WORLD TRADE ORGANIZATION

WT/IFSC/W/9
12 October 2001

(01-5000)

Integrated Framework Steering Committee

THE EXTENSION OF THE INTEGRATED FRAMEWORK PILOT PHASE: SELECTION OF PILOT COUNTRIES AND THE CALENDAR

Report by the World Bank,
on behalf of the Inter-Agency Working Group

1. This report provides a technical and factorial background for the eleven LDCs that have been identified as potential candidates for the extension of the IF Pilot Scheme. The implementation of the Pilot Scheme began in May 2001 in three countries, namely, Cambodia, Madagascar and Mauritania. The extension of the Pilot Scheme will be considered at the Fourth WTO Ministerial Conference in Doha, Qatar, 9-13 November 2001.[1]

2. Pursuant to Paragraph 11 of the framework document of the IF Pilot Scheme, the Inter-Agency Working Group (IAWG) at its 27th Meeting, 6-7 September 2001, reviewed the on-going implementation of the Pilot Scheme in the LDCs and considered its extension to other LDCs.[2] As a result, the IAWG agreed that the following eleven LDCs be considered for the next phase of the IF Pilot Scheme: Burundi, Djibouti, Ethiopia, Eritrea, Guinea, Lesotho, Malawi, Mali, Nepal, Senegal and Yemen.

3. The selection of the above countries for the extension of the IF Pilot Scheme was considered on the basis of the requests by the Governments and their consultations with the core IF agencies. The selection was assessed on the basis of the criteria agreed by the IAWG at its 25th Meeting, 27 March 2001, and endorsed by the IF Steering Committee at its Second Session, 3 May 2001. The criteria are: (i) demonstration of strong commitment by the government to integrate trade into its national development strategy and its PRSP; (ii) the preparatory stage of the PRSP; (iii) the preparatory stage of upcoming meetings of the World Bank Consultative Group or UNDP Round Table; and (iv) conducive operational country environment (e.g. level of infrastructure, resource base of the World Bank/IMF and UNDP country offices, donor response, and the pace of domestic reform).

4. On the basis of the technical background provided in this document, the IAWG would like to propose that the implementation of the IF Pilot Scheme, led by the World Bank, begin in Eritrea, Malawi, Lesotho, Senegal and Yemen, immediately after the Fourth Ministerial Conference.[3] The timetable for the other countries is proposed for 2002 (Table 1).

---

[1] Paragraph 11 of the proposal for the Integrated Framework Pilot Scheme, contained in WTO document WT/LDC/SWG/IF/13, states that "consideration shall be given, no later than the WTO Fourth Ministerial Conference, to extend the initiative to other LDCs".

[2] The report of the 27th IAWG meeting is contained in document WT/IFSC/W/5, 8 October 2001.

[3] The work to be undertaken in Eritrea and Yemen will depend on political developments in the countries.

1. Burundi

(a) Situation of the economy and trade sector

5. The economy is mainly subsistence-based, with coffee and tea as the main sources of foreign exchange. It has shrunk by an estimated 25 percent since 1996, largely as a result of economic sanctions imposed by regional leaders following the military coup. Continuous conflict had led to destruction of social infrastructure and productive capacities, including in the export sectors. The volume of coffee production reached all time low level during this period. The declining output, coupled with negative terms of trade shocks in the post-conflict period, had dramatic effects on foreign reserves, which fell to all time low level, and are now expressed in terms of days of imports. The acute shortage of foreign reserves is cited as a major constraint for imports of essential goods and services.

6. Burundi's arrears to its external creditors increased rapidly in the post-conflict period, with its external debt reaching unsustainable levels in 2000. The amount of external debt, which represented 91.5 percent of GDP in 1992, reached 150 percent in 2000. The projected external debt services in 2001 is estimated at US$57 million, equivalent to 110 percent of exports.

(b) Commitment of the Government to trade openness

7. Burundi is a member of the Organization of African Unity (OAU) and the Common Market for Eastern and Southern Africa (COMESA). The Burundian authorities have recently expressed interest in Bank assistance in the implementation of necessary trade reforms which would facilitate their entry into the common market area within the COMESA region and would increase the competitiveness of their industries. They have also requested institutional support from the Bank to foster international trade and exchange. Other donors assisting Burundi in this area include the European Union through the STABEX Fund.

(c) Trade and the national development strategy

8. Burundi qualifies to the debt relief under the Enhanced HIPC Initiative. The country is currently preparing its Interim Poverty Reduction Strategy, whose process was officially launched in July 2001. Since then, it has completed the participatory diagnostic processes. The Interim PRSP is expected to be ready in November 2001. Moreover, in July 2001, Burundi reached an agreement with the Fund on a Staff Monitored Program covering the period from 1 July through 31 December, 2001. A successful implementation of this program could pave the way for a program that could be supported by the use of Fund resources, and eventually allow Burundi to benefit from HIPC relief. As a follow-up to the Paris Conference, there has been a concerted effort, within the international community, to set up a multi-donor Trust Fund to assist Burundi clear its arrears and pay its debt to its multilateral creditors during the period leading to its access to the enhanced HIPC Initiative.

9. The World Bank approved in April 2001 a Regional Trade Facilitation Project in Burundi, Kenya, Malawi, Rwanda, Tanzania, Uganda, and Zambia. The objective of the project is to jump-start private sector activities. The project consists of a political risk insurance facility in support of commercial financing for productive transactions, involving enterprises in participating countries and their foreign partners.

(d) Request for assistance from the Integrated Framework

10. The IF work was initiated in Burundi in 1998, but had been disrupted due to the internal conflict. An IF Launch Workshop was held on 18 January 2001 in Bujumbura, in cooperation with IF partners, together with the AIF and UNIDO. The workshop, which was attended by Burundi's major development partners, provided an occasion to discuss the first draft of the strategy for trade

development. The Government also established an IF Steering Committee where the country's priority sectors, such as fresh vegetables and essential oils have been discussed.

(e) Governance

11. The Burundian authorities are committed to fiscal transparency and sound economic management. The Bank has provided technical assistance in the form of public expenditure review spanning several years, in order to (i) increase transparency in budgetary processes and execution, (ii) achieve a more equitable and efficient allocation and use of increasingly limited public resources, (iii) advance ongoing efforts for peace and national reconciliation is ongoing. The Government has also requested assistance from the Bank to increase transparency in the area of public procurement and resource mobilization.

