

Promoting SME Competitiveness in Burkina Faso

Resilient foundations
for post-COVID recovery



In collaboration with:



CHAMBRE DE COMMERCE
ET D'INDUSTRIE DU BURKINA FASO

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About the paper

Boosting the competitiveness of small and medium-sized enterprises in Burkina Faso can make them more resilient to crises, ITC's SME Competitiveness Survey and COVID-19 Business Impact Surveys find.

Limited access to finance, low certification rates and inadequate infrastructure are stumbling blocks most cited by Burkinabe firms. In the context of the COVID-19 crisis, one third of Burkinabe respondents said that without government assistance they might have to close down within six months of the interview. However, Burkinabe businesses with better management practices, stronger connections, and greater ability to innovate fared better during the COVID-19 crisis. Nurturing these characteristics could lay the foundations for competitiveness and resilience.

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For more information on SME Competitiveness Surveys, see <http://www.intracen.org/SMEBenchmarking/>

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Foreword

Burkina Faso's economic prospects in recent years were favourable, with real gross domestic product growth averaging 6.2% in the period 2016–2019. The economic fluctuations wrought by the COVID-19 pandemic jeopardizes this potential, and will have a real impact on Burkinabe business activities. The economy contracted by around 2% in 2020, with growth projected to recover to only 3.9% in 2021.

While all parts of the economy have suffered, micro, small and medium-sized enterprises (MSMEs) have been particularly vulnerable to the repercussions of the crisis. One-third of these firms reported a risk of shutting down within six months because of the pandemic.

Burkina Faso's National Development Plan (2021–2025) recognizes the transformative role that MSMEs can play in the economy. They generate 35%–40% of the gross domestic product in the country and employ a significant share of the workforce. They are instrumental to achieving the United Nations 2030 Agenda on Sustainable Development and in supporting inclusive growth. This makes the impact of COVID-19 even more alarming.

The Government of Burkina Faso has developed a response plan, safeguarding many small enterprises from the worst of the short-term impacts of the pandemic. Targeted policies could now help them recover and transform into more sustainable, resilient, and competitive firms. To support the design of such policies, accurate data are required to reveal the constraints and opportunities that Burkinabe MSMEs face.

To deliver this data-driven intelligence, the International Trade Centre partnered with the Chamber of Commerce and Industry of Burkina Faso to assess the competitiveness of MSMEs nationwide and examine their experiences during the COVID-19 pandemic. The two partners share a vision to future proof these small enterprises so they can withstand shocks and compete on local, regional and global markets.

This report is based on evidence from more than 490 responses to the SME Competitiveness Survey and about 1,200 responses to the COVID-19 Business Impact Survey in Burkina Faso. The findings shed light on the strengths and weaknesses of small Burkinabe firms and their business ecosystem. This will help in the design of policies and programmes to create a more competitive and resilient MSME sector that can propel the country's economy.

Improved competitiveness and expanded trade can fuel growth, facilitate structural transformation and reduce poverty, especially if well-targeted policies are in place. We see this report as an important step to make this vision a reality.

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The Chamber of Commerce and Industry of Burkina Faso supports private sector development in the country. It has a triple consultative, representative and administrative mission. It provides the Government with advice and intelligence on trade and industry issues and presents the views of the business community. CCI-BF represents the Burkinabe business community in national, sub-regional and international institutions, and makes the voice of Burkinabe private sector players heard. It also designs and manages services of public utility in various economic domains.

ITC was established in Geneva, Switzerland, as a joint agency of the United Nations and the World Trade Organization dedicated to strengthening the competitiveness of small and medium-sized enterprises to build vibrant, sustainable export sectors that provide entrepreneurial opportunities, particularly for women, young people and poor communities.

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Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons. Percentages in some figures may not add up to 100% due to rounding.

BSO	Business support organization
CCI-BF	Chamber of Commerce and Industry Burkina Faso
ICT	Information and communication technology
ITC	International Trade Centre
MSMEs	Micro, small and medium-sized enterprises
SMEs	Small and medium-sized enterprises
SMECS	SME Competitiveness Survey

Executive summary

Competitive small and medium-sized enterprises (SMEs) are crucial for a successful economy. They represent about 90% of businesses in Burkina Faso. Most jobs in the country are in such firms, even though each employs fewer than 100 people. By virtue of the jobs they create and their impact on society, SMEs play a central role in Burkina Faso's economic transformation to achieve resilient, inclusive and sustainable growth.

This makes the analysis of the impact of COVID-19 on small companies particularly important. The pandemic is affecting Burkina Faso's economy, which contracted by about 2% in 2020, according to the IMF¹, after growing on average 6.2% a year in 2016–2019. However, the economic earthquake of the pandemic is not affecting everyone in the same way. With fewer resources to ride out the storm, small Burkinabe businesses are particularly vulnerable to the repercussions of the crisis, though the sector also represents a key element for economic recovery.

Increasing the competitiveness of SMEs can spur resilience in the face of the pandemic and will help these firms thrive in tomorrow's global marketplace. To do so, it is critical to understand the strengths and weaknesses of these companies, as well as of the business environment in which they operate.

To set this process in motion, the International Trade Centre (ITC) partnered with the Chamber of Commerce and Industry of Burkina Faso (CCI-BF) to perform a diagnostic on the competitiveness of SMEs in the country.

Under this collaboration, the ITC SME Competitiveness Survey was administered to 492 businesses across Burkina Faso between December 2019 and April 2020. In addition, CCI-BF interviewed 1,201 enterprises in March and April 2020 about their experience with COVID-19.

This report examines data from these two surveys, identifying the strengths and weaknesses of firms and the business ecosystem, and how they relate to competitiveness and resilience. Although the report focuses on SMEs, large companies are included in the analysis for the sake of comparison. Specific analyses on different aspects of competitiveness yield insights into the realities of

Burkinabe firms. Focusing on how SMEs have performed in certain sectors and regions – as well as those led by women and youth – highlights important details on competitiveness across enterprises in Burkina Faso.

Most Burkinabe firms struggle because of COVID-19

Most companies have been affected by constraints on production and slowing demand at home and abroad. Findings from the ITC COVID-19 Business Impact Survey show that sales at 80% of interviewed firms fell because of the pandemic. The largest impact was reported in wholesale and retail trade, where 95% of Burkinabe businesses saw sales decline. Next, in terms of severity, were accommodation and food services and non-food manufacturing. In most of these sectors, micro and small enterprises are overrepresented. Not surprisingly, about 82% of micro and small businesses reported a drop in sales, compared to about 65% for medium-sized and large firms.

The survey also revealed that the characteristics and competitiveness of companies influenced the impact of the pandemic. Firms fared better when they had better management practices, stronger ties to business support organizations, and were more innovative.

Good inventory management reduces exposure to shocks

Burkina Faso has invested heavily in infrastructure over the last 10 years, making considerable progress. However, survey data show that there is a strong rationale for improving access to utilities and transport infrastructure across the country, particularly in productive regions less connected to markets. This is even more important as survey evidence shows that SMEs with good access to utilities are more competitive.

Despite infrastructure challenges, Burkinabe businesses can enhance their competitiveness by adopting good management practices. Data show that 71% of interviewed firms practice good inventory management. Inventory management is important to boost the international

competitiveness of Burkinabe SMEs in good times, but it is also important to the resilience of firms during a crisis. Data show that smaller enterprises did not have good inventory management before COVID-19 and were more likely to face difficulties accessing inputs during the pandemic than their larger peers.

Certification can help firms export and build resilience to shocks

Although certification can help companies stand out to customers and facilitates their participation in global value chains, it is relatively uncommon in Burkina Faso; just a third of surveyed firms were certified to an international standard. Notable inequalities in certification remain to be addressed. Small, informal firms and those led by women had lower-than-average rates of adoption of international standards. Many enterprises pointed to the high costs and lack of information on certification processes as serious obstacles.

Collaboration among companies helps alleviate some of the informational barriers. Survey results show that businesses that collaborate are three times more likely to be informed about certificates and twice as likely to be certified.

Exporting can expose companies to economic shocks more. Data show that exporters were more likely than non-exporters to experience a reduction in sales, difficulty accessing inputs or liquidity problems during the pandemic. However, exporters were also more likely to adopt resilient strategies, such as creating new products and increasing their marketing efforts, potentially better positioning these firms to benefit from the economic recovery. These results highlight the importance of reducing barriers to certification to allow more companies to access international markets and consequently become more resilient to shocks.

Digital payments can facilitate financial inclusion

Access to financial services and use of sound financial management are critical to normal business operations and growth. They are also particularly important as firms manage and adjust to unexpected shocks. The pandemic created a large, but temporary, reduction in sales for most

firms. Not surprisingly, two out of three interviewed firms reported liquidity problems associated with the crisis.

Good financial management practices allow companies to operate smoothly despite volatile revenue streams. Indeed, data from the SME Competitiveness Survey show that 14% of firms that practice good financial management were at risk of permanent closure in one month. This compares to almost double (23%) for firms with poor financial management.

Nevertheless, only three in five Burkinabe firms reported high ability to manage their cash flow. One way to help promote good financial management is by expanding financial inclusion through digital payment technologies. Many enterprises in the country lack bank accounts, but unbanked firms that use digital payment technologies (for example their mobile money account) tend to practice better financial management. Expanding access to digital payment technologies would especially help women-led and informal companies, which have often more difficulties to access formal financial institutions.

Connected companies cope better with shocks

Research shows that, globally, SMEs with stronger connections to their community tend to be more resilient to crises. The data from the Burkina Faso survey highlight this fact. Burkinabe companies that were engaged with business support organizations found it easier to access information about government benefits related to COVID-19 when the pandemic hit, highlighting the important role these organizations can play.

Survey data also indicate that the lack of internet access is associated with weaker capacities among Burkinabe firms to access information and connect with the wider economy. Youth-led firms in Burkina Faso struggle to connect with buyers and suppliers, and they are less likely to engage with institutions than their peers. Therefore, investing in the country's digital infrastructure would help many businesses, especially youth-led companies, connect with their business ecosystem to stay abreast of market trends.

Greater technology adoption is building future resilience

Innovative firms are better able to adapt to the needs of markets; this is why they were more likely to adopt agile strategies during the pandemic. Surveyed companies that had invested significantly in research and development were more likely to sell new products and lend employees when the pandemic hit than their less innovative peers. The SME Competitiveness Survey indicates that there is widespread interest among Burkinabe firms in emerging technologies and the potential they have to improve their business operations. With the right policies, this positive attitude towards new technologies could boost their innovation and productivity.

In particular, firms in agriculture – a sector of high economic importance to the country – could benefit greatly by adopting new technologies that boost productivity as well as resilience to climate change. Yet many Burkinabe agricultural SMEs do not realize the full potential technology can bring. Policies aimed at boosting technical skills and the quality of supporting institutions can increase innovation, productivity and resilience.

Policy insights

Several policy recommendations emerge from the survey findings. The clear connections between business competitiveness in good times and the ability to cope with crises signal that more work is needed to build the foundations of competitiveness and resilience. The survey results suggest that priorities for strengthening SME competitiveness and resiliency in Burkina Faso include physical infrastructure access and quality, quality enhancement and certification, financial access and upgraded financial management skills, connections between firms, and enhanced capacities for innovation and technology use.

Deficiencies in physical infrastructure limit the potential for export diversification. Burkinabe exports are concentrated on low-value added commodities such as sesame and unrefined shea butter. These goods can be shipped relatively easily and are unlikely to sustain damage during transport.

However, diversifying the export base of Burkina Faso into value-added exports would require investments in infrastructure to ensure that products are transported on

time before spoilage or to meet the needs of time-sensitive customers. Improving infrastructure and transportation could support the development of backward and forward linkages from established sectors across the country and thus facilitate structural transformation.

Low certification rates among Burkinabe firms keeps them from succeeding in international markets. Quality improvements and certification to international standards are becoming more important in the wake of the COVID-19 crisis as countries implement stricter standards for imported goods. Indeed, two-thirds of World Trade Organization notifications sent by member states as of 1 December 2020 concerned new standards and regulations. Part of the problem is that enterprises lack information about certification processes. Promoting cooperation and information sharing among firms can help address this challenge.

Improved access to finance and better financial management at the firm level underpin productive potential. Burkinabe businesses tend to be underbanked, with one in five not owning a bank account. This can be explained on the one hand by the mismatch between the supply of banking services (cost and conditions of access to credit) and the real needs of SMEs, and on the other hand by the fact that individual enterprises are not obliged to have a bank account when they are set up, unlike corporate enterprises. Also, in Burkina Faso, natural person enterprises represent 69% of the total number of enterprises and mostly MSMEs, according to a 2020 report by the Chamber of Commerce and Industry of Burkina Faso on the state of the private sector in Burkina Faso.² But digital payment platforms can promote financial inclusion. Opening digital accounts requires less formal documentation, so barriers to adoption are lower. However, as the growth of mobile phone use continues, women are being left behind. Promoting financial inclusion will require continuous work to close the gender gap.

Connections between firms and with customers and suppliers are especially important as the economy recovers from the COVID-19 crisis. Enterprises need information about government regulations and support programmes. Access to high-quality and affordable internet services would help Burkinabe firms take advantage of digital opportunities and connect. Business support organizations can act as short-term support by connecting firms to valuable information.

Finally, incentives for investment in research and development, as well as innovation, are necessary to help companies become more resilient to COVID-19 and future crises. Almost all surveyed firms in Burkina Faso understand the positive opportunities offered by new technologies. In agriculture, in particular, new technologies could be a game changer in boosting innovation, productivity and resilience to climate change. Barriers remain, however,

such as the lack of technical skills and inadequate support from innovation bodies that need to be addressed to foster investment in technology and innovation.

This report aims to trigger a dialogue on SME competitiveness and suggests policy-based solutions that the Government of Burkina Faso can apply to build both competitiveness and resilience to crises.





Chapter 1

Unleashing the potential of small businesses

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Unleashing the potential of small businesses

The COVID-19 pandemic has affected human health and economic welfare across the globe, and Africa has not been spared. Data from the ITC COVID-19 Business Impact Survey show that the pandemic strongly affected two-thirds of African businesses, compared with 55% of respondents from other continents.³ The scope and severity of COVID-19 were harsher for smaller African firms. Almost 67% of small and medium-sized enterprises (SMEs) in Africa said their business operations were strongly affected, compared with 48% for large African companies.

Similar challenges have been seen in Burkina Faso, despite promising recent trends. In the years that preceded the COVID-19 crisis, Burkina Faso's prospects for growth were favourable. Real gross domestic product growth averaged 6.2% in 2016–2019 as government reforms, such as investment in energy and infrastructure, helped spur macroeconomic stability and improve the business climate.⁴ As elsewhere, however, the pandemic hit Burkina Faso hard, with the economy expected to shrink by 2% in 2020 after expanding 5.7% in 2019.⁵

Nonetheless, African countries are now cautiously starting to reopen their economies after implementing shutdown measures to control the spread of the virus. Policymakers are actively trying to help their economies reach pre-COVID-19 levels of growth. Along with the loosening of containment measures, higher commodity prices and lower borrowing costs have contributed to some tentative signs of recovery. For example, trade data indicate that intra-African trade has increased significantly since May 2020, suggesting that both the supply and demand sides of many African economies were beginning to recover.⁶

Small and medium-sized enterprises are at the heart of the Burkina Faso economy. These firms account for about 90% of all Burkinabe firms⁷ and employ vulnerable groups such as women, youth and rural residents. By virtue of the jobs they create and their impact on society, SMEs play a central role in economic development and transformation and contribute to sustaining peace and long-term stability, and their importance has been recognized in government policy and planning (Box 1).

As companies recover from the COVID-19 shock, there is an opportunity to strengthen their capacities to compete in tomorrow's global marketplace and improve their resilience to future shocks. With fewer resources to ride out the storm, SMEs have been particularly vulnerable to the effects of the pandemic. When SMEs are competitive, however, the sector can contribute to resilience and rebuilding during and after crises such as COVID-19.⁸

Strategic policies that address weaknesses and build on strengths can take advantage of this opportunity to rebuild the country's businesses for a resilient, digital, inclusive and sustainable future. Resilient, because societies cannot afford to be unprepared for external threats, and digital, because COVID-19 has shown the full power of these technologies in the context of a worldwide crisis. Inclusive, because the recovery must leave no one behind. And sustainable, to mitigate climate change and associated future economic shocks.⁹

To set this process in motion, leaders need better data about the state of competitiveness in their country. What limits competitiveness and what characteristics make firms

more resilient to shocks? What can be done to improve the competitiveness and resilience of SMEs in Burkina Faso?

To answer these questions, the International Trade Centre (ITC) partnered with the Chamber of Commerce and Industry of Burkina Faso (Chambre de Commerce et d'Industrie du Burkina Faso, or CCI-BF) to assess the competitiveness of Burkinabe SMEs. The goal was to perform a diagnostic on the state of these firms, to better understand their strengths and weaknesses, and identify opportunities to improve their competitiveness and resilience.

Under this collaboration, the ITC SME Competitiveness Survey questionnaire was administered to 492 businesses across Burkina Faso between December 2019 and April 2020. In addition, CCI-BF interviewed 1,201 enterprises in March–April 2020 about their experience with the pandemic. This report presents the findings of both surveys, identifying the factors associated with firm-level competitiveness and resilience.

Assessing the competitiveness of small and medium-sized firms

ITC developed the SME Competitiveness Survey¹⁰ (SMECS) to help countries collect the data needed to assess the competitiveness of their enterprises. As of January 2021, more than 18,400 companies in 50 countries had been surveyed, including Benin, Botswana, Ghana, Kenya, Togo and Zambia.

The tool is designed to combine information at the meso (local support ecosystem for businesses) and micro (firm capacity) levels to provide a nuanced picture of the capacity of a country's private sector to compete in international markets and be more resilient to shocks. Although the focus is on small and medium-sized enterprises, some large companies are included in the survey so the competitiveness of SMEs¹¹ and bigger firms can be compared.

Box 1 Government policies for small and medium-sized enterprises

The Government of Burkina Faso adopted the National Economic and Social Development Plan for 2016–2020 on 20 July 2016. This plan aims to transform the economy structurally to generate sustainable, resilient and inclusive growth.

Two levers will be used to this end. One is an indirect lever that involves strengthening sectors that support industrial development, such as energy, transport infrastructure and the education system. The other is a more direct lever that involves investments to develop industries. Such investments include financing irrigation systems and farming equipment and increasing handicraft firms' access to public procurement.

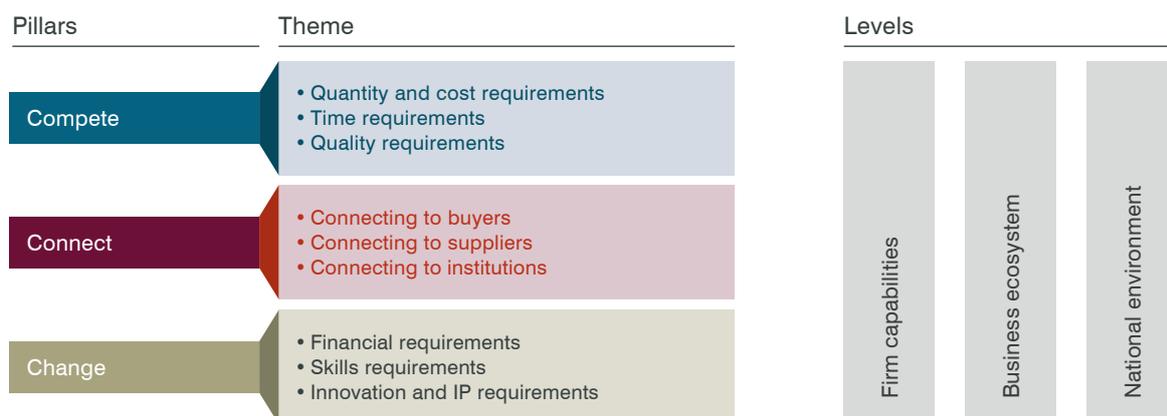
Burkina Faso undertook reforms in recent years that make doing business easier. In 2018, for example, it adopted a law that regulates all aspects of mediation, as an alternative dispute resolution mechanism. It also adopted the Law on Public Private Partnerships, setting up a legal and institutional framework for carrying out public-private partnership projects. Moreover, the new investment code aims at promoting productive investment and contributes to the country's social and economic development. The country has also passed a law to promote SMEs, made progress in reforming business licences and launched a new credit information bureau.

