

# Landscape of Climate Finance in Burkina Faso

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### ABOUT CLIMATE POLICY INITIATIVE

CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has six offices around the world in Brazil, India, Indonesia, the United Kingdom, and the United States.



### DESCRIPTORS

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### REGION

Africa, Burkina Faso.

### **KEYWORDS**

Climate finance; adaptation; mitigation; private finance; public finance; Africa; Burkina Faso.

### **RELATED CPI WORKS**

Landscape of Climate Finance in Africa The Landscape of Climate Finance in Kenya Landscape of Climate Finance in Nigeria South African Climate Finance Landscape 2020 Climate Finance Needs of African Countries Climate Finance Innovation for Africa Financial Innovation for Climate Adaptation in Africa

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## **EXECUTIVE SUMMARY**

With more than 40% of the population living below the poverty line, the Burkinabe people are highly vulnerable to the impacts of a changing climate, yet, have one of the lowest per capita emissions on the African continent, emphasizing the key issue of climate justice and equity. Despite the rise in terrorism and political instability in light of the January 2022 coup as well as the recent military overtake in September 2022, the Burkinabe government has made progress on the climate front, especially with regards to accessing international sources of funding, submitting a Nationally Determined Contribution (NDC) with a comprehensive assessment of needs per sector, and taking a gender sensitive approach to mainstreaming climate change in national policymaking. However, despite these efforts, considerable gaps remain in financing key adaptation sectors such as agriculture, water, and energy which provide livelihoods to those most vulnerable in Burkina Faso and upon whom the national security of the nation is contingent. With around 40% of the country out of the control of the state, climate related issues will likely be deprioritized for the near future. (Al Jazeera, 2022)

This report, part of the <u>State of Climate Finance in Africa</u> series, provides a deep dive analysis of tracked climate finance in Burkina Faso in 2019/2020. Following a discussion of climate change policies, strategies, and plans enacted in the country to date, it delves into climate finance committed to and within Burkina Faso, mapping flows along their lifecycles from sources and intermediaries (private and public), the financial instruments used to channel funds (grant, debt, or equity), and through to how finance is ultimately used on the ground (mitigation, adaptation, or dual benefits). While data gaps limit a fully comprehensive assessment, the key purpose of this case study is to inform and facilitate discussions among policymakers and public and private financiers and to identify gaps and opportunities for scaling climate finance in Burkina Faso.

### **KEY FINDINGS**

In 2019/2020, USD 567 million of public and private capital was invested in climate-related activities in Burkina Faso, which is only 13% of its total needs (USD 4.1 billion by 2050). More specifically:

- The investment gap for priority sectors looms large in the Burkina Faso climate finance landscape, given the estimated USD 4.1 billion needed to deliver on the NDC. From the adaptation angle, agriculture represents the highest investment costs in the country (USD 1.1 billion) followed by ecosystem services and water, according to the NDC.
- Climate finance to Burkina Faso was largely provided by public actors (USD 452 million, 80%), especially for adaptation activities, while the private sector lagged behind (USD 116 million, 20%). It is important to note that the current absence of a domestic budgetary climate tagging framework limits a robust assessment of climate finance committed by domestic governments, whether state or local.

- International public climate finance flowing to Burkina Faso from multilaterals and partner countries accounted for USD 431 million or 76% of all climate finance, the majority of which was channelled as low cost debt (42%) and project level debt (21%).
- **Corporations provided a significant share of private climate finance (USD 76 million**, 65%) with a relatively smaller role played by commercial financial institutions (USD 28 million, 24%), and institutional investors (USD 12 million, 10%).
- The majority of climate finance was committed for energy systems (USD 249 million) followed by AFOLU (USD 148 million), cross sectoral investments (USD 95 million), and water and wastewater (USD 50 million).

The following recommendations are derived from interviews with relevant stakeholders as well as analysis of the landscape data specific to policy and finance, with a view towards increasing the quantity and quality of climate finance in Burkina Faso:

#### POLICY AND FRAMEWORKS:

- 1. Build capacity of local stakeholders using readiness grants and project preparation support.
- 2. Prioritize more projects that enable technology transfer and promote country ownership.
- 3. Establish effective MRV frameworks given Burkina Faso is on the Financial Actional Task Force (FATF) grey list, which serves as an impediment to accessing donor funding over concerns around meeting adequate fiduciary standards.