12. As a result of continuous political instability fuelled by ethnic tensions, Burundi's CPIA rating on governance related issues remains slightly below average. This is likely to improve as progress are made towards the implementation of transitional arrangements. .

(f) The actors

13. The key actors include: Burundi's regional development partners, member countries of the COMESA, the European Union through the STABEX program, the World Bank through the Regional Trade Facilitation Project, and the World Bank and IMF through ongoing policy dialogue.

(g) Conclusion

14. In the past, the Burundian authorities demonstrated strong interest and commitment to international trade. This interest has been growing in the context of globalization and rapid development of the COMESA. Institutional reforms in the trade-related areas are part of the policy dialogue with the Bank, and will be mainstreamed in ongoing work program, following the recent request by the Government, and in light of the development in the COMESA. Moreover, trade, in particular through the promotion of exports, as means to alleviate shortage of foreign exchange is central to Burundi's development strategy, as articulated in its poverty reduction documents. The IAWG, therefore, strongly recommends the inclusion of Burundi in the scheduled extension of the IF Pilot Scheme.

2. Djibouti

(a) Situation of the economy and trade sector

15. Djibouti has an open economy based on service activities, primarily the port and related activities, which account for over two-thirds of its GDP. The production structure of Djibouti is characterized by a large share of the non-tradable sector, which is composed of public administration, transport and telecommunications services, and public works. The economy is based on services, mainly in the port, railway, civil service, and French military garrison. Due to soil infertility and poor rainfall, there is hardly any agriculture – the arable land accounts for 0.4% of the total area. Fisheries and water resources offer an interesting, but untapped potential, due to the lack of domestic demand and non-competitive labour and pricing policies. Mining resources consist of a geothermal endowment and salt deposits.

16. Most of Djibouti's population and its important economic assets are concentrated in Djibouti ville. Future economic prospects therefore depend largely on Djibouti's ability to upgrade its port facilities and improve its trade and transit links with Ethiopia. The formulation and evaluation of policy is hampered by the dearth of reliable economic data. Economic management since 1991 has

been characterized by short-term crisis management and pressure from external donors, particularly France.

17. Djibouti faces many size-related challenges and vulnerability to external shocks common to most small states - limited scope for the promotion of competitive markets, economic diversification and innovation, as well as limited scope for economies of scale. Djibouti has suffered from the neighbouring countries' continuous wars and other social conflicts over the past two decades. The ensuing influx of refugees escaping these conflicts have exacerbated economic difficulties and social tensions, and stretched thin already inadequate basic social services.

(b) Commitment of the Government to trade openness

18. Djibouti is a member of the Common Market for Eastern and Southern Africa (COMESA).

(c) Trade and the national development strategy

19. The authorities have initiated the preparation of a PRSP, with the support of Djibouti's main development partners, especially the IMF and the World Bank. The I-PRSP is forthcoming

20. To address its economic and financial difficulties which worsened considerably in the aftermath of the civil war, the Government has embarked upon the implementation of a program of economic reforms, with the technical and financial assistance from the IMF since 1996. The focus of those reforms continues to be on the State's financial operations with a view to attaining macroeconomic stabilization. As part of its stabilization efforts, measures have been taken to increase public revenue and control public spending.

21. On structural reforms, the authorities have indicated willingness to reform the public enterprise sector, including the privatization of large state-owned enterprises. The management of the Port has been recently contracted out to the Dubai Port Authority.

(d) Request for assistance from the Integrated Framework

22. The Government requested the assistance from the IF agencies to formulate an issue paper on trade development on the basis of the IF approach. In response to the request, an ITC consultant assisted the authorities to prepare a document which was discussed at the meeting of trade consultations in September 2000.

(e) Governance

23. On the two proposed indicators of economic governance (regulatory framework and rule of law), Djibouti scores above the LDC average.

(f) The actors

24. The Government is engaged in preparing several reform activities with the support of the World Bank and the IMF, including a PRGF and the PRSP

(g) Conclusion

25. Given Djibouti’s strong interest in the IF program and the active preparation towards the full PRSP, the IAWG recommends that it be included as one of countries for the extension of the IF Pilot Scheme.

3. Ethiopia

(a) Situation of the economy and trade sector

26. Ethiopia has traditionally relied on agriculture for a large share of export earnings. This has continued during the 1990s, with agriculture accounting for 80 to 90 percent of total exports. Ethiopia's agriculture exports include coffee and chat (representing some 52 percent and 14 percent of merchandise exports respectively in 1999/00), oilseeds (primarily sesame seeds), hides and skins and pulses. Manufactured exports are negligible. Agriculture will remain the dominant export earner for Ethiopia in the immediate future. Substantial potential exists for increasing export earnings in many agriculture sectors if a number of policy changes are made. In addition, there are new market opportunities which could form the basis for manufactured export take-off over the next two to three years. One of the most important opportunities is represented by the African Growth and Opportunity Act (AGOA) of the United States, which enables Sub-Saharan African countries to export garments to the US market free of duty and quota. Besides garments, a number of market opportunities are opening up for other value-added exports, particularly in the horticulture sector.

27. Ethiopia was hit by a severe terms of trade decline during 1998/99 and 1999/2000, in addition to the impact of the war and the drought. Much of this was due to a fall in export prices. While volume of coffee was initially maintained, export values declined by more than 30 percent in 1998/99 and a further 10 percent in 1999/2000. The trade deficit increased from US$755 million in 1997/98 to US$1074 million in 1998/99, reaching US$1246 million in 1999/2000. As a result, Ethiopia's currency came under pressure, and in January 2000, the Government imposed temporary restrictions to protect its exchange rate. The restrictions included a 10 percent import duty surcharge; a 100 percent advance deposit requirement for import applications; and, ceilings on import permits. Despite these measures, the current account deficit remained high at 7.5 percent of GDP in 1999/2000, up from 1.6 percent in 1997/98. Foreign exchange reserves declined to only 2 months of imports**.**

28. With the signing of the peace agreement, the Government has intensified the implementation of its reform program. In January 2001, the Government lifted the import restrictions in anticipation of external support from the donor community and debt relief with the Enhanced HIPC Initiative.

