

BURKINA FASO

Options for promoting Environmental Fiscal Reform in EC Development Cooperation

Country case study of Burkina Faso¹

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EXECUTIVE SUMMARY

Burkina Faso presents an interesting case for exploring possibilities for applying EFR and its instruments. Like many other African countries, it is heavily dependent on development cooperation for economic development and poverty alleviation. Its fiscal structure is characterized by low tax rates and a narrow tax base. Economic instruments for environmental management and conservation are poorly defined at best and in most cases largely inconsequential in meeting sustainable development, economic growth and poverty reduction objectives. The country has carried out fiscal reforms aimed at improving domestic revenue collection and is planning a major fiscal reform in 2010. At the same time, Burkina Faso is in the process of developing its new strategy for accelerated growth and sustainable development for the period 2011 – 2015, SCADD; as well as carrying out a national budget reform and investigating possibilities for improving natural resources management while simultaneously promoting social development through reforms in several other sectors such as in the forestry sector. There is enthusiasm and political will to work towards sustainable development and reducing poverty. Yet, the country faces many challenges, including environmental (e.g. degradation of natural resources, drought, desertification, deforestation, increasing air pollution); social (e.g. poverty, lack of access to necessary services) and economic (e.g. how to increase domestic revenues, slow economic growth and inadequate infrastructure necessary to steer economic growth, including human and financial capital).

Economic instruments can be used as tools to address environmental challenges whilst generating revenues and supporting poverty-alleviation activities. Broadening the tax base and enlarging the sources of tax revenues is also important.

An EFR Project should be seen as a long-term process and not a one-off activity. It should also be country-specific and targeted at sectors, actions and priorities that are relevant and in line with Burkina Faso's sustainable development/poverty alleviation objectives and be integrated into strategies such as SCADD, Poverty-Environment Initiative, 'Green Economy' initiative and to on-going budgetary processes and reforms, among others. Learning from experiences on tax reforms in other African countries is encouraged, but borrowing interventions from these or from developed countries is strongly discouraged.

An appropriate project approach is essential, one that combines in-depth country analysis, on-going consultations and discussions with stakeholders to refine and complement the findings, promotes coherence with other on-going activities in the country, and proposes clearly defined, targeted actions with clear modes of implementation and financial and other support to achieve the set objectives.

¹ This country study is part of the larger EFR Project report (Annex 7 of main report).

1. INTRODUCTION

1.1. Study Context and Objectives

This report represents a summary of the findings of a case study on Burkina Faso as part of the work under the Project 'Options for promoting environmental fiscal reform (EFR) in EC development cooperation' being carried out by a team of experts on behalf of the European Commission.

Environmental Fiscal Reform (EFR) also called "Green Taxation and Budgeting" aims at harmonizing fiscal and budgetary policy with environmental objectives. It has the potential to play an important role in helping developing countries raise revenues, while creating incentives that generate environmental benefits and support poverty reduction efforts. It may also include the funding and fiscal policies required to underpin an effective, comprehensive climate change strategy.

After extensive literature reviews, interviews and discussions with responsible EC Desk officers and European Commission experts, Burkina Faso was one of the three Africa Caribbean and Pacific (ACP) countries selected by the EC Project, which offer best prospects for further investigations for the possibility for successful support for Environmental Fiscal Reform (EFR) by the European Commission. The other countries selected for further country studies are: Jamaica and Uganda. For the three countries, case studies involving field visits, interviews and discussions were carried out in-country. Two additional countries were selected for which in-depth desk studies were carried out. These are: Vanuatu and South Africa.

The field mission to Burkina Faso was carried out with involvement and support from the EC Delegation in Ouagadougou. The mission aim was to identify starting points for informal decisions on:

- What reforms are most relevant for specific sectors
- How an EFR process can be effectively designed and implemented.

Interviews and discussions were carried out with informants², including government officials, international and EC officials, and local experts. The mission was carried out over a period of one week, as required by the ToR. The main constraint to the case study was time. The allocated time was enough for a first fact-finding mission which identified some key potential entry points for EFR, for which follow-up consultations and discussion with local experts, donor partners and stakeholders, including civil society, is recommended.

An added benefit of the case study's face-to-face interviews and discussion method, apart from data gathering, is that it offers the possibility to generate dialogue, establish contact, can help build confidence and set the scene for future stakeholder consultations and collaborations. It can also provide space and opportunity to validate or challenge secondary data and responses from the different interviewees. The mission also served to identify a number of key local actors and experts on the issue.

More specific data and information, including on the use of economic instruments in different sectors, for environmental management and other secondary data, particularly as obtained from stakeholder consultations/dialogue is needed to complement and refine the mission findings and this report.

The rest of this report is divided into three broad sections. Section 1, the introduction sets the scene by providing the Project context and objectives; and an overview of Burkina Faso including challenges and opportunities. Section 2 provides a summary of the main findings in terms of the mission objectives as stated above, i.e. what reforms are most relevant for specific sectors and how an EFR process can be effectively designed and implemented. Section 3 discusses the findings in relation to existing economic and political instruments and support for EFR/use of economic instruments; and Section 4 offers some general conclusions and recommendations.

² A list of experts, officials and people we had interviews and discussions with in Burkina Faso is in Annex I. For further information please contact: pendomaro@yahoo.com.

1.2. Brief characterization of Burkina Faso

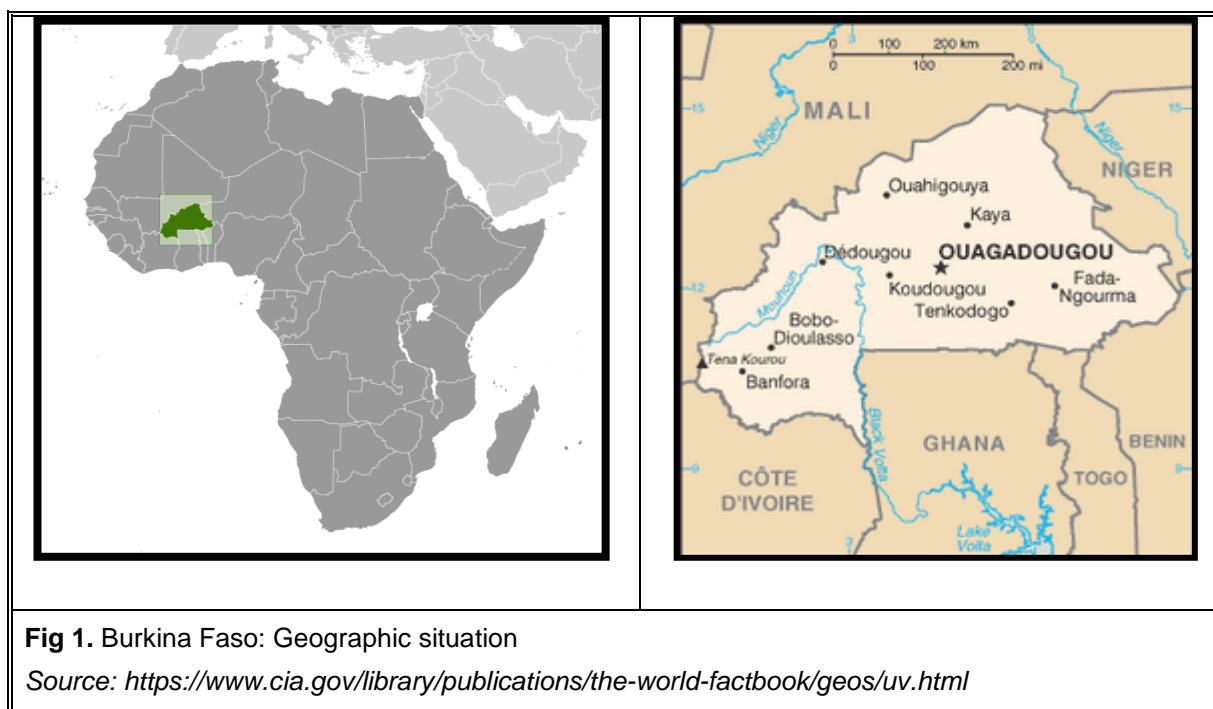
Geography and biophysical factors:

Burkina Faso is a land-locked Sahelian country in West Africa, situated between latitude 10° and 15° N. It is surrounded by Benin in the South-West, Cote d'Ivoire, Ghana, and Togo in the South; Mali in the North and North-West and Niger (Fig 1). It has a total area of 274,200 sq km of which arable land represents 17.66 per cent; permanent crops: 0.22 per cent; other: 82.12 per cent (2005).³ The climate is characterized by two seasons: dry and wet, with recent studies showing a general decrease in rainfall, with more infrequent and unevenly distributed rainfall and increasing drought spells over the years (*Profile Environnemental du Burkina Faso*, 2006).

The soils are poor in organic matter and nutrients, and very prone to erosion. About 11 per cent of the land mass is considered as severely degraded, 2 per cent is considered as highly degraded, 32 per cent of the soils are considered as moderately degraded and 50 per cent as slightly degraded (*Profile Environnemental du Burkina Faso*, 2006).

Droughts, desertification, soil degradation, deforestation are some of the main constraints to agricultural production, with consequences such as food insecurity, and other livelihood constraints (PEI, Preliminary Evaluation, 2009). Cereal and crop farming have been implicated in the degradation of land and soil erosion (*Profile Environnemental du Burkina Faso*, 2006). Furthermore, over-exploitation of forestry resources, uncontrolled urbanization and increasing urban air pollution, insufficient capacities of different actors, the virtual absence of an updated inventory of the status of the various natural resources, among others, have been identified as some of the factors contributing to multiple constraints in the management of natural resources (*Politique Nationale en Matière d'Environnement*, 2007; *SP/CONED Deuxieme Rapport sur l'Environnement au Burkina Faso*, no date).

A combination of policy measures including environmental taxes can be useful in addressing the human-induced environmental challenges and help cope with the natural challenges.



Social and economic factors:

³ <https://www.cia.gov/library/publications/the-world-factbook/geos/uv.html>

The total population is estimated at 15,746,232 people (est. 2009), with an annual population growth rate of about per cent⁴. A majority of the population is rural, with over 80 percent dependent on subsistence agriculture for their employment and livelihood. Seasonal migration for work in neighbouring countries is another characteristic of the labour force. The Human Development Index rates Burkina Faso as number 176 out of 177 countries (*L'Initiative Pauvreté-Environnement PNUD-PNUE*, 2009), making it one of the poorest countries in the world. Within the context of meeting its Millennium Development Goals (MDGs), the country's goal for 2011 is to reduce the poverty rate from 45.4 percent (2008) to 39.6 per cent, with a rural poverty rate of 45.9 per cent and an urban rate of 18.5 per cent (African Economic Outlook, Burkina Faso, 2009).

Poverty alleviation, improving living conditions, and accelerating social-economic development are some of the important social considerations. The strategic framework to combat poverty, the CSLP (*Cadre Stratégic de Lutte contra la Pauvreté*) is the reference document for all development activity in the country. The CSLP is currently (preliminary studies October 2009) being revised and elaborated into the new document the strategy for accelerated growth, SCADD (*Stratégie de Croissance Accélérée et de Développement Durable pour la période 2011-2015*), with as main aim “encourage the acceleration of productivity and growth, and launch a process for sustainable development” (Burkina Faso PEI Country Fact Sheet)⁵. This revision provides an important opportunity for further discussions on using economic instruments/EFR to create incentives that generate environmental benefits and support poverty reduction efforts.

The GDP (real growth rate) was established as 5.2 percent in 2009, compared to 5 per cent in 2008 and 3.7 percent in 2007⁶. By comparison, general macroeconomic performances in Africa show that the GDP growth for 2008 was 5.7 percent, down from 6.1 percent in 2007 (African Economic Outlook, 2009). A further decline is expected as a result of the global economic situation.

Burkina Faso is a member of the West African Economic and Monetary Union (WAEMU). As such, it retains a discretionary margin over budgetary policy but must respect certain convergence rules. One of the convergence rules sets out a minimum contribution from taxes of 17 per cent of GDP (African Economic Outlook, Burkina Faso, 2007). But tax revenues remain low. The average tax revenues for the period 2003 and 2008⁷ were 11.1 percent of GDP. In 2008, the government suspended VAT and customs duties on consumer products for six months as a result of very high food and commodity prices (see BOX 1, for earlier fiscal reforms in 2006). Tax revenue amounted to 12.3 per cent of GDP. In the same year, public revenues, including grants, amounted to 19.9 per cent of GDP in 2008, compared to 20.1 per cent in 2007. Grants were unchanged at 6.5 per cent of GDP. (African Economic Outlook, Burkina Faso, 2009) (See Fig 2).

For 2006, fiscal reform focused on VAT, reimbursement procedures, improving customs administration and adopting a new investment code. The government maintained the tax on oil products but it increased its subsidies to the national electricity provider (Sonabel) by 18 billion CFA francs (0.6 per cent of GDP) in 2006 in order to prevent a rise in the price of electricity of around 30 per cent. These subsidies will be removed between now and 2009 (with an exception being made for low income households) once the country is connected to the electricity grid of Côte d'Ivoire.

