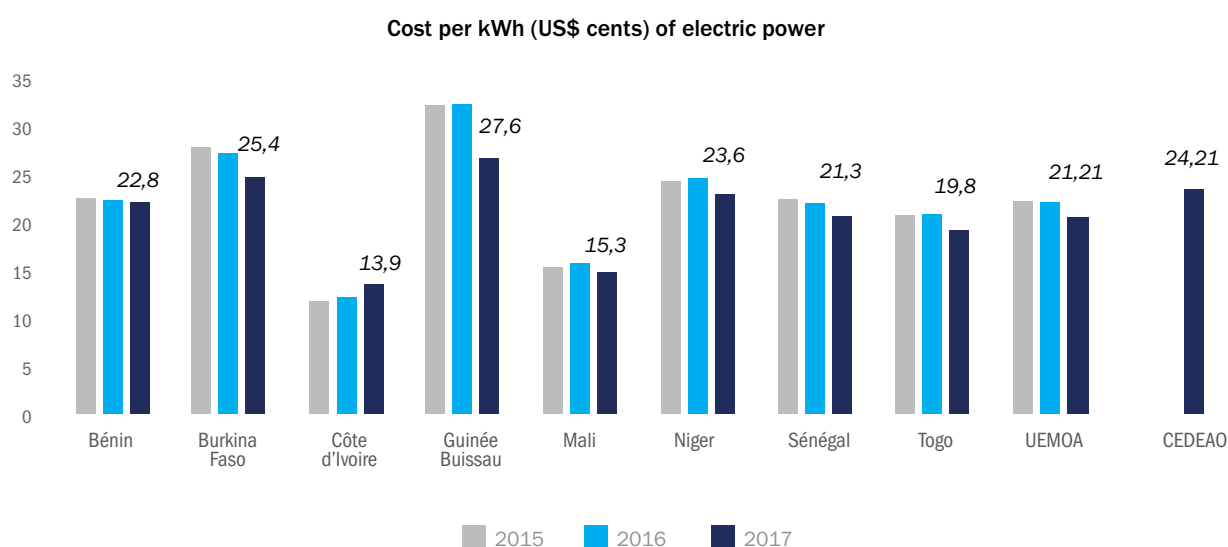


FIGURE 24: Costs of electric power are among the highest in West Africa

Source: World Bank Doing Business.

importing and storage company), and the government has put an end to the upstream fuel import subsidies paid for by SONABEL, thus ending cross-sector debt and improving the financial health of the energy utility. At the same time, the 2017 Law on Electricity liberalized the energy sector, abrogating SONABEL's single-buyer status for large industrial consumers and streamlining IPP procurement. However, these provisions are not yet enforced, as most of the implementing decrees have yet to be issued. Specifically, the 2013 PPP framework and the bidding selection criteria for IPPs are still unclear.

Weak sectoral capacity is also hampering private investment. The regulatory framework for PPPs has not been adequately tested, capacity is weak, and the tendering process cumbersome, with some open tenders having been canceled. Thus, despite a strong investor appetite, Burkina Faso is still struggling to execute projects, even with signed purchasing power agreements. Over the past few years, several tenders have been canceled amid acute procurement, planning, and grid absorption shortcomings. There are several major constraints to an improved electric power infrastructure in Burkina Faso, including through increased private sector participation.⁷⁰ Specifically: (i) weak government capacity in planning and implementation has caused non-priority projects to be developed and sub-optimal technological choices to be made; (ii) insufficient baseload power generation, limited variable renewable energy grid absorption and poor utility technical capacity are impeding investment in additional generation capacities; and (iii) an inefficient, cumbersome, and heavily centralized procurement process⁷¹ entails significant delays.

Improving Burkina Faso's planning and technical capacities is crucial to improving sector performance and developing renewable energy projects. First, increasing planning capacities requires a least-cost energy generation development plan, alongside a national grid integration study. This will help prioritize and rationalize new projects, including for on-grid and off-grid renewable energy. Second, specific initiatives are needed to increase transactional capacities to undertake tenders to build confidence and attract reliable IPPs. This mostly entails: (i) decentralizing IPP procurement to the Ministry of Energy from the

Ministry of Finance; and (ii) providing embedded advisors to the Ministry of Energy to nurture transaction and private sector-facing capacities.

B. TRANSPORT AND LOGISTICS

Eighty-five percent of Burkina Faso's exports are outside the region and imports account for almost 40 percent of GDP. As a landlocked country, Burkina Faso depends on ports in its neighboring countries for trade. Currently, about 30 percent of trade goes through Côte d'Ivoire, 25 percent through Ghana, 25 percent through Togo, and the remaining 20 percent through Benin. However, the transport and logistics chain is highly inefficient, while the trucking industry is dysfunctional and uncompetitive. This adds significantly to the overall cost of doing business, which is prohibitively high—one of the highest in the region. Some of the major constraints include deficient infrastructure, roadblocks, inadequate or ineffective regulations, overlapping regional regulations, a multitude of conflicting actors, poorly designed incentives, licensing, and tracking. A combination of these factors resulted in significant market distortions—characterized by low investment, low quality and a sub-optimal equilibrium—that have subsequently created a large gap between prices and costs in the provision of transport services. The overall sectoral enabling environment is not conducive to competition and private investment. While improving the logistics chain and addressing regulatory constraints, PPP solutions could be explored in road maintenance, logistical platforms, cold chains and storage, as well as urban transport.

Until the 1970s, the Abidjan-Niger Railway was the main mode of transport for Burkina Faso's foreign trade. Subsequently, with the development of roads, exchanges have diversified with the emergence of new corridors through Ghana and Togo. For 20 years, the African International Rail Transport Company (SITARAIL), a subsidiary of the Bolloré Group, has been operating the only railway line in Burkina Faso, originating in Ouagadougou, passing through Bobo-Dioulasso, and finally connecting with Côte d'Ivoire. Since it was commissioned in the 1980s, the Ouagadougou–Kaya section has been under-utilized

for several years, and most of the infrastructure is now non-operational. A rail link with Niger is also planned within the framework of the regional project called “La boucle ferroviaire” linking Abidjan, Ouagadougou, Niamey and Cotonou. A modernization program of the existing line between Côte d’Ivoire and Burkina Faso is also planned.

The classified road network is about 15,300 km in total length, of which only about 20 percent is paved.

A non-classified road network is about 46,000 km, of which about 50 percent is impassable during the rainy season. According to the World Bank’s Rural Accessibility Index, Burkina Faso ranks among the lowest in Africa, with less than 25 percent of the rural population living within 2 km of an all-season road. Because of its landlocked nature, Burkina Faso is dependent on connectivity with surrounding countries for international trade. The Abidjan–Ouagadougou Transport Corridor includes 1,261 km of road (639 km in Côte d’Ivoire and 622 km in Burkina Faso). The corridor also includes a single-track meter gauge railway line of 1,238 km. The current road/rail modal split is about 75 percent road transport and 25 percent rail transport. The importance of this corridor has

grown, as security issues at the borders with Mali and Niger have deteriorated since 2016.

Poor physical infrastructure and limited fiscal space, as well as non-competitive markets for transport and trucking services, lie at the root of Burkina Faso’s transport and logistics shortcomings. Even compared with other landlocked African countries, Burkina Faso is lagging behind in the World Bank’s Logistics Performance Index (LPI), with acute deficiencies for tracking and tracing, as well as customs. A similar picture comes from the ‘Trading across Borders’ index, with Burkina Faso ranking 120 (behind Mali and Benin) out of 189 countries. There is also much anecdotal evidence. For example, a local producer of fruits and vegetables with the means and ability to export jams and purees to Europe has not been able to do so to date, due to the high costs of international transport. The product would simply not be competitively priced in Europe. In the same vein, exports of fresh products from Bobo-Dioulasso to Abidjan, as well as dry products such as cashews to Vietnam and China, all suffer from constraints in the transport sector.

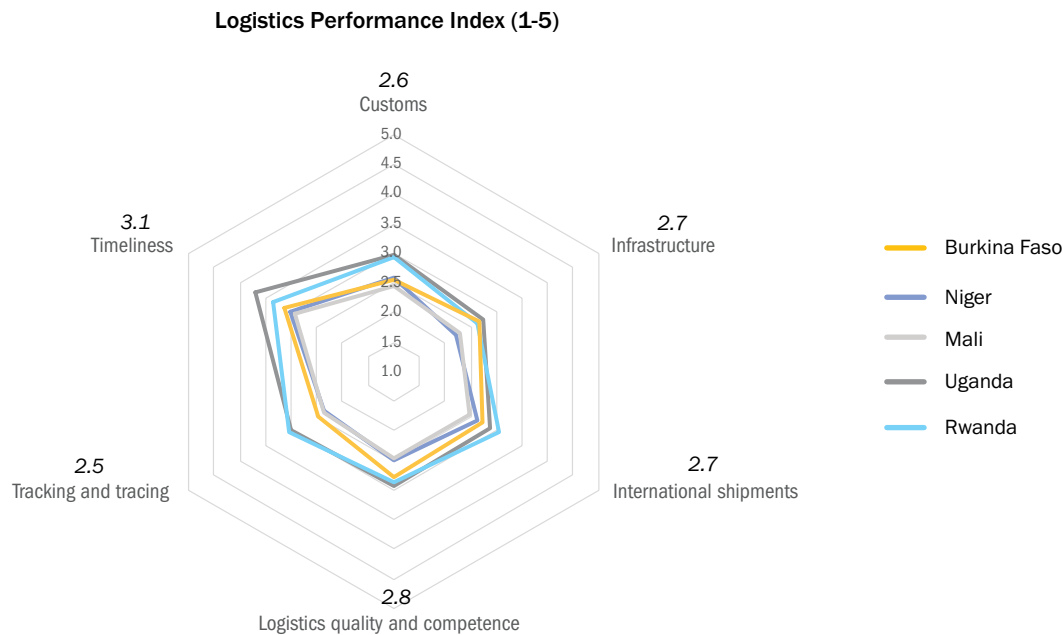


FIGURE 25: Logistics performance lags behind other landlocked African countries

Source: World Bank’s LPI.

The trucking services industry is highly inefficient, which results in a low containerization rate. The informal nature of the industry and corresponding low profitability create strong incentives for truckers to resort to short-term profit-maximizing behaviors, such as overloading and the use of obsolete trucks. This also has the effect of discouraging containerization. As a result, the containerization rate on the Abidjan–Ouagadougou corridor is about 20 percent for transit goods moving inland—among the lowest rates in the world. This may also explain why large companies tend to internalize their transportation costs by purchasing their own trucks and incorporating transport into their own business model. Ultimately, the trade imbalance between high imports and limited exports means that, as long as there are not enough goods to fill the returning trucks from Burkina Faso to the coast, the cost of transport from the ports to Burkina Faso remains high.

The logistics performance is poor and transport costs are prohibitive. The reliance on a single, underdeveloped economic corridor results in high transportation costs. On the Abidjan–Ouagadougou economic corridor, transport costs represent about 50 percent of total costs for low value goods and 40 percent for high value goods. Customs procedures at the various borders are not harmonized, which further limits the ability of Burkina Faso to integrate more with its neighbors. Furthermore, poor access to the internet and issues with the energy supply prevent the use of IT solutions for customs. For instance, the very first project of interconnection of customs IT systems along the Lomé–Ouagadougou corridor, which held great promise for reducing the length of processing on this strategic trade route, failed to yield any significant reduction in either time or cost.

There is limited competition, and multiple roadblocks and checkpoints. The lack of clear criteria for accessing the transport sector profession, and the absence of transparent market mechanisms to match supply and demand for transport services on key corridors such as Abidjan–Ouagadougou, have given rise to the emergence of a few dominant operators that capture large rents through the allocation of freight to truckers within an informal cartel. This oligopolistic power results in prohibitive prices, partially offset by the

railway on the Ouagadougou–Abidjan corridor.⁷² Small-scale truckers make up for the remainder of the transport service providers. According to the Chamber of Commerce and Industry of Burkina Faso, 95 percent of the transportation services are performed by individual companies which do not have the financial means, nor the training, to do their jobs to a professional standard, especially when consolidating shipments from several companies onto a single truck.

Policy reforms are warranted to further improve the performance of transport and logistics. In recent years, the government of Burkina Faso has launched reforms to modernize road transport and improve the trade environment, including professionalizing the trucking industry, reforming access to the profession, improving the functioning of the transport market, facilitating the renewal of the trucking industry fleet, and streamlining trade and transit procedures. The government should further pursue the professionalization of the trucking industry through the use of ICT to enhance free access to freight (virtual freight exchange), forming partnerships with local and regional banks to support a fleet renewal mechanism, and considering (fiscal) incentives to lower the costs of containerization. PPP solutions could be explored in road maintenance, logistical platforms, cold chains and storage, as well as urban transport. To ensure that the domestic private sector is involved in large transport infrastructure development projects—such as railway development/rehabilitation—capacity-building initiatives to strengthen local SMEs to engage and compete for those projects, including through joint-ventures, should be supported.

Furthermore, the government can provide incentives for integrating small players/MSMEs with large freight-forwarders and, in this context, develop financing schemes and capacity building. One possible model to examine is the ‘*Groupements interets economiques*’ (GIEs) from Senegal. Under these GIEs, a cooperative approach is used to allow small economic players from the same activity to put their assets under one umbrella and join forces with larger operators. This helps them build trust with financial institutions that are then more likely to finance them as a pooled entity. In the case of Burkina Faso, such an approach could accompany the liberalization of truck supply for

both domestic and international markets by further incentivizing local fleet renewal. At the same time, this should come in support of a program of stricter and enforceable emissions standards to encourage the replacement of older trucks.

The private sector could and should play a pivotal role to improve Burkina Faso's overall logistics.

For instance, freight forwarders CMA-CGM are partnering with Sofitex, the leading cotton company, and SITARAIL, to collect the cotton harvest through a service of container shuttles that can be later exported by rail. More specifically, the creation of multimodal logistical platforms would encourage: (i) containerization; (ii) the development of cold chains and storage facilities; (iii) the modernization of the SITARAIL railway with Côte d'Ivoire; (iv) the construction of a railway between Ghana and Burkina Faso (that could be extended to Togo and Benin at a later stage); and (v) the restructuring of the national airline, Air Burkina, and also offer opportunities for private investors that could help mitigate some of the existing transport/logistics shortcomings. Beyond infrastructure and logistics, private sector solutions could also help to improve the overall performance of the transport services. For instance, dedicated ICT solutions could help to improve logistics' tracing, tracking, and timeliness. In the same vein, scaling up leasing could improve the performance of the small-scale truckers, while contributing to fleet modernization. Such solutions should hinge on regional integration initiatives, such as the joint economic zone between Burkina Faso, Côte d'Ivoire, and Mali recently created to develop shared infrastructure. At the same time, Burkina Faso could pursue more comprehensive domestic private sector promotion efforts in pairing local SMEs with leading freight forwarders, to gradually create highly skilled transport and logistics operators that would further reverse the current trend toward their protective approach of internalizing their transport costs.

In the attempt to reform the transport sector in Burkina Faso, it is important to consider its land-locked country status and the resulting regional dimension implications on the corridor's performance. The trucking industry and the government should consider a corridor-based approach in reforming

the transit regime and regulations that govern the movement of goods with gateway countries. Transport policy reforms and protocols that govern the movement of vehicles, within countries and across borders (logistics services, to vehicle regulations, insurance, law enforcement, etc.), will create opportunities to ensure synergies for broader transport sector reforms. They will also offer a solid basis for harmonizing support mechanisms and programs in the transport sector within the wider region.

C. SKILLS

The lack of skills, both specialized and general, is a critical impediment to private sector development in Burkina Faso. The root of the problem is the unsuitability of curricula at every level of education. According to the World Bank's Human Capital Index, Burkina Faso is among the world's 10 worst-performing countries in terms of expected years of schooling. Despite significant expenditures in this area—at about 18 percent of total government expenditure or 4 percent of GDP (two-thirds of which go toward primary education)⁷³—educational outcomes are not satisfactory in Burkina Faso. In 2018, the mean years of schooling was only 6.5,⁷⁴ compared with 8.1 for Sub-Saharan Africa, while only 36 percent of the population is literate, dropping to 29 percent among the female population.⁷⁵ Pre-school coverage is only 3.5 percent of the eligible pre-school-aged children. Most pre-schools are run by the private sector, but they are expensive, so they only cover the urban privileged. Although primary schools cover 90 percent of eligible-aged children, the situation deteriorates in secondary schools, which only cover 40 percent of eligible children. In a country where half of the population is under 15 years old and the population grows by 3 percent annually, sustaining sufficient supply of primary education is daunting. Thus, the quality of education is relatively weak. Even among those children who do go to school, only half of the students who complete primary school acquire basic reading and math skills.⁷⁶ The poorest households have almost no access to secondary education and even less to tertiary education, while significant discrimination exists against girls, especially after the primary cycle.

Inadequate training of teachers, and a shortfall in secondary and tertiary institutions, further exacerbate these challenges.

