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IDA/R2019-0084/1

April 11, 2019

Closing Date: Tuesday, April 30, 2019 at 6:00 p.m.

FROM: Vice President and Corporate Secretary

Burkina Faso - Financial Inclusion Support Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed credit to Burkina Faso for a Financial Inclusion Support Project (IDA/R2019-0084), which is being processed on an absence-of-objection basis.

Distribution:
Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC, and MIGA

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Report No: PAD3017

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF EUR 87.6 MILLION
(US$100 MILLION EQUIVALENT)

TO

BURKINA FASO

FOR A

FINANCIAL INCLUSION SUPPORT PROJECT

April 9, 2019

Finance, Competitiveness and Innovation Global Practice
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective February 28, 2019)

Currency Unit =	CFA Franc (CFAF)
CFAF 576.3 =	US$1
Euro 0.8758 =	US$1

FISCAL YEAR
January 1–December 31

ABBREVIATIONS AND ACRONYMS

ACH	Automated Clearing House
AP/SFD	Professional Association of Decentralized Financial Systems *(Association Professionnelle des Systèmes Financiers Décentralisés)*
APF-PME	SME Financing and Promotion Agency *(Agence de Financement et de la Promotion des PME)*
ARCEP	Telecommunications Regulatory Authority (*Autorité de Régulation des Communications Electroniques et des Postes*)
ASCE-LC	Control and Anti-Corruption Authority (*l'Autorité Supérieure de Contrôle d'État et de Lutte contre la Corruption*)
AWP&B	Annual Work Plan and Budget
B2G	Business-to-Government
BCB	Commercial Bank of Burkina Faso (*Banque Commerciale du Burkina)*
BCEAO	West African Monetary Union Central Bank (*Banque Centrale des Etats de l'Afrique de l'Ouest*)
BDS	Business Development Services
CARFO	Ouagadougou Retirees Pension Plan
CGA	Certified Management Center *(Centre de Gestion Agrée)*
CGS	Credit Guarantee Scheme
CNSS	National Social Security Office (*Caisse Nationale de Securité Sociale*)
CPF	Country Partnership Framework
DA	Designated Account
DAF	Director of Administration and Finance (*Directeur de l'Administration et de la Finance*)
DGD	National Customs Office (*Direction Générale de la Douane*)
DSC/SFD	Directorate for the Supervision and Control of Decentralized Financial Institutions (*Direction de la Supervision et du Contrôle des Systèmes Financiers Décentralisés*)
ESMF	Environmental and Social Management Framework
FAARF	Women Entrepreneurial Activities Support Fund (*Fonds d'Appui aux Activités Rémunératrices des Femmes*)
FAIJ	Youth Initiatives Support Fund (*Fonds d'Appui aux Initiatives des Jeunes*
FAPE	Employment Promotion Support Fund (*Fonds d'Appui à la Promotion de l'Emploi)*

FASI	Informal Sector Support Fund (*Fonds d'Appui au Secteur Informel)*
FBDES	Burkina Social and Economic Development Fund (*Fonds Burkinabé pour le Développement Economique et Social*)
FCPB	Umbrella of the Credit Unions of Burkina Faso *Faîtière des Caisses Populaires of Burkina Faso*
FIRST	Financial Sector Reform and Strengthening Initiative
FM	Financial Management
FODEL	Livestock Development Fund (*Fonds pour le Développement de l'Elevage*
G2P	Government-to-Person
GDP	Gross Domestic Product
GIL	Gender Innovation Lab
GIM-UEMOA	Interbank Electronic Banking Group - West African Economic and Monetary Union (*Groupement Interbancaire Monétique de l'Union Economique et Monétaire Ouest Africaine)*
GRS	Grievance Redress Service
IBM	Iterative Beneficiary Monitoring
ICT	Information and Communication Technology
IED	Improvised Explosive Device
IFC	International Finance Corporation
IFR	Interim Financial Report
IGF	General Finance Inspection (*Inspection Générale des Finances*)
IMF	International Monetary Fund
IVR	Interactive Voice Response
ISO	International Organization for Standardization
IT	Information Technology
IVR	Interactive Voice Response
M&E	Monitoring and Evaluation
MEBF	Burkina Faso Entreprise Development Services (*Maison d'Entreprise du Burkina Faso)*
MFI	Microfinance Institution
MINEFID	Ministry of Economy, Finance and Development
MIS	Management Information System
ML/TF	Money Laundering/Terrorist Financing
MoF	Ministry of Finance
MoU	Memorandum of Understanding
NFC	Near-Field-Communication
NPF	New Procurement Framework
NPL	Nonperforming Loan
P2G	Person-to-Government
P2P	Person-to-Person
PA	Project Account
PAFI	Payment Aspects of Financial Inclusion
PCG	Partial Credit Guarantee
PDO	Project Development Objective
PFI	Partner Financial Institution
PIM	Project Implementation Manual

PIU	Project Implementation Unit
PNDES	National Economic and Social Development Plan (*Plan National de Développement Economique et Social*)
PPA	Project Preparation Advance
PPCG	Partial Portfolio Credit Guarantee
PPSD	Project Procurement Strategy for Development
PSC	Project Steering Committee
PTC	Project Technical Committee
QMS	Quality Management System
QR	Quick Response
RAF	Financial Management Officer (*Responsable Administratif et Financier*)
RC	Remuneration Committee
ROA	Return on Assets
ROE	Return on Equity
SC	Steering Committee
SICA-UEMOA	West African Economic and Monetary Union Automated Interbank Clearing House
SMEs	Small and Medium Enterprises
SMS	Short Message Service
SOFIGIB	Interbank Guarantee Company of Burkina Faso (*Société Financière de Garantie Interbancaire du Burkina)*
SORT	Systematic Operations Risk-rating Tool
SSC	Supervision Committee
STAR-UEMOA	West African Economic and Monetary Union Real Time Gross System
SWIFT	Society for Worldwide Interbank Financial Telecommunications
SYGRAE	Management system of civil servant pensions (*Système de gestion de retraite des agents de l'état*)
TA	Technical Assistance
ToR	Terms of Reference
TTL	Task Team Leader
UFA	Universal Financial Access
USSD	Unstructured Supplementary Service Data
WA	Withdrawal Application
WAEMU	West African Economic and Monetary Union

Regional Vice President:	Hafez M. H. Ghanem
Country Director:	Pierre Frank Laporte
Senior Global Practice Director:	Alfonso G. Mora
Practice Manager:	Consolate K. Rusagara
Task Team Leader(s):	Maria Eileen Pagura, Tenin Fatimata Dicko

TABLE OF CONTENTS

DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Burkina Faso	Financial Inclusion Support Project in Burkina Faso	
Project ID	Financing Instrument	Environmental Assessment Category
P164786	Investment Project Financing	B-Partial Assessment

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Disbursement-linked Indicators (DLIs)	[ ] Small State(s)
[✓] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
30-Apr-2019	30-Apr-2025

Bank/IFC Collaboration

No

Proposed Development Objective(s)

The Project Development Objective is to increase access to digital financial services and facilitate access to credit for targeted beneficiaries.

Components

Component Name	Cost (US$, millions)

Increasing the usage of transactions accounts	28.30
Strengthening institutional capacity for enhanced financial inclusion	8.70
Increasing farmers' and SMEs' access to credit	54.50
Project management	8.50

Organizations

Borrower:	Ministry of Economy, Finance and Development
Implementing Agency:	Directorate of Treasury and Public Accounting

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	100.00
Total Financing	100.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	100.00
IDA Credit	100.00

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
National PBA	100.00	0.00	0.00	100.00
Total	**100.00**	**0.00**	**0.00**	**100.00**

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2019	2020	2021	2022	2023	2024	2025

Annual	0.10	10.52	19.44	25.44	20.97	17.97	5.56
Cumulative	0.10	10.62	30.05	55.50	76.47	94.44	100.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?	
a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate

9. Other	
10. Overall	● Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✔	
Performance Standards for Private Sector Activities OP/BP 4.03		✔
Natural Habitats OP/BP 4.04		✔
Forests OP/BP 4.36		✔
Pest Management OP 4.09	✔	
Physical Cultural Resources OP/BP 4.11		✔
Indigenous Peoples OP/BP 4.10		✔
Involuntary Resettlement OP/BP 4.12		✔
Safety of Dams OP/BP 4.37		✔
Projects on International Waterways OP/BP 7.50		✔
Projects in Disputed Areas OP/BP 7.60		✔

Legal Covenants

Sections and Description
The Recipient shall no later than two (2) months after the Effective Date: (i) install and thereafter maintain an accounting software for the Project, in a manner acceptable to the Association; and (ii) assign or recruit and thereafter maintain an internal auditor with qualifications and under terms of reference satisfactory to the Association. (Schedule 2, Section 1, A, 3 (d)).

Sections and Description
The Recipient shall no later than six (6) months after the Effective Date recruit and there after maintain an external

auditor, with qualifications and under terms of reference satisfactory to the Association. (Schedule 2, Section 1, A, 3 (e)).

Sections and Description
The Recipient shall no later than three (3) months after the Effective Date, establish and maintain at all times during Project implementation the PPCG technical committee ("PPCG Technical Committee") as a sub-committee to the PRC.

(a) The PPCG Technical Committee shall be responsible for providing guidance on the operations of the PPCG and ensuring that it implements its terms of reference as defined in the SOFIGIB Agreement.

(b) The PPCG Technical Committee shall meet quarterly and shall include, inter alia, representatives from MINEFID, professional associations of banks, the professional association of MFIs and expert professionals chosen for their knowledge about the financial sector, agri-finance and/or agri-insurance.
(Schedule 2, Section 1, A, 4).

Sections and Description
The Recipient shall ensure that, not later than three (3) months after the Effective Date, a functional grievance redress mechanism for the Project, with adequate staffing and processes, and in form and substance satisfactory to the Association, is established, and thereafter maintained, operated and its availability publicized, throughout Project implementation, to register, hear and determine fairly and in good faith all complaints raised in relation to the Project, including those related to the environmental and social matters, and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Association.
(Schedule 2, Section 1, D, 2).

Conditions

Type	Description
Effectiveness	The Recipient has adopted the Project Implementation Manual in form and substance acceptable to the Association. (Article 4.01 (a))
Effectiveness	The Recipient has established the PIU in accordance with Section I.A.3 of Schedule 2 to the Financing Agreement. (Article 4.01 (b)).
Disbursement	Notwithstanding the provisions of Part A of the Schedule 2, Section 3, A of the Financing Agreement no withdrawal shall be made: - under Category (2) unless and until (i) the PPCG Technical Committee referred to in Section 1.A.4 of Schedule 2 of the Financing Agreement is established; (ii) the SOFIGIB Agreement referred to in Section I.A.5 of Schedule 2 of the Financing Agreement is entered into between the Recipient and SOFIGIB in a manner satisfactory to the Association (Schedule 2, Section 3, B (b)).

I. STRATEGIC CONTEXT

A. Country Context

1. **Burkina Faso is a low-income and landlocked country in West Africa, with a population of 19.7 million and a gross domestic product (GDP) per capita of US$650.** With approximately 40 percent of the population living below the poverty line of US$2 per day, the country relies heavily on foreign assistance to support its pursuit of social and economic objectives. Cotton production and gold mining, as well as a weak industrial base, are the key drivers of Burkina Faso's economy.

2. **Despite security and weather-related shocks, economic growth has remained resilient.** Following the slowdown during the 2014–15 political transition, the economy has recovered. In 2017, growth reached 6.3 percent, driven by expansive fiscal policy and buoyant gold mining activity. In 2018, growth is estimated at 6 percent, driven by the gold mining sector and a rebound of the agricultural sector.

3. **The Government has taken steps to restore fiscal discipline, after a sharp deterioration in 2017.** The fiscal deficit soared from 3.4 percent of GDP in 2016 to 7.8 percent in 2017 due mostly to increased public investment. Deteriorating security has called for increases in security-related expenditure. Recurrent and prolonged strikes in the civil service and social unrest are putting upward pressure on wages and causing recurrent transfers to the energy sector, thereby reducing the quality of public spending. In this context, fiscal space for the Government's ambitions to address large deficits in infrastructure and social services has further narrowed. As part of a new Extended Credit Facility with the International Monetary Fund (IMF), the Government has committed to a deficit of 5 percent of GDP in 2018 and to the West African Economic and Monetary Union (WAEMU) convergence criterion of 3 percent of GDP in 2019.

4. **The country faces many socioeconomic, political, and security challenges.** In 2014, social tensions over the high cost of living, corruption, and the Government's bid to increase the number of constitutional term limits led to public protests and the eventual fall of the long-standing *Compaoré* Government. After a failed coup attempt in September 2015, Roch Marc Kaboré was elected President in November 2015. Since then, the country has entered a new democratic era but has had to contend with a series of terrorist attacks attributed to jihadist groups. These security issues, which emerged in 2015 and continued throughout 2018, have impeded a full economic recovery while resulting in the deaths of more than 100 people in the last four years. Security challenges are expected to continue to affect the country's socioeconomic prospects in the years to come.

5. **Burkina Faso's security situation has worsened significantly since June 2018 due to an upsurge in violent attacks by terrorists and criminal groups in the eastern and northern regions.** The country has witnessed frequent incidents in the last year, including the destruction of security outposts and schools, attacks on security personnel and cash points, and the kidnapping and killing of civilians. The Government's increased counterterrorism operations on suspected terrorist strongholds and safe havens, meanwhile, have had a limited impact. The most alarming development, perhaps, has been the increased use of improvised explosive devices (IEDs) to cause harm and destruction. In September 2018, five national policemen and one civilian were killed when their car ran over an IED in the eastern region. Due to worsening conditions, countrywide operations will be required to pay much greater attention to security considerations.

6. **In addition to security challenges, poverty remains a critical issue.** While Burkina Faso has achieved a significant reduction in its poverty rate over the past 15 years, this rate is still high. Burkina Faso remains one of the poorest countries in the world. The root causes of poverty are linked to low agricultural productivity, unmanaged rural exodus, and high population growth.[1] Poverty is five times lower in the capital city, Ouagadougou, than in rural areas where 90 percent of the poor reside. Female-headed households are statistically more likely to be poorer than male-headed households, while the poor remain excluded from many basic social services and infrastructure.

7. **Several constraints persist in the promotion of gender equality in Burkina Faso.** In the 2016 Human Development Report, the country ranked 146 out of 149 countries in terms of gender inequality due to several unfavorable socioeconomic factors. Poverty is higher among women than men (52 percent compared to 48 percent), and women are underrepresented in major decision-making bodies and institutions (in 2016, just 9.4 percent of parliamentarians in Burkina Faso were female, compared to a global average of 23.3 percent). Women's access to agricultural extension services, credit, and productive resources such as land remains limited. Low educational attainment (74 percent illiteracy rate among adult women and 56 percent among men) and the sociocultural constraints that relegate women to a reproductive role have served to exacerbate gender inequality in Burkina Faso.

8. **To confront these socioeconomic challenges, the authorities have adopted an inclusive growth strategy for all sectors of the economy, as outlined in the 2016–2020 National Economic and Social Development Plan (*Plan National de Développement Economique et Social*, PNDES).** The plan's vision is to structurally transform the economy, through inclusive growth and decent jobs for youth and women. As such, the plan aims to stimulate an average annual GDP growth rate of 7.7 percent and reduce poverty from 40.3 percent in 2014 to 35 percent by 2020. As for the financial sector, the plan highlights the need to improve access to finance to catalyze private sector growth and stimulate economic diversification.

B. Sectoral and Institutional Context

9. **The financial system is dominated by the banking sector, which accounts for approximately 82 percent of the sector's assets.** The financial sector is made up of 13 banks, two leasing companies, 16 insurance companies, two pension funds, one guarantee fund, and 133 microfinance institutions (MFIs). Nonbank financial institutions remain small and capital markets underdeveloped.

10. **The banking sector is profitable and could play a bigger role in providing credit to individuals and small and medium enterprises (SMEs).** The country's banking sector has expanded significantly in recent years, growing faster than the average in Sub-Saharan Africa and most WAEMU member states**.** Total banking sector assets as a percentage of GDP were 70.5 percent as of December 2017, the second highest in the WAEMU region after Togo (86.4 percent) and higher than its neighbors like Côte d'Ivoire (46.8 percent), Mali (49.3 percent), and Senegal (69.6 percent).[2] The sector is considered profitable and well capitalized, with a return on assets (ROA) of 1.4 percent in 2016, slightly higher than the previous year, which registered an ROA of 1.3 percent. The sector's return on equity (ROE) decreased slightly in 2016 from 22.9 percent to 21.6 percent, due to increased equity. According to the WAEMU's Central Bank (*Banque Centrale des Etats de l'Afrique de l'Ouest*, BCEAO), the capital adequacy ratio was 10.6 percent (June 2016), above the regulatory threshold of 8 percent risk-weighted assets. Gross nonperforming loans

[1] United Nations University. 2015. "Burkina Faso - Growth without Poverty Reduction." *UNU-WIDER Research Brief* 2015 (10).
[2] IMF. 2018. *Regional Economic Outlook - Sub-Saharan Africa: Domestic Resource Mobilization and Private Investment*.

(NPLs) were up slightly to 10.2 percent in June 2016 from 9.9 percent the preceding year. However, the level of NPLs was not a major concern as banks were, on average, well provisioned at 67 percent. The credit to private sector to GDP ratio decreased by 6.9 percent between 2015 and 2016 to reach 26.9 percent, which is lower than many West African countries.

11. **Despite the scope of the microfinance sector, its weight in the wider financial sector is relatively small, and its overall performance has been mixed.** Burkina Faso's microfinance sector serves approximately 1.9 million people, a testament to the sector's contribution to overall financial inclusion. As of January 2017, the microfinance sector represents 6 percent of the country's total financial sector credit portfolio and 7 percent[3] of total savings. Nevertheless, the value of the sector's total assets stood at just 4.6 percent[4] of GDP (2016). Overall, roughly 20 percent of MFIs are compliant with all norms and financial performance indicators. Over the past five years, MFIs have failed to comply with key profitability and portfolio quality ratios, revealing weaknesses in operational self-sufficiency and making additional investments difficult. Additionally, MFIs have been increasingly withdrawing to urban areas, in search of lower-cost business opportunities and also due to the prevailing interest rate caps which make it difficult to serve higher-cost/remote clients. Several MFIs in difficulty have been reporting negative returns for more than a year.

12. **The microfinance industry also lacks adequate supervisory capacity.** The public department in charge of MFI supervision, the Ministry of Economy, Finance and Development (MINEFID) Directorate for the Supervision and Control of Decentralized Financial Institutions (*Direction de la Supervision et du Contrôle des Systèmes Financiers Décentralisés*, DSC/SFD),[5] is significantly understaffed, with only 23 employees and only 20 inspectors to supervise about 109 MFIs. In 2017, the DSC/SFD was only able to carry out half of the planned on-site inspections with a limited number of follow-up missions. Further to this, the supervisor's MFI reporting system is paper based and therefore vulnerable to manipulation and human error. The lack of human and budgetary resources limits the frequency and quality of on-site control, further weakening supervision of the sector. Neighboring countries (Niger, Cote d'Ivoire, etc.) have faced similar challenges with the supervision of the microfinance sector, and finally adopted a risk-based supervision as the solution.

Access to Credit

13. **Credit to the private sector is limited and concentrated to a few large firms.** Though Burkina Faso's banking sector is among the leaders in the region in terms of size, credit to the private sector remains limited with private credit to GDP at 27.5 percent. Credit remains concentrated among a few large companies, and the country's top 50 firms receive 40 percent of total loans. Loans are also concentrated in a few sectors of the economy, including trade (26.9 percent), construction/public works (17.7 percent), and manufacturing (17.2 percent). According to FinScope, just 4 percent of bank and 5 percent of microfinance account holders had an outstanding loan in 2017. Additionally, only 6 percent of the SMEs had an outstanding bank or MFI loan in 2016. When bank financing is available for SMEs, it is usually small, covering roughly 16 percent of the total investment. These figures support the findings of a

[3] *Rapport 2015 sur le secteur de la Microfinance au Burkina Faso, 2017, Ministère de l'Économie, des Finances et du Développement-Secrétariat permanent pour la promotion de la microfinance*.
[4] World Development Indicators consulted in May 2018; team on calculus based on current GDP.
[5] The microfinance sector is supervised by two entities: the regional banking commission through the BCEAO supervises large MFIs while the national supervisory authority (DSC/SFD) is in charge of the supervision of medium and small MFIs.

World Bank SME finance survey in 2017, which revealed that access to finance in Burkina Faso is the biggest growth constraint for three-quarters of the interviewed SMEs. Similarly, bank lending to the agriculture sector is low—representing just 4 percent—with the majority of agricultural financing directed to the cotton sector.[6] Although MFIs are more engaged in financing farmers and agribusinesses, the share of the microfinance sector's total loan portfolio (CFAF 160 billion/US$297 million) in agriculture was a mere 15 percent in 2016.

14. **Lack of collateral, asymmetry of information, and other crucial factors limit credit access.** According to a study conducted by the National Council of Employers of Burkina Faso (with support from the International Labor Organization) in 2017, only 500 SMEs (out of 65,000) and 2 percent of agricultural SMEs have access to credit due to, among other reasons, guarantee requirements. Bank collateral requirements in Burkina Faso are high and can reach as much as 120 percent of the loan value, consisting mainly of fixed collateral, while most individuals and small firms possess only moveable collateral. Producers and agricultural enterprises similarly struggle to meet these stringent collateral requirements, as only 8 percent of agricultural households hold a legal land title. With International Finance Corporation (IFC) support, the WAEMU countries adopted and passed a regional law on credit bureaus. A private credit bureau operator (Creditinfo VoLo) has been selected and is serving in all eight countries. Operations in Burkina Faso started in 2016, and Creditinfo VoLo has since signed service delivery agreements with all 13 banks and 10 MFIs, all entities regulated by the BCEAO. However, only nine banks and three MFIs are reporting information to the bureau. The country has a collateral registry, but it is limited to immovable securities.

15. **Furthermore, the high incidence of informality among SMEs constrains their credit access.** The country's private sector is largely informal and dominated by SMEs and microenterprises. According to a FinScope 2016 study, there are approximately 1.5 million informal enterprises and 65,000 formal enterprises in Burkina Faso, with just 500 formal firms considered large, with an annual turnover of more than CFAF 1 billion (US$1.8 million). Most firms lack the capacity to produce business plans and financial records, compounding the difficulties banks experience when assessing creditworthiness.

16. **Burkina Faso fares relatively poorly in terms of entrepreneurship.** The country ranked 129 out of 137 countries in the 2018 Global Entrepreneurship Index, published annually by the Global Entrepreneurship and Development Institute, and 23 among 29 Sub-Saharan African countries. Burkina Faso underperforms particularly in the areas of risk acceptance, human capital, risk capital, start-up skills, and internationalization. At the same time, firm creation has picked up, driven by urban migration and accompanied by a rise in the number of adults saving to start, operate, or expand a farm or business. While this development represents good prospects, the country's credit bureau is still at the nascent stage and has not yet been able to establish a reliable credit report for individuals and SMEs.

17. **Access to credit in the agriculture sector is particularly hampered by the sector's vulnerability to climatic risks.** In Burkina Faso, droughts and floods represent the most severe hazards. Floods are often followed by substantial droughts with multiplied negative impacts on people, farms, and livelihoods. Few banks have the necessary information or know-how to facilitate agricultural lending; hence, credit analysis and loan structuring often fail to take agriculture's specificities and associated climate risks into consideration.

[6] *Annuaire Statistique*, 2017, BCEAO.

18. **Given the low credit available to the economy, the Government has established 18 national funds to supply finance directly to individuals and SMEs.** However, national funds are vulnerable to mismanagement, elevated levels of NPLs, and inadequate financial reporting. Eight of these funds offer credit and guarantees, with some having limited outreach, meaning that they serve fewer than 100 people. The biggest of these funds—Burkina Social and Economic Development Fund (*Fonds Burkinabé pour le Développement Economique et Social*, FBDES) and the Women Entrepreneurial Activities Support Fund (*Fonds d'Appui aux Activités Rémunératrices des Femmes*, FAARF)—are in better shape but struggle to find the right balance between social goals and financial efficiency. Concerned about the management and performance of national funds, the Government recently consolidated them into six funds, though the FBDES and FAARF remain stand-alone entities.

19. **The authorities—in partnership with the banking sector—have established a local guarantee company, *Société Financière de Garantie Interbancaire du Burkina* (SOFIGIB), to address small businesses' limited access to credit, though the impact to date has been limited.** SOFIGIB's outreach is limited by its delivery model of only offering individual loan guarantees. As of December 2017, the company has delivered 723 guarantees for CFAF 15.3 billion/US$27.8 million, covering loan volume of CFAF 28.9 billion/US$52.5 million. To address this issue, donors have set up partial portfolio credit guarantees (PPCGs). In Burkina Faso, there is no locally managed PPCG despite favorable conditions, such as a stable yet overly liquid banking sector and a lending market to large firms that is becoming saturated. While there are a few internationally managed PPCGs in the country, there is growing dissatisfaction with them due to restrictive conditions and lengthy delays in processing guarantee payouts. As a result, SOFIGIB is seeking to establish its own PPCG but lacks the necessary resources and capacity to do so.

