



Analysis of the business environment in Least Developed Countries

Burkina Faso

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Burkina Faso

Region

West Africa - West African Economic and Monetary Union (WAEMU)

Population

19,751,535

Demographic growth

3.07%

GDP per capita (2020)

830.9 USD

Human Development Index:

0.452 (182/189)

Economic overview

It should be noted that, despite the government's efforts to reform the legislative and regulatory framework for improving the business environment, including the simplification of numerous administrative procedures introduced by sectoral policies, life for entrepreneurs in Burkina Faso remains difficult. Indeed, there are still challenges relating to security in the country, business creation, access to infrastructure, obtaining credit, cross-border trade and excessive taxation, coupled with the negative effects of COVID-19.



Regarding the socio-economic impact of the COVID-19 health crisis in Burkina Faso, the United Nations Development Programme (UNDP) notes that the response plan with the lockdown and mitigation measures taken by the government has had negative consequences on the production of and demand for goods and services, commercial activities and the well-being of the population in general and informal sector workers in particular.

For example, with regard to the supply of goods and services, both the quantity and quality of labour input has been impacted. Lockdown has led to the loss of production and inactivity of a part of the previously employed population, particularly in the informal sector. The informal sector accounts for a large part of GDP in Burkina Faso, and 70 per cent of total non-agricultural employment (nearly 95 per cent of workers in the Ouagadougou conurbation). In addition, the tourism, culture, trade (restaurants and hotels) and transport sectors (23.8 per cent and 8.9 per cent of GDP in 2019, respectively) are as much impacted as the informal sector.

With regard to demand for goods and services, COVID-19 had the following negative impacts: (i) a drop in household consumption. Indeed, as household incomes have fallen due to the loss of production, consumption in the medium and long term has a cost; (ii) a fall in private and public investment and credit to the economy for the recovery of the private sector; (iii) a reorganisation of the central government budget. Indeed, the drop in economic activity has led to a drop in tax and non-tax revenues; (iv) a drop in public investment spending in favour of social spending and especially health spending directly linked to COVID-19, which further widens the budget deficit; (v) a slowdown in foreign trade, due to the drop in prices of the main export products, coupled with the closure of the borders of importing countries.

From a social point of view, the crisis has aggravated the poverty challenges facing households, especially informal sector workers and promoters. As a result, there has been an increase in inequality with a risk of increased insecurity and social protests. In fact, the

country has been facing widespread insecurity since 2016, a situation which is particularly acute in the tri-border regions of Burkina Faso, Mali and Niger.

Challenges faced by the private sector

According to the findings of the Integrated Regional Survey on Employment and the Informal Sector (ERI-ESI) carried out in 2018, there are 2,290,418 informal production units (IPUs), mostly in rural areas (68 per cent). The main challenges to improving the business climate in Burkina Faso include:

- **The country's fragile situation linked to the political crisis led by the various political parties combined with conflicts, notably armed attacks by jihadist groups** - Since the beginning of the Sahel crisis, jihadist groups have regularly perpetrated numerous attacks in the capital, Ouagadougou. This may deter foreign investors from investing further in Burkina Faso.
- **Informality** - The informal economy is estimated to account for 91.8 per cent of total employment. This indicates that despite the political crises, the country is making economic progress, even though the annual growth rate of GDP per capita has declined relatively from 6.51 per cent in 2018 to 5.70 per cent in 2019. However, much remains to be done in terms of development, particularly with respect to improving the private sector.
- **A still weak manufacturing sector** - The manufacturing sector employs only 19.7 per cent of the workforce in Burkina Faso.
- **Informality is more prevalent in key sectors of the economy** - The three main non-agricultural sectors with a large informal labour force are trade (48 per cent), industry (37.6 per cent), and services (14.3 per cent).
- **Poverty affecting more households and women** - The state of poverty in Burkina Faso is becoming a serious concern, with 23.9 per cent of the workforce earning less than the minimum wage. However, there are gender disparities: 31.2 per cent of women earn less than the minimum wage, compared to 18.2 per cent of men.
- **An insufficient employment system in terms of job creation** - Overall, the average duration of unemployment is estimated at 4.5 years. The average duration of unemployment is longer among young jobseekers, especially first-time jobseekers, than among older workers, at 5.1 years and 2.4 years respectively, which reinforces the weight of the informal economy.
- **An informal sector that reinforces poverty** - By way of reminder, 70.1 per cent of individuals operate in the informal economy compared to 29.9 per cent in the formal economy. The average number of years of education completed by the IPU workforce is estimated at two years. Young people aged 15-24 and 25-34 are more likely to be in precarious employment (59.5 per cent and 35.5 per cent respectively). There is also a strong correlation here between the level of education and average monthly income and how people join the labour market. Actors in the formal economy have better incomes, above the minimum wage, than actors in the informal economy, for example.
- **Underdevelopment of human capital due to a weak education system** - Burkina Faso is ranked 182nd out of 189 countries on the Human Development Index at 0.452.
- **A weak national policy on training and absorption of young people into the labour market** - 40.9 per cent of young people aged 15-24 do not pursue any educational training and do not participate in the labour market. Given that the unemployment rate (as per the International Labour Office definition) is higher for young people aged 15-34 (6.6 per cent) and that it takes longer for them to find a job than for older workers, these social inequalities can create social tensions and reduce the government's efforts to achieve economic development.
- **A weak private sector due to insufficient awareness among IPU heads of the importance of moving their businesses from the informal to the formal sector** - 60.6 per cent of IPU heads are unaware of the benefits of formalising their businesses, while 23.6 per cent are reluctant to formalise. As a result, only 12 per cent of IPUs pay taxes on their business