Source: IMF (2018). Burkina Faso Economic Development Documents. International Monetary Fund. <https://www.imf.org/~media/Files/Publications/CR/2018/cr1885.ashx>; Ministry of the Economy, Finance and Development (2018). *PNDES 2016-2020: Transformer Le Burkina*. Ouagadougou, Burkina Faso: Ministry of the Economy, Finance and Development. https://www.oneplanetnetwork.org/sites/default/files/burkina_faso_plan_national_de_developpement_economique_et_socialpnDES.pdf; Conseil National de la Prospective et de la planification stratégique (2005). *Étude Nationale Prospective 'Burkina 2025'*. Burkina Faso: Conseil National de la Prospective et de la planification stratégique. http://213.154.74.164/invenio/record/18783/files/burkina2025_rapportgeneral.pdf

The importance of competitiveness in driving firm survival, growth and trade make it a key element in economic development. For this reason, ITC has developed an analytical framework to understand firm competitiveness and how it can be improved over time. The framework is built around three pillars – compete, connect and change –

that drive the capacity of a company to be competitive across three levels of the economy – the firm, the business ecosystem and the national environment (Figure 1).¹² Each pillar is further subdivided into themes that are the subject of the analysis in this report.

Figure 1 SME Competitiveness Grid



Source: ITC.

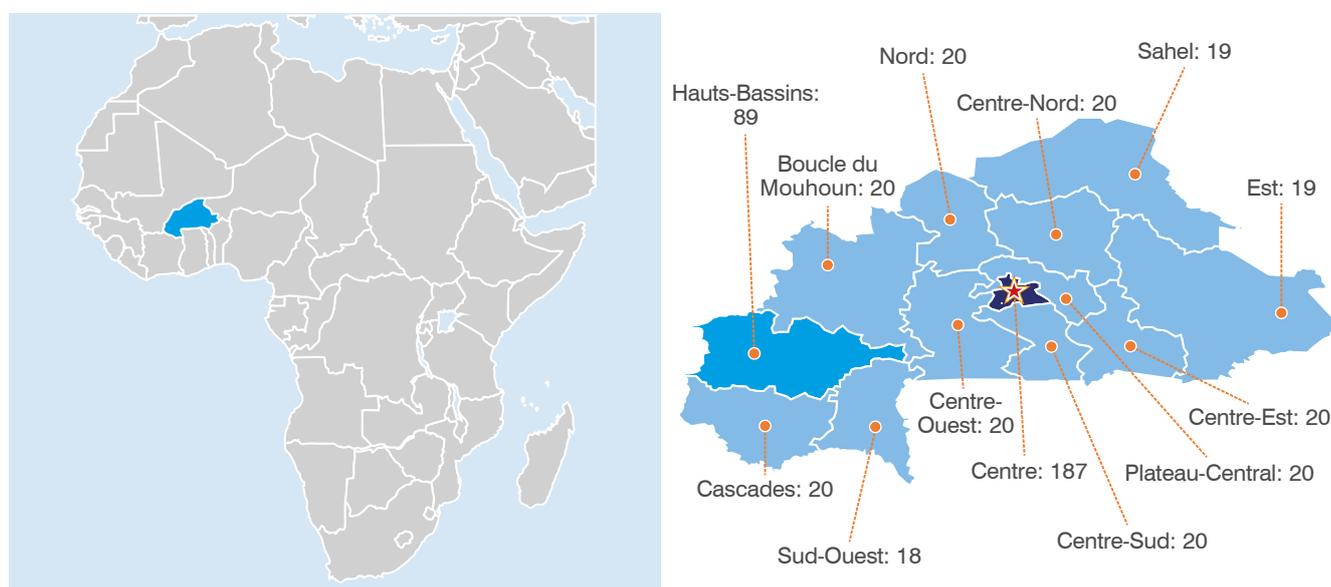


The SME Competitiveness Survey in Burkina Faso

CCI-BF, with support from ITC, collected data for the SME Competitiveness Survey from Burkinabe enterprises between December 2019 and April 2020.

A sample of firms was randomly selected from a list of companies compiled by CCI-BF. Data were gathered in all 13 regions of the country. Figure 2 highlights the surveyed regions, with darker colours representing a higher concentration of surveyed companies. The sample included firms from all sectors (primary, manufacturing and services), of differing sizes (micro, small, medium-sized and large) and both exporting and non-exporting firms.

Figure 2 Surveied regions of Burkina Faso



Source: ITC, based on SME competitiveness data collected by CCI-BF in Burkina Faso.

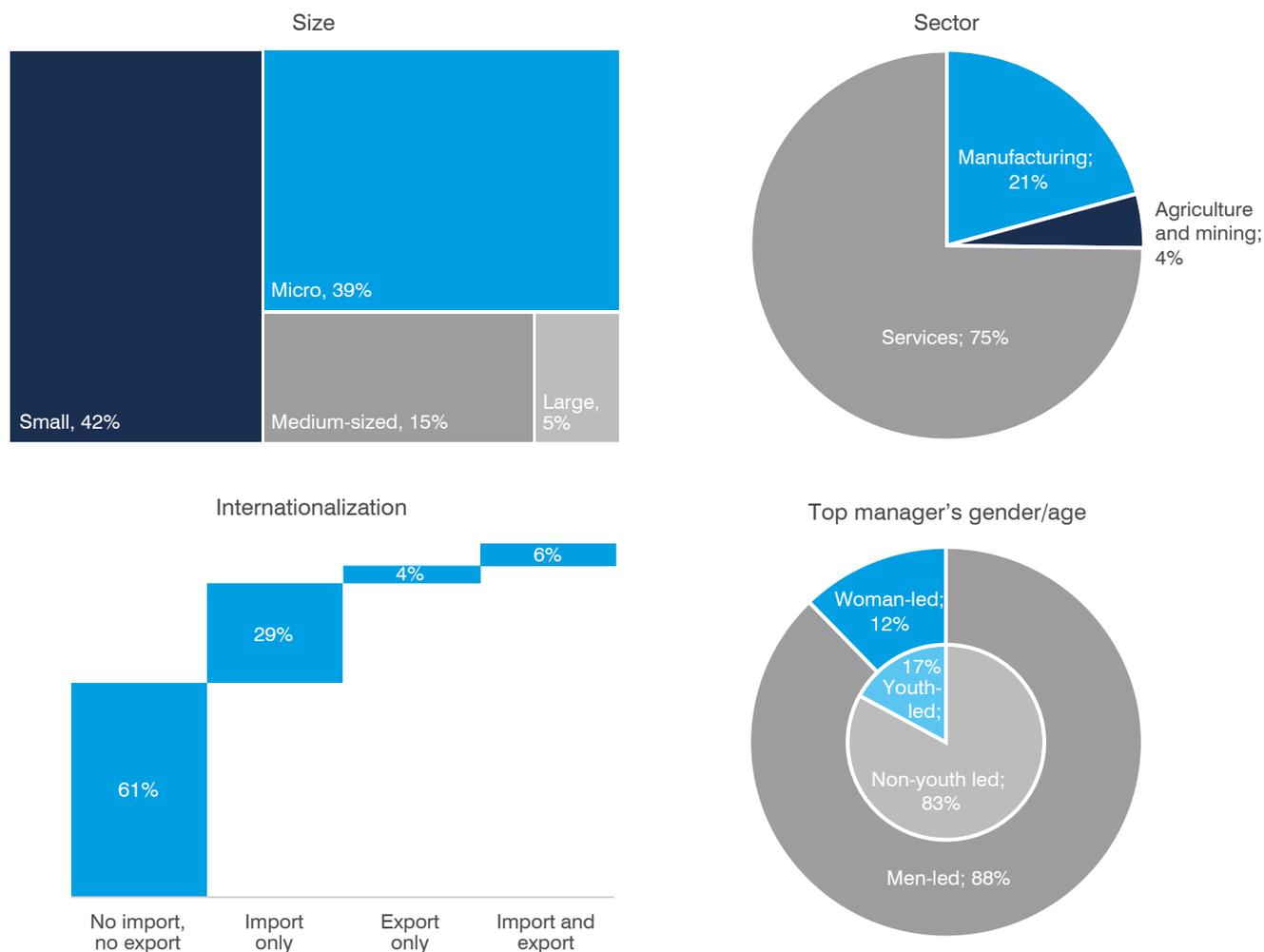
Among surveyed firms, 96% are micro, small or medium-sized, with almost 40% being micro firms and 42% being small (Figure 2). Three in four surveyed enterprises are in services, 21% are in manufacturing, and the remaining 4% are in agriculture and the mining sector.¹³ This distribution is fitting in a country where services companies dominate in terms of contribution to gross domestic product and employment.¹⁴

SMEs are important in driving inclusive growth and creating opportunities for vulnerable groups. Despite its relatively young population, youth lead only 17% of the firms surveyed in Burkina Faso. In addition, women own just 12% of the companies that were interviewed – a rate of participation lower than in other sub-Saharan African countries participating in the SME Competitiveness Survey.

Burkina Faso was ranked 182nd out of 189 in terms of gender equality in the 2019 Human Development Report.¹⁵ The National Economic and Social Development Plan for 2016–2020 has tried to increase the number of female business owners to reduce these gender inequalities.

Survey data showed that two-fifths of the enterprises were engaged in trade, affirming the participation of internationalized firms in the survey. However, only one in 10 Burkinabe firms exports – underscoring the unrealized export potential of Burkina Faso. ITC (Export Potential Map) estimates that the country has \$279.2 million in untapped export potential, much of it in agriculture (cotton, cashew nuts, sesame seeds, guavas, mangoes and mangosteens).¹⁶ This would represent a sizable addition to the country's \$3.283 billion exports in 2018.¹⁷

Figure 3 Characteristics of companies that took part in the survey



Note: Microenterprises are defined as those with four or fewer employees; small firms have 5–19 employees; medium-sized ones have 20–99 employees; and large companies have 100 or more employees. Activities in the primary sector include agriculture, forestry, fishing and mining; the manufacturing sector includes all activities related to the transformation of raw material into products or goods; activities in the services sector include retail, accommodation, food and beverage, real estate, social work, health, education, tourism, transport, financial services and other services. Women-led firms are managed by a woman and at least 30% owned by women. Youth-led firms are managed by managers under 35 years old. Exporters are defined as firms whose direct export sales represent more than 10% of their sales. Importers are defined as firms whose foreign inputs represent more than 10% of their inputs.

Source: ITC calculation based on SME competitiveness data collected by CCI-BF in Burkina Faso. .

Informality is pervasive in Burkina Faso, with estimates suggesting that 90% of the workforce is employed by unregistered firms, which account for roughly 20% of gross domestic product.¹⁸ However, only one in four companies interviewed for this report was informal. As such, this study focuses mostly on the formal sector.

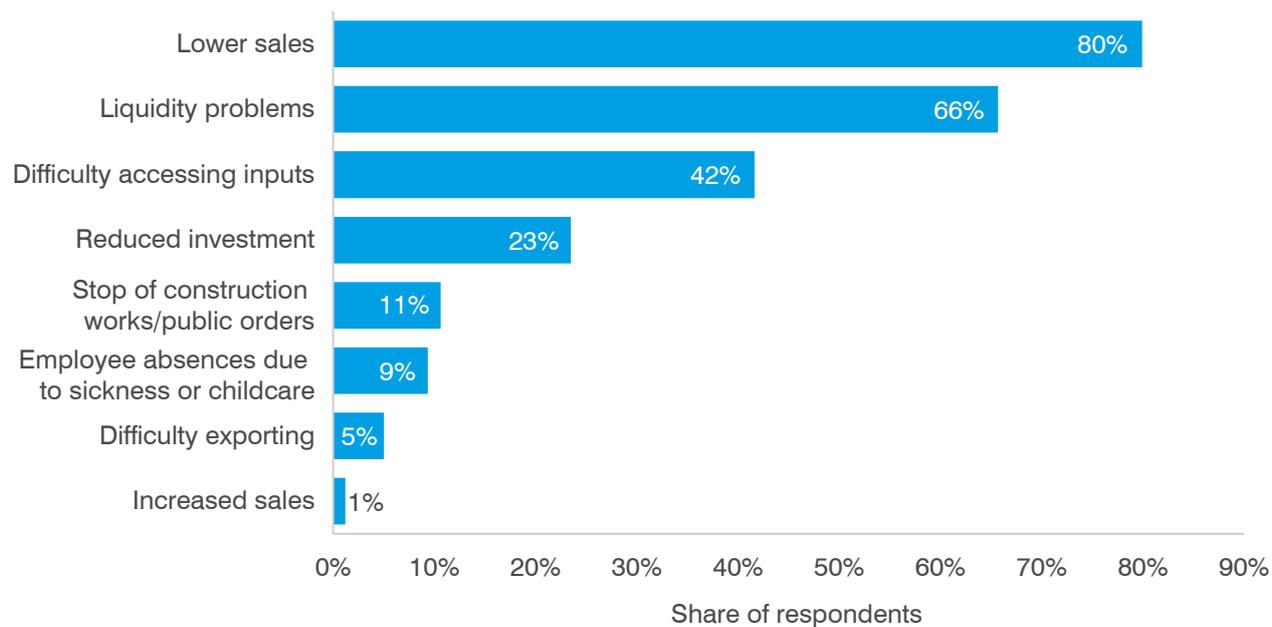
Burkinabe enterprises amid the COVID-19 crisis

The pandemic has led to an unparalleled health and economic crisis in Burkina Faso. To contain the spread of the virus, the Government of Burkina Faso closed its borders at the onset of the health crisis, shut down schools, universities and businesses, and banned large gatherings. These measures, while limiting the spread of COVID-19, also decreased economic activity in all sectors.¹⁹

CCI-BF surveyed 1,201 Burkinabe firms in March and April 2020 about how the pandemic had affected their businesses. Findings from this COVID-19 Business Impact Survey suggest that sales declined at most (80%) interviewed firms and two in three experienced liquidity

problems (Figure 4). In addition, 42% of respondents reported difficulties accessing inputs, impairing their ability to produce goods and services. This suggests that the crisis has harmed the vast majority of companies, both on the demand and supply side.

Figure 4 Four in five firms have seen sales decline due to COVID-19



Note: Respondents were asked: 'Has the coronavirus pandemic affected your enterprise in any of the following ways? (Multi-select)'

Source: ITC calculation based on SME competitiveness and COVID-19 business impact data collected by CCI-BF in Burkina Faso.



Yet some companies have been more exposed to the crisis than others – notably smaller firms and those in the services sector. The biggest impact was reported by those in wholesale and retail trade, where sales fell at 95% of businesses because of partial and full lockdown. Next, in terms of severity, were accommodation and food services and non-food manufacturing. Micro and small enterprises are overrepresented in most of these sectors. Not surprisingly, about 82% of micro and small firms reported a drop in sales, compared to about 65% of medium-sized and large enterprises.

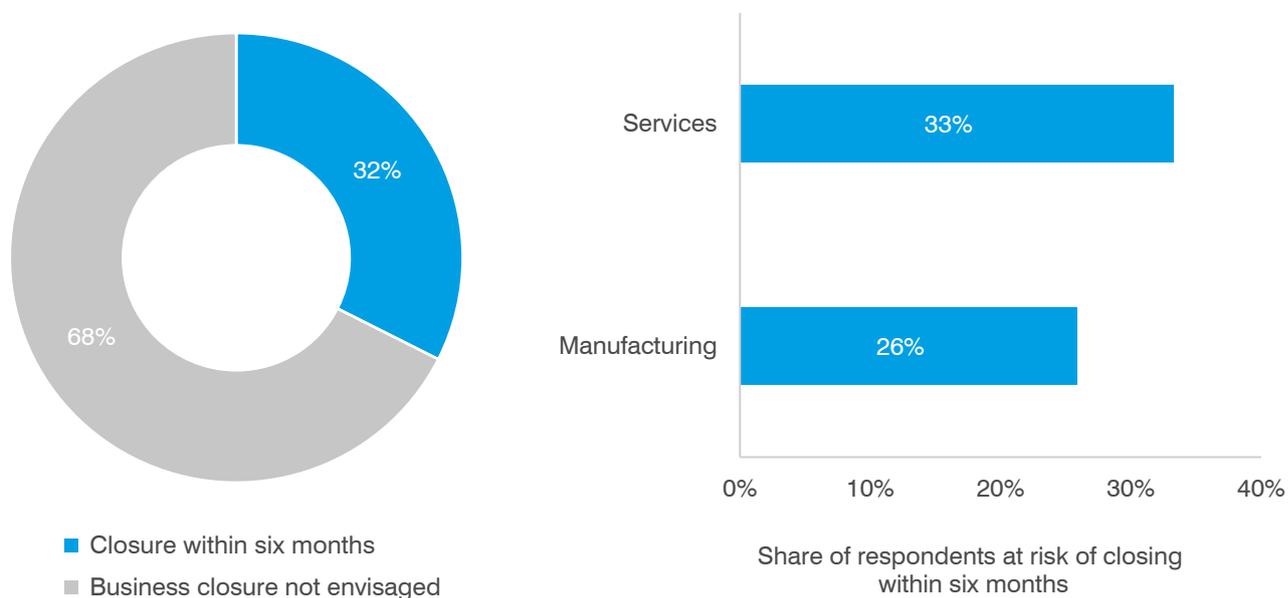
Burkinabe businesses responded to the crisis in different ways. Some adopted retreating strategies, including laying off workers, selling off assets or taking on new debt, all of which may hurt their long-term viability. About 5% of the firms that responded to the COVID 19 survey took such an approach.

However, most followed a strategy of resilience by scaling down or adjusting the business temporarily in a way that would allow it to resume fully later on. The two most used coping strategies among Burkinabe firms were to shut down briefly (58% of respondents) or reduce employment temporarily (30% of respondents). The most agile companies transformed themselves to fit the new situation, creating novel products (5% of respondents) or lending their workers to other businesses active in essential industries (10% of respondents).

Even though they adopted new strategies to manage the crisis, many Burkinabe firms still faced the risk of permanent closure in the near future. One in three respondents (mostly small firms in the services sector) identified a risk that their company would shut down within six months due to the pandemic. Companies that participated in the COVID-19 Business Impact Survey identified financial programmes, rent subsidies, employment programmes and tax waivers as the most helpful short-term government measures.



Figure 5 One in three firms, mostly in service sector, risks closure



Note: Respondents were asked: ‘Do you think there is a risk that your business will permanently shut down because of this crisis, and if so, when could this closure occur?’

Source: ITC calculation based on SME competitiveness and COVID-19 business impact data collected by CCI-BF in Burkina Faso..

To mitigate the impact of the pandemic on SMEs and vulnerable populations, the Government developed a response plan and an economic recovery plan, in line with business needs. For example, microenterprises in the informal sector benefitted from exemptions on contributions from April–June 2020. Other support measures included a solidarity fund for people employed in the informal sector. In addition, the state bought agricultural inputs and fodder to support food and pastoral production.

Recovery will require additional efforts. The Government lifted the curfew in early June 2020.²⁰ As businesses begin to recover from the pandemic, firms and policymakers are focusing on how to build back better, so businesses are resilient to the next crisis.

The recovery starts with enhancing the competitiveness of firms. Evidence collected by ITC (also in other countries) shows that companies that were more competitive before COVID-19 hit were better able to cope.²¹ The pandemic may not be the last shock to affect small Burkinabe companies, as the economy is vulnerable to the vagaries of rainfall and fluctuating world prices – on one side for exports of gold and cotton, and on the other for imports of oil.²² Lessons learned from this report aim to give business support organizations and the Government of Burkina Faso the information and knowledge they need to create a competitive and resilient SME sector that can weather future shocks, whatever their nature or origin.

The following chapters of this report show which characteristics help firms remain competitive in normal times, and also help them be resilient in bad times, allowing businesses to survive this and future shocks.



Chapter 2

Enhancing infrastructure for competitiveness

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Enhancing infrastructure for competitiveness

A combination of internal and external factors determines the competitiveness of firms. Evidence from the SME Competitiveness Survey indicates that Burkinabe firms perform well in business management, but that further infrastructure development in the country is needed to enhance efficiency, reduce costs and improve delivery. Survey results highlight that companies with intermittent access to electricity and water produce less than others. The evidence from Burkina Faso also suggests that the low quality and high cost of transport and logistics services are a barrier for delivering goods on time and exporting.

Access to utilities and transport infrastructure is unequal across regions. This means there is a strong rationale for improving infrastructure across the country to boost capacity utilization and facilitate value-added exports. In this context, Burkinabe firms have the potential to capitalize on future improvements in the business ecosystem, transforming Burkina Faso in a regional hub.²³

Reliable delivery of goods, which is affected by transport and logistics factors, is becoming increasingly important as more consumers shop from home due to lockdowns and social distancing, and as value chains are rebuilt and re-evaluated.²⁴ Inventory management will become even more critical as the COVID-19 crisis strains supply chains, making it harder to access inputs and new inventory quickly.