(b) Commitment of the Government to trade openness

29. The Government of Ethiopia is engaged, with Bank's assistance, in a process of improving the business environment and increasing the international competitiveness of the economy. The policy agenda discussed in the recent Economic Rehabilitation Support Credit includes specific measures to facilitate access to inputs at world market prices, eliminate ex-post price controls, and improve export finance.

30. Ethiopia is an observer to the WTO, however, has not communicated its intention to proceed with the accession.

(c) Trade and the national development strategy

31. Since 1992, Ethiopia has instituted major policy reforms and stabilized macroeconomic environment. In 2001, the GFDRE submitted a well received I-PRSP, paving the way for HIPC debt relief. As indication of greater openness, 163 foreign investment projects were approved from 1992-98. However, many impediments remain at the micro level, especially in terms of transportation, access to credit, and government regulation.

(d) Request for assistance from the Integrated Framework

32. Ethiopia has undergone the needs assessment process under the 'old' IF. An initial trade report was developed in October 1999. The Government was eager to start the process, however, it was postponed due to border conflicts. An informal meeting of the donors took place on Dec. 6, 1999 under chairmanship of the World Bank. The meeting clarified some of the concerns by donors and promised to revise the project document updating what the government had already achieved.

(e) Governance

33. On the two proposed indicators of economic governance (regulatory framework and rule of law), Ethiopia scores above the LDC average.

(f) The actors

34. After most of the trade work in Ethiopia was suspended because of the war, the programs have been re-started. The World Bank prepared an Export Development Strategy in 1997 and is currently working on a study on Ethiopia's integration into the world economy. FIAS has recently prepared a study on investment promotion strategy framework. UNCTAD conducted a survey on investment. DFID is holding workshops on private sector issues. UNIDO has undertaking a large program on enterprises and capacity building. USAID also has a project on customs and the implementation of ASEYCUDA.

(g) Conclusion

35. A significant amount of trade-related work was recently carried out in Ethiopia. The Government is eager to tackle on the capacity building aspect. It is proposed that a mission in December 2001 will explore with the Government and the Bank's Country Team any specific areas of interest where the analysis needs to be deepened further.

4. Eritrea

(a) Situation of the economy and trade sector

36. At independence in 1993, over two thirds of Eritrea's exports went to Ethiopia, including nearly all of its manufactured exports. In addition, the bulk of Ethiopian imports and exports went through the Eritrean port of Assab. Since the war, port fees and charges have fallen from 22 percent of total revenue in 1997 to almost zero in 2000. This trade virtually stopped with the introduction of nakfa, Eritrea's own currency in November 1997, and the May 1998 conflict led to a complete halt in trade. It is likely that there has been a significant amount of informal trade and capital movement prior to the war because of the open borders and use of the Ethiopian Birr in Eritrea. While these are not reflected in the official statistics, they are certain to have been curtailed too. Total imports and GDP are $150 million and $900 million, respectively. Exports of goods totaled about US$54 million in 1997, in US$28 million in 1998, US$20 million in 1999, and only $35 million in 2000.

(b) Commitment of the Government to trade openness

37. The Government's objective is that Eritrea will eventually be an export-led economy. It has taken a number of supportive policy measures after the independence, including elimination of almost all quantitative barriers and prohibition on imports. Currently, there are only three import tariff rates, with the maximum tariff at 25 percent, which is imposed on non-essential consumer goods and luxury items. Export taxes have also been eliminated. Customs procedures have been substantially simplified, and an IMF advisor is assisting in the preparation of a modern Customs proclamation. With the recent lifting of exchange controls imposed during the war, the exchange rate system is a

managed float and the black market premium has been eliminated. Eritrea is a member of the COMESA and the IGAD.

38. The Government has asked support from the World Bank in developing an export and global integration strategy. In 1999, the Bank prepared an Export Development Strategy report, focusing on (i) the systemic issues of the trade regime, including the tariff and customs system, foreign investment regime, and infrastructure and other service support for exports; and (ii) a preliminary assessment of Eritrea's key sectors, such as textiles, shoes, leather, fisheries, minerals, livestock and horticulture. As a follow-up to the report, a Crash Program for Exports has been launched to quickly ramp up exports to compensate for the loss of the Ethiopian market. UNDP has been funding this program and is supporting the dialogue on trade issues. This program is underway, with the President himself calling a meeting of exporters to signal Government's support at the very highest level.

39. Eritrea is not a Member or Observer to the WTO. However, a workshop on WTO Accession, jointly organised by UNCTAD and the WTO in February 2001, has stimulated interest in the WTO matters.

(c) Trade and the national development strategy

40. Since Eritrea is not currently applying for HIPC resources, preparations for an I-PRSP have been slow, however, are now underway. The Government has prepared a Transitional Economic Growth and Poverty Reduction Strategy (TEGPRS) to guide the post-conflict transition, which was presented to a meeting of donors in Asmara on September 11-13, 2001. Trade features prominently in this document. Senior policy makers, starting with the President, has demonstrated that trade is a very high priority, and it is even more so following the break in economic relations with Ethiopia. The TEGPRS is expected to serve as the basis for the I-PRSP.

(d) Request for assistance from the Integrated Framework

41. The Integrated Framework has been discussed by Bank staff with the Economic Advisor in the Office of the President and the Minister of Trade and they are both extremely keen that Eritrea be selected as one of the countries under the Integrated Framework for Trade Related Technical Assistance.

(e) Governance

42. Eritrea has very low levels of corruption and is considered a high trust society. Eritrea's policy and regulatory framework is also good with a strong market orientation. However, Eritrea is currently undergoing some political turmoil, with questions being raised concerning lack of openness in decision-making and the transition to democracy. Several dissidents have been arrested and independent newspapers shut down. While this represents a setback in governance, Government is continuing preparations for Eritrea's first ever elections.

(f) The actors

43. With the exception of the Bank's export study, there has been little analytical work on trade in Eritrea, partly because of the war, but also because it is a small country. UNDP has been supporting the crash program. In addition. a number of donors, including UNIDO, Italy and the US, have small programs intended to increase exports. Moreover, as mentioned above, the IMF has a customs advisor in place.