Against this background, 85 percent of the adult population either have no schooling or have not completed primary education.⁷⁷ Thus, the skills needed by the private sector can often not be found, severely hurting competitiveness. Even for low-skilled employment, poor basic literacy is a critical impediment. For instance, mining companies are struggling to hire Burkinabè operators, as low literacy makes it challenging to provide them adequate security training. As such, about one-third of formal firms reported the lack of an educated work force as a major constraint to private sector operations.⁷⁸ This is a similarly acute constraint for informal firms, since 80 percent of their owners have never attended school.⁷⁹ Across sectors, the country is dependent on foreign solutions and technologies that it cannot fully harness because of limited skills. Specifically, engineering, technical and managerial skills are insufficient, while the current offering of vocational and technical training is extremely limited. Overall,

Burkina Faso suffers from a workforce with weak competencies, the absence of technical certification, and limited collaboration between skills providers and private companies. All in all, limited skills, including basic literacy, prevent the country from fully seizing the benefits of regional integration, mining, and ICT development. These shortcomings also hamper the development of agriculture and agribusiness, as skilled farm workers, technicians, and operators are scarce.

While insufficient skills are a challenge for private sector development, limited, niche private sector solutions may help alleviate this constraint.

Affordability and capacity issues currently prevent the private sector from playing a greater role in the provision of educational services. At the same time and under certain conditions, private sector solutions could help address Burkina Faso’s lack of technical skills. Contingent on the design of a fully articulated framework—encompassing adequate legislation to create a supportive enabling environment and subsequent broad-based curricula—PPP schemes could be developed to improve access and quality. Such solutions should pave the way to improving vocational and technical education in partnership with the firms currently operating in agribusiness, mining, and ICT. Such productive alliances could leverage on business development providers, community development programs, and other initiatives involving foreign companies and local suppliers. Going forward, leveraging ICT solutions through digital education platforms could further improve quality and affordable access to training services. ■

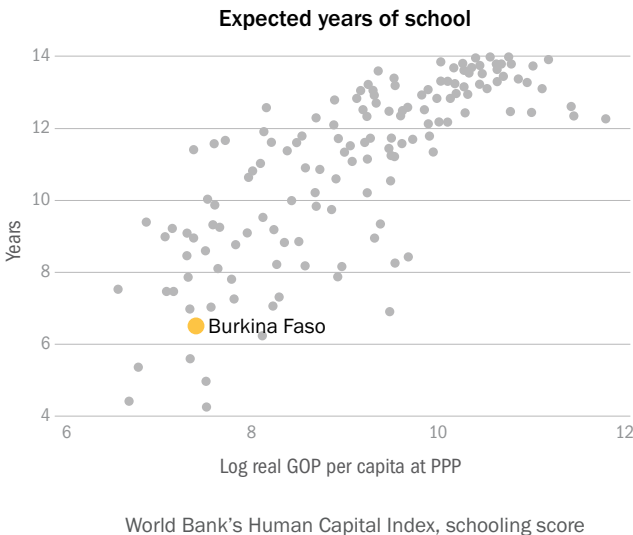


FIGURE 26: Burkina Faso is one of the world's worst performers for expected years of schooling

Source: World Bank HCI.

IV. Opportunities for the Private Sector

This section reviews the main opportunities for market creation in Burkina Faso. The key sectors identified are agriculture and food processing, alongside the catalytic sectors of ICT and mining value chains. Given Burkina Faso's central position in West Africa, such sectoral opportunities ought to be considered in a regional context.

The sectoral review based on quantitative analyses, international/regional comparisons, desk work, and discussions with sectoral experts in country and within the WBG, showcases that agriculture, food processing, ICT, and mining are the areas where increased private sector investment is likely to bring the highest development outcomes within five years in Burkina Faso.⁸⁰ The most obvious opportunities lie in agriculture, the transformation of basic agricultural products, mining value chains, and ICT. In short, in agriculture, Burkina Faso is already Africa's largest cotton producer and has significant untapped comparative advantage in some of the cereals, fruits and nuts, oilseeds, as well as livestock value chains. Meanwhile, in ICT and mining, Burkina Faso has recorded some of the world's fastest expansion rates over the past decade.⁸¹ Going forward, Burkina Faso should diversify its agriculture beyond cotton, while mining and ICT could help to catalyze these opportunities by further developing agriculture and alleviating critical enabling sector bottlenecks in the areas of energy, transport/logistics, and skills. Overall, given the small size of the Burkinabè economy, increased regional integration will be paramount in seizing these opportunities.

A. DIVERSIFYING AGRICULTURE BEYOND COTTON

Burkina Faso relies heavily on agriculture, which accounts for 34 percent of GDP, within which the crop sector accounts for 12 percent of GDP. In addition, agriculture accounts for about 60 percent of employment. The sector is dominated by subsistence production systems characterized by small farms, high

levels of home consumption of major food products such as cereals, low crop and livestock productivity, limited diversification, and limited participation of formal private businesses in agricultural and agro-pastoral value chains. Rain-fed cereals (maize, millet and sorghum) represent two-thirds of the area cultivated and constitute the main staple food crops. Although production has increased by 20 percent over the past decade, the country is self-sufficient in cereals only three years out of four, and food security is tenuous. Cotton is the main cash crop, with production close to 700,000 tons of seed cotton, and plays a critical role for producers, as growing cotton is the main way for farmers to gain access to fertilizers through contract farming arrangements with the cotton companies. At the same time, the sustainability of the cotton industry is at risk due to its dependency on international market prices, as well as its vulnerability to climate shocks and increasing soil erosion.

The key to harnessing additional economic benefits in agriculture lies in the country's ability to diversify out of the export of raw cotton into additional areas, some of which are already underway, such as sesame and mango. Hence, the primary strategy going forward in this sector will be to diversify the product offering, both at the cultivation stage, as well as through transforming and processing of basic agricultural products in-country.⁸² The largest shares of exports are for raw cotton, peanuts, cashews, maize, and moringa, among other products, with little processing. A greater percentage of value addition through transforming agricultural products would have obvious implications for increased job creation, year-round production and employment, the transfer of skills and technology, and more diversified markets.

Burkina Faso has substantial potential in cereals, especially rice and maize. Total rice production varies between 300,000 and 350,000 tons/year and has risen threefold over the past decade. However, Burkina Faso imports 400,000 tons of rice every year, which accounts for about half of its consumption needs. The commodity association CIR-B (*Comité Interprofessionnel du Riz du Burkina Faso*) for rice is one of the most active in the agriculture sector. In recent years, Burkina Faso produced on average 1.5 million tons of maize per year. In favorable years, it has enjoyed an excess of production, which has been exported through informal channels in the sub-region. Demand for processing into animal feed from maize should grow dramatically in the future.⁸³

Fruits and nuts also offer opportunities for diversification. Exports of fresh and dried mangos are both growing sub-sectors as a result of a favorable tropical climate and fertile soils in southwest Burkina Faso. These sub-sectors are attracting SMEs involved in processing. 12,000 million tons of fresh mangos were exported to Europe in 2016 (versus 1,154 MT in 2004⁸⁴), and exports of Burkinabè (mostly raw) nuts—cashew and peanuts—have increased, bought mainly by Indian and Vietnamese traders. The peanut value chain has good potential to create jobs across diverse markets and levels of sophistication of the businesses involved.⁸⁵ Burkina Faso’s exports of raw and processed shea nuts continue to grow, as does demand, mostly from Europe, and prices have more than doubled between 2014 and 2016.

Oilseed crops have the potential to increase Burkina Faso’s export potential. The production of sesame in Burkina Faso has undergone exponential growth over the past decade. The area cultivated rose from 90,000 ha in 2010 to more than 200,000 ha in 2015, with production reaching about 150,000 tons in recent years, more than 90 percent of which is exported with OLAM as the largest buyer. Also, it is particularly noteworthy that the marketing system for sesame and oilseeds is very competitive, and it is estimated that producers receive about 75 percent of the export value. However, they face the price volatility of these commodities that depend on several factors including global production.

Livestock is an important subsector for Burkina Faso, due to its contribution of 11 percent to the annual GDP, the volume of existing activity, and the untapped potential that it holds for the country. The national herd is estimated at about 9.1 million cattle (of which about 1.0 million are dairy cows), 23.2 million small ruminants, 33.7 million poultry and 2 million pigs.⁸⁶ Three main production systems of livestock farming that coexist are: (i) pastoral systems characterized by the mobility of animals (extensive systems of small ruminants and cattle); (ii) sedentary traditional production systems (under village conditions); and (iii) sedentary improved systems (under modern conditions, mainly peri-urban semi-intensive and intensive poultry, pig, dairy production, and cattle fattening).

In addition, there are significant opportunities for increasing processing for certain agricultural and livestock products. A World Bank study completed in March 2018⁸⁷ indicated that maize, rice, and mango value chains presented opportunities for processing industry development with a potential to generate CFAF 28 billion and create almost 50,000 jobs. Currently, there is relatively little processing of maize due to a lack of grading, poor cleaning, heterogeneous varieties, unpredictable volume to be collected and delivered, lack of storage capacity and high price volatility, to name a few.⁸⁸ Regarding livestock, the plethora of existing abattoirs points toward potential in the meat-processing industry. However, this has been hampered by a lack of quality abattoirs, “unfair” competition between formal and informal abattoirs, poor cold-storage facilities, poor logistics chains, and delays at the border.

TABLE 4: Potential for job creation for the three selected value chains

Value chain	Quantity processed (tons)	Jobs/ton processed	Total number of jobs
Maize	400,000	0.10	40,000
Rice	300,000	0.05	15,000
Dried mango	2,000	1.50	3,000
Total			48,000

Source: World Bank 2018.

Favorable market conditions will help expand production and exports for these selected value chains. First, there is high international and domestic demand for processed maize, rice, and mango. Second, Burkina Faso is already exporting to neighboring non-landlocked countries, which demonstrates existing demand for these products and potential even in neighboring, non-land-locked markets. Third, incomes are rising in the region. Fourth, there is the same growing demand for natural and organic products in the region as there is worldwide. Fifth, changing global climatic conditions could render Burkina Faso's agricultural production more competitive.⁸⁹

Burkina Faso's production patterns in these value chains, driven by existing demand, also make the country competitive. For example, production growth has been driven by the increasing demand from Asian countries for sesame oil and, to a lesser extent, demand from the Middle East and Europe for sesame seeds. This makes sesame an attractive crop for farmers and is more attractive than cotton for many.⁹⁰ This demand has sparked growing interest among farmers in the country, who have access to good cultivation techniques. Sesame presents multiple opportunities that are currently untapped and would be relatively easy to activate given its advantage of being grown throughout the country (except in the Sahel), its healthy attributes, and the popularity of sesame oil.

Despite these multiple opportunities, agribusiness in Burkina Faso is facing numerous constraints. In addition to the cross-cutting constraints that all sectors face in Burkina Faso, the main challenges for facing the expansion of commercial agriculture are fertilizer, seeds, and water.⁹¹ The Enabling the Business of Agriculture Report (EBA) assigns a score of less than 30 out of 100 for the seeds and fertilizers indicator, with the required systems for registering new seeds and fertilizers, quality control, and import and distribution not properly developed.

Burkina Faso's agriculture and agribusiness sectors suffer from weak value chains, which translate into poor integration between producers and more sophisticated agribusinesses and result in obstacles to growth for dynamic SMEs. SMEs are focused on serving growing domestic, regional, and international

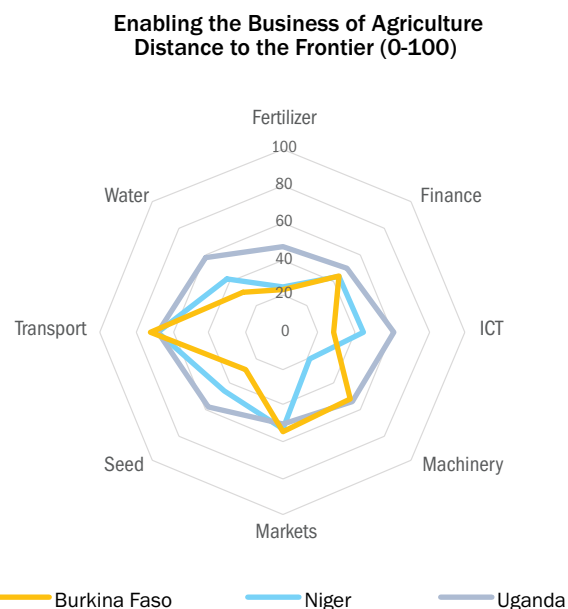


FIGURE 27: The rural investment climate is not conducive

Source: World Bank EBA 2017.

urban markets, but they have difficulty sourcing raw materials from Burkinabè producers. While production is growing for many commodities that are increasingly finding markets, the year-round availability of marketable surpluses at costs and quality that businesses require remains unpredictable, as is the case with maize.⁹²

The inability of SMEs in this sector to deliver is exacerbated by the absence of rural infrastructure. Since SMEs typically do not have their own cold-storage facilities, they must seek out and use the scarce cold-storage services of others, such as *Cooperatives Maraicheres et Agricole du Burkina* (UCOBAM). This facility was constructed by the government, primarily for green beans, but is now run by the users themselves. Unfortunately, the facility recently became non-functional, and at present there are few alternatives. However, this provides a prime opportunity for the private sector to step into the gap and create more cold-storage facilities on a commercial basis. Existing, state-run abattoirs can be improved and modernized, and new abattoirs can be established by the private sector. Also, processing agricultural products requires electric power for machinery, water for washing and

other processes, roads for accessing markets, and telecommunications for communicating with clients and suppliers.

Deficiencies in food safety and quality standard systems also hinder growth in this sector.⁹³ Transparent establishment, dissemination, and enforcement of food safety and quality standards are increasingly required by consumers and therefore by corporate buyers for processed food products, especially in European and American markets. This is a challenge for Burkina Faso producers. Maize processing, for instance, requires homogeneous products in terms of variety and size of grains (which the traditional marketing system cannot supply). They should also be free of stones and other impurities and kept at a standard humidity rate. The same applies to rice, cotton, and most oil seeds. In the absence of safety and quality standards, or in cases where these are poorly implemented, there are limitations on the country's marketing of its agricultural products.

Inability or long delays in obtaining land titles result in delayed decisions among the private sector to build or expand operations.⁹⁴ In recent years, the government has implemented land reforms that have led to the adoption of several new legal mechanisms. However, to date only a small proportion of Burkina Faso's land has been registered. According to estimates from the 2014 Household Survey, only 2.1 percent of the total land area used was officially registered.⁹⁵ Impediments to accessing and transferring land titles also hinder access to credit of farmers, as they cannot use the land as collateral.

Parallel to the opportunities in the agriculture/agribusiness sector, there are several threats and risks to the performance of the sector, primarily those stemming from climate change. The eastern and southwestern parts of the country, which generally have more favorable weather, are increasingly affected by high temperatures and pockets of drought. Irrigated agriculture in Burkina Faso is poorly developed, with less than 1 percent of agricultural land under irrigation.⁹⁶ This is in part due to the water scarcity and in part to a weak regulatory framework for water. Promotion of more sustainable, inclusive, and efficient governance of water resources thus calls for regulatory

reforms.⁹⁷ In addition, the reliance of irrigation systems on a sub-optimal electric power grid exacerbates the problem. Productivity and yields could be greatly increased by double cropping, but this requires improvements in electricity and water infrastructure. For the example of rice, paddies are often harvested before maturity when water is lacking toward the end of the harvest cycle, having an impact on quality.

If Burkina Faso is to take full advantage of current market opportunities and tackle the constraints hindering its economic growth, strong actions will be needed. The problems that inhibit business growth in Burkina Faso are so pervasive that most sector-specific policies may have only a marginal impact on enterprise performance. Transformative changes and improvements with regard to how the government intermediates the private sector and facilitates private sector activity will bring about broad improvements to the business environment, encourage investment, and create more competitive enterprises of all sizes. Improving infrastructure, improving inbound and outbound logistics performance, and creating a predictable environment for trade will decrease costs and investment risk, and thus improve firms' access to financing.

Reforming the investment and institutional framework is a top priority. Import/export procedures must be simplified, and mechanisms for contract enforcement and dispute resolution improved. For its part, the private sector must learn to advocate more effectively for its own interests, particularly through the Chamber of Commerce of Burkina Faso and professional organizations. Also, a concerted effort by private actors under umbrella organizations will streamline the messaging to government regarding the priority business climate reforms needed to re-energize the private sector. The government must also empower a single, specialized and capable agency to oversee the development of agribusinesses.

In the same vein, the government must work toward a definition of standards for processed food, as a priority of the newly-created Agency for Standards and Quality. Quality standards for raw materials should also be defined with the participation of the private businesses, commodity associations, and with

assistance from international experts. They will ensure the inclusion of references to the new quality standards in contracts between producers' organizations and processors or exporters and provide training in the new standards. The private sector must also have resources to get involved into the design of newly-established standards, ideally through a united front in leveraging the advocacy role of the Chamber of Commerce and Industry of Burkina Faso, and business associations.