Financial Inclusion

20. **Many individuals in Burkina Faso, particularly women, the poor, and rural populations, remain excluded from the formal financial sector despite tremendous growth in financial access over the last three years.** According to the latest Findex report, 43 percent of the adult population had a transaction account in 2017, compared to just 13.4 percent in 2014. Nevertheless, Burkina Faso has one of the largest gender gaps in account ownership in the WAEMU region at 17 percentage points. Moreover, progress in financial inclusion is not reaching the poor as only 27 percent of the poorest 40 percent of the population have a bank account.

21. **This scarcity of access to financial services is caused in part by a low penetration of services points.** There are 2.89 bank branches and 6.95 MFI branches per 100,000 adults. It takes an average of 30 minutes to reach the nearest MFI branch.[7] As in many developing countries, the brick and mortar model has proven to restrict access to financial services, leaving room for alternative delivery channels such as mobile money and agent banking.

22. **The recent growth of mobile money adoption among individuals and SMEs indicates the potential for broader financial inclusion in Burkina Faso.** The landscape comprises two subsidiaries of telecommunications operators licensed as e-money issuers (Orange and Telmob) that share a customer base of close to 7 million subscribers of which 50 percent are active. Burkina Faso is the second largest mobile money market in WAEMU after Côte d'Ivoire. Access to financial services is largely attributed to the rapid growth of mobile money accounts. Since 2014, the percentage of the adult population with a

[7] *Rendre l'Accès Possible: Rapport de Diagnostic de l'Inclusion Financière 2017.* MoF, Burkina Faso.

mobile money account has risen by nearly 30 percentage points to 33 percent. At the end of 2017, transaction value was estimated to be CFAF 3.9 billion (US$6.7 million) and volume was close to 352 million. Usage patterns indicate 41 percent of the transactions volume is attributable to airtime purchase and person-to-person (P2P) transfers with an average value transaction ranging between CFAF 20,000 and CFAF 25,000 (US$50), which reveals people trust digital payment instruments. This trend bears a positive gender impact given that there is progressive adoption of mobile money among women in savings groups and cooperatives and represents a huge opportunity to enhance financial inclusion, particularly given the high mobile adoption rate of 79 percent (FinScope 2016)[8]. However, the Government, banks, and MFIs have been slow to deploy mobile money and other new technologies to extend services to the unbanked and underbanked.

23. **The use of cash collections and payments by the Government is still dominant.** In 2017, the Treasury processed nearly CFAF 171 billion (US$3 million) in cash transactions from institutions like the Social Security Office (*Caisse Nationale de Securité Sociale*, CNSS), the Ouagadougou Retirees Pension Plan (CARFO), the customs and tax authorities, universities, nationally owned companies, and so on. According to data gathered during project design, approximately 90 percent of person-to-government (P2G) payments are still made in cash, generating inefficiency and high transaction costs. Cash management is a major constraint for Treasury operations, which is why the Government is looking for more efficient ways to process payments. The CNSS and the CARFO are in particular need of digitalization, given the payout volume to beneficiaries. Payment of pensions by CARFO is largely processed in cash, which puts a burden on timely and efficient handling of transactions. As part of the implementation strategy for strengthening the management system of civil servant pensions, (SYGRAE), notably in its strategic axis of support for improving the quality of life of pensioners, CARFO has engaged in a process to digitize all pensions and annuities of values greater than or equal to fifty thousand FCFA (US$ 90) by 2019. Today, 14,830 pensioners (40 percent of total recipients) are paid in cash, amounting to more than US$ 11 million annually. This situation creates processing delays of up to 45 days as well as risks linked to transport and storage of funds in a context of high insecurity in Burkina Faso. The tax and customs collection process also appears to have the potential to contribute to domestic revenue mobilization. There is evidence from similar contexts that adopting digital payments can have a positive impact on the use of transaction accounts and financial inclusion overall.

24. **The payment system largely serves banks and the Treasury while underserving nonbank financial institutions.** The regional real-time gross settlement system (West African Economic and Monetary Union Real Time Gross System [STAR-UEMOA]) and the automated clearing house (ACH) (West African Economic and Monetary Union Automated Interbank Clearing House [SICA-UEMOA]) have been operational for more than a decade, with over 100 participating financial institutions in the region. Most banks are connected to both systems, while MFIs require regulators' authorization to connect and even issue electronic payment instruments, such as prepaid cards or mobile money wallets. There is a retail payment platform that provides interoperability of cards through a regional switch (West African Economic and Monetary Union *Groupement Interbancaire Monétique* [GIM-UEMOA]), which is mostly used by banks through a limited network of point-of-sale devices and automated teller machines. Innovative payment means such as Quick Response (QR) codes and Near-Field Communication (NFC) protocols have not yet appeared, though they have the potential to address the financial access gaps in unserved and underserved areas, revealing a concrete business opportunity for MFIs' digital expansion. In Burkina Faso, the Treasury's connection to the regional payment system remains incomplete. As a

[8] FinScope 2016 Consumer Survey Burkina Faso.

result, check processing is still performed manually, unlike other treasuries in the region that are directly connected to the payment systems.

25. **It is important to acknowledge that the environment for digital financial services is not fully enabling today in Burkina Faso.** There is, for instance, a judicial void in the definition of access conditions to Unstructured Supplementary Service Data (USSD) codes, which is governed by the Telecommunications Regulatory Authority (*Autorité de Régulation des Communications Electroniques et des Postes*, ARCEP). Access to USSD has not been made compulsory by law. Mobile money providers operate in closed loops without interfacing with other entities such as MFIs or fintechs that have the potential to accelerate interoperability. Moreover, the financial consumer is exposed to risks and abusive practices since there is no law against cybercrime in the country. In addition, a surge of digital contracts to improve electronic commerce and other digital transactions has been constrained by the lack of an operational digital signature framework, which is also the responsibility of the ARCEP. Ultimately, the introduction of technology into financial services in Burkina Faso will first require improving the legal environment and introducing the necessary legislation.

26. **There is an urgent need for appropriate consumer protection regulation, as mobile money brings additional risks to consumers, particularly those with low levels of financial capability.** Burkina Faso has a foundation of rules pertaining to consumer protection (usury rate and obligation to display fees and charges in premises), but these are not subject to strong enforcement. Rules and regulations also have loopholes, including the following: (a) they do not apply to issuers of mobile money; (b) there is no consistent definition of fees, impairing comparability; (c) abusive practices are not forbidden; and (d) there is no external redress mechanism. Recognizing the judicial void in the WAEMU region, the BCEAO has updated the regulatory text on consumer protection in its regional strategy on financial inclusion, which was adopted in June 2016. The strategy calls for member states to establish mechanisms (notably observatories on quality financial services) that promote the transparency and comparability of financial services, improve market practices, and operate a financial mediation mechanism so that financial institutions and consumers can easily settle disputes. Indeed, the draft national strategy on financial inclusion also highlights the need for establishing consumer protection mechanisms for financial services.

C. Relevance to Higher Level Objectives

27. **The proposed operation is consistent with and aligned to the World Bank Group's Country Partnership Framework (CPF) for Burkina Faso for FY2018-2023.** The program supports the CPF objective of improving the business environment and access to inclusive finance under Focus Area 1 - Sustainable Private Sector Led Growth for Job Creation. The CPF objective of improving access to inclusive finance directly relates to Burkina Faso's PNDES, which places much importance on enhancing capacity building for the private sector, especially SMEs/small and medium industries, and setting up financial mechanisms adapted to SMEs' needs. Through this project, the World Bank will assist in expanding access to transaction accounts among unbanked people in the poorest rural and urban regions in Burkina Faso. Through a risk-sharing facility, the project aims to expand financing from the private sector to farmers and SMEs, including those led by youth and women. This will ensure SME development and contribute to reducing the large gender gap in financial inclusion.

28. **The proposed project interventions are aligned with the World Bank's twin goals of ending extreme poverty and promoting shared prosperity.** Access to financial services is essential for creating wealth, creating and developing businesses, managing risks, and mitigating financial shocks. Digital

financial services provide convenient and affordable channels for individuals and households to easily make payments and save and borrow money. Businesses and the Government can leverage digital financial services to transact more easily with customers, citizens, and suppliers. Lastly, by using digital financial services, individuals and businesses create a digital footprint that can be leveraged to access credit and other financial services.

29. **The proposed operation aims to maximize finance for development.** Project resources will be used to leverage private financing and maximize development impact. Specifically, the project will establish a PPCG fund by increasing the funding of the public-private guarantee company, SOFIGIB. Indeed, it is estimated to catalyze at least US$160 million in new private sector lending to SMEs, farmers and women with a funding increase of US$35 million. The PPCG scheme will be backed with a resident technical assistance (TA) program to help build capacity in the partner financial institutions (PFIs) in lending to private SMEs. The project will also establish a shared information technology (IT) platform to enhance MFIs' digital finance capacity. With access to shared IT services and digital finance applications, MFIs will be able to grant more credit and serve more people, in particular for the rural poor. Lastly, the project is informed by a financial sector review conducted by the World Bank in 2017 and builds on a TA project funded by the Financial Sector Reform and Strengthening Initiative (FIRST) to enhance the digital finance environment allowing more private institutions to engage in digital finance.

30. **The proposed project will aim to address the key constraints faced by women and women-led enterprises to access financial services.** Gender-related disparities in access to financial services in Burkina Faso affect women's ability to save, cope with shocks, and make productive investments. The incidence and severity of poverty is particularly high for women (52 percent compared to 48 percent for men) mainly due to limited access to agricultural extension services and productive resources like land and low representation in decision making. Low educational level (79 percent illiteracy rate among adult women) and the sociocultural constraints that relegate women to a reproductive role drive gender inequality in Burkina Faso. Women also lag behind men in terms of financial inclusion, with Burkina Faso having one of the largest gender gaps in account ownership in the WAEMU region. Burkina's gender gap in account ownership is 17 percentage points, 5 percentage points higher than the Sub-Saharan African average. All the components of the project will support women in addressing constraints such as limited control over productive resources, lack of suitable collateral, and low business skills, etc. Evidence shows that digitization of government payments has a positive impact on women's financial inclusion. Additionally, the project will be offering tailored training for women entrepreneurs. Personal Initiative training has been shown to be effective for female entrepreneurs.[9] Lastly, the project will explore piloting innovative mechanisms that could help increase access to finance for women-owned SMEs, such as fintech solutions.

31. **The proposed operation will also contribute to achieving Universal Financial Access (UFA) by 2020.** The World Bank Group along with private and public sector partners have set an ambitious goal of achieving UFA for all adults by 2020. The UFA Initiative intends that by 2020, all adults globally should be able to access a simple transaction account or electronic instrument to store money and send and receive payments. The proposed project contributes directly to this agenda through its focus on digitizing government payments and microfinance services.

[9] Campos, F., M. Frese, M. Goldstein, L. Iacovone, H. C. Johnson, D. McKenzie, and M. Mensmann. 2017. "Teaching Personal Initiative Beats Traditional Training in Boosting Small Business in West Africa." *Science* 357 (6357): 1287–1290.

32. **The proposed operation also aligns with the Regional Strategy of Financial Inclusion of the BCEAO.** Objectives 3 and 4 of the BCEAO's regional strategy are to promote innovative ways of targeting and including the financially excluded (such as youth, women, rural populations, the financially uneducated, and SMEs) and strengthen financial education and financial services consumer protection. The proposed project directly aligns with this agenda through its digital finance promotion, financial education campaigns, the establishment of an observatory for quality financial services, and setting up of an innovative credit guarantee instrument to promote SME lending.

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

33. The Project Development Objective is to increase access to digital financial services and facilitate access to credit for targeted beneficiaries.

34. Targeted beneficiaries refer to individuals, farmers, women, youth and SMEs that are unserved and underserved financially.[10]

PDO Level Indicators

35. **To assess progress toward achieving the PDO, the project will focus on six main indicators to** (a) evaluate the use of digital financial services[11] and (b) assess progress on increasing access to credit for SMEs.

36. **The first three indicators seek to evaluate digital financial services usage as follows:** (a) Percentage of social services beneficiaries (CNSS and CARFO) that receive social benefits paid into their transaction accounts, (b) Percentage of customs payments made electronically, and (c) Percentage of MFI clients receiving loan disbursement or making transactions using mobile money accounts that are linked to their MFI accounts.

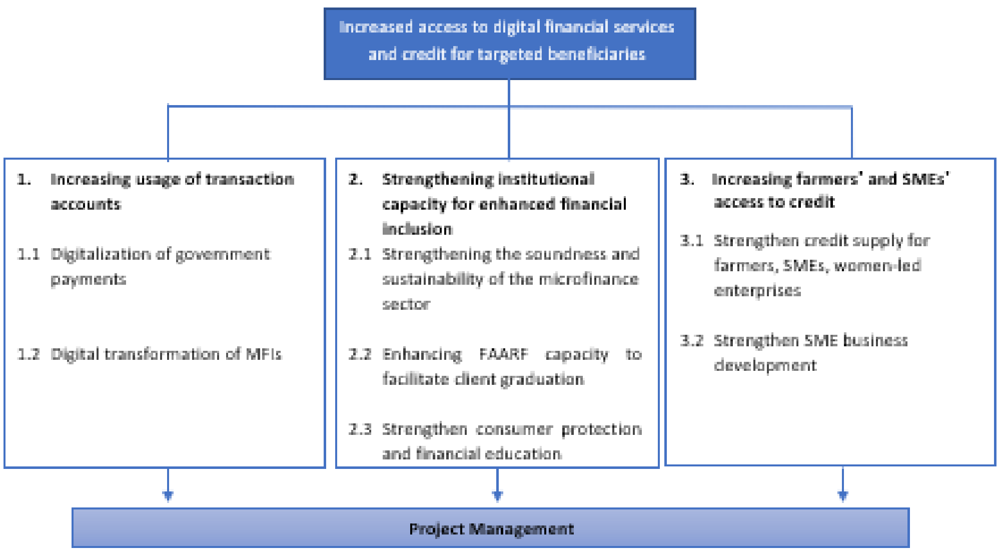
37. **The last three indicators will assess progress on increasing access to credit for SMEs as follows:** (a) Number (cumulative) of farmers, SMEs, women-led enterprise borrowers who are covered by the partial portfolio credit guarantees, (b) Number of women-led SME borrowers who are covered by the partial portfolio credit guarantees, and (c) Volume of PFIs lending to farmers, SMEs and women-led enterprises based on guarantees issued by PPCG in thousands of USD.

[10] Unserved refers to an individual, farmer, woman, youth or SME that does not have a loan or overdraft but needs a loan. Underserved refers to an individual, farmer, woman, youth or SME that has a loan but still faces financing constraints.
[11] Digital financial services in the scope of this project cover financial products and services, including payments, transfers, savings, credit, insurance, securities, financial planning, and account statements. They are delivered through digital/electronic technology such as e-money (initiated either online or on a mobile phone), payment cards, and regular bank accounts. Source: Global Partnership on Financial Inclusion. 2016. "G20 High-level Principles on Digital Financial Inclusion."

B. Project Components

- Component 1: Increasing the usage of transaction accounts (US$28.3 million)
- Component 2: Strengthening institutional capacity for enhanced financial inclusion (US$8.7 million)
- Component 3: Increasing farmers' and SMEs' access to credit (US$54.5 million)
- Component 4: Project management (US$8.5 million)

Figure 1. Project Components



38. **The project proposes to enhance access to digital financial services and credit for individuals and SMEs in Burkina Faso over a six-year period for US$100 million.** Under Component 1, the objective is to bring more people into the financial sector by promoting the use of simple transaction accounts to receive and send payments from/to the Government and to transact with MFIs. Under Component 2, the project supports activities to strengthen institutional capacity and clean up the microfinance sector to broaden the reach of financial services. To enhance credit supply to individuals and SMEs, Component 3 supports the establishment of a PPCG and the strengthening of business development services (BDS) and fintech solutions. Under Component 4, the project supports project management through the establishment of the Project Implementation Unit (PIU).

Component 1: Increasing usage of transaction accounts (US$28.3 million equivalent)

39. **Under Component 1, the project aims to increase the usage of transaction accounts.** This component supports the digitization of government payments and the digital transformation of microfinance services. The use of mobile payments, particularly in the context of Burkina Faso, can help address the security concerns of moving cash physically. Approximately 22,292 mobile money agents are deployed across the country, although largely concentrated in urban areas. Agents deployed in rural areas,

particularly in the north, will be key in safely channeling social support and financial services to the conflict-affected areas without exposing beneficiaries.

Subcomponent 1.1: Digitization of government payments (US$20.5 million)

40. **The absence of a central system that interconnects the public administration is an essential weakness of the Treasury's financial infrastructure.** Hence, the project will support the acquisition of a national platform which is a requisite to complete digitization. This holistic approach will ensure a more cohesive, end to end modernization process that allows for straight through processing (STP) of all payments issued and received by the National Treasury. The implementation of such project will require acquisition of hardware and software as well as technical assistance to help the Treasury's staff to efficiently master the project.

41. **Treasury's connection to the regional payment systems.** To reinforce adoption of digital payments, the project will support the National Treasury's connection to the regional payment systems: STAR-UEMOA and SICA-UEMOA. Government payment digitization starts upstream with automation of the Treasury's financial services. Burkina Faso is the only country in the WAEMU that has not completed its connection to the regional payment systems, which is the first step toward a cashless government. The country had engaged in a comprehensive modernization process that encompasses check truncation and wire transfers, which are steps toward progressive digitization. Without check scanning, the Treasury is bound to physically present its checks to the BCEAO for clearance, which creates an imbalance within the financial system given all its counterparts (that is, financial institutions) have digitized their clearing processes. For large-value payments, it is important that the Treasury establishes a connection to the BCEAO through the Society for Worldwide Interbank Financial Telecommunications (SWIFT), which will contribute to efficiency of payments. With these backend connections, the Government will be better prepared for full digitization.

42. Funded interventions:

(a) Support implementation of check scanners and network connection to the BCEAO ACH

(b) Enable small-value wire transfers

(c) Establish SWIFT connection to enable large-value payments

(d) National platform for the Treasury (Core banking system)

43. **Digitization of government payments as a first phase toward a broader modernization process.** As was highlighted previously, government payments processed in cash, such as social security benefits, are widespread. The project will support the digitization of one P2G and one government-to-person (G2P) payment streams. For the P2G stream, the project will support the development of a web-based payment portal to introduce a new digital payment method for the National Customs Office (*Direction Générale de la Douane*, DGD). The DGD processes approximately 350,000 small-value transactions annually, the majority of which are collected in cash. With project support, the DGD will pilot the digital payment method in one or two regional offices in the first two years of project implementation before being rolled out nationally. For the G2P stream, the project will support the digitization efforts of social services institutions, namely CNSS and CARFO. The project will work with the CNSS to digitize monthly cash payments made to 106,153 individuals. This builds on the CNSS' digitization initiative, which was

implemented between 2008 and 2016 and resulted in an increase from 8 percent to 47 percent of beneficiaries receiving payments in a bank or MFI account. The CNSS is convinced that digitization solutions through mobile money provide a more effective channel for social security payments. The project will also support CNSS to digitize cash collections from their clients. Further to this, to reach its goal of processing all pensions higher of equal to US$ 90, the project will support CARFO to digitize payments to 8,000 people. Project support will be directed in three areas, not limited to: technical infrastructure, capacity building and sensitization. The project will therefore support the move from cash payment to digital accounts through mobile money, as well as banks and MFIs.

44. **In parallel to the digitization initiatives, the project will support a deep-dive diagnostic to map government flows and develop an action plan to transition to a fully integrated government payments portal.** In addition, this project activity will involve support for drafting and adopting the adequate regulatory framework for government payment digitization, which will include a decree or law on the digitization of incoming and outgoing government expenses. The document will clearly outline the necessary conditions and modalities for payment service providers that wish to compete for a government bid and process government transactions (security, interoperability, transparency, accuracy, and so on). This phase is expected to unlock the potential of digitization embedded in public payments.

45. Funded interventions:

(a) Purchase of software and hardware to implement the CNSS, CARFO and DGD payments portal

(b) TA and training for portal setup, use, and management

(c) Cover for the transaction fees charged by providers to execute payments (gradual decline over project life)

(d) Awareness campaigns for CNSS, CARFO beneficiaries and import/export enterprises and individuals

(e) Capacity building for CNSS, CARFO and DGD staff

(f) A deep-dive diagnostic to map all government payment flows and develop an action plan to transition to a fully integrated government payments portal

Subcomponent 1.2: Digital transformation of MFIs (US$7.8 million)

46. **Shared IT system and digital finance modules for MFIs.** Digital financial services offer cost-saving benefits to both MFIs and their clients. However, several MFIs in Burkina Faso do not have adequate IT systems nor the necessary resources to invest in technological solutions to go digital. The project will therefore support the establishment of a shared IT platform for MFIs—a key step in transitioning to digital finance. The system will be equipped with digital finance modules, allowing MFIs to connect with different stakeholders (mobile network operators, aggregators, and so on), provide new products and services, such as mobile and branchless banking and provide a secure unique access to each participating institution. MFIs must meet certain requirements defined by the key stakeholders of the sector to join the shared IT system. A public-private partnership will be established to govern the shared system, and each participating MFI will pay a fee to access its services. The project will be informed by a similar shared IT services platform for MFIs in Senegal. In addition, the project will provide TA to selected MFIs based on the criteria to implement digital finance projects.

47. Funded interventions:

(a) Conduct a diagnostic to identify IT needs and determine the shared system's governance and hosting structure

(b) Procure and select a firm to determine technical and functional specifications for the centralized IT system with digital finance modules

(c) Support the operating costs for the system for two years

(d) Support training of participating MFIs

(e) Provide TA to selected MFIs for the deployment of digital financial services

Component 2: Strengthening institutional capacity for enhanced financial inclusion (US$8.7 million equivalent)

48. Under Component 2, the project proposes to strengthen the institutional capacity of both the national supervisory authority and institutions in the microfinance sector, as well as strengthen the FAARF's capacity to facilitate the graduation of their beneficiaries to the formal financial sector and enhance consumer protection in the financial sector.

Subcomponent 2.1: Strengthen the soundness and sustainability of the microfinance sector (US$3.5 million)

49. **Supervision and strengthening of the microfinance sector.** Serving approximately 1.9 million people, the microfinance sector plays a key role in advancing the country's financial inclusion agenda. Effective supervision is key to the sector's growth and soundness. Given the weaknesses noted previously, the project envisages strengthening the national supervisory capacity. The project will support the national supervisor, DSC/SFD, to establish a comprehensive risk-based supervisory system. Given the number of MFIs, the capacity of both the national supervisor and institutions themselves is low, so a risk-based supervision will allow the supervisor to balance various supervisory and policy objectives while prioritizing the most imminent risks. Additionally, the project will support the ongoing sector clean-up and reorganization efforts of the Ministry of Finance (MoF). Building on the analysis of Burkina Faso's MFIs in difficulty (conducted under the FIRST Trust Fund), the project will support TA to strengthen stand-alone MFIs and those that are expected to be integrated with an existing network. Strengthening MFIs' capacities will contribute to efforts to close the gender gaps in terms of financial inclusion, given that almost 50 percent of their clients are women. The project will also support the authorities in developing a sound resolution framework for MFIs that need to be liquidated.

50. Funded interventions:

(a) Technology solutions (hardware/software, and so on) for comprehensive risk-based supervision

(b) Training programs for supervising inspectors including supervision in the era of digitalization

(c) TA to adopt a resolution framework for the sector

(d) Residential TA and training to selected MFIs based on identified priority actions identified

(e) TA on MFI mergers and consolidation

Component 2.2: Enhancing FAARF's capacity to facilitate client graduation to the formal financial sector (US$1.2 million)

51. **Bringing rural women into the formal financial sector.** Despite an average annual microfinance client growth rate of 10 percent over the last five years, there are many individuals, especially rural women, operating outside the formal financial sector. To deal with this challenge, the Government created the FAARF in 1990, a national fund that provides low-interest credit to rural women. As of 2018, the FAARF currently serves 137,000 members, many of whom have been clients for several years. The FIRST Trust Fund will support due diligence of the FAARF, as well as an analysis of its future institutional makeup. Building on this study, the project proposes to upgrade the FAARF's IT and management systems to enhance efficiency and the capacity to create member files and transaction history. To promote member graduation into the formal financial sector, the project will also support FAARF partnership development with banks and MFIs, as well as TA to improve the institution's capacity and efficiency.

52. Funded interventions:

(a) Upgrade of IT system

(b) Capacity development including fund governance and management systems and partnerships with MFIs/banks for graduation to the formal sector

(c) Training for FAARF employees

Component 2.3: Strengthen consumer protection and financial education (US$4.0 million)

53. **Establish an *Observatoire* on quality financial services.** To enhance confidence in financial services, the project will support the establishment of a national institution to promote consumer protection and financial education (*Observatoire*). First, the project will provide TA to strengthen the legal framework on consumer protection and financial education. Once the *Observatoire* has been legally established, the project will provide equipment and capacity support to ensure the effective implementation of the *Observatoire's* operations.