BOX 1: Fiscal reforms in Burkina Faso in 2006

Source: IMF Country Report No. 10/7, 2010: 6

⁴ <https://www.cia.gov/library/publications/the-world-factbook/geos/uv.html>

⁵ http://www.unpei.org/programmes/country_profiles/burkina-faso.asp

⁶ <https://www.cia.gov/library/publications/the-world-factbook/geos/uv.html>

⁷ Own calculations based on African Outlook, Burkina Faso, 2007 report

Table 2 - Public Finances (percentage of GDP at current prices)

	2000	2005	2006	2007	2008(e)	2009(p)	2010(p)
Total revenue and grants^a	19.5	17.1	41.0	20.1	19.9	18.5	18.4
Tax revenue	10.9	11.5	12.0	12.5	12.3	12.0	12.0
Grants	7.7	4.6	28.1	6.5	6.5	5.5	5.4
Total expenditure and net lending^a	23.3	22.4	24.3	25.8	26.3	25.5	25.7
Current expenditure	10.5	11.6	12.8	13.9	14.0	13.5	13.4
<i>Excluding interest</i>	9.6	11.0	12.2	13.5	13.5	13.0	12.9
Wages and salaries	4.8	4.9	5.3	5.8	5.5	5.2	5.1
Interest	0.9	0.6	0.6	0.4	0.5	0.5	0.5
Capital expenditure	12.7	11.3	12.0	11.8	11.9	12.1	12.4
Primary balance	-2.9	-4.7	17.3	-5.3	-5.9	-6.4	-6.8
Overall balance	-3.8	-5.3	16.7	-5.7	-6.4	-6.9	-7.3

a. Only major items are reported.

Source: Local authorities' data; estimates (e) and projections (p) based on authors' calculations.

Fig 2: Public finances as percentage of GDP

Source:

http://www.africaneconomicoutlook.org/en/countries/west-africa/burkina-faso/#/macro_economic_policy

The fiscal outcome should be viewed in light of the exceptional tax measures taken by the authorities in 2008, including reducing the rate of late taxpayers and tax evaders from 12 per cent at the beginning of 2007 to less than 7 per cent at the end of the third quarter of 2008. Despite these measures, the average tax take (13 per cent) remained lower than the 17 per cent standard set by the West African Economic and Monetary Union (WAEMU) (African Economic Outlook, Burkina Faso, 2009). Elsewhere in Africa, Rwanda, considered "one of Africa's better performing economies" has carried out fiscal measures, with support of donors, that resulted in increasing domestic revenues from 9 per cent of GDP in 1998 to 15 per cent in 2005 (OECD Observer No. 273 June 2009).

Much of the investments in Burkina Faso are externally financed. According to the International Monetary Fund (IMF, Country Report No. 10/7, 2010): "Financing **an overall deficit (cash basis) estimated at 7.3 percent of GDP in the current global environment has proven challenging and the scope for raising additional revenue is limited**. The authorities were able to mobilize additional donors financing, and to raise funds from the regional bond market. Other financing sources include IMF resources under the current PRGF arrangement and the requested increased access, and additional privatization receipts." (See Fiscal Indicators for 2009, Fig 3).

The country is expected to introduce a comprehensive tax reform and efforts to boost tax administration in 2010, in order to accelerate fiscal reforms, strengthen revenue collection, reduce the country's high reliance on external budget support and strengthen expenditure management (IMF Country Report No. 10/7, 2010). Environmental and/or sustainable development objectives do not seem to be an explicitly inherent feature of the anticipated tax reform. Expanding the scope of these tax reforms to encompass environment and poverty alleviation objectives can contribute towards increasing domestic revenues, simultaneously working towards meeting the larger sustainable development and social objectives. The challenge is to integrate these objectives timely in the budgetary process and in the design of fiscal measures that meet these objectives.

	2009	
	(Prog.)	(Proj.)
Total revenue	13.2	13.2
Tax revenue	12.1	12.1
Nontax revenue	1.1	1.1
Grants	6.3	7.1
Total expenditure	24.6	27.0
Current expenditure	12.6	13.4
Wages and salaries	5.5	6.0
Of which: delayed impact of the food crisis	-	0.5
Goods and services	2.6	2.9
Of which: fiscal stimulus measures	-	0.3
Transfers	4.1	4.1
Of which: fiscal stimulus measures-	-	0.2
Interest payments	0.3	0.4
Capital expenditure	12.1	13.7
Domestically financed investment	4.8	6.8
Of which: fiscal stimulus measures	-	1.8
Recapitalization of SOFITEX	-	0.5
Social safety nets	-	0.7
Impact of the flooding	-	0.7
Externally financed investment	7.3	7.0
Reduction in domestic arrears	-0.2	-0.6
Of which: fiscal stimulus measure	-	0.6
Overall balance (Cash basis)	-5.3	-7.3
Financing	5.3	6.7
Financing gap	0.0	0.6

Source: International Monetary Fund (IMF) Country Report No. 10/7; January 2010:15.

Fig 3: Burkina Faso - Fiscal Indicators, 2009 (In percent of GDP)

Relevant environmental and other policy/political processes:

There are several policy initiatives and studies going on in Burkina Faso with particular relevance for the current study/ EFR Project. The case study identified some of these (see section 2. Findings) as potentially vital to an EFR prospect, some offering possible entry points for further discussions as well as possible policy entry points to further sustainable development and poverty alleviation through harmonizing fiscal and budgetary policy with environmental objectives. Presenting an exhaustive list of the current policy and institutional reforms/initiatives taking place in Burkina Faso is beyond the scope of this study. What is offered here is a glimpse of some of the more relevant initiatives/reforms which we suggest should be taken into consideration and explored further during the course of the current study/EFR Project.

We recommend that an overview of all relevant policy/institutional processes going on in Burkina Faso should be established, in order to foster exchange of information and knowledge, seek synergies and coherence; and prevent a duplication or fragmentation of efforts.

Burkina Faso's 2007 national environmental policy, *Politique Nationale en Matière d'environnement* (PNE), is the main strategic policy framework. It sets out the national framework and plans for the sustainable management of natural resources and the living environment and will be operationalized in coherence with the priority action programme, *Programme d'Action Prioritaire* (PAP), the implementation of the CSLP and other policies, such as the sustainable development strategy (*Stratégie du Développement*

Durable) and the national action plan to combat desertification (Plan d'Action National de lutte contra la Désertification) (*Decrét no. 2007-460/PRES/PM/MECV/MFB du 30 mars 2007, Journal Officiel no. 16 du 12 avril 2007*).

One of the most significant policy reforms currently taking place in Burkina Faso is the revision of the CSLP and creation of the accelerated growth strategy for sustainable development, SCADD. This is expected to be the main reform document for planning and budgetary allocation for the accelerated growth and sustainable development agenda for the period 2011 - 2015. Experience elsewhere has shown that “growth may help reduce poverty, but it may also affect it very marginally, especially if its effects are not equitably distributed among the people. It is thus essential that strategies for achieving economic growth be accompanied by strategies for creating conditions favourable to the population's effective participation in the achievement and benefits of this growth” (Canadian International Development Agency Programming Profile for Burkina Faso 2000-2011). This should be taken into account in the formation and development of any new initiatives, including the EFR one.

In another recent initiative, the government signed a Decree (No. 2008-125/PRES/PM/MECV) on the creation, organization and functions of environmental units/cells that would be placed in the different ministerial departments, regions and enterprises as a way to ensure that environmental concerns are integrated in plans, policies and actions at different levels of government and in business enterprises. This remarkable initiative deserves support from all local and international actors and partners to ensure that it is effectively implemented.

