

# Burkina Faso Social Safety Nets Review:

*Energy subsidies in focus*

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# PRESENTATION OUTLINE

- ❑ Purpose
- ❑ Key findings
- ❑ Recommendations



# PURPOSE

In a context of limited public finances and budget constraints there is a need to ensure that the resources allocated for social protection, - and in particular **social safety nets** - are **cost-effective in reducing poverty and vulnerability**. This Social Safety Nets (SSN) review responds to the Burkinabe Ministry of Finance's request to take stock of the country's social protection programs, in particular social safety nets.

## THE OBJECTIVES ARE TWOFOLD:

1. To identify the social safety nets gaps by assessing whether what is being offered is commensurate with the needs
2. To assess the overall social safety nets performance and contribute to a consolidation of expenditure

# PURPOSE

In addition, the study also wanted to shed some light on the below issues:

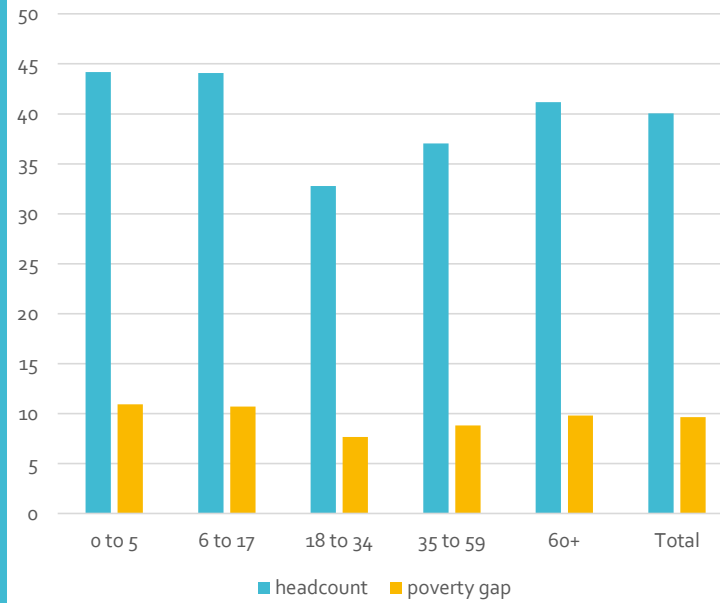
1. How energy subsidies interplay with social safety nets
2. The impact of subsidies on households welfare
3. Propose alternative scenarios pertaining to the removal of subsidies (with a focus on gas subsidies)

# KEY FINDINGS

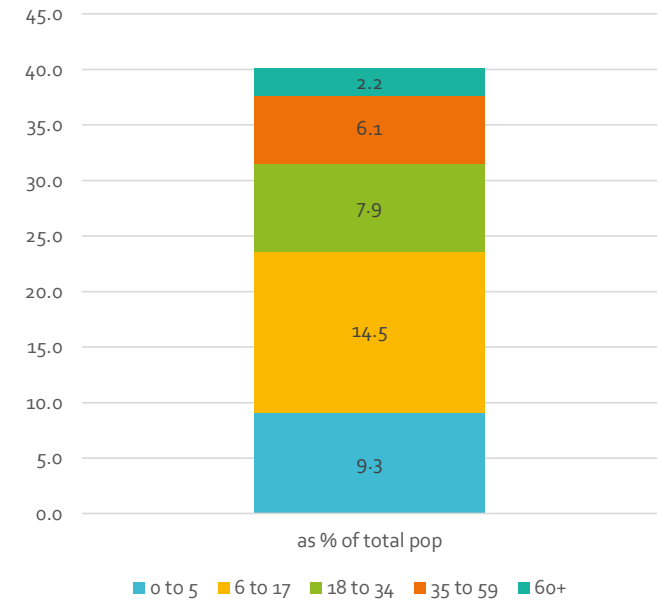


Poverty and vulnerabilities vary along the **life-cycle**

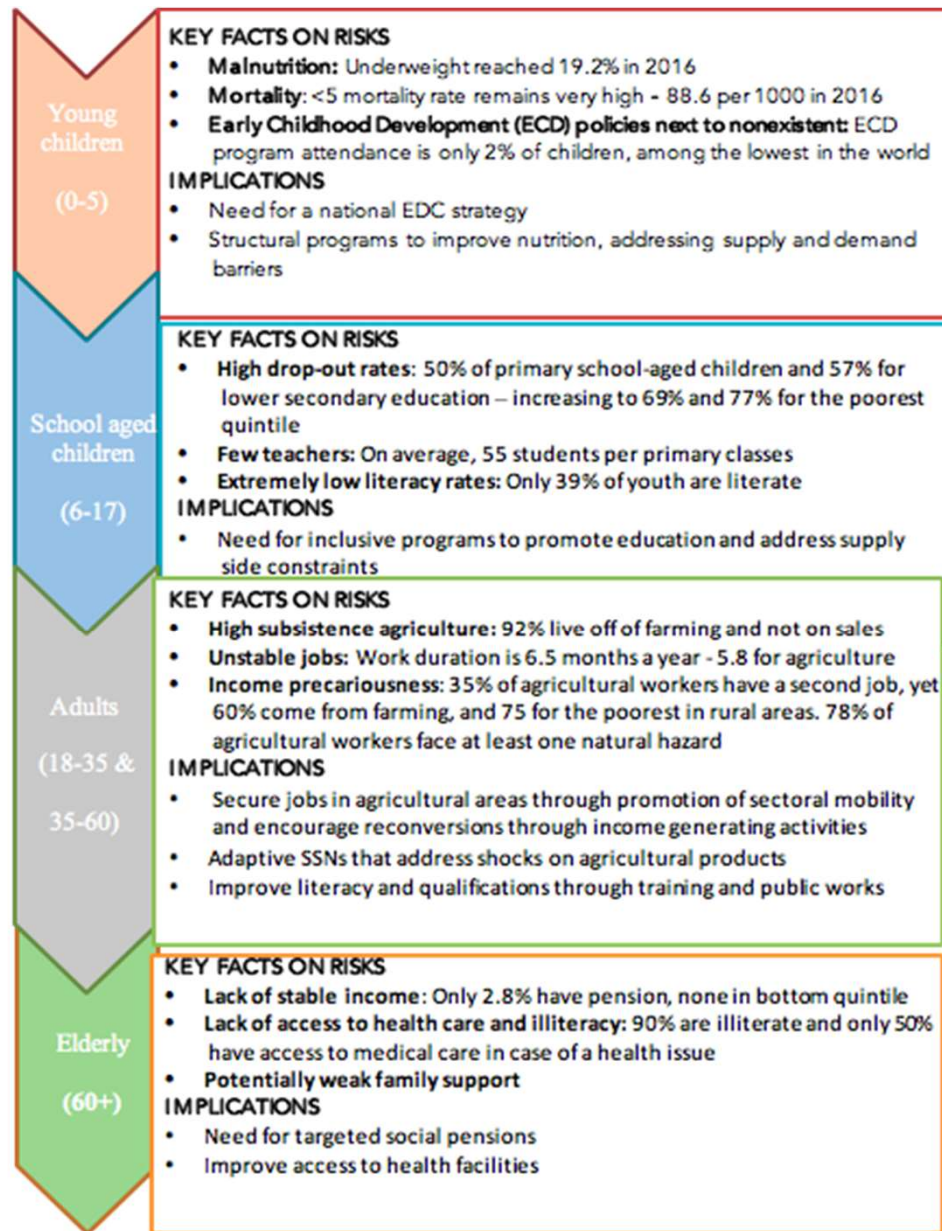
Poverty headcount and gap by age category