### FINANCE:

- 1. Leverage the potential of nature-based solutions and the voluntary carbon credit market.
- 2. Scale up finance for off-grid technologies to achieve mitigation and adaptation goals simultaneously using demand side and supply side subsidies.
- **3.** Mobilize investment from the private sector using public finance as a derisking mechanism:
  - i. De-risk private investment with provision of guarantees and concessional debt instruments.
  - ii. Programmatic and Readiness support to Direct Access Entities of multilateral climate funds.
  - iii. Explore innovative financing approaches like the Results Based Finance (RBF) and Pay As You Go (PAYGO) schemes.
  - iv. Build a stable regulatory environment independent of political turmoil and establish Public Private Partnership (PPP) frameworks.
- 4. Recognizing that adaptation and resilience investments will prove to be much harder to invest in for the private sector; push for Multilateral Development Bank (MDB) and Development Financial Institution (DFI) support.

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### 1. INTRODUCTION

### 1.1 CONTEXT

As a low-income Sahelian country with limited natural resources, Burkina Faso ranks 144 among 157 countries in the World Bank's Human Capital Index (WB, 2018). With more than 40% of the population living below the poverty line, the Burkinabe people are highly vulnerable to the impacts of a changing climate, yet, have one of the lowest per capita emissions on the African continent, emphasizing the need for climate justice and equity (ND-GAIN, 2020). Moreover, the rise in terrorism and political instability have made it difficult to create economic opportunity (WB, 2019). In the wake of the coup in January 2022, the Economic Community of West African States (ECOWAS) and the African Union have suspended Burkina Faso from their decision-making bodies until constitutional order is restored (AI Jazeera, 2022) (Reuters, 2022). Given the recent military takeover in September 2022, it is unlikely that constitutional order will be restored in the near future.

This complex, uncertain, and evolving situation makes it difficult for multilateral financial institutions to engage with the country's transitional government, though the new regime has promised to continue the work on previously devised climate plans. Any political instability is concerning as Burkina Faso is the 27th most vulnerable country in the world to climate change and has lost an estimated 247,145 hectares of forest each year since the late 1990s (CRI, 2021).

- Minister of State Siméon Sawadogo, COP26

The threat of climate change presents an economic opportunity to respond to these challenges through the creation of jobs and improving livelihoods. The impact of climate change on poverty and economic development are exacerbated by a lack of access to energy. The energy access rate in Burkina Faso is currently at 19% overall, with 60% of the urban population and only 3% of the rural population connected to electricity, making it one of the least electrified countries in the world (CPI, 2019). With a rising population rate, the country is also facing a rapid increase in demand for domestic and industrial energy. Coverage of these needs is key to ensuring economic stability, and also presents an opportunity to align with a low carbon development pathway. (SEforALL, 2022)

Despite the aforementioned political and economic challenges, Burkina Faso has made considerable progress on the climate front, especially with regards to accessing international sources of funding, submitting a Nationally Determined Contribution (NDC) with a comprehensive assessment of needs per sector, and taking a gender sensitive approach to mainstreaming climate change in national policymaking. Though it remains to be seen to what extent this is sustained and integrated by the new political leadership.

<sup>&</sup>quot;Burkina Faso, a Sahelian country, is very exposed to the harmful effects of climate change making the population, especially women, youth, and children vulnerable."

### Table 1: Burkina Faso country profile

Country Profile				
Population	Estimated: 20.9 million			
(VVB, 2020)	Annual growth rate: 2.8%			
<b>GDP</b> (WB, 2020) (Statista, 2020)	USD 17.37 billion (USD 830 per capita) Contributions to GDP by sector: Agriculture: 18.4% Industry: 32.59% Services: 40.83%			
Energy Access	19% overall (60%- urban, only 3% - rural)			
(Tracking SDG 7)	90% of population lack access to clean cooking fuels			
Deforestation	110,000 hectares per annum			
(Global Forest Watch/ICAT, 2021)	From 2001 to 2021, Burkina Faso lost 131ha of tree cover, equivalent to a 99% decrease in tree cover since 2000, and 32.5kt of CO e emissions.			
Total GHG emissions split by	Land use change and forestry: 55Mt			
sector (NDC, 2021)	Agriculture: 23Mt			
	Energy: 5.5Mt			
	Industrial Processes: 1.3Mt			
	Waste: 1.1Mt			
Key Climate Risks	Heat Waves			
(NDC 2015)	Water stress and a rise in water borne parasitic diseases			
	Floods & severe droughts			
	Ecosystem stress (particularly in the savanna biome)			
Priority technologies for adaptation (TNA, 2018)	Agriculture sector: 1) Biodigesters; 2) Integrated sustainable land management combining stone lines, Zaï and assisted natural regeneration; 3) Rehabilitation of degraded land for silvopastoral purposes by subsoiling / plough microbasins; 4) Run-off water collection pools			
	Forestry sector: 1) Promotion of improved household fireplaces; 2) Management of natural forests; 3) Creation by the Territorial Collectives of conservation with communal involvement			
Priority technologies for mitigation	Energy sector: 1) Improved fireplaces; 2) Hydroelectric power stations; 3) Solar photovoltaics / solar home systems			
(TNA, ZUI8)	Transport sector: 1) Trams; 2) Biodiesel; 3) Solar buses			

