

© 2021 International Bank for Reconstruction and Development / The World Bank 1818 H Street NW Washington DC 20433 Telephone: 202-473-1000

Internet: www.worldbank.org

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions

The material in this work is subject to copyright. Because The World Bank encourages dissemination of its knowledge, this work may be reproduced, in whole or in part, for noncommercial purposes as long as full attribution to this work is given.

Any queries on rights and licenses, including subsidiary rights, should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2625; e-mail: pubrights@worldbank.org

TABLE OF CONTENTS

FOREWORD		5
EXECUTIVE SU	IMMARY	6
1 IMPACT OF	COVID-19 AND ECONOMIC OUTLOOK	8
1.1.	Recent Economic Developments	9
1.2.	Economic Outlook and Associated Risks	17
1.3.	Deep Dive 1: Impact of COVID-19 on Businesses	20
1.4.	Deep Dive 2: Impact of COVID-19 on Households	25
2 GOVERNME	NT RESPONSE AND SUSTAINABILITY OF PUBLIC FINANCES	31
2.1.	Recent Trends and Challenges in Public Finances	32
2.2.	COVID-19 Shock and Fiscal Response	36
2.3.	Medium-Term Sustainability of Public Finances	39
3 PROTECTING	G THE POOR DURING THE RECOVERY AND BEYOND	41
3.1.	Protection Through Social Assistance	43
3.2.	Towards a More Effective Social Protection System	49
VNNEX. EWEBO	GENCY RESPONSE DI AN	5.0

FIGURES AND TABLES

Figure 1. Sectoral contribution to growth over the years	10
Figure 2. Gold to oil price ratio: a historical peak in 2020	12
Figure 3. Public and publicly guaranteed debt	16
Figure 4. Evolution of domestic and external debt and interest rates	18
Figure 5. Business operating status (by sector)	21
Figure 6. Sales decline due to the COVID-19 (by sectors)	21
Figure 7. Difficulties in accessing funding	22
Figure 8. Optimism/pessimism of businesses vis-à-vis the crisis	24
Figure 9. Proportion of student engaged in learning activities	26
Figure 10. Effects of school closures under COVID-19 in four Sahel countries	27
Figure 11. Reasons for not being able to access health service during the pandemic	28
Figure 12. Willingness to be tested and vaccinated for COVID-19	29
Figure 13. Reasons for not agreeing to be vaccinated against COVID-19	29
Figure 14. Household food security during the pandemic	30
Figure 15. Public expenditure breakdown (% of GDP), 2010-2019	32
Figure 16. Wage bill as a share of domestic revenue, 2010-2019	33
Figure 17. GDP growth (%), fiscal deficit and investment spending (% of GDP), 2010-2019	34
Figure 18. Public revenue breakdown (% of GDP), 2010-2019	35
Figure 19. COVID-19 infection curve in Burkina Faso	36
Figure 20. Total revenue in CFAF billion	37
Figure 21. Total expenditure in CFAF billion	38
Figure 22. Debt stock principal and service payments	39
Figure 23. Actual and projected poverty rates (US\$1.9/day PPP)	42
Figure 24. Social safety net expenditure total and as a percentage of GDP, 2005-19	43
Figure 25. SSN coverage by program	46
Figure 26. Poverty headcount ratio by region in 2018 (latest available)	47
Figure 27. SSN coverage by region in 2018 (latest available)	47
Figure 28. Social safety net targeting, by share of beneficiaries	48
Table 1. Contribution to real growth, 2017-2024	9
Table 2. Selected economic and financial indicators, 2017-2024	14
Table 3. Consolidated operation of the central government, 2017-2024	15
Table 4. Social assistance sponding on main programs in 2020 (CEAE million)	1. 1.

FOREWORD

The Burkina Faso Economic Update is a periodic publication of the World Bank (WB) that highlights recent economic trends and discusses development issues relevant to the country. It builds on existing and ongoing World Bank analytical studies to present and analyze current key economic and social issues. The update is intended for the general public and serves as a vehicle to contribute to the conversations among policy makers, NGOs, researchers, and citizens regarding economic choices facing the country.

This edition of the Economic Update consists of three parts. The first part describes the macroeconomic and microeconomic impacts of the pandemic, with an emphasis on the macro economy, enterprises, and households. The second part assesses the Government's response to the pandemic and risks to the sustainability of public finances. The third part provides an update of the status of social assistance at the onset of the COVID-19 pandemic and recommendations on how the Government can improve public policy to restart and accelerate poverty reduction.

This document was prepared by a multisectoral World Bank team led by Daniel Pajank and Kodzovi Abalo under the general direction of Soukeyna Kane, Theo David Thomas, and Jean-Pierre Chauffour. Chapter 1 was written by Kodzovi Abalo, Daniel Pajank, Clarence Tsimpo Nkengne, Maria Eileen Pagura, Youssaou Koanda, and Sekou Kone. Chapter 2 was written by Kodzovi Abalo and Daniel Pajank. Chapter 3 was written by Frieda Vandeninden, Matthieu Lefebvre, Julian Alexander Koschorke. Christian Bodewig, Ayaba Gilberte Kedote, Ines Rodriguez Caillava, Tenin Fatimata Dicko, Roland Berenger Berehoudougou, Robin Bartmann and Michael Evers also contributed to this report. Christopher Carlos provided the graphic design. The team thanks Fulbert Tchana Tchana, Juan Carlos Parra Osorio, Rohan Longmore, Ivailo Izvorski, and Raju Singh for their comments. Micky Ananth and Maude Jean-Baptiste provided precious administrative support.

The team would like to express its thanks to the Burkina Faso authorities for their support, particularly the Ministry of Economy, Finance and Development.

The cut-off date for the macroeconomic framework and projections is April 19, 2021. Any changes will be made available in the next Economic Update.

Information on the World Bank, its activities in Burkina Faso, and electronic copies of this publication are available through this link: www.worldbank.org/en/country/burkinafaso.

EXECUTIVE SUMMARY

IMPACT OF COVID-19 AND ECONOMIC OUTLOOK

According to latest estimates,¹ the economy grew by 2.0 percent in 2020, 4 percentage points less than projected before the onset of COVID-19. The primary sector grew by 5.2 percent, supported by strong performances of subsistence crops and cotton.. The tertiary sector, the largest component of the economy, contracted by 4.9 percent on account of COVID-19 social distancing measures. Inflation returned to positive territory in 2020 and closed the year above 4 percent.

The pandemic had a positive impact on the external sector and a negative impact on the fiscal accounts. In 2020, the trade balance improved by 1.0 percentage point of GDP supported by historically high gold prices and low oil prices. The structurally negative services balance improved by 0.3 percentage points of GDP on account of cheaper electricity imports from neighboring countries. The fiscal deficit as a share of GDP reached 5.2 percent in 2020, an increase from 3.2 percent in 2019. Public debt stood at 47.6 percent of GDP by end-2020.

Although many impacts of the COVID-19 shock persist, the economy is projected to continue its recovery in 2021. On the demand side, the recovery is supported by consumption and private investment. With security,

humanitarian, health, and social challenges persisting throughout the year, the fiscal deficit is projected to remain elevated at 5.2 percent of GDP. As concessional funding is finite and no other funding options are available, the Government will have to resort to more expensive borrowing in the regional market, which will shift the composition of the public debt stock towards a majority share of domestic debt.

A survey of 549 formal enterprises shows that their operating status had improved considerably by

November, compared to the peak of the COVID-19 shock in March-May 2020. Even in the sub-sectors hit the strongest by the pandemic and associated lockdown, at least 80 percent of companies were back in operation. However, 3 in 4 companies reported a drop in sales and difficulties in access to financing. To mitigate the COVID-19 impact, companies are calling for policies to reduce costs and increase resources.

A survey of 2,062 households shows the impact of the crisis on school attendance, access to health services and nutrition. During the pandemic 9 in 10 students engaged in learning activities but following school re-opening after the first COVID-19 wave, only 7 out of 10 students returned to school. Health centers saw no service disruption due to the virus, but access and affordability remained key constraints. The pandemic has also aggravated food insecurity, particularly for the most vulnerable.

GOVERNMENT RESPONSE AND SUSTAINABILITY OF PUBLIC FINANCES

The quality of Burkina Faso's economic policy has gradually deteriorated over the past 10 years, driven by a declining fiscal policy performance. Public expenditures have risen, and their composition has changed on account of uncontrolled growth in the wage bill and high current transfers. Public investment spending has stagnated since the mid-2010s and has been used as a downward adjustment variable to limit overall public spending. Following some progress in the early 2010s, domestic revenue mobilization has stagnated as well.

When the first COVID-19 wave hit, the WAEMU convergence pact was suspended, and the Government took action to mitigate the economic impact of the crisis. The suspension of the pact enabled the Government to frontload the implementation of the Emergency Response Plan (ERP) at a cost of 4.6 percent of GDP over 3 years. The elevated fiscal deficits in 2020 and 2021 are largely due to the ERP. In 2020, the government continued to implement tax administration reforms to safeguard revenues, and additional grant inflows enabled higher expenditure to mitigate the adverse effects of the health and economic crisis on companies and individuals.

The Government needs to take action to ensure the sustainability of public finances. The trend towards non-concessional domestic debt is associated with rising debt service. The issuance of treasury bonds and bills in the regional securities market is five times more costly (in terms of average interest rates) than concessional financing. Domestic resource mobilization should be strengthened by eliminating tax exemptions, improving tax administration and policy, and collecting property taxes. The second and equally important entry point to ensure fiscal sustainability is the structural deceleration of public wage bill growth through a better control of both the number of new hires and salary and benefit increases.

PROTECTING THE POOR DURING THE RECOVERY AND BEYOND

The COVID-19 impact on household welfare could have been attenuated with a strong and adaptive social assistance system in place. The economic downturn created by the COVID-19 pandemic has increased the number of extreme poor by about 300,000 in 2020, reversing at least four years of progress in poverty reduction. Macro-micro simulations suggest that another 60,000 people will be added to the extreme poor over 2021, largely as a consequence of the pandemic. Social assistance spending had already increased before 2020, but social programs remain fragmented and skewed toward in-kind transfers.



A large part of social assistance is regressive and could be better targeted towards the poor and vulnerable.

Cash transfers, such as those under World Bank-funded *Burkin Naong Saya* project show the best poverty-targeting with almost 80 percent of beneficiaries being in the bottom two quintiles. The geographical coverage of social assistance programs is currently limited and could be better aligned with the spatial distribution of poverty.

Strengthening Burkina Faso's social assistance system and ensuring its shock-responsiveness would rest on three reform pillars. First: institutionalizing integrated social protection delivery systems, including a social registry, a foundational identification, and a payment system. Second: establishing a national social safety net program, with a country-wide cash transfer coverage for the poorest. Third: enhancing the efficiency and sustainability of financing for social protection through subsidy reform among others. Together, the proposed reforms would increase the efficiency of public spending in Burkina Faso, reduce drivers of conflict, ensure equity, and build human capital.



1.1. RECENT ECONOMIC DEVELOPMENTS

REAL SECTOR

According to latest estimates, the economy grew by 2.0 percent in 2020, 4 percentage points less than projected before the onset of COVID-19 (see Table 1). In the wake of the COVID-19 shock, both the primary and secondary sectors showed resilience. The primary sector sustained relatively high production levels throughout the year, both for subsistence crops (+7.0 percent) and for cotton (+6.0 percent). The secondary sector suffered some early losses in the year, but then bounced back supported by extractives. In contrast, the tertiary sector, which grew by nearly 8.2 percent in 2019, contracted by 5 percent in 2020, severely affected by mass closures of businesses during the second quarter of 2020, and more generally by social distancing measures promoted throughout the year (see

Figure 1). The contraction in services was broad-based, with significant losses in hotels and restaurants, commerce, real estate, and transportation. In the third quarter, an impressive rebound of public services helped significantly limit this contraction. Over the year, the primary and secondary sectors contributed positively to growth (by 1.2 and 3.3 percentage points, respectively), while the tertiary sector subtracted 2.5 percentage points from growth (see Table 1).