Composition of headcount ratio by age



A different approach  
may be needed  
depending on  
life cycle stage





## SOCIAL SAFETY NET NEEDS

Burkina Faso's daunting development challenges call for effective social protection policies, especially **Social Safety Nets (SSN)** in promoting poverty reduction, reducing vulnerability and accelerating human capital accumulation.

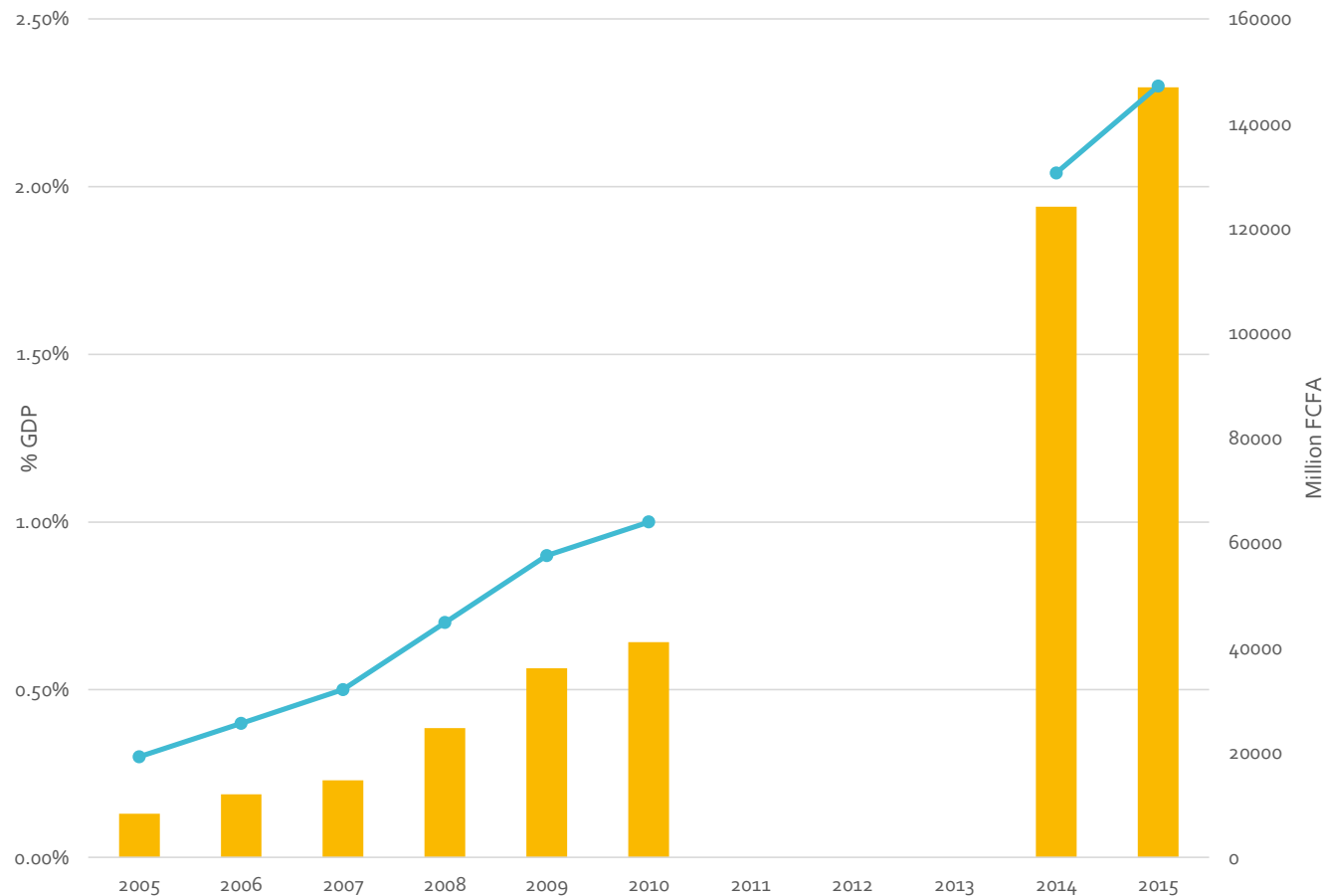


**A sharp increase:** SSN expenditure increased to 2.3 percent of GDP in 2015, from 0.3 percent in 2005

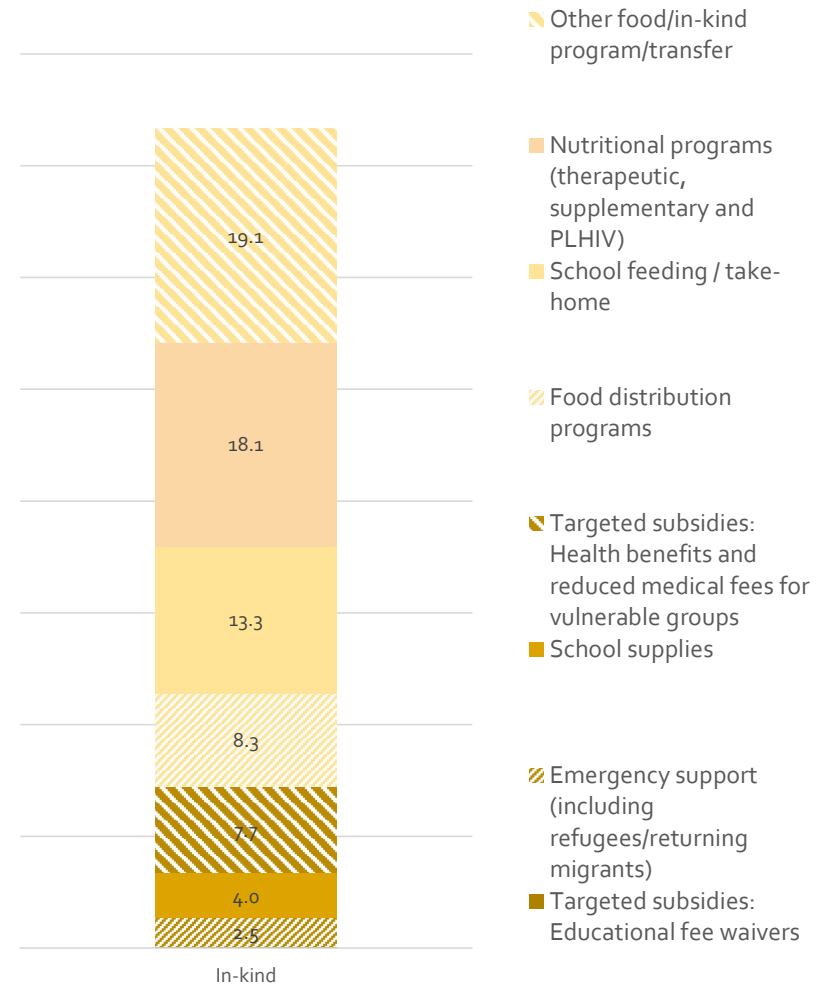
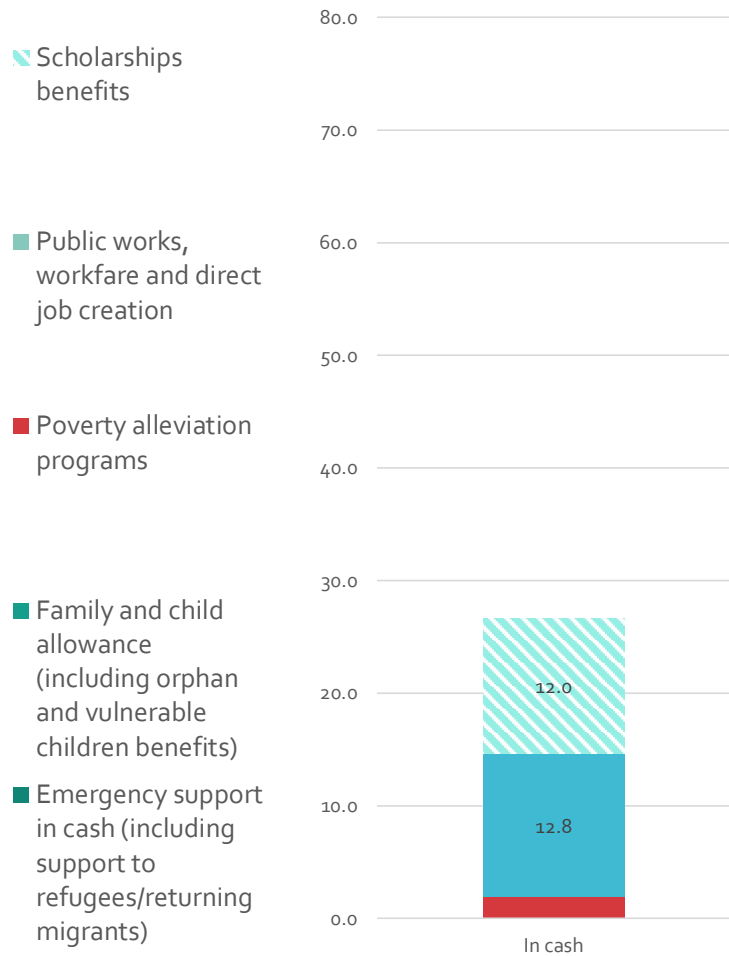
Burkina Faso spends more, on average than other sub-Saharan countries