activities. However, 31.6 per cent of IPU's say they are willing to pay taxes on their activities if there is an improvement in the business climate, particularly in the tax system and administrative and judicial procedures.

- **Corruption is nevertheless high** - 70.6 per cent of the 18-year-old population believes that corruption is high in the country and thus damages the overall economy. According to Transparency International's 2020 report, Burkina Faso ranks 86th out of 180 countries. This proves the government's political will to improve the business climate, particularly to develop the private sector and attract more national and international investment.

Private sector policy recommendations

The recommendations apply to the following areas:

1. Supporting and strengthening public-private dialogue

Specific objectives include:

- Including public-private dialogue in sectoral development plans and strategies;
- Establishing and maintaining a genuine public-private partnership;
- Developing a roadmap and agenda for public-private dialogue at national level;
- Actually considering the needs of private sector partners in sectoral development strategies;
- Strengthening state institutions, including assessing the legal and regulatory framework for creating and formalising businesses in the formal sector;
- Constantly coming up with reforms to improve the business climate;
- Complying with agreements;
- Bolstering the role of the state as a guarantor

of peace, security and good governance;

- Ensuring independent and accountable social partners;
- Capacity building for social partners;
- Establishing a communication plan to reduce communication gaps between the private and public sectors;
- Establishing a unit or commission to work on promoting and popularising the incentives to be given to the private sector in the short, medium and long term.

2. Supporting young investors and women, developing entrepreneurship and fighting against informality

Specific objectives include:

- Promoting an entrepreneurial culture in society as a whole, particularly in technical and vocational training institutions, on audiovisual platforms (TV and radio) and national online social networks, in adult education centres and in universities;
- Creating training and apprenticeship centres for self-employment for out-of-school youth;
- Creating a favourable climate for investment by providing incentives, e.g. access to credit at subsidised interest rates and on flexible repayment terms;
- Establishing a genuine partnership between the state and the banking sector to encourage domestic financing and investment, including the promotion of self-employment among youth and women;
- Focusing policy on formal job creation;
- Establishing a genuine institutional partnership between the state, the private sector and representatives of local authorities to support and promote the creation of income-generating jobs in rural areas and encourage the

development of agri-food cooperatives;

- Promoting the decentralisation and efficiency of local government bodies to facilitate municipal authority access to national and regional financial flows to support entrepreneurship among women and young people in rural areas and to better channel the needs of women and young people for the development of their commercial, agro-pastoral and craft activities in rural areas in particular;
- Organising awareness-raising and education campaigns for informal sector entrepreneurs on the benefits of formalisation and developing incentives to encourage the formalisation of businesses;
- Considering the needs of informal sector operators in strategies for combating informality by the central government in order to better encourage their transition from the informal to the formal sector;
- Organising ongoing training and education sessions on creating and formalising businesses in rural and urban areas;
- Promoting access to digital technology for young people and women in rural areas by creating free digital training centres within local authorities;
- Promoting women's access to land in particular and favouring a reorganisation of the land register;
- Eliminating minimum fees for business start-ups and shortening the waiting period for registering and authenticating documents;
- Creating national savings in the various countries to finance income and employment-generating projects, especially for young people and women.