The primary sector grew by 5.2 percent—a small acceleration from 4.6 percent growth in 2019 supported by all sub-sectors and represented a small acceleration from 4.6 percent growth in 2019. First, after an early set back (only 2.7 percent growth in Q1), the subsistence crop sub-sector increased its added value in the second

Table 1. Contribution to real growth, 2017-2024

	2017	2018	2019	2020	2020	2021	2022	2023	2024
				Pre-COVID	Post-COVID				
Demand Side									
Consumption	1.7	2.2	7.4	4.5	1.4	3.7	4.6	4.5	4.7
Private Consumption	-1.1	1.0	4.6	3.0	1.0	3.5	4.4	4.2	4.5
Public Consumption	2.7	1.1	2.8	1.5	0.4	0.2	0.2	0.2	0.2
Investment	4.3	4.1	-1.6	3.0	-2.9	0.9	1.3	2.0	1.7
Private Investment	1.4	4.0	0.4	2.6	-3.2	1.1	1.1	1.9	1.6
Public Investment	2.8	0.1	-2.0	0.4	0.2	-0.2	0.2	0.1	0.1
Exports	4.8	1.6	-0.6	1.0	3.2	0.9	1.4	1.4	1.5
Imports	4.0	1.2	-0.5	2.5	-0.3	1.3	2.1	2.3	2.4
Supply Side									
Agriculture	-0.3	2.4	1.1	1.1	1.2	0.5	0.9	0.8	0.8
Industry	2.8	1.0	0.5	1.0	3.3	2.5	1.7	2.4	2.4
Services	3.7	3.4	4.1	3.9	-2.5	1.3	2.6	2.4	2.3
GDP Growth (%)	6.2	6.8	5.7	6.0	2.0	4.3	5.2	5.6	5.6

Source: World Bank and IMF staff estimates

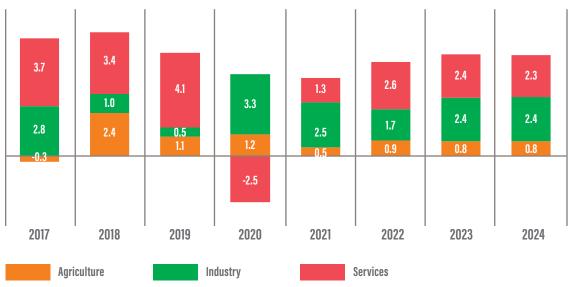
(9.3 percent q/q) and third quarters (9.4 percent q/q). Second, the cash crop sub-sector also augmented its added value (+ 3.9 percent), driven by cotton production (+6.0 percent)—reaching 490,300 tons. The good performance in the cotton sector is due to numerous actions undertaken early in the agricultural season: (i) a timely supply of quality seeds and inputs to producers, (ii) a substantial debt clearance operation covering the past two cotton seasons, (iii) the start of operations of an organic cotton shelling plant in Koudougou, (iv) the construction of the second cotton shelling plant in the country, and (v) a reorganization of cotton producer cooperatives. Third, the livestock sub-sector recorded a 1.3 percent increase in its added value, helped by the addition of 5,000 ha of pastoral areas, 121 km of tracks and corridors, and the marking of 50,475 ha of grazing areas, 137 km of cattle tracks and 45 km of access corridors.

The secondary sector expanded by 12.8 percent, compared to 1.9 percent growth in 2019 and fueled by a booming gold industry. The extractive industries grew by 2 percent (vs 0.6 percent in 2019). Gold production rose by 40 percent (q/q) in the third quarter and 55 percent (q/q) in the fourth quarter, fueled by extremely favorable global prices. Regarding the cotton shelling sub-sector, its added value increased by 6.5 percent (vs 2.5 percent

in 2019), supported by a good 2019/2020 cotton season. In the construction sub-sector, the added value rose by 3 percent over the year (vs -5.8 percent in 2019), supported by various actions: (i) maintenance, rehabilitation and development of rural roads in all thirteen regions; (ii) asphalting, rehabilitation, and reinforcement of roads in Ouagadougou and Bobo-Dioulasso; and (iii) the continuation of construction work on the international airport of Donsin.

The tertiary sector, the largest component of the economy, contracted by 4.9 percent—following an 8.2 percent growth in 2019—on account of COVID-19 social distancing measures. The sector—which contributes over half of GDP—experienced a sharp decline g/g in the first (-12.8 percent) and second (-15.7 percent) quarters of the year. In the third quarter, it recovered (+30.4 percent), driven mainly by a sharp rebound in commerce, hotels and restaurants, and real estate activities. The rebound of the economy recorded in the third quarter was also supported by public administration services, as the implementation of the Economic Recovery Plan (ERP) started. Public services grew by 38.2 percent q/q in the third quarter, following sharp declines recorded in the first (-12.9 percent q/q) and second (-17.0 percent q/q) quarters.

Figure 1. Sectoral contribution to growth over the years



Source: World Bank and IMF staff estimates

Private consumption faltered in 2020 amid the measures imposed by the Government to contain the spread of the virus. With the implementation of the ERP, public consumption picked up in the third quarter contributing 0.4 percentage points to overall growth in 2020. However, private consumption barely grew (1.5 percent vs 7.2 percent in 2019) amid the COVID-19-induced slowdown and contributed only 1.0 percentage point to growth (vs 4.2 percentage points in 2019). Key explanatory factors include the negative impact on household income induced by the shock (see Deep Dive 2), but also a more prudent consumption behavior—especially during H1-2020—in face of growing uncertainty about the future. Moreover, lower consumption is also associated with the lack of availability of certain products due to global trade disruptions.

Public investment contributed positively to growth while private investment declined significantly. In the wake of the Government's COVID-19 response, public investment in key priority sectors accelerated. Significant investments in the health sector directly related to the fight against the disease were made. As a result, public investment grew by 5 percent and contributed 0.2 percentage points to growth. At the same time, private investment was sustained only in the gold sector, which continued to receive FDI inflows. Overall, due to the 3-month general lockdown and uncertainty surrounding the speed and extent of the recovery, aggregate private investment declined by 17.7 percent, subtracting 3.2 percentage points from GDP growth (see Table 1).

EXTERNAL SECTOR

The COVID-19 pandemic had a positive impact on the external sector through improved terms of trade that supported the current account balance. In 2020, the current account deficit (CAD) narrowed to 2.9 percent of GDP (from 3.3 percent in 2019). The improvement in the current account was driven by the trade balance, on account of a rise in gold exports (85 percent of exports) and a drop in imports of oil-products. Higher profit repatriation and lower remittance inflows prevented a more substantial improvement in the CAD. With sustained investment in the mining sector, FDI inflows covered about 30 percent of the CAD. The remaining balance was



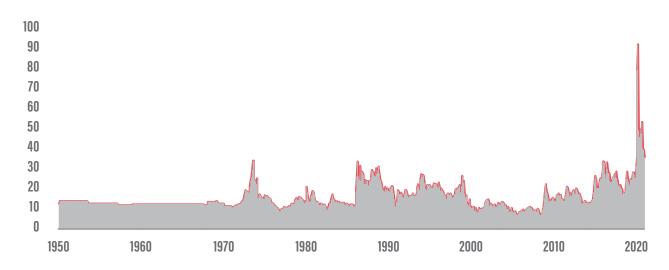
financed through debt-creating portfolio flows (issuance of government securities in the regional market) and concessional borrowing from International Financial Institutions (IFIs).

In 2020, the trade balance improved by 1.0 percentage point of GDP supported by historically high gold prices and low oil prices. Over the year, gold production increased by 14 percent, reaching a new peak at 65 tons. At the same time, the oil price collapsed in the first half of the year before gradually recovering to close to pre-COVID levels until the end of the year. The combination of a high gold price and a low oil price (see Figure 2) created exceptionally favorable terms-of-trade for countries exporting gold and importing oil. In Burkina Faso, this translated into a 1.6 percentage point improvement of the trade deficit. The improvement would have been large without additional imports of medicine and health equipment needed in the fight against the disease.

The structurally negative services balance improved in 2020 by 0.3 percentage points of GDP on account of cheaper electricity imports from neighboring countries.

In 2020, Burkina Faso imported more electricity from neighboring countries, including Ghana and Côte d'Ivoire but at a lower total cost, also benefiting from reforms undertaken under a regional umbrella to strengthen cross-border energy trade. This decline in service imports was partly counterbalanced by lower service exports due to a stark drop of foreign visitors due to domestic travel restrictions.

Figure 2. Gold to oil price ratio: a historical peak in 2020



Source: https://www.macrotrends.net/1380/gold-to-oil-ratio-historical-chart

MONETARY SECTOR AND PRICES

With the COVID-19 shock, inflation returned to positive territory in 2020 and closed the year above 4 percent (y/y) (see Table 2). In the first quarter of 2020, prices were relatively low and stable. However, with the worsening COVID-19 shock in the second quarter, fears of rationing, price-gauging in some instances, and actual or anticipated logistics and supply chain disruptions started to cause inflationary pressures. During the third quarter, inflation rose by 3.3 percent (y/y), due to increases in the prices of food products (+5.9 percent), and alcoholic beverages, tobacco, and narcotics (+6.6 percent). Consumer prices of imported products increased slightly (+0.6 percent) whereas those of local products rose sharply (+4.5 percent). By October 2020, CPI inflation had increased to 4.6 percent (y/y), fueled this time by rent and utilities (+440 bps y/y) and energy (+380 bps y/y), highlighting a sudden surge in the demand for solid combustibles. Prices of food products (8.5 percent y/y) and non-alcoholic beverages (5.5 percent y/y) also remained high. The inflationary pressures continued through December 2020, which was the fifth month in a row with a y/y inflation above 4 percent.

Monetary policy, which has turned more accommodative globally in the wake of the COVID-19 pandemic, did not attempt to reign in inflationary pressures. Burkina Faso's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a fixed peg between the CFA Franc and the Euro. BCEAO's international reserves slightly deteriorated in import coverage terms, from 5.9 months in 2019 to 5.5 months in 2020, on the back of rising imports within the economic zone amidst resilient exports and large donor support.2 Following a slight depreciation in 2019, the real effective exchange rate appreciated by 6.4 percent y/y between March and October 2020, reflecting a nominal appreciation of the Euro against the US dollar. To support the economy and COVID-19 related extra spending, the BCEAO introduced in March 2020 a set of monetary and macroprudential measures, including a policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds. The monetary situation in Burkina Faso at end-September 2020 was marked by an increase in the money supply (+7,3 percent), which was driven by an inflow of net foreign assets (+23.2 percent) as domestic claims stagnated (+1.2 percent).



FINANCIAL SECTOR

The financial sector remains dominated by commercial banks and concentration risks remain high. The

financial sector is composed of 15 banks, 4 non-bank financial institutions, 16 insurance companies, 2 pension funds, and 33 Article 44 microfinance institutions. The banking sub-sector is concentrated and shallow with the top five banks accounting for 72 percent of sector assets. The banking system caters to large borrowers and holds a significant amount of government bonds purchased on the WAEMU securities market. Three key changes occurred in 2020 in the financial sectors. First, commitments of credit institutions vis-à-vis the BCEAO increased by 7.6 percent, reaching CFAF 930 billion on June 30, in relation to increasing needs to hedge exposures on public securities issued by governments in the fight against the pandemic. Second, the control over the quality of portfolios remained stable at a net deterioration rate of 2.32 percent in June 2020, the same as in 2019. Third, two institutions fell out of compliance with prudential standards—although representing each only about 3.3 percent of the banking market.3

The banking sector remained well capitalized and liquid, **showing resilience to the pandemic.** The measures put in place by BCEAO to soften the impact of the COVID-19 crisis on the banking sector—liquidity and loan forbearance measures until the end of the 2020—appear to have tempered the impacts of the crisis. According to the latest IMF data on financial soundness indicators, as of June 30, 2020, bank asset quality was roughly on par or slightly better than in 2019 with gross non-performing loans (NPLs) at 7.5 percent compared to 7.4 percent in 2019, and net NPLs (after provisions) at 2.3 percent compared 2.5 in the previous year. Capital adequacy levels remained broadly stable at 13.1 percent in June 30, 2020 compared to 13.3 percent at the end of previous year. Liquidity levels declined slightly with liquid assets to total assets at 21.5 percent in June 30, 2020, down from 22.5 percent in 2019. Total loans to deposits were down from 87.4 percent in 2019 to 81.0 percent in June 30, 2020.

Table 2. Selected Economic and Financial Indicators, 2017-2024

	2017	2018	2019	2020	2020	2021	2022	2023	2024
				Pre-COVID	Post-COVID		Proje	ctions	
Annual percentage change, unless other	erwise indi	cated							
National Accounts and Prices									
GDP at constant prices	6.2	6.8	5.7	6.0	2.0	4.3	5.2	5.6	5.6
GDP deflator	2.0	2.4	-0.6	2.0	4.6	2.4	2.3	2.3	2.3
Consumer prices (average)	0.4	2.0	-3.2	2.0	1.9	2.7	2.6	2.5	2.5
Selected Monetary Accounts									
Banks' credit to the government	5.9	-0.2	2.6	5.1	2.0	10.5	4.6	3.2	3.2
Banks' credit to private sector	14.4	6.7	11.1	10.9	9.3	7.9	10.4	10.5	10.5
Broad money (M3)	21.6	10.4	8.8	14.4	9.8	19.7	14.5	12.5	12.5
Percent of GDP, unless otherwise indica	nted								
Fiscal Accounts									
Total revenue and grants	19.3	19.6	20.1	24.1	19.8	19.7	20.2	20.4	20.7
Total expenditure and net lending	26.2	23.9	23.2	27.2	25.0	24.9	25.0	24.4	23.7
Overall fiscal balance (with grants)	-6.0	-4.3	-3.2	-3.1	-5.2	-5.2	-4.8	-4.0	-3.0
Total public debt	33.5	38.0	42.7	43.1	47.6	53.1	55.4	56.3	55.1
External Sector									
Current account balance	-5.0	-4.1	-3.3	-4.0	-2.9	-3.5	-4.0	-4.5	-4.5
Good and service balance	-5.0	-4.1	-3.5	-5.1	-2.5	-3.0	-4.2	-4.5	-4.6
Foreign direct investment	-0.1	1.2	1.3	1.0	1.1	1.3	1.4	1.4	1.3
External public debt	21.1	21.5	23.7	24.0	24.8	26.0	26.4	26.9	25.4
Nominal GDP									
In CFAF billion	8,228	8,920	9,369	10,495	9,997	10,677	11,500	12,425	13,421
In US\$ million	14,847	15,481	15,873	17,492	17,394	19,833	21,643	23,439	25,351

 $Source: World\ Bank\ and\ IMF\ staff\ estimates\ and\ projections.$

FISCAL SECTOR

According to latest estimates, the fiscal deficit as a share of GDP reached 5.2 percent in 2020, an increase from 3.2 percent in 2019 (Table 3). Due to the coronavirus-induced 3-month lockdown, tax revenues as a share of GDP declined by 1.4 percentage points to 13.8 percent in 2020.4 Domestic revenue collection (excluding grants) reached 16.6 percent of GDP, 2.1 percentage points lower than in 2019. The decrease in domestic

revenue was partially offset by a 1.8 percentage point increase in grants. On the expenditure side, current expenditures grew by 0.3 percentage points at 17.2 percent of GDP, mainly driven by wages and salaries (+0.4 percentage points of GDP) as the government took action to support frontline healthcare workers and also recruit more security and defense personnel. As for public investments, they rose by 1.4 percentage points, due to COVID-19-induced front-loading spending and capital grants in favor of affected businesses, and acquisition of new defense materials.