Government appetite for SSN is reflected in its increasing investments

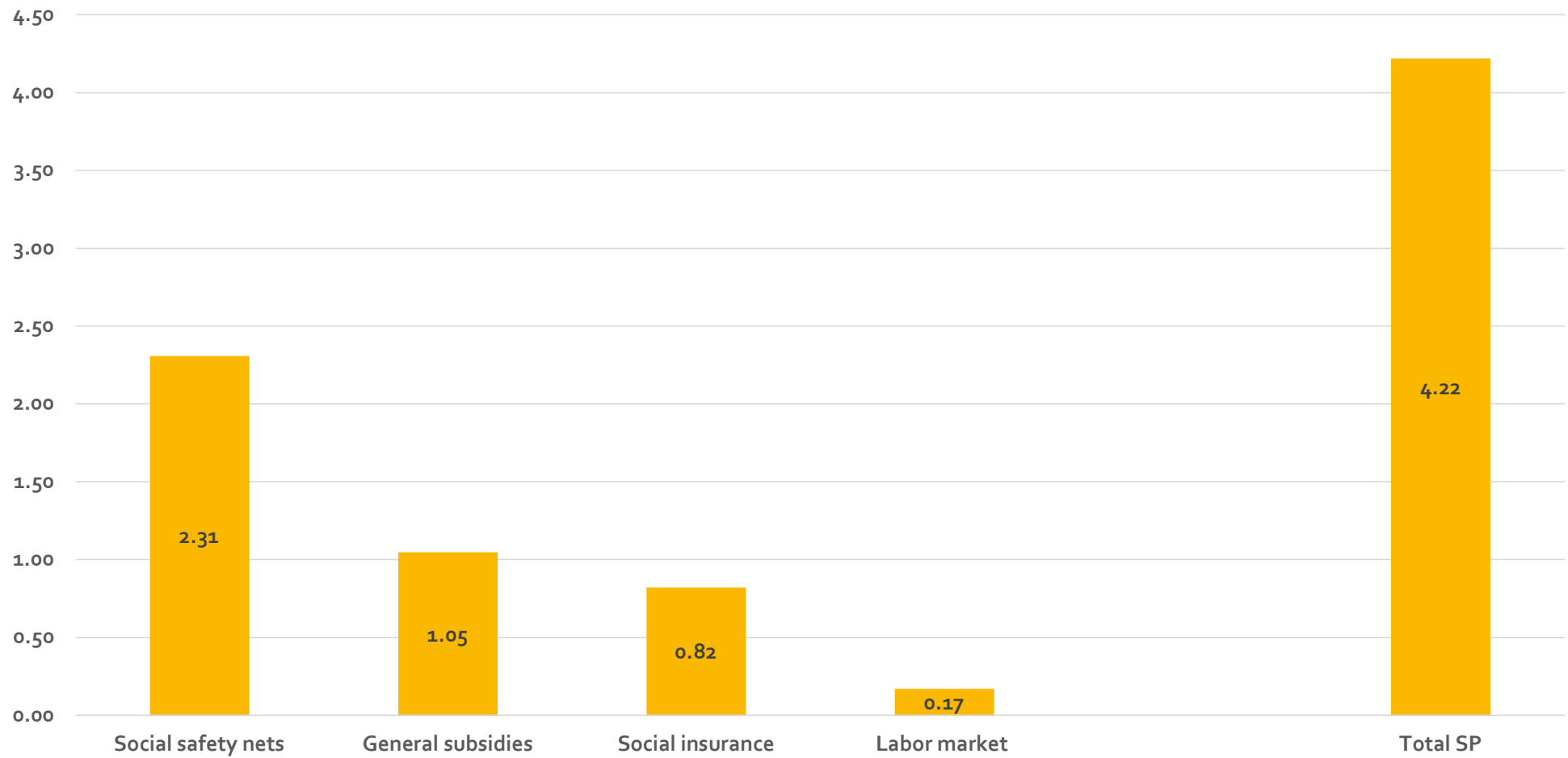
**SOCIAL SAFETY NETS EXPENDITURE, PERCENT OF GDP (2000-2015)**



## SOCIAL SAFETY NETS EXPENDITURE IS MAINLY IN KIND ONLY 27% OF EXPENDITURE IS IN CASH



## SOCIAL PROTECTION EXPENDITURE (2015)



# Subsidy expenditure

## Includes several energy items

- ***Gas: 0.36 % of GDP***

- ***Fuel: 0.23 % of GDP***

- ***Electricity: 0.33 % of GDP***

❖ High compared to the cost of the largest SSN programs:

❖ School canteens: 0.30% of GDP (15% of SSN spending)

❖ Cash for the vulnerable: less than 0,01% of GDP in 2015 (1,8% of SSN spending)

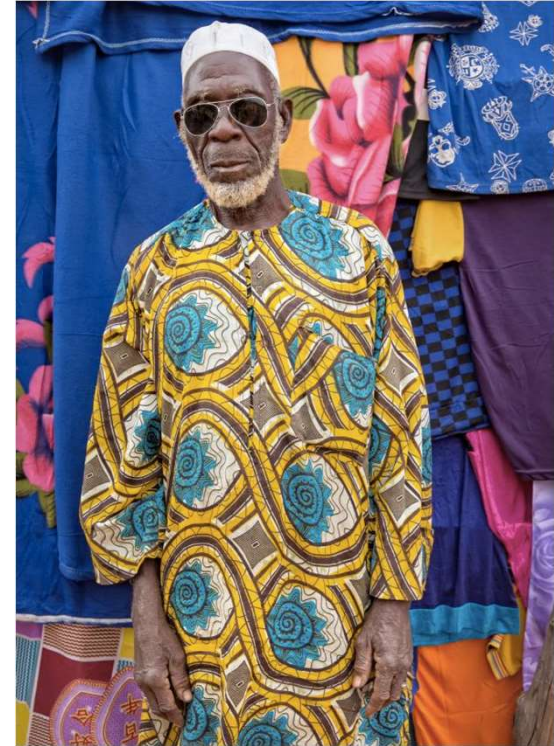
Energy subsidies  
- a downward  
trend

**General subsidy expenditure – a downward trend** - yet still constitute an estimated 1.05 percent of GDP (2016)

**A major shift in social protection expenditure can be discerned.** Electricity subsidies have weighed down the national budget during the last decade but since 2016 the the Government has taken major steps to address this .

**The Government is keen on finding more effective and less expensive methods of protecting the poor.** There is an increasing awareness that fuel and energy subsidies are disproportionately concentrated in the hands of the rich.

DO THE PROGRAMS  
MEET THE NEEDS?





