CONCEPT NOTE
FOR THE BURKINA FASO DIAGNOSTIC TRADE INTEGRATION STUDY

1. Introduction

1. This concept note discusses the issues and methodology for preparing a Diagnostic Trade Integration Study (DTIS) for Burkina Faso. The DTIS is an important step in the implementation of the Integrated Framework (IF) initiative, which was launched by the development partners during a High-Level meeting of the World Trade Organization (WTO)[1] in 1997. The IF seeks to promote and coordinate technical assistance by donors to facilitate better integration of least developed countries into the global economy. The partners have called upon the World Bank to take the lead in conducting the DTIS. Annex 3 provides a full description of the IF process.

2. The DTIS seeks to: (i) identify the constraints the country faces in integrating into the global economy; (ii) develop a cohesive program that outlines the actions required for removing these obstacles and making trade an integral component of the national development strategy; and (iii) identify technical assistance needs and coordinate donor support. The DTIS supports the Poverty Reduction Strategy Paper (PRSP) and builds on in-depth analyses of sectoral strategies, but with an emphasis on increasing growth through trade promotion, particularly through exports.

3. Since June 2000, Burkina Faso has had its own PRSP, known as the *Cadre Stratégique de Lutte contre la Pauvreté (CSLP)*, to better structure its growth and social development strategies. The first version of the CSLP was implemented during the 2000-03 period, and recorded encouraging but mixed results with regard to growth, poverty reduction, and social development (see section 2). Growth certainly improved over the past decade (1994-04), but has remained particularly volatile owing to its heavy reliance on agriculture and hence on climatic conditions and cotton prices. This considerable volatility has made it difficult to consolidate the gains made in poverty reduction and social development. The government has just produced a second CSLP (January 2004) in which it reiterates its desire to move forward with structural reforms and further open its economy to international trade and foreign investment in order to stimulate transformation and intensify growth.

4. The government is well aware of Burkina Faso's excessive dependence on foreign aid, of the related risks for the sustainability of its development strategy, and of the need to build the country's own capacity to create jobs, generate revenues, and earn foreign exchange, in order to finance development. Exports represent barely 10 percent of GDP, the lowest rate in the subregion.

5. In this new CSLP, the government has explicitly resolved to develop and implement a "multisectoral" strategy aimed at diversifying the production of exportable goods and to make this the engine of sustained and equitable growth. To this end, the government has applied to the Integrated Framework for preparation of the DTIS. This study will focus on how to develop Burkina Faso's international trade to make it an engine of sustained and equitable growth, a question leading to a number of areas for consideration: (i) In what subsectors does Burkina Faso have the competitive edge and potential for increasing the production of exportable goods? (ii)

[1] The leading trade-related multilateral organizations have participated in this initiative, including the World Bank, the International Trade Centre (ITC), the United Nations Conference on Trade and Development (UNCTAD), the International Monetary Fund (IMF), the United Nations Development Programme (UNDP), and the World Trade Organization (WTO). Under the initiative, the World Bank has primary responsibility for helping countries prepare a Diagnostic Trade Integration Study (DTIS). However, it is also generally agreed that the diagnostic study as well as the implementation of the resulting policies will remain primarily a country responsibility.

What needs to be done to increase the general competitiveness of the economy, productivity, and hence the production capacity of those subsectors? (iii) What can be done to boost/facilitate trade at the regional and global levels to promote the export of products from these subsectors? (iv) What can be done to ensure that these strategies are consistent with the pillars of the CSLP and thereby contribute to sustained improvement in the standard of living? (v) How can this approach be institutionalized in the interest of the effectiveness and sustainability of government action?

6. The DTIS is an outgrowth of the analytical work undertaken by the government in recent years in the context of the CSLP, which has focused on the issues of economic openness, competitiveness, diversification, and growth. These earlier analyses include: (i) the study on the sources of growth conducted in collaboration with the World Bank in 2000;[2] (ii) the study on exports, growth, and combating poverty in Burkina Faso conducted by CAPES in 2003;[3] (iii) the report entitled "Competition, Investment, and Competitiveness: Constraints and Recommendations ," prepared by the FIAS[4] (World Bank and IFC, 2004); (iv) the study on the sectoral competitiveness of the economies of the WAEMU Member States, conducted in collaboration with the WAEMU, the BCEAO, and the BOAD (Afrique Etude, 2004);[5] (v) the "Comparative Study on the Business Environments of the WAEMU and ECOWAS," launched by the competitiveness and business development support project (Ministry of Commerce, 2005); (vi) the CASEM 2005 report on relaunching exports in Burkina Faso (Ministry of Commerce, 2005)[6]; and (vii) the WTO Trade Policy Review for Burkina Faso (2004). The study will also draw on the new data to be produced by the Investment Climate Assessment being conducted in early 2006.