54. **Financial education campaigns.** Creating awareness on digital means is crucial to the adoption of digital financial services. This intervention aims to increase clients' understanding of, trust in, and adequate use of digital finance. Financial education campaigns will leverage, in particular but not limited to, mobile technology to ensure broad outreach to individuals and businesses.

55. Funded interventions:

(a) TA to establish the *Observatoire*

(b) Financing of IT systems and software for the comparator and *Observatoire's* website, toll-free number for consumers to submit complaints, and an IT system for tracking complaints and identifying trends

(c) TA and training programs for the board, management, and mediators of the *Observatoire*

(d) TA to develop financial education materials and campaigns on digital financial services

(e) Setting up of the interactive voice response (IVR) system and voice and text SMS on digital finance

Component 3: Increasing farmers' and SMEs' access to credit (US$54.5 million equivalent)

56. **Under Component 3, the project aims to increase farmers' and SMEs' access to credit.** Component 3 will support the following activities: (a) strengthening the credit supply for farmers and SMEs and (b) raising the demand for credit. To strengthen the credit supply, the project will support the establishment of a PPCG fund for farmers, SMEs and women-led enterprises. This project does not provide a line of credit to financial institutions as a direct way to increase access to credit. Rather the approach is to provide a credit guarantee backed with technical assistance to encourage financial institutions to serve the lower end SME market. To raise the demand for credit, the project will improve SME BDS, organize a business plan competition, and foster local fintech capacity. In the scope of this project, BDS are defined as those non-financial services and products offered to entrepreneurs at various stages of their business needs. These services are primarily aimed at skills transfer or business advice. The BDS offerings will include modules specifically tailored for women entrepreneurs and youth.

Component 3.1: Strengthening credit supply for farmers and SMEs (US$41.0 million)

57. **Establish a PPCG fund.** To ease the risks involved in SME lending, the project will support the establishment of a locally managed PPCG that targets farmers, SMEs and women entrepreneurs. The project will provide funds and TA to establish the guarantee fund and ensure its effectiveness. The management of the PPCG will be entrusted to SOFIGIB, a local licensed financial institution of bank-like character supervised by the BCEAO. The PPCG will be a separate guarantee fund within SOFIGIB, independent from other funds under management and SOFIGIB's capital. The PPCG will be designed and implemented based on the 16 Principles for Public Credit Guarantee Schemes for SMEs defined by the World Bank and FIRST in 2015, as described in annex 4. The project proposes that the PPCG will have three separate windows—an agricultural window for farmers, an SME window to cover loans to SMEs, including agri-SMEs, and a women entrepreneur window. Working capital and investment loans, available in local currency, will be eligible. While a few PPCGs have been made available by international players, there is growing dissatisfaction with the current PPCG offerings due to their conditions and the physical distance, which delays coordination and processing of indemnification claims. SOFIGIB does not currently have a PPCG and offers only individual credit guarantees (and typically for larger loans); however, the proposed project will fund a PPCG for SOFIGIB, thus allowing the financing of more modest projects for SMEs without significantly increasing SOFIGIB's monitoring costs. An assessment of SOFIGIB's IT system, institutional and legal arrangement, and financial forecast made during project identification revealed that SOFIGIB's current system can be improved to meet the requirements of the proposed PPCG. SOFIGIB and the Burkina Bankers Association (members of which sit on SOFIGIB's board) have expressed their support to the PPCG scheme, which is also in line with the BCEAO's regional strategy for SME financing.

58. **An important feature of the PPCG is that the PFIs and SOFIGIB receive TA.** Each PFI will benefit from technical support including assisting in working with the PPCG, developing the links between the PFI and SOFIGIB, improving internal procedures, developing risk analysis of SMEs, advising the PFI on the process of granting credit (including the analysis of the loan demand assessing and taking collateral) and on monitoring of the credit after it was granted, developing the customer base of the PFIs, and training staff. A resident technical advisor at SOFIGIB will help with the strengthening of internal procedures and of the management information system (MIS).

59. Funded interventions:

(a) Capital for the windows of the PPCG to be disbursed in tranches according to the volume of credits registered under the guarantee

(b) Investment in SOFIGIB's IT systems and equipment and related TA

(c) TA to support the PPCG's integration with business processes of participating financial institutions

Component 3.2: Strengthening SME business development services (US$13.5 million)

60. **SME BDS:** SMEs' elevated level of informality and limited capacity to provide bankable projects constrain their access to credit. The project aims to strengthen SME capacity by facilitating their entry into the formal sector and/or their access to credit. This will be done by strengthening the BDS capacity in-country. The project will support the *Centres de Gestion Agrée* (CGAs), the *Maison d'Entreprise du Burkina Faso* (MEBF), and any agreed-upon BDS provider as they extend their services, delivered through mobile phone technology where feasible. The project will support a needs assessment to tailor the BDS supply in Burkina Faso. The project will focus on improving SME bankability (including formalization), and as such, PFIs will refer SMEs to BDS providers supported by the project.[12] Specific support will also be provided to women entrepreneurs, such as Personal Initiative training, to enhance their capacity and bankability.

61. **Support to fintech and women-led SME development.** A recent World Bank evaluation of the financial sector in Burkina Faso shows that access to finance is more difficult for women than men, mostly due to collateral requirements, as valuable assets belong to men or are registered in their name. The same study reports that 15 percent of women own a bank account, compared to 20 percent of men. This highlights the gender bias that was identified as one of the top three challenges to be addressed by the Systematic Country Diagnostic and aligns with the PNDES's strategic objective of empowering women as dynamic economic actors to reduce inequality. Along with female entrepreneurs, youth also demonstrate lower access to and use of financial services. The country's high mobile phone penetration and the preponderance of youth in the fintech industry both constitute an opportunity to design tailored policies for their inclusion while improving women's access to finance. The project therefore seeks to leverage fintech solutions (mostly provided by youth) to overcome challenges constraining women-led and youth SMEs' access to credit by improving both supply and demand, through a business plan competition, coupled with capacity building and seed grants. The business plan competition for women-led, youth and fintech SMEs will select the 100 best business plans. The targeted firms will be formal or informal female-owned SMEs or cooperatives with relevant experience and demonstrating innovative solutions, as well as fintech SMEs (including start-ups). The selected firms will receive capacity-building services to improve their business plans and make them bankable (supply side), while 50 of them (at least 5 fintech SMEs) will receive seed grants from the project after a final selection by a jury (demand side). The grants will be directed to the financing of equipment and research/innovation activities, in accordance with the signed MoUs. The average grant size will be US$75,000 to be distributed in accordance with memorandums of understanding (MoUs) signed between beneficiaries and the PIU. The remaining 50 will be linked to the identified BDS providers to receive additional support and assistant in applying for the BCEAO SME support mechanism. While the fintech competition will be open, the project will also target information and communication technology (ICT) incubators supported by the World Bank e-Burkina project.

62. Funded interventions:

[12] Banks will refer formal SMEs, whereas MFIs will refer both informal and formal SMEs.

(a) Needs assessment to tailor and prioritize BDS support

(b) TA and equipment for BDS providers and mobile phone-enabled BDS

(c) Targeted training for women entrepreneurs

(d) Business plan competition to select about 100 fintech and women-led SMEs

(e) Capacity building and business plan improvement for the 100 selected SMEs

(f) Financing of at least 50 SMEs, out which at least 5 are fintech, to receive support for implementing their solutions as pilots

Component 4: Project Management (US$8.5 million equivalent)

63. **Under Component 4, the project will finance the costs related to project management and monitoring and evaluation (M&E).** The project will support the management of project implementation, including the costs involved in establishing a PIU, for example, development of a procedure manual, hiring of staff, and equipping of an office. The project will support the management of project implementation, including the costs involved in establishing a PIU, for example, development of a procedure manual, hiring of staff, and equipping of an office. The PIU will be responsible for setting up an M&E system to evaluate project progress on a regular basis. For this, the PIU will hire a dedicated M&E specialist who will manage the M&E system and reporting activities. The M&E system will be based on the agreed Results Framework and monitoring arrangements. The Results Framework, as designed and presented in section VII, is meant to measure project activities based on a set of agreed indicators that will be used by both the PIU and the World Bank. Baseline data for all the agreed indicators will be collected and verified by the PIU and the main implementing agencies within the first six months of the project. The project management team will recruit external support (firm or an individual consultant) as needed to build the capacity of M&E specialists within the project team and conduct independent spot evaluations to ensure high-quality implementation.[13]

64. **An unallocated amount, equivalent to 5 percent of the project budget, has been planned to provide flexibility in project implementation.** The unallocated amount will be used to cover any unexpected funding requirements of the project as agreed upon between the World Bank and the MOF. The unallocated amount will be used particularly for possible unfavorable budget variances in the acquisition of IT systems and implementation of the digitization of G2P and P2G payment flows, the shared MIS platform for MFIs depending on the results of the design studies financed under Sub-components 1.1 and 1.2.

C. Project Beneficiaries

65. **The ultimate beneficiaries of the project are Burkinabe individuals and SMEs, especially women, agri-producers.** A special focus will be given to women, given the gender gap in account ownership and

[13] In the event that the World Bank project team is successful in securing grant funding before effectiveness, a rigorous impact analysis on innovative approaches in BDS will be conducted, such as mobile-based advisory services and Personal Initiative training for entrepreneurship. Personal Initiative training is a psychological entrepreneurship training program. The World Bank has piloted this training program in Togo, among other countries, with great success and results. http://www.worldbank.org/en/news/feature/2018/01/18/new-mindset-increased-profits-lessons-from-an-innovative-entrepreneurial-training-in-togo. The evidence-based findings will inform future interventions to promote SME development in Burkina Faso and other World Bank projects.

access to financial services in the country. Additionally, the majority of microfinance clientele are women, having limited collateral and easy access to affordable credit. Direct beneficiaries of the project will include the following:

- Social benefits beneficiaries will have the option to receive their payments through an e-money transaction account.
- Individuals will have the option of making custom fee payments using e-money.
- FAARF beneficiaries will have the option of receiving their disbursement and making reimbursements of loans through e-money transaction accounts.
- Individuals will benefit from an improved financial consumer protection and financial education on digital finance.
- Government institutions will benefit from progress on their financial inclusion targets and better cash management through the digitization of government payments and capacity building.
- The Government will benefit from the saving of certain costs related to digitization of cash payments.
- Banks and MFIs will benefit from credit guarantees and strengthened capabilities.
- MFI customers will be able to access MFI services through digital service offerings.
- SMEs will benefit from increased access to credit and BDS.
- Fintech industry and BDS providers will benefit from direct support and a wider customer base.

66. **The project aims to enhance financial inclusion and increase access to credit for individuals and SMEs.** The project will leverage digital solutions (mobile money, Interactive Voice Response (IVR), Short Message Service (SMS)) to enhance financial inclusion and support a guarantee scheme to unlock financing to SMEs. Furthermore, the project will support significant capacity building for government institutions and policy makers, participating financial institutions (PFIs), individuals, and SMEs. The capacity of policy makers to formulate policies and of financial sector regulators to regulate and supervise MFIs will be strengthened. PFIs will strengthen their lending methodologies for the agricultural sector, women, and SMEs, so that they can continue to serve them beyond project completion. Lastly, the project will explore innovative approaches through fintech promotion to enhance financial inclusion and access to credit, with a special focus on women and agri-producers.

D. Results Chain

Activities	***Outputs***	***Outcomes***	
1.1 Digitize government payments: • Purchase backend systems for STAR-UEMOA and SICA-UEMOA for Treasury's connection to regional payments system. • Purchase equipment for Treasury platform and satellite offices connection. • Purchase software and hardware for the payment portal for the DGDCARFO and CNSS • Provide TA and training and awareness-raising events	• Treasury connected to regional ACH • Web-based payment portal established for the DGD • Digitization of CNSS payments rolled out	Accurate and convenient provision of G2P and P2G payments	
1.2 Digital transformation of MFIs: • Identify/design/develop a centralized IT system with digital finance modules for MFIs • TA for participating MFIs and deployment of digital financial services for selected MFIs	• A shared IT platform for MFIs established that enables them to develop digital financial services.	MFI clients will have options to link their accounts to a mobile wallet, allowing them to make transactions such as receiving loan disbursement and reimbursement.	**Increased access to digital financial services and credits for individuals**
2.1 Soundness and sustainability of the microfinance sector: • Develop technical solutions for RBS • TA and training for MF supervision and for MFIs on governance, internal control, and credit management	• Risk-based supervision in place • Supervisors trained on RBS and resolution • MFIs trained on internal control and governance	Sustainable MFIs and services provision	
2.2 National Fund FAARF Modernization: • Upgrade IT system and improve fund governance and management systems • TA and training for FAARF employees and partnership development	• FAARF modernized with upgraded IT, governance, and management systems	Digitization adopted at FAARF helping reduce transaction errors and inefficiency	
2.3 Observatory on Quality Financial Services: • TA and training to establish *Observatoire* and develop financial education tools and campaigns • Purchase IT systems and website	• *Observatoire* established and operational	Increased consumer protection and financial education	
3.1 Strengthen credit supply: • Funding to set up PPCG • Purchase IT systems and equipment for SOFIGIB • TA to SOFIGIB and PFIs (establish PPCG, business development, and operations)	• PPCG established and operational	Increased willingness to lend to farmers, SMEs, women-led enterprises by participating financial institutions	**Increased access to credits for the underserved**
3.2 Strengthen demand for credit: • Support BDS providers to improve SME services • Fintech workshop, business plan competition, and pilots • Targeted training for women entrepreneurs	• Selected BDS providers received TA • Business plan competition conducted • Women-led and fintech SMEs selected and trained on business skills	Increased access to BDS for SMEs	

Note: RBS = Risk-based supervision.

E. Rationale for Bank Involvement and Role of Partners

67. **There is a strong rationale for the World Bank to support the Government in achieving the expected outcomes of this project.** The World Bank will leverage extensive expertise in all areas of the

proposed project. Indeed, project design benefitted from lessons drawn from similar World Bank projects from around the world (see section II.F.). Additionally, Burkina Faso's financial sector review, supported by the World Bank in 2017, provided timely diagnostics which helped shape project interventions. The project design and implementation will also benefit from ongoing World Bank TA on digital payments, microfinance supervision, and FAARF's institutional evaluation. Lastly, the project will leverage the World Bank Group's unique position to convene both public and private stakeholders at the local, national, and global levels of expertise to support implementation.

68. **The project complements IFC's efforts to support the financial sector development in Burkina Faso.** IFC supported the development of financial infrastructure, the availability of long-term resources, and capacity development of the banking sector. Indeed, IFC is working on setting up a line of credit and a risk-sharing facility and also providing TA in trade financing for two commercial banks. As mentioned previously, IFC supported the establishment of the credit bureau.

69. **The proposed project scope reflects current dialogue with development partners.** The development of the recent National Financial Inclusion Strategy, 2018–2022 gave the project team and the MoF an opportunity to engage with development partners and key stakeholders to identify project interventions. As a result, the project complements the United Nations Capital Development Fund support to the Government of Burkina Faso on financial inclusion and digital microfinance for rural households. The project also complements upcoming support of the French Development Agency (*Agence Française de Développement*, AFD) to the microfinance sector and the Danish International Development Agency's support for increasing rural enterprises' access to finance, as well as projects for the digitization of tax payments. The project complements Germany's International Cooperations ongoing TA to the National Treasury for public finance management. Close collaboration with development partners will continue throughout implementation.

F. Lessons Learned and Reflected in the Project Design

70. **The proposed project has incorporated lessons into its project design, drawing from similar projects.** These projects include the Madagascar Financial Inclusion Project (IDA/R2018-0020/1), Cabo Verde Access to Finance for Micro, Small and Medium-Sized Enterprises Project (IDA/R2018-0013/1), Promoting Innovation for Inclusive Financial Access in Egypt (R2014-0043/1), and Pakistan Financial Inclusion and Infrastructure Project (IDA/R2017-0189/1), among others. Diagnostics and World Bank reports informing the project include Principles for Public Credit Guarantee Schemes for SMEs, the Payment Aspects of Financial Inclusion (PAFI), an Independent Evaluation Group Working Paper on World Bank lending for financial inclusion, lessons from reviews of selected projects, the Burkina Country Assistance Evaluation (2010), lessons from World Bank support in Personal Initiative training in Togo, and the World Bank's Bagré Growth Pole Project in Burkina Faso (IDA/R2011-0201/2). Specific lessons learned include the following:

- **Careful, participatory preparation of projects is critical for a smoother implementation.** Extended dialogue with the client and stakeholders for mutual understanding and agreement is crucial for permitting loan objectives to adjust to new opportunities and constraints. As such, the project team will maintain regular communication with all stakeholders involved in the project, especially through the World Bank's in-country task team leader (TTL) assigned to lead project preparation and supervision.

- **The design of the project's Component 1 on increasing use of transaction accounts is aligned with the 2016 findings of the PAFI.** The PAFI report identified three critical foundations (financial and ICT infrastructure, legal and regulatory framework, and public and private commitment) and four catalytic pillars to drive access to/and use of transactions accounts (transaction account and payment products design, access points, financial literacy, and leveraging large recurrent payment flows such as government payments). Component 1 of the project aims to support the upgrading of payments systems and digitization of government bulk payments of social services and for the collection of customs duties and, on the private sector side, the digitization of MFI operations and the adoption of alternative distribution channels (mobile) to extend the reach of their services.
- **The design of the PPCG under the project reflects the findings of the 2015 World Bank FIRST report on Principles for Public Credit Guarantee Schemes for SMEs (see annex 4) and the Madagascar Financial Inclusion Project (IDA/R2018-0020/1).** The report outlines 16 key principles in the areas of institutional arrangements, the legal and regulatory environment, corporate governance and risk management, operational frameworks, and M&E. In 2014, the World Bank established a similar PPCG Fund for SMEs in Madagascar. At the end of 2017, eight participating financial institutions (six banks and two microfinance companies) had availed the guarantee for a total amount of US$46 million in loans guaranteed since the launch of the project. The PPCG supported by this project is informed by Public Credit Guarantee principles and the World Bank's experience in Madagascar.
- **The components of microfinance and FAARF capacity development, support for digitization, and the Personal Initiative training are informed by strong evidence from around the world.** Studies have shown that providing female entrepreneurs with improved access to a mobile savings account increases their savings and platform transactions. These impacts were enhanced when accompanied by business training. As such, part of the BDS component is based on lessons from a successful entrepreneurship training program for women supported by the World Bank's Gender Innovation Lab (GIL).[14] A GIL experiment in Togo found that Personal Initiative training (psychology-based entrepreneurship training) was particularly effective for female entrepreneurs. Women who received this training saw their profits increase by 40 percent, compared to 5 percent for traditional business training.[15]
- **Lessons learned from the Bagré Growth Pole Project in Burkina Faso (IDA/R2011-0201/2) helped shape the design of the BDS component. The Bagré Growt**h Pole Project successfully leveraged two local institutions to expand BDS services to SMEs in Burkina Faso. The project reinforced the capacity of the MEBF to deliver business services, including business registration, business planning and accounting. The project supported cost sharing of BDS to expand access to many SMEs throughout the country. In Burkina Faso, the project will strengthen the capacity of the MEBF and the CGAs to enhance small firms' capacity to access credit with formal financial institutions. The MEBF will benefit from TA support to broaden its range of services to women-owned enterprises, including Personal Initiative training. The

[14] GIL conducts impact evaluations of development interventions in Sub-Saharan Africa, seeking to generate evidence on how to close the gender gap in earnings, productivity, assets, and agency.
[15] Campos, F., M. Frese, M. Goldstein, L. Iacovone, H. Johnson, D. McKenzie, and M. Mensmann. 2018, "Personal Initiative Training Leads to Remarkable Growth of Women-owned Small Businesses in Togo." Gender Innovation Lab Policy Brief No. 22, World Bank, Washington, DC. https://openknowledge.worldbank.org/handle/10986/29168.

CGAs will receive financial and TA support to expand their existing services to areas outside Ouagadougou and Bobo-Dioulasso.

- **National economic policies, strategies, and legal and regulatory framework are important institutional catalysts for the achievement of sustainable and inclusive financial services.** The design of the project is consistent with the new National Inclusive Finance Strategy (2018–2022) in Burkina Faso, which has axes on digital finance, agricultural finance, consumer protection, and financial education. Moreover, the design is aligned with the PNDES, as is highlighted in the first section of this document.

71. **The World Bank brings extensive international experience in all components of the proposed project.** The World Bank supports interventions in the digitization of transactions, microfinance strengthening, financial capability, and SME finance around the world. In Côte d'Ivoire, a member state of the WAEMU like Burkina Faso, the World Bank is supporting the development of a national payments system. In Niger, the World Bank has a project to strengthen national capacity in risk-based supervision, and in Senegal, the World Bank helped establish an observatory to ensure the quality of financial services. In 2014, the World Bank set up a similar PPCG fund for SMEs in Madagascar.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

72. **The authorities recently adopted a new regulation on projects and programs which also applies to donor-financed projects.** The regulation intends to strengthen the capacity of line ministries to which projects and programs are mapped. To this end, it integrates Project Implementation Units (PIUs) into the adopted program-budget framework as a response to the important number and high operating costs of PIUs. Thus, all projects and programs belong to a budget- program to be managed by a program coordinator. This new regulation comes within the context of results-based management. Both the program-budget guidelines and the new national regulation of projects have an impact on the implementation arrangements of the present project.

73. **Under the Program Based Budgeting model that recently began in Burkina Faso, the proposed project is classified as a Category 1 project linked to the Program-budget titled "Management of Public Accounts" and will be coordinated by the MINEFID.** [16] The management unit of the Program-budget "Management of Public Accounts," led by the Program-budget Coordinator, will be directly responsible for full fiduciary oversight and supervision of project implementation. A Project Leader will be assigned or recruited to oversee, and support project implementation based on agreed terms of reference and qualifications between the MINEFID and the World Bank. The project leader and a project implementation team consisting of an FM specialist, a procurement specialist, an M&E specialist and an environmental safeguards specialist will be responsible for day-to-day project implementation, including the procurement of goods and services and consultancies, financial management (FM) and reporting, M&E, safeguards and coordinating implementing organizations' activities. The PIU staff, including technical specialists, will be assigned or recruited based on agreed terms of reference and qualifications between the MINEFID and the World Bank. The PIU shall no later than two (2) months after the Effective Date (i)

[16] The full name of the Program-budget is "Management of Public Accounts and Protecting the Financial Interests and Assets of the State."

install and thereafter maintain an accounting software for the Project, in a manner acceptable to the Association; and (ii) assign or recruit and thereafter maintain an internal auditor with qualifications and under terms of reference satisfactory to the World Bank. In addition, the PIU shall no later than six (6) months after the Effective Date recruit and there after maintain an external auditor, with qualifications and under terms of reference satisfactory to the World Bank.

74. **A Project Review Committee (PRC) will be established and maintained to provide policy guidance and project oversight all throughout implementation.** A PRC will be established one month from the effective date and meet twice per year (ordinary sessions) to carry out the functions described in the **Decree n°2018 – 0092/PRES/PM/MINEFID dated February 15, 2018**, namely with the purpose of: (a) reviewing and adopting the project's implementation plan; (b) reviewing and adopting project evaluations; and (c) reviewing and adopting the financial reports; the annual activity, budget, and procurement plans; among other functions. The PRC shall include high level authorities from inter alia, MINEFID, the ministry of commerce, the ministry of women, the ministry of the digital economy, the central bank, and the telecoms regulator. Government will include line items in its budget for expenses that are not eligible for IDA financing, such as perquisites related to the review committee or those related to PIU staff listed in the Decree.

75. **Technical Focal Points, consisting of director-level staff (or suitable alternate) of the main implementing organizations, will be assigned or recruited to facilitate implementation.** To ensure that project planning, implementation, and monitoring are well coordinated across implementing stakeholders, technical focal points will be appointed or recruited based on agreed terms of reference and qualifications between the MINEFID and the World Bank. The PIU and the technical focal points will meet regularly to discuss implementation and coordination in their respective area of focus across a common project action plan. Technical focal points will consist of director-level (or suitable alternate) staff or contractors of the main implementing organizations (Customs Office, CNSS, CARFO, Treasury/MoF Supervision Unit, Permanent Secretary for Microfinance, FAARF, and SOFIGIB). Working groups can be established to coordinate progress on project subcomponents (for example, government payments digitization, microfinance-shared MIS platform, consumer protection, and financial education).

76. **A Technical Committee (TC) will be established to guide the implementation of the PPCG.** The recipient shall, no later than three months after the effective date, establish and maintain at all times during project implementation a TC to guide the implementation of the PPCG. The PPCG TC will be a subcommittee within the PRC and shall be responsible for: (i) providing guidance on the operations of the fund; (ii) ensuring SOFIGIB implements its ToR as defined in the Agreement that will be signed between the recipient and SOFIGIB; and, (iii) proposing changes to SOFIGIB's ToR as needed.[17] The TC shall consist, inter alia, of representatives from the MoF, the professional associations of banks, the professional association of MFIs, and two expert professionals chosen for their knowledge about the financial sector and agri-finance and/or agri-insurance.