Table 3. Consolidated operation of the central government, 2017-2024

	2017	2018	2019	2020	2020	2021	2022	2023	2024
				Pre-COVID	Post-COVID				
Total revenue and grants	19.3	19.6	20.1	20.6	19.8	19.7	20.2	20.4	20.7
Total revenue	17.0	17.2	18.7	17.5	16.6	16.9	17.5	17.7	18.0
Tax revenue	15.1	15.2	15.2	15.3	13.8	14.8	15.3	15.7	16.1
Mining sector	0.5	0.5	0.6	0.6	0.5	0.8	0.8	0.8	0.9
Non-tax revenue	1.8	2.0	3.4	2.2	2.8	2.1	2.1	2.0	1.9
Grants	2.4	2.4	1.4	3.1	3.2	2.8	2.7	2.7	2.6
Expenditures and net lending	26.2	23.9	23.2	24.2	25.0	24.9	25.0	24.4	23.7
Current expenditures	16.1	15.5	17.6	17.9	17.2	16.6	16.7	16.0	15.7
Wages and salaries	7.5	7.9	9.0	9.8	9.0	8.9	8.6	8.2	8.2
Goods and services	2.1	2.2	2.1	2.2	1.8	2.0	2.2	1.7	1.5
Current transfers	5.6	4.3	5.2	4.6	5.1	4.0	4.3	4.3	4.1
Interest on debt	0.8	1.1	1.2	1.3	1.4	1.6	1.6	1.7	1.8
Capital expenditure	10.1	8.5	5.9	9.8	7.8	8.4	8.3	8.4	8.0
Domestically financed	7.2	5.9	4.5	5.4	4.9	5.2	5.0	5.1	4.7
Externally financed	3.0	2.5	1.5	4.4	2.9	3.2	3.3	3.3	3.3
Fiscal balance	-6.9	-4.3	-3.2	-3.1	-5.2	-5.2	-4.8	-4.0	-3.0
Fiscal balance (cash basis)	-6.0	-5.4	-3.2	-3.1	-5.3	-5.2	-4.8	-4.0	-3.0
Financing	6.0	5.3	3.1	3.1	5.3	5.2	4.8	4.0	3.0
External financing	1.8	0.9	1.0	1.2	1.5	1.1	1.8	1.9	2.0
Domestic financing	5.0	4.4	2.1	1.9	3.8	4.1	3.0	2.1	1.0

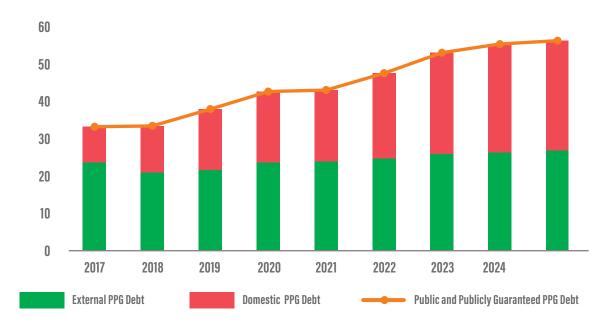
Source: World Bank and IMF staff estimates and projections. Note: 2020 figures are estimates

The lost fiscal revenue is almost equivalent to the cost of all COVID-19-related temporary tax deferrals and cancellations included in the ERP.

By the end of 2020, public debt has risen by about 5 percentage points to 47.6 percent of GDP and tilted further towards more expensive domestic debt (see Figure 3). The nearly 5 percentage point-increase in public debt comes primarily from the primary deficit, which stood at 3.8 percent of GDP. As much as 80 percent of the rise in the debt stock stems from debt issuance in the regional market. As a result, the stock of domestic debt increased from 19.0 percent of GDP in 2019 to 22.8 percent of GDP in 2020. On the other hand, external

debt, which remains highly concessional, rose from 23.7 percent of GDP in 2019 to 24.0 percent of GDP in 2020. This shift towards a higher share of (more expensive) domestic debt—which effectively tripled in nominal terms since 2017—translated into an increase in interest payments from 0.8 percent of GDP to 1.3 percent of GDP over the same period.⁵ In 2020, the G20-led Debt Service Suspension Initiative (DSSI) alleviated the interest payment burden to some extent.

Figure 3. Public and publicly guaranteed debt



Source: World Bank and IMF staff estimates and projections

⁵ The sharp rise in domestic debt has been driven by relatively high public financing requirements in combination with limited availability of concessional borrowing and high roll-over costs of domestic financing.

1.2. ECONOMIC OUTLOOK AND ASSOCIATED RISKS

REAL SECTOR

Although many impacts of the COVID-19 shock persist, the economy is projected to continue its recovery in

2021. Amid continued uncertainty, growth is projected at 4.3 percent in 2021, above the population growth rate of 2.9 percent. Encouraging rainfalls recorded toward the end of 2020 might translate into a continuation of strong agricultural performance, but a prolonged drought could work in the opposite direction. Gold production is projected to remain strong, supporting the secondary sector as the main growth driver. Following the downturn last year, services are projected to positively contribute to growth, fueled by a gradual recovery in commerce, transportation, hotels and restaurants, real estate activities, and public services.

On the demand side, the recovery is supported by consumption and private investment. The Government's multi-year Emergency Response Plan (ERP) is expected to continue to support public sector consumption in 2021. Private investment is projected to recover whereas public investment will likely contract, following a large rise in 2020. The recovery is projected to continue and accelerate in 2022 and 2023, with potential growth underpinned by private investment in the growing gold sector and in the cotton sector (under restructuration), and also by private consumption, to be supported by larger bank credit to the economy.

EXTERNAL SECTOR

The current account deficit is projected to rise in 2021 and further over the medium term, due to gradually deteriorating primary and secondary accounts. In 2021,

the trade deficit is expected to worsen slightly at 3.5 percent of GDP (vs 2.5 percent in 2020), as the country continues to benefit from favorable—though not as favorable as in 2020—terms-of-trade supporting high gold exports and a relatively modest oil import bill. Higher profit repatriation, stagnating remittances at low post-COVID-19 levels and declining donor grants could lead to a worsening of the external balance. FDI coverage of the current account deficit is projected at 29 percent in 2021 with grants and government borrowing covering the balance of the external financing needs. Over the medium term, the current account deficit is projected to increase gradually and return to its pre-COVID levels, as the oil price picks up again and imports in the mining and health sectors remain elevated.

FISCAL SECTOR

persisting throughout the year, the fiscal deficit is projected to remain elevated at 5.2 percent of GDP in 2021. Despite the phasing out of most COVID-19-related temporary tax deferrals and cancellations, tax revenue is expected to increase by 1.0 percentage point to 14.8 percent of GDP, supported by measures to broaden the tax base in the informal sector, to further digitalize tax administration, and in doing so, to devote more focus, resources, and time to control activities and reduction of frauds. With non-tax revenue and grants bound to decline, total revenues and grants are projected at 19.7 percent of GDP in 2021. On the expenditure side, the need for continued spending on security, defense, and humanitarian transfers, and the continuation of the implementation of the ERP⁷ will keep total expenditure

in 2021 at a similar level as in 2020. A decline in current

spending by 0.6 percentage points of GDP through wage

With security, humanitarian, health, and social challenges

In 2020, the projected decrease in financing requirements stemming from the balance of payments is outweighed by a rise in domestic financing requirements. The composition of financing is also projected to shift away from FDI towards debt-creating flows. This explains the disconnect between a rising fiscal deficit and a shrinking current account deficit.

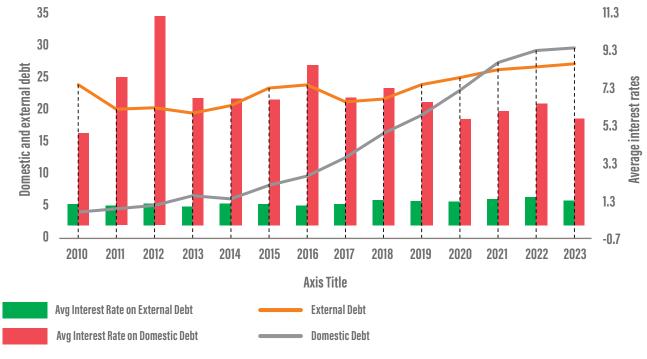
The ERP will cost about 4.6 percent of 2020 GDP over a 3-year period (2020-2022), 44 percent of which have been engaged in 2020. In 2021, an additional 30 percent are committed in the finance law.

bill control and lower current transfers, will allow for an equivalent increase in capital spending.

As concessional funding is finite and no other funding options are available, the Government will have to resort to more expensive borrowing in the regional market to finance the deficit. In nominal terms, the fiscal deficit is projected to shrink in 2021 by only CFAF 15 billion compared to 2020. About 1/3 of the deficit (1.7 percent of GDP) is expected to be funded through concessional financing from the World Bank, AfDB, the European Union, France and other partners. A new IMF program may provide additional funding and the country will continue to benefit from the Debt Service Suspension Initiative (DSSI) through savings equivalent to 0.2 percent of GDP at least through the end of 2021. The remaining balance will be financed through the issuance of domestic debt in the regional securities market.

The composition of the debt stock will further deteriorate as the stock of domestic debt surpasses that of foreign debt for the first time in 2021. Domestic debt is set to become the majority-share (51 percent), equivalent to 27.1 percent of GDP in 2021. While debt-rollover in the regional securities market was projected to peak in 2021 even before the arrival of COVID-19, the pandemic has opened a financing gap of CFAF 250 billion in 2020, almost half of which was financed through additional issuances of domestic debt. In 2021, net mobilization on the regional market is projected to reach CFAF 357 billion, the third highest among UEMOA members. Due to high debt-rollover, planned issuances amount to CFAF 925 billion (10 percent of GDP), the second highest in the region (see Figure 4).

Figure 4. Evolution of domestic and external debt and interest rates



Source: World Bank and IMF staff estimates and projections.



RISKS AND UNCERTAINTY

The macroeconomic outlook is subject to uncertainty primarily associated with the ongoing COVID-19 pandemic and commodity prices fluctuations. A durable continuation—due to vaccines rollout challenges—or an intensification of the ongoing pandemic could bring back national or regional lockdowns and further subdue domestic demand. Also, extended external demand shocks could impede foreign investment inflows and keep the tourism sector in a state of crisis. Moreover, terms of trade could shift back quickly to the disadvantage of Burkina Faso and expand the country's trade deficit. Indeed, international gold and oil prices have already started to revert back to pre-crisis levels and this trend could continue over the course of 2021 and beyond. The country's participation in the COVAX initiative will help mitigate the COVID-19-related risk of a prolonged slowdown. Ongoing measures taken to sustain high gold production and ramp up cotton production could help mitigate commodity price risks.

Additional risk factors weigh on the macroeconomic outlook. Three other downside risks to the outlook should be considered. First, the security crisis could destabilize an already fragile situation and affect mining activities while threatening gold exports. Insecurity could also further disrupt labor supply in the agricultural

sector, and ultimately affect agricultural output with the potential to aggravate food insecurity in several parts of the country. Second, given the high dependence on (subsistence) agriculture and its low level of resilience to natural hazards, the country is highly exposed to natural disasters and climatic changes, including low rainfall, floods, and locust invasions. This could significantly impact agricultural output and its contribution to growth. Third, in a context of crises and social tensions, measures aimed at cutting the wage bill drastically may be difficult to undertake as they could fuel social tensions and endanger the Government's general commitment to reforms.

Reforms are needed to avoid a worsening of the debt sustainability outlook. Based on the Debt Sustainability Framework for Low-Income Countries, the country's debt carrying capacity has been determined to be moderate. In order to prevent a deterioration of its debt sustainability outlook, Burkina Faso would need to: (i) maintain a sound macro-fiscal framework in the midst of the pandemic shock; (ii) implement structural reforms to diversify its export base; (iii) exercise control over government guarantees and contingent liabilities; and (iv) limit non-concessional borrowing and strengthen the implementation of its medium-term debt strategy to contain its debt service and gross financing needs.

⁸ Beside the security dimension, climate and environmental risks can also impact food security. Along the Southern edge of the Sahelian band, Burkina Faso has the arid to semi-arid climate typical of the region. The rainfall is low overall, irregular, and poorly distributed; and it is experiencing a downward trend. Agriculture faces difficult conditions, worsened by climate change and increasing demographic pressure.

https://www.worldbank.org/en/programs/debt-toolkit/dsa

1.3. DEEP DIVE 1: IMPACT OF COVID-19 ON BUSINESSES

To assess the impact of the COVID-19 outbreak on businesses and households, two high frequency surveys were conducted in 2020. The first survey—the World Bank Business Pulse Survey—provides a snapshot of the impact of COVID-19 on firms. To assess the impact on the private sector, a representative sample of 549 formal enterprises was surveyed.¹⁰

OPERATING STATUS AND SALES

By November 2020, the operating status of companies had improved considerably, compared to March-May, when the first COVID-19 wave hit the country.