7. There is also a group of analytical studies on diversifying the sources of growth and promoting exports conducted by the government's technical services in the course of preparing sectoral strategies. Of particular note are: (i) the draft document entitled "Livestock, Poverty, and Growth Initiative, prepared with support from the World Bank;[7] (ii) the Livestock Action Plan prepared by the Ministry of Animal Resources; (iii) Action Plans for cereals, oilseeds, and fruits and vegetables prepared by the Ministry of Agriculture; (iv) and the oilseeds sector strategy prepared in the context of the JITAP Project (2003)[8]. This range of analyses focusing on growth, exports and foreign investment attests to the importance of these issues for Burkina Faso, and hence the relevance of the IF and the DTIS. However, this also underlines the need to avoid repeating past work and to give priority to the challenge of implementation.

8. This framework note discusses the content of the DTIS—the main strategic areas for consideration and action with a view to promoting exports—as well as the ways to prepare them

[2] "Burkina Faso: Compétitivité et Source de la Croissance" [Burkina Faso: Competitiveness and sources of growth], B. Sirima et al., C. Monga et al., 2000.
[3] "Exportations, croissance et lutte contre la pauvreté au Burkina Faso" [Exports, growth, and combating poverty in Burkina Faso], Centre d'Analyse des Politiques Economiques et Sociales (CAPES) [Center for Economic and Social Policy Analysis], 2003.
[4] The FIAS (Foreign Investment Advisory Services) is a joint advisory service of the World Bank and the IFC (International Finance Corporation) that provides information on the business climate and foreign investment. The report for Burkina Faso (FIAS, June 2004) was prepared by an FIAS team comprising Anna Crole-Rees, Xavier Forneris, Andrea Goldstein, Gilles Ménard, Banaon Nemaoua, and Sami Ouattara. The Ministry of Commerce, and especially the Director-General for Private Sector Promotion and the Director for Investment Promotion, assisted the FIAS team in conducting this study.
[5] "Compétitivité sectorielle des économies des pays membres de l'UEMOA", *Afrique Etude*, 2004.
[6] CASEM 2005 : "La relance des exportations du Burkina Faso", ONAC, May 2005.
[7] « Initiative Elevage, pauvreté et croissance (IEPC) » was spearheaded by the Ministry of Animal Resources (April 2002-January 2004), with technical and financial support from the World Bank and the FAO Investment Center (FAO-IC).
[8] The Joint Integrated Technical Assistance Program for the Least Developed Countries, launched by the ITC, UNCTAD, and the WTO, is based at the National Foreign Trade Office (ONAC).

and integrate them into the CSLP. Section 2 reviews recent developments and achievements in Burkina Faso in terms of global objectives—growth, poverty, and trade. The main section of the note (Section 3) discusses the major challenges the country must face (the "core components") in order to boost regional and international trade in Burkina Faso. Section 4 discusses the preparation of the study. It proposes a draft framework and establishes a number of collaborative work principles for a team set up by the government to lead discussions and a technical support team from the World Bank.

2. Recent developments

- ***Growth***

9. More than ten years have elapsed since Burkina Faso and the WAEMU member countries decided upon a historical adjustment in the value of the CFA franc in relation to the French franc (a 50 percent devaluation) in order to improve the economic competitiveness, revitalize export activity, and revive growth. Following these reforms, the countries of the subregion also imparted new dynamism to regional integration through the establishment of the WAEMU, whose objective is to extend national reforms beyond borders through the creation of a common economic space that is open, broader, and more integrated, and that will promote economies of scale and bolster competition. The WAEMU space should serve as a springboard for countries to attract foreign investment and increase trade, thereby facilitating the transformation of economies and their integration into the global economy. A few years later, Burkina Faso, like most of the countries in the subregion, developed national strategies for combating poverty in which the diversification of economies and increased trade are regarded as the pillars of sustained, equitable, and distributive growth. Indeed, Burkina Faso is the first country in the subregion to have developed and fully implemented a complete PRSP.

10. Growth since 1995 has clearly been significantly better than in the two preceding decades. Specifically, during the 1998-2003 period (see Annex 2[9]), Burkina Faso recorded annual average growth of 5.5 percent, which is 2.5 percentage points higher than the population growth rate and on average the highest in the subregion. This growth was driven by the primary sector (8 percent on average), and in particular agriculture (10.5 percent). However, this average masks some degree of volatility owing to its great dependence on agriculture and, consequently, on climatic conditions. For example, the growth rate fell to 1.6 percent in 2000, and to -8 percent for agriculture.