High expenditure does not necessarily equate effective spending or maximum impact

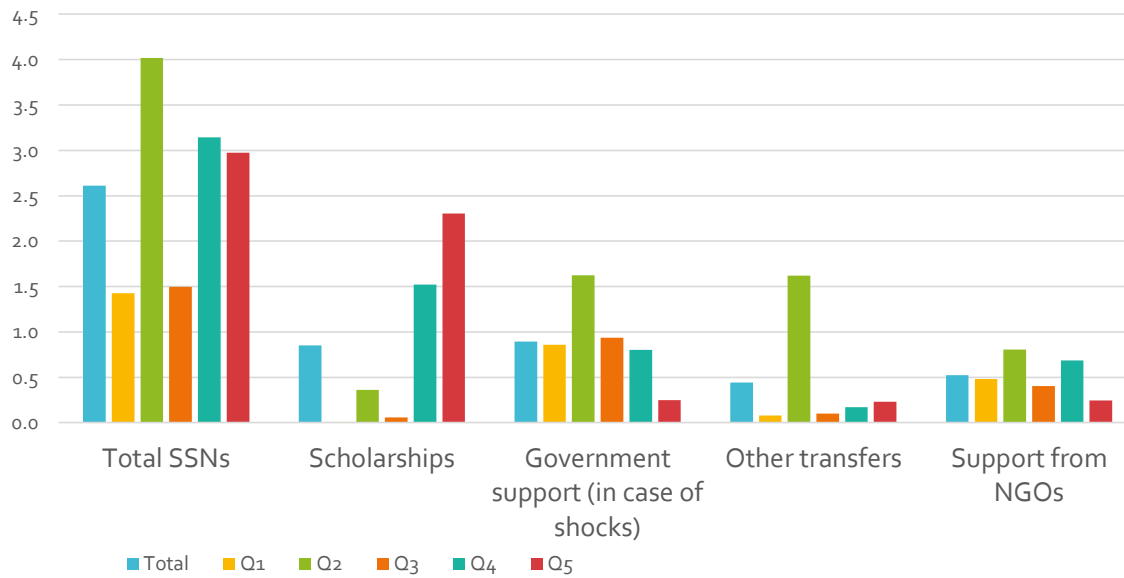
Numerous factors affect program impact on poverty and inequality, such as:

- Program coverage
- Transfer level
- Targeting

Significant gaps in coverage and benefit levels remain

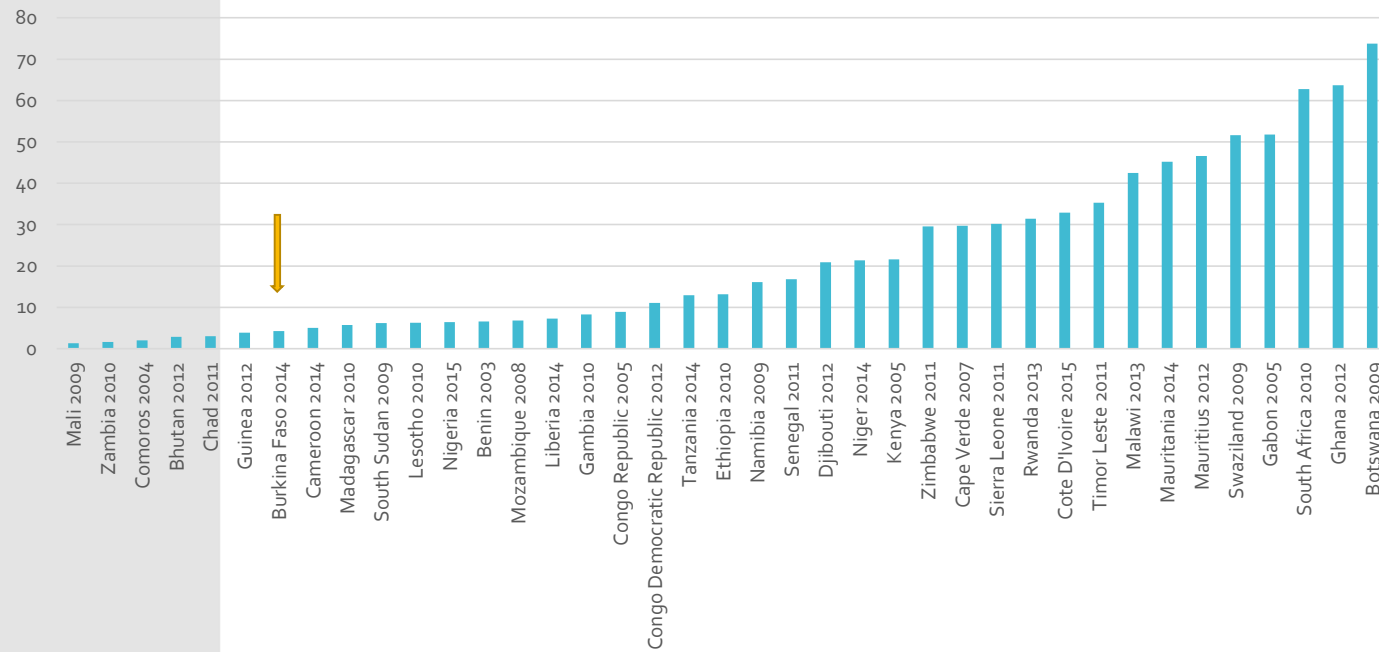


**Only 2.6 percent** of the entire population benefit from safety nets, despite **40.1 percent** poverty



Social safety net coverage remains inadequate

SSN coverage in Burkina Faso remains inadequate considering the massive needs, as reflected by the high poverty rate and one of the lowest levels of SSN coverage in the region



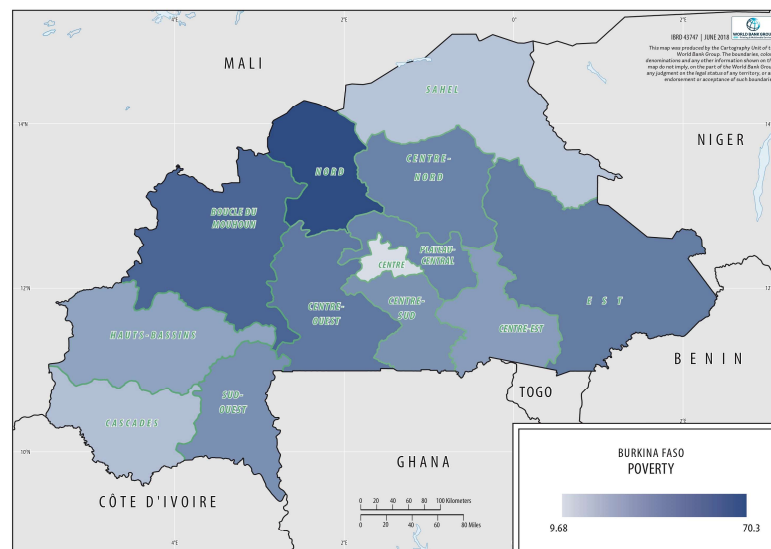
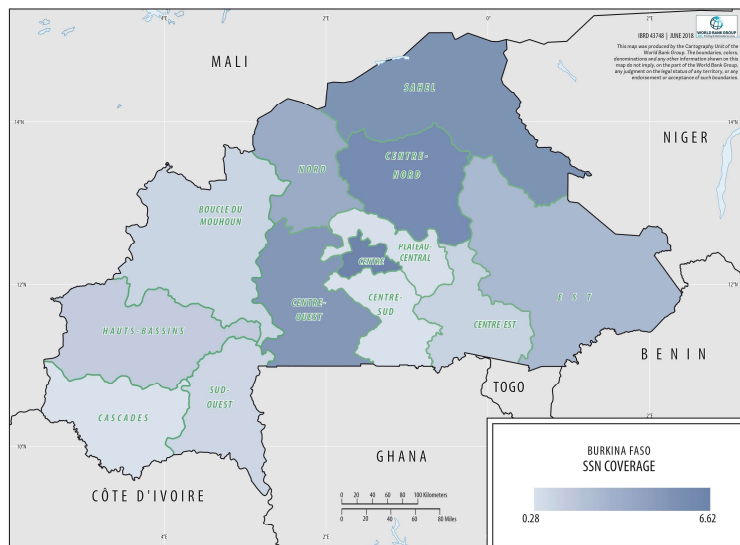
Social safety net coverage remains inadequate