As of November 2020, 90 percent of companies were operational compared to only 50 percent in April 2020 (see Figure 5). Half of the closed companies expressed uncertainty about when to resume operations. The other half showed optimism and expected to be able to resume operations within the next six months. While at the beginning of October, the proportion of women-led businesses that were closed was roughly equal to that of men-led businesses, during the peak of the first wave in April, female business owners suffered more than their male equivalents. At that time, more than 2 in 3 womenowned businesses where closed, whereas almost every other business run by men remained open.

Even in the sub-sectors hit the strongest by the pandemic and associated lockdown, at least 80 percent of companies were back in operating status. Tourism and hospitality, transport and logistics, and industries, which had the highest proportion of businesses closed at the peak of the pandemic, were back in operation by

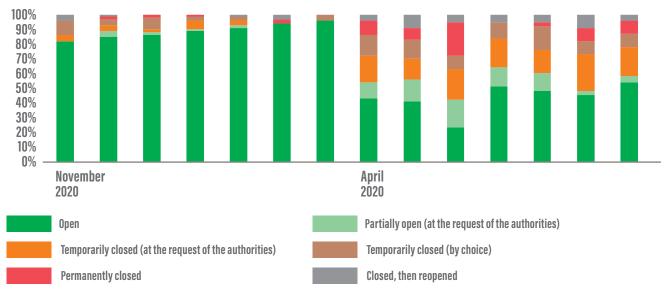
November 2020. The tourism/hospitality sub-sector is the main provider of accommodation and restauration for foreigners coming into the country and for locals moving to other cities for business. During the peak of the pandemic, the subsector was hit particularly hard due to the limitations imposed on movement within the country and across borders. Likewise, the transport and logistics sub-sector suffered due to the stoppage of intercity transport.

While all business sizes were affected during the peak of the first COVID-19 wave, six months later the proportion of non-operational enterprises was higher among micro businesses. At the peak of the pandemic, 39 percent of micro enterprises were closed, compared to 35 percent of small and medium companies and 41 percent of large companies. As of November 2020, micro-enterprises had still the highest proportion of non-operating enterprises. Indeed, all large companies had reopened while 12 percent of micro enterprises and 5 percent of small businesses were still closed. The higher proportion of non-operational status among microenterprises shows their higher vulnerability to shocks such as those induced by COVID-19. They have weaker liquidity buffers and are often less flexible to adjust to a changing environment.

A total of 549 enterprises was randomly selected using a stratification by region, sector, and company size to ensure the representativeness of the sample for Burkina's formal private sector. The survey includes companies in all 13 administrative regions and a focus on the most representative sectors of economic activity, including services, crafts, industry and trade. The data collection took place between mid-October and early November and covered two periods. The questions captured information about the peak of the pandemic (March to May 2020) and the current survey period.

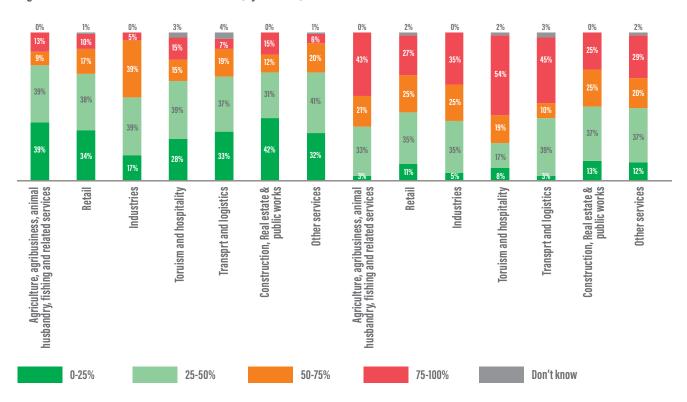
During the first wave of the pandemic containment measures were most widely applied. By the beginning of May, these measures were lifted, and companies were operating almost normally.

Figure 5. Business operating status (by sector)



Source: COVID-19 business pulse survey for Burkina Faso, World Bank, February 2021

Figure 6. Sales decline due to the COVID-19 (by sectors)



Source: COVID-19 business pulse survey for Burkina Faso, World Bank, February 2021

More than ¾ of companies reported a drop in sales, with some sub-sectors hit particularly hard during the peak of the COVID-19 shock (see Figure 6). Despite the reopening of almost all businesses, the formal private sector faced significant revenue declines. All sizes of businesses were affected by the drop in sales and three sub-sectors (i.e. tourism and hospitality, transport and logistics, and agriculture¹²) experienced a particularly large decline in sales as they were highly affected by the lockdowns and restrictions.

Compared to April 2020, the situation had improved by November but the decline in sales was still significant.

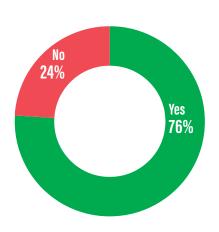
27 percent of companies reported a more than halving of their sales in the 30 days prior to the survey (i.e. from mid-October to early November 2020) compared to normal business in the pre-COVID-19 era. However, this had already come down from the peak of the COVID-19 shock when 55 percent of companies reported such revenue shortfall. Micro and small businesses were more impacted by the decline in sales than larger companies.

EMPLOYMENT AND ACCESS TO FINANCING

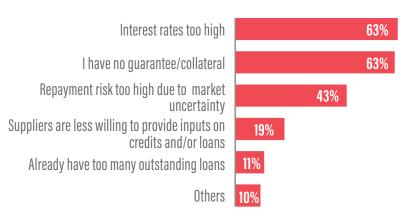
The impact of the COVID-19 shock on formal employment was large during the first wave but had diminished by November. Overall, 14 percent of employees had their wages and/or benefits reduced in April 2020. By November, the share had shrunk to 5 percent. However, the impact was uneven across firm size echoing the pattern already observed for operating status and sales. At the peak of the crisis, 18 and 17 percent of employees of micro and small firms, respectively, experienced a reduction in income, compared to 13 percent of employees of large companies. In November 2020, things had improved with 11 and 6 percent of employees of micro and small businesses. respectively, experiencing a decrease in their incomes, compared to 5 percent of employees of large companies. A similar pattern is observable for layoffs.

Figure 7. Difficulties in accessing funding

Difficulties in accessing financing?



What are the main challenges you are currently facing in accessing funding?



Source: COVID-19 business pulse survey for Burkina Faso, World Bank, February 2021

Given the period covered, this is not seasonal agriculture but off-season agriculture. It is an activity that is strongly integrated into the market, which provides most of its inputs and on which it sells its raw and processed products. It is therefore not surprising that it is so affected. Formal enterprises in the agricultural sector are almost all in agribusiness.



While access to finance has been a long-standing bottleneck in the country, COVID-19 aggravated the situation. Although the COVID-19 shock led to a tightening of the conditions of access to financing (that was mitigated through measures by the BCEAO), the financing gap for SMEs is not new. In fact, in 2015, a third of formal businesses identified access to finance as the biggest challenge to their business growth.13 COVID-19 worsened this situation dramatically. Three quarters of firms surveyed expressed difficulties in accessing financing and one quarter reported arrears of loan repayment (see Figure 7). In terms of gender, women had more difficulty accessing finance; of the businesses they manage, 78 percent reported difficulty accessing financing compared to 68 percent for men. As of November 2020, 19 percent of formal firms needed an adjustment in the terms and/or timing of loan repayments, while 26 percent indicated they would face payment arrears if conditions remained unchanged.

Firms mentioned two key reasons for challenges in accessing financing. Almost 2 in 3 companies surveyed said that high interest rates and the lack of collateral are the main difficulties in accessing finance. In addition, entrepreneurs also mentioned the too high risk of loan repayment due to market uncertainty, the low availability of suppliers to provide inputs on credit and the existence of outstanding loans.

BUSINESS PROSPECTS

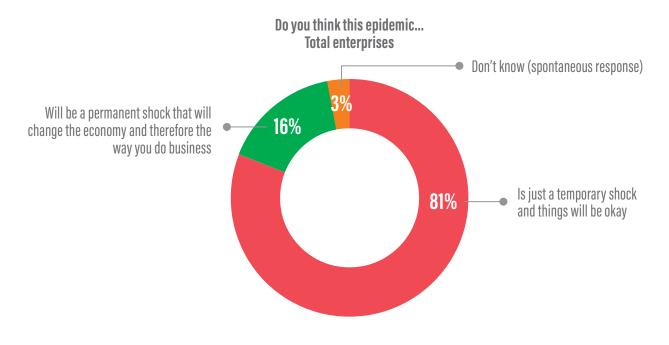
Most company owners showed optimism about the temporary nature of the COVID-19 shock (see Figure 8).

Despite the difficulties and uncertainty created by the COVID-19 shock, 8 out of 10 companies considered the shock caused by COVID-19 only temporary and believed that things would get back to normal. The transport and logistics sub-sectors remained relatively less optimistic with one-third of firms believing that the shock will be permanent. This is not surprising given the relatively stronger impact that COVID-19 has had on the sub-sector. Also, when it comes to firm size, smaller companies are less optimistic about the future than larger companies, which correlates with the impact COVID-19 has had on them.

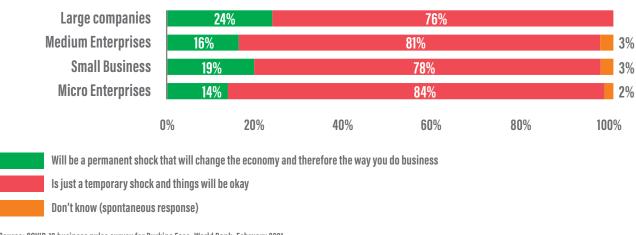
To mitigate the COVID-19 impact, companies are calling for policies to reduce costs and increase resources. Only

13 percent of formal firms surveyed in November 2020 said they had received support from the government since the beginning of the COVID-19 pandemic. Half of those companies that have not used government support indicated unawareness of the existence of such support. This could be due to a lack of communication by the government or ineligibility of firms to receive support.

Figure 8. Optimism/pessimism of businesses vis-à-vis the crisis



Do you think this epidemic... Company size



Source: COVID-19 business pulse survey for Burkina Faso, World Bank, February 2021

1.4. DEEP DIVE 2: IMPACT OF COVID-19 ON HOUSEHOLDS



The second survey—the World Bank High Frequency
Poverty Survey—provides a snapshot of the impact of
COVID-19 on households. In order to monitor the impact
of COVID-19, the National Statistical Office INSD launched
a monthly phone survey with the technical and financial
support provided by the World Bank. Data collection
started in June 2020, and several rounds have been
collected since then.¹⁴

SCHOOL ATTENDANCE

During the pandemic, 9 in 10 students engaged in learning activities. During the first months of the pandemic, given schools closure to reduce risk of

contagion, 88 percent of students engaged in learning activities (see Figure 9). More than half were leveraging information and communication technologies. Location and poverty status did matter in the way students engaged in learning activities. Those in Ouagadougou were more likely to rely on tutoring by another family member, while those in other urban or rural areas were more likely to do nothing or to rely on radio. The use of TV was more pronounced in urban areas. Non-poor students were more likely to rely on TV, tutoring by another family member, and a private tutor. Despite a need for social distancing, 15 percent of students received in-person instruction from their teacher.

The HFPS sample is a sub-sample of the 2018/19 Harmonized Living Conditions Household Survey (EHCVM) implemented in 2018 by the INSD with technical and financial support from the World Bank. The HFPS is administered to a sample of about 2,062 households drawn among EHCVM households for which a phone number was available. For each round, the response rate is above 80 percent. Sampling weights are adjusted to make sure that the surveyed sample remains nationally representative. The topics covered by the survey questionnaire varied across rounds and include knowledge of COVID-19 and social behavior, access to food and basic services, impact of the COVID-19 on economic activities and income sources, food security, shocks, safety net programs among others.

24.6% Listening to classroom instruction over the radio Watching classroom instruction via television 16.6% 13.3% Tutoring by another member of the household No activities 12.4% Educational television programs watched 9.4% 8.2 Other completed print jobs 4.4 Tutoring by a private tutor Completed printed assignments provided by the teacher 3.4 1.3 They continue to frequent the Daara. 0.9 Participated in virtual classes with teacher Completed online assignments provided by the teacher 0.6 Watch lessons pre-recorded by teacher online Mobile learning applications used 0.0 Other completed online assignments

Figure 9. Proportion of student engaged in learning activities

returned to school. After the critical phase of COVID-19, schools reopened on October 1, 2020. There is no significant difference in school attendance rate between girls and boys. School attendance rate in the wake of the re-openings is far lower in rural areas (65 percent) compared to the capital Ouagadougou (87 percent) and other cities (84 percent). For the 30 percent of children who do not attend, marital and domestic chores obligations are by far the main constraints to school attendance; supply issues—lack of teachers or no school nearby—are also a major constraint, as mentioned by 14

percent of those who do not attend. (See Box 1 for the

effects of school closure or non-attendance).