11. There has also been little transformation, and the overall structure of the economy and of the productive sectors is virtually unchanged. The manufacturing has grown slightly below the average for the economy as a whole. This indicates that, with the exception of the primary sector that has benefited from higher export prices following the devaluation, the rest of the economy, in particular manufacturing, has yet to gain significantly from enhanced competitiveness.

- ***Poverty***

12. Developments in respect of poverty in Burkina Faso since the devaluation are still the subject of conflicting analyses. According to official statistics, and despite sound macroeconomic performance during the 1994-2003 period, including an annual per capita growth rate of about 2 percent on average, monetary poverty in Burkina Faso does not appear to have diminished significantly over the past decade. Indeed, the findings of the population and health surveys conducted by the INSD (National Institute of Statistics and Demographics) in 1994, 1998, and

[9] "Burkina Faso: Reducing Poverty through Sustained Equitable Growth. Poverty Assessment," World Bank, July 2004.

2003 appear to show some "resilience," that is, a slight increase in the incidence of poverty, which rose successively from 44.5 percent (1994) to 45.3 percent (1998), and then to 46.4 percent (2003).

13. A study conducted more recently in the context of preparing the World Bank's "Poverty Assessment"[10] showed that these statistics are not comparable in their present form, as the INSD appears to have used different methods for measuring poverty incidence in each survey. After making the adjustments required to ensure the comparability of results, the authors concluded that the incidence of poverty had in fact dropped by about 8 percentage points, from 54.6 percent in 1998 to 46.4 percent in 2003 (see Table 1). However, owing to the major differences in the survey techniques, particularly with regard to periodicity, reprocessing data proved impossible and the poverty rate for 1994 could not be re-evaluated. Nevertheless, the authors of that study suggest a prevalence of close to 60 percent for 1994, based on the trends observed in comparable countries. At the same time, and based on the same survey data, another study conducted by Grimm and Gunter on growth and poverty in Burkina Faso[11] concluded, after reprocessing the data, that poverty had in fact increased significantly (by 6 percentage points) between 1994 and 1998 (rising to 61.8 percent), and then dropped off even more dramatically by 14.6 points between 1998 and 2003 (to 47.2 percent).

Table 1: Burkina Faso: Changes in poverty rate

(percentage of population below the poverty line)

	1994	1998	2003
World Bank Poverty Assessment			
National		54.6	46.4
Households producing traded agricultural goods		53.1	47.1
Households producing non-traded agricultural goods		61.8	55.3
Grimm/Gunter study			
National	55.8	61.8	47.2
Cotton-producing households	62.1	58.2	46.8
Households producing non-cotton agricultural goods	64.1	71.6	57.2

Sources: World Bank poverty assessment, and Grimm and Gunter (2004).

14. Despite these estimation problems, both studies conclude that there was a decline in poverty during the 1998-2003 period, which is also consistent with the increase in average incomes, and more specifically with growth in the agricultural sector. For example, according to the World Bank's Poverty Assessment, the sharp decline in the incidence of poverty between 1998 and 2003 (around 8 percentage points) can be attributed to the decline in the rural sector poverty (8.6 points), while the poverty incidence in urban areas showed little change (3 points). Both reports conclude that the poverty rate is much lower in urban areas (20 percent) than in rural areas (53 percent).

[10] "Burkina Faso, Reducing Poverty through Sustained and Equitable Growth, Poverty Assessment," World Bank, July 2004.
[11] M. Grimm and I. Gunter, "Operationalizing Pro-Poor Growth: A Country Case Study on Burkina Faso," October 2004. This study was conducted as part of a program financed by the development agencies of France, Germany, and the United Kingdom, and by the World Bank.

15. The Poverty Assessment did not find any pronounced differences between traded and nontraded goods within the agricultural sector. The poverty rate fell by 6.5 percentage points in households classified under the nontraded agriculture category, compared to 6.0 percentage points among households specializing in traded products (primarily cotton). The impressive increase in cereal production since 2000 is comparable to, if not higher than, the growth recorded in the cotton sector, an outcome reflected in the poverty rate. However, the Grimm-Gunter study suggests that the good performance of cotton exports made a greater contribution to poverty reduction. This is explained in part by the longer period of analysis. According to the latter study, poverty among cotton producers also fell between 1994 and 1998, while it increased in other rural households. Moreover, many households joined the group of cotton producers, which represented 11.3 percent of the population in 1994 but 20 percent in 2003. Owing to the lower level of poverty among these households, this transition from one category to the other also helped lower the national rate. More people are now reaping the benefits of cotton production.

16. This crucial issue of the relationships between the profile and sources of growth, and the profile and dynamics of poverty, will be revisited in the DTIS. Specifically, the contribution of the production of exportable goods to improved incomes and poverty reduction will be examined, and recommendations aimed at maximizing the social effects of trade promotion policies in Burkina Faso will be made (see Section 3, core component 4).