Burkinabe firms with good inventory management practices were more likely to deliver products on time and better able to manage challenges arising from the pandemic. The survey data indicate that the smallest companies tend to have poorer inventory management practices and have had more difficulty accessing inputs during the crisis than larger firms. Therefore, Burkina Faso can use inventory management training to boost the competitiveness and resilience of small firms to shocks.

Improving access to utilities means better use of resources

Companies need a sound business environment to reach their full production capacity and compete in domestic and international markets.²⁵ Adequate infrastructure, including continuous access to electricity and water at reasonable prices, is an essential factor feeding firms' value creation processes.²⁶

Infrastructure challenges related to the provision of basic services are a serious barrier to development in Burkina Faso. Less than 20% of the country's population has access to electricity, one of the lowest levels in the world.²⁷ This is largely due to poor access in rural areas, while more than 60% of the population in urban areas has access to electricity.²⁸ In addition, grid-connected consumers experience frequent load shedding and 'brownouts'.²⁹

Evidence from the SME Competitiveness Survey highlights this challenge, with almost half of firms reporting that the quality of electricity provision is low (Figure 6, panel a). The survey also confirms regional disparities, with companies outside central regions facing lower quality electricity services. Less than a third of interviewed firms in central regions³⁰ rated the quality of the provided electricity service as weak, compared to 68% of enterprises in non-central regions (Figure 6).

In addition, a third of surveyed Burkinabe enterprises had limited access to water, especially those in non-central regions (Figure 6). This is particularly problematic given that climate change has increased the risk of natural hazards (limited and unreliable rainfall, more frequent droughts and floods), exposing key economic sectors, especially agriculture, to greater vulnerability.³¹

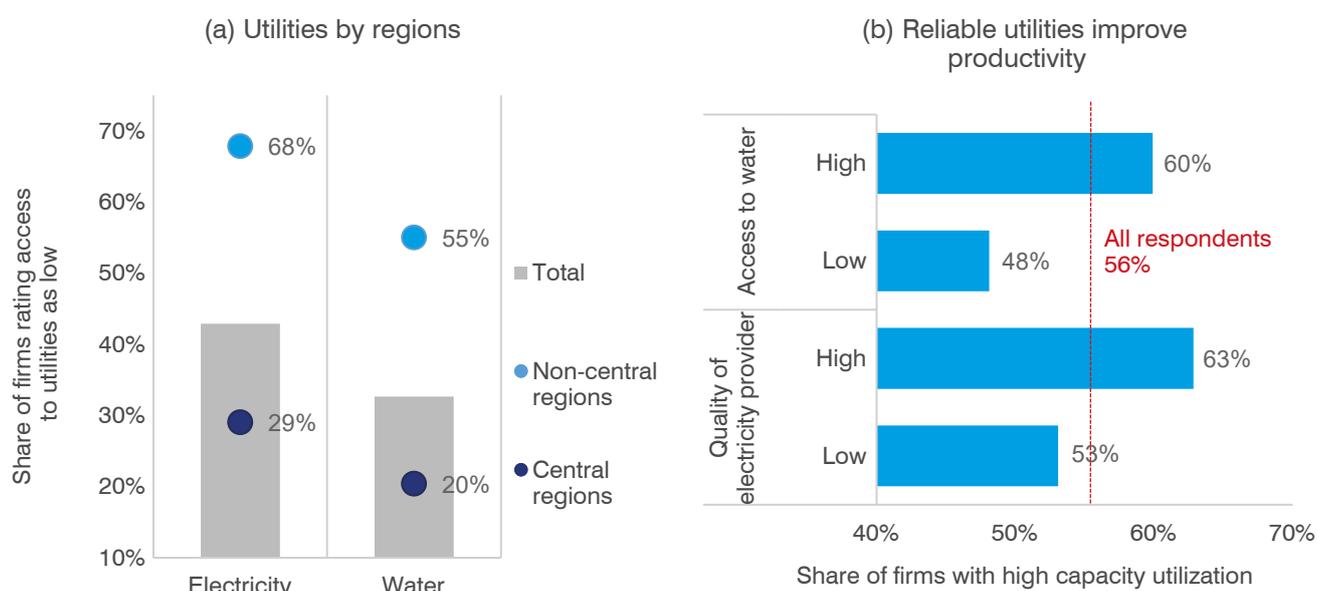
Access to reliable electricity and water supplies influences the productivity of companies in all stages of value-creation, from inbound logistics through operations to outbound logistics.³² Given the low quality and high cost of utilities in Burkina Faso, it is not surprising that, on average, only 56% of interviewed firms produced at least 75% of the maximum possible output (Figure 6).³³

Dependable access to electricity and water helps companies produce more. Water and electricity are essential to grow crops, raise livestock and harvest fish, as well as to process and prepare these products. When given satisfactory access to electricity, 63% of surveyed firms achieve high levels of their production potential. But this share falls to 53% when companies must contend with low-quality access to electricity.

Similarly, 60% of interviewed companies with reliable access to water have high capacity utilization, compared to 48% of those with limited access to water (Figure 6, panel b). In other words, these results indicate that SMEs with good access to utilities are more competitive.

Smaller Burkinabe firms are more likely to face difficulties accessing utilities. About 44% of micro and small firms that were interviewed rated the quality of electricity as low, compared to 36% of large companies. Similarly, a bigger share of micro and small enterprises (35%) rated access to water as low than large firms (15%). Less access to utilities translated into lower use of resources for smaller companies.

Figure 6 Reliable access to utilities improves productivity



Note: Respondents were asked: 'How would you rate the quality of your electricity provider?' and 'How would you rate your company's access to water for production purposes?' High quality of electricity and access to water is defined as 5 or 6 on a scale from 1 (low) to 6 (high). Respondents were also asked: 'In the last year, what was this company's output as a percentage of the maximum output possible?' Those who said 75% or higher are classified as having high capacity utilization..

Source: ITC calculation based on SME competitiveness data collected by CCI-BF in Burkina Faso..

Indeed, the SMECS found that micro and small firms use 64% of their capacity. In contrast, the rates of medium-sized and large firms are at least 12 percentage points higher.

Offering firms outside central regions better access to utilities is important to the economic development of Burkina Faso. This could increase SME productivity and help reduce poverty. In this respect, it is encouraging that Burkina Faso is well positioned to adopt alternative forms of energy. The country has a high solar energy potential and, as the price of solar equipment and materials decreases (lower taxes on the import of solar equipment in Burkina Faso), there is an opportunity for companies to establish small-scale solar plants. Such investments are already underway, with several mining sector operators building their own off-grid solar power plants.³⁴ In the medium to long term, solar energy, used as a production factor, could boost industrialisation through local processing at lower cost.

Transport and logistics diverge across regions

Being a small, landlocked economy, international connectivity and regional integration are vital for firms in Burkina Faso,³⁵ which depend on ports in coastal countries for trade.³⁶ Indeed, while transport accounts for 10%–15% of the cost of goods in nearby countries with coastlines, it represents 25%–45% in Burkina Faso.³⁷

Transport corridors thus play a key role in connecting Burkina Faso to its neighbours. The main international corridors connecting the country to its neighbours are the Ouagadougou-Lomé road corridor (connecting to Togo), the Ouagadougou-Tema road corridor (Ghana), the Ouagadougou-Niamey road corridor (Niger) and the Ouagadougou-Abidjan road and rail corridors (Côte d'Ivoire).³⁸ These corridors pass through different regions in Burkina Faso.

Table 1 International corridors do not pass through all regions

Region	International corridor
Centre	<i>All corridors</i>
Cascades	
Centre-Ouest	<i>Ouagadougou-Abidjan</i>
Hauts-Bassins	
Centre-Est	<i>Ouagadougou-Lomé</i>
Centre-Sud	<i>Ouagadougou-Tema</i>
Est	<i>Ouagadougou-Niamey</i>
Plateau-Central	
Boucle du Mouhoun	
Centre-Nord	
Nord	<i>No corridors</i>
Sahel	
Sud-Ouest	

Source: World Bank (2019).



Nonetheless, Burkina Faso's location also presents an opportunity, as it is centrally positioned within the region. The country shares more than 3,000 kilometres of border with its six direct neighbours, five of which are part of the West African Economic and Monetary Union. As such, Burkina Faso could position itself as a natural transit hub for West Africa.³⁹

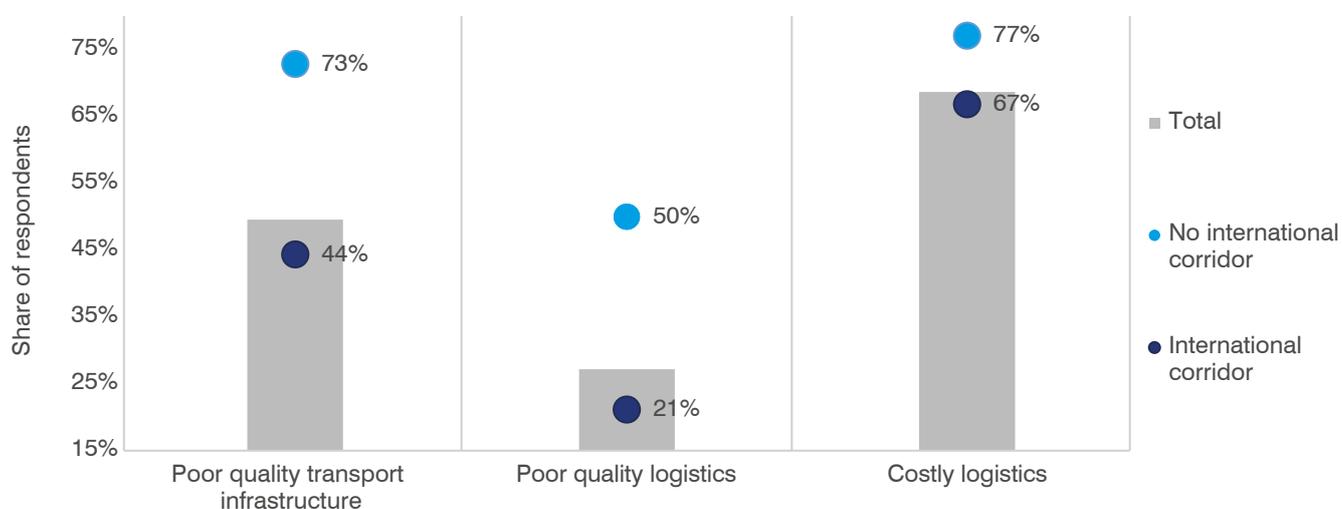
Cognizant of the importance of its road and rail networks, the country has improved its transport infrastructure. About 96% of paved roads in Burkina Faso are in fair or good condition, compared to 86% across low-income countries.⁴⁰ However, only about 20% of the road network is paved.⁴¹

Substantial investments in transport infrastructure are needed to realize Burkina Faso's potential. Less than 25% of the rural population lives within two kilometres of an all-season road, one of the lowest rates in Africa.⁴² Indeed, half of surveyed firms rated the quality of transport infrastructure as low, and about 27% said logistics services are poor (Figure 7). Logistics services are expensive for most of these companies (69%). This adds significantly to the overall cost of doing business, which is one of the highest in the region.⁴³

Interestingly, the ITC SME Competitiveness Survey shows that proximity to international corridors is positively associated with levels of satisfaction with the country’s transportation infrastructure and logistical services. In regions without such corridors, 73% of firms reported the quality of transportation as poor, compared to 44% of enterprises in regions with international corridors.

While 53% of interviewed companies outside economic corridors rate the quality of logistics services as poor, just 24% of those in regions within international corridors do the same (Figure 7). In addition, logistics services are more expensive for companies outside international corridors (77%) than others (67%).

Figure 7 Transport and logistics are weaker outside international corridors



Note: Respondents were asked: ‘Please rate the quality of the transport infrastructure in your location,’ ‘Please rate the quality of the services offered by the logistics services companies this company uses’ and ‘Please rate the cost of the services offered by the logistics services companies this company uses.’

Source: ITC calculation based on SME competitiveness data collected by CCI-BF in Burkina Faso.

Transport and logistics services are critical for delivery times and can determine whether a firm can export its goods or not.⁴⁴ Previous research has showed that Burkinabe exports of fresh products, as well as dry products such as cashews, face transport challenges.⁴⁵ The SMECS analysis confirms that companies giving a high rating to the quality of transport infrastructure and logistic services were better at delivering goods on time than those complaining about low quality. Enterprises in regions crossed by international corridors, thanks to their access to better infrastructure, are also twice as likely to export than other firms.

Therefore, substantial investments in transport infrastructure are needed to unleash trade opportunities for local firms in regions not crossed by international corridors. This could

facilitate regional integration and trade, enabling smaller firms in remote areas to take advantage of the African Continental Free Trade Area agreement.

Good inventory management helps prevent input shortages during crises

The competitiveness of Burkinabe SMEs also depends on internal factors, such as good management practices. Evidence from the survey indicates that firms generally perform well when it comes to business management. For instance, 89% kept some economic records, 71% were confident they could prepare a business plan and 71% had good inventory management.

Efficient inventory management practices are linked to a company's ability to use its capacity appropriately and to deliver goods on time.⁴⁶ Past studies have shown that flexibility in inventory management is important to avoid low capacity utilization and erratic production.⁴⁷ Consistent with these observations, evidence from the SME Competitiveness Survey shows that Burkinabe firms with good inventory management practices are more likely to deliver products on time and were better able to manage challenges stemming from the pandemic. Some 78% of firms with efficient inventory systems reported that they delivered more than three-quarters of their goods on

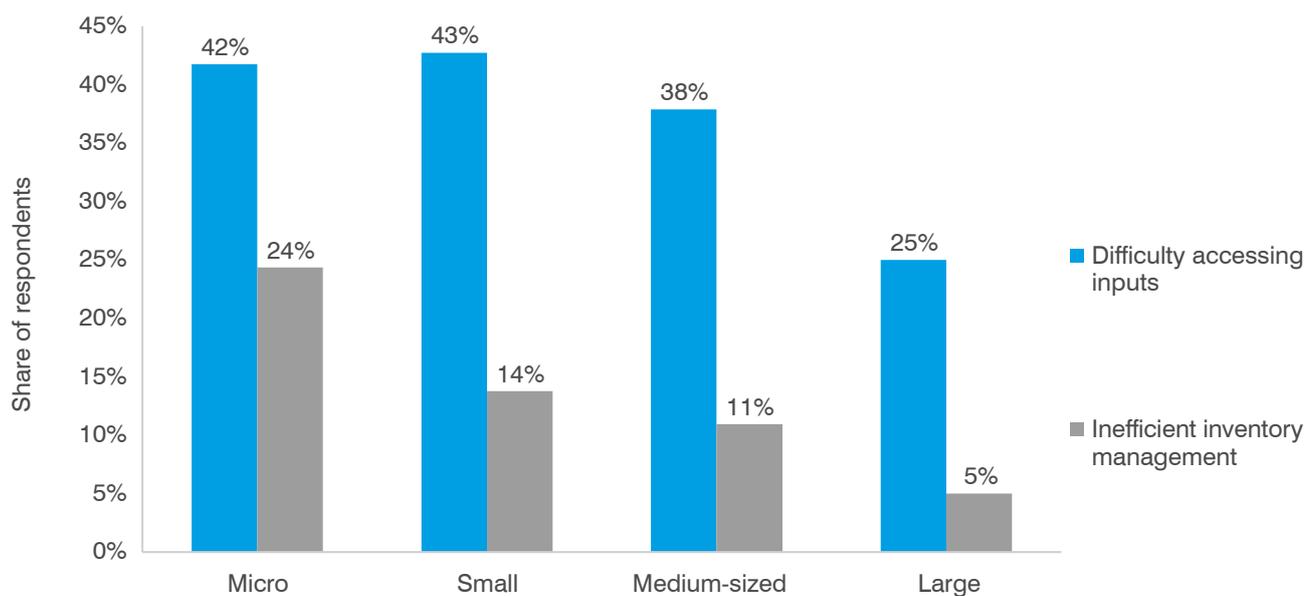
time. This share decreases to 62% when companies have inefficient inventory management.

Enterprises that manage inventory efficiently were also better positioned to weather the COVID-19 crisis because they tended to be better at securing access to inputs. Just as micro and small companies are more likely than their larger counterparts to manage inventory poorly, they also report difficulty accessing inputs as the result of the crisis. More than 40% of micro and small firms said they had a hard time obtaining inputs during the crisis while only a quarter of large businesses faced such problems.





Figure 8 Firms with poor inventory management have trouble accessing inputs



Note: Firms were asked: 'Please rate the efficiency of this company's inventory management system' and 'What are the main effects of the COVID-19 pandemic on your business?'

Source: ITC calculation based on SME competitiveness data collected by CCI-BF in Burkina Faso.

Policy insight: Infrastructure investments for value-added exports

Infrastructure is important for the competitiveness of firms. At the same time, it is also integral to value-added upgrading for structural transformation of the Burkinabe economy.

Burkinabe exports are concentrated in commodities, with cotton and gold accounting for 80% of merchandise exports, the production of which has limited backward and forward linkages to stimulate the transformation of the rest of the economy. These low value-added goods can be shipped relatively easily and are less at risk of damage from poor transport and logistics. Indeed, the economic literature shows that, for these reasons, low value-added commodities are often the focus of firms operating in regions with poor infrastructure.

In this context, government investments in infrastructure improvements can open up opportunities for businesses to fully exploit their potential in high value-added exports. With reliable electricity and water, and dependable roads,

companies can upgrade their production to more lucrative processed products and better reach overseas markets.

The results highlighted in this chapter underscore how transport and utility deficits in remote areas can undermine the competitiveness of firms in these regions. Spreading access to affordable and reliable transport and utilities, alongside training in good managerial practices, can boost the output of more remote companies so they are competitive enough to link into national and international supply chains. This is particularly relevant for the inclusiveness of Burkina Faso's structural transformation.

As the country builds more roadways and rail lines, there is an opportunity for Burkinabe firms to capitalize on opportunities to trade in value-added cotton products such as yarns and textiles as well as transforming and processing other agricultural products domestically, such as fruits and nuts.

Source: Nordas, H., K., E. Pinali and M. Geloso Grosso (2006). Logistics and Time as a Trade Barrier. *OECD Trade Policy Papers*, No. 35. OECD Publishing, Paris. <https://doi.org/10.1787/664220308873>; Newfarmer, R.S., J.M. Page and F. Tarp (Eds.) (2018). *Industries without smokestacks: Industrialization in Africa reconsidered* (First edition). Oxford University Press; Morris, M., R. Kaplinsky and D. Kaplan (2012). *One Thing Leads to Another: Promoting Industrialisation by Making the Most of the Commodity Boom in Sub-Saharan Africa* (First edition). Lulu.com



Chapter 3

Leveraging certification to succeed in overseas markets

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Leveraging certification to succeed in overseas markets

Standards and certifications are essential to international trade and participation in global value chains.⁴⁸ Overseas markets have long been notorious for their exacting quality requirements, but regional and even domestic markets increasingly expect a high level of quality as well. Buyers may require certification to a standard as proof that they can trust the quality or production conditions of a product or service.

This is likely to become even more important during and after the COVID-19 crisis as production of health equipment increases and standards become more vital to market access.⁴⁹ Many countries have already adopted stricter standards with respect to imports. Indeed, as of 1 December 2020, two-thirds of all World Trade Organization notifications submitted by member states were related to standards and regulations.⁵⁰

Evidence from the SME Competitiveness Survey shows that, while certification remains uncommon among Burkinabe firms, those that use certifications benefit from doing so. Certified businesses are twice as productive (in terms of sales per worker) and more likely to export their products than companies without certifications. This is noteworthy, because exporters in Burkina Faso have been better able than non-exporters to adopt resilient strategies to cope with the pandemic.

Unfortunately, many businesses, especially small and micro firms, have a hard time accessing information on certification. Promoting cooperation among firms seems to be one way to increase the rate of certification among Burkinabe companies. Regular communication with peers can help overcome some of the difficulties hindering certification. Data from the SMECS show that firms that liaise with peers in their sector are more likely to obtain information and be certified.

Sectoral associations can play a key role in promoting constructive exchanges among companies. By acting as a hub to link up firms and as a platform for sharing expert knowledge on various business-related issues, they have good potential to facilitate cooperation and information sharing on certification.

