

Burkina Faso II Compact Development

MCC Advisory Council

Thursday, April 11, 2019



Presentation Outline

Context and Compact Development Status

Summary of Potential Projects Under Consideration

- Reform
 - Project 1: Improve Efficiency of Energy Sector
- Infrastructure
 - Project 2: Increase Supply of Affordable Electricity
 - Project 3: Transmission, Distribution and Access

Gender & Social Inclusion

IPPs – Constraints and Opportunities

Questions for the Advisory Council



Potential Project 1: Improve Efficiency of Electricity Sector (under consideration by MCC)

Objectives/Scope

- ❖ Regulatory and policy improvements to clarify sector organization and institutional coordination
- ❖ Empowerment of and TA for the sector regulator, including tariff setting
- ❖ Support private sector investment in IPPs
- ❖ Technical capacity development in key sector institutions

Next steps:

- ❖ Continuing deeper dive on institutional and governance questions, financial flows and performance of SONABEL
- ❖ Continuing due diligence on technical capacity building needs
- ❖ Early thinking on possible Conditions Precedent linked to compact implementation milestones



Potential Project 2: Increase Supply of Affordable Electricity (under consideration by MCC)

Objective: Facilitate increased supply at affordable price (lower cost, increase reliability associated with Generation)

Scope: Facilitate solar IPPs coming online (TA, credit enhancement); Support improved supply/demand management (dispatch, storage, EE)

Reform Requirements: Overlap with Project 1 (IPP framework; sector regulation and management; SONABEL ownership and Operations & Maintenance)

Next Steps:

- Study reserve and storage options
- Continue due diligence on MCC's potential space & support of IPPs
- Coordinate with multilateral donors on regional interconnectors and solar IPP park



Potential Project 3: Transmission, Distribution and Access (under consideration by MCC)

Objective: facilitate improved reliability and access to end users (-cost , +productivity)

Scope:

- Transmission: Upgrade grid in Ouagadougou and Bobo-Dioulasso (90% consumption); new Regional networks
- Distribution/Access: Densification and new electrification around Tx upgrades
- Off-grid: To be determined, perhaps building off other off-grid programs

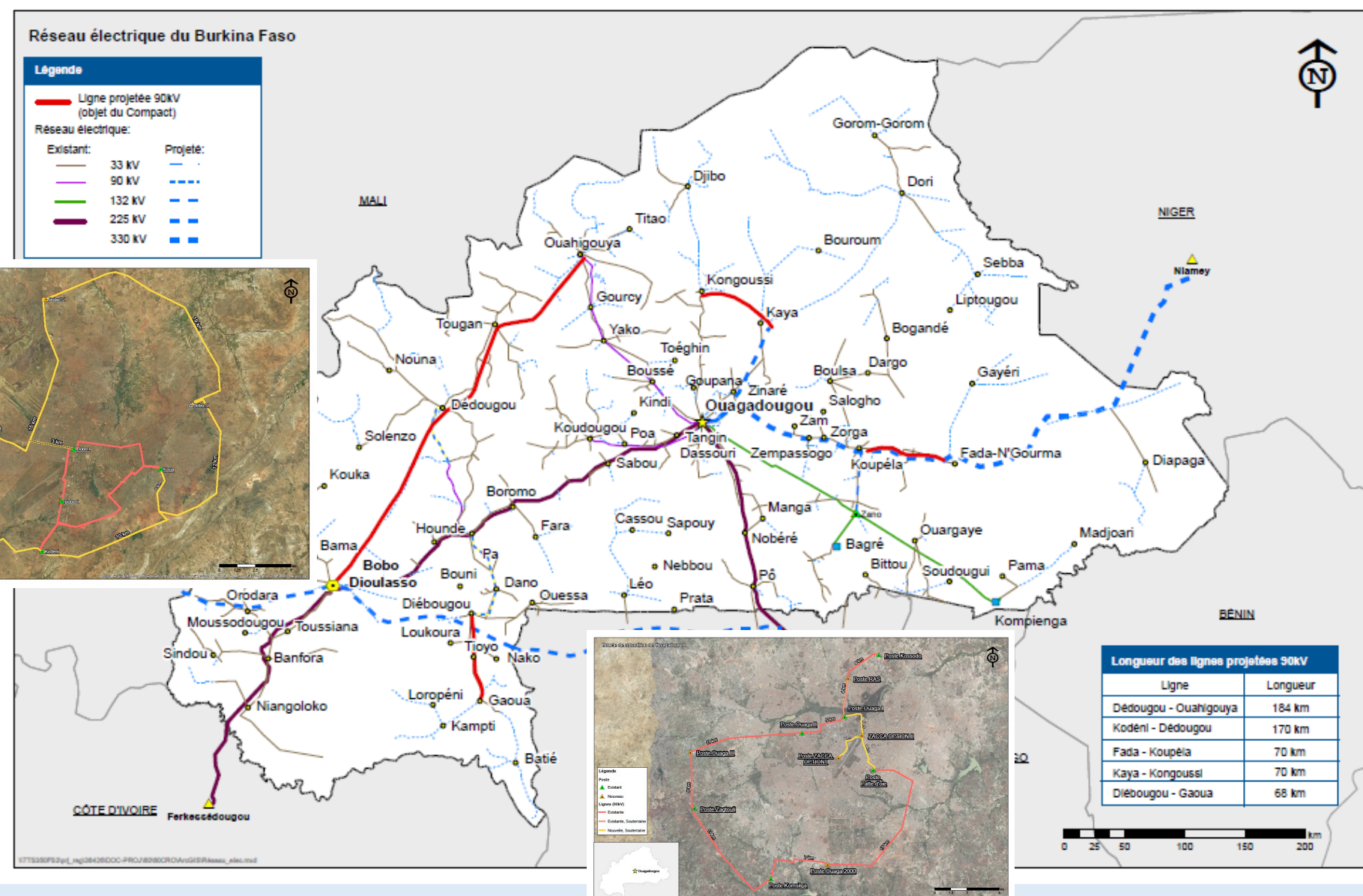
Related reforms: Planning, institutional coordination for rural electrification, tariffs/connection costs, coordinating with the West Africa Power Pool (WAAP), and technical capacity