(g) Conclusion

44. The Government of Eritrea have demonstrated a commitment to trade, and it is thus likely that the Integrated Framework will have a great impact here. Existing work by the Bank and UNDP provides a strong platform for the IF work. Given the strong interest in trade and active preparation of the PRSP, the IAWG recommends that Eritrea be included as one of countries for the extension of the IF Pilot Scheme.

5. Guinea

(a) Situation of the economy and trade Sector

45. Real GDP growth in 2000 has been severely affected by external events, including negative terms of trade shocks and large security-related expenditures, due to border conflicts. However, the current projections for 2002-2004 are that real GDP growth will more than recover to an average of 5.9 percent. Inflation is projected to decline from 6.8 percent in 2000 to less than 3 percent by 2004. Guinea's external current account deficit, excluding official transfers, is projected to average 5.5 percent of GDP during 2001-2004.

(b) Commitment of the Government to trade openness

46. The Trade Policy Review Body of the WTO acknowledged, at the first review of Guinea's trade policies in February 1999, the country's significant progress in liberalizing its trade regime.[4] Guinea has completed an I-PRSP in October 2000, in which the Government declared its commitment to regional integration and trade liberalization in the context of the creation of a secondary zone within the ECOWAS by 2003.

47. With a view to aligning the common external tariff (CET) of the WAEMU, the Government is undertaking a study of the impact of the introduction of the CET on Guinea. Based on the results of this study, a strategy and timetable for implementing the CET in Guinea over the medium term will be established.

48. Guinea's trade restrictiveness is currently rated at 3 on a 10-points scale (1 indicating complete openness and 10 indicating complete restrictiveness). The average MFN tariff stands at 16.4 percent. As Guinea does not apply non-tariff barriers, the planned introduction of the CET of the WAEMU is expected to bring about a further reduction of the average tariff by about 2 percent. Subsequently, Guinea's ranking on the scale of trade restrictiveness is expected to improve further.

(c) Request for assistance from the Integrated Framework

49. Guinea has been active in the IF since 1997. Representatives of Guinea's private sector, the Trade Ministry, and the Chamber of Commerce participated the donors' meeting on the Integrated Program of Support for LDC on Trade and WTO Issues in 1999. An IF Launch Workshop was held in Conakry on 6-7 December 2000 to sensitize local stakeholders and discuss trade development issues and private sector support. Moreover, a Work Plan was developed by the local IF Steering Committee, with the support of ITC, UNDP and UNIDO, to strengthen the country's participation in the IF and maximize benefits expected from the country's participation in this approach.

(d) Governance

50. Based on the International Country Risk Guide (ICRG), Guinea has a slightly better score on the ICRG's corruption measure, but a slightly worse score on the ICRG's law and order measure. The

[4] See the Concluding Remarks by the Chairperson of the Trade Policy Review Body in the Press Release of February 26. 1999; available on the internet: http://www.wto.org/english/tratop_e/tpr_e/tp105_e.htm.

recently established National Anti-Corruption Committee has begun to play an active role in the drive toward better governance and integrity.

(e) Support for the Government's trade efforts

51. The Bank and Fund country teams are fully supportive of undertaking a diagnostic trade integration study under the IF Pilot Scheme. In April 2000, joining forces with the IFC and the World Bank, MIGA provided assistance to the Guinean Ministry of Mines in facilitating the Guinea 2000 Mining Symposium, which presented the results of six years of Bank-financed mining reforms aimed at improving the regulatory environment and updating the geological database of the country. The mission had participated in discussions led by the MIGA mission to provide assistance to the Government in promoting foreign investment in the sectors of agri-business, mining and tourism. Subsequently, an investors meeting was organized jointly with another donor's meeting, under the aegis of the WTO, to strengthen Guinea's integration into the world economy.

(f) Conclusion

52. Given Guinea's record on trade liberalization and its active preparation of the full PRSP, the IAWG recommends that it be included as one of countries for the extension of the IF Pilot Scheme.

6. Lesotho

(a) Situation of the economy and trade sector

53. Lesotho is one of the world's poorest countries, with GDP per head estimated at just US$408 in 2000. It remains heavily dependent on remittances from migrants working in South African mines. However, the country's economic prospects are slowly being transformed by the exploitation of its rivers to sell water and, in the future, hydroelectric power to South Africa.

54. A sharp contraction in GDP occurred in 1998 as a result of the destruction associated with a failed army mutiny. At the same time, the construction boom caused by the first phase of the Lesotho Highlands Water Development Project (LHWP) ended. Agricultural production is erratic, and there have been serious droughts in recent years. Only about 13% of the land area is suitable for crop cultivation. Agriculture's share of national output has declined to around 10% because of serious soil erosion caused by population pressure and overgrazing. Mining declined after the closure of the main diamond mine in 1983. However, the mine has now reopened, and there are signs of further positive developments in the sector.

55. Other sectors have been growing rapidly thanks to a favorable tax regime and trading arrangements. The most notable development has been the growth of export-oriented manufacturing, led by the clothing and footwear subsector selling into the South African and US markets.

(b) Commitment of the Government to trade openness

56. With support from the IMF, a structural adjustment program (SAP) was launched in 1988. The program sought to increase the efficiency of the public sector and to improve the private-sector environment through tax reform and streamlined investment incentives. A privatization program was adopted and the first sales of public enterprises were carried out in 1997.

57. The government entered into a nine-month program of policies, monitored by the IMF, in 2000. The program was not supported by financial resources, but was intended to pave the way for a medium-term program of support under the Fund's poverty reduction and growth facility (PRGF). As well as making progress on privatization, the program included measures to strengthen the financial sector and to improve the government's revenue base. Performance under the program was deemed

satisfactory. In March 2001, it was announced that a three-year PGRF had been agreed, with the Fund committing resources of about US$32 million.

58. The government completed the Interim-PRSP in February 2001. The Government is committed to preparing a full PRSP, including developing institutional capacity to implement programs aimed at poverty reduction. The full PRSP is expected to be ready by June 2002. UNDP and the major development agencies have provided assistance for the preparation of the PRSP. EU provides assistance on the area of agricultural trade.

