# The compounded effects of Covid-19 and other crises on SMEs in Burkina Faso

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*We document the trajectory of SMEs in Burkina Faso between 2020 and 2022, which were affected not only by the global Covid-19 shock, but also by several negative local shocks: two coups took place in 2022, in the context of increasing frequent terrorist attacks. Despite this, surviving firms were optimistic about the future, speaking to their capacity for resilience.*

## Background

SMEs employ 70% of the active urban population in Burkina Faso (Soubeiga and Strauss, 2013), a lifeline for one of the poorest countries in the world. However, SMEs are vulnerable to both local and global crises. The Covid-19 pandemic disrupted economic and social life across the world, and SMEs in Burkina Faso were no exception. The government did not impose a lockdown, but public support to firms was also very limited. Moreover, this landlocked country has been going through a political crisis involving two coups within one year (2022) and a security crisis with a string of terrorist attacks and forced displacements. Therefore, the Covid-19 pandemic may not have been the most important threat to economic activity in the last two years. This project studies the compounded impact of these multiple crises on SMEs.

## Methodology

This study is based on a panel survey of firms, which allows us to control for time-invariant factors. The baseline survey took place in 2018 (Gansonre and Ouedraogo 2022). The sampling frame was randomly drawn from a list established in 2014 by the Chamber of Commerce and Industry, stratifying by sector. Efforts were concentrated on the two main cities Ouagadougou and Bobo-Dioulasso which account for about 85% of officially registered firms. Surveyors asked firms (in person) about management practices and competition. The baseline sample included 650 firms.

During the first follow-up survey, which took place in 2021, firms were asked to compare their recent experience with their experience before the onset of the pandemic. Surveyors started by calling firms but sometimes had to visit the firms in person. This sample included 500 firms. The second follow-up survey, which took place in 2022, asked about firms' recent experiences after the bulk of the pandemic-related disruptions finished. The survey was conducted in person in Ouagadougou but over the phone for firms located in Bobo-Dioulasso due to security concerns. The final sample included 400 firms.

Overall, the surveyors experienced difficulties reaching firms, establishing confidence and getting proper answers to their questions, which speaks to the overall low level of trust among firms in Burkina Faso.

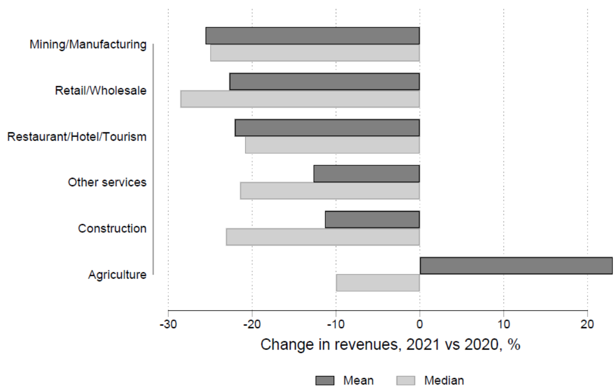
## Main findings

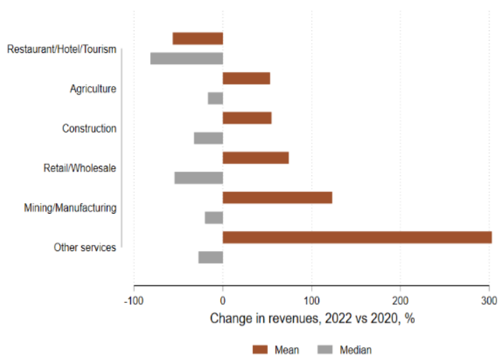
SMEs in Burkina Faso experienced a heavy toll in 2021 and 2022 compared to 2020. In our first-round survey, we find a firm bankruptcy rate between 3 and 25% from 2018 to 2021. Our upper bound reflects an assumption that any firm that remains unreachable after multiple attempts both over the phone and in person is no longer in business. Our upper bound corresponds to an annual firm death rate of 9%, closely matching the average numbers of McKenzie and Paffhausen (2019) and therefore not higher than expected in the context of the Covid-19 pandemic.

However, Figure 1 (left-hand side) shows that the median firm experienced a 10 to 20% decline in revenue in 2021 as compared to 2020. The most affected firms operate in the manufacturing, commerce, restaurant, tourism and hospitality sectors. This is consistent with the expectation that restrictive measures would have a negative effect on imports and tourism activities. This large impact must be put in the context of limited government support. The sector that fared the least badly is agriculture: the median firm saw a 10% decline in revenue in 2021 compared to 2020, and the mean firm saw a 20% increase in revenue, perhaps reflecting the ability of some firms to capitalise on shortages and high prices.