## Adults & the elderly

- Low productivity in the agricultural sector and high prevalence of subsistence agriculture, is addressed by **programs that aim to boost production**
- **The need to create secure jobs** is addressed by several safety nets programs
- **Cash transfer programs** targeting poor household remains low
- **Gender issue** are addressed by few programs - the PEJDC program being an exception
- **The elderly**, are not the focus of any of the program

| Program name  | Target group                             | Region  | Coverage in 2015 (households)      |
|---|--|---|------------------------------------|
| Social Safety net project "Burkin-Nong-Saya"  | Poor/vulnerable households with children | Regions of Nord, Est, Center-Est, Center_ouest, Sahel | 15000 (increased to 81558 in 2018) |
| Unconditional cash transfer to poor in Sahel and Center-North regions   | Poor/vulnerable                          | Regions of Sahel and Center-North                     | 2770                               |
| Unconditional cash distribution operations (supplement to cereal distribution, in particular in SOUM and OUDALAN) | Poor/vulnerable                          | Soum and Oudalan (Sahel region)                       | 27000 (target)                     |

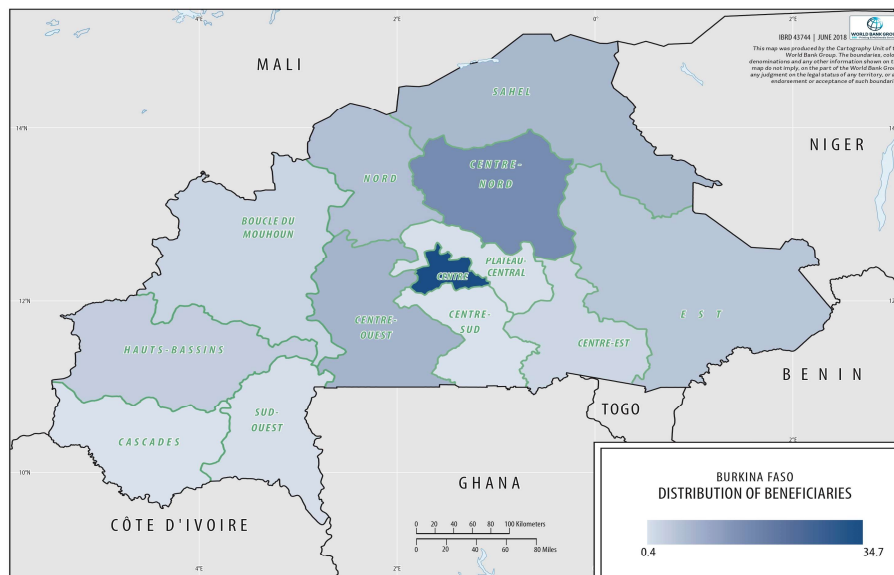
Social safety net coverage remains inadequate



Social safety net coverage is not aligned with poverty across regions

Social safety nets programs mainly target beneficiaries on a geographical basis, but selection of areas of intervention is not well aligned with levels of poverty

Geographical targeting rely mainly on the SAP, which is often combine with the HEA poverty targeting method, these two methods have preliminarily been used to reduce vulnerabilities with respect to shocks and increase food security



Targeting is not aligned with poverty

Gaps  
identified:  
**Next steps?**

- ❖ Show that it is possible to achieve better results with the actual budget for social safety nets (proposition of reallocation, etc.)
- ❖ Show that next to social safety nets, some funding could be reallocated from general price subsidies

Given the low coverage and poor targeting, the impact of social safety nets on poverty is low

The size of the actual poverty gap represents 2.26 percent of GDP, which is close to actual spending on SSN. This indicates that with better targeting, Burkina Faso could technically eradicate poverty!

It is possible to close the poverty gap!



# SIMULATIONS:

Subsidies

*versus*

Social safety  
nets

Another way to improve the effectiveness of SSNs and enhance pro-poor spending would be to ***shift expenditure toward transfers that are regressive***

**The simulation exercise therefore has two objectives:**

- (i) confirm that **energy subsidies are regressive** and
- (ii) estimate what **the impact on poverty would be** if – for the same social protection budget – expenditure would be shifted away from non-pro poor subsidies (i.e. the case of gas) toward pro-poor social safety nets.

## SIMULATIONS: Method

The simulations were performed **using ECM 2014 data**, as well as **administrative data** provided by the counterparts.