Value chain integration will depend heavily on basic support infrastructure. Burkina Faso needs to upgrade existing cold-storage facilities, improve cold-storage and transportation services to existing clients, and provide incentives for new, private development of cold-storage facilities, either under a PPP or independently. The establishment of special economic zones and industrial parks as enclaves with superior infrastructure to provide processors with serviced land and specialized infrastructure for the agriculture sector will also be an important element of any infrastructure improvement strategy. Both public and private investment must increase for transport, telecommunications, power, water, and other infrastructure in both rural areas where agricultural cultivation is taking place and in urban areas where basic agricultural products are being transformed.

Burkina Faso should continue to expand the irrigation network in key agricultural areas of the country, and leverage development-partner assistance in expanding the network. The private sector must work with the Chamber of Commerce and Industry of Burkina Faso, industry associations, and development partners to set up the water user associations that will ensure sustainable and well-maintained irrigation networks. The government should adopt reforms to improve the regulatory framework for water. Priority irrigation canals to be constructed should be identified by using demand and comparative advantages in terms of production potential as primary criteria. The government should also include in master plans the entire infrastructure network that needs to be integrated into the plans, including electric power, roads, and telecommunications. Meanwhile, the government can also promote smart agriculture and implement environment-friendly agricultural practices, such as the adoption of climate smart agriculture,

including the development of crop varieties that are resistant to droughts, diversification of the cropping system (living fences, intercropping, adequate plant rotations), integrated pest management, adoption of conservation agriculture, which limits soil disturbance to a minimum, and maintenance of soil cover.

Skills must be developed across the sector's labor force. For Burkina Faso, it is critical to provide training to SMEs in the agriculture sector through extension agents, especially to family-owned businesses, in the areas of accounting and business planning. Skills can also target the transformation of basic agricultural products to impact the level of value addition in Burkina Faso. The government should also provide enhanced skills for organizing and operating agricultural cooperatives to generate the marketable surpluses that agricultural SMEs need in terms of cost, quantity, quality, timeliness, and conditioning.

Improving access to finance for SMEs operating in the agriculture and agribusiness sector is paramount. Strategic alliances between the government, large private sector operators, and financial institutions could develop: (i) new credit mechanisms for agribusinesses, such as guarantee funds and mechanisms for collateral on movable assets; and (ii) specific financing schemes targeting the acquisition of machinery to transform basic agricultural products to increase the level of processing.

To provide companies with improved access to information about accurate local weather forecasts, real time price information, market logistics, and other key factors impacting their businesses such as the level of digitization, especially in rural agriculture-producing areas, must be increased. This requires incorporating digital technologies into all activities along the agriculture value chains, which could lead to exponential growth in the sector. The potential for market creation and the transformative impact of ICT use in agriculture are high, and ICT-led market information systems typically have a positive effect on market efficiency. Such tools can be used to connect farmers to opportunities not necessarily available prior to the use of such tools. For example, mobile phone penetration in rural Burkina Faso has improved (74 percent) and could be better utilized as

a knowledge tool for agriculture extension services. In the case of Ghana, ICT tools are being leveraged to develop a national e-extension system through voice and data services to enhance technology transfer, advisory services, and better disseminate market price information to farmers. Mobile phones are being used in Uganda as a citizen feedback platform to capture the spread of infections, and to share disease treatment and control options with farmers. Low cost digital tools developed by eSoko in Rwanda and Ghana link farmers to wholesale markets and agribusinesses. The potential increases in revenues and productivity are sizeable.

Finally, the government can vastly increase the effectiveness of its interventions in agriculture and agri-business by partnering more closely with the private sector at each step of the process. At the very least, it can set up a formal public-private dialog platform that allows regular interactions and hard-wire private sector review. For example, this platform could ensure that the private sector has a chance to review and provide recommendations for the proposed laws and regulations that most affect them. It could also be used to identify opportunities for the private sector to contribute to public goods, such as climate change adaptation. In addition, this public-private dialog can be further enhanced by including private companies on public boards and steering committees.

B. LEVERAGING THE CATALYTIC SECTORS

ICT Applications

Opportunities to leverage information and communications technology (ICT) to stimulate private sector development and inclusive economic growth in Burkina Faso are equally promising and daunting. In Africa, ICT has been instrumental in modernizing and stimulating private sector and economic growth. Burkina Faso has begun to position itself as a country of dynamic and cutting-edge ideas, with persistent reforms aimed to further improve governance. Political will can be seen through Burkina Faso's institutions in the sector. The country has established an independent telecom operator, ARCEP, a ministry exclusively dedicated to the development of the digital

economy and, since 2014, an agency in charge of major ICT projects such as the G-Cloud and the open data initiatives. Nonetheless, Burkina Faso needs to strengthen its regulatory framework and endow its institutions with the necessary resources.⁹⁸ The country ranks 162 out of 176 in ITU's ICT Development Index,⁹⁹ and does not register on WEF's Networked Readiness Index, which measures the performance of economies in leveraging ICT to boost competitiveness, innovation, and well-being.

Digital infrastructure is still at an early stage of development, despite the telecom market benefiting from earlier liberalization of the sector. Because of its landlocked nature, Burkina Faso has had a history of very low and expensive access to international internet bandwidth, mainly through satellite links. Concerted efforts by the government and private sector to move beyond this include investments in fiber optic links between Burkina and five of its neighboring countries, Ghana, Mali, Niger, Togo, and Côte D'Ivoire. Thus, the diversification of routes through recent connectivity projects has led to a six-fold reduction in wholesale international connectivity prices, which has not yet translated into lower retail prices. In 2018, 1GB of mobile broadband cost 14.2 percent of GNI per capita in Burkina Faso, compared with less than 4 percent in all four comparator countries.¹⁰⁰ Quality indicators such as mobile download speeds also suggest that digital infrastructure in Burkina Faso remains limited. The government is complementing and strengthening the country's connectivity infrastructure with investments in a comprehensive National Backbone development program, which is expected to extend the fiber-optic network to connect all of its 45 provincial capitals and major urban centers. This includes completion of some 2,000 km of an estimated 5,440 km network in partnership with Huawei.

The field of internet providers is limited. The incumbent, Onatel, was privatized in 2006, with Maroc Telecom buying a 51 percent stake in the company and a further 20 percent of its shares being successfully introduced on the West African Stock Exchange in 2009. Competition among the three operators has resulted in impressive growth in mobile access, with penetration almost tripling from 36 SIM cards per 100 inhabitants to 95 between 2010 and

2018.¹⁰¹ Burkina Faso is expected to have the second-fastest growing subscriber base in ECOWAS, with a CAGR of 5 percent over the next eight years.¹⁰² Even so, with only three operators, the country does not have as robust a competitive playing field as other countries in the region. Designing an attractive licensing and auctioning system would help to bring fruitful competition into the market.

Burkina Faso has one of the most pervasive digital divides in Africa, with most voice and data services concentrated in its urban centers. Forty-five percent of the population uses basic mobile services, 18 percent uses mobile internet, and a mere 10.6 percent of household has internet access. The country’s telecom sector also suffers from major gaps in access, quality, and affordability of telecom services compared with regional leaders in Africa.

A challenging geography and demography, poor access to finance, scarcity of skills in the labor force, and competition and regulatory issues have impeded the development of digital infrastructure in Burkina Faso. Combined with poor or no access to electricity, Burkina Faso’s landlocked situation and largely rural population made it commercially unattractive to expand beyond the main cities and communities. Poor access to finance, including a lack of private

TABLE 5: Unique user data, Burkina Faso

	Percent of penetration, unique mobile internet subscribers	Percent of penetration, total unique subscribers	Percent of households with internet access
Burkina Faso	17.18	43.79	10.6

Source	GSMA Intelligence, 2018	GSMA Intelligence, 2018	ITU, 2016
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sector financing and poor financial management, has limited network expansion. While Burkina Faso has one of the largest Universal Access Funds in Africa, at US\$77.71 million in 2016—almost 44 percent of the 13 African countries surveyed¹⁰³—the fund remains largely inactive. Contributing to the above-mentioned factors, there is little commitment from the government on the governance and ownership of public fiber-optic assets, PPPs as options for managing, maintaining, and marketing publicly-funded fiber-optic networks, and compliance with the principles of non-discrimination,

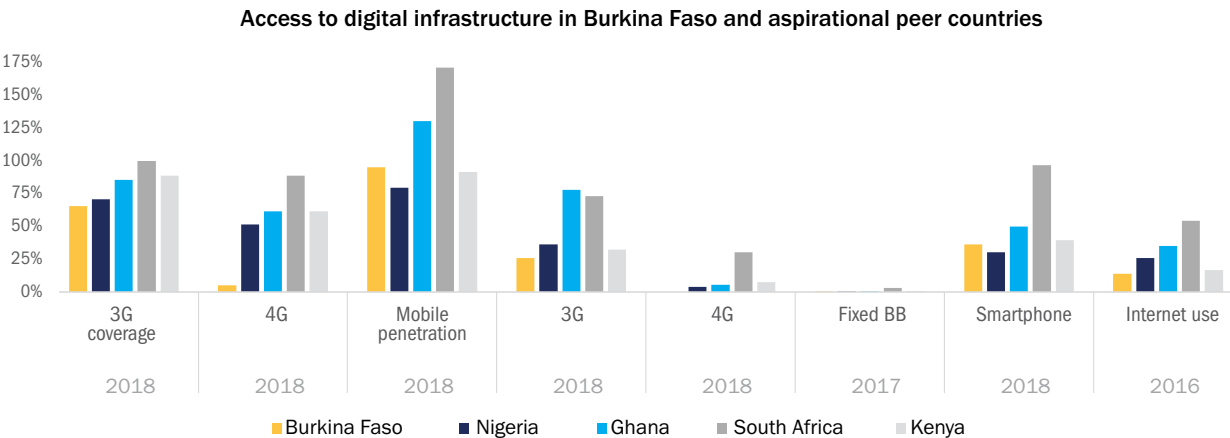


FIGURE 28: Access to digital services

Source: GSMA Intelligence 2018 and ITU 2017.

transparency, and network neutrality.

ICT is the worst-performing indicator in the comparative Enabling Business in Agriculture assessments for Burkina Faso, with a ranking of 59 out of 62. The indicator focuses on policies and institutions that influence access to ICT services, measuring essentially the legal requirements to operate as a mobile operator in the country. For instance, insufficient availability of spectrum and market concentration have limited competition in the market. Orange and Onatel served 44 and 40 percent of the mobile market, respectively, in Q3 2018.¹⁰⁴ While the government planned to offer an additional license for fixed and mobile services in 2013, the initiative was canceled due to lack of interest.

Moving forward, leveraging the ICT applications will have a catalytic effect on the development of high potential agriculture value chains and growth of the overall economy. Burkina Faso has an energetic but fragmented IT sector, mostly comprising small non-specialized companies, and driven by public demand. Very little formal information exists on the market features, the level of competition, and the trade in IT-related services. IT businesses seem to mostly provide off-the-shelf IT solutions to government agencies, NGOs, development partners, local banks and telecom operators, largely through tenders. Burkina Faso, with its large pool of young graduates and its central position, could become a hub for outsourcing work for French-speaking countries. A handful of very dynamic incubators and tech hubs, such as Ouagalab and Beeogolabs, are emerging, potentially nurturing innovative and globally competitive start-ups in the development of applications, prototyping, and marketing. Supporting the development of the IT sector is key for Burkina Faso's economy, as the performance of high potential sectors could substantially improve through the digital economy.

Applications of digital technologies in agriculture could have a tremendous impact on the Burkinabè economy, given the importance of the sector, by improving efficiency, productivity, and transparency. An example, inspired by the World Bank-funded e-wallet project in Nigeria, is to digitize agricultural payments to farmers, including subsidies for fertilizers

and seeds. In addition to reaching out to an increased proportion of farmers (from 11 to 92 percent in the Nigerian case), such a program generates revenues for mobile operators. Access to real-time market and weather information has also shown that the use of mobile platforms in Ghana allowed smallholder farmers to improve their revenues by 9 percent.¹⁰⁵ Given the increasing penetration of mobile phones in rural areas and the limited use of ICT in its agriculture, Burkina Faso has expressed interest in replicating successful projects as part of the West Africa Agricultural Productivity Program. The provision of e-extension services as in Ghana and real-time market and weather information as in Senegal, have the potential to boost the use of innovative technologies and to extend agriculture to large areas of uncultivated land. Strategic partnerships with the private sector are key success factors for this. At the regional level, Burkina Faso can participate more proactively in Grow Africa, the NEPAD-WEF initiative, by identifying PPP opportunities to lower potential risk associated with investing in agriculture and working closely with the 19 companies that have already signed letters of intent for US\$64 million in Burkina Faso. While the ICT industry in Burkina Faso faces some unique challenges, such as those mentioned above, and replicating models from other countries may therefore not yield the same results, some of these innovative initiatives could, nonetheless, contribute to modernization of the agriculture sector in Burkina Faso.

Mobile money platforms provide a great opportunity for generating new businesses, as well as improving financial inclusion in Burkina Faso. While the number of e-money accounts tripled between 2013 and 2016, and mobile money transactions increased by 142 percent in 2015 in the WAEMU, mobile banking remains underdeveloped in the region compared with East Africa. Account ownership, including through mobile banking, was still limited to 43 percent of the population in 2017 in Burkina Faso, compared with 58 percent in Ghana, 69 percent in South Africa and 82 percent in Kenya.¹⁰⁶ The operations of Orange Money, the main mobile banking operator in Burkina Faso, have recently taken off as its revenue increased by 60 percent in 2016. Recent partnerships with SONABEL for the pre-payment of electricity and with the Ministry

of Health for wage payments, are expected to boost the use of mobile money. While Burkina Faso faces unique challenges, the potential for development is promising. Mobile money enabled 200,000 female-headed households to leave farming and start businesses in Kenya, and generated over 75,000 agents' jobs in Ghana according to telecom operator MTN.

E-learning has strong potential to improve inclusion and workforce development in Burkina Faso, where 1 million children lack access to education and the agriculture sector employs 80 percent of the workforce.¹⁰⁷ There is a strong political push to integrate ICT into education, starting with the adoption of an Education Sector Plan (2012-21) to reform the system. In 2018, the government signed a multi-year agreement with SES Networks and an MoU with 15 education unions to better leverage ICT tools, following an assessment of the framework to better integrate these tools in basic education.^{108,109} Besides the lack of digital infrastructure, the main constraints to scale e-learning are the lack of resources, both human and financial. Potential interventions include training on the use of technologies, physical infrastructure for schools, data centers and computer labs, and software infrastructure such as an education management information system and e-learning material. Solutions for access to quality courses, such as the Ghanaian SMS-based technology, Chalkboard, along with putting in place the right incentives, have the potential to improve educational performance in a resource-constrained environment such as Burkina Faso.

ICT solutions can help transform Burkina Faso's health-care system by increasing access and quality to health services. Mobile solutions, known as mHealth, to diagnose patients and promote good health practice and behavior in marginalized communities can be powerful.¹¹⁰ Digital tools also allow to efficiently capture, store, and use large amounts of accurate data, allowing for better intervention design, enhanced quality of services, and increased time dedicated by staff to patient care. For instance, Afritek IT is introducing its solar-powered connected containers, used for basic clinical services and medical e-records, to Burkina Faso.¹¹¹ To capture the full potential of ICT-based tools, policies, and processes must systematically integrate these tools.

Leveraging digital technologies to improve government efficiency and extend the reach of services in Burkina Faso has an enormous and well-documented potential.

In 2018, Burkina Faso ranked 165 out of 193 in the UN e-Government Development Index, while South Africa, Ghana, Kenya and Nigeria ranked 68, 101, 122 and 143, respectively. Resistance of the government cadre to modernizing systems, a lack of training and capacity building, and slow internet services seem to be behind this lag behind other countries. The automation of processes and systems can directly improve the government's operation, such as in revenue collection, procurement, digital identification and business registration, together with improving the quality of public services directly. A comprehensive digitalization of, and open access to, public sector records can also provide valuable data for local content developers and act as a catalyst for growth of digital services.

The lack of digital infrastructure, and poor access to finance, and skills are the most significant obstacles for Burkina Faso to position itself in the market for ICT services and applications. Burkina Faso ranked 175 out of 176 on the skills component of the ITU's ICT Development index in 2017. The World Economic Forum's Human Capital Index finds that Burkina Faso currently only captures 52 percent of its full human capital potential, compared with a global average of 65 percent. Burkina Faso comes out the lowest—1 percent vs. regional and global averages of 6 and 24 percent, respectively—on the availability of high-skilled employment. The country also lacks a strong entrepreneurial culture that has been instrumental for ICT development in peer countries and little information on the sector is available to support policy design. A handful of universities are leading the efforts to develop the requisite skills for a digital economy. 2iE, for example, has become a Center of Excellence. But by and large human resources remain a primary constraint to a viable ICT services sector. The limited number of viable projects has resulted in the government's CFAF 10 billion start-up fund, "Burkina Start-up", remaining largely unspent.

Burkina Faso should consolidate most of the publicly-funded connectivity projects and attract more private financing to the telecom sector. For instance, awarding additional 4G licenses would make the

sector more attractive and could dramatically improve the availability of quality of broadband services. PPPs could also help to bridge the connectivity gap, including by accelerating the deployment of complementary technologies to the fixed network to reach rural areas. Several opportunities exist for the government to partner with the private sector. For a greater impact on ICT interconnectivity at the regional level, additional support could stem from the ongoing development of the National Backbone. Partnering with operators to address the connectivity gap also represents an opportunity, as both Onatel and Orange have modernization and expansion plans for their fiber-optic networks.