77. **To advance on project preparation ahead of project effectiveness, a project preparation advance (PPA) will be used.** The Government has requested a PPA to ensure a prompt transition toward implementation. The PPA is approved and will support the operationalization of the Project Coordination Unit (recruitment of key staff, acquisition of IT/support equipment, and elaboration of procedure manual); consultancies to support the detailed preparation of project activities (government payments

[17] The specific ToR of the PPCG OC will be included in the Project Implementation Manual (PIM).

digitization, IT systems for credit guarantee and microfinance supervision, safeguards evaluation, and project M&E); and the acquisition of IT equipment for the Treasury's connection to the STAR-UEMOA and SICA-UEMOA payments system.

B. Results Monitoring and Evaluation Arrangements

78. **The agreed-upon Results Framework and monitoring arrangements will drive project M&E.** Project M&E will be the responsibility of the PIU. To track progress toward achieving the desired project results, the PIU will monitor and measure PDO-level and intermediate results indicators using the project's Results Framework presented in section VI. The PIU will hire a dedicated M&E specialist who will be responsible for conducting the M&E activities. Within six months of project implementation, baseline data and targets for all agreed results indicators will be verified and confirmed by the PIU in collaboration with key implementing agencies. The project will take care to measure the impact on women's poverty given high rate of poverty amongst this cohort. Project interventions aim to facilitate women's access and control over financial resources through trainings, new means of financial products distribution, guarantees scheme, etc. As such, the project will monitor the evolution of women's income as well as account ownership within revenue quintiles.

79. **Progress on attaining agreed project results will be tracked regularly throughout project implementation.** The PIU, with input from implementing partners, will prepare quarterly and annual reports to track progress made on the project implementation plan and Results Framework. Semiannually, World Bank support missions will be conducted to review project implementation and the adequacy of the results indicators. A midterm review will be conducted mid-way through the project, and an Implementation Completion and Results Report will be prepared within six months of project completion.[18]

80. **The project will employ Iterative Beneficiary Monitoring (IBM).** This activity will monitor beneficiaries (direct, indirect and intermediaries) of the project starting at the beginning of the implementation with the objective to improve project efficiency and increase beneficiary satisfaction and beneficiary engagement. IBM is implemented by the Poverty GP team to collect information on project implementation across all sectors, even in insecure settings. It is a light, low-cost, and rapid complement to project supervision. The approach is problem oriented and provides direct feedback from beneficiaries to project teams through different iterations with the aim of catalyzing improvements in project implementation. IBM collects data directly from beneficiaries but keeps data collection efforts to a minimum by relying on few research questions and small sample sizes. IBM will be used to collect data to identify shortcoming that can hinder implementation of the project. While traditional M&E systems will be used to continuously monitor overall implementation progress and produce voluminous progress reports every six months, IBM will produce short reports, which will be repeated as often as needed and focusing on diagnosing specific barriers to effective implementation.

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[18] The World Bank team is trying to secure additional grant funding for impact evaluation. If the team is successful before project effectiveness to secure additional funds, rigorous impact evaluations will be conducted on the digitization of government payments and business development training (for example, Personal Initiative training). The project will leverage international expertise to work with a local research firm or consultants to design and implement the impact evaluations. Data collection for impact evaluation will take place in parallel to data collection for the project M&E system. The impact evaluation aims to demonstrate the impact of increasing use of digital transaction accounts on financial inclusion as well as the impact of providing Personal Initiative training on female entrepreneurs' business outcomes.

81. **To enhance citizen engagement and to ensure that the project deliverables are meeting the needs of the target population, satisfaction surveys will be conducted regularly.** These surveys will focus on the beneficiaries of CNSS, CARFO and customs. Digitalization of payment is a new space for the GoBF and as such it will be crucial to have beneficiaries' opinions on this new means of payment before expanding to other government flows. Additionally, the team will conduct satisfaction surveys on the delivery of business development services to tailor the content to the needs of the entrepreneurs in country. In addition, the project implementing partners will set up suggestion boxes to allow beneficiaries to provide inputs/feedback on the deliverables all throughout implementation. Finally, the project will support the establishment of an *Observatoire* to protect financial services consumers. The *Observatoire* will offer a consumer complaint system to receive complaints on the quality of services/products offered by financial institutions as well as customer services problems encountered. This system will help the supervisory authorities in monitoring market conduct and behavior.

C. Sustainability

82. **The project uses existing institutions and approaches to deliver services and support.** Considerable time and effort have been invested in ensuring the involvement and commitment of all implementing agencies. In addition, the intervention to strengthen the MFI MIS followed the approach of the Government, which supported the MIS upgrading of five MFIs. The digitization of government payments builds on the national digitization strategy that was adopted by the Government, as well as the implementation of several digital initiatives such as e-government and e-syntax.

83. **Capacity strengthening provided under the project is expected to sustainably enhance financial inclusion and increase access to finance for SMEs.** All World Bank financing through this project will go together with capacity strengthening for individuals, SMEs, PFIs, and government agencies. For PFIs, the capacity development will include the adoption of suitable lending/financing for SMEs, agricultural producers, and women. SMEs will also receive support to increase their bankability. This will contribute to their long-term sustainability and growth. TA to MFIs will seek to strengthen their institutional capacity to serve the bottom of the pyramid with adequate products and services. The project will also support an enhanced legal and regulatory framework on digital finance and consumer protection that will consolidate sustainability over the medium term.

IV. PROJECT APPRAISAL SUMMARY

A. Technical and Economic & Financial Analysis

84. **The project is expected to have a significant impact on Burkina Faso's economy by improving financial inclusion for individuals and increasing access to credit for SMEs.** The national payment system will support the digitization of government payment flows, which will have a significant impact on the country. The flow of government payments to individuals and vice versa are numerous, reaching different segments of the population (individuals, households, and small businesses receipt of pension and social transfers and payment of customs duties), which will contribute to increased access and use of the transaction accounts by the population and reduce the costs for both the Government and the individuals. A McKinsey study on India's National Payment System revealed that automating all government payments could save the Indian government up to US$22.4 billion a year, or nearly 10 percent of total government-

household payments.[19] These savings would be the result of reduced leakage, as well as lower transaction and administrative costs.

85. **The project will contribute to a healthier microfinance sector.** TA and investment in equipment (supervision hardware and software, MIS for MFIs, and digital platform for digital financial services) will be provided to strengthen the supervisory authority, the MFIs themselves, and financial education. The national supervisory authority is in charge of the supervision and protection of Burkina Faso's microfinance sector with the responsibility to ensure the application of the microfinance regulations; examine MFIs' license applications; ensure the consolidation of the microfinance sector; provide on-site and off-site inspections and permanent monitoring of the industry; proceed in liaison with the relevant structures at the closure of informal microfinance initiatives; and update the microfinance database through the collection, processing, and dissemination of statistical information on licensed MFIs. Given this mandate, strengthening the capacity of supervisory authorities is crucial for the sector's health, stability, and development. In addition, TA and new equipment (shared IT system) will strengthen MFIs' operational capacity, promote digital financial services, and ensure that entities are capable of safeguarding deposits and extending credit to more individuals and SMEs.

86. **The project will promote access to finance by stimulating the credit supply through a guarantee scheme to the agricultural sector SMEs and women led enterprises.** A study by the World Bank revealed that Mexican Partial Credit Guarantees (PCGs) facilitate access to credit for smaller firms and first-time borrowers, as well as improve all loan conditions and reduce loan defaults.[20] Burkina Faso's economy is primarily composed of small firms, with only 400–500 large enterprises; 65,000 formal SMEs;[21] more than 1.49 million informal, unregistered SMEs; and 2.71 million agricultural producers.[22] However, less than 10 percent of SMEs have access to loans from financial institutions. The current guarantee scheme has less than 300 outstanding loans to SMEs on average. Through this intervention, the project aims to increase the number of loans to producers and SMEs and demonstrate the viability of lending to them. Greater credit access for producers and SMEs will allow them to scale up their operations and create productive employment opportunities.

B. Fiduciary

(a) Financial Management

87. **The overall FM risk for the project is rated Substantial.** This is due to (a) the lack of experience and familiarity of the National Treasury with World Bank FM procedures, (b) the ineffectiveness of the internal audit function, (c) the lack of an external audit report, and (d) the involvement of several actors in project implementation.

88. **Mitigation measures.** Due to the critical areas for operationalization of the FM Unit to be established within the National Treasury, the National Treasury will not be in a suitable position to manage World Bank's funds until the following measures are implemented before and after project effectiveness:

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[19] McKinsey & Company. 2010. *Inclusive Growth and Financial Security: The Benefits of e-payment to Indian Society*. http://ccmrm.org/wp-content/uploads/2015/05/McKinsey-2010-inclusive-growth-report.pdf.
[20] Varangis, P., and M. Bouri. *Partial Credit Guarantee Schemes to Promote Agricultural Finance*.
[21] *Ministère du Commerce, Département de la Promotion des PMEs*, 2017.
[22] MAP, *recherche et enquêtes, d'après FinScope 2016*.

(a) Hire or appoint, on a competitive basis, an FM Officer (*Responsable Administratif et Financier*, RAF) and one accountant, with qualifications and experience satisfactory to the World Bank, who will be fully dedicated to the accounting and disbursements tasks of the proposed project.

(b) Draft the FM procedures manual and the PIM and submit them for the approval of the actors involved in both the project and the World Bank.

(c) Acquire and install accounting hardware and software acceptable to the World Bank and train users of the software.

(d) Roll out a training plan to strengthen the capacity of selected staff in World Bank FM procedures.

(e) Recruit internal and external auditors for the project with experience and qualifications acceptable to the World Bank.

89. **Furthermore, as part of the implementation of the decree related to the modalities of World Bank-financed operations in Burkina Faso, the MoF will assign an internal controller to the project.** The recruitment of the project RAF and accountant and the preparation and approval of the PIM and of the FM manual are effectiveness conditions of the project. The acquisition of accounting software, the training plan, and the recruitment of the internal and external auditors are dated covenants to be implemented within 2–6 months following project effectiveness.

(b) Procurement

90. **Procurement under this project will be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers (Procurement Regulations).** These were dated July 2016 and revised in November 2017 and August 2018 under the New Procurement Framework (NPF) and the Guidelines on Preventing and Combatting Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated July 1, 2016.

91. **The Project Procurement Strategy for Development (PPSD) under preparation by the borrower will describe how procurement activities will be carried out.** The PPSD is linked to the project implementation schedule and will help ensure proper sequencing of project activities. The PPSD covers procurement institutional arrangements, including roles and responsibilities, procurement methods, thresholds, and prior review arrangements. It also includes a detailed description and assessment of the implementing entities' capacity for carrying out procurement and managing contracts within an acceptable governance structure and accountability framework.

C. Safeguards

(a) Environmental Safeguards

92. **Regarding the PPCG fund to be established by the project, the team will ensure that the project's manual of procedures clearly incorporates the criteria to assess and select eligible investment loans.** In addition, appropriate mitigation measures and provisions will be taken into account by the project's Environmental and Social Management System to address any subsequently identified

environmental impacts. World Bank implementation support missions will include an environmental safeguards specialist to ensure that environmental safeguards issues are addressed properly and on time.

93. **Environmental safeguards.** Based on an Environmental Due Diligence Checklist, some selected banks have been carefully reviewed to verify all the facts and issues associated with their Quality Management System (QMS) and Environmental Management System before proceeding with this project. Most of the banks have a QMS base of ISO9 011:2015 standard of the International Organization for Standardization (ISO) or are implementing it. Environmental aspects are generally covered by a section in the banks' Quality Policy (Orabank with *Système de Management des Risques Environnementaux et Sociaux* Coris Bank International accredited ISO 9001.2015 and so on).

94. **As a Sahelian country, Burkina Faso is subject to severe climatic conditions, which are becoming even more severe, without sufficient climate risk measures in place throughout the country.** Viewed from an environmental aspect, Component 3 of the project (increase agriculture enterprises' and SMEs' access to credit) will trigger the Environmental and Social Performance policies (OP/BP 4.01 - Environmental Assessment and OP/BP 4.09 - Pest Management)). In terms of risk, the project falls under Category B with a Moderate risk rating (presented in the Systematic Operations Risk-Rating Tool [SORT] table in section V), considering previous potential cumulative negative environmental impacts of the support to agri-SMEs (producers and agro-processing firms) and SMEs, as well as the specific activities of this component.

95. **An Environmental and Social Management Framework (ESMF) has been prepared.** The major potential environmental and social risk factors and impacts of the project are (a) the influence of water quality on the development of fishing (pollution by agricultural activities) and (b) population pressure in the area, which could lead to alteration of wetlands, degradation of riverbanks and wildlife sanctuaries, strong demand for wood products, gradual deterioration of the environment in the absence of implementation of a conservation program, and environmental pollution by the rejection of waste.

96. **On the biophysical environment, the potential negative impacts relate to the following:**

(a) The project could, because of its effects in improving agricultural productivity, lead to an expansion of agricultural activities in its area of intervention, which in the absence of adequate technical supervision would be factors of pressure on plant resources and degradation of vegetation cover.

(b) The development of off-season crops around water points could also contribute to deforestation.

(c) The project could lead to degradation of water quality (pollution of rivers and water bodies).

97. **The ESMF also took into account in the analysis the cumulative negative impacts of project activities and those related to the impacts of climate change on investments.** It includes recommendations and a procedure for the environmental and social selection of activities to be carried out under the project, which identify the guiding framework for future interventions in terms of national priorities for environmental and social management, taking into account policy requirements and the World Bank safeguard policies. The project triggers two safeguard policies (OP/BP 4.01 - Environmental Assessment and OP/BP 4.09 - Pest Management). Other policies are not triggered by the project. In

addition, a Pesticide and Pesticide Management Plan developed (included in the ESMF) is being evaluated to take into account the requirements of OP/BP 4.09.

98. **The ESMF also provides detailed recommendations on institutional arrangements for implementation and monitoring, including respective capacity-building and cost programs.** However, the environmental assessments to be done for the project activities will have to be in conformity with Burkinabe environmental legislation as well as with the directives of the World Bank: (a) Directives on Health and Environmental Safety, (b) General Environmental Guidelines, (c) Guidelines on Waste Management, (d) Hazardous Waste Management Guidelines, (e) Safety and Health in the Workplace Directives, and (f) M&E Guidelines.

99. All subprojects will be submitted to an environmental screening and classified according to risks and potential negative impacts.

(b) Social Safeguards

100. **The project is expected to have overall positive social impacts for populations including those in remote areas.** It will do so by improving financial inclusion and increasing access to credit, primarily for women and young people, in the agricultural and SME sectors so firms and individuals can scale up their operations and reinforce productive employment opportunities. The project will strengthen the institutional and operational capacity of existing financial structures and provide accessible and secure products for SMEs.

101. **The project is expected to have very limited negative social impacts.** None of the project activities will lead to land acquisition or resettlement that could lead to the economic or physical displacement of people. OP 4.12 - Involuntary Resettlement will therefore not be triggered. However, appropriate mitigation measures will be taken as soon as any risk likely to lead to resettlement operations arises.

(c) Grievance Redress

102. **Grievance redress mechanisms.** Communities and individuals who believe that they are adversely affected by a World Bank supported project may submit complaints to existing project-level grievance redress mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project-affected communities and individuals may submit their complaint to the Bank's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

V. KEY RISKS

Overall Risk Rating and Explanation of Key Risks

103. **The overall risk for this project is rated Significant.** Key risks and mitigation measures are summarized below.

Table 1. Systematic Operations Risk-Rating Tool (SORT)

Risk Category	Rating (H, S, M, L)
1. Political and Governance	S
2. Macroeconomic	S
3. Sector Strategies and Policies	M
4. Technical Design of Project	S
5. Institutional Capacity for Implementation and Sustainability	S
6. Fiduciary	S
7. Environment and Social	M
8. Stakeholders	M
9. Other	
OVERALL	**S**

104. **Political and governance risk is rated Substantial for this project given the security situation in the country.** The security situation has worsened recently in Burkina Faso due to increased terrorist attacks in the capital Ouagadougou and secondary cities, especially in the northern and eastern regions of the country. Security risks could delay and/or disrupt project implementation. The Emergency Recurrent Cost Financing Project (IDA/R2018-0371/1), currently under preparation, is expected to respond to crises affecting the county by strengthening government capacity to deliver core public services across critical sectors and regions.

105. **Macroeconomic risk is rated Substantial.** Exogenous shocks and policy slippage constitute a source of risks. This could divert resources away from priority needs and reduce the Government's efforts and ability to sustainably implement the agreed fiscal adjustment. It could also reduce resources for improving public service delivery. The country is vulnerable to external shocks that could threaten the attainment of tax collection objectives. A larger-than-expected decline in cotton and gold prices, as well as larger-than-expected increase in oil imports and high oil prices, may put further pressure on Burkina Faso's macroeconomic framework. This would translate into a slowdown in growth, reduction in fiscal revenues, and a larger current account deficit.

106. **The technical design risk is rated Substantial.** Project design is complex, as it contains multiple activities and innovations related to payment infrastructure, financial inclusion, and access to finance. However, project components and subcomponents are designed to minimize interdependency in delivery and results attainment. In addition, the more complex activities, such as payments digitization, will start

with pilots to mitigate potential risks that may arise and will allow implementation to draw lessons and make adjustments. A supplemental trust fund combined with the substantial TA and training in the project itself will help reduce technical design challenges and risks.

107. **Institutional capacity for implementation and sustainability is rated Substantial.** The National Treasury has limited experience implementing World Bank projects and is likely to encounter significant challenges implementing this project due to its technical complexity. To mitigate this risk, the project will establish a strong governance and management framework that will consist of a PRC to provide strategic guidance, technical focal points to direct technical implementation, and a project team to manage day-to-day implementation. TA will be provided to reinforce the project team's capacity in procurement, FM, and M&E. In addition, the Technical Committee will have the opportunity to 'learn by doing' from another World Bank PIU within the MoF that will manage the implementation of the project advance. The PIU will include experts to assist in the implementation of project activities. To insure sound implementation of the PPCG, a south-south exchange will be organized between SOFIGIB and Solidis in Madagascar, a guarantee company supported by the World Bank. Lastly, the project will have close supervision from the World Bank project TTL based in-country.

108. **Fiduciary risk is rated Substantial.** The project involves multiple procurement of goods and consultancy services, especially the purchasing of computer systems and equipment. The National Treasury's limited experience with World Bank FM and procurement procedures and insufficient internal and external auditing functions poses substantial risk for fiduciary management. To mitigate this risk, the project will put the following measures in place:

(a) Hire or appoint, on a competitive basis, an FM officer, one accountant, and one procurement specialist, with qualifications and experience satisfactory to the World Bank, fully dedicated to the accounting, disbursements, and procurement tasks of the proposed project.

(b) Draft the FM and procurement procedures manuals and the PIM that meet the approval standards of the World Bank and the actors involved in the project.

(c) Acquire and install accounting hardware and software acceptable to the World Bank.

(d) Roll out a training plan to strengthen the capacity of selected project staff in World Bank FM and procurement procedures.

(e) Recruit internal and external auditors with experience and qualifications acceptable to the World Bank.

VI. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Burkina Faso
Financial Inclusion Support Project in Burkina Faso

Project Development Objectives(s)

The Project Development Objective is to increase access to digital financial services and facilitate access to credit for targeted beneficiaries.

Project Development Objective Indicators

Indicator Name	DLI	Baseline	End Target
Increased access to digital financial services and credit for targeted beneficiaries.			
Percentage of social services beneficiaries (CNSS and CARFO) that receive social benefits paid into their transaction accounts. (Percentage)		0.00	30.00
Percentage of customs payments made electronically. (Percentage)		0.00	30.00
Percentage of MFI clients receiving loan disbursement or making transactions using mobile money accounts that are linked to their MFI accounts (Percentage)		0.00	30.00
Number (cumulative) of farmers, SMEs, women-led enterprise borrowers who are covered by the partial portfolio credit guarantees. (Number)		0.00	12,000.00
Number women-led SME borrowers who are covered by the partial portfolio credit guarantees. (Number)		0.00	4,000.00
Volume of PFIs lending to farmers, SMEs and women-led enterprises based on guarantees issued by PPCG in thousands of		0.00	100,000.00

Indicator Name	DLI	Baseline	End Target
USD. (Number (Thousand))			

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Increasing usage of transaction accounts.							
Connection of national treasury to the SICA-WAEMU payments platform established. (Yes/No)		No	No	Yes	Yes	Yes	Yes
Number of MFIs that allow loan disbursement and repayment through a mobile money account ("wallet-to-account") (Number)		0.00	4.00				8.00
Strengthening institutional capacity for enhanced financial inclusion							
Revised MF supervisory risk-based system operational. (Yes/No)		No	Yes				Yes
Completion rate of planned on-site MFI inspections. (Percentage)		50.00	60.00	70.00	80.00	90.00	100.00
Adoption of the microfinance resolution framework (Yes/No)		No	Yes				Yes
Number of consumers reached by financial education campaign via mobile phone. (Number (Thousand))		0.00	50.00	100.00			200.00

Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Observatory on financial services established. (Yes/No)		No	No	Yes			Yes
Percentage of complaints resolved by the Obervatory. (Percentage)		0.00	0.00	0.00	25.00	50.00	75.00
Percentage of FAARF clients (who are exclusively female) linked to formal financial services (Percentage)		0.00					30.00
Increasing farmers' and SMEs' access to credit.							
Percentage of non-performing loans of the PPCG. (Percentage)		8.00	7.50	7.00	6.00	5.00	5.00
Number of SMEs reached with business development services. (Number)		0.00	100.00	500.00	1,000.00	1,500.00	2,000.00
Number of SMEs reached with the business plan competition. (Number)		0.00	40.00				40.00
Percentage of women-led enterprises reached with BDS (Percentage)		0.00					50.00
Project management							
Project monitoring and evaluation system established (Yes/No)		No					Yes

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Percentage of social services beneficiaries (CNSS and CARFO) that receive social benefits paid into their transaction accounts.	Percentage of individuals using transaction accounts (bank, MFIs or mobile money accounts) to receive and make payments to government and MFIs.	Semi-annual	Project report	Project report	PIU
Percentage of customs payments made electronically.	Percentage of individuals using transaction accounts (bank, MFIs or mobile money accounts) to receive and make payments to government and MFIs.	Semi-annual	Project reports	Project report	PIU and PFIs
Percentage of MFI clients receiving loan disbursement or making transactions using mobile money accounts that are linked to their MFI accounts	Percentage of individuals using transaction accounts (bank, MFIs or mobile money accounts) to receive and make payments to government and MFIs.	Semi-annual	Project report	Project report	PIU and PFIs
Number (cumulative) of farmers, SMEs, women-led enterprise borrowers who are covered by the partial portfolio credit guarantees.	Number of SMEs which obtained loans guaranteed under the PPCG.	Semi-annual.	Project report.	Project report.	PIU and PFIs.
Number women-led SME borrowers who are covered by the partial portfolio credit guarantees.	Number of women-led SMEs which obtained loans guaranteed under the PPCG.	Semi-annual.	Project report.	Project report.	PIU and PFIs.
Volume of PFIs lending to farmers, SMEs and women-led enterprises based on guarantees issued by PPCG in thousands of USD.	Total value of loan portfolio covered under the PPCG in thousands of USD. This amount will be confirmed	Semi-annual.	Project report.	Project report.	PIU and PFIs.

	prior to project effectiveness.				

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Connection of national treasury to the SICA-WAEMU payments platform established.	This indicator measures the national treasury's connection to the regional payments platform.	Annual	Project report	Project report	PIU & Treasury.
Number of MFIs that allow loan disbursement and repayment through a mobile money account (“wallet-to-account”)	This indicator measures the number of MFI using mobile money to disburse loans and receive loan repayments.	Annual.	Project report.	Project report.	PIU & MFIs.
Revised MF supervisory risk-based system operational.	This indicator measures the implementation of the new risk-based MF supervisory system.	Annual	Project report	Project report	PIU & Treasury
Completion rate of planned on-site MFI inspections.	This indicator measures the rate of completed MFI site inspections against total inspections planned.	Annual	Project report.	Project report.	PIU & Treasury.
Adoption of the microfinance resolution framework	This indicator measures the adoption of the new microfinance resolution framework.	Annual	Project report.	Project report.	PIU
Number of consumers reached by financial education campaign via mobile phone.	This indicator measures the number of individuals reached by the digital financial education	Semi-annual	Project report.	Surveys and activity reports of by firm contracted to rollout financial education	Firm to conduct survey and implement campaigns and Permanent Secretary of

	campaign via SMS (voice and text) and interactive voice recordings.			campaigns. Permanent Secretary of the Ministry of Finance to supervise.	the Ministry of Finance to supervise.
Observatory on financial services established.	This indicator measures the establishment of an observatory that is fully operational.	Annual.	Project report.	Project report.	PIU & the Ministry of Finance/Permanent Secretary on Microfinance
Percentage of complaints resolved by the Obervatory.	This measures the functionality of the observatory services.	Annual	Observatory call center and website.	Project report.	PIU & Observatory management.
Percentage of FAARF clients (who are exclusively female) linked to formal financial services	This indicator measures the percentage of FAARF clients that graduate into the formal financial sector. FAARF clients are exclusively female.	Annual	Annual report.	PIU & FAARF	FAARF
Percentage of non-performing loans of the PPCG.	This indicator measures the minimum level of NPLs that PFIs are expected to maintain each year.	Semi-annual	Guarantee Fund Manager	Guarantee Fund Manager	PIU
Number of SMEs reached with business development services.	This indicator measures the number of SME owners that received BDS provided through the project.	Semi-annual	BDS providers	BDS providers	PIU
Number of SMEs reached with the business plan competition.	This indicator measures the number of SMEs that will be selected via the Business plan competition, of which 10% are Fintech.	Annual	Project report.	Project report.	PIU & BDS providers.