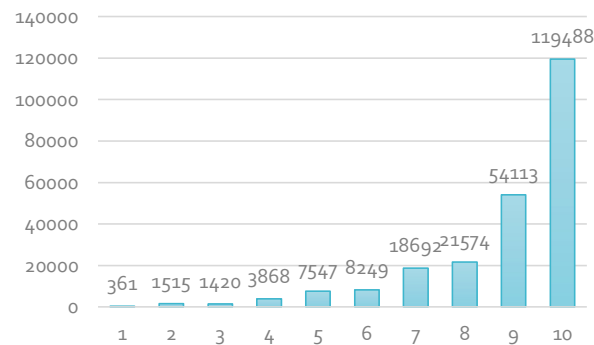
1. ECM data was used to **compute the annual consumption of various energy products** by household (by summing quarterly data over individuals in each household) and to look at how subsidy expenditures were distributed across the various welfare categories

# ENERGY CONSUMPTION:

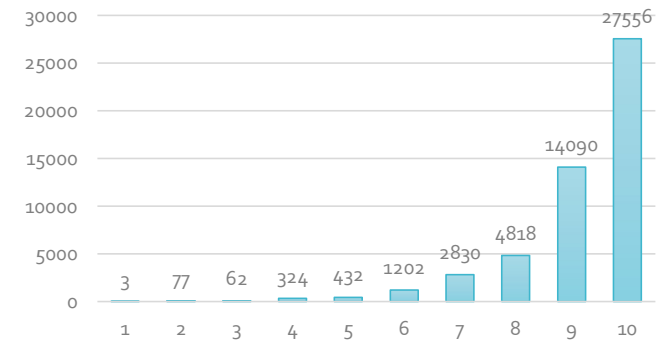
The subsidies do not benefit the poor

Rich households spend more than poor households on energy products

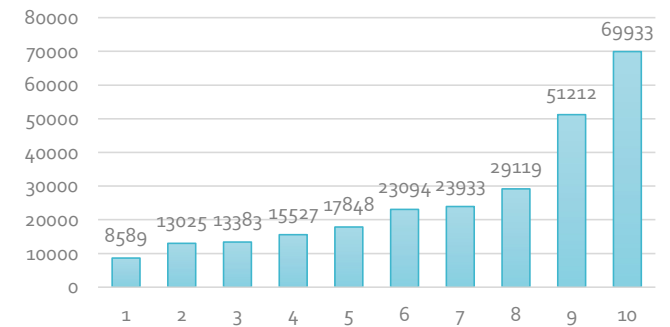
CFA per HH spent on electricity



CFA per HH spent on gas



CFA per HH spent on 'essence'



## SIMULATIONS: Method

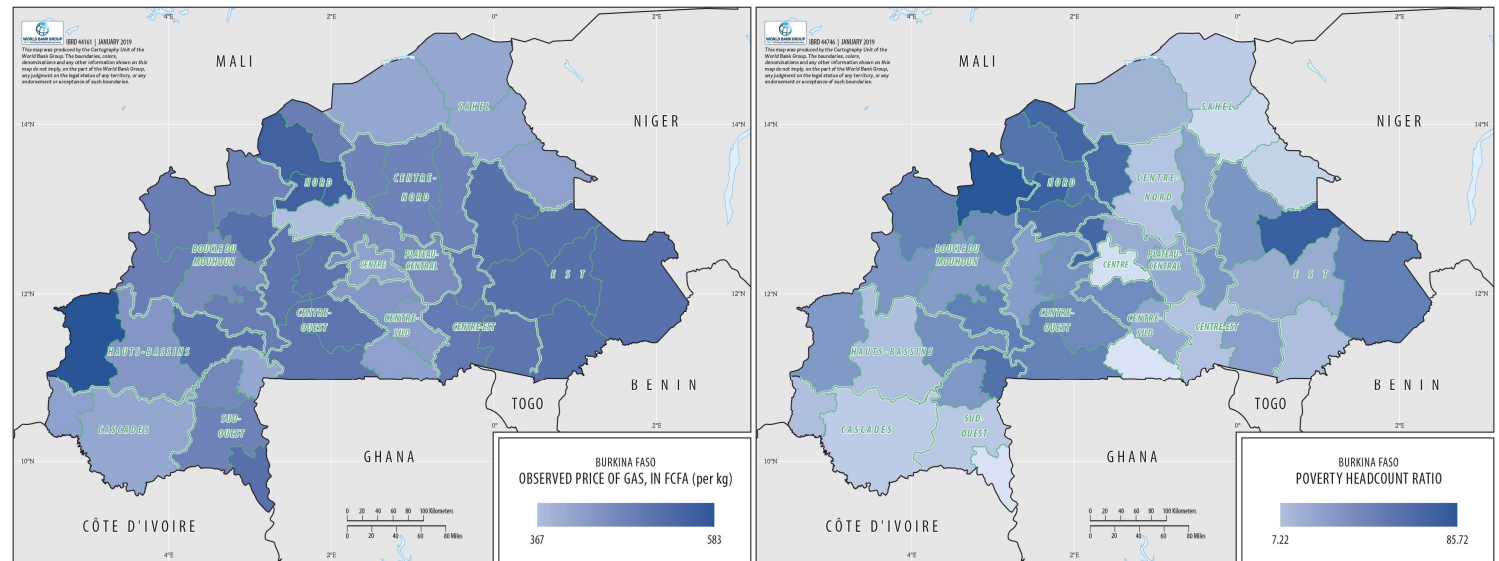
2. Then estimate **what the impact would be on their consumption - without energy subsidies**
  - ❖ Need to know the **quantity of gas consumed by households** (not given in the survey): the “price dataset” of the ECM 2014 was used to estimate the latter. The price dataset includes the prices of a large set of goods and services by quarter.
  - ❖ The “price dataset” is collected at the community level (not household nor individual levels), and yearly prices of energy products were estimated using the average of quarter prices in each province. The yearly prices of energy products therefore represent the post-subsidies prices.

Unsurprisingly, the prices vary by province as both market prices and subsidies vary across the 45 provinces.

Energy products are often more expensive in poor areas

The post-subsidy price as estimated using ECM 2014 data shows that **the price is not aligned with poverty, the price is higher in provinces that record high poverty rates:**

➔ Gas subsidies is therefore not used as a pro-poor policy.