Providing the necessary platforms is necessary for the expansion of the digital economy into various sectors, and fostering domestic and international trade links of local MSMEs and large enterprises. First of all, Burkina Faso needs to perform a detailed assessment of the structure, strengths, and weaknesses of its ICT sector, including a benchmark with potential competitors globally. This will enable the country to assess its own readiness to compete, and to understand the reasons behind the limited performance of the sector and the limited use of the Burkina Start-up funding. The government is also keen to have a platform for coordinating IT services and has encouraged IT businesses to set up a platform called the *Federation de Numerique de Burkina Faso*. In addition, Burkina Faso needs a concrete skills strategy to ensure that the basic foundations are in place, and that citizens have the requisite skills, knowledge, and resources to use digital technologies to improve their lives and livelihoods.

Mining Value Chains

With an estimated annual production of almost 50 tons, Burkina Faso is the fourth-largest producer of gold in Africa. While development of the mining sector only started in 2008, its growth has been nothing short of spectacular, as gold became Burkina Faso's leading export item and major source of government revenue as early as 2009. This was achieved thanks to the adoption of a new mining code in 2015, which created a favorable enabling business environment for mining companies, including a relatively low mining corporate

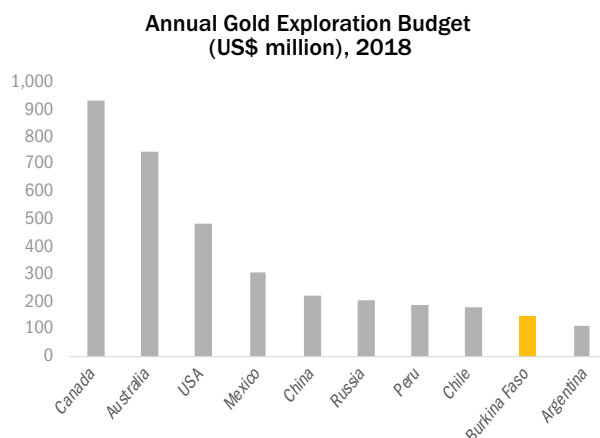


FIGURE 29: Burkina Faso is among the world's top 10 countries for ongoing gold exploration

Source: S&P Global Market Intelligence.

tax rate (25 percent) and VAT exemptions for imports of capital goods. This reform aimed to increase mining revenues, while supporting investment and access to basic social services for local communities.¹¹² In addition, tax exemptions on imports of hydrocarbons and other products imported into the mining sector have the advantage of reducing the cost of subsidies. The new code also helped to address security issues through the strengthening of the National Office for Securing Mining Sites. In addition, Burkina Faso has launched the modernization of its mining cadaster with the support of the World Bank, including the installation of a new computerized system. Overall, despite shortcomings in collection, transparency, and visibility this has yielded a significant increase in tax revenues to reach about US\$400 million, as mining corporate income tax increased by 150 percent between 2015 and 2017, while mining royalties increased by 15 percent during the same period.¹¹³ However, it is still too early to assess the effect of community investment projects. Going forward, a thorough assessment of the projects undertaken through the community development fund would help to determine how mining value chains can further contribute to Burkina Faso's development.

Gold currently accounts for about 10 percent of Burkina Faso's GDP, but the subsector largely operates as an enclave. About 10,000 direct jobs have been created in the past decade in and around major mining projects (roughly 0.2 percent of the total labor force), facilitating the creation of about 30,000 indirect jobs (0.6 percent of the total labor force), which have a direct positive impact on the welfare of about 100,000 people (0.5 percent of the total population).¹¹⁴ Overall, the major FDI-funded mining projects have so far had only a limited impact on employment and welfare in Burkina Faso. However, mirroring the formidable expansion of gold mining production, artisanal mining has taken on greater importance in recent years, and based on current estimates close to 1 million people are involved in this burgeoning industry. While this provides a livelihood for about 5 percent of the Burkinabè population, artisanal mining entails severe issues pertaining to child labor, violence against women, soil degradation, and environmental hazards. Beyond high socioeconomic costs, this is also deterring FDI into the sector, as artisanal miners tend to work on sites conceded to private companies, constituting a significant safety liability—including because of hazardous working conditions and the introduction of arsenic into ground water—for private sector companies.

Despite security risks, ongoing exploration activities by global mining companies in Burkina Faso suggest that the sector could further expand at a similar pace or higher in the coming years. Endowed with a rich geology, the country currently ranks ninth globally and first in Africa in terms of gold exploration budgets. Interestingly, despite the negative impact of heightened security risks on mining operations,¹¹⁵ global mining interests continue to invest consistently high R&D budgets in Burkina Faso. Thus, over 20 percent of total gold exploration budgets into Africa were channeled toward Burkina Faso in 2018. Overall, this raises expectations that new projects will be developed over the medium term. Apart from gold mines in operation or under construction, there are also ores in many other unexploited sites containing manganese, zinc, copper, limestone, phosphate and bauxite.

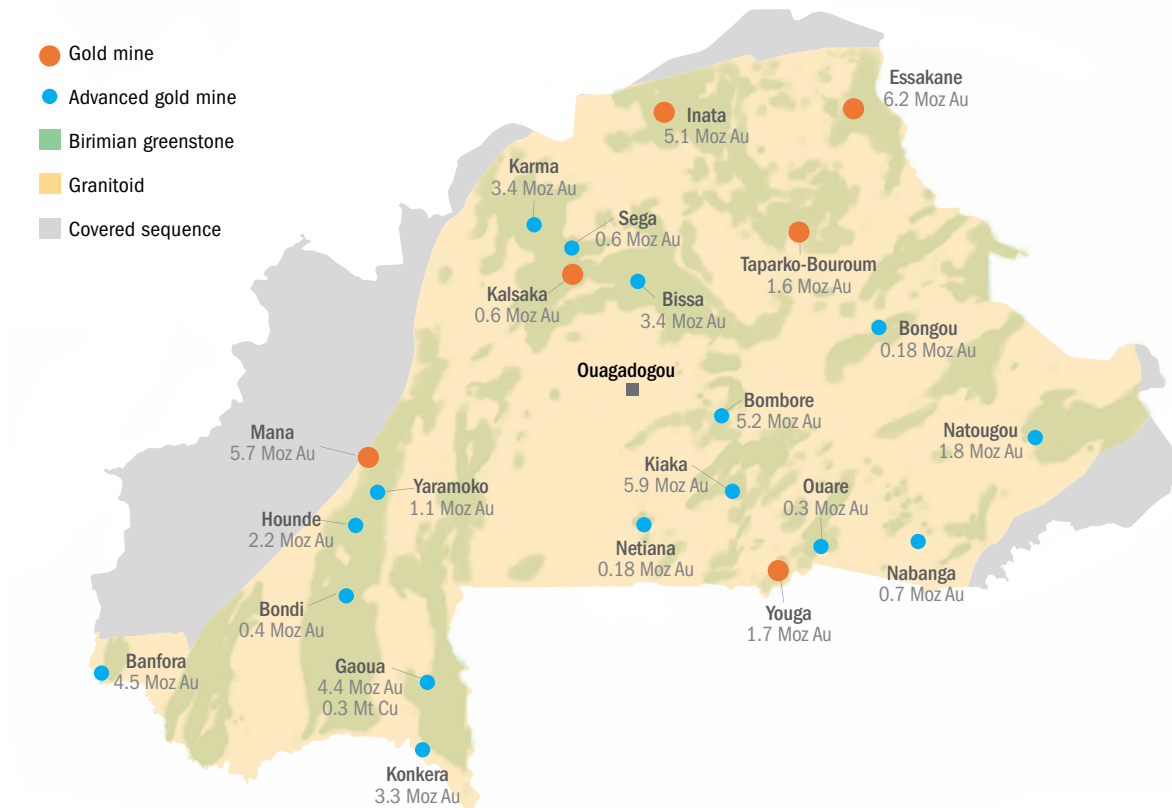
While it can create a natural resource curse, emerging evidence suggests that, through market channels,

gold mining can bring substantial economic benefits. In their comprehensive literature review, Aragona, Chuhan-Pole and Land (2015) highlight the positive spillovers mining value chains can sustain. Large mining projects need not operate as an enclave if backward linkages to other sectors are substantial. Beyond increased fiscal revenues—which appear to be more effective when they are centralized with significant transfers to local governments—economic benefits from mining projects can arise, under certain conditions, from market-based mechanisms. These have the potential to stimulate employment, investment, and incomes, as well as local spillovers. Specifically, in Brazil and Peru, mining operations and closures have had positive effects on employment, household incomes, and access to services. With respect to Sub-Saharan Africa, case studies from Ghana, Mali, and Tanzania show that mining development has stimulated employment—including skilled and agricultural employment—beyond the scope of mining projects themselves. In a follow up report, Chuhan-Pole, Dabalen, and Land (2017) outline the main conditions under which mining can contribute to economic development, especially at the local level. It appears that market channels are key to sustaining the economic benefits of mining development. First, this helps attract responsible private investment that can create the foundations for local economic development. Second, it can specifically prop up sustainable job creation through investments in infrastructure development, and the sourcing of goods and services locally.

Against this background, more could be done to leverage the impact of mining value chains on Burkina Faso's economic development. Beyond local community development, and given their large and rising scale, mining value chains could serve as a catalyst to alleviate Burkina Faso's infrastructure challenges, through shared infrastructure to develop its food systems, and through buyer-supplier linkages and/or anchor financing schemes.

With respect to infrastructure, large mining operations offer an opportunity to develop (shared) power and transport infrastructure that would be otherwise be difficult to finance through strategic partnerships and shared infrastructure agreements. In transport and

MAP 1: Burkina Faso has a promising geology and mining is expanding rapidly



Burkina Faso's geology and active gold-mining sites

Source: *Burkina e-mine*.

logistics, opportunities are limited because gold is exported by air. However, strategic alliances between the government and mining companies could help revamp air transport within Burkina Faso, especially within the context of the ongoing rehabilitation of secondary airports and the restructuring of Air Burkina. Such opportunities are far greater in the power sector. While only three mines are currently connected to the national grid, they nonetheless consume over one-third of Burkina Faso's total energy. In addition, because the electricity network does not cover the entire territory and dispatch is unreliable, all the mines currently operating in Burkina Faso have their own generation capacities. The total captive power generation capacity of the active mines is equivalent to 250 MW, marginally less than the total installed capacity of SONABEL. Because gold-

mining operations last, on average, 10 to 15 years, developing the mining energy infrastructure through shared infrastructure agreements between SONABEL, the mining companies, and IPPs offers a tremendous opportunity to expand electrification and generation capacities at the same time. It would lower capital costs for power infrastructure, while also providing a solvent offtake to SONABEL, thus helping to improve its credit-worthiness, and its capacity to invest in new transmission and generation capacities. Furthermore, this would help to improve the energy mix, develop solar energy, and reduce mines operating expenditures. Most mines rely on HFO, while improved technology and storage solutions now allow for the scaling-up of Solar PV for mining operations provided that there is sufficient baseload.¹¹⁶

In the same vein, mining could be an opportunity to improve the performance of Burkina Faso's high potential agriculture value chains. Mining companies spend on average US\$200 to feed each of their 10,000 employees every month. However, only 20 percent of the food is procured locally. Increasing the local procurement of food by mining companies would require proactive targeted interventions to strengthen Burkinabè value chains. Such approaches should entail developing specific buyer-supplier linkages and anchor financing schemes to stimulate the offtake by (multinational) mining companies. Beyond procuring to mines, this could help raise the quality, reliability, and competitiveness of Burkina Faso's food systems. Using mines as an anchor will help structure Burkina Faso's food systems by improving food-safety, as well as raising standards and certifications. This would improve the quality of domestic supply and could help Burkina Faso become competitive abroad. Meanwhile, mining companies' community development programs could be leveraged to develop the critical capacities—mostly related to skills, access to finance, and infrastructure—needed in the areas where Burkina Faso has a comparative advantage, such as horticulture, as well as livestock and animal proteins.

Harnessing such catalytic opportunities requires setting up the appropriate incentives and building strategic alliances. In addition to addressing the governance, transparency, fiscal, and environmental and social issues inherent to the mining sector, Burkina Faso should proactively design interventions to leverage mines for its own development. This means further support to the provision of energy by IPPs linked to mines, as well as subsequently including mines in the country's least-cost development plan. In parallel, a framework for shared infrastructure should be set up to streamline project execution and timeliness. Proper implementation of the incentives guaranteed by the framework is paramount, and incentives should be clearly communicated, easily accessible, and automatic. This is particularly important given the past difficulties and lengthy delays that mining companies have reported in being reimbursed for their VAT payments—an incentive offered under the current mining code.

Promoting such solutions hinges on the design of an adequate legal and financing structure, one that

takes into account the issues related to the limited life expectancy of mines (10 to 15 years) and integration to the national grid. While on one hand, developing additional power generation capacities under a tripartite agreement between mining companies, IPPs, and SONABEL could help maximize SONABEL's electrification and financial sustainability objectives, on the other hand, SONABEL's transactional, planning, and execution shortcomings might severely delay the process and weigh down the project's financial viability. Another solution would be to first structure such projects directly between the mining company and the IPP, and then consider, at a later stage, a retrocession agreement to SONABEL, once mining operations have ended. Power solutions for mining companies can help develop and scale up mini-grids throughout the country. With respect to agriculture, buyer-supplier, and/or anchor financing schemes should be designed, similar to those already seen in other West African countries, such as Côte d'Ivoire and Ghana. Such mechanisms would support the offtake of locally-produced food by (multinational) mining companies and could potentially involve selected financial institutions, so as to improve access to finance and equipment for local producers. This could be done in partnership with Burkina Faso's mining suppliers' alliance, *Alliance des Fournisseurs Burkinabe de Biens et Services Miniers*, a unique structure in Africa that aims to strengthen local supply to mining companies. This should also entail the development of certifications, standards and related infrastructure, and skills. All this could be harnessed through the Burkinabè growth poles under preparation. At the same time, a local content platform focusing on agriculture could be established for the various mining areas to help develop agribusiness-focused community investment plans catering to the needs of mining companies.

C. TAPPING INTO REGIONAL OPPORTUNITIES

Burkina Faso is a member of regional trading blocks. It is a founding member of the West African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS). Since

their creation, respectively, in May 1975 and January 1994, ECOWAS and UEMOA have been facing challenges to reinforce integration. In ECOWAS, Burkina Faso is ranked among the mid-performing countries in terms of regional integration. Burkina Faso's overall score is 0.53 close to the average country score (0.5) on a scale of 0 to 1.

In landlocked countries with limited natural resources, such as Burkina Faso, stronger regional integration can provide enhanced opportunities for the private sector. Regional economic integration typically allows for economies of scale and streamlined production processes, increasing companies' competitiveness in global markets. In addition, the harmonization of rules and processes, the free movement of goods, people and capital, and the elimination of customs barriers, help to create a more attractive business climate for the private sector.

Several initiatives are underway in Africa. In March 2018, over 40 African States signed the African Continental Free Trade Area (AfCFTA) agreement and development partners reaffirmed their commitment

to a more integrated Africa. In addition, countries are strengthening their bilateral and multilateral cooperation. In May 2018, Burkina Faso launched a special economic zone with neighboring countries Côte d'Ivoire and Mali and consolidated its relations with Côte d'Ivoire through a new cooperation treaty.

Among other regional integration initiatives, WAEMU has merged local securities markets of the eight members of the zone, including Burkina Faso, into one regional market regulated and supervised by a common regional authority. The securities markets of the WAEMU are being regulated and supervised at the regional level by the CREPMF (*Conseil Régional de l'Épargne Publique et des Marchés Financiers*). It is at this level that the rules are set for Burkina Faso's equity and debt issuers to participate in the securities markets. In addition, the WAEMU has merged local securities markets of the eight members of the zone, including Burkina Faso, into one regional market, *Bourse Régionale des Valeurs Mobilières* (BRVM), regulated and supervised by the CREPMF. A unified auction system to issue treasury bills conducted by the Regional

Ranking of ECOWAS countries according to the index of regional integration in Africa in 2016

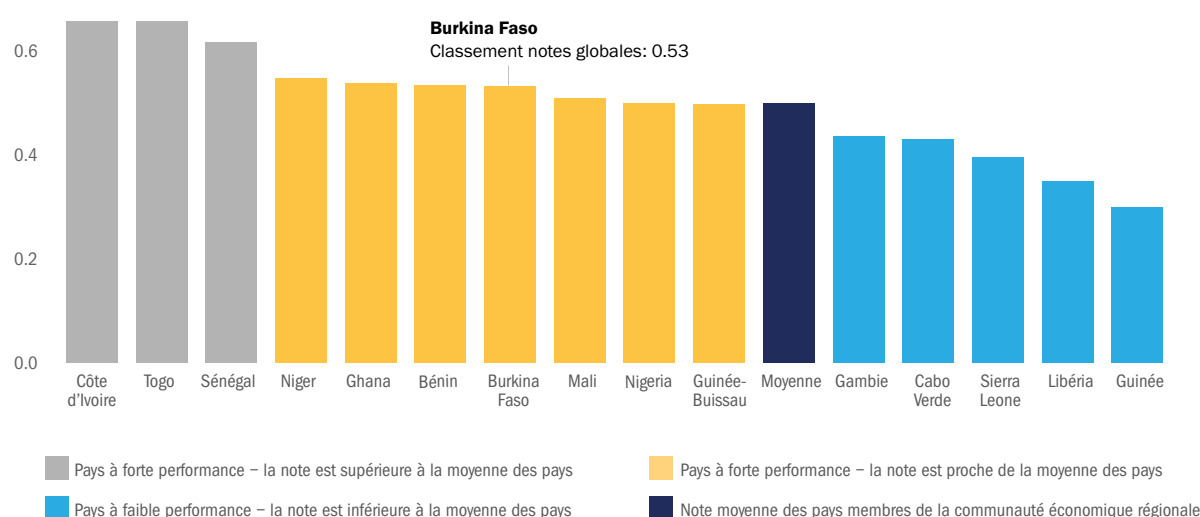


FIGURE 30: Regional integration in ECOWAS – Burkina Faso is in the middle of the pack

Source: <https://www.integrate-africa.org/fr/classement/communautes-economiques-regionales/cedeaol> consulted on September 19, 2018.