Following school re-opening, only 7 out of 10 students

Source: World Bank staff using Round 1 of the high frequency phone survey

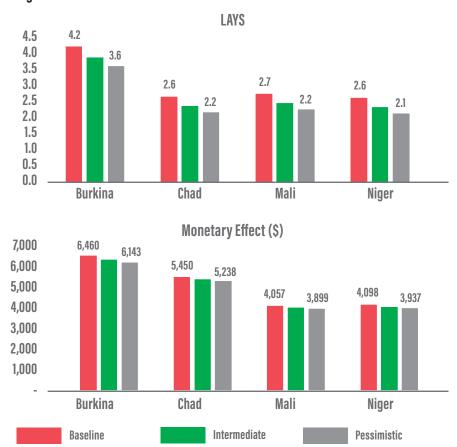
As COVID-19 remains a persistent threat, schools are applying several measures to reduce the risk of contagion. Hand washing and face masks are the most common methods used in schools. Enhanced provision of running water is also mentioned by 4 in 10 students. 12 percent of students reported that no preventive measure was implemented in their school. This calls for more sensitization and action from the authorities, in order to minimize the risk of schools becoming hotspots for the transmission of the virus.

Box 1: Effects of Schools' Closure under COVID-19

The COVID-19 pandemic has caused extensive school closures over the world, especially in Sahel countries (Burkina, Chad, Mali, and Niger). The policy of school closure is among the social distancing policies undertaken by governments to mitigate the spread of the pandemic. Though it may have been effective in combating COVID-19, school closure, a shock to a country's education system, will likely have undesirable effects on academic learning with millions of students having been out of school. The impacts of such a situation can be measured, in particular, through schooling and income channels. The former comes from the learning that will not occur while schools are closed, and the latter captures income loss from school drop-out.

The four Sahel countries have shown similar resilience concerning the effects of school closure on academic learning and income. Figure 10 presents the results of simulations from two scenarios. The intermediate scenario assumes that 40 percent of the school year are affected by closures, while in the pessimistic scenario, the share of school year affected increases to 70 percent. According to the findings, school closures under COVID-19 could result in a loss of between 0.3 and 0.6 years of schooling adjusted for quality, as measured by the Learning Adjusted Years of Schooling (LAYS) indicator. Besides, students from the four Sahel countries, on average, could face a reduction in their lifetime income by US\$123.1 and US\$212.1, depending on the scenario. In particular, for Burkina Faso, the effective years of basic education that students achieve during their lifetime could decrease from 4.2 to 3.6 years. And their income could fall from US\$6,460 to US\$6,431.

Figure 10. Effects of school closures under COVID-19 in four Sahel countries



Source: Azevedo, Goldemberg, Aroob, Koen (2020). Simulating the Potential Impacts of COVID-19 School Closures and Learning Outcomes: A Set of Global Estimates. WB Policy Research Working Paper. Note: The Human Capital Index (HCI) 2017 database is used as baseline for the calculations, including for LAYS

0.0 0.0 100% 90% 22.7 22.0 20.4 27.0 80% 46.7 70% 22.5 21.9 60% 100.0 **50**% 18.7 75.6 40% 73.0 30% 54.8 56.2 20% 34.5 10% 0% Ouagadougu Other urban Rural **Poor** Non-poor Location **Poverty status National** Lack of money No medical staff available Refused due to lack of space

Figure 11. Reasons for not being able to access health service during the pandemic

Source: World Bank staff using Round 1 of the high frequency phone survey

ACCESS TO HEALTH SERVICES AND NUTRITION

Health centers saw no service disruption due to COVID-19, but access and affordability remained key constraints. In the wake of the COVID-19 crisis, 1 in 4 households declared their inability to buy medicine. Since March 16, 2 in 5 households declared that they needed health service, mainly because of malaria/ fever. The vast majority of those who needed services were able to get treatment, a sign that there was no major disruption in the provision of health services. A combination of supply and demand factors affect the ability to access health services when needed; but affordability represents the biggest constraint, especially for the poor (see Figure 11).

Most Burkinabe welcome being tested and consent to be vaccinated for COVID-19 (see Figure 12). When asked whether respondents would agree to be tested for free for the COVID-19 virus, 87 percent of respondents answered yes. 4 in 5 said they would agree to be vaccinated against COVID-19. There are, however,

important differences between places of residence and poverty status. Spatially, those living in Ouagadougou are far less enthusiastic about getting vaccinated, while the poor are relatively more open to the idea of getting vaccinated.

Those who refuse to be vaccinated cite four main

reasons: (i) not being sure of the effectiveness of the vaccine (38.3 percent); (iii) fear of side effects (26.7 percent); (iii) being convinced that the risk of contagion is minimal (14.3 percent); and (iv) believing the vaccine does not work at all (12.2 percent). These reasons point to the need to continue and intensify awareness campaigns. A significant proportion is convinced that the risk of contagion is minimal. This answer is predominantly given by the poor and those living in rural areas (see Figure 13). 31.9 percent of the poor think that the risk of contagion is minimal, and this is the number one reason poor people don't want to be vaccinated. 26.7 percent of rural respondents think the same against only 2.9 percent and 6.5 percent for those living in Ouagadougou and other urban areas, respectively.

Figure 12. Willingness to be tested and vaccinated for COVID-19

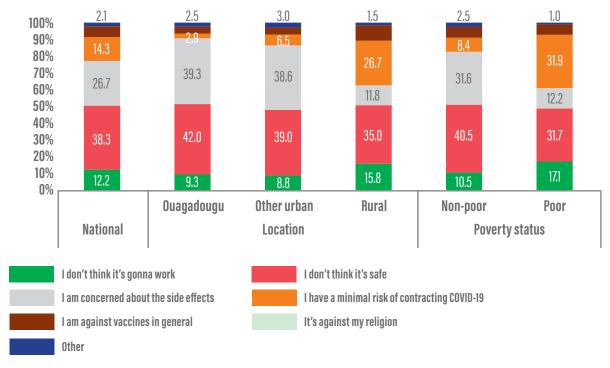
Figure 12a: Willingness to be tested for COVID-19

Figure 12b: Willingness to be vaccinated for COVID-19



Source: World Bank staff using Round 5 of the high frequency phone survey

Figure 13. Reasons for not agreeing to be vaccinated against COVID-19



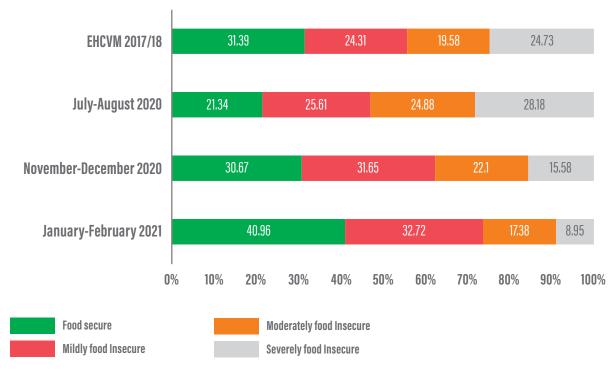
Source: World Bank staff using Round 5 of the high frequency phone survey

COVID-19 has aggravated food insecurity, particularly for the most vulnerable. The high-frequency phone survey included a Food Insecurity Experience Scale (FIES) module since the second round, capturing household experiences over the previous month. Household responses are used to categorize households as being food secure or mildly, moderately, or severely food insecure. In July and August 2020, more than 1 in 4 households in the HFPS was severely food insecure (see Figure 14). Altogether, close to half of households were food insecure (moderate or severe). However, as the country moved further into the pandemic, households

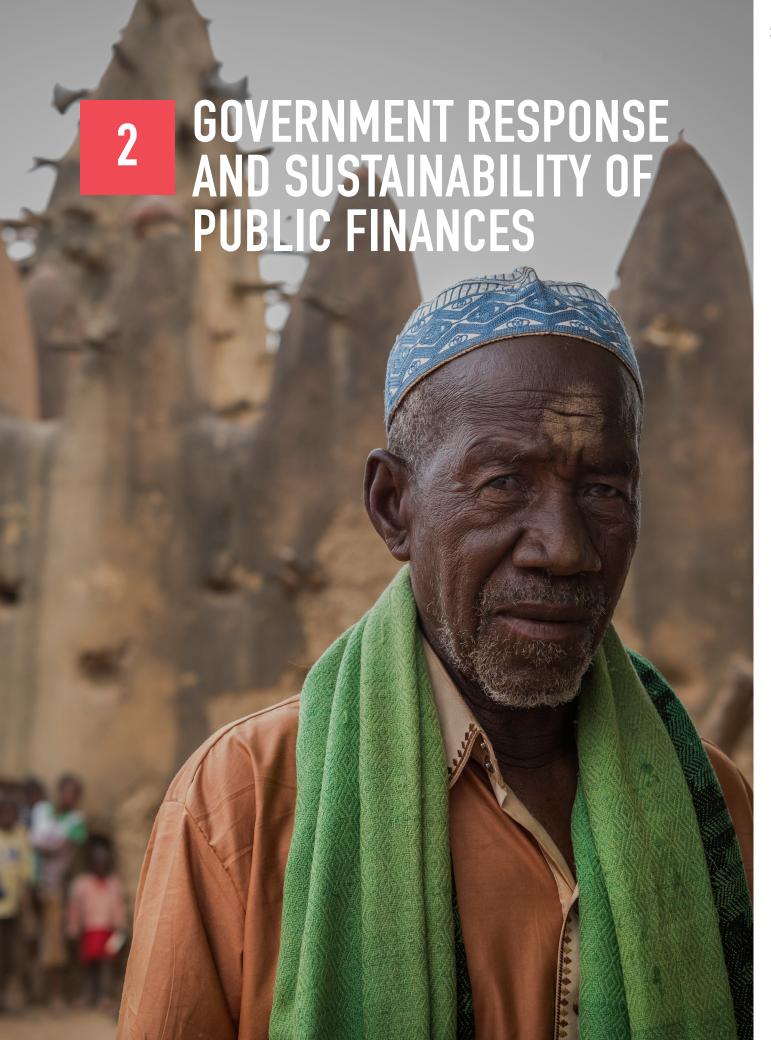
lifted. As a consequence, food insecurity is currently less pronounced compared to the early stage of the pandemic, and back to a level that is better than the pre-COVID-19 situation. These results suggest that at the peak of the pandemic, due in particular to the reduction in income, many households were not able to make ends meet, in particular a large proportion could no longer meet the dietary needs. Expanding and improving the targeting of existing social safety nets would be a good way to reduce the risk of a food crisis and its short, medium- and long-term consequences, especially on malnutrition and early childhood development.

Figure 14. Household food security during the pandemic

made some adjustments, and several restrictions were



Source: World Bank staff using Round 2 of the high frequency phone survey



2.1. PROTECTION THROUGH SOCIAL ASSISTANCE

The quality of Burkina Faso's economic policy has gradually decreased over the past 10 years, driven by a declining fiscal policy performance. The World Bank's Country Policy and Institutions Assessment (CPIA) score for the Economic Management Cluster fell from 4.3 in 2010 to 3.7 in 2019. While revenue performance was improving in the early 2010s, even surpassing regional norms, expenditure was already on the rise partly due to higher social spending. As revenues weakened in 2013, the WAEMU convergence criterion of 3 percent of GDP for fiscal deficits was missed. Despite back-to-back IMF arrangements, fiscal

policy challenges continued to increase. Poor revenue mobilization and investment execution as well as high recurrent spending owing to an expanding wage bill led to a record fiscal deficit in 2017. Several performance targets under IMF programs had to be modified or waived, e.g. the ceiling for net domestic financing was breached at the end of 2018. The fiscal deficit remains structurally imbalanced (narrow revenue base, fragmentation of tax policy, exemptions, economic informality), rigid (uncontrolled wage bill growth) and sensitive to external shocks that drive current spending (security, social transfers).

25.9 25.6 25.1 24.5 24.1 23.2 23.1 22.0 20.0 20.3 4.3 5,9 8.3 6.6 11.2 10.6 7.6 6.3 9.2 7.8 4.6 4.9 2011 2015 2017 2010 2012 2013 2014 2016 2018 2019 Personnel **Current Transfers** Investment Other Expenditure **Total Expenditure**

Figure 15. Public expenditure breakdown (% of GDP), 2010-2019

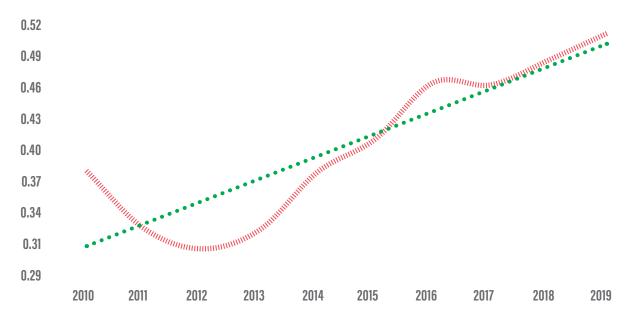
Source: World Bank staff using Round 2 of the high frequency phone survey



Public expenditures have risen, and their composition has changed over the past ten years, on account of hardly controlled growth in the wage bill and high current transfers (see Figure 15). Public expenditure as a share of GDP rose from an average of about 20 percent at the beginning of the decade to around 25 percent of GDP over the second half of the decade. Moreover, the composition of public expenditures has shifted towards higher current transfers and wages and lower capital spending. The shift towards higher current transfers and

wages comes in the aftermath of the 2015 regime change and the subsequent security challenges (calling for more security and defense equipment and personnel) and the humanitarian crisis that ensued (calling for more social protection for the most vulnerable, particularly Internally Displaces Persons [IDPs]).¹⁵ The wage bill remains historically and structurally high¹⁶ and is expected to continue an upward trajectory unless a major reform is undertaken to better manage public human resources and harmonize pay scales (see Figure 16).