Percentage of women-led enterprises reached with BDS	This indicator measures the proportion of BDS beneficiaries that are women-led enterprises.	Annual	Project monitoring and evaluation system	Project Report	PIU & BDS providers
Project monitoring and evaluation system established	This indicator measures the establishment of an M&E system for the project.	Annual	Project report	Project report	PIU

ANNEX 1: IMPLEMENTATION ARRANGEMENTS AND SUPPORT PLAN

COUNTRY: Burkina Faso
Financial Inclusion Support Project in Burkina Faso

Project Institutional and Implementation Arrangements

A. Institutional and Implementation Arrangements

1. **The authorities recently adopted a new regulation on projects and programs which also applies to donor-financed projects.** The regulation intends to strengthen the governance and the capacity of line ministries to which projects and programs are mapped. To this end, it integrates Project Implementation Units (PIUs) into the adopted program-budget framework to reduce the number and high operating costs of PIUs. Thus, all projects and programs belong to a budget- program to be managed by a coordinator who is responsible for the program-budget. This new regulation comes within the context of results-based management. Both the program-budget guidelines and the new national regulation of projects have an impact on the implementation arrangements of the present project.

2. **Under the Program Based Budgeting model that recently began in Burkina Faso, the proposed project is classified as a Category 1 project linked to the Program-budget titled "Management of Public Accounts" and will be coordinated by the MINEFID.** [23] The management unit of the Program-budget "Management of Public Accounts," led by a Program Coordinator, will be directly responsible for full fiduciary oversight and supervision of project implementation. A project leader will be assigned or recruited to oversee, and support project implementation based on agreed terms of reference and qualifications between the MINEFID and the World Bank. The project leader and a project implementation team consisting of an FM specialist, a procurement specialist, an M&E specialist and an environmental safeguards specialist will be responsible for day-to-day project implementation, including the procurement of goods and services and consultancies, financial management (FM) and reporting, M&E, safeguards and coordinating implementing organizations' activities. The PIU staff, including technical specialists, will be assigned or recruited based on agreed terms of reference and qualifications between the MINEFID and the World Bank. The PIU shall no later than two (2) months after the Effective Date (i) install and thereafter maintain an accounting software for the Project, in a manner acceptable to the Association; and (ii) assign or recruit and thereafter maintain an internal auditor with qualifications and under terms of reference satisfactory to the World Bank. In addition, the PIU shall no later than six (6) months after the Effective Date recruit and there after maintain an external auditor, with qualifications and under terms of reference satisfactory to the World Bank.

3. **A Project Review Committee (PRC) will be established and maintained to provide policy guidance and project oversight all throughout implementation.** A PRC will be established one month from the effective date and meet twice per year (ordinary sessions) to carry out the functions described in the **Decree n°2018 – 0092/PRES/PM/MINEFID dated February 15, 2018**, namely with the purpose of: (a) reviewing and adopting the project's implementation plan; (b) reviewing and adopting project

[23] The full name of the Program-budget is "Management of Public Accounts and Protecting the Financial Interests and Assets of the State."

evaluations; and (c) reviewing and adopting the financial reports; the annual activity, budget, and procurement plans; among other functions. The PRC shall include high level authorities from inter alia, MINEFID, the ministry of commerce, the ministry of women, the ministry of the digital economy, the central bank, and the telecoms regulator. Government will include line items in its budget for expenses that are not eligible for IDA financing, such as perquisites related to the review committee or those related to PIU staff listed in the Decree.

4. **Technical Focal Points, consisting of director-level staff (or suitable alternate) of the main implementing organizations, will be assigned or recruited to facilitate implementation.** To ensure that project planning, implementation, and monitoring are well coordinated across implementing stakeholders, technical focal points will be appointed or recruited based on agreed terms of reference and qualifications between the MINEFID and the World Bank. The PIU and the technical focal points will meet regularly to discuss implementation and coordination in their respective area of focus across a common project action plan. Technical focal points will consist of director-level (or suitable alternate) staff or contractors of the main implementing organizations (Customs Office, CNSS, CARFO, Treasury/MoF Supervision Unit, Permanent Secretary for Microfinance, FAARF, and SOFIGIB). Working groups can be established to coordinate progress on project subcomponents (for example, government payments digitization, microfinance-shared MIS platform, consumer protection, and financial education).

5. **A Technical Committee (TC) will be established to guide the implementation of the PPCG.** The recipient shall, no later than three months after the effective date, establish and maintain at all times during project implementation a TC to guide the implementation of the PPCG. The PPCG TC will be a subcommittee within the PRC and shall be responsible for: (i) providing guidance on the operations of the fund; (ii) ensuring SOFIGIB implements its ToR as defined in the Agreement that will be signed between the recipient and SOFIGIB; and, (iii) proposing changes to SOFIGIB's ToR as needed.[24] The TC shall consist, inter alia, of representatives from the MoF, the professional associations of banks, the professional association of MFIs, and two expert professionals chosen for their knowledge about the financial sector and agri-finance and/or agri-insurance.

6. **To advance on project preparation ahead of project effectiveness, a project preparation advance (PPA) will be used.** The Government has requested a PPA to ensure a prompt transition toward implementation. The PPA is approved and will support the operationalization of the Project Coordination Unit (recruitment of key staff, acquisition of IT/support equipment, and elaboration of procedure manual); consultancies to support the detailed preparation of project activities (government payments digitization, IT systems for credit guarantee and microfinance supervision, safeguards evaluation, and project M&E); and the acquisition of IT equipment for the Treasury's connection to the STAR-UEMOA and SICA-UEMOA payments system.

7. **The overall FM risk for the project is rated Substantial.** This is due to (a) the lack of experience and familiarity of the National Treasury with World Bank FM procedures, (b) the ineffectiveness of the internal audit function, (c) a lack of external audit reports, and (d) the involvement of several actors in project implementation. The PIU within the National Treasury may be in a position to manage World Bank funds once the following measures are implemented before and after project effectiveness: (a) hire or appoint, on a competitive basis, an RAF and an accountant, with qualifications and experience satisfactory

[24] The specific ToR of the PPCG OC will be included in the Project Implementation Manual (PIM).

to the World Bank, fully dedicated to the accounting and disbursements tasks of the proposed project; (b) draft the FM procedures manual and the PIM and submit them for the approval of the actors involved both in the project and the World Bank; (c) acquire and install accounting hardware and software acceptable to the World Bank and train users of the software; (d) roll out a training plan to strengthen the capacity of selected staff in World Bank FM procedures; and (e) recruit an internal and external auditor for the project with experience and qualifications acceptable to the World Bank.

8. **Furthermore, as part of the implementation of the decree related to the modalities of World Bank-financed operations in Burkina Faso, the MoF will assign an internal controller to the project.** The recruitment of the project RAF and accountant and the preparation and the approval of the PIM and the FM manual are effectiveness conditions of the project. The (a) acquisition of accounting software, (b) the training plan, and (c) the recruitment of the internal and the external auditor are dated covenants to be implemented within two to six months following project effectiveness. Annex 7 provides further information on the FM assessment for this project.

Procurement

9. **Procurement under this project will be carried out in accordance with the World Bank's 'Procurement Regulations for IPF Borrowers'** (Procurement Regulations), dated July 2016 and revised in November 2017 and in August 2018 under the NPF, and the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated July 1, 2016.

10. **The PPSD under preparation by the borrower will describe how procurement activities will be carried out.** The PPSD is linked to the project implementation schedule and will help ensure proper sequencing of project activities. The PPSD covers procurement institutional arrangements, including roles and responsibilities, procurement methods, thresholds, and prior review arrangements. It also includes a detailed description and assessment of the implementing entities capacity for carrying out procurement and managing contracts within an acceptable governance structure and accountability framework.

Strategy and Approach for Implementation Support

11. **Implementation support will aim to ensure the achievement of project objectives.** Implementation support will focus on the mitigation of implementation risks, namely, in the technical, institutional, and fiduciary aspects of the projects. The implementation support plan describes how World Bank resources will be deployed to meet its fiduciary obligation and to assist the client in achieving the PDO. It has been developed based on the scope and risk profile of the project.

12. **There will be strong support and coordination between the World Bank and the PIU.** The World Bank support team will bring comprehensive expertise and tools (for example, technical, FM, and procurement) to advise on all aspects of the project. Formal implementation support missions will be conducted at least twice a year. Greater implementation support could be arranged during the first year of the project, depending on the needs of the implementation agencies. The World Bank support team will maintain ongoing dialogue and benefit from one technical staff and FM, procurement, and safeguards specialists based in the field.

13. **World Bank implementation support missions will cover the following aspects:**

- **Management of client relationship.** The TTL based in Burkina Faso will coordinate and oversee project implementation support to provide regular dialogue with the client and ensure sound management of project resources and progress toward the achievement of project objectives.

- **Technical.** Technical experts (for example, digital finance, microfinance, SME finance and development) will oversee the implementation of various activities, ensuring that these are aligned with the PDO of the project and agreed annual work plans. Where applicable, technical experts will also provide inputs in the development of ToR and technical specification for various activities and review outputs and will support the National Treasury in ensuring that the M&E framework continuously meets the needs of the project.

- **FM.** Implementation support will be provided to ensure that the client is proficient in meeting the fiduciary obligations of the World Bank, specifically by maintaining an efficient and reliable FM system capable of reporting on the uses of project funds. The World Bank FM specialists will build the client's fiduciary capacity by providing a series of fiduciary training sessions and periodic onsite visits to determine compliance and review audit reports. In addition, the World Bank will provide follow-up visits to ensure that the client has implemented the recommendations as outlined in the yearly audit reports.

- **Procurement.** Implementation support will include (a) providing continuous training and organization of Procurement Clinics to support the procurement specialist who will oversee procurement; (b) organizing and delivering a training session on the NPF during the appraisal and immediately after effectiveness, including hands-on sessions to ensure the proper use of borrower regulations; (c) intensifying training in contract management; and (d) ensuring that negative findings during post-procurement reviews are consolidated and appropriate support provided to ensure quality procurement in general.

Implementation Support Plan and Resource Requirements

14. **Implementation support activities for the duration of the project are outlined in tables 1.1 and 1.2.**

Table 1.1. Implementation Support Plan

Time	Focus	Skills Needed	Resource Estimates	Partner Role
Year 0 before project effectiveness to first 12 months	• Project effectiveness and launch of project activities • Baseline survey and M&E system setup • Implementation support mission and review of progress	• Senior financial sector specialist (co-TTL) • Financial sector specialist (microfinance, digital finance co-TTL) • Senior financial sector specialist (payments, digital finance) • Financial sector specialist (SME development) • Senior procurement specialist • FM specialist • Senior environmental safeguards specialist	US$200,000	• Team members to support project launch and implementation and ensure compliance with World Bank policies and procedures • Administrative and logistical support
12–48 months	• Implementation support and oversight to specific technical components and projectwide FM, procurement and safeguards • M&E ongoing activities • Midterm review in year 3	• Senior financial sector specialist (co-TTL) • Financial sector specialist (microfinance, digital finance co-TTL) • Senior financial sector specialist (payments, digital finance) • Financial sector specialist (SME development) • Senior procurement specialist • FM specialist • Senior environmental safeguards specialist	US$450,000	• Regular in-country support • Full project team participation in implementation support missions—two per year • Administrative and logistical support

Table 1.2. Resource Requirements

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Senior financial sector specialist (co-TTL)	60	Country based	
Financial sector specialist (co-TTL, microfinance)	38	8	2 trips per year for 4 years to support implementation on government payments, digital finance, microfinance, consumer protection and financial education, SME development
Senior financial sector specialist (payments)	20	8	
Senior financial sector specialist (guarantee fund specialist)	20	8	
Financial sector specialist (SME development)	16	8	
Financial sector specialist (consumer protection, financial education)	16	8	
Senior procurement specialist	6	Country based	
FM specialist	6	Country based	
Senior environmental safeguards specialist	4	Country based	
Senior social safeguards specialist	4	Country based	

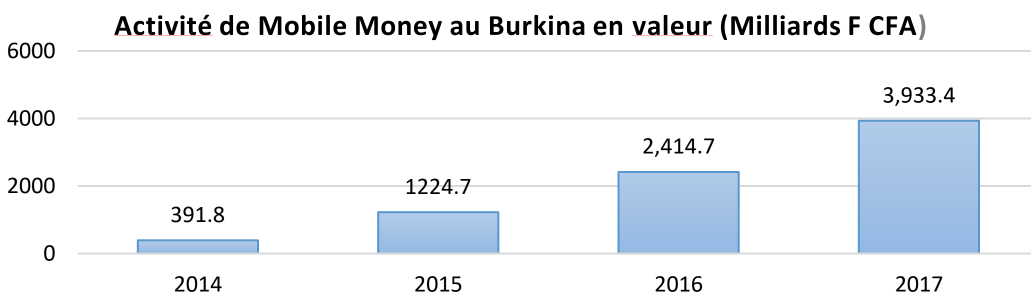
ANNEX 2: GOVERNMENT PAYMENTS FLOWS - SUMMARY FROM HIGH-LEVEL OVERVIEW

1. **Since 2004, at the regional level, the BCEAO has conducted a program seeking to modernize the payment systems infrastructures of the eight-member states.** The regional payments system consists of (a) SICA-UEMOA (an ACH), (b) STAR-UEMOA (a real-time gross system), and (c) GIM-UEMOA (an interbanking electronic payment switch). The BCEAO has thus invited the treasuries of the eight WAEMU member states, including Burkina Faso, to use the electronic payment system. Following the BCEAO's recommendations, the Treasury of Burkina Faso is connected with STAR-UEMOA since 2012; however, its participation to the SICA-UEMOA is under preparation but has not yet been finalized.

2. **Cash management is costly and presents significant challenges for the Government.** Indeed, in 2017, the Treasury processed nearly CFAF 171 billion in cash payments to institutions such as nationally owned companies, national organizations, public institutions, universities, and so on. The digitization of payments and the modernization of the Treasury's payment systems infrastructure could result in (a) long-term efficiency gains in managing the rising cost of maintaining fiduciary circulation; (b) transparency and security of payments and funds in an 'uncertain' security environment; and (c) the optimization of the operating costs of the state's resources, time gains, and convenience for the population in the collection and payment of taxes.

3. **At the same time, mobile money has grown significantly in Burkina Faso in recent years.** Mobile money, through its rapid growth and wide geographical reach, offers real opportunities for digitization of G2P and P2G payments.

Figure 2.1. Mobile Money Activity (billions FCFA)

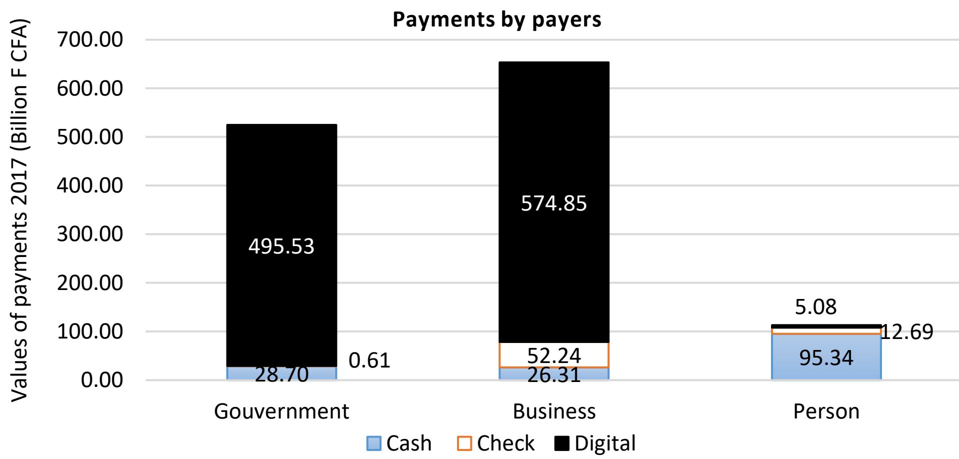


4. **At the end of 2017, mobile money activities in the country were as follows (BCEAO):**

- 6.9 million accounts opened (of which 50 percent are active over a 90-day period)
- Total annual value of transactions: CFAF 3,933.4 billion
- Total annual volume of transactions: 351.6 million
- Average value of money transfer per transaction CFAF 20,000–25,000
- Approximately 22,292 mobile money agents deployed across the country

5. **During project preparation, a government payments stocktaking was conducted to identify opportunities for digitization.** The data collected for the payments' diagnostic provide an indicative though not exhaustive picture of the Government's retail payment flows (G2P, business-to-government [B2G], and P2G) in Burkina Faso. This includes payments from (a) the Directorate General of the Treasury; (b) the Directorate General of Taxes; (c) national electricity and water companies; (d) several financial institutions accredited and supervised by the BCEAO (banks, MFIs, electronic money institutions); and (e) public schools. The stocktaking showed that P2G payments are predominantly processed in cash whereas G2P payments are mostly done through bank transfers. Formal P2P transfers are mostly digitized through mobile money.

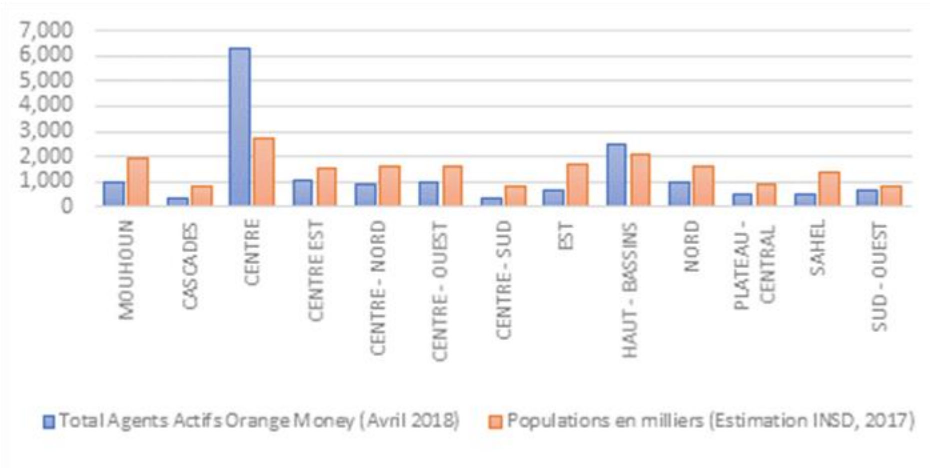
Figure 2.2. G2P, P2G, B2G Payment Flows



Source: Payments mapping conducted during project preparation.

6. **In May 2018, there were three mobile money providers in Burkina Faso:** (a) the Orange Money, which markets the orange e-money product; (b) the Telmob telephony operator (Onatel), which distributes the e-money of several partner banks, under the trade mark Mobicash; and (c) the e-money distributor YUP, which is a subsidiary of SOCGEN in Burkina Faso. Orange Money is the leading mobile money service with an agent network of 16,700 active service points as of April 2018, followed by Mobicash.

Figure 2.3. Distribution of Orange Mobile Money Agents



Source: Payments mapping conducted during project preparation.

7. **There are several obstacles constraining the development of a digital finance ecosystem in Burkina**. These include, but are not limited to, the following issues:

- Nonuse of national identity documents, creating a 'Know Your Customer' challenge for opening accounts
- A relatively high incidence of poverty in Burkina Faso (43.7 percent of the population in 2014, according to the World Bank)
- Low development of the merchant payment network accepting cards and mobile payments
- Lack of financial players such as fintech companies in the competitive landscape of digital finance
- A low level of partnership development between banks, MFIs, and mobile money companies that could facilitate the development of innovative services such as bank to wallet, wallet to bank, credit scoring based loans, and so on
- An undiversified digital finance product portfolio (cash-in, cash-out, money transfer, airtime selling)
- Non-opening of access to the USSD channel by mobile operators
- Weak MIS and core banking systems of MFIs
- Absence of a collaboration platform between the various players that could facilitate dialogue and remove barriers to the development of the digital finance

- Low penetration, for the time being, of digital bill payments for nationally owned companies such as the electricity (*Société National d'Electricité du Burkina Faso*) and water company (*Office National de l'Eau et de l'Assainissement*)

- Limited number of the Government's P2G payment initiatives through the digital channel (card, mobile money)

- Lack of financial literacy and educational campaigns seeking to popularize the use of digital finance tools for tax payments

- Lack of a flexible regulatory framework on agency banking for banks and MFIs

8. **Nevertheless, there are favorable and encouraging factors for digital finance development in Burkina Faso.**

- A commitment from the national authorities and the BCEAO to develop a digital finance ecosystem

- A few state-level initiatives under development to establish digital G2P and P2G payments, including

    - Modernizing the Treasury's payment system infrastructure, including connecting to the regional payment system, SICA-UEMOA;

    - Digitizing pensions and social security benefits payments by the CNSS and the *Caisse Autonome de Retraite des Fonctionnaires*;

    - Burkina e-syntax project, an online tax declaration and payments project by the Directorate General of Taxes;

    - The online tax payment project, under consideration by the Directorate General of Customs; and

    - The e-Burkina project, which will modernize the state's ICT infrastructure and is being implemented by the *Agence Nationale pour la Promotion des Technologies de l'Information et de la Communication*

- A competitive environment around digital finance (mobile money) that is growing rapidly

- Strong interest in mobile money from mobile operators that have already made significant investments, particularly in the development of agents' networks

- Growth of mobile Internet, which raises the potential for innovation (for example, QR code and mobile applications)

- Payment infrastructure under the regional GIM-UEMOA platform

- Deployment of fiber optics within Burkina Faso through the following projects: (a) the e-Burkina project, IDA/R2016-0310/1, (to improve the capacity and use of ICT by public administration) and (b) the West African Regional Communications Infrastructure Program, IDA/R2010-0386/2, (a regional communication infrastructure program for West Africa to increase the geographical coverage of high-speed Internet and reduce the costs of communication services in the territory), both funded by the World Bank, and (c) the G-Cloud project, funded by the Government of Denmark.

- Many P2G and G2P payments currently being processed in cash that could be digitized.

- Significant state payments to nationally owned companies, national organizations, public institutions, universities, and so on that are made in cash to the Treasury.

ANNEX 3: BANKING AND MICROFINANCE OVERVIEW

Banking Sector[25]

1. **The banking sector comprises 13 banks and is dominated by foreign banks.** Foreign investors hold 72 percent of the banking sector's equity. The Government progressively reduced its participation in the banking sector from 22.67 in 2012 to 12.28 percent in 2016. As of 2017, the Government has a majority stake in two banks, including the housing bank *Banque de l'Habitat du Burkina Faso* and the *Banque Commerciale du Burkina* (BCB). Seven banks—including five cross-border banks—dominate the market, with assets representing 86.3 percent of the banking sector's total assets,[26] while three banks' total assets are valued at CFAF 100–200 billion, representing 6 percent of the sector. The remaining banks have assets for a total value of less than CFAF 100 million.

Table 3.1. Overview of the Banks in Burkina Faso

Bank	Main Stakeholder Nationality	Number of Agencies
Banque Atlantique	Morocco	24
BCB	Libya/Burkina Faso	18
Banque De l'Union	Morocco	5
BICIAB	France	18
Bank of Africa	Morocco	44
Banque Sahélo-Saharienne pour l'Investissement et le Commerce (BSIC)	Libya	12
ATTIJARIWAFFA BANK	Morocco	6
Coris Bank International (CBI)	Burkina Faso	41
ECOBANK TOGO	Togo	43
ORABANK-CI	Togo	7
Société Générale Burkina Faso	France	21
United Bank for Africa - Burkina Faso	Nigeria	29
Banque de l' Habitat	Burkina	12

2. **Burkina Faso's banking sector compares favorably with its peers in the region.** Burkina Faso's banking sector has expanded significantly in recent years, growing faster than the average in Sub-Saharan Africa and most WAEMU countries**.** Total banking sector assets as a percentage of GDP grew by 58 percent between 2012 and 2016 to reach 62.6 percent in December 2016. This represents a robust performance compared to neighboring countries, such as Mali (51.3 percent) and Côte d'Ivoire (45.1 percent). In December 2015, the banking sector represented 13 percent of the WAEMU banks' total assets. Burkina Faso has a larger share of term deposits (43.9 percent) than the WAEMU average (25.2 percent). However,

[25] The overview of the banking sector in Burkina Faso is a summary from the financial sector review report. The review was conducted between April and November 2017.
[26] Bankers Association.

the depositor base is narrow and is growing slowly compared to that of peer countries. In 2015, total deposit accounts per 1,000 stood at 138 in Burkina Faso, compared to 163 in Senegal.