Central Bank (*Banque Centrale des États de l'Afrique de l'Ouest*, BCEAO) was introduced in 2001.

Despite these laudable initiatives, capital market activities have grown in a limited way. Aside from the sovereign bond markets that steadily increased on the back of higher debt-to-GDP ratios across the region, equity and private bonds have remained in their infancy. Market capitalization stood at US\$11.7 billion in 2017. Only a few companies have been able to list (45 by mid-2018 vs 38 in 2013). Of those listed companies, three-quarters are from Côte d'Ivoire and accounted for about 80 percent of total market capitalization in 2017. Liquidity has been thin and the index (BRVM10) has been underperforming, losing 17 percent between 2014 and mid-2018. The non-sovereign bond market is even smaller (US\$440 million by mid-2018) and dominated by two issuers, WAEMU's mortgage refinancing company (*Caisse Régionale de Refinancement Hypothécaire*, CRRH) and WAEMU's development bank (*Banque Ouest Africaine de Développement*, BOAD). This narrow bond market reflects: (i) the relatively high sovereign interest rates; and (ii) the absence of reliable yield curves, an issue that tends to be aggravated by the existence of a second regional sovereign bonds issuance system (hosted by the BRVM).

Within the WAEMU common currency area, Burkina Faso's exports have been highly volatile and less robust over the years. For instance, annual growth of merchandise exports reached just about 4.4 percent in 2017, from a high of 76.7 percent in 2010. The country demonstrates a heavy reliance on just a few goods, especially primary commodities that are highly vulnerable to external shocks such as price fluctuations.

Another way of looking at the country's external performance is through the concentration of export products and/or markets. Seen through that lens, the Hirschman-Herfindahl index of the country's export products has been consistently above 0.5 over the years, even reaching 0.75 in 2015. This in turn reveals that the country relies on only a few export products. Earlier analysis indicates that Burkina Faso's exports are dominated by three products (gold, cotton and oil seeds), accounting for more than 92 percent of total exports in 2012. In addition, compared with

benchmarked countries such as Mali, Mauritania, Senegal, Benin, Sierra Leone, and Côte d'Ivoire, Burkina Faso has the highest product concentration, followed by Mauritania.¹⁷⁷

Despite its membership in these regional organizations, Burkina Faso's exports are mostly oriented outside the Sub-Saharan region. Most of the country's exports go to Europe, notably to Switzerland, which is the main destination for gold exports, although Europe's share as a destination for Burkina Faso's exports is falling (57 percent in 2015, compared with 71 percent in 2009). In contrast to the country's export links with Europe, the share of goods exported to Asia has grown over the same period, reaching 25 percent in 2015 compared with 13 percent in 2009. Over the same period, however, the share of goods exported to the rest of Africa barely changed from 15 percent in 2009 to 16 percent in 2015. Finally, the share of Burkina Faso's total exports to ECOWAS decreased over the period from 2009 (13 percent) and 2015 (12 percent).

Of note, as a least-developed country, Burkina Faso enjoys preferential access to more developed countries' markets through non-reciprocal preferences accorded, among others, by the European Union under the "Everything but Arms" initiative, the United States under the African Growth and Opportunity Act (AGOA), and under the Generalized System of Preferences (GSP) of other countries. Most importantly, the country has also relaunched its economic cooperation with China. Burkina Faso's economic cooperation with developed and emerging economies, especially with China, is an important pathway for the country's development. First, it offers opportunities for the country's private sector development (in terms of economic spin-offs). Second, it is vital to consolidate and strengthen Burkina Faso's regional integration (through the financing of infrastructure projects such as roads, motorway, railways, dams, and other related projects). Moreover, deepening economic exchanges with China is a commercial partnership that will lead to an increase in trade flows and, in turn, an increase in private investment. In sum, as is well established in the trade literature, if expanding international trade is an important pathway for growth, then export diversification (products and/or markets) is an essential channel through which trade fuels economic growth by

facilitating improvements in productivity, by capturing economies of scales, and by curbing volatility.”¹⁸

Several constraints could prevent the Burkinabè private sector from benefiting from the integration process.

At the national level, businesses need to navigate an unfavorable legislative and regulatory framework, together with fraud and corruption. Lack of access to infrastructure and other enabling resources, such as financial services, adequate professional skills, and equipment, remains a major constraint. At the sub-regional level, procedures and regulations remain burdensome, as Burkina Faso belongs to several organizations, investment codes are not harmonized, and community texts are not consistently applied. Partner countries also face technical challenges for the interconnection of customs IT systems. Access to good infrastructure remains an issue at this level, as the rail network is under-exploited, road quality is insufficient, and there is no mechanism to guarantee a regular supply of energy to countries in deficit.

Thus, to maximize the economic benefits of enhanced regional economic integration, Burkina Faso should undertake key policy actions.

As a priority, trade regimes need to be improved, as poor customs and numerous road blocks are severely constraining border crossings outside of Burkina Faso. The country should perform a review of regional agreements and national legislation toward improving its alignment and adapting directives, norms, and clauses to the national context. Technical administrative entities and an evaluation committee should be set up to ensure and monitor the implementation of the signed provisions and agreements. A key follow-up activity will be to disseminate the revised content of the texts to private stakeholders through information and awareness campaigns. Developing regional infrastructure will be paramount to supporting regional integration, especially within the joint special economic zones recently established with Côte d’Ivoire and Mali. Specifically, in terms of transport, a new highway should be built to connect major business hubs in the region, while existing roads should be better maintained. In energy, the priority should be to complete the interconnections under preparation. With regard to digital infrastructure, Burkina Faso and its partner countries should finalize the

interconnection of their IT systems and acquire satellite technology to resolve connectivity issues in the near term. These projects will require strong commitment from Burkina Faso’s political authorities, regional integration organizations, parties to the agreements, and development partners. In addition, complementary reforms at the national level to improve the business environment, access to finance, and skills will be indispensable to harnessing this potential. ■

V. Priority Private Sector Focused Recommendations

If adequately harnessed, the private sector will have significant opportunities to contribute toward sustainable job creation in Burkina Faso. The country has a comparative advantage in select agriculture value chains, such as some cereals, fruits and nuts, oilseed crops, and livestock that would allow diversification beyond cotton. While climatic risks need to be managed, such opportunities in the tradeable sectors appear more sustainable than in the non-tradeable sectors. Meanwhile, ICT applications and mining value chains can help to improve the performance of these agriculture value chains as catalytic sectors. This can be done both directly—by improving agriculture and food-processing production processes—and indirectly—by enhancing the performance of the critical enabling sectors, such as power, transport, and skills, which are binding constraints to the development of these value chains. Furthermore,

fostering regional integration and tapping into regional trade and investment opportunities, especially within the WAEMU common currency area, will help further grow the Burkinabè private sector.

Therefore, growing the Burkinabè private sector and harnessing private sector solutions to bolster economic resilience require a prioritized and sequenced approach. This can be achieved through four complementary pathways: (i) alleviating critical enabling sector bottlenecks, including through private sector solutions; (ii) diversifying agriculture beyond cotton with the value chains that can have comparative advantage; (iii) leveraging the catalytic sectors, namely mining and ICT, to stimulate agriculture and develop the critical enabling sectors; and (iv) tapping into regional opportunities to fully seize the benefits of regional integration.

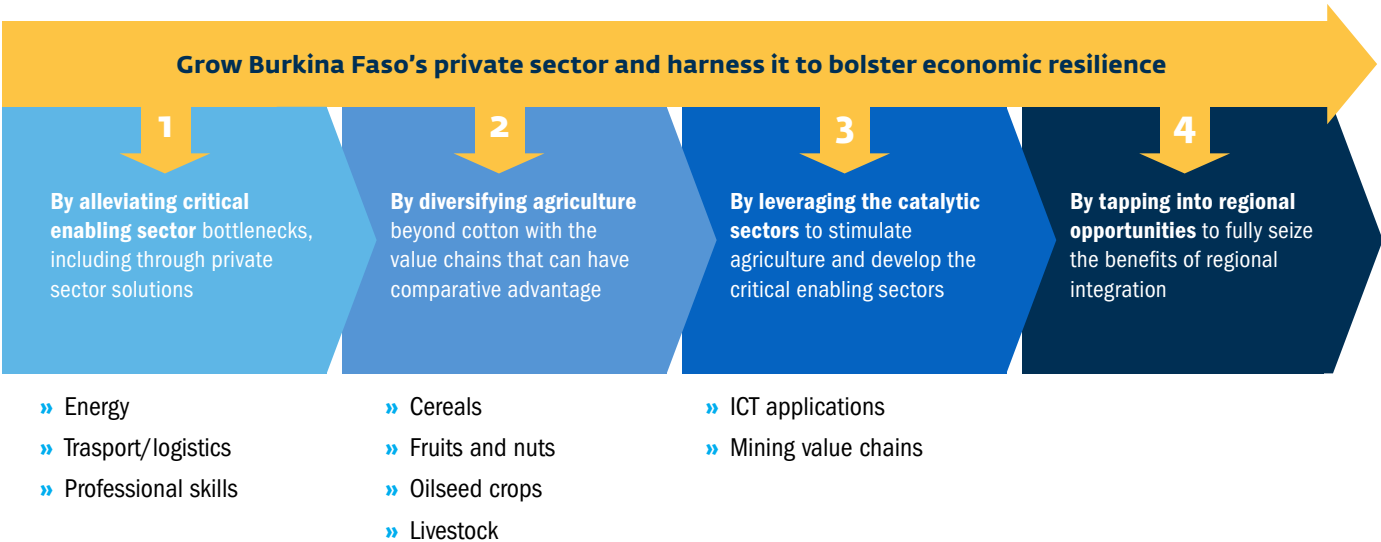


FIGURE 31: Complementary sequenced pathways to grow the Burkinabè private sector and harness private sector solutions

Source: CPSD team.

This sequenced approach should be undertaken through economy-wide and sector-specific actions summarized in the recommendations table below. Recommendations along these four pathways aim to address sector-specific constraints to fully harness private sector solutions for Burkina Faso’s development. They should also be accompanied by a broader set of economy-wide, cross-cutting reforms that would improve the investment climate, access to finance, and private sector-facing government capacities.

Overall and across sectors, similar impediments are hampering private investment in Burkina Faso. Severe energy, transport, and skills bottlenecks undermine competitiveness and erode firms’ profitability, while inefficient and opaque government regulations deter private investors. While the symptoms might be similar, solutions may well differ at the sectoral level. With this in mind, these priority private sector-focused recommendations aim to sequentially activate different levers for action—both at the level of the enabling environment and underlying infrastructure—so as to maximize private sector opportunities in Burkina Faso. ■

TABLE 6: Recommendations

FOUNDATION: CROSS-CUTTING REFORMS

AREA/ CONSTRAINT	PRIORITY PRIVATE SECTOR-FOCUSED RECOMMENDATIONS
INVESTMENT CLIMATE	<ol style="list-style-type: none"> 1. Enact advocacy powers for competition policy and improve the advocacy function of private institutions such as the Chamber of Commerce and Industry of Burkina Faso 2. Strengthen platforms for public-private dialog on business climate reforms, with existing events and mechanisms organized by the Chamber of Commerce and Industry as a foundation 3. Strengthen the Steering Committee for Investment Climate Reforms; provide capacity building; formalize operations 4. Hardwire investment climate reforms into the existing growth pole model
ACCESS TO FINANCE	<ol style="list-style-type: none"> 1. Strengthen agriculture and value chain financing, encouraging regional commercial banks to include agriculture specialists as staff members 2. Expand e-services for banking in order to increase the percentage of the banked vs. unbanked, especially in the rural areas, and obviating the need for more physical branches 3. Enhance the access of underserved SMEs to finance, while cultivating a subset of these firms over time as a high-growth potential, strategic sector ‘corporate base’ 4. At the same time, institute the appropriate regulations, supporting policies and financial infrastructure conducive to further expanding the range of non-loan finance sources available to SMEs such as DFS, micro-finance as well as equity and capital market financing
PPP	<ol style="list-style-type: none"> 1. Conduct a review of the existing PPP regulatory framework and prioritize key amendments 2. Improve the implementation of the competitive tendering process (i.e., 2017 law to expedite processes) and ensure its openness and transparency 3. Improve planning and execution capacities, including through a decentralization of the decision process 4. Provide capacity building –potentially in the form of embedded advisors– for government officials in the full range of sourcing potential partners, managing the tendering process, negotiating and signing the PPP agreement, and monitoring and managing the entire lifecycle of the PPP

FOUR COMPLEMENTARY PATHWAYS: SECTOR-SPECIFIC REFORMS

I. Alleviating critical enabling sector bottlenecks, including through the private sector

SECTOR	OPPORTUNITIES	CONSTRAINTS	PRIORITY PRIVATE SECTOR-FOCUSED RECOMMENDATIONS
ENERGY	Excellent solar irradiation and regional inter-connections	Weak technical capacities and inefficient IPP framework	<p><i>Enabling Environment</i></p> <ul style="list-style-type: none"> » Issue the required decrees to implement full provisions of 2017 Law on Energy » Develop least-cost energy generation plan and grid integration study, taking into account regional inter-connections and shared infrastructure with mining companies » Improve planning, execution, technical and transactional capacities, including for renewable energy projects undertaken by IPPs » Decentralize the IPP procurement process to the Ministry of Energy from the Ministry of Finance <p><i>Underlying Infrastructure</i></p> <ul style="list-style-type: none"> » Leverage private sector solutions to develop renewable energy, including through shared infrastructure » Develop private sector solutions—such as management and/or operation & maintenance contracting—to improve the credit-worthiness of the utility and curb transmission and distribution losses
TRANSPORT AND LOGISTICS	Integrated logistics	Poor enabling environment for investment in transport infrastructure and services	<p><i>Enabling Environment</i></p> <ul style="list-style-type: none"> » Consider the use of (fiscal) incentives to lower the costs of containerization » Establish industry standards for registering new businesses and professionalize the sector » Review the system of quotas and reserved rights for national truckers serving the country's import/export markets » Incorporate ICT to enhance free access to freight (virtual freight exchange) » Support a capacity development initiative to strengthen local SMEs to engage and compete for large transport infrastructure development projects, including through joint-ventures » Develop more comprehensive domestic private sector promotion, such as pairing local SMEs with leading Freight Forwarders, including under the Groupements interets économiques umbrella <p><i>Underlying Infrastructure</i></p> <ul style="list-style-type: none"> » Explore PPP solutions in road maintenance, logistical platforms, cold chains and storage, as well as urban transport » Restructure the design (with a more integrated approach) of the ongoing railway projects to improve their economic viability

SECTOR	OPPORTUNITIES	CONSTRAINTS	PRIORITY PRIVATE SECTOR-FOCUSED RECOMMENDATIONS
SKILLS	Skills development, including through PPPs, in the areas where Burkina Faso could have a comparative advantage: agriculture, mining and ICT	Severe skills shortcomings compounded by limited training options and affordability	<p><i>Enabling Environment</i></p> <ul style="list-style-type: none"> » Develop a fully articulated institutional and pedagogical framework to support the emergence of PPP schemes and technical curricula so as to bridge the skills gap, especially in the areas of agriculture, ICT, and mining <p><i>Underlying Infrastructure</i></p> <ul style="list-style-type: none"> » At the same time, develop and leverage ICT platforms and community development programs

II. Diversifying agriculture beyond cotton with the value chains that can have comparative advantage

SECTOR	OPPORTUNITIES	CONSTRAINTS	PRIORITY PRIVATE SECTOR-FOCUSED RECOMMENDATIONS
VALUE CHAIN DEVELOPMENT BEYOND COTTON AND FOOD PROCESSING	Livestock, sesame, raw nuts, mangos, shea, maize, and rice	Poor rural investment climate, weak value-chain integration, lack of integrated infrastructure, low standards and certification, as well as water and climatic risks	<p><i>Enabling Environment</i></p> <ul style="list-style-type: none"> » Enhance the rural investment climate, especially the implementation of the 2009 Rural Land Management Law » Define and develop standards and certifications » Strengthen technical skills and producers' organizations » Organize splintered industries (such as mango) to create greater economies of scale <p><i>Underlying Infrastructure</i></p> <ul style="list-style-type: none"> » Foster the creation of additional cold storage space by the private sector either with or without PPP schemes » Improve water and irrigation infrastructure » Improve the accessibility of ICT for rural communities (e.g., infrastructure, cost, market organization and connections, early mover investments)