- ***International trade***

17. Burkina Faso's export/GDP ration remains the lowest in the subregion, averaging 10 percent for the 1998-2002 period (see Table 2). Of greater concern is the negative trend observed in recent years, as this ratio fell by almost 5 percentage points between 1998 and 2002 (from 13.8 percent to 8.8 percent), while in Mali it grew by more than 6 percentage points over the same period despite the problems experienced in its cotton sector.

18. Agricultural products continue to account for most of Burkina Faso's exports, and the export structure appears not to have changed since 1998 (see Table 3). Gold sales declined, but this trend will be short-lived, as three new mines are expected to begin operations in 2005. These figures provide only a partial picture of the actual situation, as a significant amount of informal trade is not recorded. For example, official figures indicate that animal product exports amounted to US$45 million, whereas a recent study on the livestock sector puts the figure at more than US$100 million[12]. There are probably many gold exports that are not officially accounted for, because small miners dominate this sector, and their buyers prefer trading through unofficial channels, especially in Ghana.[13] However, similar qualifiers apply to other countries in the region as well.

19. Burkina Faso's resource balance recorded a significant structural deficit of 14 percent of GDP on average during the 1998-2003 period, although there was a slow but gradual decrease over the period (from 14 percent to 11.5 percent between 1998 and 2003, see Table 3). This imbalance was financed by relatively sizable foreign exchange flows, primarily in the form of grants or aid on highly concessional terms. However, and as indicated previously, this situation is not sustainable in the long term, and the persistence of such a deficit would restrict imports of petroleum products and capital goods, which in turn would further hamper investment, transformation, and consequently increased growth.

[12] Burkina Faso, « Initiative 'Elevage, Pauvreté et Croissance': Proposition pour un Document National » [Livestock, Poverty and Growth Initiative: Proposal for a national paper], 2004.
[13] One estimate suggests that these exports are ten times higher than official figures.

Table 2: Annual average export/GDP ratio during the 1996-2001 period

1996-2001 Average	**Total**	**Agricultural products**	**Fishing products**	**Energy Products**	**Industrial products**
Benin	8.8	5.6	0.1	0.1	3.0
Burkina Faso	**7.2**	**6.5**	**0.0**	**0.0**	**0.7**
Côte d'Ivoire	37.3	20.5	0.1	5.3	11.4
Guinea-Bissau	8.6	1.3	2.6	1.1	3.5
Mali	14.5	6,6	0.0	0.0	7.8
Niger	9.9	3.6	0.1	0.0	6.2
Senegal	12.5	1.9	5.1	0.0	5.5
Togo	14.7	7.6	0.0	0.0	7.1
WAEMU	22.0	11.2	0.9	2.2	7.6
Years:	**1998**	**2000**	**2001**	**2002**	**Average**
Benin	17.7	10.6	10.0	9.1	**13.0**
Burkina Faso	**13.8**	**8.9**	**9.0**	**8.8**	**10**
Côte d'Ivoire	25.1	25.7	25.4	5.3	**11.4**
Guinea-Bissau	13.0	28.8	31.7	23.4	**23.9**
Mali	19.0	20.5	24.2	26.5	**21.9**
Niger	17.5	17.1	14.9	15.1	**16.1**
Senegal	20.8	21.0	21.0	20.2	**21**
Togo	29.7	30.0	31.6	31.2	**30**
WAEMU	27.9	27.1	27.2		**27.6**

Table 3: Foreign trade structure

Burkina Faso :	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Exports			*As a percentage of the total*			
Cotton	63.5	53.5	49.3	58.8	54.1	62.7
Livestock	14.2	18.8	21.9	19.0	21.0	15.7
Gold	5.0	5.9	4.5	1.3	2.3	2.4
Other products	17.3	21.8	24.2	20.9	22.6	19.3
Total	*100*	*100*	*100*	*100*	*100*	*100*
As a percentage of GDP	***13.8***	***10.0***	***8.9***	***9.0***	***8.8***	
Imports			*As a percentage of the total*			
Foodstuffs	18.9	12.7	12.2	14.4	12.6	12.1
Petroleum products	7.9	14.0	17.6	18.2	18.6	19.7
Other	73.2	73.3	70.2	67.5	68.8	68.2
Total	*100*	*100*	*100*	*100*	*100*	*100*
Resource balance	**-14.1**	**-14.8**	**-16.2**	**-13.7**	**-12.4**	**-11.5**

20. The analysis of Burkina Faso's foreign trade performance complements the analysis of growth and raises a number of important questions that the DTIS will address. Among them are: (i) What is preventing Burkina Faso from increasing its export rate, despite the government's expressed desire to do so? (ii) Why has Burkina Faso lost ground even in sectors that seemed quite promising, such as fruit and vegetables, while other countries have increased their market share during the same period (for example, green beans in Senegal and Kenya)? (iii) What is the shortfall for Burkina Faso in terms of income growth and poverty reduction, given the low export rate and the resulting constraints on imports, investment, and production?