In 2021, 95% of operating firms were open to the public but were pessimistic about the future: only 12% were confident they would be able to remain open. 69% of the surveyed firms reported being negatively affected by the COVID-19 pandemic. However, only 10% reported qualitative changes in the nature of their activities. The most important channel through which the pandemic affected firms' operations was reduced access to markets for their production (about 51% of the surveyed firms). The most widespread measures reportedly used by firms to reduce the spread of the pandemic were the use of hand sanitizer (88%) and face-masks (85%). Only 20% (14%) of firms set up employee (customer) rotation strategies to reduce potential contacts between people. This is coherent with the fact that digitalisation is very limited among these SMEs, preventing them from using teleworking or e-commerce.

**Figure 1: SMEs experienced large revenue losses across the board**



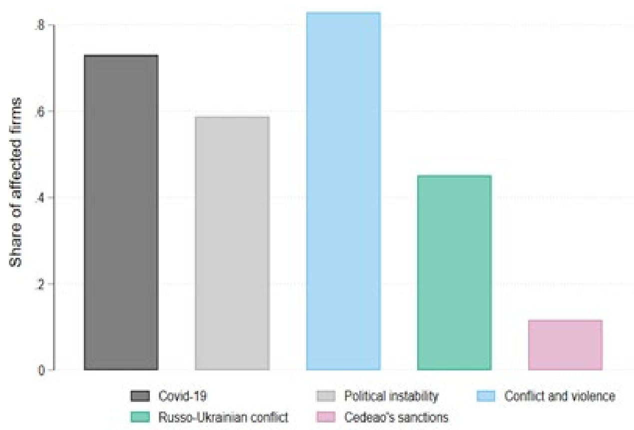




*Note: Figure shows the mean and median change in revenue in 2021 (left-hand side) and in 2022 (right-hand side) compared to 2020 by sector.*

In our second round survey, we find a firm bankruptcy rate between 4 and 17% from 2021 to 2022, again assuming all unreachable firms closed as an upper bound. The upper bound is double the average annual rate found for the period 2018-2021 (9%), suggesting SMEs in Burkina Faso were heavily impacted by the compounded crises in 2022, more so than the early stages of the pandemic. This is quite different from the experience of most countries including in Africa: Alfonsi et al. (2021) show a partial recovery as early as May 2021 in Uganda, while Abebe et al. (2023) document the full recovery of Ethiopian firms in February 2022; although there are similarities with conflict-affected countries such as Sudan (Satti and Nour 2022).

We therefore surveyed firms on their perception about four other major crises: the conflict and violence, the war in Ukraine, the two coups that the country experienced, and the sanctions that the regional trade organisation ECOWAS (CEDEAO) set up following the coups. 89% of firms report being affected by at least one crisis. Importantly, Figure 2 shows that the problem affecting the highest number of SMES is indeed the conflicts and violence experienced in the country (82% of firms), followed by the Covid-19 pandemic (71% of firms, almost the same share as in 2021). A majority of firms (59%) also report being negatively affected by the coups.

Figure 2: Conflict and violence affected more firms than Covid-19 or political instability




*Note: Figure shows the rate of firms that report being negatively affected by each problem. The question was not exclusive: firms could report being affected by several problems simultaneously.*

Figure 1 (right-hand side) shows that while the median growth rate is still negative in 2022, consistent with the literature on the economic cost of conflicts (Korovkin and Makarin 2023), the mean growth rate is positive for all sectors except restaurants, hotels and tourism. This suggests a mechanism of reallocation: while a lot of firms had to shut down, the surviving ones are doing relatively better. Firms located in areas relatively preserved from violence may have capitalised on reduced competition and increased prices to increase revenue, whereas the median firms in each sector were slightly worse off in 2022 compared to 2021. Amodio and di Maio (2017) document a similar reallocation in Palestine during the second Intifada.

Other points of the data seem to confirm this fragile recovery: in 2022, 96% of surveyed firms were open to the public and none reported thinking that COVID-19 could be a reason to not remain open to the public in the future. More generally, firms were a lot more optimistic in 2022 than in 2021: 53% of firms expected their revenues would increase in the next year by almost 22% on average, and 46.67% thought they would employ more people in the next year.

### Policy impact

This study shows that firms across economic sectors have been negatively affected by the COVID-19 pandemic and that other crises are preventing them from recovering fully, despite the decrease of COVID-specific problems. The nature and the amplitude of each type of crisis make it difficult to design a simple policy intervention that could address all the challenges SMEs are facing. However, any improvement in the security situation would benefit SMEs and their employees across the board.

### Moving forward

Surveying firms that are already experiencing difficulties is a tenuous task as detailed in this note. Still, more work is needed to disentangle the effect of each crisis and in particular to assess the impact of the coups on firms. Another area for future research is the strategies undertaken by firms to mitigate the impact of each crisis. That could also inform policymakers and aid coordinators to support SMEs and therefore livelihoods in conflict-prone areas.

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