III. Leveraging the catalytic sectors to stimulate agriculture and develop the critical enabling sectors

SECTOR	OPPORTUNITIES	CONSTRAINTS	PRIORITY PRIVATE SECTOR-FOCUSED RECOMMENDATIONS
ICT APPLICATIONS	E-government and e-commerce, agri-value chains, finance, skills, health and commerce	Weak and expensive service, low coverage and poor related skills, digital affordability and availability in order to mainstream ICT applications, inadequate digital infrastructure	<p><i>Enabling Environment</i></p> <ul style="list-style-type: none"> » Develop platforms and strengthen the ecosystem » Design an attractive licensing and auction system to increase competition » Speed up the process for digital dividend or low frequency spectrum to be licensed » Improve the DFS framework at the regional level » Develop related skills framework » Create a 100% public shareholding company to own all the assets of public telecom networks and future public investments » Strengthen recent initiative to enhance telecom regulations » Establish compliance with the principles of neutrality, non-discrimination and transparency (open access) <p><i>Underlying Infrastructure</i></p> <ul style="list-style-type: none"> » Further develop the national infrastructure, including the National Backbone » Implement infrastructure-sharing policies, so operators can expand to rural areas at a lower cost » Delegate the construction, operation, maintenance, and marketing of service provider network assets to the private sector under PPP arrangements » Form a PPP using an open, transparent tendering process for the maintenance, management and marketing of fiber-optic networks
MINING VALUE CHAINS	Catalytic impact on power infrastructure and agriculture	The sector operates mostly as an enclave. Limited coordination among the various stakeholders	<p><i>Enabling Environment</i></p> <ul style="list-style-type: none"> » Design buyer-suppliers and/or anchor financing mechanisms to stimulate linkages through the offtake by (multinational) mining companies of domestically produced food » Develop skills, standards and certifications - including through an agri-focused local content platform for the various mining areas to develop agribusiness-focused community investment plans » Conduct a throughout assessment of the projects undertaken by the community development fund » Adequately leverage the Burkinabe mining suppliers' alliance » Ensure that incentives that are offered to the mining companies are clearly communicated, easily accessible, and automatic <p><i>Underlying Infrastructure</i></p> <ul style="list-style-type: none"> » Develop shared infrastructure and adopt adequate regulations and structuring to leverage mining power development to improve the energy mix and access (including through standardized solutions)

IV. Tapping into regional opportunities and fully seizing the benefits of regional integration

SECTOR	OPPORTUNITIES	CONSTRAINTS	PRIORITY PRIVATE SECTOR-FOCUSED RECOMMENDATIONS
REGIONAL INTEGRATION	Burkina Faso is connected to a market of 400 million individuals	Poor infrastructure, unclear and contradictory regional regulations	<p><i>Enabling Environment</i></p> <ul style="list-style-type: none"> » Improve customs and trade regimes, including through interoperability of ICT solutions » Harmonize regional agreements and national legislation, provide high-level coordination of regional value chains » Conduct a review of the regional agreements and national legislation for a better alignment and adaption of directives, norms and clauses to the national context » Deepen regional capital markets, improve and harmonize further financial sector regulations including regional banking and micro-finance oversight » Develop in parallel regional switch to offer interoperability and expand DFS <p><i>Underlying Infrastructure</i></p> <ul style="list-style-type: none"> » Develop joint power, transport and ICT infrastructure, including within shared economic zones



ANNEX 1: WBG STAKEHOLDERS

IFC

SECTOR	INVESTMENT STAFF	OTHER STAFF
Agribusiness	<ul style="list-style-type: none"> » Samuel Dzotele » Thomas Kouadio 	<ul style="list-style-type: none"> » Richard Colback » Jean Saint-Geours » Oksana Nagayets » Christophe Ravry » William Llewelyn Davies » Maria Mogollon » Sabrina Birner » Laurent Stravato
Infrastructure	<ul style="list-style-type: none"> » Cheick-Oumar Sylla » Juliette Rose » Rossa Fitzgerald » Jan Henri Dewulf » Nicolas Felix Souche 	<ul style="list-style-type: none"> » Pierre Pozzo di Borgo » Roy Kroese » Hayat Abdo » Emelly Mutambatsere
Mining	<ul style="list-style-type: none"> » Bernard Kwarteng Amaning 	<ul style="list-style-type: none"> » Veronica Nyhan Jones » Rodrigue Djahlin
Financial Sector	<ul style="list-style-type: none"> » Florence Boupda » Jonas Ayeri » Wilfried Tamegnon » Benie Kouakou 	<ul style="list-style-type: none"> » Charlotte Ndaw » Tiphaine Crenn » Patricia Mwangi » Jonathan Gigin » Oscar Madeddu » Elaine MacEachern » Antonia Preciosa Menezes » Birgit Reuter
Manufacturing & Services	<ul style="list-style-type: none"> » Marieme Travaly » Bertha Hurst 	
ICT	<ul style="list-style-type: none"> » German Cufre » Funso Fasitire 	<ul style="list-style-type: none"> » Javier Soriano Tabares
Funds	<ul style="list-style-type: none"> » Kevin Warui Nijiraini » Jamal Isa 	
Health	<ul style="list-style-type: none"> » Kevin Berkane 	<ul style="list-style-type: none"> » Anthony Theophilus Seddoh
Trade/ Regional integration		<ul style="list-style-type: none"> » Maiko Miyake
Gender		<ul style="list-style-type: none"> » Anne Kabugi
Environment		<ul style="list-style-type: none"> » Elizabeth White
PPP	<ul style="list-style-type: none"> » Michael Opagi 	
Investment Climate		<ul style="list-style-type: none"> Inoussa Ouedraogo

World Bank

GP	WB STAFF
Program Leaders/CMU	<ul style="list-style-type: none"> » Sunil W. Mathrani (SD) » Jacques Morisset (EFI) » Michel J. Welmond (HD) » Mariam Diop » Paola Ridolfi
Agriculture	<ul style="list-style-type: none"> » Nicolas Ahouissoussi » Elisee Ouedraogo
Energy & Extractives	<ul style="list-style-type: none"> » Alexis Lucien Emmanuel Madelain » Nash Fiifi Eyison » Boubacar Bocoum » Sabine Cornieti
Environment	<ul style="list-style-type: none"> » Leandre Yameogo » Bougadare Kone
Finance, Competitiveness and Innovation	<ul style="list-style-type: none"> » Martin Maxwell Norman » Maria Eileen Pagura » Fatoumata Den Lamari Fadika » Richard A. Claudet » Maiko Miyake » Peter Kusek » Tania Priscilla Begazo Gomez
Macroeconomics, Trade and Investment	<ul style="list-style-type: none"> » Ali Zafar » Abdoul Ganiou Mijiyawa » Samba Ba » Mame Fatou Irene Aminata Diagne
Transport & Digital Development	<ul style="list-style-type: none"> » Aguiratou Savadogo-Tinto » Anne Cecile Sophie Souhaid » Ibou Diouf
Jobs	<ul style="list-style-type: none"> » Michael Weber
Water	<ul style="list-style-type: none"> » Seydou Traore
SD/HD	<ul style="list-style-type: none"> » Gilberte Kedote » Zenab Konkobo Kouanda » Shobhana Sosale
ICT	<ul style="list-style-type: none"> » Charles Hurpy » Tassere Pitroipa

ANNEX 2: LIST OF ORGANIZATIONS MET DURING IN-COUNTRY CONSULTATIONS

Companies

ABC Sarl	Ets ZOUGRANA Denis et Fils
ABCI	ITER's
Africa Motors	FASODIA
Afrik Lonnya	FCS-Transit
Alepha	GC SOM ZANGA Sarl
Alink-Telecom	GPI
APEX-Burkina	GTT Sarl
APMB	Investisseurs & Partenaires
Bakou Logistics	KANEF BURKINA
Beoogo lab	KING AGRO
Bissa Gold	Microcred
Club des Hommes d'Affaires Franco-Burkina	MMP Sarl
BOA	NATCO Sarl
BOLLORE Transport Logistics	Nouvelle Clinique du centre
Burkina HLS	NOWATA BF
CAT Logistics Burkina	Nowata logistics
Chambre de Commerce	OMEGA Transit
CIM FASO	Roxgold
CMA CGM	SAMWEL-electronics
Coris	SAT Burkina
Coris Capital	SATEL, SA
COTRAMO Sarl	SGTS
DRBF	SOATT
ECOM-HIGH-TECH	SOGETRAB
EDA	SONAR
ELITRANS BURKINA FASO	STS Sarl
Endeavour Mining	SUNU
Ets Konditamde King AGRO	TGCOM/B
Ets NIKIEMA MBE	TTS Sarl

Administrations and Professional Organizations

Alliance des fournisseurs de biens et services miniers du Burkina Faso

ANEREE

Association des Commissionnaires de Douane Agrées

BAGREPOLE

Conseil Burkinabe des Chargeurs

CBC/MTMUSR

Chambre de Commerce et d'Industrie

Chambre des Mines

DGI

DGTTM

Direction Générale des Douanes

Direction Générale de la Legislation et du Contentieux

Direction Générale des Transports Terrestres et Maritimes

Direction des Technologies de l'Information et de la Communication (DGTIC)

EU delegation

Maison de l'entreprise

Maison de transit SGTS

TG COM/B

ANNEX 3: OVERVIEW OF GOVERNMENT AND WBG PRIVATE SECTOR DEVELOPMENT STRATEGY

The government's National Plan for Social and Economic Development (PNDES) 2016-2020 is based on three priorities: (i) good governance; (ii) human development; and (iii) economic growth. Specifically, the government is focusing on supporting the key sectors that would drive sustainable economic growth and job-creation. This comprehensive program involves employment-generating investments in basic economic infrastructure and processing capacity, as well as actions to ensure the economic model's sustainability and mitigate environmental degradation. To deliver on its development objectives, the government is committed to support private sector development and expand private sector participation, as highlighted by Burkina Faso's recent adhesion to the G20 Compact with Africa.¹¹⁹

The WBG FY18-23 Country Partnership Framework (CPF) was endorsed by the Board of Executive Directors before at the end of FY18. In alignment with the government's vision, the WBG strategy aims to support transformational actions in key sectors for accelerating private sector-led growth for job creation, developing human capital, and strengthening governance and citizen engagement. Specifically, the CPF aims to accelerate sustainable private sector-led growth for job creation, with dedicated activities to improve agricultural productivity, energy access, connectivity, SMEs and financial inclusion, as well as natural resource sustainability. While the WBG is already assuming leadership in many of these areas, the CPF program places special emphasis on the IDA18 special themes of climate change, the drivers of fragility, conflict and violence, jobs and economic transformation, gender, as well as governance and institutions.

Despite heightened security risks, IFC has been scaling up its engagement in Burkina Faso, through investments and advisory services focusing on agribusiness, power, mining, telecommunications, trade finance, agri-finance, housing finance, food retail, and health and education. Between FY13 and FY18, IFC's total long-term finance annual commitments grew more than tenfold, from US\$11 million to US\$135 million. During the same period, IFC provided more than US\$270 million of cumulative trade finance guarantees. Overall, Burkina Faso is among IFC's 20 largest exposure in Sub-Saharan Africa.

In the context of its renewed corporate strategy "IFC 3.0", IFC aims to significantly deepen its engagement in Burkina Faso by focusing on: (i) increasing energy generation and access, as well as improving the energy mix; (ii) increasing agricultural output and yields, as well as reducing water and food waste; (iii) further integrating high impact value chains; (iv) improving access to finance for SMEs and individuals; (v) providing access to better quality and more affordable health services; (vi) improving the business enabling environment for domestic and foreign investors; and (vii) improving the environmental and social standards across sectors. This approach entails the creation of new markets and the development of existing value chains, especially in infrastructure (energy, water, ICT, and transport), agribusiness (food/cash crops and livestock), and the financial sector (including capital market development). Seizing these opportunities will require the complementary support of World Bank operations. The IDA 18 PSW facilities could be used, on a last resort basis, to enable the most impactful projects.

IFC's strategic approach for Burkina Faso is anchored in its Sahel roadmap, underpinning its engagement in the G5 Sahel countries. The objective is to promote inclusive development to foster resilience and create jobs. Specifically, it aims to: (i) improve rural productivity and irrigation to support job creation and food security; (ii) develop the supportive energy, transport, and digital infrastructure, while tapping into the country's renewable and natural resources potential; and (iii) make the financial sector more resilient and inclusive to support the productive sectors, MSME, and especially agribusiness. As a foundation of its interventions, IFC intends to improve—through partnerships—the enabling business environment and leverage private sector solutions to foster climate adaptation and inclusive growth.

ANNEX 4: SECTOR SCAN METHODOLOGY

A long list of economic sectors¹²⁰ is assessed in terms of their desirability and feasibility. The sector scan is founded on four questions of desirability (potential impact of private sector growth) and feasibility (attractiveness of private sector investment): (i) What is the potential impact of the sector’s output growth on the country’s development objectives? (ii) What is the sector’s current performance in terms of output quantity and quality, and how does it contribute to development impact? (iii) Under current conditions in the country, is profitable private sector activity in the sector feasible? If not, where are the constraints? (iv) To what extent can conditions in the country be improved within a limited time horizon of three to five years to make profitable and transformative private sector activity in the sector feasible?

The CPSD sector scoring methodology provides quantitative benchmarking insights. A CPSD data file was generated to inform the scoring of a long list of sectors along four groups of indicators of desirability (Inclusion & Jobs, Economic Growth, Competitiveness & Productivity, and Integration & Connectivity) and along four groups of indicators of feasibility (Demand, Production Factors, Key Inputs, and Institutions). To inform sector scoring against the desirability indicators, a Social Accounting Matrix (SAM) multiplier approach is used¹²¹ to assess a sector’s linkages with other sectors in the economy, the labor market, and the rest of the world. To inform sector scoring against the feasibility indicators, a wide range of country specific performance indicators (135 in total) are matched to country- and sector-specific scores on financial success of past IFC investment projects¹²² to identify sector specific constraints in a country by comparing its performance on any given indicator with the performance of countries where IFC clients have performed well in a given sector.

These quantitative insights are complemented by qualitative information collected through stakeholder interviews. The quantitative approach described above comes with serious limitations and is only intended to give teams an initial intuition on a sector. This is then refined through consultations with knowledgeable stakeholders and careful review of existing literature to make an informed and well-founded decision on the scores assigned to a sector.

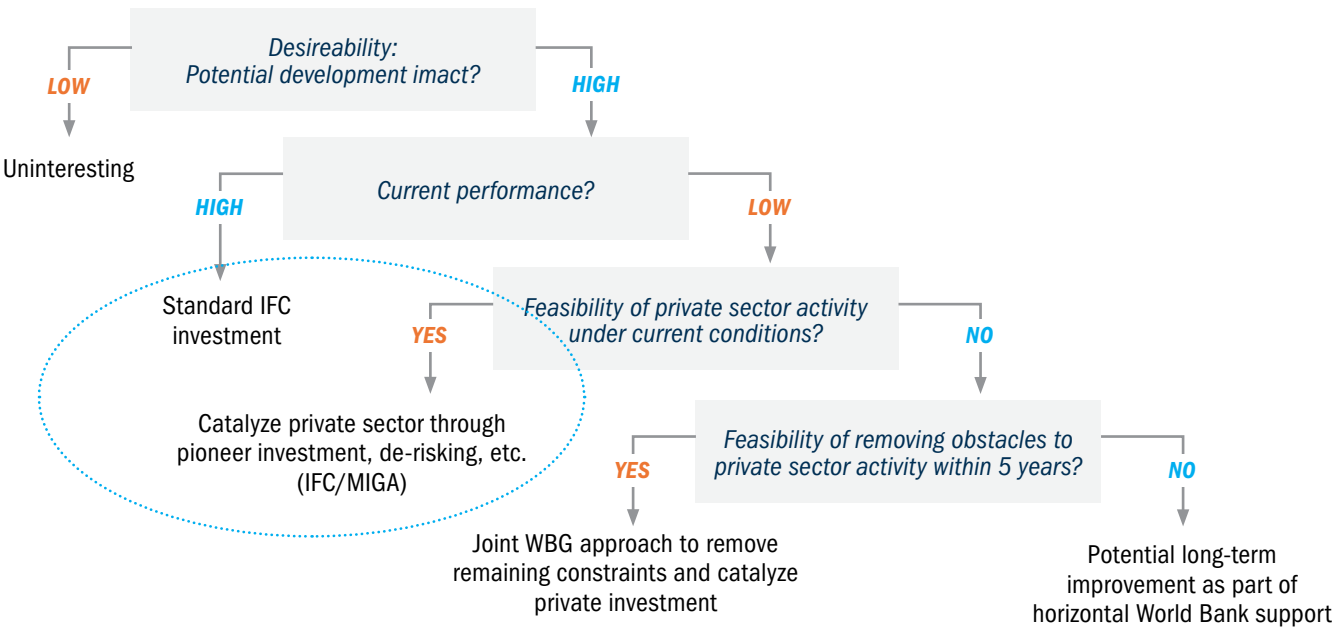


FIGURE A1: CPSD sector scan logic and expected results

ANNEX 5: DETAILED SECTOR SCAN RESULTS

Burkina Faso has lost competitiveness in nearly all industries since the 2000s and is now only globally competitive in agricultural and food products. The results from a complexity analysis show that, while global performance in mid- and high-complexity industries decreased, Burkina Faso remains strong in forestry, beverages and cotton, as well as food and animal products.