(c) Trade and the national development strategy

59. Dependence on revenue from the Southern African Customs Union (SACU), dominated by South Africa, has been gradually reduced, from over 75% of total revenue in the early to mid-1980s to just under 50% in recent years. The new export trade has helped to diversify Lesotho's export markets, to the extent that South Africa is no longer by far the largest export destination. In 1985, exports to countries in the SACU accounted for 87% of Lesotho's total exports; by 1999, this figure was only 52%. Lesotho has benefited from Asian textile manufacturers' relocation of their operations to take advantage of the preferable terms that Lesotho enjoys, and to avoid the quota restrictions which apply to exports from some countries. The slowdown in the US economy in 2001 may affect this growth. However, there are opportunities for significant further expansion in the medium term, especially as Lesotho has gained a reputation for efficient production in the textile sub-sector. Imports from Asia have also increased, because Asian firms in Lesotho have bought significant amounts of raw materials from their home countries, notably Taiwan, Hong Kong and Singapore.

(d) Request for assistance from the Integrated Framework

60. Further to a request by the Government, ITC provided assistance during year 2000 for updating the country's needs assessment and preparing for a national consultation on trade. A national sensibilization meeting was held in Maseru on 15 March 2000.

(e) Governance

61. Anti-corruption task force has been recently established. Lesotho is following the same governance structure as South Africa.

(f) The actors

62. The Ministry of Industry and Trade is the main agency of Lesotho. IMF has an ongoing PRGF. UNIDO and UNCTAD have been providing assistance working through the UNDP office in Maseru. The World Bank has ongoing programs on private sector development.

(g) Conclusion

63. Given Lesotho' strong interest in the IF program and the active preparation towards the full PRSP, IAWG recommends that it be included as one of countries for the extension of the IF Pilot Scheme. The preliminary visit to the country can take place in early November 2001. The main mission can take place around January or February 2001.

7. Malawi

(a) Situation of the economy and trade sector

64. Malawi has pursued economic reform programs supported by the IMF and the International Development Association (IDA) since the 1980s. The focus of economic policy in recent years has been to reduce inflation, improve the fiscal position, and liberalize domestic markets and external

trade**.** The reform program has made Malawi's trade system liberal and transparent. Non-tariff barriers were almost completely eliminated in 1997. Maximum tariffs have progressively been reduced from 45 percent in 1995 to 25 percent, effective 1 July, 1999. The average tariff fell from 19 percent in 1994 to 14 percent in 1999. Foreign currency deposit accounts are allowed for exporters. Malawi has liberalized restrictions on capital movements by non-residents. Foreigners are allowed to make direct investments and repatriate investment proceeds without restriction.

(b) Commitment of the Government to trade openness

65. Over the past few years, the Government has set up a large number of institutions to help businesses and attract domestic and foreign investments. In addition to the Ministry of Commerce and Industry, these include: the Malawi Investment Promotion Agency (MIPA), the Export Processing Zones (EPZs), the Malawi Revenue Authority (for duty drawbacks) and a number of working groups to interpret the regional trade agreements. Moreover, there are variety of industry associations in the private sector.

66. Malawi is a member of the COMESA. It has agreed to fully participate in the creation of a free trade zone along with eight others, out of the 21 members. The country removed all barriers on international trade, but retains tariffs on imports from non-COMESA sources.

67. Based on an IMF index of the restrictiveness of trade regimes, Malawi has a rating of 3 (on a scale of I to I 0, with 10 being the most restrictive), compared to an average rating of 5 for sub-Saharan African countries.

(c) Trade and the national development strategy

68. Trade policy reform is clearly a key element of the national development strategy. The Government recognizes that restructuring its trade regime is essential for creating the necessary environment for private sector development, especially in the area of small and medium scale enterprises. Such growth has direct linkage to poverty reduction. The Government is also concerned about the large number of regional trade agreements that it has entered into, many of which may be internally inconsistent.

69. Malawi is currently preparing a full PRSP and an analysis of trade policy is being addressed by one of the technical working groups. A first draft of the PRSP is expected to be ready by the end of December 2001.

(d) Request for assistance from Integrated Framework

70. Although the trade policy is being addressed in the context of the PRSP, the Government is keen that further analytical work be carried out to provide the necessary basis for a more informed policy formulation in this area. In this regard some elements of such analysis are already included in the ongoing country Economic Memorandum. The Government and the country team believe that the policy formulation in the trade area will immensely benefit from the work proposed under the Integrated Framework as proposed above. The IF study is also expected to build on the findings from the first Trade Policy Review of Malawi by the WTO, which is currently underway.

(e) Governance

71. Malawi has improved in governance. The country is an active participant in the seven-nation WBI anti-corruption program. On the two proposed indicators of economic governance (regulatory framework and rule of law), Malawi scores above the LDC average.

(f) The actors

72. The WTO is currently undertaking its first Trade Policy Review for Malawi, which is to be discussed by the TPR Body on 29 and 31 January 2002. Moreover, many donors have large programs for studies and technical assistance in Malawi. The IF diagnostic study will involve integrating existing work and filling in the gaps.

(g) Conclusion

73. IAWG recommends Malawi to be included in the extension of the IF Pilot Scheme, given the strong interest in trade and the ongoing PRSP preparation activities. A preparatory visit by the mission chief can take place end-November 2001. This visit can be coordinated with a World Bank Economic mission planned for the same period to prepare the TORs and involve the Government and agencies and donors. The main mission can be undertaken in January 2002.

8. Mali

(a) Situation of the economy and trade sector

74. Mali is suffering from a deepening domestic crisis in the cotton sector, which has seen a slump in production, as well as from the economic and political crisis in neighbouring Côte d'Ivoire, Mali's largest export destination and source of workers' remittances. The external sector is dominated by the fluctuating output of Mali's main traditional exports, which are cotton and gold.

(b) Commitment of the Government to trade openness

75. Mali is a member of the UEMOA and has adopted the UEMOA tariff structure.

(c) Trade and the national development strategy

76. Trade is considered important by the Government. In the view of the Bank country team, however, Mali confronts serious macro-economic, political and sectoral challenges that are also priorities. The country is progressing towards a full PRSP. The I-PRSP was presented at the Board of the World Bank in September 2000. A PRSC is being prepared to be taken to the Board in December 2001. Another one will be prepared for 2002.