3. **The banking sector appears to be well capitalized and asset quality is improving, though NPLs remain high in certain banks.** The level of capitalization grew by 24.4 percent at the end of 2016, owing to the BCEAO's new capital requirements. Capital adequacy ratios are adequate, at 13.75 percent in 2016 (the prudential norm of 8 percent). The level of gross NPLs decreased by 17 percent to 7.55 percent in 2016 and has fallen by 23 percent since December 2013, which is lower than the Sub-Saharan African average of 9.5 percent. While the level of NPLs may seem low, it differs across banks, with two small banks having a gross NPL ratio of over 20 percent at the end 2016.

4. **Liquidity in the banking sector seems to be high, though indicators are declining, and some small banks appear to be struggling.** While the liquidity ratio of the banking sector is 88 percent, this is lower than the 91 percent ratio reported in 2015. Nevertheless, the current ratio is considerably above the prudential norm of 75 percent.

5. **The sector is considered profitable with a few exceptions.** The sector's ROE decreased slightly in 2016 from 22.93 to 21.60 percent, but this was related to increased equity. The sector's ROA was 1.39 percent in 2016, slightly higher than the year before at 1.35 percent. All but two banks had generated profit in December 2016. The operating ratio for the sector was 51 percent. Ideally, it should be below 50 percent to allow for sufficient provisioning, amortization, and a reasonable profit. To improve their profitability, some banks mentioned that they are revising their strategies to improve outreach by providing mobile finance services and increasing their lending to SMEs, but implementation has proven slow. This could result in banks missing an opportunity to improve their productivity and outreach and reduce operational costs significantly through mobile finance.

Table 3.2. Financial Performance of Burkina Faso's Banks

	2016 (%)	2015 (%)	2014 (%)	2013 (%)
ROA	1.39	1.35	1.47	1.75
ROE	21.60	22.93	25.37	28.67
Transformation ratio	89.43	78.34	80.43	80.19
Liquidity ratio	88.63	91.21	79.54	109.74
Capital adequacy ratio	13.75	13.96	11.38	9.79
Gross NPL	7.55	9.20	8.90	9.30

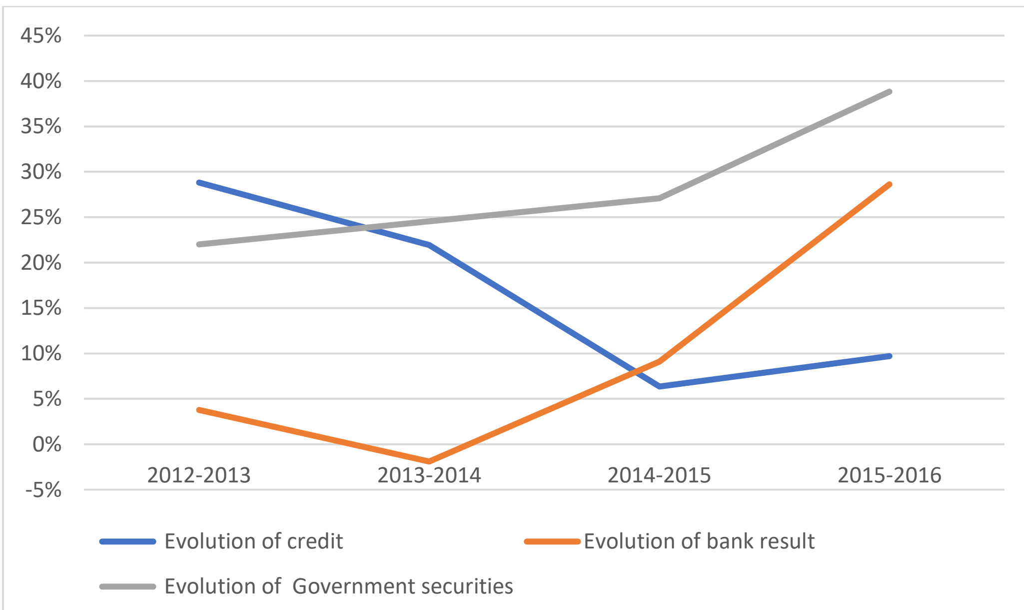
Source: BCEAO.

6. **Although the sector's assets-to-GDP ratio is significant, financial intermediation remains limited.** The credit to private sector to GDP ratio fell by 6.9 percent between 2015 and 2016 to reach 26.9 percent, which is lower than many West African countries but in line with the Sub-Saharan African average. Low credit to the private sector mirrors the limitation of opportunities and space for the private sector to grow. Bank lending remains concentrated among large firms. Credit repartition was as follows: trade (25.2 percent compared to 28.2 percent in 2015), services (23.7 percent compared to 23.2 percent in 2015), public infrastructure works (16.2 percent compared to 16.7 percent in 2015), and extractive industries (14.7 percent compared to 17.6 percent in 2015). The share of credit going to SMEs and agriculture is minimal. Agriculture loans represented about 3.9 percent of banks' total lending in 2016.

The allocation of credit is particularly imbalanced, given the agricultural sector's weight in the economy. Agriculture accounts for 40.9 percent of GDP.

7. **In recent years, banks have placed a stronger focus on financing the public sector through the increased purchase and holding of government bonds.** In the last five years, banks have almost tripled their purchase and holding of WAEMU sovereign securities. This is due to multiple factors including the fact that the acquisition of T-bills by banks does not hinder their capital adequacy requirements. In addition, T-bills can be traded in any of the eight WAEMU countries and be used for refinancing at the BCEAO. The increase in bank exposure to the public sector also explains, in part, the reduction of private sector credit in recent years.

Figure 3.1. Growth Trend of Credit and Government Securities Held by Banks and Banks' Results (in Percentage)



Source: IMF 2016.

8. **The high concentration of credit in the banking sector is a concern.** The 50 biggest clients operating in public works, oil, services (ICT), and textiles received 39.8 percent of total credit available from the banking sector in Burkina Faso in 2016. The five largest among these companies received 17 percent of total loans. Moreover, loans to the cotton sector—about 2 percent of banks' total loans to a single borrower—represent a seasonal risk for banks. Economic disruptions, which affect these borrowers regularly, can jeopardize bank solvency and put the financial sector's stability at risk.

9. **Another risk is Burkinabe banks' increasing exposure to sovereign risks.** Commercial banks have sharply increased their purchasing and holding of government securities—by 251 percent between 2012 and 2016. Total government securities held by banks at the end of 2016 represented 28 percent of total bank assets. As experienced during the 2010 political standoff in Côte d'Ivoire, such a large exposure to government paper could pose a solvency problem for some banks in times of economic crisis, thereby constituting an overall threat to the banking system. The need for banks to limit their holding of government securities and diversify their lending should be a priority to ensure the sector's stability. Though the BCEAO's decision to increase its credit facility rate by 100 basis points and to tighten access

to its refinancing window by capping to twice the level of capital was expected to tighten financing conditions for sovereigns at the regional market, its impact has since been mitigated by a subsequent cut in reserve requirements for banks as underlined by the IMF.

10. **The National Risk Assessment reveals several risks.** The assessment reveals that the main sources of illicit proceeds in Burkina Faso are corruption, fiscal fraud, contraband (including cigarettes and alcohol), drug trafficking, and trafficking of mining resources (gold) and redwood, as well as human trafficking (including prostitution and child exploitation) and arms trafficking. A significant majority of these illegal proceeds are a combination of proceeds generated both in and outside Burkina Faso, though it seems that illegal proceeds from Libya (arms), Côte d'Ivoire (cacao), Northern Mali and Algeria (cigarettes), and Nigeria and France (used cars, electronics) are also being laundered in Burkina Faso. The very large use of cash, limited access to the financial sector, and the widespread use of informal banking/economy are serious vulnerabilities for money laundering/terrorist financing (ML/TF). The sectors at the highest risk of abuse for ML/TF purposes include real estate (high cash use), importation of construction materials, all-natural resource sectors (mining, gold, forests, fishing, cotton, land, animal breeding, and so on), money exchange houses, casinos, and notaries. National and international cooperation on these issues are still in their infancy and are considered major hindrances to the effectiveness of Burkina Faso's Anti-Money Laundering/Combating the Financing of Terrorism regime.

Microfinance Sector[27]

11. **Microfinance operations in Burkina Faso are governed by Law No. 023-2009/AN regulating MFI, Decree No. 2009-839/PRES/PM/MEF, and the BCEAO.** The sector is supervised by the BCEAO and the General Directorate of the Treasury and Public Accounting (*Direction Générale du Trésor et de la Comptabilité Publique*) through the DSC/SFD. A total of 25 MFIs in Burkina Faso are supervised by the BCEAO under Article 44[28] of the regional law governing the microfinance sector in WAEMU countries. The remaining MFIs are supervised by the DSC/SFD.

12. **Serving approximately 1.9 million people—a penetration rate of 19 percent of the country's adult population—the microfinance sector plays a key role in expanding the country's financial inclusion agenda.** Three types of MFIs operate in Burkina Faso: cooperatives, associations, and limited liability companies. The sector includes 134 licensed MFIs and products and services are offered through 660 points of service, far exceeding the number of the bank branches (288 in all the country).

13. **The sector recorded a positive increase in its outstanding loans and deposits in 2017.** The total volume of assets in the MFI sector amounts to CFAF 366.5 billion (US$672 million). The value of the microfinance sector's total assets stood at only 4.6 percent of GDP in 2016.[29] Between 2016 and 2017, outstanding credit increased from CFAF 143 billion to 160 billion (US$293 million), an increase of 12 percent. During the same period, deposits increased by 3 percent to 198 billion (US$363 million). About 52 percent[30] of the outstanding lending portfolio is granted to finance small traders. Small-scale

[27] The following section's data were collected during preparation missions in March and May 2018.
[28] Article 44 refers to MFIs with outstanding loans and/or outstanding savings portfolio of at least CFAF 2 billion over two consecutive years.
[29] Team's calculations based on World Development Indicators, 2016.
[30] Team's calculations based on World Development Indicators, 2016.

productive activities, such as handicrafts and related businesses (classified as 'other services'), are the second-largest recipients of MFI funding, followed by agriculture at 15 percent.

14. **The sector is dominated by financial cooperatives and is highly concentrated.** According to the MoF, Department for MFI Control and Supervision Department, out of the 134 institutions licensed to carry out microfinance activity in 2017, 113 are financial cooperatives, 7 are limited liabilities companies, and the remaining are associations. One institution, the *Faîtière des Caisses Populaires of Burkina Faso* (FCPB), is the largest financial cooperative in the country, with 70 percent of the microfinance sector's market share. The FCPB reaches 1.1 million customers through 200 points of service. It remains the driving force of the sector and has outstanding loans of CFAF 95 billion and deposits of CFAF 138 billion.

Table 3.3. Outreach of the Microfinance Sector

	2017	2016	2015	2014	2013
Number of institutions	134	133	135	153	154
Number of financial cooperative institutions	113	113	120	132	133
Number of limited liabilities institutions	7	6	4	5	5
Number of clients/members	1,945,355	1,762,582	1,595,431	1,397,219	1,226,557
Number of women clients/members	670,544	540,804	470,328	417,193	336,190
Outstanding deposits (CFAF, billions)	198.00	193.00	229.00	197.00	129.38
Outstanding credit (CFAF, billions)	159.57	143.00	124.00	108.00	90.60
Total assets (CFAF, billions)	366.46	295.00	278.00	279.00	188.52
Equity (CFAF, billions)	72.8	69.4	55.7	51.3	32.3
Net profit (CFAF, billions)	3.7	3.2	2.2	2.8	3.5

Source: DSC/SFD and Association Professionnelle des Systèmes Décentralisés Financiers (AP/SFD) 2018.

15. **MFIs' offering is mainly conventional credit and short term and generally finances trade activities.** This offering is limited to traditional instruments, and current microfinance regulations are not encouraging innovation and diversification. Indeed, current regulation does not allow MFIs to provide leasing, a service that could be adapted to SMEs' demand and characteristics. Similarly, MFIs are excluded from guidelines No. 015-12/2010/RB for intermediaries for banking operations in WAEMU countries and do not have access to the payments system. The majority of MFI deposits are short term (*dépôt à vue*), limiting the supply of medium- and long-term financing: short-term loans represent 56 percent of the credit portfolio, [31] while medium-term credit represents 13 percent of outstanding loans and the remaining 31 percent is over the long term.

16. **MFIs are major players in agricultural finance with an average of 15 percent of their portfolio granted to the sector.** Agricultural credits are mainly input and storage credits. Agricultural financing in Burkina Faso is generally constrained by the limited knowledge and expertise of financial institutions in agricultural finance, risks, and the lack of guarantees. Indeed, very few financial institutions have units or specialized teams in agricultural financing. As a result, agricultural credit is analyzed and treated like any other economic sector, with a financial product offering that is not adapted to the agricultural calendar

[31] BCEAO 2016.

and is based on guarantees, rather than cash flow. The agricultural sector is considered highly exposed to production risks (especially climatic), as well as market risks. Lastly, the lack of adequate collateral among agricultural producers limits banks' appetite to lend to the sector. Agricultural producers generally have three main types of collateral: land, equipment, and production outputs. In Burkina Faso, according to the last FinScope (2016), only 8 percent of agricultural households have a document or title for the land they use. The level of mechanization in agriculture remains low. Thus, more and more MFIs, as well as some banks, are turning to inventory-backed financing. However, the quality of storage infrastructure in the country has limited the development of this product.

17. **The financial performance of the sector is mixed.** Overall, about 20 percent of MFIs are compliant with all norms and financial performance indicators. Liquidity is very tight, and most MFIs are not compliant with the norm (47.2 percent on average against a norm of ≥100 percent). Most MFIs do not meet the coverage ratio of medium- and long-term financing with stable resources (84.6 percent against a norm of ≥100 percent). As for the quantitative financial indicators defined by the BCEAO for the microfinance sector in the WAEMU zone, over the past five years, Burkinabe MFIs have experienced difficulty complying, particularly with the profitability and portfolio quality indicators. As a result, in search of profitability, MFIs have become more and more present in urban areas.

18. **While large MFIs appear to be in good health, a majority of medium and small MFIs (67 out of 125 operating) are struggling to operate, with some having negative equity and/or negative returns.** The Government had a cleanup plan for 2016–2018, which is currently being implemented, and disbursed CFAF 812 million for the liquidation of 12 institutions. The regulator has withdrawn licenses from 18 MFIs.

Table 3.4. Financial Indicators of the Microfinance Sector

	Norms	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)
Prudential ratios						
Limit for non-traditional Operations	**≤5%**	0.0	0.0	0.2	0.0	0.2
Limitation of risks exposure	**≤200%**	94.9	95.7	94.1	94.2	93.2
Limitation of loans to connected parties (management and staffs)	**≤10%**	7.6	0.0	12.6	11.4	9.6
Limitation of risks exposure of an MFI to a single party	**≤10%**	4.4	0.0	1.7	1.6	1.8
Coverage of medium and long-term financing with resources of similar maturity	**≥100%**	84.6	69.1	69.8	70.7	68.3
General reserve requirement	**≥Base x 15%**	0.0	0.0	0.0	0.0	0.0
Limitation on equity financing	**15%**	5.1	7.5	8.0	2.7	3.1
MFIs financing of fixed assets and participation	**≤100%**	22.8	25.9	35.0	29.0	30.1
Liquidity ratio	**≥100%**	47.2	50.9	52.1	64.6	37.3
Capital adequacy	**≥15%**	19.6	21.9	19.4	18.4	17.1
Profitability indicators						
ROA	**≥3%**	1.0	1.1	0.9	1.4	1.8
ROE	**≥15%**	5.1	5.2	4.0	7.5	10.9
Operational self-sufficiency	**≥130%**	112.0	107.1	107.8	115.3	121.0

	Norms	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)
Portfolio quality indicators						
PAR30	**5%**	4.3	22.1	5.4	6.2	6.7
PAR90	**3%**	2.9	15.9	4.6	4.1	4.6
Productivity indicator						
Operating cost ratio	**≤35%**	23.0	20.0	21.0	18.6	18.3

Source: DSC/SFD and AP/SFD (2018).

19. **The microfinance sector faces significant challenges in terms of supervision.** The directorate is significantly understaffed and under-resourced, with only 23 staff to supervise about 109 MFIs. The directorate manually records the financial reporting data it receives each quarter in hard copy from the MFIs in an Excel file. This paper-based reporting system is vulnerable to manipulation and human error. In addition, the lack of human and budgetary resources limits the frequency and quality of onsite control, further weakening sector supervision.

20. **The weakness of governance, internal control, and credit management and the lack of MIS constitute the main challenges of MFIs in Burkina Faso.** Governance issues remain a challenge for mutual-type institutions, as the weak capacity of elected representatives can fuel conflicts between them and the management team. Internal control and credit management challenges experienced by bureaucratic staff and officials are a concern for all types of institutions. Some institutions under Article 44, as well as medium and small MFIs, do not have a high-performing MIS that interconnects branches and service points in real time. This weakness of the MIS constitutes a major obstacle for the development of digital microfinance. Currently, MFIs act as super agents for telephony operators, earning a commission. However, they are not able to offer second-generation mobile money products that improve customer experience while attracting new customers who are currently excluded from the system.

21. **Affordable refinancing remains a major concern for the microfinance sector.** The difficulty of refinancing is more accentuated for medium and small MFIs. The collateral requirements are significant (term deposits, land titles, and so on). Interest rates range from 10 percent to 13 percent before tax. The cost of resources in a context of interest rate ceilings contributes to the trend of MFIs serving an increasingly urban clientele, where transaction costs are lower.

22. **Alongside formal microfinance, there are also many savings and credit groups, particularly in rural areas where most members operate outside the formal financial sector.** These savings groups, generally more than 85 percent women, are well organized and supervised by service providers (paid by nongovernmental organizations and other groups) that save weekly and make loans among members (on average three times the amount saved by the applicant). These groups are informal (no legal status), composed of 15 to 25 people, with savings and credit activities solely based on the group's internal cash mobilization. In Burkina Faso, Catholic Relief Services is the largest promoter of these groups, working with more than 329,000 members, 86 percent of whom are women. Members are organized in 12,900 groups with savings amounting to CFAF 2.3 billion and outstanding loans of CFAF 603 million.

23. **The Government has established 18 national funds to supply finance directly to individuals and SMEs, but they have struggled to accomplish their mission.** Eight funds offer credit and guarantees, though some have limited outreach, serving fewer than 100 people. The funds are vulnerable to

mismanagement, elevated levels of NPLs, and inadequate financial reporting. The Government is concerned about the lack of transparency in the eligibility criteria and allocation of these funds. The biggest funds, FAARF and FBDES, are in better shape but struggle to find the right balance between social goals and financial efficiency. Table 3.5 presents a more detailed list of the national funds.

Table 3.5. List of National Funds Providing Credit or Guarantees

Fonds d'Appui aux Activités Rémunératrices des Femmes	FAARF	Credit group lending up to CFAF 2,000,000 and individual loans up to CFAF 500,000	Promote women's access to credit
Fonds Burkinabé pour le Développement Economique et Social	FBDES	Credit, subsidies, and equity	Provide equity, debt, caution, and guarantees to state-owned companies and priority sectors
Fonds pour le Développement des Collectivités Territoriales	FPDCT	Grants, credit, and guarantees	Support public infrastructure
Fonds d'Appui à la Promotion de l'Emploi	FAPE	Credit and guarantees CFAF 500,000–10 million (US$920–18,350)	Job creation
Fonds d'Appui aux Initiatives des Jeunes	FAIJ	Credit	Entrepreneurship
Fonds d'Appui au Secteur Informel	FASI	Credit up to CFAF 1.5 million (US$2,750)	Entrepreneurship
Agence de Financement et de la Promotion des PME	AFP-PME	Credit and TA	Support to SMEs
Fonds pour le Développement de l'Elevage	FODEL	Credit and subsidies	Livestock

24. **The national fund to support women's entrepreneurial activities, FAARF, enjoys a broad network but lacks the financial infrastructure to manage credit operations.** The fund provides financing to 137,000 beneficiaries throughout the country with a repayment rate of 95 percent and outstanding credit of CFAF 9 billion (US$16.5 million). FAARF has two loan products, an individual and a group loan, with flexible conditions, for example, low fixed interest rate (10 percent) and a 12-month repayment cycle. FAARF operates on a cash- and paper-based manual system (paper application for credit through 78 facilitators of the fund) and disbursements are made in cash only. The facilitators can at times handle large sums of cash, for example, CFAF 60–300 million (US$110,000–550,000) in cash, representing a significant security risk. FAARF also lacks an automated MIS to manage its credit operations.

ANNEX 4: STRUCTURE OF THE PPCG TO BE ESTABLISHED BY THE PROJECT

Access to Finance for SMEs in Burkina Faso

1. **SMEs' access to credit is very low in Burkina Faso.** In 2017, three-quarters of SMEs interviewed as part of the World Bank SME finance survey for Burkina Faso considered access to finance their biggest growth constraint, before access to electricity or the rule of law.

2. **Burkina Faso's corporate fabric is dominated by SMEs.** Out of the 65,000 formal enterprises registered, only 500 have an annual turnover of more than CFAF 1 billion (US$1.8 million). The trade sector has by far the largest number of companies. If services and construction are combined, there is little room for industrial activity (about 10 percent of the total number of enterprises). The number of informal enterprises is estimated to be twice that of formal enterprises.

3. **While it represents the heart of Burkina Faso's economy, the SME sector is heavily underfunded.** World Bank financing is concentrated in the largest companies in the country. The top 50 companies account for 40 percent of all bank loans. The new segmentation of the BCEAO, which limits the maximum annual turnover of SMEs to CFAF 1 billion (US$1.8 million), will exacerbate the concentration of credit further, since banks may be incentivized to focus on SMEs with higher turnover (CFAF 0.5–1 billion, for instance). The average share of the portfolio of loans to SMEs in major banks can be estimated at around 15 percent of the total volume of loans to customers. One of the country's main banks reported in 2017 that its outstanding credit to large companies had increased three times more than the outstanding credit to SMEs had increased.

4. **The situation is more unsatisfactory when it comes to financing farmers.** The number of farm households is estimated at 1.4 million. About half of them have a commercial farming activity. While the contribution of agriculture to the gross national product is about 30 percent, only 10 percent of the rural population has a savings account and just 2 percent of the rural population has a loan from a financial institution. As a result, outstanding loans to farmers (excluding cotton financing) from banks do not exceed 4 percent of total customer loans (8 percent if cotton sector loans are integrated), which account for almost 65 percent of agricultural loans.

5. **For SMEs, the main disadvantages related to credit development include** (a) the poor internal organization of SMEs; (b) the lack of adequate financial statements; (c) the difficulty in presenting strong loan proposals; and (d) the elevated level of guarantees, especially mortgages, required by financial institutions, which are sometimes much higher than the amount of the loan. This often blocks SMEs' access to credit.

6. **Farmers face challenges in accessing credit.** Access to credit for farmers is low due to their poor financial literacy and difficulty in providing real estate guarantees (only 8 percent of farmers can provide a document or title that can justify ownership of the land they live on). Other challenges for farmers include difficulty in organizing into value chains, which makes it difficult to establish farming contracts between exporting processors and farmers. Moreover, financial institutions (banks and MFIs) are slow to invest in staff development on agricultural lending techniques that could help them better understand agricultural value chains and markets, develop credit products that are better adapted to farmers' needs,

and better assess agricultural risks. Dissatisfaction is often expressed by agricultural organizations regarding loan offers presented by some banks and MFIs.

7. **In 2017, the Government passed the Orientation and Promotion of SMEs in Burkina Faso Act, followed by a charter with the aim of improving the ability of SME stakeholders to work together.** The Government also introduced some incentives to promote SME development, such as requiring that 15 percent of public procurement be awarded to SMEs. And as part of the implementation of the so-called Bâle II and Bâle III regulations, the BCEAO has recently made provisions, leading banks to better segment their SME clients to reinforce the control of credit risks. These provisions encourage Burkinabe banks to strengthen their internal organization to have a better approach to financing SMEs. Banks also believe that these new provisions will enhance the use of financial guarantees to partially covering loans to this segment.

8. **Driven by competition caused by the recent arrival of new banks, there is now a growing interest among banks (especially medium-size ones) in financing SMEs.** These banks are aware that this market insufficiently supplied and has a strong growth potential. Interest is also growing among banks for the financing of new agricultural sectors, particularly those oriented toward processing (rice, cereals, mangoes, potatoes, and so on). International donor projects are helping banks develop financing in these new markets.

9. **In this context, PPCG tools are offered by international guarantee agencies and are being set up within banks to cover the financing activity for SMEs and farmers.** However, there is dissatisfaction among banks with the current implementation of the PPCG. This is due, for example, to restrictive conditions for making calls for guarantees and the extended period to settle guarantee claims. SOFIGIB was recently solicited by two large local banks to set up a PPCG. The project proposes to establish a PPCG fund.