In Burkina Faso, investments in the agriculture sector, such as in crops, cattle, sheep, goats and horses, generate the highest employment and GDP returns.¹²³ US\$1 million of investment in such segments has the potential generate at least US\$1.5 million in additional GDP and at least 600 jobs. This arises from high direct, indirect and induced effects. First, a high ratio of value-added to output (more than 85 percent) driven by the low cost of intermediate goods relative to revenue explains large direct effects. Second, sizeable indirect and induced effects are driven by the labor-intensive production structure: the average labor share in the value-added accounts for more than 70 percent. Thus, increased labor income of agricultural workers, most of whom are subsistence farmers, is primarily spent on food consumption or agricultural products given the high poverty rates in rural areas. In the same vein and for similar reasons, food processing/manufacturing with strong production linkages to agriculture have large GDP multipliers. Specifically, light manufacturing in food-related sectors such as meat, sugar cane, and sugar beet have the potential to generate high GDP and employment impacts given their strong backward linkages with the agriculture sector. The non-food manufacturing sector and the services sector do not yield high employment and GDP returns. Given the high concentration of imported intermediate inputs and high factor costs, these sectors do not have strong backward production linkages with other industries. However, it is noteworthy that most of these

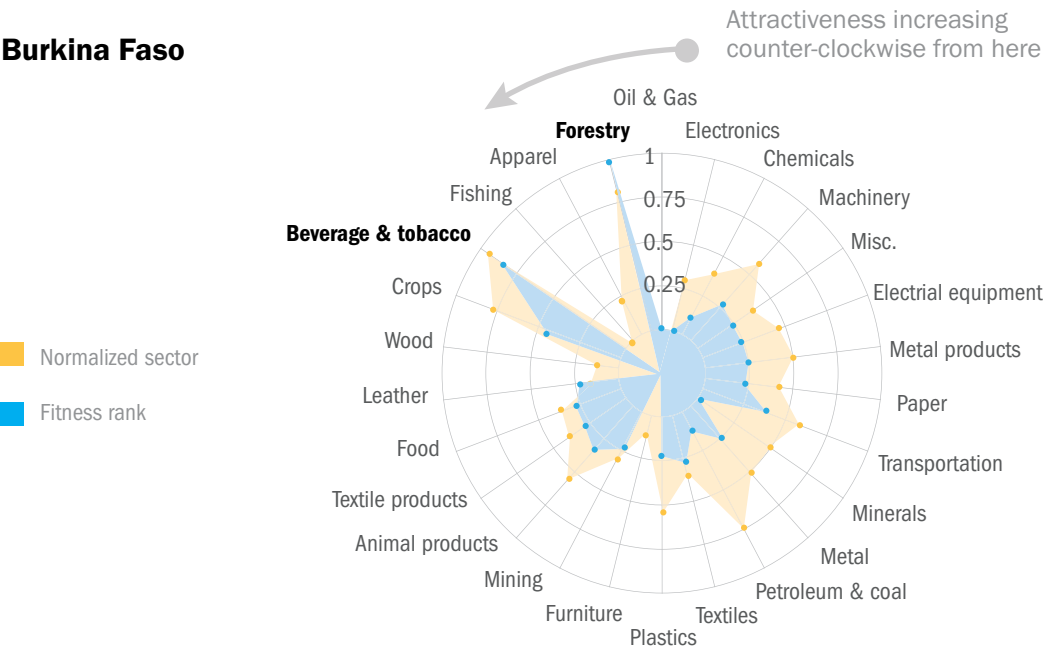


FIGURE A2: Burkina Faso Global Economic Complexity Performance

Source: Burkina Faso Country Opportunity Spotlight – IFC Country Analytics.

employment effects occur within the informal sector. Burkina Faso has a significant number of informal workers who receive low pay and lack employment benefits.¹²⁴ As such, employment multipliers significantly decrease in value when measured in terms of formal job creation.

Based on a combination of expert interviews, desk work, and available data analysis, the team developed a simplified version of the sector-scan approach to identify the economic sectors that could drive Burkina Faso’s development within five years. With respect to the CPSD sector-scan methodology outlined in Annex 4, the simplified version uses a more limited set of indicators to cater to Burkina Faso’s small economic size and data limitations. The desirability component is made up of the GDP, job, balance of payments, and spillover dimensions, while the feasibility component includes the markets, inputs, infrastructure, and policy dimensions. This approach provides a more flexible, tailor-made sector scan that helps select and prioritize opportunities in a country where the formal private sector is small and cross-cutting constraints to private sector development remain severe.



FIGURE A3: Impact per US\$1 million of additional revenue

Source: IFC staff using GTAP.

The sectoral review based on the quantitative analysis, international/regional comparisons, desk work, and discussions with sectoral experts in-country and within the WBG, showcases that agriculture, agro-processing, ICT, and mining are the areas where increased private sector investment is likely to bring the highest development outcomes within five years. The most obvious economic growth opportunities in Burkina Faso are in mining and the transformation of basic agricultural products, and livestock and meat products. Market creation opportunities exist in restructuring existing industries (artisanal mining to formal mining), expansion upstream and downstream (agribusiness), and higher value-added related sectors (e.g., food and beverage processing). In short, in agriculture, Burkina Faso is already Africa’s largest cotton producer while, in ICT and mining, it has recorded some of the world’s fastest expansion rates over the past decade.¹²⁵ Going forward, Burkina Faso could further expand into food processing, while mining and ICT could serve as catalysts to further develop agriculture. The three sectors are studied further below. Overall, increased regional integration will be paramount in seizing these opportunities.

In terms of both size and importance of value addition and job creation, agriculture and agri-processing are the most important sectors for Burkina Faso. Agriculture accounts for 34 percent of the country’s GDP (World Bank Country Profile, 2014) and about 78 percent of the jobs (EMC, 2014). The crop subsector accounts for 12 percent of GDP and the livestock subsector contributes 8 percent of GDP. Rain-fed cereals (maize, millet and sorghum) represent two-thirds of the area cultivated and constitute the main staple food crops. Although production has increased by 20 percent over the past decade, the country is self-sufficient in cereals only three years out of every four. Several factors hinder the development of agribusinesses in Burkina Faso. The agriculture sector is dominated by subsistence production systems with very low productivity. Enhancing the productivity of producers of agricultural commodities and turning them into suppliers of marketable surplus for agribusinesses is a challenge. Cost structures are unattractive compared with those of neighboring coastal countries for most commodities, for most of the year. Investment risks are reflected in high interest rates and cost of capital. Nevertheless, there are opportunities. Small, dynamic agribusinesses are developing in diverse subsectors (sesame, mango, fruit juices, corn, cashew, shea and other natural products). These entrepreneurs are enabled by growing

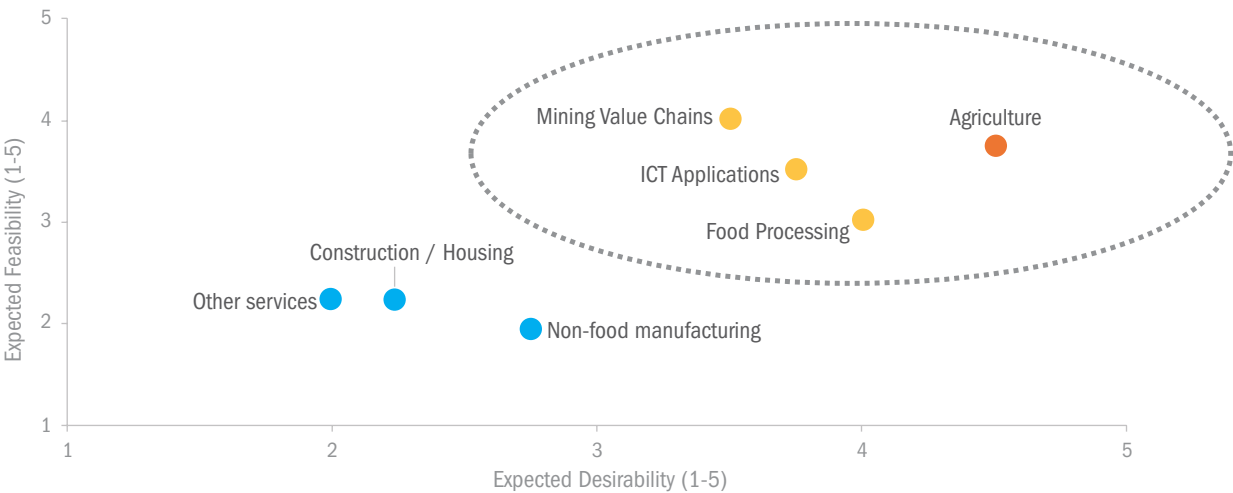


FIGURE A4: Sector scan summary

Source: CPSD team.

demand from urbanization and rising incomes in the region, the demand for natural and organic products, and telecommunications and technologies that enable businesses. The livestock subsector presents opportunities while at the same time facing considerable challenges. Burkina Faso hosts a large livestock subsector. Intensification of livestock production and fattening will decrease costs and increase productivity, making the subsector more competitive, but developing more intensive systems requires a more robust feed-milling subsector, better genetics and strict application sophisticated methods of animal husbandry. Furthermore, a network of world-class abattoirs in livestock-producing regions of the country would enable considerable value-addition and processing of meat for both local and regional markets.

Food-processing accounts for most of Burkina Faso's agro-industrial capacity, assets and capability. Large, sophisticated agribusinesses, such as breweries, flour mills, and cotton and oil mills have been present in Burkina Faso for decades. These businesses could grow, diversify or increasingly link with smaller businesses and producers in subsectors such as processed foods, beverages, cereals, oil seeds, fruit and meat. Finally, agribusinesses are developing rapidly in West African countries with larger economies. New investments by these companies in Burkina Faso, and the emergence of partnering relationships and joint ventures, could provide capital and increase the competitiveness of domestic agribusinesses.

TABLE A1: Sector scan summary

Sector	DESIRABILITY (1-5) - TEAM ASSESSMENT		FEASIBILITY (1-5) - TEAM ASSESSMENT	
	Evaluation	Comments	Evaluation	Comments
AGRICULTURE	4.5	Most important economic sector with sizeable GDP and employment effects	3.8	Moderate feasibility because of transport and skills shortcomings
FOOD PROCESSING	4.0	Expanding sector with potentially high economy-wide effects	3.0	Power, transport, and skills challenges limit feasibility
ICT APPLICATIONS	3.8	Rapidly expanding sector with significant catalytic role of other sectors	3.5	Rising demand while power and skills shortcomings remain
MINING	3.5	Potentially high balance of payments and spillover effects	4.0	Supported by good mining code and captive infrastructure
NON-FOOD MANUFACTURING	2.8	Small scale sector with large import component	2.0	Suffers from acute cross-cutting and enabling sector constraints
CONSTRUCTION / HOUSING	2.3	High import component and limited economy-wide effects	2.3	Insufficient demand with poor inputs and infrastructure
OTHER SERVICES	2.0	Underdeveloped and mostly informal sector	2.3	Limited demand and poor skills

Source: CPSD team.

ICT applications are in an emerging phase in Burkina Faso but present some intriguing opportunities as a catalyst for the rest of the economy. The country has an energetic, albeit fragmented, IT sector. Most IT companies are small and almost all offer a broad range of services ranging from IT applications and engineering services to IT training and sales. Burkina Faso has a similar opportunity to grow its IT services industry. Perhaps the most significant potential of the IT opportunity is in the services that the sector can transform. McKinsey estimates that the largest impact of the internet (between US\$148 billion and US\$318 billion) will be on six key sectors of the economy: (i) financial services, (ii) retail/commerce, (iii) government, (iv) agriculture, (v) health, and (vi) education. This section explores the potential of ICT to transform these sectors in Burkina Faso.

Mining of minerals, especially gold, has been the primary growth industry for the past decade and even through periods of low international gold prices it has proven resilient. In 2009, Burkina Faso's export revenues from gold mining surpassed those from cotton, and currently stand at about US\$3 billion. As such, gold mining is an important catalyst for the rest of the economy.

Non-food manufacturing is small scale in Burkina Faso. Although non-resource-based manufacturing is projected to increase steadily over the next few years, it is unlikely that it will reach the importance of agriculture-based transformation and processing. Furthermore, in consultations with the private sector in Burkina Faso, it was evident that non-resource-based manufacturing will not be a major force in economic growth unless: (i) the investment climate sees drastic improvement (contrary to the current trajectory), allowing for regional operations to be based in Burkina Faso; (ii) infrastructure, primarily electric power, experiences drastic improvements; and (iii) regional connectivity improves, allowing for the transportation of hard goods to other countries in the region and the coastal ports.

Construction/housing is supported by rising urbanization, especially in Ouagadougou and Bobo-Dioulasso. But the lack of dynamism in the general economy translates into uneven growth in the construction industry over the past decade. In addition, limited purchasing power and weak value chains inhibit growth opportunities in a sector that remains heavily dependent on imported items.

The services sector in Burkina Faso, including transportation services, financial services, health-care services, and freight-forwarding and customs services, is dominated by mining-related activities. Hence, although the employment in the services sector in Burkina Faso accounts for nearly 40 percent of total employment, the sector is nonetheless highly dependent on mining activities and vulnerable to external shocks in that industry. Since 2013, with declining global gold prices, the mining industry in Burkina Faso has been largely in a maintenance mode, waiting for better times. Unless non-resource-based manufacturing increases and the investment climate for services improves, services in general will see limited growth. In the same vein, tourism, which in recent years has not been a major economic force, is of relatively low feasibility in general, primarily due to the worsening security situation and a relatively low level of tourism infrastructure.

ANNEX 6: TECHNICAL NOTE: SECTORAL GDP AND EMPLOYMENT MULTIPLIERS IN BURKINA FASO

Private investment in Burkina Faso will generate different impacts on the economy depending on the sector of investment as computed by the Social Accounting Matrix multiplier approach. Figure A5 shows sectoral multiplier effects in Burkina Faso on GDP and employment in response to a US\$1 million increase in sector revenues. These effects are computed using a Social Accounting Matrix (SAM) multiplier approach,¹²⁶ which assumes that increases in revenues or output driven by positive shocks related to investments or business model improvements across different industry sectors, generate both direct and indirect effects throughout the economy that add up to a cumulative impact. Direct effects pertain to the sectors directly impacted by these shocks, which will have an increase in output or revenue in response to investment. Indirect effects arise from the backward production linkages in the economy and induced effects are caused by consumption linkages that increase expenditure on goods and services in response to an increase in labor and capital income (through expanded employment and



FIGURE A5: Impact per US\$1 million of additional revenue

capital). It is important to note that the SAM multiplier approach is based on strong assumptions, including unlimited resources and supply responses in the domestic economy, fixed prices, no substitution effects and a static or unchanged structure of the economy with respect to technologies. Therefore, reported results are rounded and should be interpreted as an approximation that provides orders or magnitude of expected economic impacts.

The agriculture sector is among the industries with the highest GDP multipliers, driven by large direct and induced effects, despite weak backward linkages with other sectors. Figure A5 shows that agriculture subsectors such as crops, cattle, sheep, goats, and horses have high (above 1.5) GDP multipliers. The decomposition of multipliers into direct, indirect, and induced effects helps explain these patterns. First, direct effects in these agriculture subsectors have larger magnitudes compared with other sectors due to a high ratio of value-added to output (more than 85 percent) driven by the low cost of intermediate goods relative to revenue. Also, agriculture subsectors have large induced effects primarily driven by an increase in labor income given their labor-intensive production structure: the average labor share in the value-added accounts for more than 70 percent. Increased labor income of agricultural workers, most of whom are subsistence farmers, is primarily spent on food consumption or agricultural products given the high poverty rates in rural areas. According to the World Bank, nearly half of Burkina Faso's rural population lived below the national poverty line in 2014, compared with 14 percent in urban areas. Indeed, the share of household consumption on agricultural products or processed food products accounts for more than 60 percent of total household expenditures. It is important to emphasize that investing in agriculture and addressing food insecurity issues faced by the vulnerable groups of the population is critical. However, it is not sufficient for ensuring sustainable growth that requires investment in more productive sectors and the creation of good quality and well-paid jobs.