Figure 16. Wage bill as a share of domestic revenue, 2010-2019



Source: World Bank BOOST database (August 2020 update)

In addition, the financial viability of the energy sector has been a concern regarding market distortions, in particular with the US\$53 million of government subsidies on oil purchased by the state-owned oil company SONABEL in 2018. There may be also a potential to use public transfers to shift the energy mix towards renewables.

Burkina Faso has the second largest wage bill (as a share of domestic revenues) in the WAEMU region.

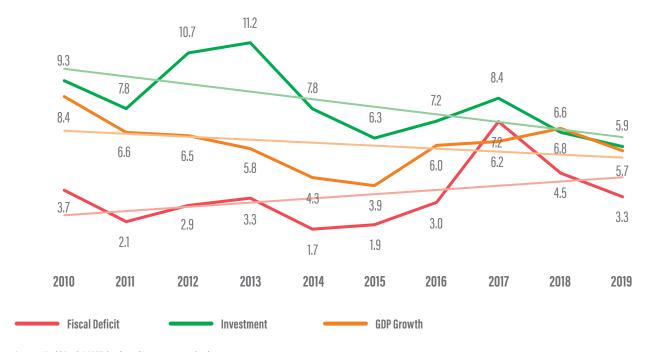
Public investment spending has stagnated since the mid-2010s and has been used as a downward adjustment variable to limit overall public spending.

Capital spending has been used not so much as a strategic driver of growth, but rather in pursuit of fiscal consolidation objectives. This explains why both the fiscal deficit and capital spending follow the same patterns (see Figure 17). Moreover, the space for this adjustment as shown by the gap between investment and the fiscal deficit (both as a share of GDP) has been shrinking over time, reflecting increasingly difficult fiscal consolidation as public investments are heading toward a historical low. This downward path of public investment spending is also echoed by a downward trend in GDP growth over the same period. Going forward this suggests a need not only for an increase in the amount of public investment, but also for an improvement in its quality.

Following some progress in the early 2010s, domestic revenue mobilization has stagnated as well (see Figure

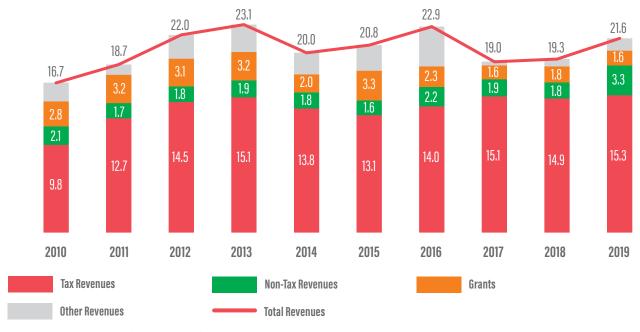
18). Taxes as a share of GDP (tax ratio) rose from about 10 to 15 percent in the early 2000s, but then stagnated at this level until 2019. The sluggish performance come despite numerous reforms implemented through successive finance laws over the past years. Non-tax revenues have been equally stagnant at low levels with one outlier in 2019 (one-off sale of telecom licenses). Over the same period, grants have declined from levels around 3 percent of GDP to below 2 percent. Due to increased external support in the wake of the COVID-19 pandemic, 2020 is an outlier with grants at 3.2 percent of GDP but going forward, domestic revenue will have to be mobilized to close the structural tax gap estimated at 4-6 percent of GDP.

Figure 17. GDP growth (%), fiscal deficit and investment spending (% of GDP), 2010-2019



Source: World Bank BOOST database (August 2020 update)

Figure 18. Public revenue breakdown (% of GDP), 2010-2019



Source: World Bank BOOST database (August 2020 update)

Looking forward, public finances are facing additional pressures. If the difficult insecurity situation continues or does not improve significantly, the increase in defense and security spending could continue. Directly linked is a worsening humanitarian and IDP crisis that both require higher social transfers. Moreover, the COVID-19 pandemic and its impact on the domestic economy are leading to higher fiscal deficits and rising debt. Although the risk of public and external debt distress

remains moderate—according to the October 2020
Debt Sustainability Analysis—the composition of debt
continues to shift towards more expensive domestic
borrowing and the fiscal space available to respond
to shocks is limited. Currently, the Government has a
window of opportunity to implement structural reforms
to address fiscal pressures and improve human
capital outcomes.

2.2. COVID-19 SHOCK AND FISCAL RESPONSE

Burkina Faso was among the first countries in Africa hit by the pandemic, and the Government took early action to contain the spread of the virus. As of end-March 2020, the country recorded 261 cases or 8 percent of all reported cases in Sub-Saharan Africa, a share only surpassed by South Africa. The Government put two key containment measures in place: quarantine of all cities with confirmed COVID-19 cases (incl. Ouagadougou and Bobo-Dioulasso) and suspension of commercial flights and border closures (except for freight and humanitarian traffic). In addition, the following mitigation measures were imposed: (i) closure of all schools and universities; (ii) national curfew; (iii) prohibition of demonstrations and gatherings of people in places or venues open to the public in the capital region; (iii) suspension of the holding of baptisms, weddings, and any other event gathering in public; and (iv) closure of bars, restaurants, and markets in Ouagadougou and its surroundings. These measures were gradually lifted as the spread of the virus slowed.

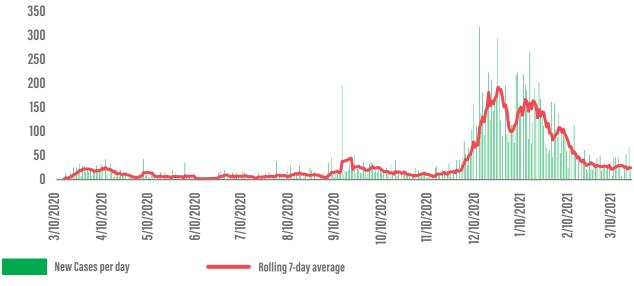
From November 2020 to February 2021, the country experienced a second wave three times larger than

the first, while vaccination plans are yet to be finalized (Figure 19). Between the early days of the pandemic and November 2020, the country recorded 2,886 cases and 68 deaths. The election campaign leading up to the November presidential and legislative elections appears to have been a turning point, reflecting a strong second wave of transmission that lasted until end-February. Over the period, the country reported 9,096 new cases and 75 deaths. Burkina Faso is participating in the COVAX initiative, set to deliver about 600 thousand vaccine doses by June 2021. As of end April, no other vaccine acquisition channel has been announced by the Government.

The temporary suspension of the WAEMU convergence pact allowed the Burkinabe Government to implement the Emergency Response Plan (ERP) at a cost of 4.6 percent of 2020 GDP over 3 years (see Annex for more details).

The ERP was introduced through the 2020 revised finance law in July. The plan includes actions to contain the virus, support vulnerable populations and MSMEs and lay the ground for a strong recovery. 44 percent of the package addresses health measures, including monitoring and





Source: Our World in Data / Johns Hopkins University CSSE COVID-19 data

containment of the spread of the virus, strengthening medical infrastructures and healthcare personnel, communication, purchase of medical equipment, and the construction of temporary health facilities. 18 percent is devoted to social assistance to vulnerable households and individuals (through cash transfers and utility bill suspension or support). The remainder is allocated to support businesses and protect jobs, incl. in MSMEs and the informal sector (through temporary tax incentives, suspension, or delay in tax payments; special funds to the private sector) and vulnerable sectors (through fiscal support to hotels, commerce, transportation sub-sectors).

The elevated fiscal deficit of 5.2 percent of GDP 2020 is largely due to a front-loaded implementation of the

ERP. Pre-COVID, the fiscal deficit was expected to remain relatively stable from 3.2 percent of GDP in 2019 to 3.1 percent of GDP in 2020. However, the implementation of the ERP—with 45 percent of its total envelope committed in 2020—and higher than anticipated security-related spending triggered a significant increase of the fiscal deficit. Tax revenue decreased by 1.5 percentage point comparing to the pre-COVID projected level. To this lost domestic income is factored in the cost of all COVID—

19-related temporary tax deferrals and cancellations included in the ERP. On the expenditure side, current transfers have increased by 0.5 percentage points of GDP compared to figures in the initial budget, whereas investment was 2 percentage points lower, due to new COVID-19-related essential non-investment spending and to reduced domestic revenue mobilization.

Over the course of 2020, the Government was able to mobilize revenues and grants of CFAF 1.98 trillion, almost 100 billion more than in the previous year.

The increase of total revenue by CFAF 93.37 billion (+4.96 percent) was driven by a rise in grants (+ CFAF 181.68 billion) whereas domestic revenue fell by CFAF 88.31 billion (-5.05 percent). This underperformance is attributable to a decrease in collected tax revenue by CFAF 47.84 billion (-3.36 percent) and non-tax revenue by CFAF 40.78 billion (-12.63 percent) (see Figure 20). The decline in tax revenue is attributable to the contraction in the collection of taxes on goods and services, taxes on trade and international transactions as well as other tax revenues. The decline in non-tax revenue is related to a one-off sale of 4G licenses in 2019.



Figure 20. Total revenue in CFAF billion

Source: MINEFID Direction Générale du Budget

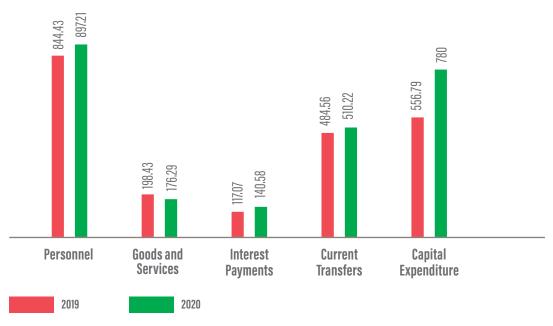
The overall negative impact of COVID-19 measures on domestic revenue collection would have been larger without the implementation of tax reform measures.

Tax administration reforms implemented since 2018 include: (i) electronic taxpayer identification systems and audit, (ii) the unique tax identification number, (iii) a new tax administration electronic platform featuring online filing and payments, (iv) mandatory e-filing and e-payment (of all taxes) for large firms, (v) mandatory e-filling for medium-sized enterprises, and most recently, (vi) mandatory e-payment for medium-sized enterprises, along with (vii) the installation of physical electronic terminals across major cities to ease accessibility for taxpayers. Without COVID-19, tax revenues would likely have modestly increased over 2020 from 15.2 percent of GDP in 2019 to a then-projected 15.3 percent of GDP in 2020.

Total expenditure amounted to CFAF 2.5 trillion in 2020, about CFAF 320 billion higher than in 2019 (see Figure 21). The increase of CFAF 322.53 billion (+14.8%)

Figure 21). The increase of CFAF 322.53 billion (+14.8%) in expenditures is attributable to both current expenditure and capital expenditure. Current expenditure increased by CFAF 79.82 billion (up by 4.9 percent) with personnel costs and current transfers accounting for 2/3 and 1/3, respectively, for this rise. The increase in personnel costs (+ 6.6 percent) stems from overdue payments made in compliance with statutory promotions (advancements, bonuses, reclassifications) and related actions. The increase in current transfers (+ 5.3 percent) sources from petroleum product tax revenues retroceded to local communities, financing provided to the Special Road Maintenance Fund, and hydrocarbon price subsidies. Capital expenditure increased by CFAF 223.21 billion (up by 40.1 percent) with externally funded investments accounting for 2/3 and ERP-driven capital transfers and domestically funded investments accounting for the remainder of the rise.

Figure 21. Total expenditure in CFAF billion



Source: MINEFID Direction Générale du Budget

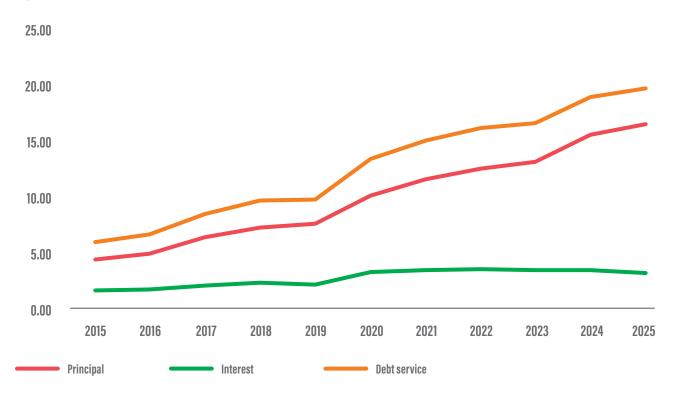
2.3. MEDIUM-TERM SUSTAINABILITY OF PUBLIC FINANCES

The trend towards non-concessional and more expensive domestic debt is associated with rising debt service.

The issuance of treasury bonds and bills in the regional securities markets is associated with five times higher interest rates (on average) compared to concessional financing. For example, on March 25, T-Bills worth CFAF 33 billion (about US\$ 61 million) were issued with a 1-year-maturity and yields averaging 4.31 percent. On April 8, T-Bonds worth CFAF 88 billion (about US\$ 160 million) were issued in two tranches with 5 and 7 years to maturity and yields averaging 5.95 and 6.22 percent, respectively. The shift towards such relatively high yield and short maturity instruments translates into fast rising debt service (see Figure 22).