### 1.2 CLIMATE CHANGE POLICIES, STRATEGIES, AND PLANS IN BURKINA FASO

**Burkina Faso has robust policy frameworks in place to mainstream climate action.** Burkina Faso ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 1993 and the Kyoto Protocol in 2005. In 1995, Burkina Faso established the Inter-Ministerial Committee to Implement the Actions of the UNFCCC. This committee has played an active role in the preparation of the first National Communication on Climate Change. In the lead up to submitting its first Intended NDC in 2015 as well as a more ambitious updated NDC in 2021, Burkina Faso has developed and adopted several policy and strategy documents relating to climate change (NDC Partnership, 2022). These include:

- The National Strategy for Implementing the Climate Change Convention adopted in 2001.
- The National Action Program for Adaptation to Climate Change (NAPA) in 2007.
- The development of a framework for Nationally Appropriate Mitigation Actions (NAMA, 2008).
- The National Adaptation Plan (NAP, 2014).

A permanent secretariat of the National Council for Management of the Environment (SP/ CONAGECE) was created within the ministry responsible for the environment and which will subsequently be transformed into the National Council for the Environment and Sustainable Development (SP/CONEDD). Similarly, a National Environmental Assessment Bureau (BUNED) has been set up to ensure better Environmental and Social Safeguards (ESS) in the evaluation of programs/projects. Moreover, Burkina Faso is one of very few countries that have prioritized making eco-citizenship a behavior shared by all Burkinabe people through the integration of environmental education modules into the educational system. (GGGI, 2019)

**Burkina Faso has also developed the Strategy for Accelerated Growth and Sustainable Development (SCADD 2011-2015) and the Energy Sector Policy (2014-2025)** to increase energy access for residential and commercial use as well as to generate more renewable energy and improve energy efficiency (GGGI, 2019). The government also established an action agenda alongside the Renewable Energy and Energy Efficiency Action Plans to reach 95% electricity access (50% in rural areas) and universal access to clean cooking solution in urban areas (65% in rural areas) by 2030. The Government also set a target of 50% renewable energy in the electric mix by 2030 (without biomass). (SEforALL, 2022)

Despite the concerning situation on the ground, there has been significant progress towards mainstreaming gender as part of various national initiatives, such as the National Adaptation Plan (NAP), the National Strategy for Green Economy (2019-2023), as well as through its NDC. Burkina Faso is one of the few countries in West Africa to have a national budget with line-by-line gender tagging. It aims to integrate gender considerations at three main levels to mainstream climate action:

 As part of its NDC implementation, GIZ, the German Development Agency, is developing a climate investment plan to accompany Burkina Faso's partnership plan building on existing initiatives, such as the Climate Smart Agriculture Investment Plan developed by the World Bank. The purpose will be to identify and prioritize NDC implementation projects with a gender lens.

- **2.** The Global Green Growth Institute (GGGI) is supporting the development of sector-specific action plans including integrating gender aspects.
- **3.** A Germany-financed NDC Partnership economic advisor will be supporting the integration of gender considerations into the 2021-2025 National Plan. (NDC Partnership, 2022)

### 1.3 FINANCING BURKINA FASO'S NDC AND NAP

Financing the estimated USD 4.1 billion needed to deliver on Burkina Faso's NDC by 2050 will require public, private, and blended finance that is both international and domestic in nature.

**The private sector plays an important role in financing a low carbon development pathway for the country, alongside bilateral institutions, and multilateral climate funds.** Burkina Faso has successfully been able to access funding from bilateral and multilateral climate funds (MCFs). In fact, Burkina Faso, along with four other countries attracted more than 43% of all financing (USD 430 million) provided by MCFs to Africa (CPI, 2022). However, funding from the private sector, especially for adaptation, is extremely low keeping with the trend in other developing countries. According to the resource mobilization strategy as elaborated in Burkina Faso's NDC, domestic state resources are proposed to be the primary source of finance, followed by funding from bilateral partners, multilaterals, and the private sector.