Limited use of recognized certifications

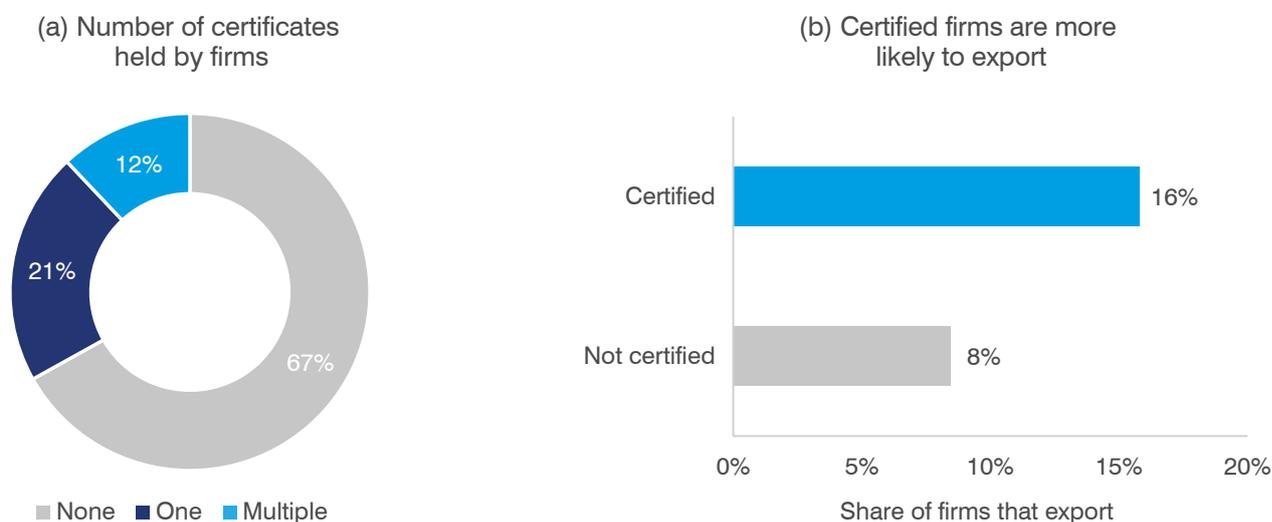
Past studies have shown that complying with international standards encourages higher productivity by spurring improvements in managerial and operational processes.⁵¹ This is confirmed in Burkina Faso, where certified firms are twice as productive, in terms of sales per worker, than firms without certification. In addition, certificates can also help firms compete in international markets by providing a reliable signalling mechanism. Certificates can signal to buyers the quality or characteristics of a company or production process of a product or service, boosting firms' competitiveness and exports.⁵²

Agricultural products such as cotton, fruits, nuts and oilseed crops have considerable export development potential in Burkina Faso. Adopting standards can make Burkinabe small farmers more competitive, facilitate their access to international markets and strengthen their contribution to more and better jobs.

Despite such benefits, just one-third of surveyed firms are certified to internationally recognized standards.

Burkinabe firms view certification as a way to compete in international markets – those that are certified are twice as likely to export as non-certified enterprises. Indeed, the most popular certifications are those that signal adherence to international quality standards, particularly in manufacturing and among companies exporting to Europe. The most popular standards include organic, International Organization for Standardization and Fairtrade.

Figure 9 Only a third of companies are internationally certified



Note: Respondents were asked 'Does this establishment's main product or service hold any of the following types of internationally recognized certificates?' Exporters are defined as firms whose direct export sales represent more than 10% of their sales.

Source: ITC calculation based on SME competitiveness data collected by CCI-BF in Burkina Faso.

Low levels of certification hinder the development of exporting. Just 11% of interviewed firms export, though 40% of companies do not export but expressed interest in doing so. Certification is particularly hard to get for smaller and informal firms. Only 23% of microenterprises and 32% of small businesses have internationally recognised certificates, compared to 52% of medium-sized firms and 54% of large businesses.

Women-led companies in Burkina Faso also have lower rates of certification and are nearly half as likely to export than men-led firms. Previous research showed that women-led exporters tend to be more productive, employ more workers, pay higher wages and report above-average sales than exporting firms led by men. Therefore, helping women-led businesses get certified represents an important opportunity for economic growth in Burkina Faso.

The differences in the prevalence of certification can partly be explained by its high cost. Two out of three Burkinabe companies described the cost of services offered by product testing, certification and inspection

authorities as high or very high. This high cost, combined with the fact that smaller, informal and women-led firms face numerous financial constraints (see Chapter 4), makes it particularly difficult for these businesses to get certified and consequently export.⁵³ But evidence from the SME Competitiveness Survey shows that cooperation among enterprises can alleviate some of these barriers to certification.

Cooperation among firms helps information sharing and certification

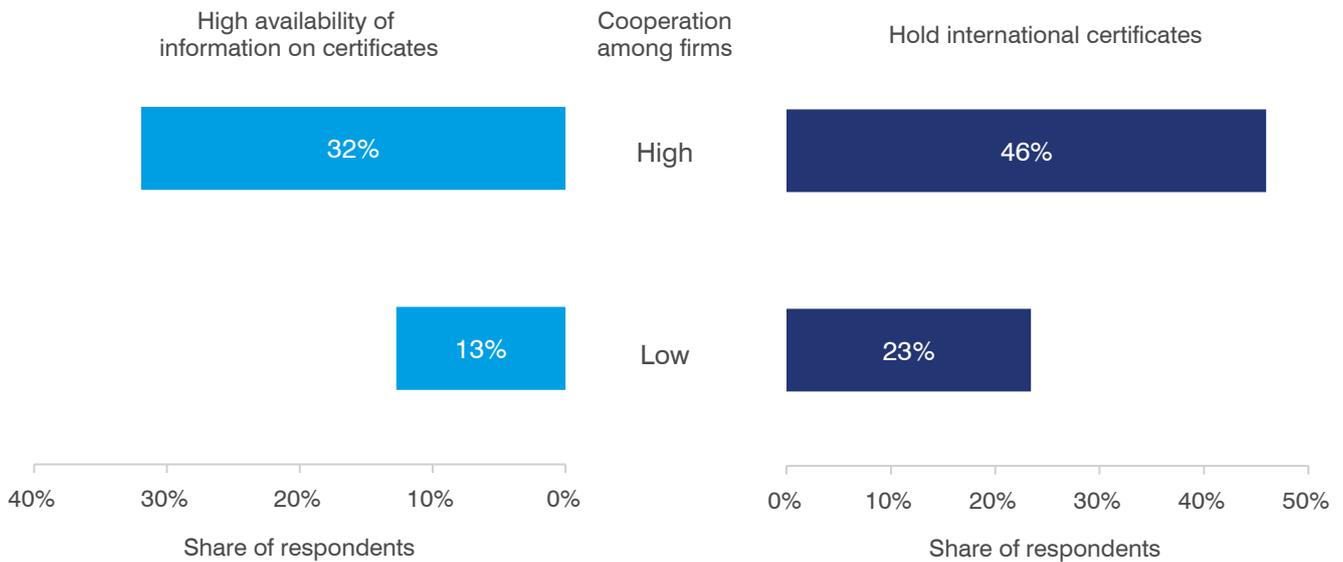
Obtaining information on standards and regulations can be difficult, especially for smaller companies.⁵⁴ Data from the SMECS confirms this, showing that uncertified Burkinabe firms identify the difficulty of accessing information as one of the top challenges in becoming certified, along with the cost of doing so. Indeed, more than half of interviewed enterprises consider the availability of information on standards and certificates to be low or very low, while

only 21% say the available information is of good quality (Figure 10).

Collaboration among firms helps alleviate some of the informational barriers to certification. SMECS reveals that companies that collaborate with other firms in their sector tend to be more informed about certificates and standards.

For example, only 13% of firms with low levels of cooperation managed to access information on certification procedures, while the share is almost three times bigger (32%) among firms that collaborate with their peers (Figure 10, left side). As a result, nearly half of the firms that cooperate with other companies in their sector to solve common problems were certified, compared to 23% of firms that do not cooperate.

Figure 10 Cooperation helps companies become certified



Note: Respondents were asked, 'Does this establishment's main product or service hold any of the following types of internationally recognized certificates?' and 'To what extent do companies in your sector cooperate to solve common problems which may be beneficial to the sector as a whole?' and 'Please rate the availability of domestic information on standards and certificates related to this establishment's main product or service.'

Source: ITC calculation based on SME competitiveness data collected by CCI-BF in Burkina Faso.

Managers of small enterprises also must be able to digest and use this information constructively. Technical assistance is essential for the successful adoption of standards. For example, ITC, with partners such as the International Organization for Standardization, Germany's National Metrology Institute and the United Nations Industrial Development Organization, provides practical information for SMEs to understand standards and technical requirements. This includes training workshops, tools, guides and bulletins.

Furthermore, sectoral associations can facilitate cooperation and information sharing across firms by acting as a hub to link up companies and as a platform for sharing expert knowledge on various business-related issues.⁵⁵ Removing

barriers to certification can help firms compete in international markets.⁵⁶ As shown in the following section, international exposure will be especially important in supporting the economic recovery following the COVID-19 crisis.

Exporters severely affected, but more resilient to crisis

International firms have been among the hardest hit during the COVID-19 pandemic. However, these firms also tend to be more competitive, adaptable and resilient.⁵⁷ Many exporters in Burkina Faso are adapting to survive current challenges and to grow as the recovery takes hold at home and in their export markets.



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Analysis of the COVID-19 Business Impact Survey in Burkina Faso confirms that exporters were more affected at the onset of the crisis. They were more likely to experience a reduction in sales, difficulty accessing inputs or liquidity problems compared to non-exporters. Some 84% of exporters reported a drop in sales, 58% had difficulty accessing inputs and 71% faced liquidity problems. In contrast, 79% of non-exporters saw sales decline, 39% had difficulty accessing inputs and 65% faced liquidity problems.

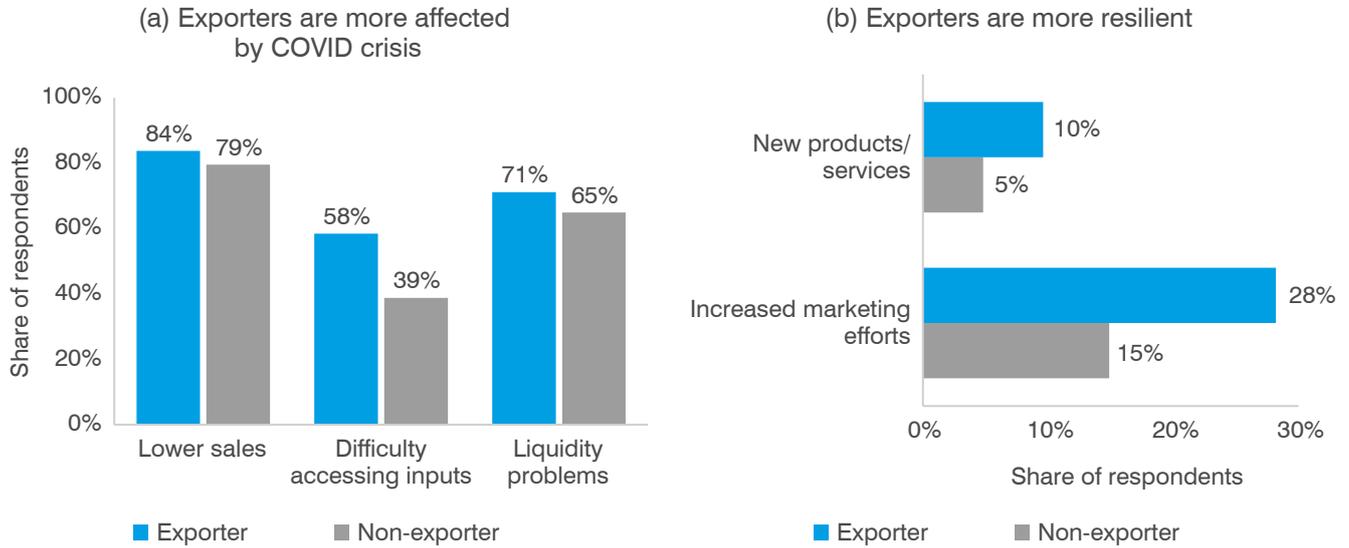
Nonetheless, exporters were better positioned to ride out the crisis than non-exporters. On one side, because their revenues depend on domestic and foreign sales, exporters are exposed to the economic effects of lockdowns both at home and in partner countries. On the other side, market diversification can play in their favour, making them more resilient to shocks. This is confirmed by recent findings showing that concentrating

production in a single country is hardly free of risk, given the potential for country-specific shocks.⁵⁸

Exporting also helps companies build relationships that come valuable during crises. For example, exporters need to learn how to liaise with government agencies for tariff rebates, connect to emergency suppliers and build solid market linkages. Burkinabe exporters tended more than non-exporting firms to adopt resilient strategies to cope with the COVID-19 crisis. They were, for example, twice as likely as non-exporters to create new goods or services, and almost twice as likely to step up their marketing efforts.

These results further highlight the importance of certification. Reducing barriers to certification would help companies engage with international markets. This would enable businesses to diversify their pool of suppliers and buyers and become more resilient to future shocks.

Figure 11 Exporters are more affected, but more resilient in crisis response



Note: Respondents were asked 'Does your company export?' and 'What are the main effects of COVID-19 on your business?' and 'To deal with the crisis, have you adopted any of the following strategies?'

Source: ITC calculation based on COVID-19 survey conducted by CCI-BF in Burkina Faso.





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Policy insights: Improving certification

The survey evidence suggests that low rates of certification are a major weakness of Burkinabe SMEs. More cooperation among competitors could improve access to information on market quality requirements. However, support for certification is needed if small firms are to signal the quality of their goods to new buyers across borders.

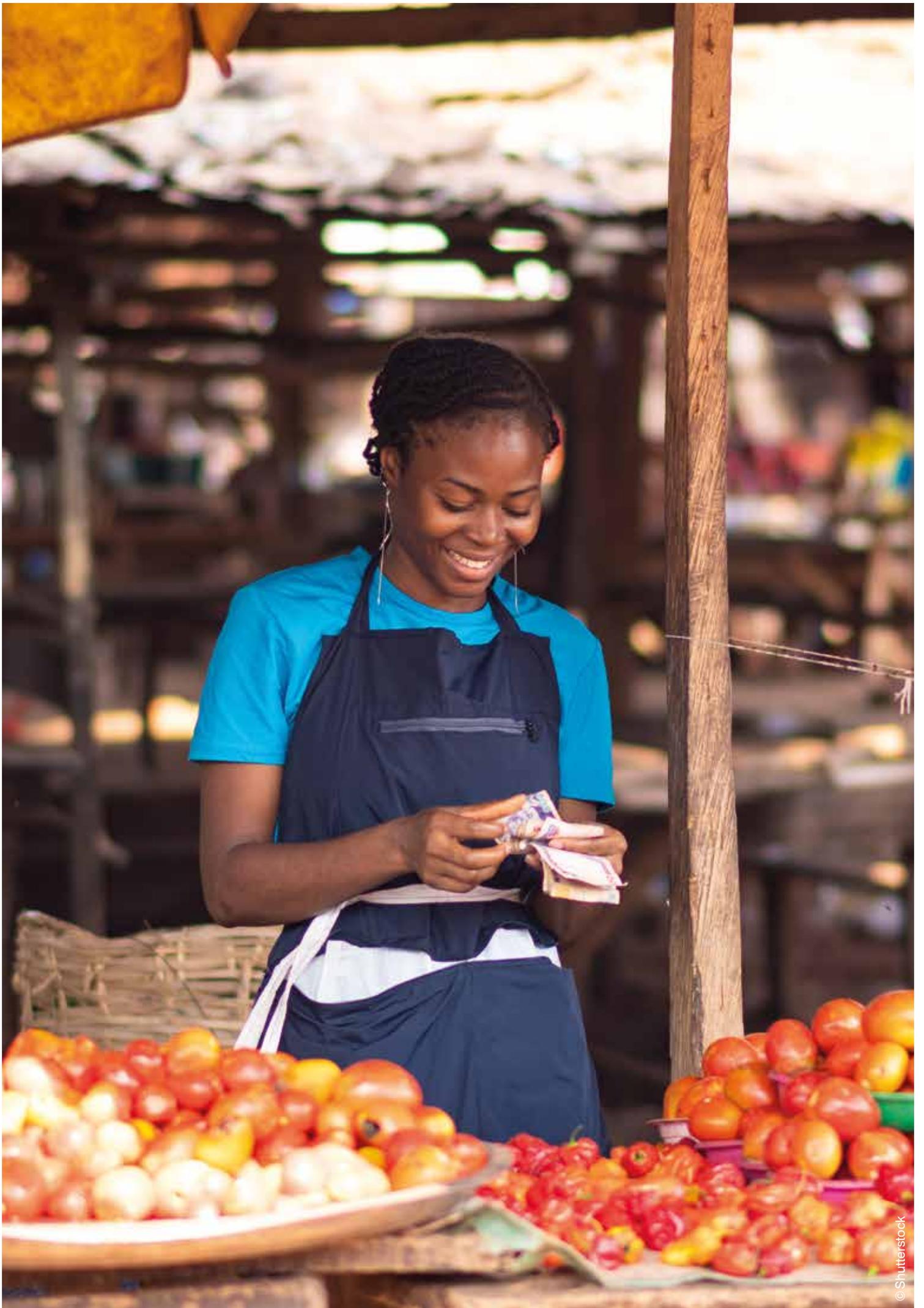
There is a role for government and development institutions to support the certification process – especially for SMEs, which often need financing and assistance from buyers to adopt these schemes. In the absence of pre-existing buyers willing to finance certification, institutional support can make an important difference.

Certification will become increasingly essential during the economic recovery as global value chains reorganize and international trade resumes after the COVID-19 crisis. Buyers will probably prioritize the sanitary production standards of vendors. Certifications of sanitary quality can help give Burkinabe firms an edge in the reawakening global marketplace.

The adoption of standards by African SMEs – in Kenya and Morocco, for example – has fuelled increased agricultural exports, indicating that there may be lessons to learn from across the region.

Burkina Faso has a potential comparative advantage in several non-traditional cash crops, such as fruit (especially mangoes) and vegetables (including onions, tomatoes, potatoes and beans), both for West Africa's coastal countries and for European countries, where demand – particularly demand for organic products – is high. For example, ITC (Export Potential Map) estimates that Burkina Faso has about \$24 million in untapped export potential of guavas, mangoes and mangosteens, towards Europe. To take advantage of these potential sources of growth, Burkinabe farmers should consider adopting relevant certifications such as Fairtrade. This will also help the country diversify its exports.

Sources: ITC (2019). *Promoting SME Competitiveness in Kenya: Targeted Solutions for Inclusive Growth*. Geneva, Switzerland: International Trade Centre; ITC (2019a). *Enquete Sur La Compétitivité Des PME Exportatrices Au Maroc*. Geneva, Switzerland : International Trade Centre. ITC (2020). *COVID-19: The Great Lockdown and Its Impact on Small Business*. Geneva, Switzerland: International Trade Centre.



Chapter 4

Moving forward on financial inclusion

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Moving forward on financial inclusion



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The growth and survival of SMEs is closely linked to their ability to access finance⁵⁹ and to their capacities for disciplined financial management.⁶⁰ Both access and management remain challenging for many small enterprises in Burkina Faso, hindering competitiveness and limiting resilience.

The SME Competitiveness Survey in Burkina Faso shows that three in five firms can manage their finances well. However, disparities exist in the quality of financial management across firm size and sector. In particular, microenterprises and those in the agricultural sector have trouble managing their cash flow.

SMECS analysis also reveals that having a bank account is associated with stronger financial management. Good financial management is valuable in good times, and even more when crises occur. Surveyed companies with good financial management were less likely to face resource constraints during the COVID-19 crisis than those with poor financial management practices.

However, the survey data reveals that one in five firms does not have a bank account. This can be explained on the one hand by the mismatch between the supply of banking services (cost and conditions of access to credit) and the real needs of SMEs, and on the other hand by the fact

that natural person enterprises are not obliged to have a bank account when they are created, unlike legal person enterprises. On average, one-third of the firms say that the quality of financial services is low, indicating that there is room for improvement in ensuring access to private sector finance.

Traditional banks will continue to be central to Burkina Faso's corporate financing system, but additional financial options are needed.⁶¹ For example, digital payments can offer an opportunity to address the many financial challenges companies face and to deepen financial inclusion. Although digital bank accounts are easier to open than traditional bank accounts, both promote good financial management. Firms with such accounts tend to keep careful economic records and manage their cash flows better than firms without them.

Nevertheless, a gender gap in the use of digital payments remains. Mobile phone ownership is growing significantly in Burkina Faso, but more among men than women. Promoting digital financial services will therefore also require continuous efforts to bridge this gender divide.