Tax revenue mobilization needs to be strengthened to ensure fiscal sustainability. In 2010, domestic revenue was twice as large as debt service and public personnel expenditures combined. By 2020, the ratio has diminished to 1:1. This means that the government is relying entirely on grants and borrowing to finance all other expenditure categories, including investment and other essential non-investment spending. Tax revenues—which account for 85 percent of domestic revenues—are underperforming. The tax-to-GDP ratio has hovered between 15 and 16 percent over the past three years, far below WAEMU's 20 percent target and the Government's own target set at the country's structural fiscal potential of around 21 percent.

Figure 22. Debt service payments (CFAF billion)



Source: MINEFID Direction Générale du Budget

Multiple weaknesses explain Burkina Faso's modest and sluggish tax performance, in particular the prevalence of tax exemptions and tax administration deficiencies.

First, tax exemptions reduce revenue, with limited economic gains. The General Tax Code, the Investment Code and the Mining Code provide for numerous exemptions, particularly on VAT, customs duties and the corporate income tax. Second, tax administration weaknesses reduce the efficacy of domestic revenue mobilization. Inefficient tax filing and payment procedures raise the cost of tax compliance and prevent tax officers from focusing their efforts on controls. Recent digitalization reforms in tax administration need to be further strengthened and expanded to all enterprises, including small and micro-enterprises. Third, technical and information constraints greatly limit the potential for property taxes. Such taxes would be important to help local governments mobilize their own domestic revenues.

The second and equally important entry point to ensure fiscal sustainability is the structural deceleration of public wage bill growth. Public sector wages reached 63.7 percent of tax revenue in 2020, up from 33.5 percent in 2012. This is well above the WAEMU convergence criterion of 35 percent. The high wage bill mainly reflects high average compensation rather than excessive employment levels. Indeed, the government-employment-to-workingage-population ratio in Burkina Faso estimated at 1.9 percent, which is well below 4 percent, which is the average for low income and Sub Saharan Africa peers. Nevertheless, the number of public employees has increased rapidly, from about 40,000 in 2012 to 210,000 staff in 2020.17 However since 2014, compensation increases have contributed about half of recent increases in the wage bill. In a context of long, recurrent strikes, the adoption of a new civil service code, and other sectorspecific agreements resulted in large increases in average salaries in 2014 and 2016, and new commitments in 2017 and early 2018. Available data suggest that government employees receive a substantial wage premium over formal private sector peers, after accounting for education and demographic characteristics.



The Government has been gradually reducing the wage bill growth rate, but so far only through interventions on the hiring side. The Government's reform strategy includes the reduction in bonuses and pay disparities among civil servants at the Ministry of Finance, where distortions are larger, coupled with a substantial redeployment of existing staff at the Ministry of Education and, to a lesser extent, Health (representing about 60 and 17 percent of civil servants, respectively). Redeployment of education and health professionals from over-deserved to under-deserved schools and health posts located in less attractive areas has already started and contributed to a reduction of 26 percent in new hiring by the Ministry of Education. In addition, the Government has recently adopted a new regulatory framework aiming at (i) rationalizing core jobs in the public administrations (from 20 to 10); (ii) introducing mobility of existing staff across occupation and administrative units; (iii) establishing transparent recruitment requirements and redeployment procedures among across territories; and (iv) reducing distortions across paygrades. The new regulatory framework is expected to lead to a suppression of 7 percent of the current civil-servants workforce and to a reduction of the wage bill by a minimum of 3 percent. This change in redeployment policy should be permanent and complemented by a comprehensive compensation reform.

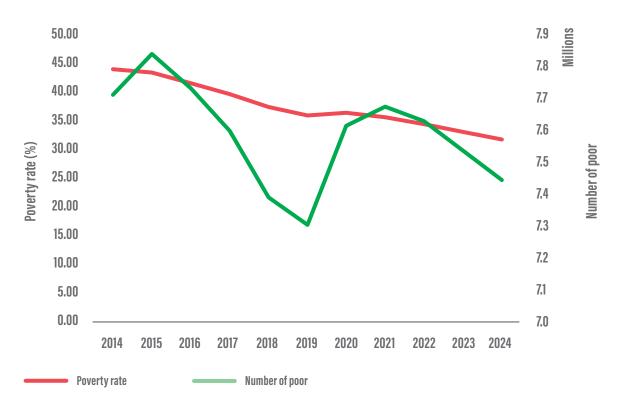
¹⁷ This recruitment drive aimed to fill the gaps in the education, health and security sectors, owing to rapid demographic growth and social pressures during the political transition, and to security and humanitarian challenges more recently.



The economic downturn created by the COVID-19 pandemic has reversed at least four years of progress in reducing the number of extreme poor. The latest available poverty rate for Burkina Faso using the international poverty lines was produced in 2014, using the nationally representative 2014 Enquete Multisectorielle Continue (EMC) survey. Since then, updated numbers are obtained using micro-macro projection techniques.18 Between 2014 and 2019, the country was able to substantially reduce extreme poverty. Both the level and the number of poor declined every year during that period—despite high population growth. However, due to the negative economic impact of the COVID-19 shock on households, extreme poverty has increased substantially in 2020. The share of extreme poor (headcount) increased by 0.5 percentage points during 2020, which is equivalent to adding about 300,000 new poor in 2020 (see Figure 23).

Macro-micro simulations suggest that another 60,000 people will be added to the extreme poor over 2021, largely as a consequence of the pandemic. In 2021, the share of extreme poverty will remain around the 2020 level of 36 percent. The increase in the number of poor in 2021 is therefore a result of the high population growth and the reduction of households' real income due to the economic slowdown resulting from the COVID-19 pandemic. Simulations show that the extreme poverty headcount will return to its pre-COVID-19 level by 2022. However, the absolute number of poor will remain higher, and will not return to its 2019 figure before 2025. The following section introduces a key mechanism to protect the poor—social safety nets—and provide recommendations for improvement to restart poverty reduction.

Figure 23. Actual and projected poverty rates (US\$1.9/day PPP)



Source: World Bank staff projections

¹⁸ In this report, projected poverty numbers are obtained by using annualized growth to poverty elasticity between 2009 and 2014, with pass-through of one, and GDP per capita in constant LCU.

3.1. PROTECTION THROUGH SOCIAL ASSISTANCE

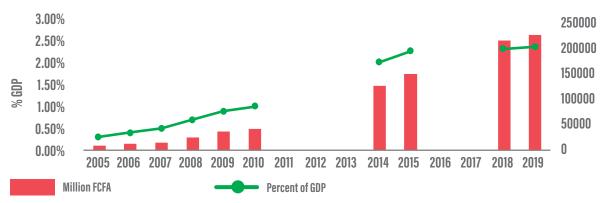
The COVID-19 impact on households could have been better attenuated with a strong and adaptive social assistance system in place. While on a positive trend in recent years, the pandemic has exposed the weaknesses of the existing social assistance system in Burkina Faso. The Government's immediate response to COVID-19 drew on a series of social measures including water and energy subsidies, as well as food and in-kind distributions. However, the fragmentation of social assistance and the absence of critical delivery platforms have provided a challenge to the Government's response to COVID-19.

Already before the COVID-19 pandemic, social assistance had increased in importance with gradually rising expenditures up to 2019. In 2005, social assistance was only nascent, with expenditure (from all sources) representing 0.3 percent of GDP. Reported social assistance expenditure gradually increased to reach 1 percent of GDP in 2010 (CFAF 41 billion) and further to 2.3 percent of GDP in 2015 (CFAF 147 billion). The sharp rise was due to both an expansion of programs and improved expenditure reporting mechanisms—notably with the publication of the annual reports of the National Council for Social Protection (Conseil National pour la Protection Sociale,

CNPS), which track social protection interventions in the country. Over recent years, social assistance expenditure has further expanded to reach 2.4 percent of GDP in 2019, i.e. CFAF 222 billion (see Figure 24). This is higher than the average of the sub-Saharan countries (1.53 percent according to the ASPIRE database). The increase is to a large extent driven by subsidized food shops (boutiques temoin).¹⁹

While spending has risen, social assistance programs have remained fragmented and skewed toward in-kind programs. Social assistance is characterized by a multitude of programs. In 2019 there were more than 200 distinct social assistance programs, by far exceeding the regional average of 15 programs per country.²⁰ The 20 largest programs accounted for almost 80 percent of total social assistance spending in 2019 (see Table 4), broadly unchanged from the situation in 2015, when the 20 largest programs accounted for about 90 percent of total spending. The mix of programs remains largely skewed toward in-kind and food programs, similarly to 2016 when cash transfers represented only 36 percent of total social assistance spending.

Figure 24. Social safety net expenditure total and as a percentage of GDP, 2005-19



Source: Vandeninden, Grun, Semlali (2019) (for pre-2016 spending) and estimates based on CNPS 2019 and 2020

¹⁹ https://sonagess.bf/sonagess-les-boutiques-temoins-passent-de-138-a-250-2/

Beegle, Kathleen G., Aline Coudouel, and Emma Monsalve, eds. 2018. Realizing the Full Potential of Social Safety Nets in Africa. Washington, DC: World Bank

Table 4. Social assistance spending on main programs in 2020 (CFAF million)

Social Assistance Program	2018	2019	Benefit
Food subsidies - boutiques témoins	48,051.00	48,051.00*	Food/In-kind
School feeding	17,912.89	18,883.00	Food/In-kind
Food distribution	0.00	13,578.00	Food/In-kind
Health fee waiver for children under 5	15,926.73	13,063.00	Food/In-kind
Scholarship for research	0.00	11,311.82	Cash
Agricultural inputs	17,468.00	9,588.00	Food/In-kind
Unconditional cash transfer (Nord, Est, Centre-Est, Centre-Ouest) ²¹	4,468.35	8,793.68	Cash
Higher education scholarship	6,121.40	8,100.00	Food/In-kind
School kits	6,742.00	6,741.71	Food/In-kind
Financing familly planning	800.00	6,500.00	Food/In-kind
Food distribution	0.00	6,261.90	Food/In-kind
Suventions for University canteens	5,596.54	5,947.00	Food/In-kind
Support for victims of crisis	0.00	3,918.15	Cash
THIMO (youth and women)	3,815.10	3,815.10	Cash
Health fee waiver for pregnancy	3,000.00	2,817.00	Food/In-kind
Health fee waiver for antenatal and post-natal care	3,000.00	2,126.00	Food/In-kind
Health fee waiver for birth delivery	4,000.00	1,865.00	Food/In-kind
Unconditional cash transfer Sahel et le Centre-Nord	9,626.77	1,812.00	Cash
Subsidized food	5,343.10	289.70	Food/In-kind
Health fee waiver for HIV patient	10,580.00	0.00	Food/In-kind
Spending on the 20 largest SSN	168,915.7	173,462.1	
% of total SSN	79.7	78.1	

 $Source: Based \ on \ CNPS\ 2019\ and\ 2020.\ Note: spending\ on\ boutique\ temoins\ not\ available\ in\ 2019.$

²¹ World Bank-funded "Burkin Naong Saya" cash transfer program, implemented by the Ministry of Women, National Solidarity, Family and Humanitarian Action.



Although spending remains focused on food and in-kind programs, cash transfers targeting the poor have gained in importance in recent years. While food subsidies and school feeding have typically constituted the largest social assistance programs in the country, the share of cash transfers targeting poor and vulnerable populations has increased from 1.8 percent in 2016 to more than 5 percent in 2019, with government and other stakeholders increasingly implementing such programs.²² The World Bank-funded *Burkin Naong Saya*,²³ implemented by the Ministry of Women, National Solidarity, Family and Humanitarian Action, is to date the largest poverty-targeted cash transfer program in the country, and the 7th largest among all social assistance programs in terms of spending.

While 41.4 percent of the population lived in poverty according to the most recent poverty assessment using the national poverty line, social assistance coverage remains low.²⁴ According to latest estimates (2018), about 1 in 5 Burkinabè households benefits from social assistance, with coverage varying greatly among program type. Nearly every second child up to 5 years of age benefits from health fee waivers. In contrast, coverage of other social assistance programs is very low,²⁵ ranging from 0.2 percent for child nutrition *programs*, 0.3 percent for labor-intensive public works (Travaux à Haute Intensité de Main d'oeuvre, THIMO), and 0.7 percent for cash transfers, to 4.9 percent for food distribution, 7.9 percent for the distribution of mosquito nets, and 8.6 percent for school feeding (see Figure 25).

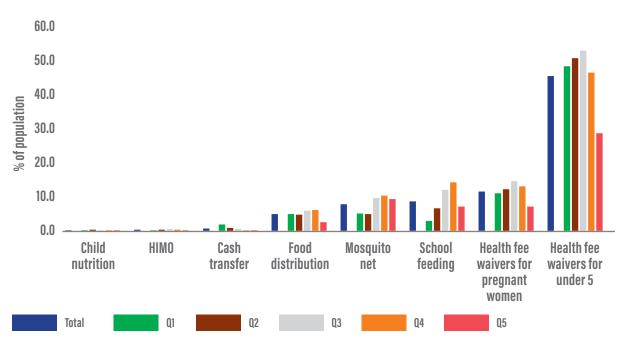
²² This excludes scholarships and cash for work programs.

²³ The Social Safety Net Project (P124015) or "Burkin Naong Saya" with an overall financing envelope of US\$ 156m currently has provided quarterly cash transfers for a period of three years to almost 100,000 recipients and is in the process of expanding to an additional 100,000 recipients, including host communities and IDPs.