Public Private Partnerships (PPPs) have played a key role in mobilizing finance from the private sector for renewable energy power generation in the country in recent years. The order of priority of funding sources as mentioned in the NDC is not necessarily the order that is most desirable. Despite the importance of state resources being dedicated to financing the NDC, international public finance, alongside foreign direct investment from the private sector, should play a bigger role in financing the conditional and non-conditional NDC (Updated NDC, 2022). **To this end, de-risking investments through regulation and effective policymaking, capacity building through technical assistance, and PPPs will be key in mobilizing funding from the private sector.** The domestic capital market is very nascent with its first ever Initial Public Offering (IPO) this year with support from the International Finance Corporation (IFC) (IFCI, 2022). Acute political instability coupled with an uneducated/untrained labor force has significantly hampered the growth of capital markets in the country. (World Bank, 2022)

While the National Adaptation Plan (NAP) is a foundational and important step, funding adaptation still faces several challenges. Adaptation is primarily financed through grants due to its lack of bankability and attractiveness as an investment opportunity for the private sector. One of the reasons funding adaptation remains a challenge is the lack of monitoring and evaluation regimes for grant-based finance. MCFs, such as the Global Environment Facility (the largest MCF contributor of climate finance to Burkina Faso) and Technical Assistance organizations such as the Global Green Growth Institute (which has a local presence in Burkina Faso), have a key role to play in scaling up grant-based adaptation finance (Journal of Sustainable Development, 2020). Through its five-year Country Programming Framework (CPF 2019-2023) the GGGI has engaged the government of Burkina Faso in a continuous capacity to integrate climate priorities in domestic budgetary decisions while also improving access to climate finance from multilateral climate funds by providing project preparation and accreditation support. (GGGI, 2022)

## 2. LANDSCAPE OF CLIMATE FINANCE IN BURKINA FASO

Different actors have different mandates, risk-return profiles, and roles to play within the climate finance ecosystem. Taking stock of the climate finance supply chain to understand who is doing what, and via what instruments, allows for the identification of niches and gaps, while also facilitating opportunities for coordination among actors to ensure interventions are mutually supportive and work in tandem. This chapter provides an in-depth analysis of the climate finance landscape in Burkina Faso across 2019/2020<sup>1</sup>. Section 2.1 discusses some of the overall findings followed by more detailed discussion on sources of finance (Section 2.2) and their preferred end use sectors and instruments to channel the investments (Section 2.3). Please refer to the Landscape study for further details on the <u>methodology</u> used.

Having one of the lowest per capita emissions in the African continent, commensurate with its economic progress, this is a key moment for Burkina Faso to align with a low carbon development pathway and reduce the vulnerability of its population to the extreme impacts of climate change.

### 2.1 OVERALL CLIMATE FINANCE

 In 2019/2020, USD 567 million of public and private capital was invested in climaterelated activities in Burkina Faso. This is just 13% of the total USD 4.1 billion of financing that Burkina Faso needs to meet the targets set in its NDC to reduce emissions 11.6% by 2030 under the conditional and unconditional scenarios, as well as the need to invest USD 2.8 billion in adaptation by 2050. It is also likely that needs are underestimated in the Burkina Faso NDC. Climate finance in Burkina Faso accounted for 2% and 8% of the tracked climate finance in Africa (USD 29.5 billion) and Western Africa (USD 7 billion), respectively.



Figure 1: Overview of climate finance in Burkina Faso (2019/2020, %)

Biennial averages are used to smooth out annual fluctuations in the data

- 2. Climate finance was almost equally split between mitigation (USD 28 million) and adaptation (USD 250 million) but falls far short of the need. This is in contrast to the global split between adaptation (7%) and mitigation finance (90%). However, given extreme vulnerability challenges around water use and AFOLU, adaptation finance needs to be significantly scaled up. At the same time, mitigation finance also needs to be scaled up given challenges around energy access and how this challenge may compound with extreme rise in heat leading to a lack of habitable regions in the country without access to electricity and cooling.
- 3. The investment gap for priority sectors looms large in the Burkina Faso climate finance landscape, given the estimated USD 4.1 billion needed in sum to deliver on the NDC. From the adaptation angle, agriculture represents the highest investment costs in the country (USD 1.1 billion) according to the NDC. From the mitigation angle, the energy sector requires around USD 1 billion by 2050.



Figure 2: Cumulative needs per sector (till 2050) in USD millions as per Burkina Faso's NDC

4. Climate finance to Burkina Faso was largely provided by public actors (USD 452 million, 80%), mainly for adaptation activities, while the private sector lagged behind (USD 116 million, 20%). Public climate finance in Burkina Faso was primarily committed via Multilateral DFIs (51%) followed by Bilateral DFIs (22%), and Governments (18%), the majority of which was channeled as debt. This high dependence on public finance is especially concerning given the recent political turmoil and exclusion as a member from the African Development Bank and ECOWAS. Corporations provided a significant share of private climate finance (USD 76 million, 65%) with a relatively smaller role played by commercial financial institutions (USD 28 million, 24%), and institutional investors (USD 12 million, 10%). Equity-based financing is only used for mitigation activities, but is negligible in comparison to debt and grant based finance which are the main instruments used to fund adaptation.