77. The Bank/IMF country economists are interested in trade issues and in working with the IF program. The time line for PRSP preparation, due to be completed in December 2001, provides some scope for assistance in integrating trade into the development strategy.

(d) Request for assistance from the Integrated Framework

78. Mali has been active in the IF. The Government has prepared a strategy for trade development with the assistance of IF partners. The strategy includes the preparation of a document identifying priority actions for intervention and the organization of consultations with the country's major development partners.

79. USAID is starting trade work in October 2001, which will complement the work by the IF partners.

(e) Governance

80. Mali scores above average on the two governance indicators reported in Table 2.

(f) Conclusion

81. Trade integration is a key element of future growth for Mali. Given the planned work by USAID, the IAWG recommends that Mali be considered for startup of the IF process after May 2002.

9. Nepal

(a) Situation of the economy and trade sector

82. Nepal's trade has been expanding rapidly in recent years following singing a preferential trade treaty with India. Currently, Nepal has one of the largest trade to GDP ratios, i.e. around 48% in 2000-01. There are very few quantitative restrictions. The average statutory tariffs are 14%. Ready-made garments have overtaken woollen carpets to become Nepal's largest export item. Garment exports grew by 43.5% in 1999/2000 to reach NRs13.9bn (US$188m). Nepalese carpets and pashmina, exported mainly to OECD countries, are now Nepal's second and third largest exports. Recently, Nepal's export growth has slowed down.

(b) Commitment of the Government to trade openness

83. The country has undertaken trade liberalization. Nepal is an observer to the WTO and is in the process of accession. Nepal applied for GATT/WTO in 1990, and submitted to the Memorandum on Foreign Trade Regime in 1990 and 1998. The first Working Party on Nepal's Accession was held in May 2000.

(c) Trade and the national development strategy

84. The government considers trade and export growth a high priority in their development strategy. However, the revised I-PRSP does not reflect a trade emphasis and the Bank/Fund have flagged this in their dialogue with the national PRSP team.

(d) Request for assistance from the Integrated Framework

85. Nepal has undergone the needs assessment process and participated in follow-up activities.

(e) Governance

86. Nepal scores above average on the economic governance indicators reported in Table 2.

(f) The actors

87. The Government is engaged in preparing several related major reform activities with support from the World Bank and IMF, including a PRGF, financial and budget reform, as well as the PRSP. As a result of these activities, and given Nepal's relative progress in trade reforms compared to neighbouring countries, an intensive focus on trade at this time is considered to be difficult to attain by Bank/Fund staff, and explains why trade has been placed a bit on the back burner. However, there is strong interest by the Bank/IMF country economists to help the Government in the trade area.

(g) Conclusion

88. Nepal is a good candidate for inclusion in the extension of the IF Pilot Scheme. However, given other activities supported by international development agencies, the IAWG recommends that the IF process in Nepal start after May 2002.

10. Senegal

(a) Situation of the economy and trade sector

89. The policy reforms since early 1994 have led to a marked recovery of economic activity and a significant improvement in Senegal's financial position. The average real GDP growth between 1995 and 1999 was 5.2 percent, which is the first sustained increase in average per capita growth since 1960s. Effective control of inflation resulted in a 35 percent depreciation of the real exchange rate. Continuous good performance on inflation helped preserve the depreciation and this led to a substantive increase in its competitiveness. This resulted in a significant growth in exports of fish, groundnut products, phosphates and tourism services.

(b) Commitment of the Government to trade openness

90. In the aftermath of the devaluation, the Government implemented trade and tax reform. Tariffs lowered from a pre-reform bracket of 6-124 percent to one of 5-50 percent. Most of the quantitative restrictions on imports of certain goods were lifted during 1994-1996 and replaced by temporary import surcharges. Two prior authorizations remain, for imports of gold (for monetary policy purposes), and for second-hand clothing (for health reasons). Export subsidies were eliminated. Moreover, the VAT was simplified, with the number of categories reduced from six to three, the rates reduced from a pre-reform range of 0-34 percent to a new range of 0-20 percent.

91. In April 1998, Senegal participated in the WAEMU's (West African Economic and Monetary Union) first step toward the Common External Tariff (CET), by introducing a four-tier external tariff structure in the range of 5-30 percent (including the customs stamp), down from a pre-reform level of 5-50 percent. In January 2000, Senegal implemented the final stage of the CET by introducing the WAEMU external tariff structure with three rates of 5, 10, or 20 percent, with zero tariffs imposed on fellow WAEMU members.

(c) Trade and the national development strategy

92. The Government is committed to trade liberalization, through simplification of trade and tax procedures. The World Bank is currently providing assistance under the program Senegal Trade Reform and Competitiveness Credit. This credit supports reforms in customs and tax procedures, as well as other trade facilitation measures.

(d) Request for assistance from the Integrated Framework

93. Senegal will complete its PRSP by the end of 2001. It is expected that next year the Government will begin the implementation of its poverty reduction strategy. A major component of the strategy is the policy agenda for increasing economic growth and competitiveness through improving the environment for the private sector. Policies to promote economic growth must be situated squarely in the global market context, given the new liberalized environment in the region.

(e) Governance

94. Senegal has an above-average score on public sector management. The country has undertaken reforms to improve performance systems in the civil service, while meeting WAEMU requirements on submitting audited public accounts. The program supported by the trade credit mentioned above contributes to increasing transparency and accountability, by computerising and linking customs and tax databases in a way to increase both efficiency and timely surveillance of records.

(f) The actors

95. The Government is engaged in major reform projects with the World Bank and IMF support. UNDP also has a substantial program in Senegal. Senegal has also been making use of WTO technical assistance in helping it define measures of customs clearance time and actions that can help reduce it.

(g) Conclusion

96. Given Senegal's expressed interest in the IF and active preparation of the full PRSP, the IAWG recommends that it be included as one of countries for the extension of the IF Pilot Scheme. The preliminary visit to the country can take place in early November 2001, and the main mission can take place around January or February of 2001.

11. Yemen

(a) Situation of the economy and trade sector

97. Real GDP grew by 5.1% in 2000, mainly due to high oil prices and recovery in the manufacturing and services sectors. The macroeconomic performance was good in the first half 2001. Favorable economic developments this year include: (i) good rainfall and continued high oil prices are expected to boost agricultural and industrial output and consequently a relatively high GDP growth rate; (ii) inflation rate continued to decline; (iii) attainment of a fiscal surplus in the first half of the year, and stability in the foreign exchange market and interest rates; (iv) current account and overall Balance of Payment (BOP) surpluses, and record accumulation of foreign reserves (more than one-year of imports); and, (v) continued decline in total external debt and its burden.