Strong financial management builds resilience to shocks

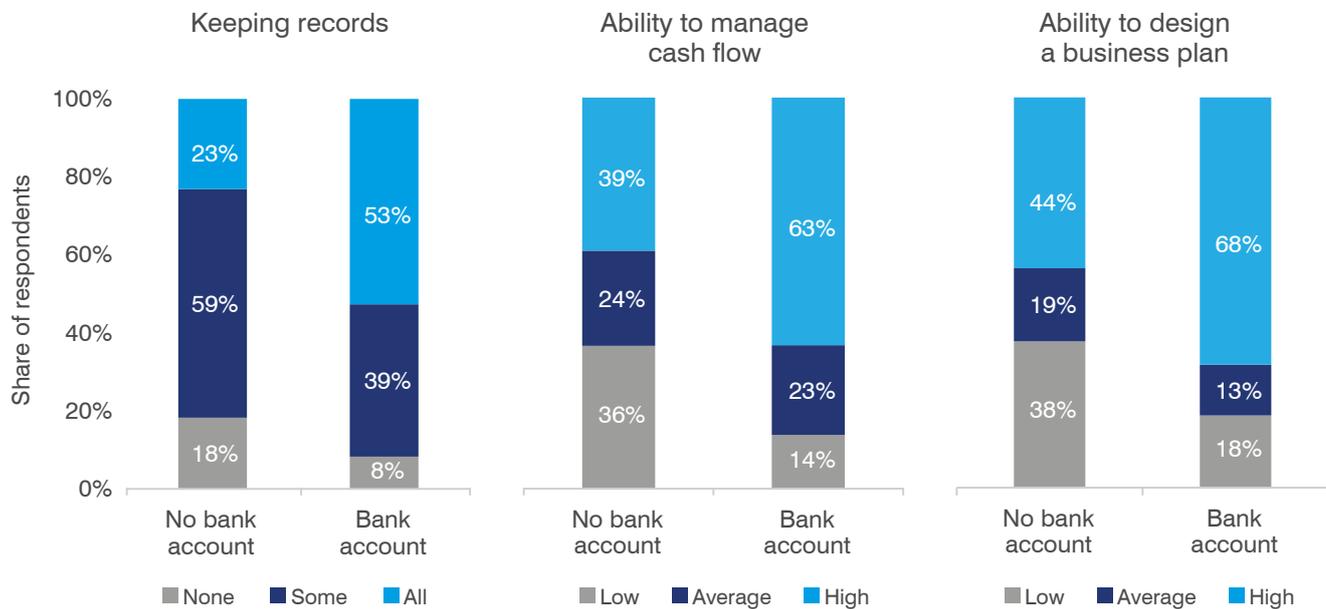
Financial management is pivotal for competitiveness. Firms need to track and manage their revenues and expenses to avoid short-term liquidity issues – a potential cause of closure for SMEs.⁶² Eventually, firms that cannot manage their flows of revenues and expenses might not have sufficient liquidity to pay their bills.

Three in five Burkinabe businesses said they could manage their cash flow very well, but the degree of financial management varies widely across firm characteristics such as size, sector, age of the manager and region in which the firm operates. For example, 38% of microenterprises are able to manage their cash flow well, while almost all surveyed large companies have a high ability to manage their cash flow. Similarly, one farmer out of four reported a low ability to manage cash flow compared to 11% and 19% of companies in the manufacturing and services sectors, respectively.

Access to traditional bank accounts can facilitate financial management. For example, data from SMECS show that firms with bank accounts have better financial record keeping, cash flow management and ability to prepare a business plan. More than half of the companies that have a bank account keep all their economic records, including revenues, expenses, liabilities and assets. This is more than double the share of firms without a bank account that keep all such records. Because banks keep track of the flow of funds into and out of their clients' accounts, having a bank account makes transparent financial reporting easier.



Figure 12 Having a bank account improves financial management



Note: Respondents were asked: 'At this time, does this company have a bank account for daily operation which is separate from a personal account?' and 'Does your company keep the following types of records? Revenues; Expenses; Liabilities; Assets.' and 'Please rate this company's ability to manage its cash flow for reliably execute payments' and 'Please rate the extent to which this company has the capability to present a fully costed business plan to a bank for the purposes of getting a loan?' Response options ranged from 1 (no ability) to 6 (very good ability). Responses of 1–2 were deemed 'low' and 5–6 as 'high'.

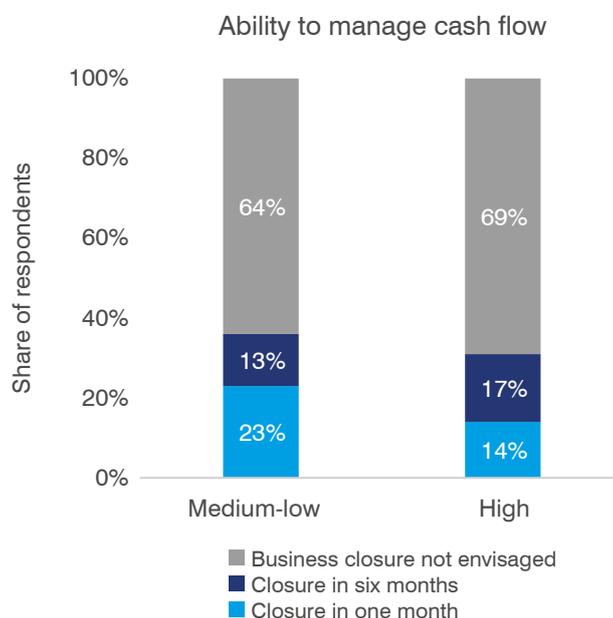
Source: ITC calculation based on SME competitiveness data collected by CCI-BF in Burkina Faso.

Good financial management may make it easier to access finance, according to SMECS data. Put another way, poor financial management prevents many firms from obtaining external financing. This is an especially pressing problem for Burkina Faso, where most survey respondents (87%) need a loan. Among these firms, about 75% struggle to manage their cash flow or design a business plan for the purpose of getting a loan. Conversely, companies that reported they do not need a loan are less likely to report a low ability to manage their cash flow (57%) and a low ability to design a business plan for the purpose of getting a loan (62%).

Being able to manage finances allows firms to buy inputs and make payments smoothly, even when income streams are variable. This has proved especially important during the COVID-19 crisis, which has caused sharp, but temporary, declines in revenue for many companies. Data from the COVID-19 Business Impact Survey found that two Burkinabe firms out of three had liquidity problems as a consequence of the crisis.

A liquidity crisis may be fatal to companies, particularly when coupled with inadequate access to finance. Nonetheless, survey results suggest that good financial management practices can help mitigate such an impact, at least in the short-term. Findings from the SMECS show that good financial management reduces the risk of a business shutting down due to COVID-19. Almost a quarter (23%) of interviewed firms with poor financial management risked closing within one month, compared to 14% for companies with good financial management (Figure 13).

Figure 13 Good financial management reduces risk of closure



Note: Respondents were asked: 'Please rate this company's ability to manage its cash flow for reliably execute payments' and 'If you believe that there is a risk of permanent closure for your business, when could this occur?'

Source: ITC calculation based on SME competitiveness and COVID-19 surveys collected by CCI-BF in Burkina Faso.



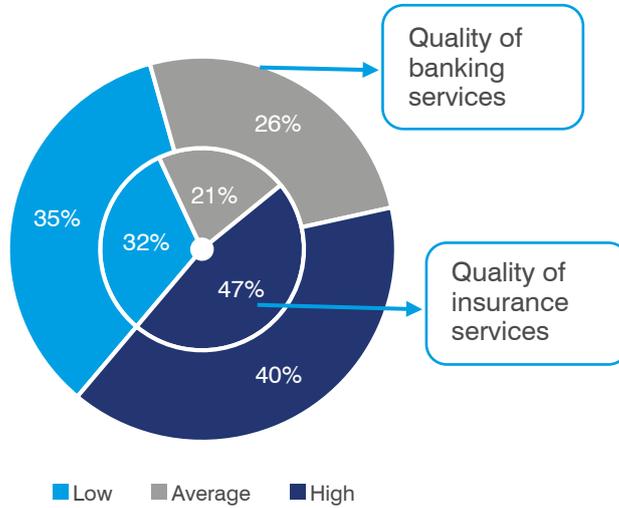
Targeted training on financial literacy and risk management, as well as on how to apply for a loan and draft a business plan, would help enterprises capitalize on their potential and better withstand future shocks. However, good access to financial services is also essential for businesses to grow and survive over time.

Improving the quality of financial services

Although good financial management is necessary to avoid short-term liquidity crises and improve productivity, it is not sufficient for firms to perform well on this area of competitiveness. High-quality financial services are vital for a flourishing and productive SME sector.

However, most Burkinabe enterprises rate the quality of financial institutions as low. One in three companies interviewed for the SMECS rated the quality of banking and insurance services as low, indicating that there is room for improvement (Figure 14).

Figure 14 One-third of companies say financial services lack quality



Note: Respondents were asked: 'Please rate the quality of the banks you have encountered' and 'Please rate the quality of the insurance companies you have encountered.' Response options ranged from 1 (low quality) to 6 (high quality). Responses of 1 and 2 were deemed 'low', 3 and 4 as 'average', and 5 and 6 as 'high'.

Source: ITC calculation based on SME competitiveness data collected by CCI-BF in Burkina Faso.



Indeed, the services offered by financial institutions in Burkina Faso, especially when it comes to providing information, are widely seen as non-transparent and inaccessible.⁶³ Only 15% of domestic financial establishments have an online site, one of the lowest rates in the West African Economic Region.⁶⁴ This makes it difficult for a company to access the information necessary to open a bank account.

Small, informal and women-led enterprises tend to suffer the most from the low quality of banking and insurance services. Two out of three large firms described financial services as high quality, compared to only a third of micro firms.

SMECS data also reveal that women-led firms were less favourably impressed with the services of financial institutions. Nearly half of women-led enterprises rated the quality of financial services as low, far less than men-led firms (31%). This can be partially explained by the informal nature of businesses run by women. Previous research showed that women owned just 18% of registered Burkinabe companies in 2017.⁶⁵

The rate of banking subscriptions is an effective measure of the quality of services provided by financial institutions.⁶⁶ In Burkina Faso, one in five interviewed companies does not have a bank account. Most (60%) of the firms without accounts rated the quality of banking services as low. The lack of bank accounts is far more concerning among microenterprises (35%), while all the surveyed large firms own an account.

Digital solutions for financial inclusion

Digital technologies help to provide companies with a variety of financial services, addressing several of the financial challenges that many companies are facing. Digital financial services and products have not only the potential to be a game changer for corporate financing, but also in promoting financial inclusion.

Two-thirds of surveyed Burkinabe companies use digital payments. This can be largely attributed to the sharp increase in the number of mobile money accounts in the



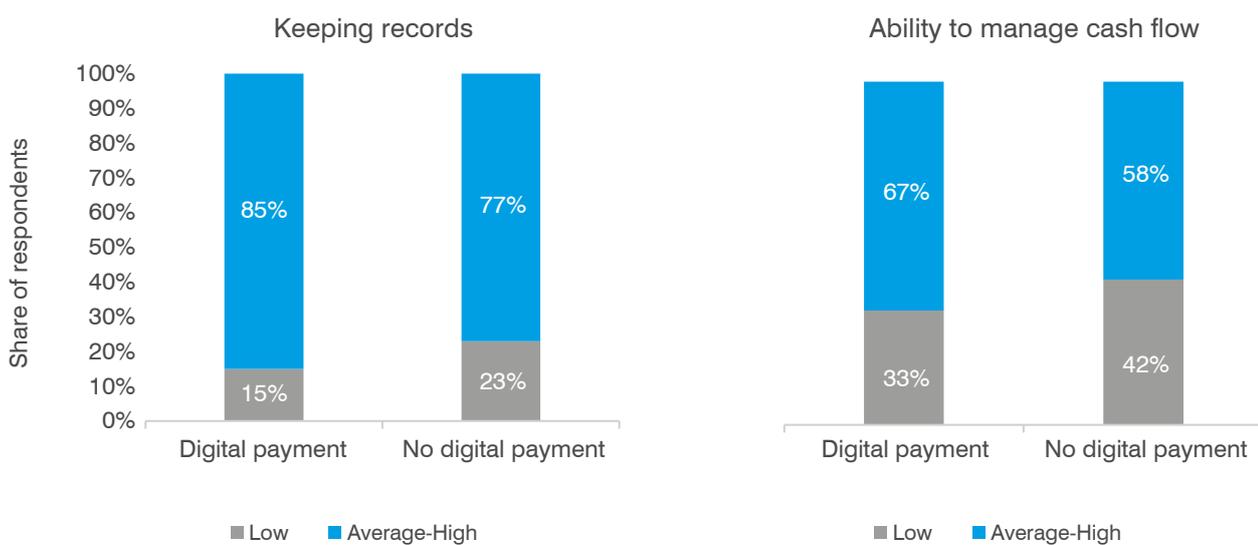
country, and in sub-Saharan Africa generally, in recent years.⁶⁷ Indeed, Burkina Faso is one of the 10 countries globally where the proportion of mobile money account holders exceeds traditional account holders. Lighter documentation requirements for opening such accounts make it easier for firms to implement digital payment systems.

New technologies are reducing the barriers to financial inclusion faced by SMEs, women-led and informal firms. These companies are taking advantage of digital technologies to improve their ability to make business investments and obtain loans to run their businesses.⁶⁸

While informal, smaller and women-led firms in Burkina Faso face more difficulties in opening a traditional bank account and accessing finance, they are more likely to adopt digital payments. Around two-thirds of SMEs reveal they are using digital payments compared to less than half of large firms. This is also true for women-led (68%) and informal enterprises (63%) as well as firms operating in the agricultural sector (67%), all of which tend to use digital payments more than other companies.



Figure 15 Digital payments help firms manage cash flow and keep records



Note: Respondents were asked: 'At this time, does this company have a bank account for daily operation which is separate from a personal account?' and 'Please rate this company's ability to manage its cash flow for reliably execute payments' and 'Which of the following tools and services - Digital Payments (e.g. PayKap, Orange Money, Mobicash, Paypal, Amazon Pay) - do you currently employ for your business?' Response options ranged from 1 (no ability) to 6 (very good ability). Responses of 1-2 were deemed 'low' and 3-6 'average-high'.

Source: ITC calculation based on SME competitiveness data collected by CCI-BF in Burkina Faso.

Digital payments, in turn, foster financial management. They help firms keep financial records and manage their cash flow, even when they have no traditional bank account. Some 85% of unbanked companies that use digital payments maintain at least one economic record, compared to 77% of those that do not use digital payments (Figure 15).

In parallel, 42% of firms without a bank account and not using digital payments reported low ability to manage their cash flow. The share is lower (33%) for unbanked firms that use digital payments (Figure 15). This shows how businesses are using technology to compensate for the fact that they cannot open a bank account. By supporting financial management, digital payments will also help to promote resilience to future shocks.

Policy insights: Improving digital financial services and products

The opportunity to digitize SME payments in Burkina Faso is growing. New technologies would expand opportunities for women-led, agricultural and informal companies, though several barriers to deepen financial inclusion remain.

The rate of mobile phone ownership in Burkina Faso is growing dramatically, but much more among men than women; 67% of men reported owning a smartphone compared to 30% of women. On top of this, women are more likely to lack awareness about what types of digital payments are available. Promoting digital financial services and products requires continuous efforts to address the barriers that women face.

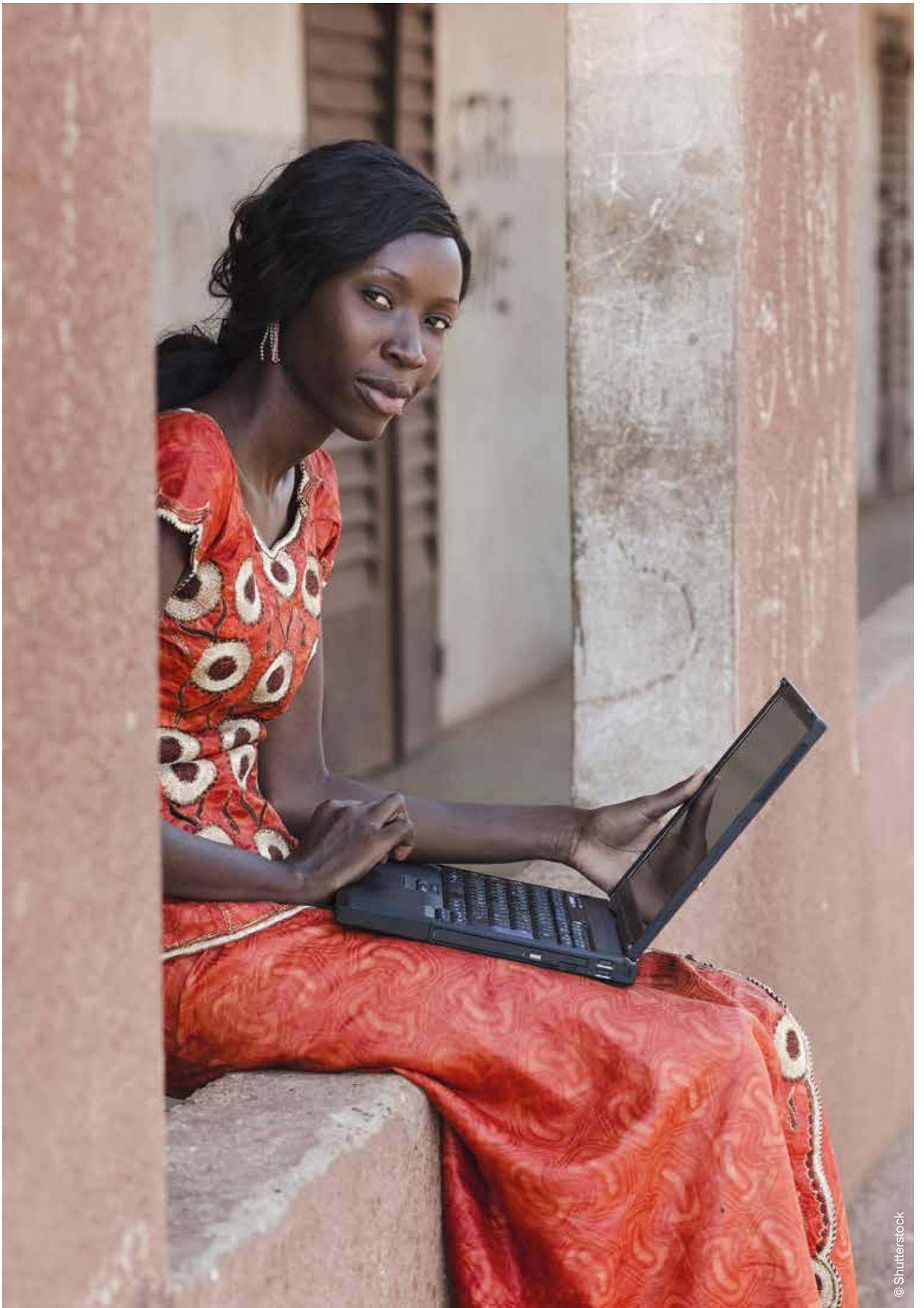
Burkinabe women living in remote areas may find that mobile services and the internet are out of reach. Some groups of women even struggle to obtain the identity documents required to open accounts. The high cost of internet in Burkina Faso can also reduce the use of digital products among women, as they often have less financial

independence, lower incomes and less access to external sources of finance than men. The Government can carry out regulatory reforms to make mobile and internet services more affordable for women. This could include projects focusing on women's adoption of these services.

A higher proportion of women in Burkina Faso are illiterate than men or have less education; they also often lack digital skills or the confidence to use mobile services and the internet. Therefore, they face difficulties accessing digital services. The Government could introduce initiatives to promote advanced digital literacy among girls and young women, for instance, in the form of workshops or mentoring programmes.

For example, in 15 countries of sub-Saharan Africa and Asia, Viamo offers a free, on-demand information service, in partnership with mobile network operators. This provides women with interactive, educational content and training in digital skills.

Source: Warell, A. (30 September 2020). 'Assessing the Gender Gap in Access to Digital Financial Services in Burkina Faso.' Agrilinks. <https://www.agrilinks.org/>; World Bank, 'Promoting Digital and Innovative SME financing'; Agence Ecofin, Cherté, opacité, mauvaise qualité du service clientèle: notre enquête sur les services corporate des banques de l'UEMOA.



Chapter 5

Building business linkages through digital inclusion

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Building business linkages through digital inclusion



Firms need information about markets and competition to improve production, create linkages and improve marketing. Cooperation between companies to improve their access to information can therefore help to drive growth and resiliency. This, in turns, requires the investment of resources by firms operating within supportive business ecosystems. The COVID-19 pandemic has highlighted the importance of information and communication technology (ICT) for enterprises to connect with business support organizations, buyers and suppliers.

Given the ICT infrastructure challenges, business support organizations (BSOs) have played a central role to facilitate the flow of vital information during the crisis. Companies

more engaged with these organizations reported better access to information and benefits from government COVID-19-related support programmes. As such, the work of BSOs will remain important as the economy recovers from the crisis.