Presently, a preparatory phase with a number of activities is underway under the Poverty Environment Initiative (PEI) in Burkina Faso (*Initiative Pauvreté-Environnement du Burkina Faso, version provisoire, October 2009*). This UNEP/UNDP's initiated programme aims to improve integration of environment and links between poverty-environment in all government's planning, budgetary, sectoral and other policies and strategies in order to ensure natural resources protection and their sustainable management, benefit society and steer social development. PEI-Burkina Faso contributes documentation and information to the SCADD and is expected to carry-out an economic assessment of the environment and natural resources focusing on the poverty-environment link, green economy and sustainable consumption and production aspects to advocate for environmental mainstreaming into SCADD⁸.

Furthermore, UNEP is in preparation and talks with different partners, for a pilot project under its 'Green Economy initiative' in several African countries including Burkina Faso, which aims to “focus on a few key sectors that appear to hold a significant potential for promoting economic development and creating employment, while addressing environmental challenges such as ecosystem degradation, resources depletion and climate change” (UNEP, Green Economy and Social and Environment Entrepreneurship in Africa, 2007).

As seen from the Uganda case study⁹ the UNEP/UNDP PEI study identified and provided an overview of a whole range of EFR instruments in application in Uganda. A similar assessment and national overview of economic/ EFR instruments as part of the PEI-Burkina Faso economic assessment is recommended. No such comprehensive assessment or overview exists for Burkina Faso.

At the time of the mission we were informed by one of the experts that the Ministry of Economic and Finances was in the process of carrying out a national budget reform. It was noted that the national budget reform did not have environmental objectives, but was merely based on improving government revenue collection. This is both a challenge – in trying to convince the relevant actors of the importance of integrating environment/sustainable development and the environment-poverty-aspects in the budget reform; and an opportunity – in terms of providing an opening for dialogue to integrate these aspects and the use of economic instruments/EFR in the budgetary planning and allocation process.

⁸ http://www.unpei.org/programmes/country_profiles/burkina-faso.asp

⁹ Part of the EFR Project, see Country Report for Uganda

It is recommended to start dialogue with the relevant national actors; particularly the Ministries of Economics and Finance, Planning, Environment, Agriculture and others, on the economic aspects of environment/sustainable development/poverty alleviation objectives and the use of economic instruments/EFR for environmental management and revenue generation within the policy and budgetary planning and reform process.

2. RESULTS OF MISSION STUDY

The case study involved interviews and discussions with some key actors in Ouagadougou. A list of the people interviewed is given in Annex I. A summary of the main findings is presented below.

2.1. Perceptions of key actors/experts interviewed

The concept and potential of EFR was seen by all key informants as a positive process and welcomed as potentially useful in promoting sustainable development and poverty eradication in Burkina Faso. Sometimes the notion of market-based or economic instruments, which the interviewees were most familiar with, was used interchangeably with that of EFR.

There was special emphasis from most interviewees to make sure that a fiscal reform along the lines of EFR takes into account environmental (e.g. promoting sustainable use and management of natural resources, protection of ecosystem services), social (e.g. employment, health, wellbeing) and economic (e.g. income generation, rural development, poverty alleviation) dimensions.

A point raised by some was the need to establish monetary value of ecosystem services in Burkina Faso. This was considered pivotal for informed decision-making, perhaps providing the necessary political shift towards the development of better, appropriate, effective measures and tools (including economic instruments) to protect ecosystems and the services they provide. It was suggested that this could also be used as a tool for information and awareness raising with the concerned populations and the general public.

One opinion challenged the comparatively little emphasis on environment and environmental integration in EC funding. A question was asked as to why this was the case given the horizontal nature of the environment dimension and its importance in poverty reduction and sustainable development, and initiatives such as the current EFR Project.

The need to improve coordination between the various partners working on sectoral issues in Burkina Faso with the lead-sector Ministry for the relevant dossier was emphasized. This refers specifically to cases whereby a multitude of partners are involved in work in Burkina Faso, with different actors, experts, civil society, etc, but sometimes with little or inadequate involvement of the lead-sector/relevant Ministry(s) in charge of the dossier. This can lead to frustration and a duplication of efforts.

A question was also asked about the future and funding for the current EFR Project, and how it fitted-in with existing, similar initiatives.

The field study identified several sectors as providing possible opportunities for further discussions on EFR. These are presented in section 2.2 below.

2.2. Potential sectors

The case study identified a number of sectors seen as important possible entry points for EFR/ use of market-based instruments (MBIs). These are: energy, transport, mining, agriculture, water and sanitation, industry, as well as areas such as rural development and ecosystem services. Further discussions and consultations with local experts and officials are crucial to refine these findings.

Energy sector

In general, the energy sector, in particular renewable and alternatives to fossil-fuels was most highly cited. Solar energy, biofuels and biomass were the main choices, and to a lesser extent natural gas.

It was noted that while 20% of the country was electrified, about 80% of the population, majority rural and poor, was dependent on the use of wood energy. The preference was for promoting use of wood from managed forests. Burkina Faso is heavily dependent on imported hydrocarbons (from neighbouring countries, particularly Ivory Coast) for use in electricity production, transport and other. As such, fluctuations in global oil markets have a marked impact on the economy, prices of fuel, food, goods and services¹⁰. The desire to develop alternatives to imported fuel is thus attractive but its development and application rather complicated.

It was stated that the main challenge to developing wide-spread use of energy from renewable sources such as solar was the high costs of the technology. It was also noted that the existing import tax on solar panels was too high, and should be revised. In Uganda, for example, solar equipment is exempted from the Common External Tariff (see Uganda case study). Another challenge was the lack of availability of assessments/studies on the potentials and impacts of such an investment on the environment, economy and society both at the national and sub-national levels. Institutional and legislative challenges (e.g. hindering the development of local, low energy water boilers, with potential for job creation and promoting use of non-fossil, non-wood energy) were said to be acting as limiting factors to solar energy development and market penetration, as were obstructions by some multinational oil companies.

One proposal offered to improve energy savings was a possible ban on the importation of high energy goods and services into the country. However, not much is known as to whether there are any government efforts to elaborate this further.

Several interviewees pointed to some possible entry points for further discussions on EFR/MBI in this sector.

Solar energy:

- For individuals' use: given that the main challenge is associated with costs – including start-up costs, costs for purchasing solar panels and others, one way would be to look at possibilities for external financial interventions in the form of subsidies – to subsidize costs of solar panels and a guarantee fund for banks to promote allocation of loans to purchase, install and run household solar powered system. This needs further discussion, consultation and development
- For use in public and commercial buildings: in order to promote the widespread use of solar energy, 'soft EFR' approaches would have to be employed in addition to the subsidies mentioned above. One such effort could be to promote use of solar energy in all public and commercial buildings (e.g. Office and commercial buildings and complexes, hotels, etc), through tools such as public procurement and other policies and legislation, best-practice awards, awareness raising; information dissemination on the potential economic savings associated with improved energy savings and energy efficiency in such buildings; capacity building to develop the necessary knowledge and expertise. This would involve further costs, which should be taken into account during the discussions
- Central solar plant: a recent political decision has been enacted which would promote the development of solar energy in rural areas. It was noted that SONABEL, the national electricity and Oil supplier now has a mandate (and funds?) to go ahead with this project. More information is needed on this
- Declaration on the use of solar energy: in Ouagadougou in October 2009, there was a commitment to promote the development of a national solar central plant. This initiative merits further attention

¹⁰ Recent reports of riots (22 February 2008) in three cities in Burkina Faso over the cost of living and rising prices in basic goods such as food, cloth and petrol illustrate the precarious nature of the situation. As a result, the government had lowered taxes of some basic goods to between 30 and 35 per cent.
<http://www.irinnews.org/Report.aspx?ReportId=76905>

- Government openness to alternative energy ideas and existing policy reforms: the number of existing policy reforms/revisions, as discussed in the previous section, offer opportunities for intensified policy dialogue and possibility to integrate the use of economic instruments/EFR in the relevant policy debates and developments.