98. Forecasts for GDP growth in 2001-02 stand at 4.1% and 4.3%, respectively. The macroeconomic outlook for 2001-02 is positive, with oil prices expected to be high (though volatile). The forecasts for Yemen's economy are currently complicated by the fact that the impact of the events in the US is still not clear. Yemen's economy is highly dependent on oil prices, and as long they remain high, the Yemeni economy will be shielded from other expected external shocks (decline in FDI, tourism, remittances, etc.). Yemen receives little FDI, and tourism does not contribute more than one percentage points of GDP. Inflation, which declined to single digit in 1999 and 2000, is expected to average 9.3% in 2001 and to decline in the following years.

99. Mainly due to high oil prices, the current account in Yemen achieved a record surplus surpassing 24% of GDP in 2000. Oil exports increased from US$ 2.1 billion in 1999 to US$ 3.66 billion in 2000. The Government's share in oil exports reached US$ 1.9 billion in 2000, while the share has reached US$ 1.1 billion until end August 2001.

(b) Commitment of the Government to trade openness

100. Tariffs are currently low, and there are no significant non-tariff barriers. Since 1995, the Government of Yemen (GoY) has undertaken a number of reforms in the trade sector, as part of its overall program for financial, economic and administrative reforms. Upon unification, the mean nominal tariff was about 27%. Imports were subject to custom duty under a 15-bands tariff structure with the range from 5% to 200%. In addition, imports were also subject to numerous taxes and surcharges. Furthermore, virtually all imports required licenses. In 1996, a comprehensive reform to the tariff and trade system was implemented to reduce effective protection. The 15-band tariff structure was replaced with a 4-band structure with tariff rates of 5, 10, 15, and 30% ad valorem. All import bans were abolished, and import licensing was eliminated for most commodities. The customs valuation rate was also unified with the market exchange rate. In 1997, all imports fees and surcharges were eliminated, and government controls over exports were eliminated. In October 1997,

the maximum tariff was further reduced by 5 percentage points. During 1998-2000, most of the remaining tariff and non-tariff barriers were eliminated.[5]

101. The trade regime in Yemen today is closer to standard international rules. The mean tariff rate is now estimated at 12%. And with elimination of most non-tariff barriers, Yemen trade restrictiveness index declined from 10 (closed or very restrictive) in 1990 to 2 (open).[6] Furthermore, Yemen embarked on institutional reforms in the customs area with the assistance of a number of donors (e.g., ASCUDA system). The banking system is also open to foreign entry.

102. Since early 1998, the GoY has undertaken several steps towards the accession to the WTO. A ministerial committee was established to study the issue, and based on its recommendation, the GoY recommended to the Parliament “accession to the WTO” in May 1998. Consequently, the GoY applied for an “Observer Status” with the WTO which was accepted in April 1999. A year later, Yemen applied for “Full Membership Status” and the WTO General Council accepted Yemen’s formal application for the WTO membership in July 2000. Yemen is currently preparing the “Memorandum on Foreign Trade Regime", which serves as the basis for its accession negotiations.

(c) Trade and the national development strategy:

103. In the I-PRSP, the Government highlights the importance of continuing trade liberalization policies through: (i) revising custom tariffs to encourage exports and ultimately attract more foreign investments; and (ii) seeking accession to the WTO.

104. In the Second Five-Year Plan (SFYP), the Government stresses the importance of the integration of the Yemeni economy with the global economy by strengthening Arab and regional economic cooperation and integration and by accession to the WTO. Yemen’s foreign trade goals include: (i) continued implementation of commercial sector reforms and the foreign trade liberalization policy (e.g., review of foreign trade legislation, regulations, and institutions); (ii) boosting and diversification of non-oil resources and increasing the share of non-oil exports in total merchandise exports; (iii) encouragement and development of the potentially competitive export sectors (manufacturing, fishing, and tourism)s; boosting of the added value of agricultural exports; and the attraction of foreign capital to joint investments to strengthen these activities; (iv) exploitation of bilateral and multilateral agreements and Arab and regional economic blocs to establish free trade and industrial zones, strengthening of the role of these zones in the development of the national economy, completion of the implementation of the free zone in Aden, and a study of the establishment of other free zones; (v) efforts toward Yemen’s accession to the WTO, and preparation of the conditions suited to this accession in cooperation and coordination with the various agencies and institutions to enhance exploitation of the benefits and exceptions granted to LDCs and to reduce the burdens of Yemen’s accession on the national economy.

(d) Request For Assistance From the Integrated Framework:

105. On 17 June 2001, the Chief of Communications and Coordination Office with WTO and advisor to the Minister of Trade and Industry requested the Bank to provide more assistance to Yemen’s effort to join the WTO. He indicated that Yemen is very keen to utilize the Trade-Related Technical Assistance provided through the Integrated Framework Program (IF). He indicated that Yemen was among the countries proposed for the IF pilots and urged the Bank to assist in enrolling Yemen in the IF program as soon as possible.

---

[5] IMF (2001) “Republic Of Yemen: Selected Issues” April 2001.

[6] Ibid, page 55-60.

(e) Support for the Government's trade efforts:

106. Following a request by the Government, the World Bank sent a mission to Yemen in June 2000 to provide assistance and advise on the accession of Yemen to the WTO.[7] The mission made several presentation and left the GoY with a report on WTO issues.

107. An analysis of the support provided to the agriculture sector, as required by the WTO, has been undertaken with the assistance of FAO and preliminary work on TRIPS has been initiated with the help of WIPO.

108. The Bank is fully supportive of undertaking the trade integration study envisaged in the pilot phase of the IF, Given past and ongoing work on the PRSP and trade-related issues, there is a very good prospect that trade will be integrated into the PRSP. The GoY understands that the integration study to be undertaken under the IF would assist in its efforts for the accession to the WTO.