## SIMULATIONS: Method

3. Once we have the quantity consumed by household we need to know what the **market price** of gas is (i.e. the pre-subsidy price)

- ❖ was taken from legal agreements between the Ministry of Infrastructure and Ministry of Economics and Finances.
- ❖ Since the market price is also influenced by transportation costs and country provision of gas, it was estimated at the provincial level to reflect this heterogeneity

➔ **Impact of removing gas subsidy:** Create new welfare aggregate using the quantity of gas consumed \* market price of gas

# Note on market price

|                                  | EX- ABIDJAN   |               | EX- TEMA      |               | EX- COTONOU  |               |
|----------------------------------|---------------|---------------|---------------|---------------|--------------|---------------|
|                                  | Ouaga         | Bobo          | Ouaga         | Bobo          | Ouaga        | Bobo          |
| Prix de vente sortie depot TTC   | 699,67        | 681,24        | 688,93        | 714,56        | 689,7        | 715,33        |
| Subvention                       | -508,84       | -481,41       | -498,1        | -514,73       | -498,87      | -515,5        |
| Frais et marge marketeur         | 88,5          | 79,5          | 88,5          | 79,5          | 88,5         | 79,5          |
| Frais et marge détaillant        | 54            | 54            | 54            | 54            | 54           | 54            |
| Prix de vente au détail          | 333,33        | 333,33        | 333,33        | 333,33        | 333,33       | 333,33        |
| <b>Prix réel sans subvention</b> | <b>842,17</b> | <b>814,74</b> | <b>831,43</b> | <b>848,06</b> | <b>832,2</b> | <b>848,83</b> |

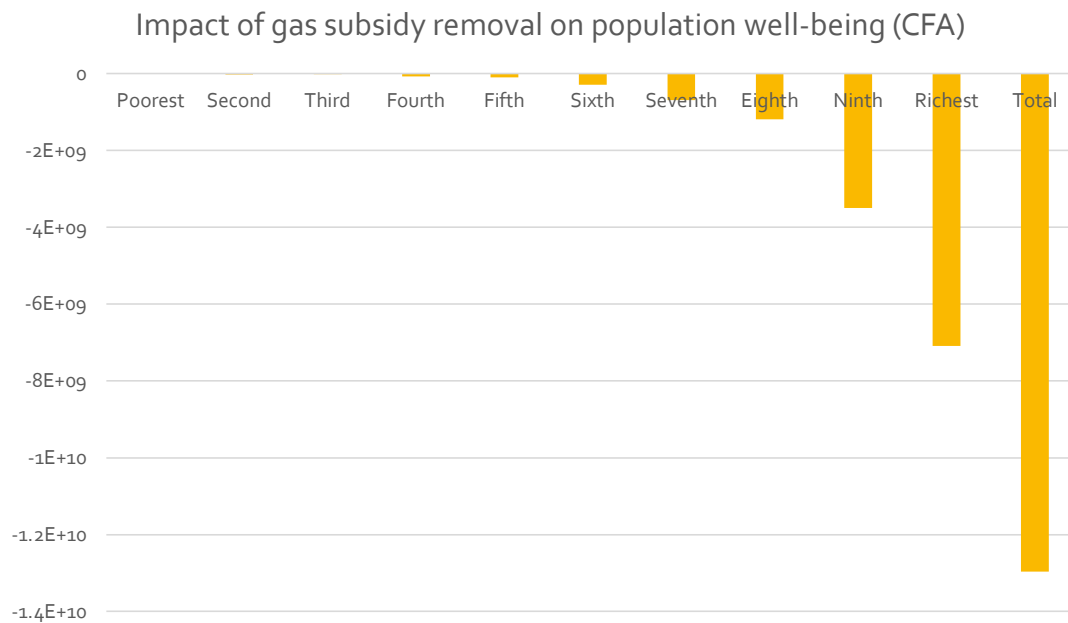
+ the cost also varies by region (including transportation costs)

➡ We used an average price pre-subsidy and add given transport cost by region



The removal of gas subsidies would **not affect the poor**, rather it would mainly impact the richest quintile → post-reform simulated poverty is still 40.1 percent.

**The removal of subsidies would generate a total savings of 12.9 billion FCFA**



The removal of energy subsidies would not impact the poor

|                              | w/ subsidies                                   | w/o subsidies  | w/ transfer 1  |
|------------------------------|--|--|--|
|                              | Current situation, gas consumption subsidized. | Situation after gas subsidy removal. Savings from removal not spent. | Savings divided equally among the poor, i.e. those where p <sub>cexp</sub> < 153530 CFA. |
| <b>Total cost (CFA)</b>      | 13 billion*                                    | 0  | 13 billion*  |
| <b>Beneficiaries</b>         | <b>97.244</b>                                  | <b>0</b>   | <b>7.375.787</b>   |
| <b>Transfer amount (CFA)</b> | -  | -  | 1757   |
| <b>Headcount</b>             | <b>40,1%</b>                                   | <b>40,1%</b>   | <b>39,2%</b>   |
| <b>Poverty gap</b>           | 0,09666  | 0,09668  | 0,09215  |
| <b>Gini</b>                  | 0,35553  | 0,35402  | 0,35115  |

Redirecting gas expenditure toward safety nets would lead to improvements in poverty and inequality

# RECOMMENDATIONS



## RECOMMENDATION I:

Strengthen the governance of the social safety nets system

**Action 1:1** Create a framework for multi-sectoral coordination

**Action 1:2** Monitor and evaluate program effectiveness and impact – and address accordingly

**Action 1:3** Strengthen public expenditure management

**Action 1:4** Include citizens in the oversight of execution and delivery



## RECOMMENDATION II:

Improve the targeting of programs for the poor and vulnerable and move away from regressive spending

**Action 2:1** Spread the use of a proven targeting system

**Action 2:2** Build a national registry

**Action 2:3** Shift spending from universal subsidy programs towards programs targeting poor





## RECOMMENDATION III:

Use social protection expenditure to build human capital where it matters the most: such as Early Childhood Development, literacy.

**ACTION 3.1:** Link social assistance programs to human capital building along the lifecycle

**ACTION 3.2** Invest in basic skills training for adults



## RECOMMENDATION IV:

Adaptive social protection: improve the capacity of SSN programs to respond to shocks (pre/during/post shock)

**ACTION 4.1** Develop and test shock responsive benefits

**ACTION 4.2** Strengthen the early warning system