Youth-led and informal firms often face more serious challenges in connecting with other firms and BSOs. They also tend to have less complete information about buyers and lower quality information about suppliers.

Factors including the poor quality and high cost of internet access hold back efforts to build cooperation and share information among firms in Burkina Faso. Firms rarely use

business websites to position their products and services. Therefore, investing in the digital infrastructure would help many companies to connect with their consumers and the wider business ecosystem.

Connecting with support organizations is vital during crises

BSOs play a key role in supporting firm competitiveness and promoting cooperation in the business sector. Connections with these organizations are especially important when information is hard to obtain. In regions where SMEs lack internet access, for example, BSOs can act as a conduit for the flow of information between private and public sector actors.⁶⁹ Firms that are more engaged with business support organizations tended to report better access to pandemic-related information and benefits during the first lockdown. In fact, many BSOs created outreach programmes to ensure that SMEs could get that information.⁷⁰

Evidence from the SME Competitiveness Survey also shows that interacting with BSOs encourages information sharing. Among enterprises with no ties to any organizations, only

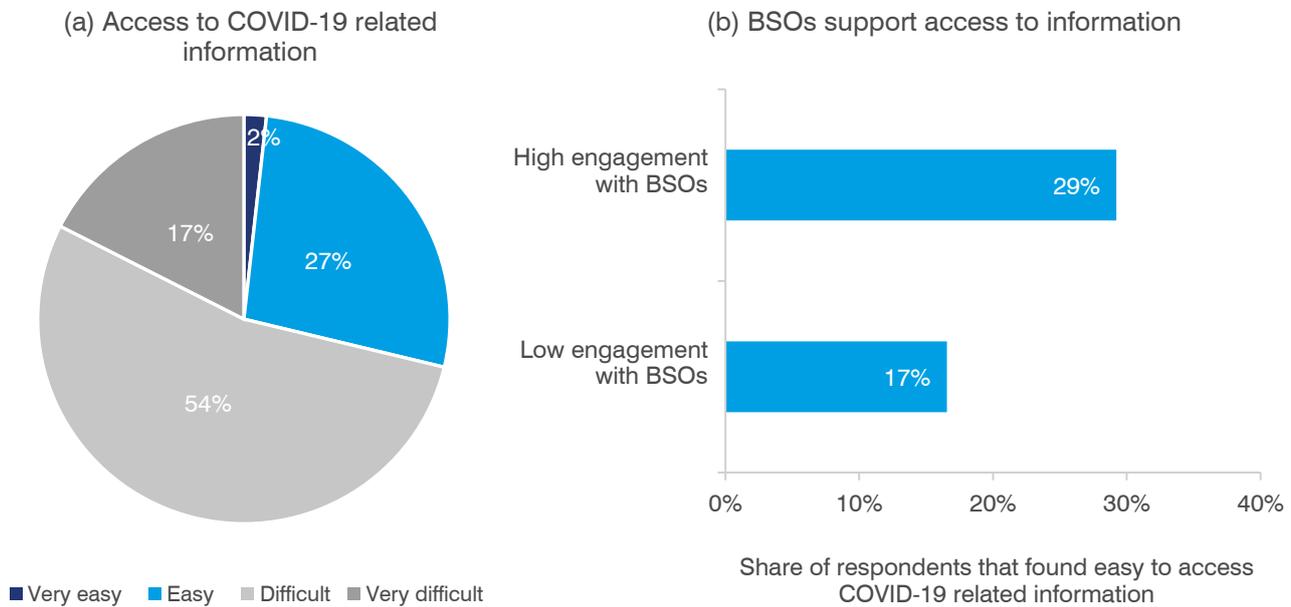
20% of respondents regularly cooperate with other firms in their sector to solve common problems. In contrast, more than half of companies engaging with several BSOs frequently exchange market information and cooperate with their network to solve common problems – something that can benefit the whole sector.

The capacity of firms to connect is valuable in good times, but even more so during a crisis. Studies have shown that SMEs with strong connections to their business ecosystem are more resilient to crises, with higher post-shock revenues than enterprises with less social capital.⁷¹ During the 2007–2008 financial crisis, for example, companies cooperating the most with their peers built their business both during the recession and afterward, while those that did not collaborate saw revenues decline for five years after the crisis ended.⁷²

This is especially relevant for small Burkinabe firms, which found it very difficult to access information about and benefits from government programmes designed to support SMEs during the pandemic. However, data from the SME Competitiveness Survey show that almost three in four businesses found it difficult or very difficult to get information and benefit from these programmes.



Figure 16 BSOs help to facilitate firms' access to COVID-related support



Note: Respondents were asked: 'How easy is it to access information and benefits from government COVID-related SME assistance programmes' and 'Are you actively engaged with any of the following types of institutions?'

Source: ITC calculation based on ITC COVID-19 Business impact survey data collected in Burkina Faso.

BSOs have many ways to help businesses react and recover during crises. They can act as a central source of information,⁷³ let firms know what government support programmes are available and advise them how to take advantage of recovery packages. BSOs can also act as a liaison between small businesses, policymakers and funders by keeping the latter up to date about the most pressing needs of SMEs.

They can also help small enterprises take advantage of economies of scale. For example, businesses that need inputs from the same supplier can coordinate delivery to save on transport costs.

Unfortunately, only a third of Burkinabe firms interviewed were engaged with more than one business support institution. However, companies that had relationships with business support organizations before the crisis had better access to information and benefits (Figure 16 part b).

Youth-led firms are less connected to their ecosystem

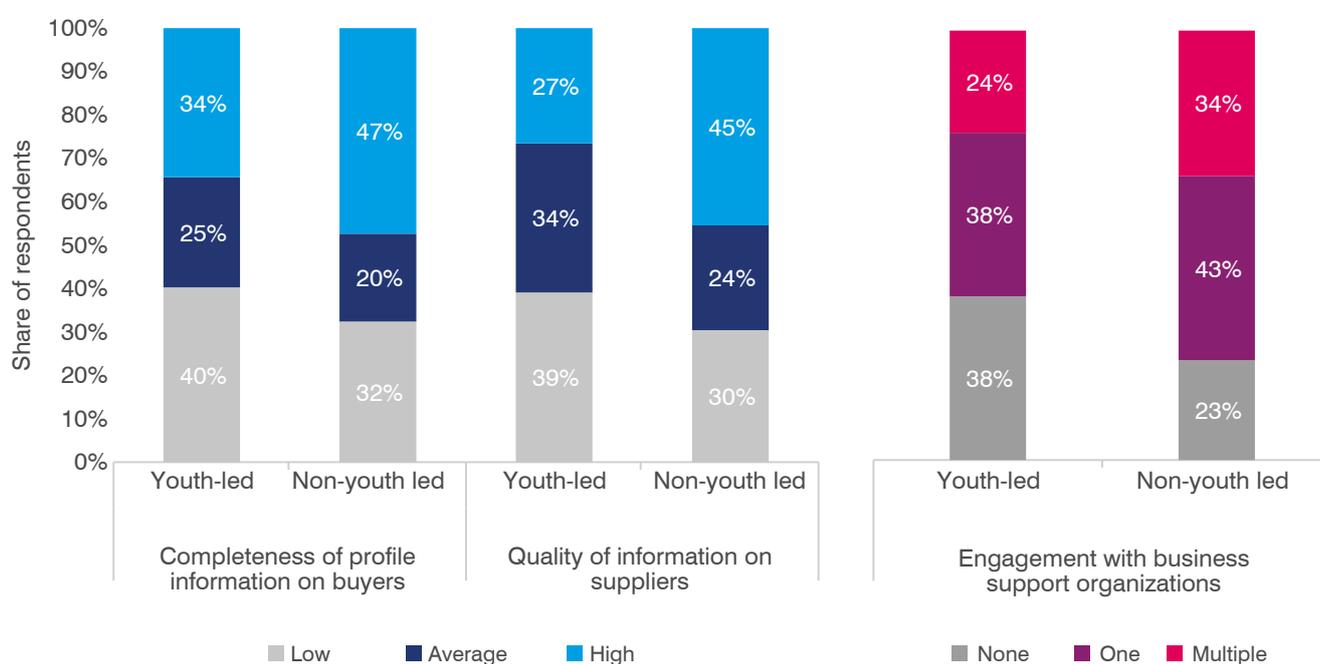
Connections and access to information enable firms to make better decisions.⁷⁴ Companies can connect with the broader business environment along three dimensions. They must connect with buyers, both in terms of learning about the expectations of consumers as well as in terms of marketing efforts to attract customers. Secondly, firms must link with suppliers to remain up to date about input availability so they can plan their own production. Finally, companies must be able to connect with institutions such as business support organizations, which can offer advice and provide valuable market information.⁷⁵

Evidence from the SME Competitiveness Survey shows that informal and youth-led firms lag behind in their ability to connect along all three dimensions. Past research suggests that owners of informal businesses and young managers tend to lack the social capital necessary to network, form connections and engage with the institutional business environment, compared to owners of registered firms and older entrepreneurs.⁷⁶

Connecting with other companies and BSOs is a particular challenge for youth-led firms in Burkina Faso. Like informal enterprises, young entrepreneurs often have less complete information about buyers and lower quality information about suppliers, and they are less engaged with institutions than non-youth-led firms.

Just a third of youth-led firms rate the completeness of information about buyers as high, versus nearly half of non-youth led companies. Furthermore, only 27% of young entrepreneurs say they have high-quality information on suppliers, compared to 45% of non-youth led firms. Finally, 38% of enterprises headed by youth are not engaged with any business support organization, compared to 23% of non-youth led firms.

Figure 17 Young entrepreneurs lack connections



Note: Respondents were asked: 'Please rate the completeness of this company's profile information on its buyers (e.g. information on age, gender, employment background)' and 'Please rate the quality of market information on potential suppliers?' and 'Are you actively engaged with any of the following types of institutions: Trade promotion organizations, Investment promotion organizations, Chambers of commerce, Sector associations?' Response options ranged from 1 (no information/very low) to 6 (excellent quality information/very high). Responses of 1 and 2 were deemed 'low', 3 and 4 as 'average', and 5 and 6 as 'high'.

Source: ITC calculation based on SME competitiveness and COVID-19 business impact data collected by CCI-BF in Burkina Faso.

One reason youth-led enterprises have a hard time connecting is that business networks tend to be fairly entrenched. Large, more established firms typically dominate business networks. Older managers build connections over years and the benefits of these links compound over time. Young entrepreneurs also usually lack the social capital to engage with other businesses,⁷⁷ so they rely on family and friends for informational and financial support.⁷⁸

This shows that business support organizations have a role to play to attract small, informal and youth-led companies through targeted membership campaigns, and to help them build ties with their peers. They can provide resources and training to help these firms build websites and navigate the e-commerce landscape. In addition, through public-private dialogues, they can encourage policymakers to support youth-led firms.

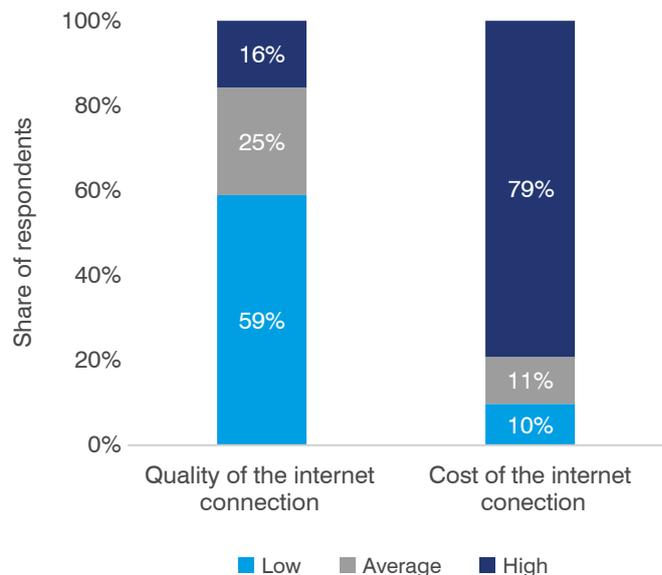
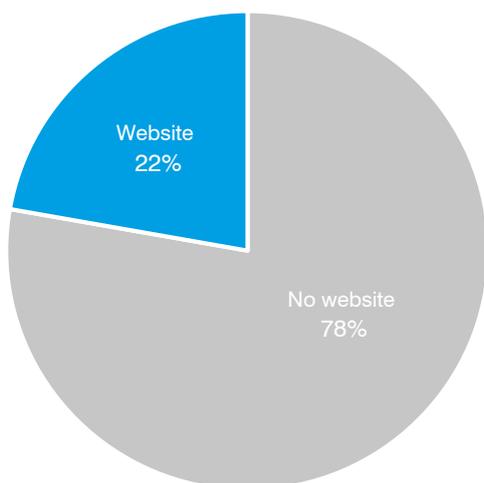
Internet access is key to enable firm connectivity

Internet access makes it easier for companies to build and maintain connections with their buyers and suppliers. These connections are an important factor in a firm’s competitiveness.⁷⁹ Despite these benefits, SMECS data reveal that few Burkinabe firms use the internet to position their goods and services online. Less than a quarter of companies have a business website. In addition, fewer (35%) firms in Burkina Faso advertise on social media than

firms surveyed by ITC in neighbouring countries, such as Togo and Benin.

Moreover, disparities exist across firm size and the gender of managers. Only one microenterprise out of 10 has a business website, five times less than large companies. In parallel, one-quarter of men-led firms have a professional website compared to only 14% of women-led firms. Such connectivity gaps are not unique to Burkina Faso; they are persistent challenges in much of the developing world.⁸⁰

Figure 18 Unreliable and costly internet impairs connections



Note: Respondents were asked: ‘Please rate the quality of your internet connection’ and ‘Please rate the cost of your internet connection’ and ‘Does this company have a business website?’.

Source: ITC calculation based on SME competitiveness and COVID-19 business impact data collected by CCI-BF in Burkina Faso.

Limited internet usage can be partly explained by the poor quality and high cost of internet in the country. Alongside an internet penetration rate of 19%,⁸¹ compared to an average of 25% for the African continent,⁸² Burkina Faso suffers from a low download speed, ranked 42nd out of 46 African countries.⁸³ Not surprisingly, almost two-thirds of surveyed companies reported a low-quality internet connection (Figure 18 right panel).

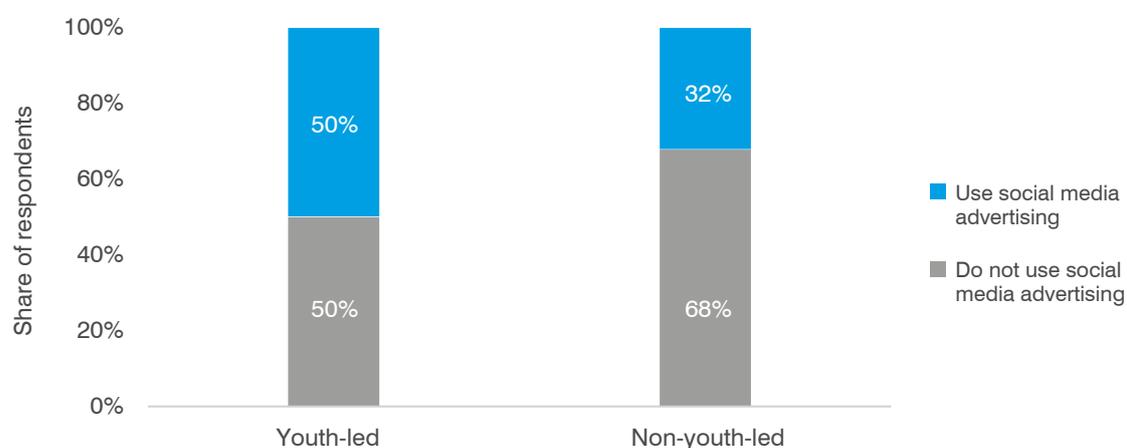
Internet access is also quite expensive. Internet costs in Burkina Faso are among the highest in the Economic Community of West African States,⁸⁴ and 79% of surveyed firms said the cost of internet was high.

Therefore, there is an opportunity to invest in ICT infrastructure to improve outreach to new markets. Past research has highlighted the importance of improving

internet access for economic development among African countries.⁸⁵ Previous studies showed that universal internet access in Africa would boost economic growth in the continent, in terms of gross domestic product per capita, by an estimated 1.5 percentage points per year. The dividends are greatest for sub-Saharan Africa, where universal internet connectivity would increase economic growth by 2 percentage points a year.⁸⁶

Burkina Faso is especially well placed to take advantage of improvements to ICT infrastructure. The country is relatively young – about 65% of the population is under the age of 25 – and youth tend to adopt new technology more quickly than older people.⁸⁷ For example, as shown in Figure 19, youth-led businesses are nearly twice as likely to use social media advertising as firms led by older managers. Half of all enterprises headed by young people advertise on social media, compared to just three in 10 non-youth-led firms.

Figure 19 Youth-led companies advertise more on social media



Note: Respondents were asked 'In the last year, did this company engage in any of the following forms of advertising?' and 'What is the age of the top manager?'

Source: ITC calculation based on SME competitiveness and COVID-19 business impact data collected by CCI-BF in Burkina Faso.

Fortunately, recent efforts in Burkina Faso have made progress in terms of increased internet reach and access. According to data from the World Bank, fewer than 1 in 1,000 people in Burkina Faso had an internet connection in 2000. By 2017, however, nearly 160 in 1,000 people in the country were connected to the internet.⁸⁸

Digital marketing, payments and e-commerce will grow increasingly important as the economy recovers from the COVID-19 crisis, and (as evidence from Chapter 4 confirms) digital payments facilitate financial management. This underscores that Burkina Faso should continue to invest in infrastructure to bridge the digital divide and create an enabling regulatory environment for technological adoption.



Box 2 Investing in e-commerce for a strong recovery

Companies have come to depend on ICT to conduct business during the COVID-19 pandemic as consumers began to shop from home and firms seek new connections to rebuild their supply chains. In all likelihood, e-commerce and remote sales will continue to be important going forward. Beyond providing contact-free methods of serving customers, digital marketing and e-commerce allow businesses to connect with consumers they might otherwise not have reached.

But the prospect of shifting to predominantly remote sales may pose a particular challenge for Burkina Faso. For example, evidence from the ITC COVID-19 Business Impact Survey shows that only 16% of Burkinabe firms use new marketing techniques, such as online sales as a strategy

to cope with the crisis. ICT obstacles have continued to hamper greater participation in e-commerce activities by small producers, sellers and consumers in developing countries. This underscores the need for efficient and affordable ICT.

Nevertheless, there is some good news for e-commerce in emerging markets. Home delivery is gaining in popularity across the developing world and consumers have changed their purchasing habits in favour of remote sales. This is partially due to the fact that governments in some African countries have encouraged online purchasing. Governments can further assist firms as they make the transition to remote sales by offering ICT subsidies or subsidies to offset e-payment fees.

Sources: Ungerer, C. and A. Portugal (2020). Leveraging E-Commerce in the Fight against COVID-19. Future Development – Brookings. 27 April. <https://www.brookings.edu/blog/future-development/2020/04/27/leveraging-e-commerce-in-the-fight-against-covid-19/>; Nathalie Beatrice Chinje, 'Harnessing Digital Marketing to Access Markets: Opportunities for Africa's SMEs,' *Africagrowth Agenda* 2015, no. Oct/Dec 2015 (2015): pp. 14–18; Alice P Shemi and Chris Procter, 'Explaining Contextual Factors Affecting E-Commerce Adoption Progression in Selected SMEs: Evidence from Botswana,' *International Journal of Management Practice* 6, no. 1 (2013): pp. 94–109. Howe, J. (2020). The E-Commerce Response to COVID-19. International Trade Centre. 28 April. <https://www.intracen.org/covid19/Blog/The-e-commerce-response-to-COVID-19/>; UNCTAD (2020). *COVID-19 and e-Commerce: Impact on Businesses and Policy Responses*. Geneva, Switzerland: United Nations Conference on Trade and Development. https://unctad.org/system/files/official-document/dtlstictinf2020d2_en.pdf

Policy insights: Investment in ICT infrastructure needs to continue

ICT infrastructure in Burkina Faso is a major challenge for its businesses. The poor quality and high cost of the internet can explain a very low internet penetration rate – well below the African average. While the Government has adopted strategic policies to improve internet access, more efforts are needed to improve the ICT infrastructure and enhance the connectivity and competitiveness of small Burkinabe enterprises. Expanding access to the internet would be particularly beneficial to youth-led firms, whose managers are well positioned to adopt new technologies and to use company websites and social media advertising.