10. **A PPCG for loans extended by banks and MFIs to SMEs will be established by the proposed project**. The project will endow the PPCG with a funding of US$15 million.

11. **A PPCG Technical Committee (TC),** which will meet quarterly, shall be responsible for providing guidance on the operations of the fund and proposing changes to SOFIGIB's ToR as needed. The TC shall consist of representatives from the MoF, the professional associations of banks, and the professional association of MFIs and two expert professionals chosen for their knowledge about the financial sector.

Institutional Setup of the PPCG

12. **The PPCG will be managed by the private guarantee fund manager of SOFIGIB.** The funding of the PPCG will be located in Ouagadougou and deposited in local banks. All this ensures that the PPCG is well adapted to the local environment in Burkina so that it can quickly respond to claims by PFIs, and sustainable arrangements are in place to allow the fund to continue operating without World Bank support. SOFIGIB is licensed, regulated, and supervised by the regional Banking Commission. The PPCG will operate through dedicated deposit accounts, strictly separated from other SOFIGIB operations.

13. **Modalities proposed for the PPCG.** A PPCG Fund with three separate windows is proposed:

- **An SME window** to cover loans to SMEs, including agro-processing SMEs.
    - The eligibility criteria for borrowers would be flexible. Informal companies could be accepted with a commitment to formalize during the warranty period.
    - All types of credits (in CFA francs) would be eligible: cash loans, overdrafts, equipment, and investment in land and buildings.
- **An agricultural window** that would cover credit to farmers.
    - It would be open to farmers and farmer groups, as well as informal groups with a commitment to formalize during the warranty period.
    - All types of credit (in CFA francs) would be eligible: cash loans, overdrafts, equipment, and investment in building and land.
- **A women's SME window** to cover loans to women-led SMEs.
    - It would be open to women-led SMEs. Informal companies could be accepted with a commitment to formalize during the warranty period.
    - All types of loans (in CFA francs) would be eligible: cash loans, overdrafts, equipment loans and those for investment in land and buildings.

14. **An important feature of the PPCG is that the PFIs and SOFIGIB receive accompanying TA.** Each PFI will benefit from a technical assistant whose responsibilities include assistance with the PPCG, developing the links between the PFI and SOFIGIB, improving internal procedures, developing risk analysis of SMEs, advising the PFI on the process of granting credit (including the analysis of the loan demand assessing and taking collateral) and on monitoring of the credit after it was granted, developing the customer base of the PFIs, and training staff. A resident technical assistant at SOFIGIB will help with strengthening internal procedures and the MIS.

15. **The guarantee is flexible and adapted to the needs of PFIs.** The PFIs determine with the Fund manager the maximum volume of loans they can enter in the guarantee. The guaranteed loans are made with private funds by private banks and MFIs.

Payout of the Guarantee

16. **The PPCG will automatically guarantee a quotient of credit losses for all qualifying loans.** Each PFI agrees with SOFIGIB on the characteristics of qualifying loans (size of loan, size of borrower, sector of borrower, and so on). All kinds of financing are eligible, including overdrafts, investment credits, and operating credits—however, loan renewals are only eligible with a decrease in the collateral or an increase in the loan amount. The PFI analyzes each loan request and decides whether to extend the loan or not. Once granted, any loan that falls within the defined characteristics must be registered in the guarantee (up to an aggregate credit amount agreed with SOFIGIB). The Guarantee Fund cannot refuse an eligible

credit. By automating and keeping this process nimble, the PPCG reduces administrative burden for all participants and ensures quick settlement of claims.

17. **The design of the PPCG aims to minimize moral hazard and adverse selection.** Because the guarantee is partial, the PFI keeps an interest in screening loan applications and selecting viable borrowers. This avoids moral hazard. Because the guarantee is applied to the entire portfolio of qualifying loans, the PFIs cannot limit the guarantee to their selection of most risky loans. This avoids adverse selection. The PPCG is characterized by its automaticity. As indicated, all loans meeting eligibility criteria are automatically entered in the guarantee. Because the guarantee is applied to credit extended from PFIs to borrowers, borrowers are not aware that their loan is partially guaranteed by a quasi-public fund (the PPCG is 'silent'). This minimizes the delinquency rate as borrowers feel they do not have to repay loans ensured by public or donor money.

18. **If a loan registered in the guarantee defaults, the PFI submits a claim to SOFIGIB.** SOFIGIB then has 30 days to review the claim on behalf of the Fund and pay the claim. If the claim is denied, SOFIGIB has 30 days to notify the PFI with an explanation. The PFI is in charge of the recovery, and the proceeds are shared equally with the Fund and SOFIGIB. The quick payment is an important benefit for PFIs that receive cash immediately without having to wait for a lengthy settlement.

Fee Structure

19. **The PFIs pay commission for coverage through the PPCG.** The commissions increase with the amount of claims. When the nonperforming portfolio reaches a predetermined level of total loans registered under the guarantee, the PFI can no longer enter loans on the guarantee. Claims will be paid by the Fund only if the ratio of bad loans to the total volume of loans in the guarantee has reached a certain level determined in the procedure manual. These are stop-loss measures intended to protect the Fund from difficulties experienced by a few PFIs.

20. **There is no direct subsidization in the SME window.** Commissions paid by PFIs and the returns on investments of the endowment should cover the administrative costs of SOFIGIB and net losses related to the payments of claims. This design should contribute to maintaining the funding endowment of the window at its original level. There is subsidization in the agriculture window because lending to agriculture needs an extra push. For the same reasons there is subsidization in the women led enterprises window.

21. External audits will be conducted every six months for technical audits and annually for financial audits. These audits will be conducted by renowned auditing firms. The technical audit ensures the correct implementation of the procedure manual in the granting and registering of the guarantee and in the payment of claims. In particular, the audits will ascertain that all qualifying loans have been entered in the guarantee and that there are no ineligible loans registered.

Eligibility and Selection Process of Financial Institutions

22. **PFIs will be chosen through calls for expression of interest.** To qualify, PFIs have to meet a number of criteria:

- Meets the prudential norms established by the WAEMU's Banking Commission

- Has a reasonable ratio of bad loans to total loans
- Has reasonable ROA and ROE
- Has a good presence in the country through branches
- Is engaged in lending to SMEs and agriculture or has expressed an interest to develop lending activities toward SMEs and agriculture; it has obtained all the authorizations to that effect from its board of directors and has the necessary means to conduct such activity
- Has a dedicated staff for the management of an SME and agriculture clientele or is determined to hire such dedicated personnel who will be trained by a technical assistant
- Has credits procedures covering analysis of loan requests, loan granting, loan monitoring, and loan recovery or commits to establish such procedures with the help of a technical assistant
- Has computer tools to manage loans or commits to acquire such tools
- Has the capacity to categorize the loans according to the classification established by the WAEMU
- Has a reporting system on loans by type of borrowers, sector of activity, and geographic zone or will be able to adapt its existing system to develop such reporting
- Has a rating system for borrowers or commits to put in place such a system
- Has the capacity to achieve the performance indicators agreed upon in the convention
- Has (or commits to put in place) anti-money laundering and anti-terrorists' policies as well as a policy of social and environmental responsibility in conformity with similar policies at the World Bank and will integrate these policies in the operational procedures of the institution
- Commits to abide by the procedure manual of the PPCG
- Commits to maintain an FM system and to prepare financial statements in conformity with usual accounting norms; these financial statements must be audited and certified by licensed auditors
- Has accepted and signed a convention with SOFIGIB

Selection Process of the Fund Manager

23. **SOFIGIB was chosen to manage the PPCG Fund under the project because** (a) its capital is a public-private-owned company, with 70 percent ownership by commercial banks;[32] (b) it is licensed and supervised by the WAEMU Banking Commission (a regulatory requirement to manage a guarantee scheme); (c) it has the capacity to manage a guarantee Fund; (d) it has experience in the management of guarantees; (e) its fee is competitive; and (f) it shows great interest in developing the PPCG. There are at least three other institutions licensed to manage guarantees in Burkina Faso, but an assessment of the financial sector identified significant flaws that prevent SMEs from benefiting from it.

24. **PPCG design and implementation will follow the 16 principles defined by an international task force under the leadership of the World Bank and FIRST (published in 2015).**

Box 4.1. How the proposed PPCG meets the World Bank Guiding Principles on Credit Guarantee Scheme

Principle 1: The Credit Guarantee Scheme (CGS) should be established as an independent legal entity on the basis of a sound and clearly-defined legal and regulatory framework to support the effective implementation of the CGS's operations and the achievement of its policy objectives.

PRINCIPLE MET: The PPCG will be established as an independent Fund with its own policy objectives. The Fund manager SOFIGIB is a public-private-owned institution licensed and supervised by the BCEAO. SOFIGIB has joint ownership of the Government of Burkina Faso and 11 banks.

Principle 2: The CGS should have adequate funding to achieve its policy objectives, and the sources of funding, including any reliance on explicit and implicit subsidies, should be transparent and publicly disclosed.

PRINCIPLE MET: The World Bank provides the funding to establish of the PPCG.

Principle 3: The legal and regulatory framework should promote mixed ownership of the CGS, ensuring equitable treatment of minority shareholders.

PRINCIPLE MET: While the PPCG Fund is owned by the state, the Fund TC that defines the policies and global approaches of the Fund will be composed of the Government and the private sector (see PPCG institutional and implementation arrangement).

Principle 4: The CGS should be independently and effectively supervised on the basis of risk-proportionate regulation scaled by products and service offered.

PARTIALLY MET: The PPCG funds will be supervised by the World Bank project, the National Treasury's Division on Administration and Finance (DAMOF), and the BCEAO.

Principle 5: The CGS should have a clearly defined mandate supported by strategies and operational goals consistent with policy objectives

PRINCIPLE MET: The PPCG will have a clearly defined mandate and clearly defined strategies in alignment with the PNDES. The policies will be defined by its TC. It will have a clear Operations' manual.

Principle 6: The CGS should have a sound corporate governance structure with an independent and competent board of directors appointed according to clearly defined criteria

[32] The banking sector in Burkina Faso consists of 13 privately held commercial banks.

PRINCIPLE MET: The PCG Fund will have a TC. The TC will, inter alia, be composed of a representative from the MoF, the Professional Association of Banks, and the Professional Association of Microfinance Institutions and two expert professionals for their knowledge about the financial sector and agri-finance.

Principle 7: The CGS should have a sound internal control framework to safeguard the integrity and efficiency of its governance and operations.

PRINCIPLE MET: The fund manager, SOFIGIB, is subject to sound internal external controls from the BCEAO. The CGS will have a stop-loss, built-in mechanism to protect the Fund's capital level. In addition, an external auditor will conduct quarterly audits of the Fund and participating financial institutions (PFIs).

Principle 8: The CGS should have an effective and comprehensive enterprise risk management framework that identifies, assesses, and manages the risks related to CGS operations.

PRINCIPLE MET: The operations manual will clearly define limits to losses acceptable to the Fund and stop-loss measures.

Principle 9: The CGS should adopt clearly defined and transparent eligibility and qualifications criteria for SMEs, lenders, and credit instruments.

PRINCIPLE MET: The criteria will be clearly spelled out in the contracts between the PFIs and SOFIGIB. The criteria refer to the eligibility of SMEs and credit instruments. Eligibility criteria will also be clearly defined for PFIs.

Principle 10: The CGS's guarantee delivery approach should appropriately reflect a trade-off between outreach, additionality, and financial sustainability, taking into account the level of financial sector development of the country.

MET or PARTIALLY MET: The aim of the PPCG is to unlock financing to SMEs, women led enterprises and the agriculture sector in Burkina Faso. Three windows will be established to target the different segments and to ensure that adequate funding coverage is allocated accordingly.

Principle 11: The guarantee issued by the CGS should be partial, thus providing the right incentive for SME borrowers and lenders and should be designed to ensure compliance with the relevant prudential requirements from lenders, in particular with capital requirements for credit risk.

PRINCIPLE MET: The guarantee will cover only a proportion of the risks. Only lenders who meet all prudential norms defined by the BCEAO and DSC/SFD will be admitted as PFIs.

Principle 12: The CGS should adopt a transparent and consistent risk-based pricing policy to ensure that the guarantee program is financially sustainable and effective for both SMEs and lenders.

PRINCIPLE MET: There will be a transparent risk-based policy based on the portfolio at risk acceptable to the Fund.

Principle 13: The claim management process should be efficient, clearly documented, and transparent providing incentives for loan loss recovery and should align with the home country's legal and regulatory framework.

PRINCIPLE MET: There will be a clear and efficient process to deal with claims, as defined by the Operations manual. The 'time to process claims' will be tracked closely by the project as local banks have complained that claims processing of PPCGs managed by other international firms is complex and slow.

Principle 14: The CGS should be subject to rigorous financial reporting requirements and should have its external financial statements audited externally.

PRINCIPLE MET: The Fund will provide quarterly reporting, which will feed the TC meetings and will be subject to quarterly external audits. The Fund will also provide weekly and monthly statistical reports.

Principle 15: The CGS should periodically and publicly disclose nonfinancial information related to its operations.

PRINCIPLE MET: Nonfinancial information related to the operation of the fund will be provided in SOFIGIB's annual reports, which will be published and publicly disclosed.

Principle 16: The performance of the CGS—outreach, additionality, and financial sustainability—should be systematically and periodically evaluated, and the findings from the evaluation publicly disclosed.

PRINCIPLE MET: Information on outreach, additionality, and financial sustainability will be systematically and periodically evaluated. Performance results will be publicly disclosed on an annual basis.

ANNEX 5: AGRICULTURAL FINANCE OVERVIEW

1. **The agricultural sector is an important pillar of Burkina Faso's economy, contributing 30 percent to the country's GDP and employing 80 percent of the workforce.**[33] The agricultural production is mainly rain-fed and practiced in small farms of 2–5 ha. Indeed, 75 percent of farms are smaller than 5 ha, and 30 percent are smaller than 2 ha. About 44 percent of farms have some level of mechanization, and only 15 percent use improved seed. Cereals (millet, sorghum, maize, rice, and *fonio*), cowpea, onion, mangoes, and cash crops (cotton, peanuts, soybean, and sesame) are the main agricultural products. Cotton alone represents 14 percent of the country's total exports.[34]

2. **The agricultural sector in Burkina Faso faces natural and structural constraints that affect the productivity and income of rural populations.** Aside from significant climate risks, the performance of the agricultural sector is hampered by constraints such as inadequate extension services and poor transportation conditions that make it difficult to access markets and finance. These constraints result in the persistence of traditional production techniques. Access to finance is a binding constraint in agriculture, with challenges on both sides of the market (demand and supply).

3. **Most agricultural production in Burkina Faso takes place on rain-fed land and is oriented toward the subsistence of the households depending on it, using traditional production techniques.** The sector has difficulties in meeting food needs and ensuring food security for the country. Reflecting the high level of climatic risk affecting agriculture in Burkina Faso, the quantities produced follow a pattern of 'boom and bust', mainly due to drought episodes in the country.

Table 5.1. Evolution of Agriculture Production in Tons of Main Crops in Burkina Faso

Crops	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Millet	1,147,894	828,741	1,078,374	1,078,570	972,539	946,184
Sorghum	1,990,227	1,505,543	1,923,805	1,880,465	1,707,613	1,435,640
Maize	1,133,452	1,076,754	1,556,316	1,585,418	1,433,085	1,469,611
Rice	270,658	240,865	319,390	305,382	347,501	325,138
Fonio	18,315	14,502	20,659	19,887	8,562	13,091
Cowpea	626,113	441,015	598,525	599,804	562,729	571,304
Yam	97,630	99,730	113,345	91,577	43,953	28,762
Potatoes	92,520	140,061	92,817	167,550	37,738	47,029
Cotton	529,620	441,057	606,992	766,221	894,982	768,930
Groundnuts	340,166	265,322	310,769	349,688	335,223	365,887
Sesame	90,649	84,759	100,488	137,347	321,837	235,079
Soy	22,394	23,056	24,305	21,773	15,055	20,021

Source: *Direction Générale de la Promotion de l'Economie Rurale* (General Direction for the Promotion of Rural Economy).

4. **Cotton is the most important subsector in Burkina Faso's agriculture sector, and the cotton value chain seems well organized and adequately financed.** Today, the cotton subsector occupies about 10–15 percent of arable land and represents, on average, 65 percent of households' cash income. The

[33] PNDES.
[34] A2F. 2015. *Evaluation of the Access to Rural Finance Activity in Burkina Faso*.

subsector is characterized by a high level of organization around three cotton trading companies that operate in the country. These companies provide TA to farmers as well as inputs on credit. They purchase the cotton produced, and then deduct these advances from the amount to be paid to farmers. This well-structured marketing and trade arrangement reduces repayment risks from the perspective of financial institutions and makes them more willing to finance the sector. Given its prominent role as the second-most important source of foreign exchange, the cotton subsector also receives massive Government support, mainly in the form of input subsidies to increase production.

5. **In spite of the comparatively high number of farmers' organizations, coordination of value-chain-specific activities remains weak.** The agricultural sector in Burkina Faso is composed of 1.4 million farm households and a multitude of producers and agro-processing organizations.[35] The production of the main agricultural subsectors (cereals, rice, cowpeas, sesame, onion, and cotton) is structured at several levels. The vast majority of producers are members of a farmers' organization.[36] Local farmers' organizations are grouped into departmental unions that, in turn, conform to provincial or regional unions, and ultimately, a national organization. Depending on the subsector, there are a large number of producer organizations (for example, the sesame subsector has 2,754[37] farmers' organizations, while cotton has more than 4,989 cotton farmers' organizations). There are also interprofessional committees (cereals [millet, maize, and sorghum], rice, cotton, and mango) within the subsectors to strengthen coordination between all the actors involved. Despite the presence of these committees, coordination remains problematic and the subsectors are very weakly integrated.

6. In addition to the comparatively low degree of organization in value chains (except cotton), a lack of bankable projects, limited exposure to financial entities, difficulty providing collateral, and the quasi-absence of suitable risk management instruments all limit access to finance by smallholder farmers:

- **Lack of bankable projects.** Deficiencies in the country's communications infrastructure limit the economic viability of many agricultural projects. This situation is compounded because agricultural entrepreneurs, particularly women in processing, often lack the capacity to develop and present sound business plans for viable projects to financial institutions.

- **Limited exposure of farmers/potential rural clients to financial entities and to financial concepts.** According to the FinScope study, only 10 percent of the rural adult population has a deposit account at a formal financial entity and just 2 percent of rural adults have a loan from such institutions. This very limited exposure translates into a lack of experience with such entities and a very limited understanding of the way they operate, thereby further limiting basic understanding on financial concepts such as interest rates. The lack of access to large amounts of money for productive investment and poor financial literacy are other factors that limit access to finance.

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[35] *Recensement Général de l'Agriculture de 2006*.
[36] *Direction Générale de la Promotion de l'Économie Rurale.* 2012 : *Stratégie de Développement des filières agricoles au Burkina Faso.*
[37] *Direction Générale de la Promotion de l'Économie Rurale.* 2012 : *Stratégie de Développement des filières agricoles au Burkina Faso.*

- **The absence of suitable collateral that agribusinesses and farms can provide constrains access to finance for agriculture.** In Burkina Faso, only 8 percent of farmer households are in possession of a document for the land they farm on (title deed or *petits papiers*).[38] In addition, many farmers find it difficult to fulfill the cash collateral requirements (it is common practice that MFIs and banks require 10–15 percent of the loan amount to be deposited in cash as collateral for a loan). A study conducted by Consultative Group to Assist the Poor in 2016 revealed that lack of guarantees or collateral (including cash collateral) is one of the main difficulties faced by women in accessing credit.

7. **The agriculture sector receives 8 percent of bank lending (of which 4.2 percent is for financing cotton) and 15 percent of MFI lending.** The large amount of financing going to the cotton subsector illustrates banks' and MFIs' reliance on the institutional and managerial capacity of producer organizations and processors. Currently, only a few commercial banks are active in financing agriculture outside the cotton subsector. Ecobank, for example, has a large amount of agriculture loans, disbursing CFAF 47 billion (US$97 million) in 2015. While its stated goal is to serve all agriculture subsectors, its portfolio is also heavily concentrated (80 percent) in cotton. In the microfinance sector, Reseau des Caisses Populaires du Burkina (RCPB) plays a significant role in financing agriculture, dedicating about 30 percent of its portfolio to this activity, with half of its lending geared toward cotton.

8. **The supply of agriculture credit is not very sophisticated, while the requirement of collateral is high.** Agricultural credits are mainly for the production and trading of agricultural products. Agricultural enterprises and agricultural cooperatives have very limited access to credit for the processing of agricultural products. The most required forms of collateral by formal financial institutions remain land titles.

9. **The limited use of risk management mechanisms, such as insurance, constrain the supply of finance.** As in other Sahelian countries, agriculture in Burkina Faso is exposed to significant weather shocks. These shocks have a negative impact that significantly increase the volatility of agricultural revenues. Although 25 percent of the households surveyed by FinScope experienced drought and/or low rainfall, the use of agricultural insurance is incipient. The insurance sector is still very small (with premiums amounting to less than 1.2 percent of the GDP and a penetration rate of less than 1 percent of the population). At the end of 2015, the Global Index Insurance Facility of the World Bank Group reported that a total of 17,000 farmers had been insured through a pilot for a total sum insured of US$1.3 million (average insured amount US$80 per farmer).

[38] FinScope 2016. Consumer Survey Burkina Faso.

10. **Table 5.2** shows the percentage of these dedicated to the agriculture sector (agriculture and livestock).

Table 5.2. Volume of Credit Granted by Sector

Funds	Volume of Credit Granted (CFAF, millions)		Agropastoral (percent)		Handicraft (percent)		Others (percent)	
	2014	2015	2014	2015	2014	2015	2014	2015
FASI	948,415	1,191,550	20.43	12.47	13.65	—	—	18.34
FONA-DR	661,427	286,600	37.00	30.27	1.00	—	28.00	42.85
FAARF	7,371,458	8,444,925	50.35	51.31	2.50	—	7.54	17.43
FAIJ	300,180	481,869	52.50	46.46	27.4	—	12.9	40.61
FAPE	752,289	745,100	45.26	3.27	1.26	—	29.47	66.66
FBDES	1000,000	—	1.45	—	0.50	—	32.15	—
AFP-PME	847,420	357,068	51.00	16.81	—	—	6.00	16.91
FODEL	1,147,835	857,329	100.00	100.00	—	—	—	—
FONER	1,591,025	10,446,230	—	—	—	—	100.00	—
TOTAL	**14,620,049**	**22,810,671**	**—**	**—**	**—**	**—**	**—**	**—**

Source: MoF 2016.

ANNEX 6: ADDITIONAL INDICATORS FOR ANALYTICAL PURPOSES[39]

Area	Indicators
Digitalization of government payments	• Level of satisfaction (number and percent) of CNSS beneficiaries with the digital payments • Level of satisfaction (number and percent) of customs beneficiaries with the digital payments
MFI and FAARF interventions	• Volume of mobile-based transactions within participating MFIs • Number of new digital products develop by MFIs • Number and percent of FAARF client links to formal financial services
PPCG	• Average size of SME loans that banks have registered under the PPCG since effectiveness of the project • Volume of PFIs lending to SMEs compared to their entire portfolio • Volume of PFIs with agriculture lending compared to their entire portfolio
BDS	• Number and percent of SMEs satisfied with BDS received

[39] Information on these indicators will be regularly collected by the team during official Implementation Support Missions and used as an additional tool to help project management and implementation. Actual baseline and targets will be defined by the team in the PIM.

ANNEX 7: FINANCIAL MANAGEMENT ASSESSMENT

1. **The FM arrangements for the project have been designed with consideration for** (a) Burkina Faso's recent political situation; (b) the country's overall public financial management performance; and (c) the World Bank's minimum requirements under World Bank Policy and Directive–IPF, which describes the overall World Bank policies and procedures for FM.

2. **At present, the World Bank cannot rely fully on the Government's public expenditure framework for the proposed project.** Therefore, the Government of Burkina Faso has requested to use a ring-fenced financing mechanism for the fiduciary aspects of the project. The project will be implemented by the MoF.

3. **The assessment of the National Treasury was carried out in August 2018.** The objective of the assessment was to determine whether the National Treasury has adequate FM arrangements in place to ensure that the project funds will be used only for the purposes for which the financing was provided, with due attention to considerations of economy and efficiency. The FM assessment considers, based on the existing FM arrangements, the degree to which (a) the budgeted expenditures are realistic, prepared with due regard to relevant policies, and executed in an orderly and predictable manner; (b) reasonable records are maintained; (c) financial reports are produced and disseminated for decision making, management, and reporting; (d) adequate funds are available to finance the project; (e) there are reasonable controls over project funds; and (f) independent and competent audit arrangements are in place. The assessment complied with the FM manual for World Bank investment project financing operations, effective December 11, 2014.