3. Revitalizing exports in Burkina Faso: The "core components" of global trade integration

- ***Core component 1: Diversifying the production of exportable goods***

21. Generally speaking, the two major obstacles to increased exports are production capacity constraints on the supply side and/or export market constraints on the demand side. Consequently, increasing exports requires capacity building, a shift toward global trade markets that are expanding, and competitive policies for effective penetration of such markets. In turn, capacity building requires improvement in key production factors as well as improvements in their productivity and in the general competitiveness of the economy. These issues are addressed sequentially, beginning with the sources of export diversification (core component 1) and moving on to medium- and long-term capacity-building strategies (core component 2) and then to trade strategies and strategies for the direct promotion of exports (core component 3).

Table 4: Burkina Faso: Export structure, 2001-2004

(value in millions of CFA francs)

	2001		**2002**		**2003**		**2004**		**Annual Growth 2001-04 (%)**
	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)	
Cotton and cotton lint	79,087	58.2	73,987	59.3	131,900	66.6	153,926	71.4	24.9
Live animals and meat	9,867	7.3	5,632	4.5	3,523	1.8	3,271	1.5	-30.8
Leather and hides	6,199	4.6	6,025	4	1,722	0.9	92	0.1	-75.4
Fruits and vegetables	2,466	1.8	1,867	1.5	6,257	3.2	5,790	2.7	32.9
Oil seeds, oils and fats	9,612	7.2	10,947	8.8	11,384	5.8	13,126	6.1	10.9
Craft subsector	926	0.7	1,362	1.1	711	0.4	1,197	0.6	8.9
Nonmonetary gold	957	0.7	714	0.6	1,328	0.7	1,032	0.5	2.5
Tires and inner tubes	441	0.3	581	0.5	597	0.3	167	0.1	-27.7
Subtotal	**109,555**	**80.6**	**100,115**	**80.2**	**157,422**	**79.7**	**178,660**	**82.8**	**17.7**
TOTAL	**135,966**	**100**	**124,819**	**100**	**197,285**	**100**	**215,715**	**100**	**16.6**

Source: ONAC as cited in CASEM (2005).

22. **Cotton.** Despite the recent problems associated with the fall in world prices, cotton has been a success in Burkina Faso. Indeed, thanks to sustained development efforts using an "integrated sector" approach, the country has been able to make cotton its primary export product and the most widespread cash crop. There is an ever increasing number of cotton farmers (around 130,000 in 1997 and 200,000 in 2002, representing 18 percent of the labor force) and cotton farming provides direct income for some two million persons in Burkina Faso. Cotton sales tripled from 20 percent of total exports in the 1980s to 60 percent in the early 2000s, and even reached 71 percent in 2004 (Table 4). Cotton is the primary "endogenous" source of foreign exchange for Burkina Faso, accounting for over 60 percent of export receipts and 2 to 4 percent of government revenue. Cotton is one of the main products used to promote both the modern industrial and the traditional sectors.[14] On the other hand, Burkina Faso is probably the WAEMU member country that is most dependent on a single export product.

23. Despite these remarkable achievements and average annual production growth of 10 percent since 1990, among the highest rates in the subregion, recent trends in the cotton subsector are cause for concern and the medium-term prospects for expansion are uncertain. As the government pursues reforms toward liberalization in the subsector, a number of crucial questions must be addressed in order better to clarify these policies:

- What are the trends in the global market? To what extent does the downward trend in prices indicate a glut in the market, and what are the prospects for a sustained rebound in prices, even with the possibility of a reduction or elimination of subsidies by the United States within the framework of WTO negotiations?
- Given this outlook, how can Burkina Faso increase or maintain its market share?
- What would be the implications for the other crops, such as those that complement cotton (corn, for example) or compete with it (fruits and vegetables, for example), in light of resource constraints such as land, financing, and institutional capacity, and the environmental impact?
- What would be the implications for reducing poverty and inequality in Burkina Faso?

24. Technical analyses show that Burkina Faso continues to benefit from a significant competitive advantage in the cotton subsector.[15] However, production costs, excluding the purchase price from farmers, remain high compared to those in other countries in the subregion (for example, the variable cost in Burkina Faso was 40 percent higher than in Côte d'Ivoire for 2002/03, see Box 2). What are the reasons for these cost differentials, and how does this affect the relative competitiveness of the subsector and its medium-term outlook? The diagnostic study will examine these issues to gain a better understanding of the prospects for cotton as an engine of growth, transformation, and exports, as compared to other subsectors and in the context of the

[14] About ten ginning plants with a capacity of more than 250,000 metric tons were set up, as well as SAPHYTO (insecticides), FILSAH (yarn), FASO FANI (fabric and yarn), SN-CITEC, JOSSIRA and SOFIB (oil plants), not to mention numerous traditional production units.