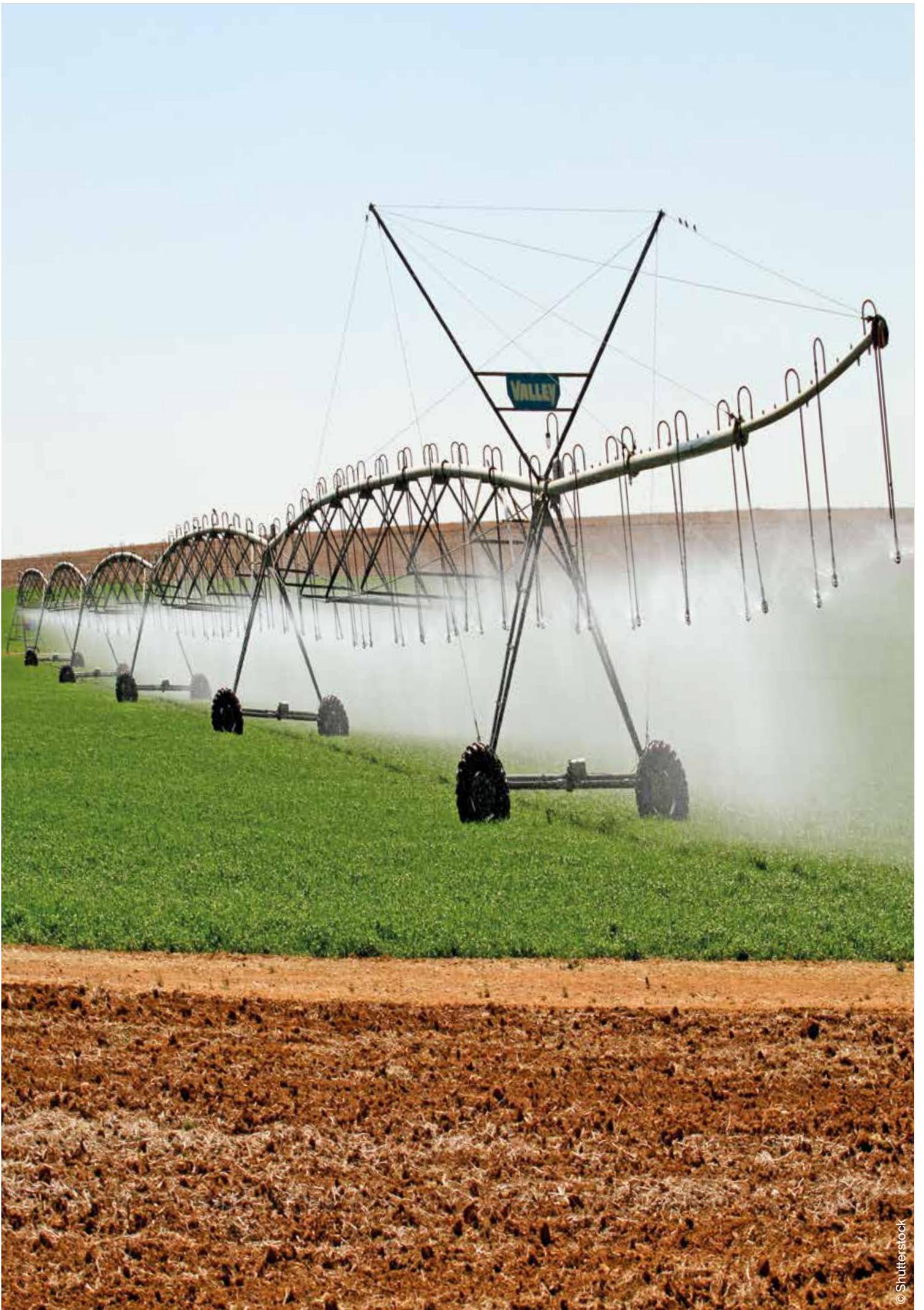
Given the high costs related to internet access, the Government could offer subsidies for internet subscriptions as reforms are instituted to improve competition among internet providers. In addition, institutions and BSOs can offer training in website development and maintenance and general digital literacy to business managers. Considering the importance of digitization in driving business growth and improving public service delivery, increasing the level of digital literacy among entrepreneurs as well as their workforce could boost productivity.

The limited and expensive ICT infrastructure in Burkina Faso hindered access to important information about government benefits and regulations at the onset of the COVID-19 crisis. While the long-term solution to this problem would be to invest in widespread internet access throughout the country, mobilizing business support organizations could be an effective short-term solution to ensure that SMEs receive vital information.

The data gathered for the SMECS in Burkina Faso suggest that firms engaging with BSOs were better able to obtain pandemic-related information and benefits during the first lockdown. This indicates that business support organizations can assist a large number of firms by acting as a conduit for the flow of information between the private and public sectors. In addition to providing firms with information from the government, they can also aggregate the concerns of individual SMEs and offer policy recommendations that promote the interests of the business community.

Sources: WTO (2020b). E-Commerce, Trade, and the COVID-19 Pandemic. World Trade Organization. https://www.wto.org/english/tratop_e/covid19_e/ecommerce_report_e.pdf; ITC (2020c). *Supporting Small Businesses Through the COVID-19 Crisis and Towards the Future: A 15-Point Action Plan*. Geneva, Switzerland: International Trade Centre. <http://www.intracen.org/uploadedFiles/15point.pdf>.





Chapter 6

Supporting innovation to build resilience

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Supporting innovation to build resilience



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Today's rapidly shifting marketplace means companies must be able to change in response to dynamic market forces. Innovation helps firms anticipate and adapt to changes in the economic environment.⁸⁹ Adopting new technologies is known to be fundamental for innovation and competitiveness, giving firms a competitive advantage.⁹⁰

The SME Competitiveness Survey indicates that there is widespread interest among Burkinabe firms in emerging technologies and the potential they have to improve their business operations. With the right policies, this positive attitude towards new technologies could boost innovation and the productivity of small enterprises in Burkina Faso. In particular, firms in agriculture – a sector of high economic importance to the country – could benefit enormously

from the adoption of emerging technologies, to increase productivity as well as resilience to climate change and other causes of disruption.

The data highlight differences among groups of firms in Burkina Faso. Women-led businesses that were interviewed appear more likely to innovate than male-led companies. However, women face bigger barriers when connecting with institutions that support innovation. Reducing these barriers would further support the tendency of women-led firms to innovate and translate the benefits to the entire Burkinabe society.

Creativity and innovation are especially important today, given the disruptions brought by the pandemic. Survey data

show that innovative companies were more likely to adopt agile approaches to cope with such disruptions, such as creating new products or lending employees.

Positive attitude towards innovation and technology

Innovation is essential in today's competitive business world. Innovative firms tend to be more productive and enjoy better economic growth, and are more likely to export.⁹¹ The capacity of a company to innovate is strongly linked to its technological capabilities.⁹²

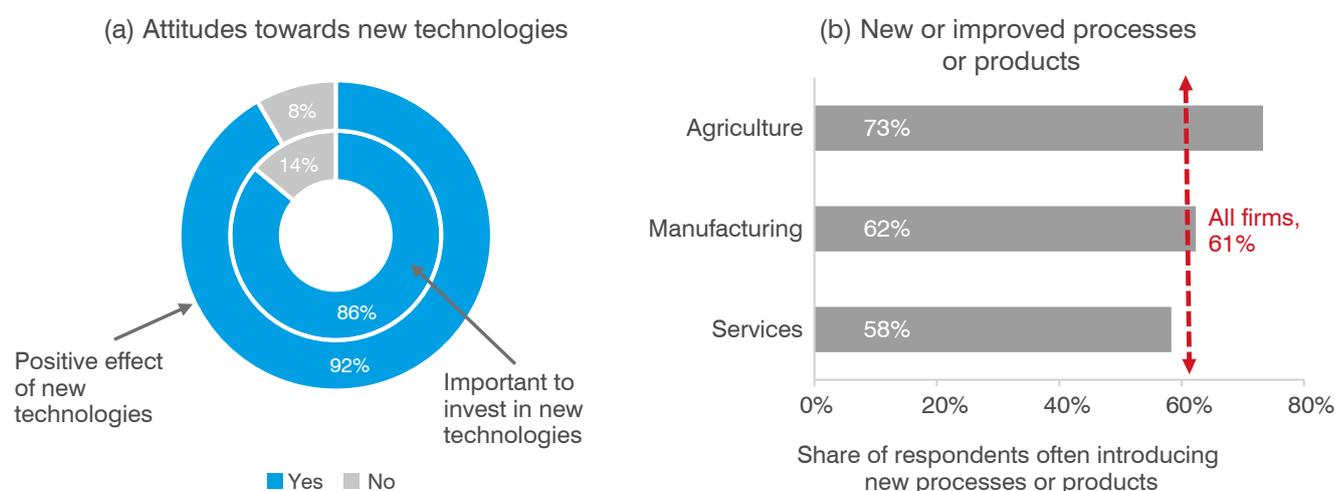
The agricultural sector in countries such as Burkina Faso may be particularly well-positioned to benefit from

technological change and innovation, because farmers have limited productivity and are very vulnerable to climate change. New technologies to tackle these challenges could be particularly effective to support agricultural companies.

Burkinabe firms understand the benefits of new technologies. Indeed, data from the SME Competitiveness Survey indicates that 92% of surveyed firms perceive the effect of emerging technologies as positive, and 86% consider investment in technology important for their business (Figure 20).

This positive attitude towards new technologies translates into the majority of respondents regularly engaging in innovation in their businesses. Three out of five surveyed companies in Burkina Faso frequently generated new outputs or improved their business processes.

Figure 20 Attitudes towards new technologies are positive



Note: Respondents were asked: 'How do you perceive the effect of emerging technologies?' and 'How would you rate the importance of investing in technological tools/applications/services for your company?' and 'Please rate the frequency with which your company develops and implements new or improved processes or products.' Answer options ranged on a Likert scale from 1 (very positive, very important and very often) to 6 (negative, not important, rarely). The percentage of respondents who chose an answer 1, 2 or 3 are included in the figures above.

Source: ITC calculation based on SME competitiveness data collected by CCI-BF in Burkina Faso.

Interestingly, Burkinabe farmers are more likely than firms in other sectors to develop and use new products or practices. Almost three-quarters of agricultural businesses reported introducing new goods or upgrading production processes with high frequency, compared to 62% of manufacturing firms and 58% of service companies.

The innovations of agricultural firms often take the form of new water harvesting techniques. For example, many Burkinabe farms now use micro-catchment systems to collect rainwater.⁹³ These innovations are increasingly urgent as climate change takes its toll on West Africa. Burkinabe farmers, who depend greatly on the uncertain and irregular Sahelian rainfall, will increasingly rely on new irrigation and

water management technology as the region continues to warm.

The agricultural sector can benefit enormously from innovation, including through the adoption of new digital technologies.⁹⁴ Agriculture accounts for about 80% of all jobs in Burkina Faso, but many of these jobs are informal and output per workers is low.⁹⁵ The sector is dominated by subsistence production systems characterized by small farms, low productivity, limited diversification, little participation of formal private businesses in agricultural and agro-pastoral value chains, and high vulnerability to climate change.

Data from the ITC SME Competitiveness Survey indicate that farmers in Burkina Faso are generally open to using new digital technologies. Indeed, all interviewed agricultural firms had positive perceptions of the effect of emerging technologies.

Yet many small farmers do not benefit from the full potential of technology. There appears to be a wide gap between the share of Burkinabe firms that consider investing in technology to be highly important (80%) and those that actually invest in research and development (33%). Previous studies in other developing countries emphasize how bottlenecks in technical skills, high technology costs and inadequate core infrastructure curb actual investments in technology.⁹⁶

Therefore, policies designed to ease these bottlenecks can boost innovation, productivity and the resilience of the Burkinabe agricultural sector to climate change. This, in turn, would have a cascading effects on the general economy, given the importance of the sector for the country.

Targeting support to innovative women-led firms

Advancing the participation of women in Burkina Faso's economy can improve both economic growth and societal wellbeing.⁹⁷ Gender diversity in the workplace encourages greater use of human capital and the exchange of ideas, which may encourage firms to innovate, and past research has shown that gender diversity helps boost productivity.⁹⁸

This is confirmed by data collected in Burkina Faso, where firms with more women employees tend to innovate more than those with fewer women. For example, the SMECS shows that 28% of the workforce at companies that innovate little are women. In contrast, 33% and 35% of the employees at firms with medium and high innovation propensities, respectively, are women.

In addition, the data show that women-led businesses tend to hire a higher proportion of female workers. The survey finds that the average share of female workers in women-led firms is 53%, compared to 18% for men-led firms. This is in line with previous research that shows that female managers are more likely to hire female workers,⁹⁹ who tend to be better paid than under male management.¹⁰⁰

Because of their gender-inclusivity, women-led firms are also slightly more likely to generate new outputs or improve their business processes than men-led enterprises. This is in line with previous research showing that businesses with female managers at the top tend to be more innovative than those with male top managers.¹⁰¹ Therefore, companies owned and managed by women can play a meaningful role to promote innovation in Burkina Faso. The Government has already started, with its National Development Plan, to support female entrepreneurs, but it is important to maintain and keep adding to these efforts.

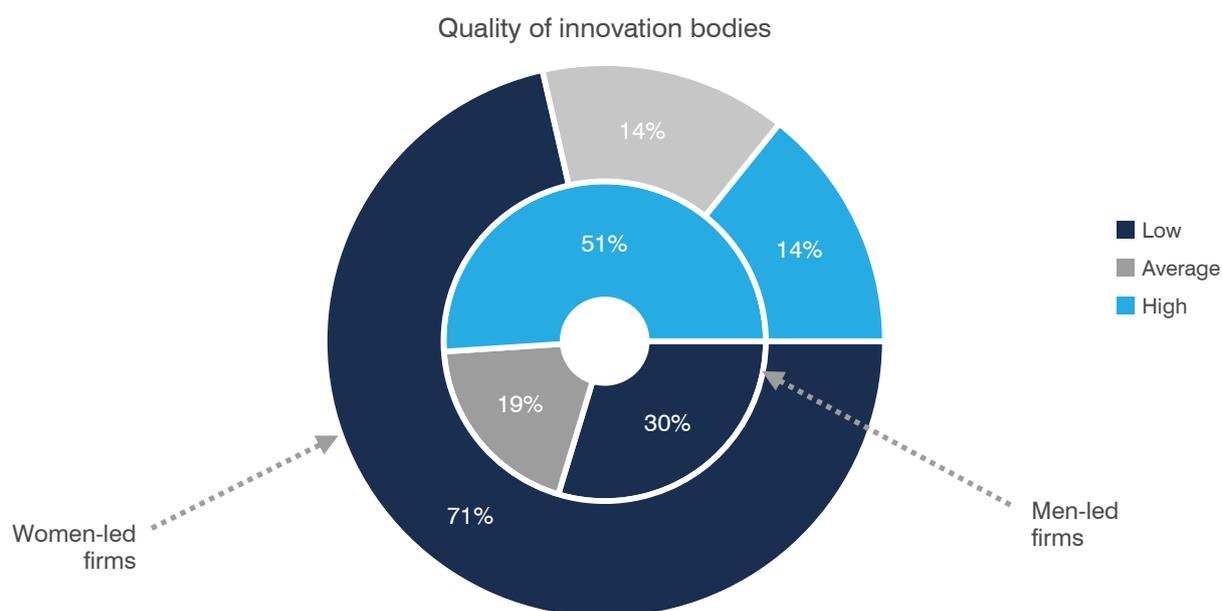
Innovation requires continuous research and development. Several factors drive investment decisions on research and development, including institutional and financial factors.¹⁰² However, women disproportionately face obstacles operating their own businesses, despite the significant benefits their empowerment brings.

Past research has exposed the many constraints facing women-led enterprises.¹⁰³ Chief among these are banking and institutional support, confirmed by SMECS data as the areas in which women-led firms seek action. For example, nearly half of businesswomen were dissatisfied with the quality of banking services, compared to 31% of businessmen.

The survey also finds that more women-led firms have never interacted with innovation-supporting bodies. Furthermore, those that did interact with such organizations rated their quality as poor. The data show

that women entrepreneurs are more than twice as likely as men entrepreneurs to rate the quality of innovation bodies as low (Figure 21).

Figure 21 Women-led businesses worry about institutional support quality



Note: Respondents were asked: 'How many full-time female employees does this establishment currently employ?' and 'Please rate the quality of innovation supporting institutions your company has encountered.'

Source: ITC calculation based on SME competitiveness data collected by CCI-BF in Burkina Faso.

Innovative firms were more agile during crisis

Innovation is very important today, given the tremendous changes and disruption brought by COVID-19, as well as the transformational changes brought by trade, technology, climate change and demography.¹⁰⁴ Firms have had to innovate to survive during the pandemic. SMEs in particular face an 'innovate or die' dilemma, unlike larger firms that have resources to sustain them through crises. Innovation requires patience and a long-term managerial perspective, because it involves investing in something that might only pay off at a later date.¹⁰⁵ As a result, innovation also requires the ability to cope with considerable uncertainty.

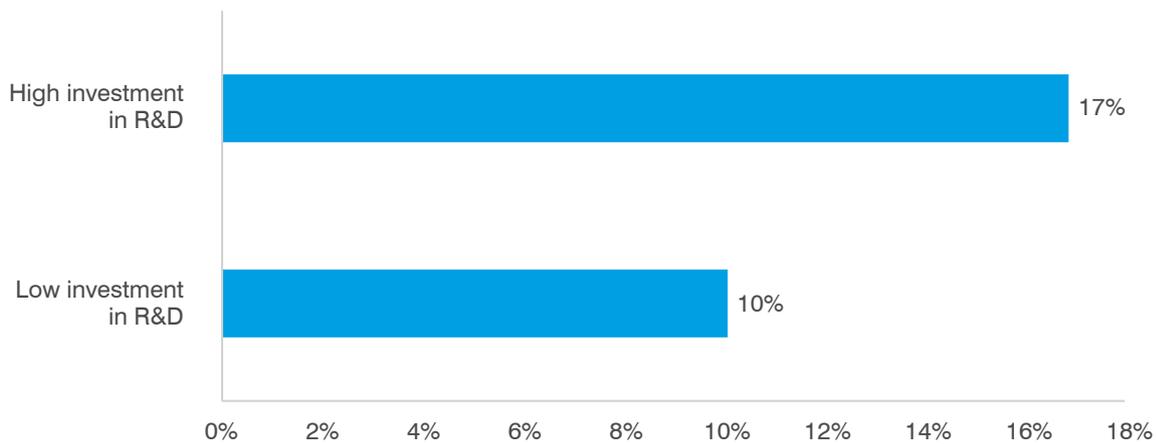
Evidence from the ITC COVID-19 Business Impact Survey shows that innovative businesses in Burkina Faso were better positioned to manage the crisis. About 17% of companies that invested significant resources in research and development adopted agile strategies to deal with the pandemic, against 10% of those that invested little in it (Figure 22). In particular, more innovative firms tended to develop new products or business models according to market trends, or to lend employees to other enterprises. These agile coping strategies help companies weather the storm.



The fact that innovation underpins resilient and agile strategies is important, because these approaches have been critical for enterprises to survive the crisis. Companies that adopted positive coping strategies were more likely to say they would survive the pandemic, the survey data show.

COVID-19 has illustrated how vulnerable businesses are to shocks and the importance of innovation to enhance firms' ability to cope with crises. Innovation is made more relevant than ever in a world that is experiencing the health and economic effects of a pandemic and increasingly witnessing the risks associated with climate change.

Figure 22 Innovative firms embrace agile strategies to cope with COVID-19



Share of respondents who followed agile strategies to cope with COVID-19

Note: Respondents were asked: 'To deal with the crisis, have you adopted any of the following strategies?' Agile coping strategies are: loaned employees to other enterprises or customized/created new products. They were also asked: 'Please estimate the level of resources your company commits to research and development.'

Source: ITC calculations based on SME competitiveness data collected by CCI-BF in Burkina Faso.

Policy insights: Innovation for resilience

Survey evidence suggests that innovative companies were more resilient to the COVID-19 crisis. This illustrates that incentives for investment in innovation and improvements to the business environment for innovation can help companies become more resilient to this and future crises, and better compete in dynamic market segments.

It is not possible to create and adopt innovations and new technologies without the relevant skills. Skilled employees can develop creative solutions to the challenges their businesses face and use new technologies.

Literacy and greater digital skill will be critical to building technology and innovation readiness in Burkina Faso. It is especially important for Burkinabe SMEs to upgrade skills, because the educational level of the workforce is quite low and small companies often employ low-skilled workers who are less able to switch jobs. Thus, attention must be dedicated to training and skill development.