The national poverty line is slightly higher than the extreme poverty line used for international comparisons. The analysis in this section uses the national poverty line.

²⁵ Coverage is expressed as a share of the total population, accounting for direct and indirect beneficiaries (I.e. households members living with a beneficiaries).

Figure 25. SSN coverage by program



Source: World Bank staff computation based on EHCVM 2018. Note: coverage refers to direct and indirect beneficiaries, i.e. the number of individuals in the population who live in a household where at least one member receives the transfer

The geographical coverage of social assistance programs could be better aligned with the spatial distribution of poverty. The EHCVM 2018 survey reveals large regional disparities in social assistance coverage, ranging from 6.4 percent in the Center-East region to 43.7 percent in Plateau-Central. Regions with a high prevalence of poverty have also some of the lowest social assistance coverage. For example, the Nord region has the highest incidence of poverty at 70.9 percent but at the same time only 10 percent social assistance coverage. In contrast, the region with the largest social assistance coverage at 43.7 percent (Plateau-Central) has a poverty rate of 34.2 percent, which is below the national average of 41.4 (see Figure 26 and 27). The misalignment of geographical coverage and poverty is driven mainly by the concentration of higher-education scholarships in the capital (Centre).26 Regional disparities are also wide for the national school feeding programs. They cover 20 percent of households in Boucle du Mouhoun, Cascades

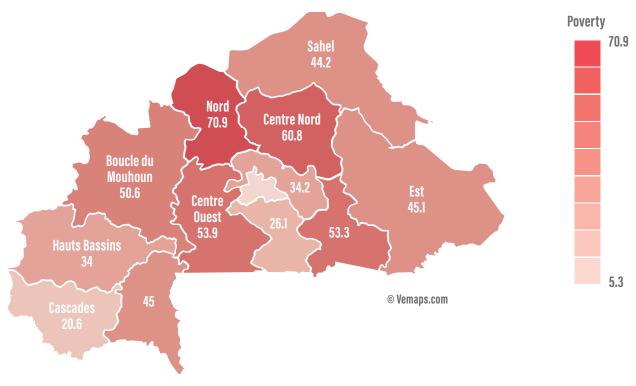
and Haut Bassins regions, but only 2.7 and 0.8 percent in the Nord and Est regions, respectively.

A large part of social assistance is regressive and could be better targeted towards the poor and vulnerable. As most programs are not poverty-targeted but rather rely on categorical targeting, 27 coverage of most programs is smaller for the poorest quintile (Q1) than total coverage. In fact, the distribution of beneficiaries of social assistance programs reveals that most beneficiaries are relatively well-off. As Figure 28 shows, many social assistance programs directly supported by the government and other partners are regressive: overall, about 45 percent of social assistance beneficiaries are in the top two richest quintiles and 17.4 percent in the richest (Q5). Furthermore, three of the largest social assistance programs focus on university students (scholarship, meals, and research), who are typically better off.

As scholarships were not included in the 2018 EHCVM questionnaire, the social assistance coverage in 2018 does not include them. This leads to an under-estimation of the coverage misalignment given the large concentration of such programs in the capital. The underestimation is noteworthy given the increasing spending towards higher-education programs.

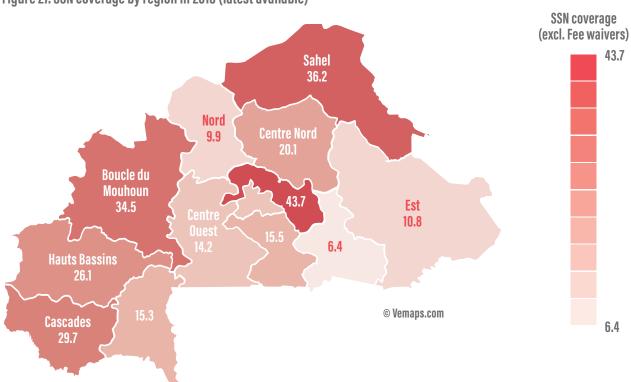
²⁷ Categorical targeting typically involves defining eligibility in terms of characteristics that are easy to observe and difficult to manipulate, such as age, sex, or disability status.

Figure 26. Poverty headcount ratio by region in 2018 (latest available)



Source: World Bank staff computation based on EHCVM 2018

Figure 27. SSN coverage by region in 2018 (latest available)



Source: World Bank staff computation based on EHCVM 2018

01

Health fee waivers for pregnant women

HIMO
School feeding
Child nutrition
Mosquito net
Food distribution
Cash transfer

All SSN (excl. fee waivers)

14.0
16.2
25.4
27.1
17.4
0.0
20.0
40.0
620.0
80.0
100.0

Figure 28. Social safety net targeting, by share of beneficiaries

Source: World Bank staff computation based on EHCVM 2018. Note: beneficiaries' incidence shows the proportion of beneficiaries in each group

Q4

05

03

Cash transfers show the best poverty-targeting with almost 80 percent of beneficiaries being in the bottom two quintiles (see Figure 28). This is the case for the World Bank-funded *Burkin Naong Saya* program, in which the share of beneficiary households who belong to the poorest two quintiles is 76.6 percent. Therefore, establishing a nation-wide and targeted cash transfer program would be key to tackle poverty in Burkina Faso. In fact, the size of the actual poverty gap in equals 6 percent of gross domestic product.²⁸ This is close to the actual spending on social assistance and subsidies, which means that with a better targeting poverty could be reduced drastically, without increasing current expenditure.

02

Financing sustainability is also key to establish a long-term vision for social assistance programs. About a quarter of social assistance programs are financed by more than 30 different international partners (including multilateral and bilateral partners as well as NGOs). Sustainability is also challenged by expenditure delays, resulting in low financial and physical execution rates (which only reach 57 percent of the allocated social assistance budget, and cover 45 percent of beneficiaries

in the final target). However, given that social assistance spending in Burkina Faso (2.4 percent of GDP) is higher than the average of the sub-Saharan countries (1.53 percent), the challenge is more about refocusing social assistance programs than mobilizing additional resources.

By redirecting energy subsidy expenditures toward targeted safety net programs, poverty and inequality would be reduced. Gas and fuel subsidies—in the form of subsidies to the national gas and fuel companies—accounted for 0.6 percent of GDP in 2019, which is equivalent to a quarter of the total social assistance budget. One of the fundamental problems with these energy and fuel subsidies is that they are disproportionately concentrated in the hands of the richer segments of the population. Simulations show that phasing out energy subsidies would not increase poverty and that reallocating the savings from phasing out energy subsidies towards an unconditional cash transfer would lead to a substantial reduction in the poverty headcount ratio by up to 7 percentage points (at neutral budget impact).29

²⁸ Expressed as the weighted sum of the difference between household consumption and the national poverty line across all households.

Assuming a top-up transfer in the poorest four regions. Simulations are based on EMC 2014. EHCVM 2018 do not allow replicating the analysis as the market price of gas and fuel at the province level is not collected. Estimates for 2019 spending on subsidies are based on CNPS 2020 and include only allocations to the national companies, and not the forgone taxation revenues.

3.2. TOWARDS A MORE EFFECTIVE SOCIAL PROTECTION SYSTEM

Strengthening Burkina Faso's social assistance system and ensuring its shock-responsiveness would rest on three reform pillars. First, institutionalizing integrated social protection delivery systems, including a social registry, foundational identification, and payment system. Second, establishing a national social safety net program, including a sustainable governance framework. Third, enhancing the efficiency and sustainability of financing for social protection through subsidy reform among others. Together, the proposed reforms would increase the efficiency of public spending in Burkina Faso, reduce drivers of conflict, ensure equity, and build human capital.

A social registry and unique identification are critical.

These two instruments are necessary to swiftly and efficiently target the poor, to strengthen coordination and to avoid the overlap of benefits and services and the duplicative use of scarce public resources. Overall, strengthening the country's social protection delivery systems would contribute to reducing fragmentation, enhance coordination, ensure a more efficient use of scarce public resources and strengthen the responsiveness of the system to covariate shocks. Ultimately, the social registry would become the centerpiece of a programmatic, coherent, coordinated, and integrated approach to social protection in Burkina Faso.

Second, establishing a national social safety net program is key to reducing poverty in Burkina Faso.

With the national social protection strategy (2013-2022) expiring soon, there is an opportunity to elaborate a new vision which would be articulated around a national pro-poor cash transfer program. Such a program, if implemented country-wide, will have a strong impact in immediate poverty reduction, in social cohesion, and in increasing human capital for future generations. A programmatic approach will also be important to strengthen coordination among actors, align interventions and therefore contribute to the overall efficiency of social protection in Burkina Faso. A nation-wide safety net program will also be a strong instrument to respond timely to future covariate shocks through a horizontal (more beneficiaries) or a vertical (temporary increase of the distributed amount) scale-up of cash transfers.

Lastly, reforming currently regressive social assistance spending towards progressive expenditure would enhance the poverty impact of social protection. There are already several examples in African countries that have engaged reforms to mobilize fiscal space and establish a nation-wide and pro-poor safety net program.³⁰ This would entail reforming regressive subsidies, capitalizing on efficiency enhancements through a programmatic umbrella and integrated social protection delivery systems, and gradually scaling up poverty-targeted safety nets. This will also entail reforming the programs which are not targeting the poor to mobilize financing for pro-poor programs.

ANNEX: EMERGENCY RESPONSE PLAN

Overview of the Emergency Response Plan						
HEALTH MEASURES: These measures aim at controlling the spread of the virus and bringing the local outbreak under control						
 Communication campaigns for awareness and prevention Lab testing of suspected cases Contact-tracing 	 Isolation (in hosting facilities) and monitoring of at-risk cases Clinical trials on Hydroxychloroquine Treatment of patients 					
SOCIAL MEASURES: These measures aim at mitigating the negative economic consequences of the pandemic on vulnerable and low-income households, and in some cases, on the entire population						
 3 months coverage of water bills for low income population-in 2020 3 months coverage of electricity bills for low income population-in 2020 Cancellation of penalties on electricity and water invoices 	 Free distribution of food and hygiene kits to low income households for three months Cash transfers to vulnerable and low-income households Suspension of payment for shop rent, parking fees, and security fees in and around markets 					
 Reduction by 50 percent in the cost of solar kits for low income households Securing stocks of goods and reinforced price Reactivation of social food shops 	- Establishment of a solidarity fund for the benefit of the informal sector and women					

Overview of the Emergency Response Plan

FISCAL MEASURES: These measures aim at mitigating the negative economic consequences of the pandemic on MSMEs and building their resilience

General tax relief

- Cancellation of penalties for delays in the execution of public contracts and orders
- Automatic forgiveness of penalties and fines due for the months of April, May, and June 2020
- Suspension of tax recovery proceedings
- Direct tax rebates as part of an individualized review of applications in extreme cases

Import tax relief

- Exemption of import duties on rice and milk
- Exemption from value added tax on the sale of products used in the fight against COVID-19
- Exemption from taxes and customs duties on pharmaceuticals, medical consumables and equipment used in the fight against COVID-19

Individuals/households tax relief

 Extension of deadline for payment of motor vehicle tax from March 31 to June 30, 2020

Labor tax relief

- Suspension of Employers Apprenticeship Tax on salaries from April to June 2020 for the benefit of companies in passenger transport and hotel sectors
- Deferment of tax and social security obligations (taxes paid on salaries, pension and medical funds, and value added tax) for solvent companies hit by the pandemic over a six-month period

Sector-specific fiscal relief

- Reduced value added tax rate of 10 percent for hotels and restaurants
- Elimination of charges and taxes imposed on the organization of cultural activities
- 25 percent reduction of the patent in favor of companies in the passenger transport, hotel, and tourism sector
- Exemption of contribution of micro-enterprises in the informal sector from April to June 2020

RECOVERY MEASURES: These measures aim at boosting the economy and ensuring a sound recovery

- Establishment of an economic recovery fund for companies in difficulty

- Establishment of a solidarity fund to support the informal sector

 $Source: World\ Bank\ staff\ compilation\ based\ on\ reports\ from\ MINEFID.$

Costing of the Emergency Response Plan (amounts in US\$ million)					
	Total cost to be split in 2020, 2021, 2022 finance laws	Amount budgeted in 2020 revised finance law	Amount budgeted in 2021 revised finance law		
Health Emergency Response Plan	312	149	5		
Patients treatment	102	49			
Prevention and disease control	88	32			
Logistics	79	54			
Laboratory	16	9			
Response coordination	15	4			
Monitoring	10	1			
Communication	2	1			
Social Measures	128	66	40		
Water bills	9	6	3		
Electricity bills	25	18	8		
Reactivation of SONAGESS shops	7	-	12		
Cash transfer	20	-	-		
Solar kits	10	1	9		
Food, hygiene and dignity kits	42	41	-		
Shop rents and space rights in markets, security fees and free parking for taxis	6	-	-		
Awareness campaign and access to fresh products for everyday consumption	9	-	-		
Recovery Measures	267	200	55		
Subsidies to private sector	176	123	55		
Agricultural inputs and animal feed	53	53			
Subsidies to the women in the informal sector	9	9			
Infectious disease research and drug production	26	9			
Arrears in the tourism and cultural sectors	3	6			
Total	708	416	100		
Total (% of 2020 GDP)	4.6	2.7	0.6		

 $Source: World\ Bank\ staff\ calculations\ based\ on\ reports\ from\ MINEFID.$