Among other sectors with high GDP multipliers are food manufacturing with strong production linkages to agriculture and some non-tradeable services such as communication and recreation. Large direct and induced effects in the services sector, such as communications and recreation, explain high GDP multipliers as in the case of agriculture. These subsectors have high, on average more than 60 percent, GDP output ratios due to the low costs of intermediates relative to revenue, as in agriculture, that inflate the direct impact of investment. Induced effects prevail across all service subsectors, indicating a high share of household spending on domestically produced food products. In fact, the share of imported goods in domestic absorption accounts, on average, for only 8 percent for agricultural and food manufacturing products, as opposed to more than 30 percent for the non-food manufacturing. Finally, investment in light manufacturing subsectors, such as meat, sugar canes, and sugar beets, generate high impacts given their strong backward linkages with the agriculture sector, in addition to large induced effects.

High-productivity and capital-intensive non-food manufacturing sectors generally have strong backward production linkages with other industries. However, this is not the case in Burkina Faso given a high concentration of imported intermediate goods. Burkina Faso demonstrates average GDP multipliers in non-food manufacturing industries and they account for less than 20 percent of GDP. These industries have a high share of intermediate goods in the production process, which reduces direct effects. At the same time, indirect effects are low given a high share of imported intermediate goods in total output that weakens the production linkages. In particular, the share of imported intermediate goods in the manufacturing output constitutes, on average, 15 percent compared with just 6 percent in the agriculture sector. It is important to note that industries with strong backward linkages and low import shares in the supply chain have high sectoral multipliers. However, having an open economy is critical, as it promotes competition and improves the competitiveness of domestic firms, thanks to access to frontier technologies and know-how among other benefits. For example, imported machinery can increase the competitiveness of other sectors that use machinery as intermediate goods or capital and increase export in the economy.

Agriculture and some food manufacturing sectors that have high GDP multipliers or large job creation in the past, exhibit high employment multipliers compared with other sectors. Employment multipliers for agriculture and some food manufacturing sectors have high magnitudes, in line with their high GDP multipliers. These employment multipliers are computed using the sectoral GDP multipliers and historical employment elasticities for three broad sectors: agriculture, manufacturing, and services in Burkina Faso. In particular, investment in any sector would generate GDP in each of the above-mentioned three sectors and these GDP gains are multiplied by their respective employment elasticities computed using average changes in the employment to GDP ratio over the period 2000-15. In fact, job creation in response to GDP changes was much higher in agriculture and services than in the manufacturing sectors. High GDP multipliers combined with large number of created jobs lead to high employment multipliers in the agriculture sector. In addition, some food manufacturing subsector that have strong linkages with agriculture exhibit high employment multipliers. Finally, low GDP multipliers and job elasticities in most manufacturing sectors explain little job creation.

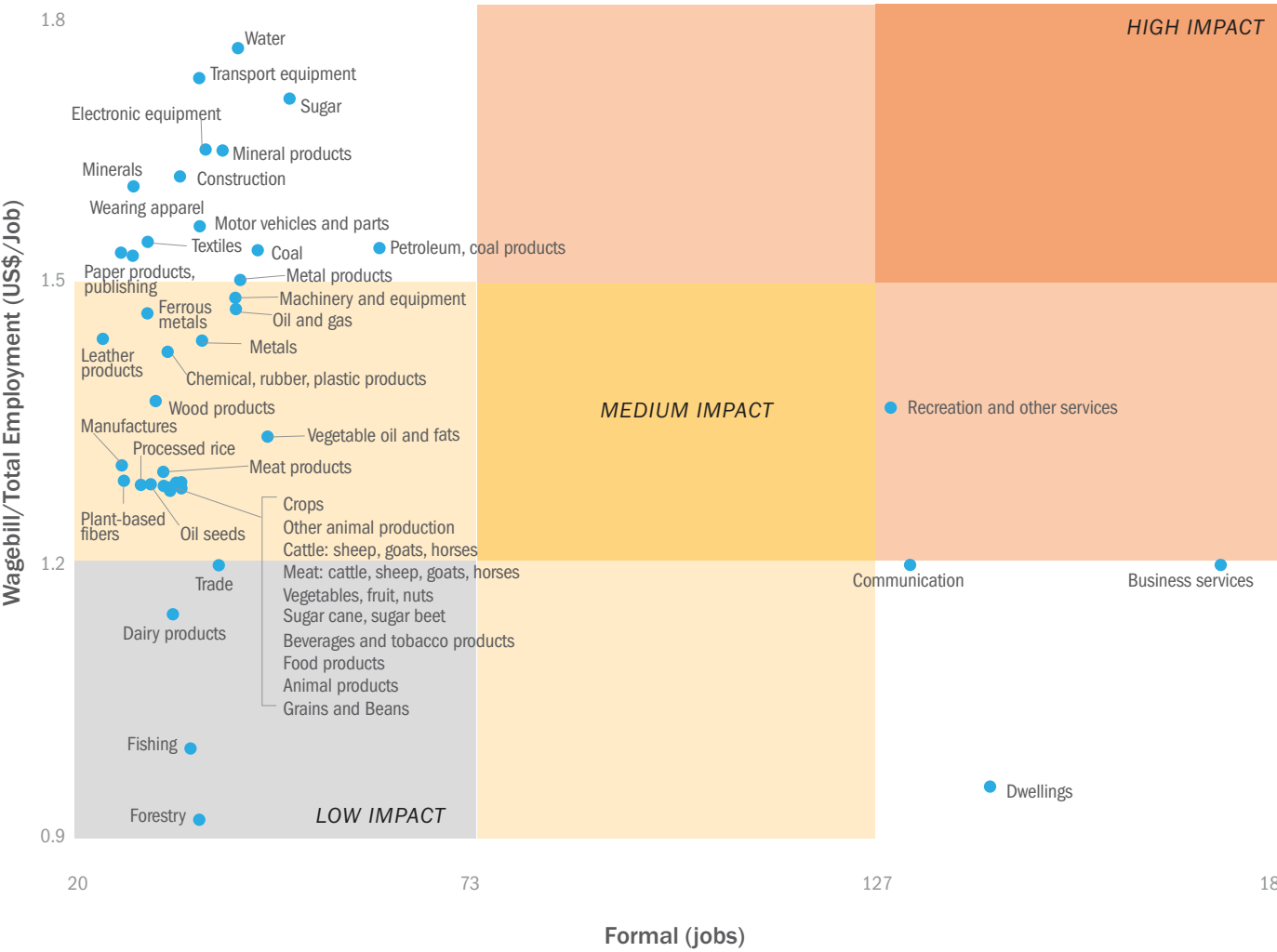
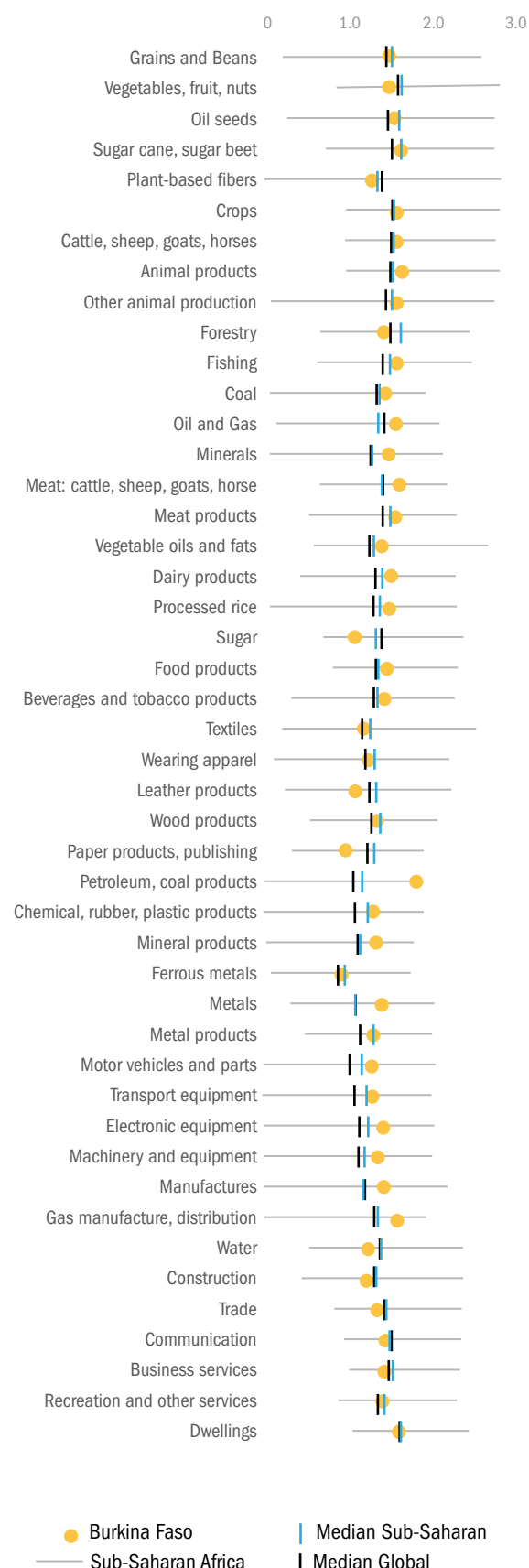


FIGURE A6: Impact per US\$ 1 million of additional revenue

Burkina Faso has a significant number of informal workers that receive low pay and lack employment benefits. Decomposing employment multipliers into formal versus informal jobs helps to distinguish good quality employment critical for population welfare. Figure A6 depicts employment multipliers for formal or good quality jobs and labor payments per worker across sectors with formal employment defined here as employees who are paid, have a contract, and not self-employed and all paid workers with high-skill education. Disaggregation of jobs into formal versus informal categories is important for measuring the development impact and understanding welfare implications of investment: formal jobs help reduce poverty and improve welfare of the vulnerable groups of the population as they pay at least minimum wages and provide other benefits. Employment multipliers decrease in value when measured in terms of formal job creation given the substantial size of the informal sector in Burkina Faso (see magnitudes of the horizontal axis in Figures A6 and A6). According to the World Bank (2012),¹²⁷ informal employment accounts for 70 to 84 percent of the country's total non-farm workforce. Moreover, only a few sectors such as business services and communications remain among the sectors with the highest employment multipliers given a significant share of formal jobs. Finally, there is a substantial variation in the labor payments per worker across the sectors.

FIGURE A7: GDP multipliers across countries and sectors

Grey lines indicate range of IFC client countries in SSA region, yellow dots indicate Burkina Faso, black lines indicate the median multiplier for a given sector in IFC top 100 client countries, and blue lines indicate the median of IFC client countries in SSA.

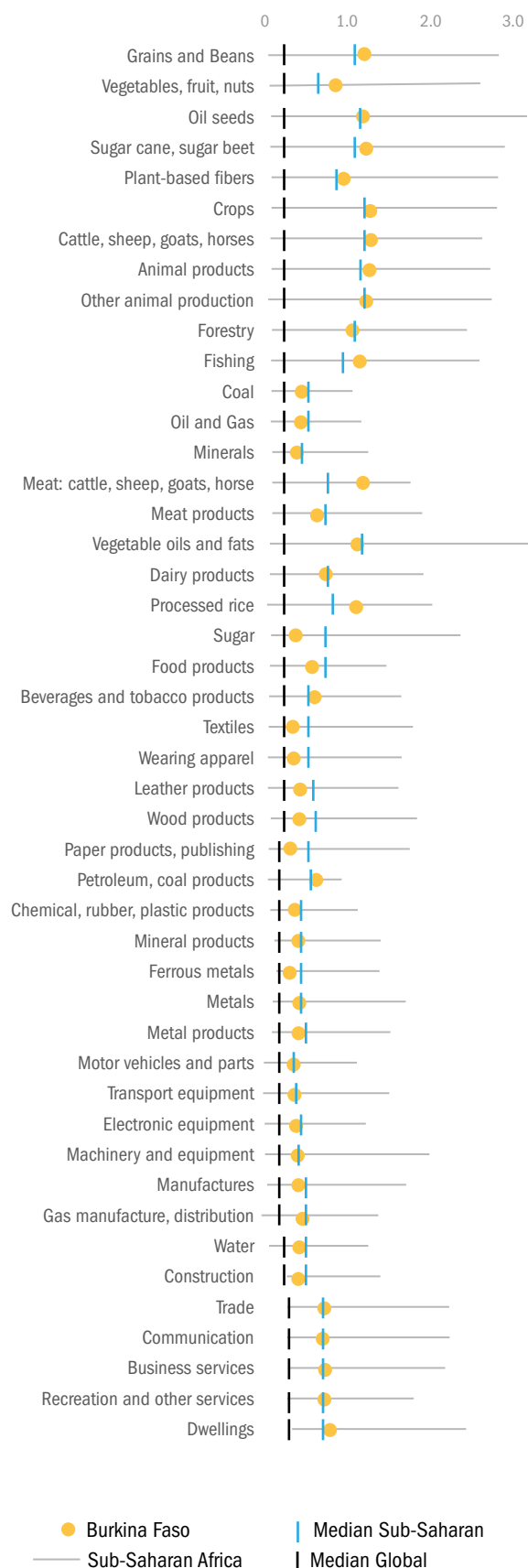


Investments in Burkina Faso's agriculture, manufacturing, and service sectors generate similar economy-wide effects in terms of GDP compared with the median of IFC client countries in the Sub-Saharan Africa region and the world. Interesting stylized facts emerge when benchmarking Burkina Faso's GDP multipliers with other countries, including those in Sub-Saharan Africa (SSA). Figure A7 shows that Burkina Faso has similar GDP multipliers to the median of the universe of IFC client countries and the SSA region in most sectors. Multiplier decomposition into direct, indirect, and induced effects explain these patterns. Burkina Faso has higher direct effects and lower indirect effects, while induced effects reflect similar patterns compared to the regional and global medians.

Comparable GDP multipliers in Burkina Faso and mixed job creation in the past across sectors relative to other SSA countries and the region result in job multipliers that are broadly in line with regional medians but are above the global median. Similar GDP multipliers across most sectors compared to the regional and global medians among IFC client countries and mixed GDP-employment elasticities translate into job creation that is above the global medians but is comparable to the regional medians (Figure A8). Indeed, job creation in agriculture and services was substantially higher than the rest of the world, as well as the region, but the gap in the latter was much less. In addition, the GDP-employment elasticities lagged behind the global and regional medians in manufacturing.

FIGURE A8: Employment multipliers across countries and sectors

Grey lines indicate range of IFC client countries in SSA region, yellow dots indicate Burkina Faso, black lines indicate the median multiplier for a given sector in IFC top 100 client countries, and blue lines indicate the median of IFC client countries in SSA.



ANNEX 7: DETAILED SECTOR SCAN SCORES (TABLES A2 AND A3)

Desirability (1-5)

SECTOR	GDP	Jobs	BOP	Spillovers	Av. DES	Notes
AGRICULTURE	5	5	4	4	4.5	Most important economic sector with sizeable GDP and Employment effects
FOOD PROCESSING	4	4	4	4	4.0	Expanding sector with potentially high economy-wide effects
ICT APPLICATIONS	4	4	3	4	3.8	Rapidly expanding sector with significant catalytic role of other sectors
MINING VALUE CHAINS	4	1	5	4	3.5	Potentially high balance of payments and spillover effects
NON-FOOD MANUFACTURING	2	3	3	3	2.8	Small scale sector with large import component
CONSTRUCTION / HOUSING	2	2	2	3	2.3	High import component and limited economy-wide effects
OTHER SERVICES	3	2	1	2	2.0	Underdeveloped and mostly informal sector

Feasibility (1-5)

SECTOR	Market	Inputs	Infra.	Policy	Av. FEA	Notes
AGRICULTURE	5	5	4	4	3.8	Moderate feasibility because of transport and skills shortcomings
FOOD PROCESSING	4	2	2	4	3.0	Power, transport, and skills challenges limit feasibility
ICT APPLICATIONS	5	3	2	4	3.5	Rising demand while power and skills shortcomings remain
MINING VALUE CHAINS	5	4	3	4	4.0	Supported by good mining code and captive infrastructure
NON-FOOD MANUFACTURING	3	1	1	3	2.0	Suffers from acute cross-cutting and enabling sector constraints
CONSTRUCTION / HOUSING	2	2	2	3	2.3	Insufficient demand with poor inputs and infrastructure
OTHER SERVICES	2	1	3	3	2.3	Limited demand and poor skills

ANNEX 8: MAP OF BURKINA FASO



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48 It was significantly lower—in the range of 6.5 to 7.0 percent of total government revenues—in 2016-18, given lower global gold prices and a more rapid increase in total government revenues.

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- 120 The standard IFC sector definition at 1-digit level is used as a basis for the long-list, excluding the sectors discussed in the previous section (enabling sectors).
- 121 The main database for this model is GTAP version 9 (<https://www.gtap.agecon.purdue.edu/databases/v9/>)
- 122 Data on IFC project performance are drawn from the Development Outcome Tracking System (DOTS).

123 More details are provided in Annex 6.

124 Informal employment accounts for 70 to 84 percent of the country's total non-farm workforce.

125 Since 2007, internet users have been increasing by 2,400 percent, while gold mining output rose by 2,190 percent.

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IFC
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433 U.S.A.

ifc.org

Contacts

MARTIN NORMAN | mnorman@worldbank.org
VINCENT ARTHUR FLOREANI | vfloreani@ifc.org
VOLKER TREICHEL | vtreichel@ifc.org



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