[15] For example, DRC (domestic resource costs) analyses used to measure comparative advantage show that cotton is the second most competitive activity in Burkina Faso, with a DRC index of 0.35, compared to 0.15 and 0.19 respectively for sesame and green beans which head the list (See Nicolas Gergely, 1999).

regional market. Substantive analyses that have already been conducted on the cotton sector will serve as a reference for this review.[16]

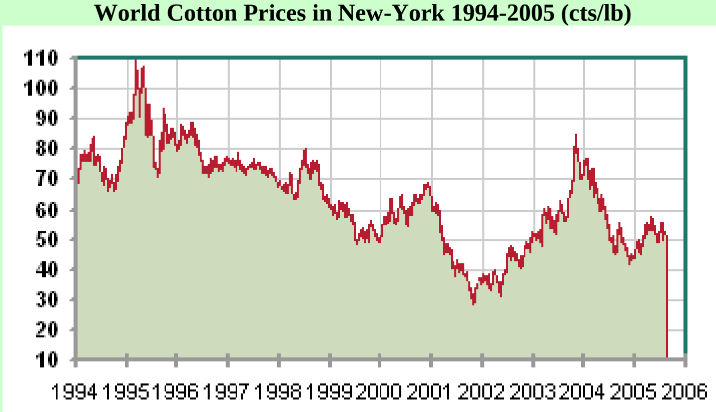
Box 2 : Cotton production

World production of seed cotton (thousands of metric tons)

YEAR	1990	1994	2000	2003	Annual Growth 1990-2003	Annual Growth 2000-2003
World Total	53,981.8	52,704.4	53,029.4	56,969.0	0.42%	2.42%
WAEMU	1,003.6	1,160.5	1,346.2	2,088.9	5.80%	15.77%
Benin	189.5	177.1	212.5	490.0	7.58%	32.11%
Burkina Faso	**146.4**	**260.4**	**339.9**	**500.0**	**9.91%**	**13.73%**
Côte d'Ivoire	241.7	258.3	399.1	280.0	1.14%	-11.14%
Guinea-Bissau	3.3	2.2	4.0	4.0	1.49%	0.00%
Mali	276.0	293.8	242.8	611.9	6.32%	36.09%
Niger	2.3	8.3	10.0	10.0	11.97%	0.00%
Senegal	44.7	28.7	20.4	34.0	-2.08%	18.56%
Togo	99.6	131.8	117.4	159.0	3.66%	10.64%
China	13,523.2	13,023.0	13,251.0	15,600.0	1.11%	5.59%
United States	8,789.5	11,179.0	9,580.6	10,100.0	1.07%	1.78%
India	5,020.0	6,064.0	4,922.7	6,300.0	1.76%	8.57%
Pakistan	4,912.7	4,437.9	5,476.2	5,455.0	0.81%	-0.13%
Brazil	1,921.4	1,367.5	2,010.4	2,200.1	1.05%	3.05%

Source: FAO.

World Cotton Prices in New-York 1994-2005 (cts/lb)



Source: Les Echos.

Comparative production costs for 1kg of cotton fiber for the 2002/2003 crop year (in CFA francs)

	Burkina Faso	Mali	Côte d'Ivoire	Cameroon
Purchase price for seed cotton	418.4	435.7	511.4	449.7
Preproduction costs for the subsector	14,6	33.1	15.6	39.7
Structural overhead costs	30,7	37.6	12.9	33.3
Harvesting costs	91,3	75.8	17.1	50.3
Ex-factory price	83,2	96.5	132.5	77.2
F.o.b. factory costs	79,5	65.8	33.2	68.2
Total FOB cost price	**717.7**	**744.6**	**722.8**	**718.4**
Costs exc. Purchase price from farmers	**299.3**	**308.8**	**211.4**	**268.7**

Source: WAEMU, Reports on country competitiveness, 2004.

25. **Livestock products.** Livestock rearing accounts for about 10 percent of the GDP and between 15 percent and 20 percent of exports in the 2000s. Burkina Faso is the second highest exporter of livestock products on the regional market (WAEMU) behind Mali. Live animals, in particular cattle, are the main livestock products that are exported primarily to the West African market. Livestock rearing in Burkina Faso is mainly traditional, although there has been a rapid increase in peri-urban livestock rearing since the devaluation.