### 2.2 SOURCES AND INTERMEDIARIES

### The landscape of Burkina Faso climate finance is dominated by international public

**funders,** noting that the current absence of a domestic budgetary climate tagging framework limits a robust assessment of climate finance committed by domestic governments, whether state or local. From our conversations with experts, our data conflicts with the view on the ground that domestic climate finance is more or less equal to international climate finance. This could either be an issue of perception or the gaps in data means there is a lot domestic public investment but as it is not tagged in the budget, it is not tracked (see Box 1).

Climate finance to Burkina Faso was largely provided by international public actors (80%) while the private sector lagged (20%). This high dependence on public finance is especially concerning given the recent political issues and exclusion as a member from the African Development Bank and ECOWAS.



Figure 3: Climate finance breakdown by thematic area and domestic international split (USD millions)

Public climate finance in Burkina Faso was primarily committed via Multilateral DFIs (51%), followed by Bilateral DFIs (22%) and Governments (18%). DFIs use a combination of (low-cost) project debt (USD 178 million) and grants (USD 69 million). International public climate finance flowing to Burkina Faso from multilaterals and partner countries accounted for USD million, or 76% of all climate finance, the majority of which was channelled as low cost debt (42%) and project level debt (21%). France and Germany were the largest bilateral contributors – mainly contributing via low cost project debt and grant capital.



Figure 4: Providers of public climate finance, by institution and instrument type (USD million)

**Corporations provided a significant share of private climate finance (USD 76 million, 65%) with a relatively smaller role played by commercial financial institutions (USD 28 million, 24%), and institutional investors (USD 12 million, 10%).** Private finance was largely split between equity (USD 75 million, 65%) and debt (USD 30 million, 26%), with institutional investors providing the overwhelming majority of grant-based finance (USD 10 million, 9%) and some debt (USD 2 million).



Figure 5: Providers of private climate finance, by instrument (USD million)

#### Box 1: Climate budget tagging in domestic budgets

Domestic sources of funding pale in comparison with international sources of finance. However, after engaging with four local stakeholders, the CPI team learned that this does not match the perception on the ground that domestic finance is available and international finance is scarce. This may be a tracking issue and can be resolved by undertaking a more comprehensive climate budget tagging exercise. Further research is required to this end.

**Burkina Faso is a good example of a Least Developed Country (LDC) that has operationalized gender tagging as part of its national budgeting process.** This process is likely to be transferrable to climate issues as it requires a similar approach to tagging. Therefore, for Burkina Faso, developing the capacity and institutional arrangements for climate budget tagging is an essential step moving forward, allowing domestic actors to monitor progress and raise ambition.

From interviews, we learned that **government stakeholders find it difficult to engage the Ministry of Finance and inform budget allocations, especially at the subnational/municipal level**. Because taxes are collected centrally, the municipalities must rely on the central government to dedicate resources to fight climate change. Moreover, given the country's security issues, a large portion of the domestic budget is dedicated to security and defense leaving little for other development priorities including climate efforts.<sup>2</sup> Enhanced coordination between the Ministries of Finance and Environment would help to better define roles and responsibilities within the current fiscal architecture.

<sup>2</sup> Burkina Faso's defense budget for 2020 was USD 0.38B, a 6.86% increase from 2019. (Macrotrends, 2022)

### 2.3 USES AND SECTORS

Tracked climate finance primarily targeted energy systems (44%) and AFOLU (26%), followed by other cross sectoral investments (17%) and water (9%).



Figure 6: Climate finance commitments per sector

Figure 7: Burkina Faso's emissions profile per sector (2018 levels)



The majority of climate finance was committed for energy systems (USD 249 million) followed by AFOLU (USD 148 million), cross sectoral investments (USD 95 million) and water and wastewater (USD 50 million). As the highest emitting sector (accounting for 86% of Burkina Faso's total emissions), AFOLU finance is estimated to make up the bulk of Burkina Faso's investment needs on the mitigation side. According to the updated NDC (2021) the cumulative investment need for this sector stands at USD 37 million cumulative through 2050 to achieve mitigation outcomes and USD 1.1 billion cumulative through 2050 to achieve adaptation outcomes. On the adaptation side, water supply and sanitation alongside investments in climate smart agriculture makes up the bulk of the investment need.