Bio fuels:

- Bio fuels use: it was suggested that bio fuel development should be local, focusing on generating vegetable oil for use in local stationary engines and to some extent to mix with diesel for local/rural (any excess could be sold to SONABEL for national diesel mix) fuel use in running farming implements, lighting and others which could promote the creation of local jobs and steer some economic activities in rural areas. Large-scale vegetable oil production for export was strongly discouraged
- Economic instrument on bio fuels: according to key experts, there is no national economic/fiscal instrument in use on bio fuels. This offers an opportunity and possible entry point for discussions and for looking at possibilities to use economic instruments to promote sustainable development of bio fuels, particularly favouring the promotion rural development
- The Second Energy Facility: Burkina Faso is preparing proposals to the EC under this funding mechanism focusing on the biomass and bio fuels sector. This could be an opportunity to discuss different aspects of these two energy sources with reference to promoting sustainable natural resource use while reducing dependency on fossil fuel use and generating 'green jobs' and diversified incomes particularly in rural areas
- Existing instruments: PREDAS (Regional Programme for the Promotion of Household and Alternative Energies in the Sahel), a regional programme (partly funded by the EC) to promote household and alternative energies in nine Sahel countries including Burkina Faso. This programme has carried out a comparative study of the energy taxation systems in the nine countries and proposed recommendations to the countries. The study identified challenges and shortcomings in the forestry fiscal regimes (including the role of decentralization) and suggested ways to improve the different fiscal regimes in the forestry sector. It is worthwhile to revisit the results from this study and on-going work within the context of the current EFR Project
- There is also another initiative led by the Ministry of Environment and Life which has established a Commission to elaborate a bio fuels law – an inter-Ministerial law with the participation of other Ministries such as Ministry of Energy and Forestry. More information is needed on this
- An example of a noted study on bio fuels in Burkina Faso:
 - This is a study focusing on the potential of bio fuels as an economic development factor, in terms of employment, rural activities, revenue savings and desertification control. *It also identified several types of risk, especially social and ecological, associated with different potential options, while focusing especially on possible competition between food and energy production. A dynamic analysis of the country's fuel consumption patterns revealed that imported hydrocarbon fuels could be replaced by bio fuels in two activity sectors: electricity generation and diesel and petrol-fuelled light and heavy vehicle haulage. The findings also indicated that the bio fuel development strategy should enhance fuel access in fuel-deprived rural areas, thus promoting the emergence of new activities*¹¹. The results of this study can provide a good basis for further dialogue with local actors and other stakeholders
- One challenge pointed out by the discussions is how to develop bio fuels within a context of challenging biophysical and climatic conditions and resulting food challenges in the country. Another

¹¹ <http://www.cirad.fr/en/publications-resources/science-for-all/rapports-annuels/cirad-2008/biomass-energy/biofuels-in-burkina-faso-a-multidisciplinary-approach>

was the lack of information on the possible environmental impacts of for example, the commonly promoted plant jathropha, and possible competition with agricultural land and poor management. It was emphasized that as not much is still scientifically known about jathropha, it deserved further attention and investigation. However, one local official noted that the government was planning to carry-out an impact assessment of jathropha, most probably in 2010. A follow-up of this is recommended. Other sources of vegetable oil for use as fuels alluded to were cotton oil and sugar cane residues. Again, emphasis was placed on caution, particularly in terms of land use and competition with food production.

Biomass - wood:

- Existing sources and their use: Much has been said about the dependency of a majority of the local population on wood energy and the impacts this is having on forestry resources. On-going and past studies such as those mentioned above, could also shed some light as to the current situation here
- PREDAS: studies undertaken by this programme have looked at comparative energy taxation in the nine countries and made country recommendations on how to develop national domestic energy strategies. According to a local expert, not all countries have yet developed any regulations to protect wood sources. Some countries, such as Burkina Faso, have asked for country-specific studies. The Burkina Faso study looking at taxation in the forestry sector had just been completed by a consultant at the time of the mission. Harnessing this information would provide basic understanding of the taxation/fiscal issues in the biomass sector and help identify possible points for further discussions with relevance to the current EFR Project
- Tax differentiation was proposed for sustainable management of forestry resources in Burkina Faso: e.g. it was said that in Mali there was a tax on wood transport, rural wood market and a tax on forest exploitation; some of the revenues went to the state budget while others stayed at the local community, being used mainly for their social-economic development
- Decentralization: it was suggested to look closely at the role of decentralization (and its different levels of governance) on the possible success/acceptance of tax implementation at the local levels; preference was for decentralized taxation and a clear role for the different actors involved in the sector
- Local wood market: the creation of a local wood market was proposed as a possible economic instrument to encourage the use of wood from managed forests and promote sustainable use of forestry resources. The potential difficulties with such a market were highlighted, and included: monitoring, enforcement and how to address potential socio-economic concerns for households. It was noted that there was an existing wood market in the central-western region of Burkina Faso, and that creating a wood market was part of the government's priorities for 2010/11. But funds were needed to ensure general surveillance and implementation of forest management policies.

Transport sector

The transport sector was identified as a potential sector proving opportunities for further dialogue and possibilities for MBI/EFR. Interviewees pointed to urban air pollution (e.g. in Ouagadougou) as a key transport-related environmental issue, together with acidification. Motorcycles, and (some) private vehicles, were considered most polluting. Public transport was considered very inefficient. It was noted that there was a road tax for heavy vehicles as Burkina Faso is a transit country, but there was a problem of freight overload which also contributed to damaging of road infrastructure. The transport sector was closely linked to (urban/city) spatial planning, noting that it would be very difficult to regulate in isolation without other policy measures such as those related to air pollution, spatial planning, mobility, access to goods and services, to name a few. Some specific MBIs were proposed:

- Tax on transport pollution: a tax was proposed as a means to promote less polluting transport modes and fund the improvement of mass public transport. One mode of mass urban transport proposed

was a tramway. It was seen as particularly useful means to reduce private transport flow and related air pollution, and specifically to link the main town Ouagadougou, with the new Ouga 2000

- Pollution norms and standards: it was noted that the government was reflecting on the type of norms to apply to promote cleaner vehicle transport. More information on the state of this initiative is needed. It was noted that such an initiative could provide a possible entry point for further dialogue with the relevant Ministries and experts.
- More merchandise on rail, less on road: Burkina Faso is a transit country and most transport is transported on roads via heavily-loaded trucks. The use of economic instruments was seen as a possible solution to promote shifting freight transport to rail, noting that further improvements and development of rail transport was required to make this feasible
- EC finance: currently the EC finances road and infrastructure development but not railroad (train). About 26 per cent EU finding to Burkina Faso is directed at “Strengthening basic infrastructure and interconnectivity (transport, water and sanitation, energy) (...),¹²” but there is not explicit mention of targeted funding for railroad infrastructure development. This could be evaluated and consideration made for the possibility to fund and support development of the railroad sector particularly for freight transport. In parallel, possibilities to reform the overall transport sector towards more environmentally-friendly transport means with improved access, through the design and implementation of appropriate and effective economic instruments and other policy tools, could also be considered.