26. Despite the existence of clear competitive strengths, recent trends have raised concerns about the potential for increased production and exports in the livestock subsector. Since 1998, exports have virtually stagnated, and indeed there has been a decline in live animal exports. Although live animal exports are still competitive, the export of meat is being hampered by inadequate preservation facilities, competition from imports (e.g. Argentina), and especially the weak market for all the by-products (the so-called 'fifth quarter'). However, there has been rapid growth in the market for leather goods and crafts in recent years, thanks to the implementation of a vigorous policy in the craft and tourist industries.

27. Under the Livestock, Poverty, and Growth Initiative (IEPC) covering 2002-04, the government has developed a sector strategy for livestock, with support from the World Bank and the FAO. The IEPC is aimed at modernizing the sector and intensify transformation efforts in order to "increase its contribution to national poverty reduction and growth objectives." In this context, the government has recently made sizable investments to modernize and expand the slaughterhouses in Ouagadougou and Bobo-Dioulasso (CSLP Report, 2003) in order to boost meat production and exports.

28. The diagnostic study will summarize these strategies and the real opportunities for the sustainable expansion of production and exports of the various livestock products. The study will examine the prospects for the success of meat export promotion policies in light of the cost of the investments required to improve storage facilities. Despite major advantages, Burkina Faso is experiencing size constraints with regard to expanding live animal production and exports. This is due to the traditional and extensive nature of production, problems with the professionalization of the operators in the subsector, and difficulties integrating and reconciling livestock development with agricultural development, as development in both sectors is extensive in nature, while good pasture land is becoming scarce. The work carried out under the IEPC will serve as a basis for these analyses.

29. **Oil seeds.** These include peanuts, sesame, and shea nuts. The shea nut is exclusively harvested in the wild, and Burkina Faso has the potential to produce 780,000 metric tons of dry kernels annually. There has been a sustained rapid development in production since devaluation, with an annual growth rate of about 7 percent. However, as it is not a cultivated crop, the possibilities for increased production are limited. In contrast, peanuts and sesame are cultivated crops that benefit from favorable weather conditions in Burkina Faso.

30. However, the oil seed subsector appears to be facing major constraints, specifically: (i) low level of professionalization of the operators and the export networks, (ii) the predominance of the informal sector in the processing of oil seeds; (iii) problems with product standards and sanitary conditions (CASEM 2005). The diagnostic study will examine this subsector in order to identify the constraints and gain a better understanding of the prospects for export expansion, in terms of both potential supply and global demand. The sector strategy notes and Action Plans on the oil seed subsector by the Ministries of Agriculture, and of Commerce (JITAP Project, ONAC, 2003) will serve as the documentary base for this review.

31. **Fruits and vegetables.** This sector was once considered extremely promising for Burkina Faso. Agro-climatic conditions are particularly favorable to production, and Burkina Faso had succeeded in penetrating the global market, including Europe, particularly for green beans.

However, performance in this subsector has been disappointing in recent years, and production and exports have declined, thereby reducing Burkina Faso's market share while those of other countries such as Kenya and Senegal have been increasing significantly. The performance of mango exports has been more encouraging, although it seems certain that at least part of the growth is due to the problems in Côte d'Ivoire and the diversion of Ivoirian mangos to Burkina Faso.

32. Preliminary analyses suggest that, as in the livestock and oil seed subsectors, there is a lack of competitiveness in the fruit and vegetable subsector in Burkina Faso. Specific production constraints include poor organization of the subsector, weak capacity, irregular production due to small-scale production, and competition from subsistence crops owing to the concerns of the people about food security. There are also more fundamental problems restricting the rationalization of units and technologies, particularly with regard to access to land and credit for large-scale cultivation. Marketing is constrained by the low number of destinations as well as by problems relating to standards and quality. The divestment of state interests in the subsector appears to have created some problems with its organization even as it resolved others. The lack of foreign investment may have restricted technology transfers and limited access to markets.

33. While competitor countries such as Senegal or Morocco modernized their production methods and expanded the areas under cultivation, Burkina Faso was satisfied with the status quo and, as a result, has been negatively affected by the drop in prices which usually accompanies an increase in supply (particularly with regard to green beans). In the case of mangos, Burkina Faso was unable to change the variety it produces in order to satisfy the changing preferences of European consumers. Moreover, the lack of facilities, such as packing stations, and the fragmentation of production made it impossible to come up with products that meet the high norms and standards of importers. Finally, Burkina Faso's position as a landlocked country appears to be a handicap, as this makes transportation more expensive, thereby making Burkinabe products less competitive than those from coastal countries, and increases export risks for perishable goods.

34. A recent study conducted by the GTZ (German Agency for Technical Cooperation) on the export possibilities for fruits and vegetables from Burkina Faso recommended that the country focus more on the export of processed products, such as dry or frozen fruits and vegetables that would be less adversely affected by the country's landlocked position. The diagnostic study will focus on this subsector, analyze the reasons why Burkina Faso has lost ground in this once-promising subsector, and suggest the appropriate way forward.