#### **ENERGY SYSTEMS**

#### Energy finance formed the majority of investment in Burkina Faso at 44% (USD 249

**million).** As the energy access rate in Burkina Faso is 19% (World Bank, 2020), much of this investment went into new solar power generation (USD 190 million, 76%) and other forms of renewable energy power generation (USD 32 million, 13%). Very little was committed to off-grid renewables (USD 6 million, 2%) and transmission and distribution (<1%). As a supply constrained country, it is reasonable for there to be more investment in power generation vs transmission, however, this serves as an opportunity for Burkina Faso to expand its grid capacity keeping climate resilience considerations at the forefront given its susceptibility to natural disaster such as floods. The lack of investment in off-grid renewables is disappointing albeit understandable given Burkina Faso's issues around electricity affordability. To this end, both supply and demand side subsidies can be leveraged to close the affordability gap and using the World Bank's Multi-Tier Framework – energy access can gradually be increased especially in rural and hard to reach areas



#### AFOLU

**Even though AFOLU received 26% of all tracked commitments, it is still far below the level of need, both to achieve mitigation as well as adaptation outcomes as per Burkina Faso's NDC**. Analyzing a sub-sectoral breakdown of commitments, agriculture saw the most amount of finance at 86%. This is not surprising given Burkina Faso's reliance on agriculture for its exports and GDP (26.8% is directly linked to agriculture) and the need to make this sector climate-proof by adopting climate smart agricultural practices (World Bank 2020). Moreover, because AFOLU contributed 86% of all emissions in 2018, this sector will be key in achieving mitigation outcomes by leveraging climate-smart practices in agriculture that lead to lower emissions. In fact, AFOLU has the potential to cover around 70% of the total emissions reduction commitment in the updated NDC (16.2%). For instance, the implementation of the mitigation actions of the conditional and unconditional scenario will together contribute to an 11% reduction of national GHG emissions by 2025.<sup>3</sup>

**Forestry saw finance commitments of around 9%, which is extremely low given Burkina Faso's potential to sequester carbon through nature based solutions**. Burkina Faso has proposed 100,000 hectares of Assisted Natural Regeneration in 25 of its communes.<sup>4</sup> However, the voluntary carbon credit market has largely remained inaccessible to foreign investors due to a lack of regulatory framework and technical capacity to implement large scale NbS Afforestation, Reforestation and Revegetation (ARR) projects (GCF, 2021). With these capacity issues top of mind, the German government announced the West African Alliance for Carbon Markets and Climate Finance, of which Burkina Faso is a founding member. Unfortunately, only Togo and Nigeria have followed the necessary steps to receive assistance from this program (Carbon Mechanisms, 2022).

### Box 2: Climate Smart Agriculture in Burkina Faso

Climate smart agriculture (CSA) initiatives increase productivity, enhance resilience, and reduce or remove GHGs, in the context of achieving food security and broader (rural) development goals (FAO, 2019). In 2020, the World Bank with the support of CGIAR, the Burkinabe government and IFAD developed the Climate-Smart Agriculture Investment Plan for Burkina Faso. The plan has helped Burkina Faso prioritize a set of nine investments and actions needed to boost crop resilience and enhance yields for nearly 1.7 million beneficiaries and their families, helping them adapt to climate change and reduce climate change causing greenhouse gas emissions as a co-benefit. Of the nine investments prioritized, four directly relate to climate adaptation:

- 1. Sustainable management of water resources and irrigation
- 2. Developing climate-smart organic value chains
- 3. Developing resilient oil-protein value chains
- 4. Integrated soil management for agricultural productivity & environmental

The financial and economic analysis shows that all nine investments increase productivity by at least 18% on average and have positive economic benefits for beneficiaries, while the whole portfolio reduces greenhouse gas emissions. Such initiatives are an important way forward for not just Burkina Faso but many countries in West Africa facing similar climate risks. (World Bank, 2020)

<sup>3</sup> Country NDC

<sup>4</sup> Country NDC



### **OTHER AND CROSS-SECTORAL**

**Policy and national budget support accounted for 39% of all tracked commitments in this category followed by Covid-19 response at 15%.** Burkina Faso's NDC is thorough, with line by line needs assessment of each sector in the economy. This is likely a due to the willingness of policymakers in the country to engage with international stakeholders, such as the Global Green Growth Institute, to access international climate finance and establish clear roadmaps and policy guides on where to direct investments. Institutions like GGGI have played a key role in supporting and encouraging interest among policymakers.

#### WATER SUPPLY AND SANITATION

Water and waste is the biggest sectoral gap in Burkina Faso's climate finance landscape, despite the priority allocated to it in national adaptation and mitigation strategies and plans of action. Tracked climate finance for water and wastewater was negligible compared to the needs of this sector – it received just USD 50 million (9%) whereas the cumulative need of the sector is estimated to be around USD 302 million.<sup>5</sup> Key adaptation actions for this sector include, but are not limited to, developing basins and dams to conserve rainwater, and developing water management plans for efficient irrigation (WRI, 2019). Upon engaging with local experts, we also learned that water borne diseases have become a challenge for the Burkinabe government due to a lack of availability of clean drinking water.