Mining sector

It was noted that most of the large scale gold mines in Burkina Faso hold official concessions, so they apparently try to adhere to regulations. One interviewee pointed out that there was a 3 per cent government mining tax imposed on the (mostly Canadian-owned) large scale mines. However, it was stated that the tax was not based on environmental objectives, but rather for revenue-generating purposes mainly. Small scale miners were said to pose difficulties. It was stated that there were increasingly many illegal small-scale mines, mining non-allocated sites. The illegal miners pollute but do not pay tax. Hence existing regulations were not effectively implemented. The use of mercury (e.g. in gold mining) and its effects on human and animal health was also highlighted as in need of attention. MBIs were seen as a possible option to address the current illegal mining that contributes to environmental degradation, and the use of mercury. Reforming the mining sector towards improved environmental protection and management was also a proposed option. This presents a potential entry point for further discussion on MBI/EFR.

Industry

Industries – sugar, mines, cotton, cereal production and livestock were identified.

Government wants to promote small industry as part of the accelerated growth strategy. It was noted that legislation with rules on anti-pollution for industry do not exist. An expert pointed out that although there was a national Environmental Code, it did not spell-out Directives that were to be respected by industry, so the result was increasing industrial pollution (e.g. heavy metals from tannery in Ouagadougou and others ending up polluting natural waterways and impacts on fauna, flora and health). A suggestion was to use MBI/EFR to promote better/environmentally-sustainable industrial processes and methods; together with clearly defined, effective anti-industrial pollution laws. It was also said that as part of the government’s efforts to promote the development of small industries, it was considering the use of different (‘soft’) measures including voluntary incentives, information and awareness raising, and promoting good practice, to encourage the industrial sector to transform and adapt to the expected rules and norms.

¹² http://ec.europa.eu/development/icenter/repository/summary_bf_csp10_en.pdf

Hunting permits were also identified as another potential entry point for EFR/MBI. A reform of the current hunting concessions in line with promoting sustainable use of natural resources and poverty eradication objectives was proposed.

Agriculture

One of the government's priorities is to improve agricultural production, which could induce the use of agriculture additives such as pesticides. Another priority is to develop and spread use of drought-resistant plant species; and together with the private sector, develop non-forestry products, using government rules and norms:

- SCADD: one of the priorities in this strategy is to develop the agriculture sector, especially agrobusiness. Given the potential use of fertilizers and other agriculture additives it was suggested that to consider the use of MBI/EFR in this initiative so as to develop and encourage sustainable agricultural practices.

Water and sanitation

A number of interviewees noted the problem of urban waste sorting. It was stated that the sorting of waste was inadequate and there was poor recovery for recycling, and re-use. Existing economic instruments, which amount to payments for waste collection services, do not provide incentives to change behaviour. It was suggested to use a combination of tools such as economic instruments/EFR, as well as other measures such as increasing awareness and information, and promoting and supporting organized waste-pickers associations and local waste recycling/re-use plants, to encourage waste sorting, recycling and re-use. This could be part of a 'green jobs' initiative. It was said that the government was looking at developing small industry for waste management by organizing citizens into groups of people to carry-out waste sorting, recycling initiatives, as part of the 'green jobs' initiative.

Rural development

Some of the issues raised in relation to rural development include, promotion and use of alternative energy sources, rural sector small scale development using locally available means e.g. vegetable oils for running stationary machinery and developing 'green jobs' in the rural sector. Other issues raised as possible entry points for EFR/MBI discussions were:

- Decentralization: the country is divided into 30 regions, as pointed out by one expert. One of the tasks of the regional governors is to raise money for their regions. Hence it was noted that there could be scope for sub-national discussions on the use of MBIs/EFR for environmental protection and revenue generation potential, in line with the priority sustainable development, accelerated growth and poverty objectives
- PROSDRP (programme sectoral du développement rural productive): this common programme under three Ministries – Environment, Agriculture and Livestock, focuses on developing the productivity of the rural sector. Each of the Ministries will develop their sectoral priorities in relation to the rural sector and integrate these into a common rural development programme. The state budget will allocate funding for the main priorities among the common list as identified jointly by the three Ministries. It was noted that issues such as budget harmonization, management and others were still outstanding and under discussion between the three Ministries. The PROSDRP was identified as a relevant venue for conversations about the use of MBIs/EFR for environmental protection, rural sector development and poverty alleviation.

Ecosystem services:

Payment for ecosystem services was identified as an opportunity for EFR/MBI, by some interviewees. It was noted that one way to address poverty and encourage environmental protection and sustainable use of

natural resources was through valuing ecosystem services and showing how their protection and sustainable use can benefit the society and local communities. It was noted that in order to garner political will, convincing arguments in support of this were needed to convince politicians to mainstream the use of MBIs/EFR and environment into the development sector.

- It was noted that a study on the economic analysis of ecosystem services was underway – 6 months long – and would look at the social costs of environmental degradation. More information and follow-up of this is needed
- Decentralization: the need to reinforce local communities so that they can protect their own natural resources and ecosystems was highlighted. It was said that the government intended to do capacity building to reinforce local communities, but it lacked the necessary funds. Financial support for such an initiative from donors and other partners was alluded to.

Carbon credits:

Carbon credits were identified as necessary economic instruments that could promote green house gas reductions and generate revenues in developing countries that can be used for sustainable development. Emphasis was placed on the need to reform the instrument so it can achieve these objectives. The main types of carbon credits are: Kyoto and voluntary markets. Parties' signatory to Kyoto Protocol can only buy certified carbon credits. Several barriers were identified, which constrain the application of this instrument in Burkina Faso, and other African countries:

- Cannot find large enough projects in many of these countries – must have 5000 carbon tones/year to qualify. Africa has so far only about t 2 to 3 per cent of carbon credit projects (mainly in South Africa); it was noted that in Uganda there is a reforestation project which was recently validated
- The rules are too strict; language is a problem for French-speaking countries as everything has to be translated to English for the authorizing body UNFCCC (United Nations Framework Convention on Climate Change)
- Must have scientific evidence of carbon savings in order to complete requirements by UNFCCC. E.g. scientific evidence is required from base year, 1990. But in Burkina Faso, for example, there are no scientific records of what the carbon savings of the base year were compared to what can be saved by current activity
- Lack of human resources to validate projects nationally. The Ministry of Environment has the national responsibility to validate project first before they go for evaluation to UNFCCC. It was noted that no projects have yet been validated by the Ministry
- Lack of capacity and insufficient knowledge nationally to use the carbon instrument, despite efforts by several experts to inform and build capacity, including at the Ministerial level
- A national definition of 'forest' does not exist, so cannot validate projects on afforestation
- Additionally rules are too strict to apply in poor countries