(f) The actors

109. In addition to the National Committee for Preparation and Negotiations with WTO (NCPN-WTO, established by Ministerial Decree 239 on 18 December 1998), the Government agencies that are related to trade policy matters are: the Ministry of Trade and Industry, the Chamber of Commerce, the Tax and Custom Authorities, the Parliamentary Committee for Trade and Industry, the Aden Free Zone, and the General Investment Authority.

(g) Governance

110. Yemen's public administration was severely impacted by a series of events since 1990. The unification of the North and the South required the merger of two very different systems, creating a much larger civil service that at times duplicated functions. The return of around 800,000 Yemenis following the Gulf War required the Government to absorb a large number into the civil service for social reasons, further exacerbating the problem of over-staffing. The economic turmoil throughout 1990-95 caused civil service wages to decline substantially in real terms. The overall result is a very large, poorly-trained and poorly-paid public administration that lacks adequate enforcement of civil service processes and procedures.

111. The Economic Freedom Indicator of the Heritage Foundation (HF) is a composite index that ranges from 1 to 5, with 1 being most free and 5 being least free, based on 50 measures of trade policy, foreign investment environment, fiscal burden of government, levels of government intervention, banking and finance, wages and prices, property rights, regulation, and the black market. Yemen, with a score of 3.85, is judged "mostly unfree", performing somewhat less well than most of the countries in the region (average 3.30.)

(h) Conclusions

112. Yemen has expressed to the World Bank its strong interest for inclusion in the extension of the IF Pilot Scheme. Trade issues have also been addressed in the Second Five Year Plan (2001-2006) which underscores the importance of trade for growth and poverty reduction and calls for concerted efforts to enable Yemen to join the WTO. The forthcoming PRSP is expected to incorporate trade issues in the growth/poverty reduction nexus.

---

[7] The Mission consisted of Mr. David Tarr, Mr. Constantine Michalopoulos, and Mrs. Linda Van Gelder. The mission held a series of meetings with key government and Central Bank officials and made presentations on issues related to the WTO accession at a workshop organized by the Ministry of Supply and Trade.

Table I. Timetable for the second phase of the Integrated Framework Pilot Scheme

Countries	Preparatory	Main mission	Interim-PRSP Or PRSP	Commitment to trade in PRSP	Bank Country team interest
Burundi	*	*	I-PRSP forthcoming		High
Djibouti	*	*	I-PRSP forthcoming		High
Eritrea	Mid-November 2001	January 2002	I-PRSP forthcoming	Yes	High
Ethiopia	December 2001	TBD	I-PRSP submitted in March 2001. PRSP planned for March-April 2002		Low
Guinea			I-PRSP Oct 2000		High
Lesotho	Early to mid-November 2001	January 2002	I-PRSP Feb 2001 PRSP June 2002	*Yes*	High
Malawi	Late October 2001	January 2002	I-PRSP Dec 2000	Yes	High
Mali	March April 2002	May 2002	I-PRSP board Sept 2000	Yes	High
Nepal	May 2002	TBD	Interim PRSP 2001, PRSP ongoing	Yes	Moderate
Senegal	November 2001	January 2002			High
Yemen	January 2002	February 2002	I-PRSP Feb 2001; PRPS forthcoming		High

Notes:

1. The exact timing of the Yemen and Eritrea missions are dependent on military/political developments in the region.
2. * For Burundi and Djibouti the timing of the missions are not determined yet.

Table 2. 20 Least Developed Countries: Governance Characteristics

LDC	Regulatory Framework		Rule of Law	
	Estimate	Stand Error	Estimate	Stand Error
Bangladesh	-0.155	0.395	-0.929	0.276
Cambodia	-0.036	0.602	-0.235	0.601
Chad	-0.740	0.597	-0.827	0.450
Djibouti	-0.522	0.602	-0.235	0.601
Ethiopia	-0.033	0.333	0.269	0.429
Gambia, The	-0.250	0.520	0.274	0.443
Guinea	0.197	0.517	-0.762	0.371
Hait i	-1.133	0.520	-1.495	0.443
Lesotho	-0.058	0.351	-0.240	0.566
Liberia	-1.248	0.718	-1.289	0.549
Madagascar	-0.209	0.517	-0.825	0.371
Malawi	0.081	0.332	-0.409	0.281
Mali	0.290	0.517	-0.465	0.371
Mauritania	-0.846	0.602	-0.558	0.601
Mozambique	-0.227	0.332	-1.046	0.363
Nepal	-0.360	0.602	-0.558	0.601
Tanzania	0.183	0.291	0.161	0.253
Uganda	0.184	0.291	-0.013	0.253
Yemen, Rep.	-0.523	0.520	-1.008	0.314
Zambia	0.252	0.291	-0.402	0.253
LDC Average	-0.620	0.488	-0.758	0.432
Memo:				
Other Low Income	-0.526	0.339	-0.605	0.245
Lower Middle Income	-0.032	0.378	-0.158	0.279
Upper Middle Income	0.521	0.315	0.292	0.255
High Income	0.784	0.272	1.301	0.242

Note:

The governance indicators reported in this file reflect the statistical compilation of perceptions of the quality of governance of a large number of survey respondents in Industrial and developing countries, as well as non-governmental organizations, commercial risk rating agencies, and think-tanks during 1991 and 1998. They in no way reflect the official position of the World Bank, its Executive Directors, or the countries they represent. As discussed in detail in the accompanying papers, countries' relative positions on these indicators are subject to large margins of error that are clearly indicated in an available data file.

The 2 governance indicators in this worksheet are measured in units ranging from about –2.5 to 2.5, with higher values corresponding to better governance outcomes. The column labeled "Estimate" provides the point estimate. The column labeled "Standard Error" contains the corresponding standard error. The regulatory framework focuses on government's good policies: measures of incidence of market un-friendly policies such as price controls, or inadequate bank supervision, as well as perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development. The rule of law index includes several indicators which measure the extent to which agents have confidence in and abide by the rules of society. These include perceptions of the incidence of both violent and non-violent crimes, the effectiveness and predictability of the judiciary, and the enforceability of the contracts.

The indicators are based on data referring to 1997-1998. Details on the concepts measured by each indicator, its components, and the interpretation of the point estimates and standard errors can be found in the research papers by Kaufmann, Kraay and Zoido-Lobaton (1999a,b). All indicators are subject to a margin of error.