## 3. BARRIERS AND CHALLENGES FOR CLIMATE FINANCE IN BURKINA FASO

The following is a non-exhaustive list of barriers based on stakeholder consultations and desk research:

### 1. Lack of capacity and technology transfer

**One of the key issues in Burkina Faso is the lack of knowledge on Adaptation Planning Documents (NAPs).** A study conducted by GIZ showed that only 54% of public officials have knowledge of the priority sectors to climate change considered by the NAP. Moreover, the NAP process, which aimed to raise USD 6.4 million between 2015-2020, has been constrained by weak financial and human resources. The decentralized state institutions in charge of statistical studies often do not have the logistics for mobility, fuel, nor computer equipment essential for data collection in the field and the storage and management of that data (Journal of Sustainable Development, 2020).

#### 2. Mobilizing private investment

It is crucial for Burkina Faso to mobilize private investment using de-risking approaches to make adaptation and energy access solutions more bankable. As presented in this report, climate adaptation is largely funded through grants provided by public actors. However, grant-based public capital is very limited even as countries ratchet up their climate ambitions. In such a scenario, it is crucial to mobilize investment from the private sector by making adaptation solutions more bankable. There is currently a lack of PPP framework for many sectors which impedes private investment. Development of new frameworks can help mobilize more investment from the private sector especially for large scale infrastructure projects where aggregation/blending of capital is necessary to cater to different risk appetites of domestic and foreign investors.

#### 3. Insufficient coordination between national stakeholders

#### There is currently a large gap in coordination between the federal government

**and the sectoral actors of the NAP.** Our interviews with local stakeholders revealed that there is a lack of formal framework for consultations between sectoral actors and federal government which leads to a lack of use of Sectorial NAPs in Operational Planning. There were no capacity building workshops initiated to support actors in better understanding the NAP and mainstreaming them into sectors' operations. Our consultations also revealed that there was also a lack of communication surround the NAPs where materials were produced, but the effort to share them widely with various stakeholders was insufficient.

#### 4. Lack of Monitoring, Reporting and Verification (MRV) framework

A lack of MRV framework is an impediment to public investment. The impact of investments is not tracked sufficiently for donors due to concerns over corruption, money laundering, and financing terrorism (GIABA, 2022). Burkina Faso finds itself on the grey list of the Financial Actional Task Force (FATF). In the absence of a robust MRV framework, grant and concessional capital may be difficult to attract. This may lead to a lack of investment in adaptation related sectors, such as AFOLU and water, where bankability is a key issue and one that is typically resolved through technology transfer and/or concessional finance.

A case in point is the NAP MRV System which has frequently malfunctioned (GGGI,

**2020).** It is critical to track progress and performance in adaptation planning and implementation. Burkina Faso's NAP lays out the monitoring-evaluation methodology and the resources required to implement such a system. However, a recent study which engaged public stakeholders in Burkina Faso found that no mechanism has, so far, been functional (Journal of Sustainable Development, 2020). A robust MRV framework is needed because public capital will play a catalytic role in mobilizing investment from the private sector.

## 4. **RECOMMENDATIONS**

### POLICY AND FRAMEWORKS

- 1. Build capacity of local stakeholders using readiness grants and project preparation support: The GGGI and the International Union for the Conservation of Nature have been very active in building the capacity of local stakeholders in Burkina Faso to access more climate funding (GCF, 2017). While there are well designed policy documents such as SCADD, TNAs, and NAP, there is very little use of them in operational decision making due to the lack of dissemination of this knowledge to national and sub-national public actors. It will be critical going forward to build the capacity of local stakeholders, using readiness grants to enable more entities to get accredited to receive financing from international FIs, and operationalizing the activities mentioned in the NDC into projects through project preparation support.
- 2. Prioritize projects that enable technology transfer and promote country ownership: The promotion, development, and transfer of climate technologies (low or no carbon and/or supporting resilience) will enable Burkina Faso to contribute to the global response to climate change as well as adapt to its consequences. To this end, the technology needs assessment (TNA) reports are an effective way to understand which technologies to prioritize for specific sectors and subsequently start working towards policies and regulations that would enable those technologies to become competitive in the market. This could be done through the provision of subsidies, VAT exemptions, enhancing local productive capacity for such technologies, and the programs designed to support the transfer of technology through technical assistance and pilot program in the country. For example, the World Bank, through its Indigenous Knowledge for Development program, has provided support to farmers for scaling up the dissemination of the Zai technique in three provinces in central Burkina Faso which has been hugely transformational (World Bank, 2005).<sup>6</sup> Moreover, international FIs and pools of climate finance such as the Green Climate Fund should enable a better Country Ownership paradigm through the operationalization of country programs that leverage the TNA reports to prioritize adaptation and mitigation technologies and make them available locally in a cost competitive manner either through VAT exemptions or enhancing local productive capacity.
- 3. **Establish an MRV framework:** Establishing an MRV framework will achieve multiple intermediary objectives on the road to attract more climate finance into Burkina Faso. Firstly, it will enable Burkina Faso to get more Direct Access Entities accredited to pools of climate finance, such as the UN Green Climate Fund and the Global Environment Facility, which will enable more grant-based capital to be channeled into the country. Moreover, it will lead to better feedback loops within public stakeholders to coordinate activities to promote the NDC and track progress against clearly set goals. Mitigation outcomes are less difficult to quantify and track progress against versus adaptation outcomes which