Description of the FM Institutional Arrangements for the Project

4. **In line with the new regulation of projects and programs, the proposed project is classified as a Category 1 project.** It is linked to the MoF's 2018–2022 program budget titled *Programme 3 : Gestion budgétaire, tenue des comptes publics et exercice de la tutelle et supervision du système financier*. The MoF, through the management unit of the Program-budget, will have overall responsibility for fiduciary oversight and project implementation. A dedicated PIU will be established by the Program-budget management unit to coordinate and manage project implementation. The head of the Program-budget management unit will be responsible for the full fiduciary oversight and supervision of project implementation. He will nominate a project leader and a project implementation team that will be responsible for the day-to-day project implementation, including the procurement of goods and services and consultancies, FM and reporting, M&E, and coordinating of implementing organizations' activities.

5. **For this project, the National Treasury will hire or appoint, on a competitive basis, an RAF and one accountant, with qualifications and experience satisfactory to the World Bank, fully dedicated to the accounting and disbursements tasks of the proposed project.** Project staffing arrangements will be finalized before the project becomes effective.

Risk Assessment and Mitigation

6. **The World Bank's principal concern is to ensure that project funds are used economically and efficiently for the intended purpose.** Assessment of the risks that the project funds will not be so used is

an important part of the FM assessment work. The risk features are determined over two elements: (a) the risk associated with the project as a whole (inherent risk) and (b) the risk linked to a weak control environment of project implementation (control risk). The content of these risks is described in the following paragraphs.

7. **The overall FM risk for the project is rated High.** This is due to (a) the lack of experience and familiarity of the National Treasury with World Bank FM procedures, (b) the ineffectiveness of the internal audit function, (c) the lack of external audit report, and (d) the involvement of several actors in project implementation.

8. **Consequently, additional measures will be incorporated into the design of the project FM arrangements to mitigate the overall FM risk by** (a) strengthening FM capacity and the internal control environment of the National Treasury and (b) maintaining continuous timeliness and reliability of information produced by the National Treasury.

9. **The overall FM risk after mitigation measures is rated Substantial.**

Table 7.1. Inherent Risk

Risks	Risk Rating	Risk Mitigating Measures	Residual Risk Rating
		Inherent Risk	
Country Level	**M**		**M**
Entity level The National Treasury has limited experience with Bank-financed projects, including FM procedures.	H	• Hire an RAF and one accountant to be fully dedicated to the project. • Draft the FM procedures manual and the PIM and submit them for the approval of the actors involved in the project.	S
Project level Project activities could be prone to irregularities (workshops, conferences, trainings). The design of the project is complex, with the involvement of several actors.	H	• All budgets related to certain project activities (workshops, conferences, and training) will be subject to World Bank prior review. • Supervision missions will include detailed reviews of expenditures. • The PIM and the FM manual will be submitted to actors involved in the project for approval.	S
Overall Inherent Risk	**H**		**S**

Note: H = High; M = Moderate; S = Substantial.

10. **Table 7.2 summarizes the risks and mitigation measures for the project.**

Table 7.2. The National Treasury - FM Risk Assessment and Mitigation Measures

Risks	Risk Rating	Risk Mitigating Measures	Residual Risk Rating
		Control Risk	
Budgeting National Treasury has a detailed procedure manual describing procedures for budget planning, execution, and monitoring.	M	• A detailed annual work plan and budget (AWP&B) required each year and proclaimed. • AWP&B reviewed and approved by the Review Committee. • The project financial procedures manual will define the arrangements for budgeting, budgetary control, and the requirements for budgeting revisions. • The interim financial report (IFR) will provide information on budgetary execution and analysis of variances between actual and budget expenses.	M
Accounting Lack of experience and familiarity of the National Treasury with World Bank-FM procedures	H	Mitigations measures to implement before project effectiveness: • Hire an RAF and one accountant, to be fully dedicated to the project. • Draft the FM procedures manual and the PIM and submit them for the approval of the actors involved in the project. • The project will roll out a training plan to strengthen the capacity of selected staff in World Bank FM procedures.	S
Internal control Lack of internal control/internal audit reports over the last three years	H	• The internal control procedures will be detailed in the project manuals. • Hire or appoint an internal auditor with experience and qualification satisfactory to the World Bank. • The project will roll out a training plan to strengthen the capacity of selected staff from the Direction of Administration and Finance (DAF) internal control section on World Bank FM procedures. • The internal auditor work program and reports will be submitted to the World Bank biannually, no later than 45 days after the end of each semester. • National internal control institutions, such as the Control and Anti-Corruption State Authority (*l'Autorité Supérieure de Contrôle d'Etat et de Lutte contre la Corruption*, ASCE-LC) may review project activities periodically. An internal controller will be assigned to the project by MINEFID.	S

Risks	Risk Rating	Risk Mitigating Measures	Residual Risk Rating
Fund flow Lack of justification of funds transferred to implementing agencies	S	• A Designated Account (DA) in CFA franc will be opened at the BCEAO. • A Project Account (PA) will be opened in a commercial bank, under terms and conditions acceptable to the World Bank. This PA will be used to pay for all the expenditures related to the project. • Terms and conditions for justification of IDA funds transferred to other agencies involved in the implementation of the project activities for them to make payments of expenditures will be detailed in the PIM and in the FM manual. Interest income on the PA will be deposited into a subaccount opened in a commercial bank and used according to the FM manual.	S
Financial reporting Delays in financial reporting due to lack of experience and familiarity of the National Treasury with World Bank FM procedures	**H**	• A computerized accounting system will be used. • IFR and financial statements formats were agreed during project negotiations. • Submit IFRs on a quarterly basis to the World Bank, no later than 45 days after the end of each quarter. • Submit annual financial statements annually, no later than six months after the end of the year.	**S**
Auditing Delays in submission of audit report The scope of the mission may not cover expenditure incurred by implementing entities.	**S**	• A private external auditor will be appointed to conduct the audit of the financial statements of the project. • The ToR of the external auditor (to be reviewed by IDA) will include field visits and specific reports on the findings of physical controls of goods, services, and works acquired by the project. • The scope of the audit will cover the activities implemented by the project and any partner implementing agencies.	**S**
Fraud and corruption Possibility of circumventing the internal control system with colluding practices such as bribes, abuse of administrative positions, and mis-procurement	**M**	• The ToR of the external auditor will include a specific chapter on corruption auditing. • The ASCE-LC will review the project activities. Copies of ASCE-LC reports will be submitted to the World Bank. • Measures to improve transparency, such as providing information on the project's status to the public and public disclosure of audit reports on the project annual financial statements, are built into project design.	**M**
Overall Control Risk	***H***		***S***
Overall FM Risk	**H**		**S**

Strengths and Weaknesses

11. **The National Treasury's strength—as determined by the FM assessment—is its detailed manual of procedures.**

12. **The main findings arising from the assessment, conducted in August 2018, were that** (a) the National Treasury has limited experience with World Bank-financed projects, including FM procedures; (b) the National Treasury has never managed projects funded by other international donors; and (c) no internal audit mission was performed in the last three years. The assessment also revealed that the National Treasury has a well-detailed procedures manual.

13. **In addition, the National Treasury is likely to be supervised internally and externally by national institutions,** like the Court of Accounts (*Cour des Comptes*), the ASCE-LC, and the General Finance Inspectorate (*Inspection Générale des Finances*, IGF) within MINEFID. These institutions' performances are generally deemed acceptable despite challenges in terms of financial and human resources. However, no internal audit mission was performed in the last three years and the external audit reports of the National Treasury were not made available during the assessment.

Financial Management Action Plan

14. **The Financial Management Action Plan described in Table 7.3 has been developed to mitigate the overall FM risks.**

Table 7.3. Mitigation of Overall FM Risks

#	Item	Deadline	Mitigation Measures
		Staffing	
1	RAF and accountant	Before project effectiveness	Hire or appoint on a competitive basis an RAF and an accountant with experience and qualifications acceptable to the World Bank. Roll out a training plan to strengthen the capacity of selected staff in World Bank procedures (after effectiveness).
		Accounting	
2	Project administrative, accounting, and financial procedures manual	Before project effectiveness	Adopt the project administrative, accounting, and financial procedures manual.
3	Accounting software	Two months following project effectiveness	Acquire and set up after effectiveness accounting software and hardware acceptable to the World Bank.
		Internal control	
4	Internal auditor	Two months following project effectiveness	Hire or appoint an internal auditor with experience and qualifications satisfactory to the World Bank. Roll out a training plan to strengthen the capacity of selected staff in World Bank procedures (after effectiveness).

#	Item	Deadline	Mitigation Measures
Auditing			
5	External auditor	Up to six months after project effectiveness	Recruit an external auditor to conduct an audit of the project annual financial statements. The scope of the audit will cover the activities implemented by the project and any partner implementing agencies.

15. **Internal control system and internal audit.** The internal control system is aimed to ensure (a) the effectiveness and efficiency of operations, (b) the reliability of financial reporting, and (c) the compliance with applicable laws and regulations. The project's internal control policies, rules, and procedures will be detailed in the PIM and in the project FM manual. Those procedures will include provisions pertaining to segregation of duties, delegation of authority, fixed asset management, accounts reconciliation, and other specific internal controls if needed.

16. **The project will hire or appoint an internal auditor with experience and qualifications satisfactory to the World Bank.** The internal auditor will perform periodic audits and reviews of project activities. The internal auditor's work program should be approved by the PSC and shared with the World Bank. Furthermore, the report of each internal audit mission will be submitted to the World Bank no later than two weeks following the approval of the final version of the report by the coordinator. Finally, a consolidated activity report will be prepared biannually and submitted to the World Bank and other governance entities of the project, no later than 45 days after the end of each semester.

17. **National institutions in charge of internal and administrative supervision (*Cour des comptes*, ASCE-LC, IGF, and so on) will continue to fulfill their legal mandate.** The reports of the periodic reviews will be sent to the World Bank. As part of the implementation of the decree related to the modalities of World Bank-financed operations in Burkina Faso, the MoF will assign an internal auditor to the project to perform ex ante audits. The project will roll out a training plan to strengthen the capacity of selected staff in World Bank FM procedures.

18. **The roles and responsibilities of the internal auditor and internal auditing staff will be clarified in the project FM manual.**

19. **Planning and budgeting.** The project will prepare a detailed AWP&B, which should be approved by the Review Committee. The project will submit its AWP&B to IDA for comments, before each new year (no later than November 30 of the previous year). The work plan and budgets will identify the activities to be undertaken and the respective parties' role in implementation. The project's annual budget will be reflected in the overall budget of the National Treasury and will be approved by the National Assembly.

20. **Accounting policies.** The prevailing accounting policies and procedures, the West African Francophone countries accounting standards - SYSCOHADA, which is used in Burkina Faso for ongoing World Bank-financed operations, will apply for the project. The accounting systems and policies and financial procedures used by the project will be documented in the project's administrative, accounting, and financial manual. The project will acquire and set up, two months after effectiveness, an accounting software which will facilitate (a) the processing of financial information and (b) the preparation of interim quarterly financial statements and annual financial statements in a format acceptable to the World Bank.

This software should be capable of recording transactions and reporting project operations on time including preparation of withdrawal application (WA) and periodic financial reports (IFR and annual financial statements). In a nutshell, the system should integrate budgeting, operating, and cost accounting systems to facilitate M&E and reporting.

21. **Interim financial reporting.** The National Treasury will submit the IFR to the World Bank within 45 days after the end of each quarter. The IFRs should provide sufficient, pertinent information for a reader to establish whether (a) funds disbursed to projects are being used for the intended purpose, (b) project implementation is on track, and (c) budgeted costs will not be exceeded. The quarterly IFR for the project will include the following: (a) an introductory narrative discussion of project developments and progress during the period, to provide context to (or other explanations of) financial information reported; (b) a Sources and Uses of Funds Statement, both cumulatively and for the period covered by the report, showing separate funds provided under the Grant; (c) a Uses of Funds by Components Statement, cumulatively and for the period covered by the report; (d) the DA reconciliation, including bank statements and general ledger of the bank account; (e) the disbursement forecasts of the upcoming six months; and (f) explanations of variances between the actual and planned. The quarterly IFR will reflect the activities implemented by other partners involved in the project.

22. **Annual financial reporting.** In compliance with International Accounting Standards and IDA requirements, the project will produce annual financial statements. These include (a) a Balance Sheet that shows assets and liabilities, (b) a Statement of Sources and Uses of Funds showing all the sources of project funds and expenditure analyzed by project component and/or category, (c) a Statement of Commitments, (d) notes related to significant accounting policies and accounting standards adopted by management and underlying the preparation of financial statements, and (e) a Management Assertion that project funds have been disbursed for the intended purposes, as specified in the relevant financing agreements .

23. **External auditing.** The project will submit audited financial statements satisfactory to the World Bank (IDA) every year. A single opinion on the audited project financial statements, in compliance with International Federation of Accountants, will be required. In addition, a Management Letter will be required. The Management Letter will contain auditor observations and comments, as well as recommendations for improvements in accounting records, systems, controls, and compliance with financial covenants in the Financial Agreement. The audited financial statements must be submitted to the World Bank within six months after closure of the fiscal year. The project will recruit an external private auditor to audit its annual financial statements up to six months after effectiveness.

Table 7.4. Audit Report Requirements

Report	Deadline	Responsibility
Audited financial statements, including audit report and Management Letter	6 months after the end of the year	National Treasury

24. **Governance and anticorruption.** The risk of irregularities and corruption within project activities is moderate given the nature and implementation arrangements of project activities. The following measures are envisaged to mitigate the risk of misuse, irregularities, and corruption: (a) the ToR of the external auditor will include a specific chapter on fraud and corruption auditing; (b) the ASCE-LC will

review project activities, and copies of ASCE-LC reports will be submitted to the World Bank; and (c) measures to improve transparency, such as providing information on the project's status to the public and public disclosure of audit reports on project annual financial statements, are built into the project design.

25. **Funds flow.** Upon credit effectiveness, transaction-based disbursements will be used. The project will finance 100 percent of eligible expenditures inclusive of taxes.

26. **A DA in CFA franc will be opened at the BCEAO.** A PA, managed by the FM Unit with the approval of the coordinator and DAF, will be opened in a commercial bank under terms and conditions acceptable to the World Bank. This PA will be used to pay for all expenditure related to the project. Terms and conditions for justification of IDA funds transferred to other agencies involved in the implementation of project activities for them to make payments of expenditures will be detailed in the subsidiary grant agreements or the MoU between the project and the agency, as well as in the PIM. Interest incomes on the PA will be deposited into a subaccount.

27. **Disbursements under this project will be carried out in accordance with the provisions of the Disbursement Guidelines (World Bank Disbursement Guidelines for Projects, 2006), the Disbursement and Financial Information Letters, and the Financing Agreements.** An initial advance up to the ceiling of the Disbursement Agreement will be made into the DA, and subsequent disbursements will be made upon submission of statements of expenditures as proof of use of the initial/previous advance. The e-signature of the WA will be used by the project, and the WA will be prepared monthly. Other methods of disbursing the funds (reimbursement and direct payment) will also be available to the project. The ceiling of the DA will be stated in the Disbursement and Financial Information Letter. The WAs will be accompanied by all records required by the World Bank in the Disbursement and Financial Information Letter. All supporting documentation will be retained by the project and must be made available for periodic review by World Bank missions and external auditors.

28. **Payments to other implementing agencies.** The project will make payments to other implementing agencies with regard to the specified activities in the components of the project. Payments will be made in accordance with the payment modalities, as specified in the respective agreements/MoUs. In addition to these supporting documents, the project will consider the findings of internal and external auditors while approving the payments. The project will reserve the right to verify expenditure ex post, and refunds might be requested for non-respect of contractual/convention clauses.

29. **Local taxes.** Funds will be disbursed in accordance with project categories of expenditures and components, as shown in the Financing Agreement. Financing of each category of expenditure/component will be authorized, as indicated in the Financing Agreement, and will be inclusive of taxes according to the current country financing parameters approved for Burkina Faso.

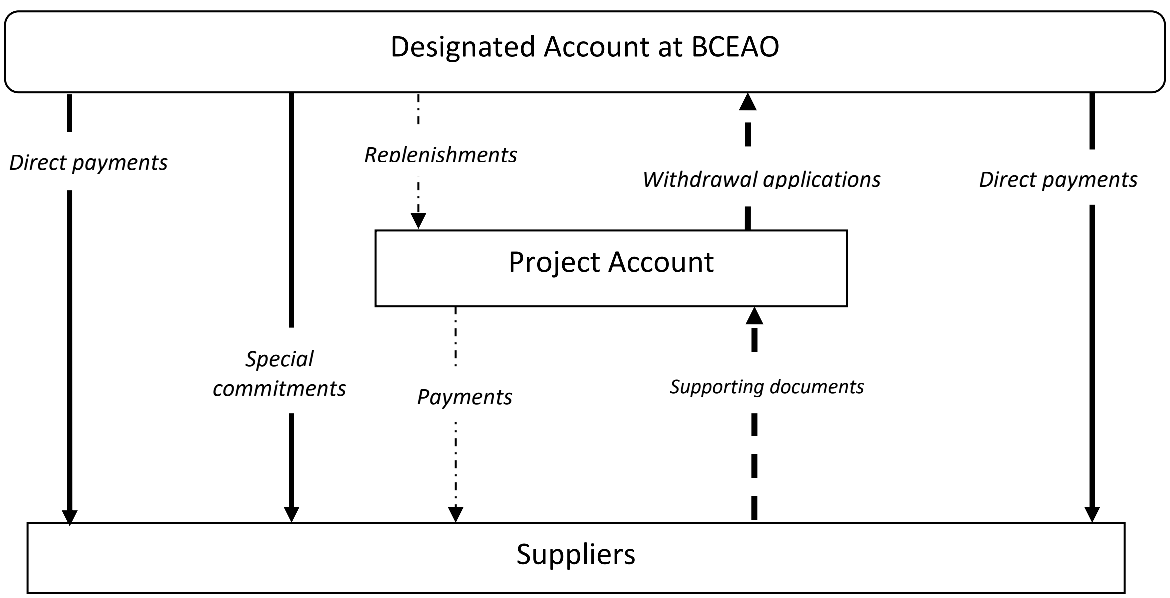
30. **Support to the implementation plan.** FM supervisions will be conducted over the project's lifetime. The project will be supervised on a risk-based approach. The objective of the implementation support plan is to ensure the project maintains a satisfactory FM system throughout its lifespan. Based on the current risk assessment which is Substantial, at least two supervision missions per year are envisaged. The supervision will include an FM rating of the project. An implementation support mission will be out carried before effectiveness to ensure project readiness. To the extent possible, mixed on-site supervision missions will be undertaken with procurement, M&E, and disbursement colleagues and will cover the

activities implemented by the project, as well as those contracted by other implementing agencies. The supervision intensity will be adjusted over time, taking into account the project FM performance and FM risk level (Table 7.5).

Table 7.5. Implementation Support Plan

FM Activity	Frequency
Desk reviews	
IFR review	Quarterly
Audit report review of the project	Annually
Interim internal control reports	Biannual
Review of other relevant information	Continuous as they become available
On-site visits	
Review of overall operation of the FM system	Annual (two missions per year)
Monitoring of actions taken on issues highlighted in audit reports, auditors' management letters, internal audit, and other reports	As needed
Transaction reviews	As needed
Capacity-building support	
FM training sessions	During implementation and when needed

Figure 7.1. Project Funds Flow



ANNEX 8: SAFEGUARDS ASSESSMENT SUMMARY

1. **The Government of Burkina Faso is preparing the US$100 million Financial Inclusion Support Project in Burkina Faso with World Bank financing. The Government of Burkina Faso is preparing the US$100 million Financial Inclusion Support Project in Burkina Faso with World Bank financing.** The PDO is to increase access to digital financial services and facilitate access to credit for targeted beneficiaries. The development of the ESMF makes it possible to identify the risks associated with the various project interventions in the targeted production systems and to define the mitigation measures that will have to be implemented during project implementation.

2. **The ESMF is designed as a sorting mechanism for the environmental and social risks and impacts of project activities.** It makes it possible to assess, broadly and prospectively, for each component, the environmental and social risks and impacts of future project activities, to provide a project evaluation grid as well as mitigation or compensation measures.

3. **The political and legal background of the environmental and social sector and the intervention sectors of the project (agriculture, water, livestock, and fisheries) is marked by the existence of strategic planning documents as well as relevant texts on the legislative and regulatory plan in Burkina Faso.** At the institutional level, environmental and social management capacities exist but are relatively limited, particularly in the area of environmental and social assessment. And these shortcomings are much higher at the local level. Therefore, environmental and social management will need to be strengthened.

4. **With regard to natural resources, the human environment, and socioeconomic activities, the ESMF identifies the existing environmental and social potential, in terms of soil resources, water, biodiversity, and the human environment in the areas targeted by the project.** It also provides a localized analysis of the state of natural resources and environmental and socioeconomic issues in the project areas, particularly in relation to the development of project activities.

5. **To identify, assess, and analyze the potential environmental and social risks and impacts that may arise from the project, the ESMF has also clarified the potential positive or negative impacts of the different activities.**

6. **Positive potential impacts include** (a) food security; (b) job offer; (c) local productions valorization; (d) limitation of losses of agricultural products; (e) good conservation of products and storage of crops, seeds, and inputs; (f) increase in producer incomes; (g) use of sustainable management techniques for the environment; (h) producers' capacity building; (i) populations' living conditions improvement; (j) water resources optimal management and access to drinking water; (k) improvement of developed areas and productions; (l) improvement of socioeconomic conditions; and (m) diversification of agricultural activities.

7. **The major potential environmental and social risk factors and impacts of the project include** (a) the influence of water quality on the development of fishing (pollution by agricultural activities) and (b) population pressure in the area, which could lead to alteration of wetlands, degradation of riverbanks and wildlife sanctuaries, strong demand for wood products, gradual deterioration of the environment in the absence of implementation of a conservation program, and environmental pollution by waste disposal.

8. **On the biophysical environment, the potential negative impacts relate to the following:** (a) the project could, because of its effects in improving agricultural productivity, cause an expansion of agricultural activities in its area of intervention, which in turn, because of lack of adequate technical supervision, would be a pressure factor on plant resources, causing degradation of vegetation cover; (b) the development of off-season crops around water points, which could also contribute to deforestation; and (c) the degradation of water quality (pollution of rivers and water bodies).

9. **Social risks to the human environment are moderate:** (a) health risks related to the use of plant protection products by farmers themselves, (b) potential conflicts between agriculture and livestock and between agriculture and fisheries, (c) the development of waterborne diseases linked to a deterioration of water sources, (d) conflicts over land or water use and the possible cumulative effects of sharing, (e) inequitable rights of access to land or water (especially for women) and (f) difficulties in integrating women into agricultural activities.

10. **The ESMF also took into account in the analysis the cumulative negative impacts of project activities and those related to the impacts of climate change on investments.**

11. **The ESMF includes recommendations and a procedure for the environmental and social selection of activities to be carried out under the project,** which identify the guiding framework for future interventions in terms of national priorities for environmental and social management, taking into account the requirements of the safeguard policies of the World Bank. The project is directly concerned by two safeguard policies (OP/BP 4.01 - Environmental Assessment and OP/BP 4.09 - Pest Management). Other policies are not triggered by the project. In addition, a Pests and Pesticide Management Plan developed as a separate document is being evaluated to take into account the requirements of OP/BP 4.09.

12. **Based on the project's priorities, and in accordance with the requirements of the safeguard policies, the ESMF has determined the strategic orientations for environmental and social management** which focus on the project selection and environmental assessment procedures and the institutional strengthening measures. The ESMF places special emphasis on the following technical support: (a) environmental and social impact assessment/statement to be carried out, (b) good environmental practices manual to be developed, and (c) capacity building and training of the actors and population sensitization on the project stakes to be carried out.

13. **However, the environmental assessments to be carried out for the project activities will have to be in conformity with Burkinabe environmental legislation as well as with the World Bank's guidelines:** (a) Guidelines on Health and Environmental Safety, (b) General Environmental Guidelines, (c) Guidelines on Waste Management, (d) Hazardous Waste Management Guidelines, (e) Guidelines on Safety and Health in the Workplace, and (f) M&E Guidelines.

14. **To better optimize the risk management and potential environmental and social aspects of the project, an external and internal monitoring program has been proposed in the ESMF,** which will be mainly implemented by an environmental and social expert consultant to be recruited by the PIU. The National Bureau of Environmental Assessments and the Regional Environmental Services of the Ministry of Environment, Green Economy and Climate Change will provide external environmental monitoring. The monitoring will also involve regional services in charge of agriculture, fisheries, pastoral resources, health, local communities, and producer organizations, as well as analytical laboratories.

15. **The ESMF also provides detailed recommendations on institutional arrangements for implementation and monitoring, including the respective capacity-building programs.** The total cost of ESMF measures is estimated at CFAF 158,000,000 including (a) technical costs (possible realization of environmental and social impact assessment/statement and public consultations), (b) provision for the Environmental and Social Management Plan implementation, (c) development of a manual of good production practices, (d) the project activities M&E costs, and (e) capacity-building costs in terms of training and awareness raising.

ANNEX 9: MAP OF BURKINA FASO