Proposals were made on how to improve the carbon credit mechanism for the benefit of Burkina Faso as well as for other African countries:

- Should have French-speaking UN officials who can validate projects
- Valorise carbon ton in poor countries
- Retroactivity of projects should be introduced e.g. projects before carbon credits started even though carbon credit was not included in preliminary study such projects should still qualify. Now this is not the case, so earlier efforts that were not included in the preliminary study are not recognized
- Explore possibilities to use the Adaptation Fund to steer carbon-reduction efforts in Africa and other poor countries. There is no clarity on how the Fund will be used at present

- The Ministry of Environment should define the sustainable development criteria to adhere to for projects to be validated; the Ministry should work towards a definition of 'forests'.

3. DISCUSSION

3.1. Support and challenges for using economic instruments/EFR in Burkina Faso

As can be seen from the findings, there is support from a number of different experts and officials for using economic instruments/EFR to promote sustainable use of natural resources and to encourage social-economic development and support poverty alleviation objectives. The on-going policy/political and budgetary processes, studies and other efforts identified in the previous sections provide potential opportunities for further discussions on MBIs/EFR and can provide necessary data/information to strengthen and compliment the current EFR study.

The findings have also identified some potential obstacles, namely: human resources and capacity constraints, limited financial resources for enforcement and follow-through, institutional and legal barriers, fear of rising costs, possible impacts on people and their livelihoods, and governance issues, to name a few; which need further investigation and attention.

A **coherent approach** is vital to make sure these multiple activities and efforts are mutually beneficial and serve to advance the common goal of sustainable development and poverty alleviation.

Support for using different types of economic instruments for environmental protection in Burkina Faso is also found in several national documents (e.g. Annual Country report, 2008; *Politique Nationale en Matière d'environnement*, 2007¹³; Country Environment Profile 2006).

The Country Environment Profile (2006)¹⁴ has recommended developing self financing environmental actions in municipalities through taxes on the exploitation of natural resources. It also goes further to suggest the progressive application of a system of fees based on the *polluter-pays-principal* as in the *Code de l'environnement*, especially in big cities, starting with industry and major polluters. It suggests using revenues to finance identified urgent actions in urban centres.

The *Politique Nationale en Matière d'environnement* (2007) identified classical economic instruments such as taxes, fees and subsidies; and innovative instruments, notably Environmental Accounting and taxation, among others, as part of the specific economic and financial tools necessary for its implementation.

The latest Joint Annual Country Report (2009) states that, in the field of taxation, it (Ministry of Environment and Life) will initiate a dialogue with all parties involved on a project to establish an appropriate fiscal framework for the environmental sector and implement measures suitable for the effective implementation of laws and regulations that would ensue.

At the sector level, emphasis on promoting renewable energy is highlighted. For example, the EC is committed to promoting renewable energy in ACP countries through the €200 million Energy Facility and investments in green growth (COM (2009) 160 final).¹⁵

Despite there being support and inclination towards using the 'polluter pays principal' and economic instruments for environmental protection and social-economic development, more needs to be done to make this a reality and realize the potentials.

Furthermore, environmental policy integration into other policies and sectors, particularly necessary to achieve sustainable development and poverty alleviation is still inadequate. The Country Environment Profile

¹³ *Politique Nationale en Matière d'environnement* (Décret no. 2007-460/PRES/PM/MECV/MFB du mars 2007) ; Journal Officiel no. 16 mars du 12 avril 2007

¹⁴ http://ec.europa.eu/development/icenter/repository/burkina_faso_CEP_2006.pdf

¹⁵ http://ec.europa.eu/development/icenter/repository/COMM_PDF_COM_2009_0160_F_EN_ACTE.pdf

(CEP Burkina Faso, 2006)¹⁶, found that the integration of environment in EU policy in Burkina Faso in sectors such as rural development and transport remained insufficient, noting that environmental integration was basically translated in two main programmes: support for sub regional sectors and programmes in sanitation and water. The CEP (2006) offers recommendations on how to improve this.

Within the framework of the EC's 10th EDF planning, there is comparatively little aid allocation to environmental protection and integration (Burkina Faso Country Strategy Paper 2008 – 2013)¹⁷: “4% of resources are earmarked for non-focal sector activities, notably integration and regional cooperation (EPA, environmental protection) and institutional support.” Similarly, the state budget for environment is a low 6 per cent of the total budget (according to a key local expert). This shows an urgent need to **streamline environmental policy and sustainable development objectives with budgetary planning and allocation.**

3.2. EFR in Development Cooperation

Development cooperation has been the common means for donor countries to give financial assistance to developing countries for poverty alleviation and long-term economic development. In recent years efforts have been made to ‘make aid more effective’, such as the 2005 Paris Declaration on aid effectiveness and the Accra High Level Forum in 2008 which included cross-sectional issues such as gender inequality, respect for human life and environmental sustainability (African Economic Outlook, Progress in making aid more effective, 2010). Nevertheless, success has been marginal in achieving the intended goals of donor aid, to the extent that critics are beginning to view development cooperation as a “rent that tends to impair development rather than promote it” (van Haldenwang, 2009). Others suggest that “reliance on aid shifts the government’s responsibility from its people to its donors” while having problems of accountability of revenue management (Oli Brown 2007).

Dependency on foreign aid and debts characterize many African economies. Burkina Faso depends heavily on external aid to fund its investment projects and programs, with aid accounting for nearly 80% of the country’s public investment budget (Canadian International Development Agency, Programming Profile for Burkina Faso 2001 – 2011; October 2000). Development aid comes from two main sources:

- “Multilateral aid (US\$171.6 million in 1997, or 46% of all aid received). The main multilateral donors are the World Bank, the IMF and the European Union.
- “Bilateral aid (US\$199 million, or 53% of ODA [official development assistance] in 1997)” (Canadian International Development Agency, Programming Profile for Burkina Faso 2001 – 2011; October 2000).

Mobilizing domestic revenues is a vital component to reduce aid dependency and steer development. Still, revenue yields are low in many of these countries, and their tax bases rather narrow. There is an overreliance on tariffs. Participating in trade initiatives such as Doha would require developing countries to cut their tariffs, further challenging their current tax bases (OECD Observer No. 273 June 2009). Expanding sources of tax revenues and broadening the tax base are crucial components of any fiscal reform aimed at raising revenues. For Burkina Faso and other African countries, introducing the use of economic instruments for environmental protection to meet clearly defined environmental/sustainable development objectives in key priority sectors could provide additional sources of revenues, while simultaneously championing environment and sustainable development objectives.