<sup>6</sup> Zai is a soil and water conservation technique to restore, maintain or improve soil fertility.

tend to be contextual and not always aggregable. Building aggregable and comparable impact metrics to track adaptation progress against the activities mentioned in the NAP and NDC will be critical to channel more funding into the country while also helping prioritize investments based on need.

### FINANCE

- 1. Leverage the potential of nature-based solutions and the voluntary carbon credit market: AFOLU holds the highest potential to mitigate emissions in Burkina Faso. Due to the vulnerability of this sector to the impacts of climate change coupled with problems around water conservation and dropping water tables, it is essential for Burkina Faso to build high integrity and high-quality carbon projects leveraging Nature Based Solutions. This will not only bring in FDI into the country through the voluntary carbon market, but it will also aid in conserving more water. It can also lead to improved yields as a co-benefit while also empowering local communities to become stewards of this effort and benefit from it through revenue sharing agreements with project developers. Aside from the VCM, DFIs can also scale nexus projects focused on integrated landscape management and urban-water-energy which can provide 'triple-wins' of emission reduction, enhanced resilience, and economic and development benefits.
- 2. Scale up finance for off-grid technologies to achieve mitigation and adaptation goals simultaneously: As shown in the Section 2, despite the huge energy access gap, investment in renewable generation, transmission, and distribution (T&D) and off-grid technologies remain limited. Apart from fossil fuel subsidy reforms to channel more finance into renewable energy power generation, increasing energy access in a country with a large affordability and accessibility gap will be difficult due to the sparsely distributed population. Therefore, using bridge solutions like decentralized technologies (like solar home systems, solar lanterns, and mini grids) have immense potential in Burkina Faso to close the energy access gap by taking a phased intervention approach. The key barriers to more investment flowing into off-grid technologies is the lack of affordability of end-users. On the affordability side, end user subsidies can be deployed to lower the price of Tier 1-3 energy products for deserving beneficiaries. On the accessibility side, more supply side subsidies and pre-power purchase agreements may make investments in mini-grid technologies more appealing and easier to lend against for private financial institutions. From an adaptation lens, investments in decentralized power solutions increases the resilience of a country's power supply to climate disasters such as floods and earthquakes.
- 3. **Mobilize investment from the private sector using public finance as a de-risking mechanism:** As shown in the landscape analysis, private sector investments remained elusive in Burkina Faso. The private sector is indispensable for a low carbon transition around the world and especially in Burkina Faso where the size of the public sector is small relative to the financing needs. The government should replicate successful private finance mobilization strategies being leveraged in other West African countries. The following are various ways to mobilize more investment from the private sector using public finance and policy interventions:

- De-risking private investment with provision of government guarantees and concessional debt instruments, especially in the riskiest sectors such as AFOLU.
- Programmatic and readiness support to Direct Access Entities of multilateral climate funds to develop new projects that are catalytic.
- Exploring innovative financing approaches like Results Based Finance (RBF) and Pay As You Go (PAYGO) schemes for improving energy access.
- Build a stable regulatory environment independent of political turmoil and establish PPP frameworks for high volume sectors where private capital is most needed, such as infrastructure.
- 4. Recognizing that crowding in private capital for adaptation and resilience projects will be difficult; push for MDB and DFI support: The Burkinabe government should help the MDB and DFI community identify specific opportunities for interventions as they have done so as part of their NDC, but specifically tailored to the DFI and MDB context. To this end, replicating the effort on the investment plan for agriculture prepared with the support of the World Bank and various international entities such as African Development Bank, Consortium of International Agricultural Research Centers (CGIAR) and the International Fund for Agriculture Development (IFAD), the government should prepare detailed investment plans by sector with the help of the DFI and MDB community (such as for off-grid technologies) to aid them in prioritizing sector specific investments.

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