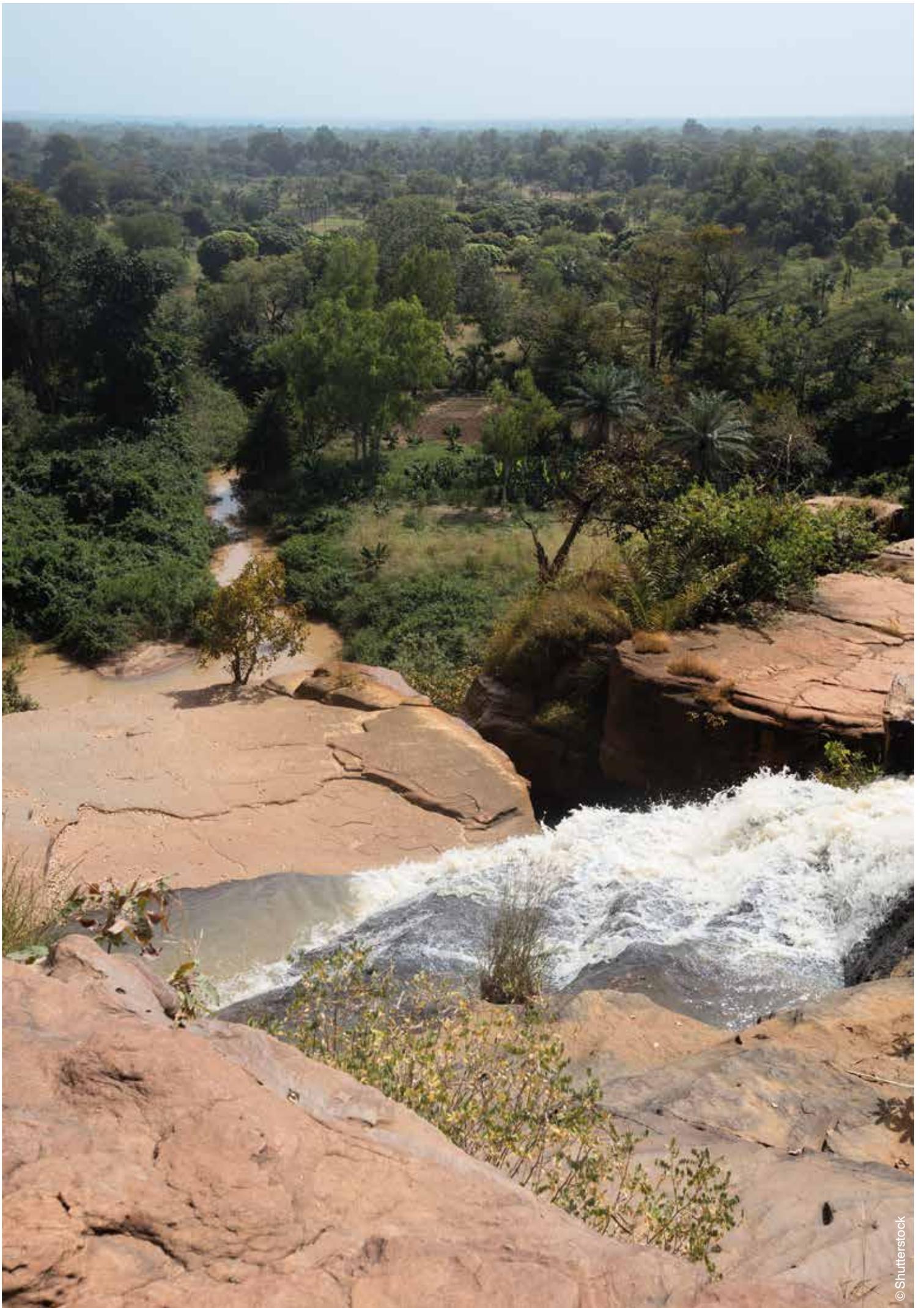
The Government and BSOs can work together to offer training and certification programmes to increase the supply of talented workers. Business support organizations can also provide specific training with respect to the latest digital technologies, fin-tech options and peer-to-peer financing platforms.

Innovation and research require a large initial outlay. Burkinabe SMEs, especially farmers and firms led by women, risk being left behind, if their financial resources do not permit investments in research and new technologies. The Government could help by offering financing or grants to enterprises engaged in innovative activity. It could also offer a substantial cash prize for inventions related to specific topics, such as COVID-19, in exchange for widespread use of the intellectual property. This would encourage innovative activity aimed at crises mitigation and allow many Burkinabe firms to access innovations created by others.

Another way for BSOs to promote innovation among small companies is to support the creation of networks and coalitions to bring new innovations to the market. These networks can exploit the latest digital technologies to build knowledge-sharing platforms to allow for broader access. Moreover, digital crowd-sourcing platforms can be used for collecting and diffusing best practices and for fundraising.

Some sectors may require targeted approaches to encourage innovation and the adoption of new technologies. For example, smallholder farmers in Ghana boosted their revenue by 9% by using mobile platforms to access real-time market and weather information. Given the increasing penetration of mobile phones in rural areas and the limited use of ICT in its agriculture, Burkina Faso could benefit greatly from these new technologies.

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Chapter 7

Policies for resilience and competitiveness

Policies for resilience and competitiveness

Most Burkinabe companies are small and medium-sized enterprises and employ vulnerable groups such as women, youth and rural residents. Helping these firms become more competitive would unleash their potential to build a resilient, digital, inclusive, and sustainable future.

Using data from the SME Competitiveness Survey and from the COVID-19 Business Impact Survey carried out in Burkina Faso in 2020, this report finds that even though Burkinabe firms have important strengths, strategically chosen policies could improve their performance. Such policies would help companies become resilient to shocks such as the COVID-19 crisis and enable them to take advantage of promising opportunities on the horizon.

Burkinabe SMEs face several serious challenges.

- Limited access to high-quality utilities such as water and electricity hinders many small businesses, keeping them from producing at full capacity.
- Low rates of certification to international standards cripple efforts to attract new international buyers.
- Access to finance continues to be a constraint, especially for SMEs with less financial management.
- Low-quality and expensive internet services prevent companies – especially those led by young managers – from connecting with buyers through business websites and social media advertising.
- Better support from innovation bodies is needed, especially among women-led firms, to foster innovation, competitiveness and resilience.

Improving competitiveness for resilience

Burkina Faso's experience with COVID-19 has delivered several lessons. First, companies with good financial and inventory management are better able to cope with crises, and this is crucial in tumultuous times. Second, the ties that bind firms together – be it electricity cables bringing information on support programmes or the social networks through which businesses in the same sectors solve transport difficulties together – are essential to dynamically improve business performance. Third, innovation is vital if a firm is to adapt to changes successfully.

Competitive Burkinabe firms were more resilient during the pandemic. This stems from their better management practices. Those that owned a bank account tended to keep economic records and practice better cash flow management, and those that practiced good financial management were less likely to face permanent closure. To reduce the risk of firm failure in the future, investments in developing skills and establishing conditions for good SME management may be wise.

Companies that said they were engaged with a sectoral association, chamber of commerce or other business support organization found it easier to access COVID-19-related information after the pandemic hit. This underscores that business resilience to crisis in Burkina Faso depends on strong connections.

Finally, global market conditions are changing rapidly because of technology, trade and climate disruptions. Firms that were innovative adopted resilient strategies such as lending employees to other businesses, embracing teleworking or selling new products. Encouraging such innovation bodes well for the ability of Burkinabe SMEs to continue to ride out future waves of market change.



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Investing in infrastructure to promote trade

The fact that Burkina Faso is landlocked means connectivity and infrastructure are critical for enterprises to thrive. But regional disparities exist in terms of access to transportation infrastructure and utilities. Specifically, remote areas typically lack access to good roads and utilities.

Insufficient access to good transportation infrastructure and reliable utilities makes it harder for firms to export value-added products. Burkinabe exports are concentrated in commodities such as cotton that are relatively uncomplicated to transport and rely less on dependable electricity and water. But firms specializing in low value-added products are susceptible to disruptions including climate shocks and commodity price changes. Expanding access to affordable and reliable transport and utilities can help companies capitalize on opportunities to trade in value-added goods such as yarn and textiles.

Fostering certification to broaden access to global markets

Certification to international standards remains low among Burkinabe businesses. Yet certification has become even more important as firms work to recover from the effects of the COVID-19 crisis. In fact, as global value chains reorganize, buyers will probably become more aware of sanitary standards of production.

Making information on standards and technical regulations available to SMEs will enable them to signal the quality of their goods to new buyers across borders.

Promoting cooperation among businesses in Burkina Faso can help address this challenge. This report shows that firms that cooperate with each other are more informed about standards and certifications and more likely to be certified. Because information about standards can be complicated and hard to act upon, business support organizations can help by providing technical assistance to firms.

Promoting financial inclusion through digital payments

Firms in Burkina Faso are underbanked; indeed, one in five Burkinabe firms lacks a bank account. Disparities in access to financial services exist across characteristics such as firm size and the gender of the top manager. For example, almost one in three microenterprises has no bank account, while all large businesses own one. It is therefore important to promote banking culture among MSMEs.

Digital payment platforms can promote financial inclusion because these accounts have more lenient documentation requirements than traditional bank accounts. And evidence from the SME Competitiveness Survey shows that digital accounts, like traditional bank accounts, encourage good financial management practices like the maintenance of economic records and the careful management of cash flows. This is especially promising for women-led, agricultural and informal companies, which are often left out of the traditional financial industry.

But barriers to deepening financial inclusion remain. For instance, the growth of mobile phone ownership has been more concentrated among men than women. In addition, women often have no formal educations and are kept out of the loop about what types of digital services are available.¹⁰⁶ Promoting digital financial services will require continuous efforts to close the gender gap in the access and use of digital products, digital literacy and formal education.

Investing in high-quality internet

Investments in information and communications technology infrastructure would help Burkinabe SMEs capitalize on digital opportunities. Internet access facilitates the creation of connections between firms and their buyers and suppliers. But lack of internet access holds back many SMEs, especially those led by young managers. Investments are needed to broaden access to the internet across the country.

In addition, ICT will be crucial to help enterprises manage their recovery following the COVID-19 crisis. First, they need to be able to get online to stay up to date about government support programmes and new regulations. Second, the growing popularity of e-commerce due to lockdowns means that businesses without reliable internet access will be left behind.

Supporting innovation

Technology is critical in bringing change and driving development. Almost all surveyed firms in Burkina Faso understand the opportunities offered by new technologies. In agriculture, in particular, new technologies could be a game changer in boosting innovation, productivity and resilience to climate change.

Barriers remain, however, such as a lack of technical skills and inadequate support from innovation bodies. These barriers must be addressed to foster investment in technology and innovation.¹⁰⁷ Upskilling of the labour force is especially important for Burkina Faso, where a shortage of skilled workers prevents firms from adopting new technologies.¹⁰⁸ Therefore, greater investments in education are needed to equip Burkinabe workers with the skills that SMEs need to become more innovative and resilient.

SMECS data reveal that women-led Burkinabe firms innovate more than those headed by men. However, women face bigger barriers when connecting with institutions that support innovation. Tackling these barriers would encourage women-led businesses to innovate and extend the benefits to the entire Burkinabe society.

Finally, innovation and research require a large initial outlay. The Government can help by offering financing or grants to enterprises engaged in innovative activity, as well as by implementing reforms to promote knowledge transfer and ensure that companies can benefit from successful investments in innovation.

Proceeding on the path towards competitiveness and trade

The opportunities identified in this report highlight a pathway towards greater international competitiveness of small businesses in Burkina Faso. These policy recommendations, which arise from the analysis of survey data from Burkinabe companies, show how carefully targeted programmes and policies can address key challenges faced by SMEs in the country.

These approaches to boosting competitiveness and resilience will make it easier for small companies to upgrade their exports. If backward and forward linkages throughout the economy are inclusive and sustainable, SMEs can hold true to their promise of contributing to the process of structural transformation in Burkina Faso.



Annex

About the SME Competitiveness Survey

About the SME Competitiveness Survey

Many factors influence the competitiveness of an economy on domestic and international markets. The International Trade Centre provides a holistic view of enterprise competitiveness in the following definition:

Competitiveness is the demonstrated ability to design, produce and commercialize an offer that fully, uniquely and continuously fulfils the needs of targeted market segments, while connecting with and drawing resources from the business environment, and achieving a sustainable return on the resources employed.

The importance of competitiveness in driving firm survival, growth and trade make it a key element in economic development. For this reason, ITC has developed an analytical framework to understand firm competitiveness and how it can be improved over time. It consists of three pillars that drive competitiveness, each of which is subdivided into three themes (see Figure 1).¹⁰⁹

The three pillars of competitiveness are compete, connect and change.

- **Capacity to compete:** The first pillar refers to the static dimension of competitiveness, focusing on the current operations of firms and their efficiency in terms of cost, time, quality and quantity themes. This concept also extends to the immediate business and national environment. Examples of determinants include use of internationally recognized quality certificates (firm capability), access to technical infrastructure (immediate business environment) and low tariffs (macroenvironment).
- **Capacity to connect:** The second pillar centres on gathering and exploiting information and knowledge. At the firm level, this refers to efforts to collect information flowing into the firm (e.g. consumer profiles, preferences and demand), and efforts to facilitate information flows from the firm (e.g. marketing and advertising). At the

immediate business environment level, this includes links to sector associations, chambers of commerce and other trade and investment support institutions. At the national level, the capacity to connect is largely about the availability of information and communications technology infrastructure. The capacity to connect is not strictly a time-sensitive phenomenon, but gathering and exploiting information is so fundamental to current and future competitiveness that doing so is an essential link between the two pillars of static competitiveness and dynamic competitiveness.

- **Capacity to change:** The third pillar pertains to the capacity of a firm to make changes in response to, or in anticipation of, dynamic market forces, and to innovate through investments in human, intellectual and financial capital. This pillar incorporates the dynamic dimension of competitiveness. Industry phases and breakthrough or disruptive innovations all require strategy adaptations. Thus, the capacity to change includes how well firms access finance and invest in human capital, innovation and intellectual property protection. At the business or macroeconomic level, the ability of the environment to deliver these resources to companies is measured.

These three pillars of competitiveness can be examined at three levels of the economy.

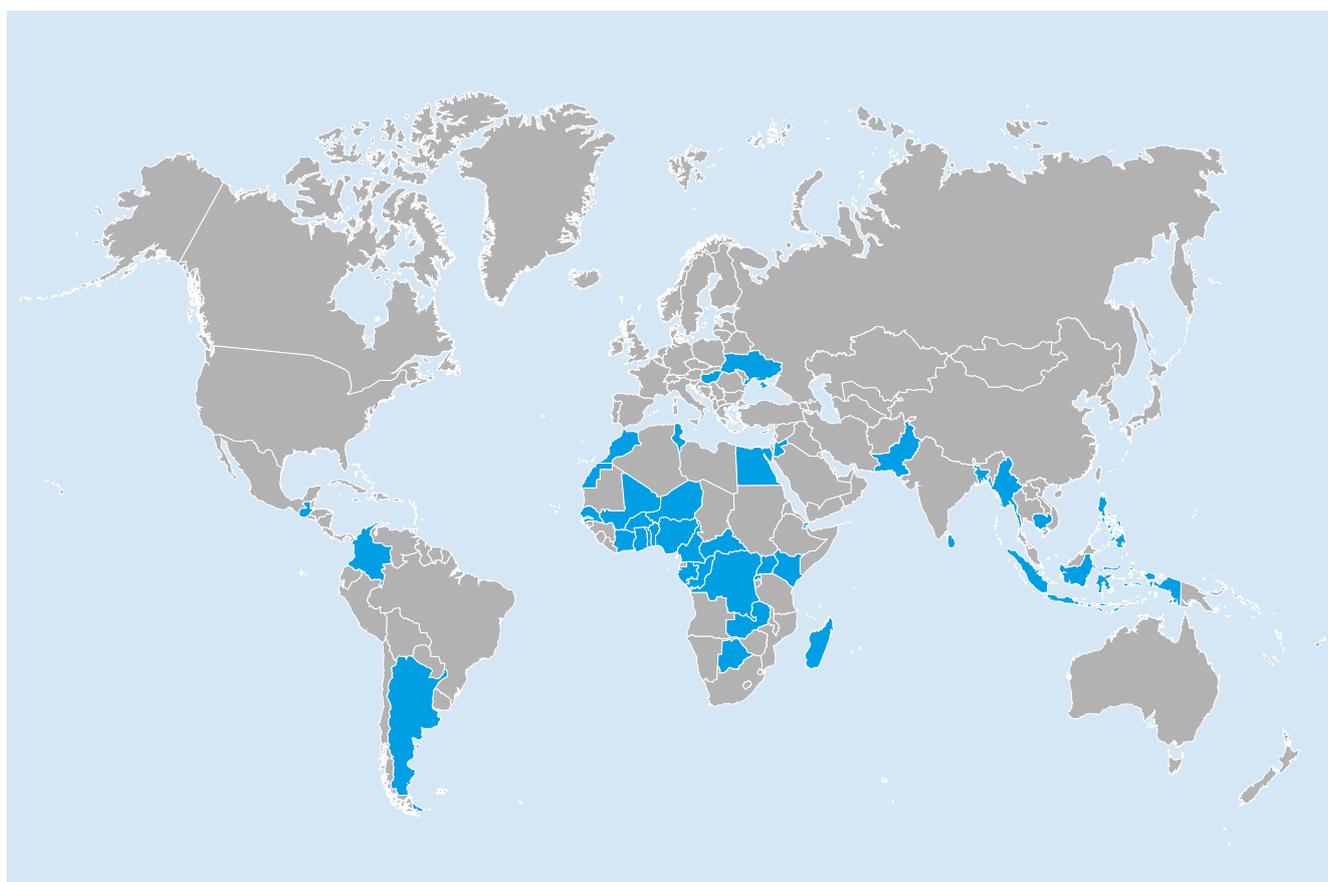
- At the **firm level**, their ability to manage resources adeptly influences their competitiveness.
- At the **business ecosystem level**, factors that support firm competitiveness but are outside the firm – including the availability of skilled workers, infrastructure and business support organizations – are important.
- The **national environment** includes the macroeconomic and governmental factors that establish the fundamentals for the functioning of markets in the economy.

The SME Competitiveness Grid bridges a gap in composite indicators that focus on macroeconomic determinants of competitiveness rather than local or microeconomic determinants. The importance of macroeconomic determinants is fully recognized, however, and is reflected in the 'national environment' level of the competitiveness grid. ITC's *SME Competitiveness Outlook 2015* provides a more detailed description of the SME Competitiveness Grid and the methodology behind it.

How to measure the competitiveness of small firms?

Measuring all dimensions of competitiveness can be difficult. ITC created the SME Competitiveness Survey (SMECS) to allow countries to collect the data they need to measure the competitiveness of their enterprises. As of January 2021, more than 18,400 companies had been surveyed, in 50 countries, including Benin, Burkina Faso, Kenya, Botswana and Zambia.

Figure 23 SME Competitiveness Surveys across the world



Source: ITC.

The SMECS is typically deployed in partnership with domestic trade and investment support institutions. ITC gives these institutions the software to gather and maintain an active database on micro, small and medium-sized enterprises, and helps their staff select samples and train interviewers.

The SME Competitiveness Survey helps governments and trade support institutions better understand the needs of their enterprises. The tool is designed to combine information at the macro (national business climate), meso (local support ecosystem for businesses) and micro (firm capacity) levels to provide a nuanced picture of the capacity of a country's private sector to compete in international markets.

Policymakers and trade support institutions can use the findings to identify and address bottlenecks to competitiveness; to compare the competitiveness of enterprises based on size, sectors and location; and to better match firms with potential investors and buyers.

How to understand the competitiveness of small firms?

This report uses the conceptual framework described above to evaluate the Burkinabe SME Competitiveness Survey data and assess the competitive position of small and medium-sized companies in the country.

The report analyses data from three levels in the SME Competitiveness Grid: national, ecosystem and firm level. The national environment is examined based on a review of secondary data and related literature. Firm- and ecosystem-level competitiveness are evaluated from firm-level survey data collected through the SMECS.

The report is structured according to selected themes in the SME Competitiveness Grid. Themes were included in the report analysis depending on whether the data indicate that Burkina Faso has a particular strength or weakness in that domain, or if previous research suggests the topic is important to the country's SMEs.

A disaggregated analysis of the SMECS dataset in Burkina Faso yields additional insights on each theme. Subsamples from each sector are analysed to assess sector-specific challenges and strengths. Results vary by firm size, defined according to number of employees. Women-led and youth-led firms are compared to their peers.

Where relevant, and notably in the final chapter, policy recommendations highlight opportunities to address issues that have been identified in the analysis of the data. The report presents highlights of the study of the data, given the limited space available. More analysis was conducted, and additional information can be further extracted from the data.

Endnotes

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