African countries themselves are looking at ways to boost their domestic revenues. As noted in previous sections, countries such as Burkina Faso, Uganda, Rwanda and South Africa (see case study) have made efforts to improve their tax revenue collection with some success. The recent ‘Africa Tax Administration Forum’ (ATAF) launched in November 2009, is a noteworthy drive seeking to increase African countries’

¹⁶ http://ec.europa.eu/development/icenter/repository/burkina_faso_CEP_2006.pdf

¹⁷ http://ec.europa.eu/development/icenter/repository/summary_bf_csp10_en.pdf

financial independence and contribute to economic development and good governance on the African continent. Its mission is to: “mobilize domestic revenues more effectively and increase the accountability of African States to African citizens whilst actively promoting an improvement in tax administration through sharing of experiences, benchmarking and per reviewing best practices” (African Tax Administration Forum: Inaugural conference, Kampala communiqué, 20 November 2009). This initiative should be strengthened by integrating environment and sustainable development objectives.

Reforms of tax systems and EFR ought to be part of the central components of development cooperation. According to the OECD (OECD Observer No. 273 June 2009), in 2006, less than 0.1 per cent of aid went into improving tax systems. Donors should do more to support such initiatives. “Aid used in this way can provide the seeds for African driven development” (OECD Observer No. 273 June 2009).

About 90 percent of aid in Burkina Faso is made in the areas of budget support for poverty reduction; transport and water supply / sanitation sectors (Burkina Faso Country Strategy Paper and National Indicative Programme for the period 2008-2013). Budget support from the EC to Burkina Faso focuses on (Burkina Faso Country Strategy Paper and National Indicative Programme for the period 2008-2013):

- (i) the need to maintain the framework macroeconomic stability conducive to growth, taking into account the issue regional integration
- (ii) the need to support poverty reduction and improving health and education services to the population and
- (iii) improved management of public finances

EC support for macroeconomic framework and poverty reduction through direct budget support represents about 60 per cent of resources. Budget support is thus an important financial tool to support tax/fiscal reforms and can be used to promote integration of environmental objectives and use of MBIs/EFR for sustainable development objectives, while contributing to revenues.

4. CONCLUSIONS

In Burkina Faso there is much enthusiasm and political interest in addressing the country's environmental and social challenges. Indeed, a number of policy/political process and studies are underway aiming to find prospects and tools to achieve sustainable development – e.g. protection and sustainable use of environmental resources, poverty reduction and social development;

Such a setting provides for a rather favourable context for the current project.

This case study and report has provided an initial identification of the possible priority sectors and environmental and policy processes in Burkina Faso with particular relevance to the EFR Project. Based on this report, a thorough scoping exercise should be undertaken to provide an overview of the existing tax/fiscal instruments for environmental purpose in Burkina Faso. **Coordination with other on-going and planned efforts, as well as policy initiatives, as mentioned in previous sections, can provide complimentary information and possibilities for further discussions and opportunities for the EFR Project.**

It is worthwhile to reiterate here that the EFR Project is a long-term process and not a one-off activity. It is country-specific and should be targeted at sectors, actions and priorities that are country-selected, relevant and in support of Burkina Faso's sustainable development/poverty alleviation objectives and strategies such as SCADD and on-going budgetary processes and reforms, to name a few.

It is critical to ensure coherence and avoid duplication of efforts with existing, on-going and planned actions and processes or contradictions with relevant national policy objectives. Thus it is necessary that any further discussions on EFR/MBI assess the possibility of using existing national processes, actions, and approaches first, in close collaboration with all relevant actors in Burkina Faso. Establishing a stakeholder process is crucial. This would not only enrich and refine the findings further, but can also raise awareness, create the

necessary space for the various stakeholders to exchange information and ideas, promote ownership of proposed initiatives and help steer decision-makers towards action on EFR/use of economic instruments for environmental protection and sustainable development. Two plausible approaches that incorporate a part of these ideals and can be explored and adapted to use for the EFR project/process are: UNEP's 'Green Economy' approach and UNEP/UNDP Poverty-Environment Initiative approach - both follow a step-wise approach, including a thorough country-specific assessment, stakeholder consultations and an inclusive management structure that seeks to preserve coherence with other national actions, actors and initiatives.

Based on the two approaches, study findings and literature review, several actions are tentatively put forth below as part of a step-wise framework for an EFR approach for Burkina Faso. It is recommended to refine these during subsequent stages of the EFR Project. The actions are:

- Thoroughly evaluate existing EFR/MBIs. Carry-out a detailed assessment of the existing MBIs for management of natural resources and their impacts on the environment, economy and society. This 'stock-taking' exercise serves to identify what measures are in currently in place their effectiveness and impacts and whether they can be improved, reformed, phased out or replaced
- Initiate and develop a stakeholder process. This includes awareness raising campaigns and actions, capacity building (including institutional and governance) and creating a platform and information central to foster exchange of information and encourage support for the EFR/MBIs initiatives. This report and findings from the case study could form the basis for initial stakeholder discussions
- Identify country-specific challenges and criteria for EFR. Identify, together with the relevant stakeholders, country-specific challenges and criteria for a successful introduction and implementation of EFR. An inclusive stakeholder approach to identify and agree on such criteria is preferred and recommended here instead of a prescriptive approach
- Identify and assess priority sectors. Undertake, in consultation with relevant stakeholders, a thorough assessment of identified priority sectors, and any others identified by stakeholders, that can offer possibilities to further develop the suggestions for EFR/MBIs raised in the case study
- Develop sector-specific EFR/MBI actions. Based on results of the scoping and in-depth assessment and stakeholder input, develop proposals for EFR/MBIs in specified sectors, clearly outlining modes of implementation and expected outcomes and significance for environmental protection, poverty alleviation and revenue raising potential
- Examine relevant policy and budgetary processes and propose EFR/MBI-specific actions. Outline targeted actions to influence policy/political and budgetary plans, actions, processes and reforms that are linked to the EFR/MBIs process, building further on those identified in the case study and report as a start
- Identify support, monitoring and revision measures. Explore and propose prospects for assistance and resources to carry-out the activities under the EFR process; identify expected out-puts (and bench-marks), means and timing for follow-up, monitoring, evaluation and revision.

It should be emphasized that promoting appropriate 'good governance' and effective revenue management mechanisms is also necessary. In addition, efforts to improve tax revenue collection such as the proposed 2010 fiscal reforms, broadening the tax base and enlarging sources of taxes, should be supported and streamlined with the EFR process. EC Budget support can be one of the important financial instruments to support the EFR process. Other financial instruments that could be explored include specific sector support programmes in sectors identified as appropriate for an EFR.

Lastly, it should be remembered that: " (...) the concept of *equity* and *proper targeting* must guide feasibility analyses and detailed planning (...)" (Canadian International Development Agency, Programming Profile for Burkina Faso 2001 – 2011, October 2000).

Annex I

EC PROJECT: ENVIRONMENTAL FISCAL REFORM IN EC DEVELOPMENT COOPERATION					
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Options for Promoting Environmental Fiscal Reform in EC Development Cooperation

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Options for Promoting Environmental Fiscal Reform in EC Development Cooperation

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