Next Steps:

- Study transmission lines, densification and electrification around transmission; loss reduction; flexible off-grid tasks
- Coordinate with multilateral donors on rural elect and off-grid



Network Expansion Plan – P3 Investments Under Consideration



Gender and Social Inclusion (GSI)



- Recently conducted an in-depth gender and inclusion assessment of the energy sector
- To be followed by a deep dive into each proposed project, identifying opportunities to increase GSI integration and outcomes
- Additional study planned on women's economic empowerment opportunities through productive use of electricity, aligned with this compact's investments

- Improved business practices that increase service to disadvantaged populations
- Tariffing for increased access
- Customer service and support

Leveraging Policy and Institutional Reform



- Off-grid entrepreneurship
- Non-traditional employment opportunities
- Reforms to utilities' HR processes
- Scholarships & internships to increase gender balance

Increasing Employment and Livelihoods in Energy Sector



- Geographic targeting of investments to align with poverty profile and income generation potential
- Women's Economic Empowerment through productive use of electricity

Increasing Access



Increasing Generation through IPPs

Burkina Faso has a fast growing demand for electricity from a low base, but supply is both inadequate and expensive.

There are many efforts underway to expand generation, including:

- (i) buying power from WAPP,
- (ii) building public procurement generation capacity, and,
- (iii) buying power from Independent Power Producers (IPPs).

IPPs present a high potential solution for Burkina Faso to maintain domestic energy security while building generation capacity without having to carry the assets on its balance sheet.



Constraints to Bringing IPPs Online

While there is an existing pipeline of 326MW of IPP solar generation, there are structural and macro challenges that limit the ability to truly transform the energy sector.

To build on current economic growth, shift to more sustainable development, and meet future energy needs; there are three key and interconnected challenges that must be addressed to bring IPPs online:

- 1. Enabling environment** – capacity and coordination among sector decision-makers
- 2. Technical feasibility** – technical ability of the grid to absorb solar generation
- 3. Bankability** – financial feasibility of projects



Potential Blended Finance Approaches to Accelerate IPPs

Focus on potential interventions that both **clear obstacles to bring new IPPs online** in the near term and **build sector capacity to bring new IPPs online** in the medium and long term.



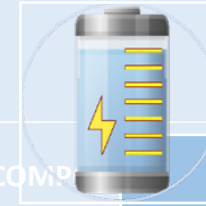
Enabling Environment

- **Sovereign guarantee support** – Technical advisor to facilitate decision-making and support conversations with IMF
- **IPP unit** – Establish new specialized unit to lead and develop deals
- **Support a tender program** – Transaction advisor to support end-to-end process



Bankability

- **Africa Trade and Insurance Agency** - Facilitate and support ATI membership
- **Credit enhancement** – Support premiums for 3rd party credit guarantees
- **Bond issuance** - Support SONABEL reform and access to capital markets



KEY COMPONENTS

Technical Feasibility

- **Upgrade grid infrastructure** - MCC investments in dispatch capabilities and transmission / distribution network
- **Battery storage** – Support IPP-level battery storage to increase grid capacity for solar generation



Questions for the Advisory Council

1. What *policy and institutional reform interventions* are most important and impactful in the power sector?
2. What could MCC do to *incentivize and attract private investment in the energy sector*?
3. What conditions need to be in place for a *bond issuance by the utility* (SONABEL)? Would there be interest in the market? What role could regional institutional investors play?
4. How can we balance the goal of helping *SONABEL become financially self-sufficient* in the long term with the corresponding *pressure for it to achieve universal access*?
5. What is the *most effective use of MCC funds* to help deals get to financial close, raise the threshold of solar generation that could be brought onto the grid, and lower tariffs to end-users?
6. What experience do you have working with the *Africa Trade and Insurance Agency (ATI)*? Will developers utilize ATI's risk mitigation products?
7. Are there successful models for *rural electricity access*?
8. What needs to be included in an effective intervention in the *productive use of electricity (PUE)* (e.g. access to credit, financial literacy skills, etc.)? How to identify zones of elevated economic potential and effectively support PUE interventions in such areas?
9. What role could *impact investors* play in rural electricity access? Are there any social business models that may be relevant to MCC's rural electrification work?





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