3. Cross-border trade

Specific objectives include:

- Promoting the development of intra-African

trade by removing customs barriers;

- Improving national and regional infrastructure, such as developing roads, pedestrian walkways, lighting and utility poles, access to the digital network, and building structures to house markets at borders;
- Modernising and deploying one-stop shops;
- Guaranteeing a secure and stable climate at national level, particularly in terms of customs services to facilitate the free movement of people and goods (rule of law); this would also improve entrepreneurship by women, particularly the creation of income-generating activities (trade) carried out most often by small traders (women) at the borders;
- Guaranteeing follow-up for the supply and distribution of petroleum products;
- Deploying national, regional and international sectoral strategies to ensure exchange rate predictability;
- Implementing sectoral strategies to develop the resilience of the economy, particularly of businesses, to cope with various shocks;
- Reducing export and import delays;
- Setting up and modernising an electronic payment system for port fees at national level;
- Going paperless in customs formalities and extending the opening hours of ports;
- Increasing the size of inter-African markets and diversifying production in order to expand markets and improve the competitiveness of the formal private sector globally;
- Promoting good governance and responsible business conduct and fair competition in markets in order to improve the global competitiveness of the formal private sector;
- Establishing simplified trade arrangements (exemption from customs duties) and simplifying customs clearance formalities for small-scale

transactions, usually carried out by small traders, especially women;

- Enhancing regional integration, in particular economic cooperation between the different regional economic communities to remove persistent barriers to intra-regional trade;
- Strengthening the fight against smuggling at borders and ports;
- Establishing and developing regional power pools to reduce electricity connection costs and link markets to resources;
- Establishing mutually beneficial trade agreements to attract more investors; boosting intra-regional trade through digital technology;
- Diversifying the energy market with a focus on promoting solar panels to improve the competitiveness and productivity of businesses and also to reduce the costs of connecting to the power grid;
- Expanding the telecommunications market, especially the digital market, to improve access to the electronic network for businesses and enable them to increase their competitiveness in the global market;
- Establishing effective cyber security and cyber defence strategies at regional level;
- Strengthening the African Continental Free Trade Area (AfCFTA).

4. Fighting informality

Specific objectives include:

- Establishing a national policy to transition informal production units (IPUs) to the formal sector;
- Establishing incentives and deterrents;
- Sharing and exchanging regional experiences;
- Developing a strong and effective institutional legislative framework;

- Annually implementing structural reforms and sectoral strategies aimed at facilitating the business climate and improving the life of entrepreneurs; in particular in terms of taxation, building permits and business creation;
- Developing guarantee instruments to promote access to credit for young people and women, especially those with economically viable income- and employment-generating projects;
- Reducing costs and delays in obtaining building permits;
- Reducing electricity connection fees;
- Eliminating mandatory minimum fees for business start-ups;
- Eliminating mandatory fees for authenticating documents and shortening the registration period for business start-ups;
- Improving access to credit information, e.g. by extending the coverage of public credit services and by starting to report data from public utilities;
- Developing a national directory of formal sector companies;
- Annually assessing the registration rate of new companies and considering the needs of unregistered companies in order to better channel and adapt sectoral strategies to facilitate their transition to the formal sector;
- Establishing and modernising an electronic system for creating and registering businesses at national level;
- Creating a level playing field for businesses to facilitate their formalisation.

5. Developing human capital

Specific objectives include:

- Improving the supply of public services (education, health and social protection);

- Ensuring a match between training/education received and the needs of the labour market in technical and vocational education, general secondary education and universities;
 - Promoting development-oriented research in technical and vocational schools, general secondary schools and universities in order to unleash the innovation potential of young people and improve the competitiveness of the private sector globally;
 - Priority training for public sector managers;
 - Mandatory internships for students to immerse them in the world of business.
- 6. Improving the labour market**
- Specific objectives include:
- Increasing the number of jobs through access to new investments at national level;
 - Promoting the application, via the Ministry of Social Affairs and Labour, of a legal framework for workers/employees on working conditions and a minimum wage;
 - Implementing sectoral strategies aimed at facilitating access to health coverage for the population, particularly for workers in the formal sector, which may also encourage informal businesses to formalise;
 - Promoting flexible working hours for workers;
 - Improving employment frameworks, policies and conditions;
 - Improving wages and paying compensation for work stoppages due to the occurrence of happy occasions (e.g. births) and unhappy events (illnesses, accidents, etc.) in workers' lives.

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