35. **Cereals.** Cereals are generally considered to be subsistence crops and not cash crops. However, success of the agricultural policy has led to self-sufficiency in 'normal' years and has already yielded surplus production available for export to the subregion. According to government estimates, cereal production exceeded demand in Burkina Faso by 500,000 to 1 million metric tons each year during the 2001-03 period, and a surplus at the top of this range is predicted again for 2005/06. Although there will always be years of drought, if production trends continue, increasing surpluses can be expected in coming years.

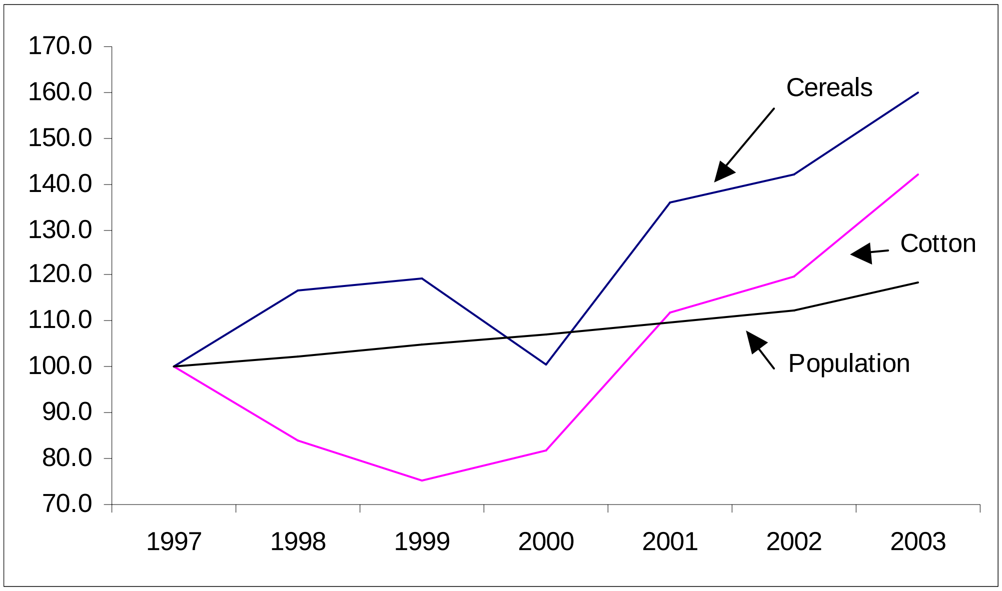
36. This development is of particular interest because it could have a significant impact on poverty. Far more households raise cereal crops than grow cotton, and many of these households are typically poorer. Burkina Faso has proved that this sector is capable of sustained growth, and there seems to be growing demand on the regional market. The crisis in Niger in 2005 was due in part to low supplies from Nigeria, which does not appear to be a temporary phenomenon. The development of cereals as an export sector could possibly integrate the majority of the rural populations into regional or international trade.

37. The issue of basic foodstuffs for the Burkinabè people is, to be sure, more complicated than the issue of fruits and vegetables. The government will always be concerned about the impact on availability at the national level, whether this is in terms of quantity or price. However, it must

also be acknowledged that export restrictions favor consumers at the expense of producers. An analysis of the relative poverty of each group needs to be conducted and used as a frame of reference for the appropriate policy.

Chart 1. Cereal and Cotton Production, and Population Growth

(1997 = 100)



38. Although the contrasting analyses of the main subsectors for the production of exportable goods are preliminary, they already underscore a number of important points: (i) the importance of global and regional market trends (in expansion or in stagnation/decline), (ii) the importance of the "integrated subsector" or "agro-industrial chain" approach, which has led to the success of the cotton subsector, and perhaps to the decline of the fruit and vegetables subsector, and (iii) the problems experienced by the private sector in replacing government services following the state's divestment. These important issues will be revisited in Core Component 4 on the institutional framework and the strategies for "structuring" the subsectors.

39**.** **Mines.** Currently, gold is the only nonagricultural export product of importance. However, official figures paint a different picture (see Table 4) because they refer primarily to "formal" activity. Burkina Faso's only large mine closed in 1998, and most of the production by small miners circumvents official channels. However, there is considerable production by small miners, with the total number of persons engaged estimated to be between 150,000 and 200,000. Approximately 500 kilograms of their annual production pass through official channels, but actual sales are perhaps ten times higher, and could therefore exceed US$50 million in value.

40. Unfortunately, the fate of these small miners is often deplorable, because their annual incomes are quite low and variable, working conditions are difficult, competition is fierce, and they are often completely dependent on buyers. Moreover, these miners are virtually nomads who follow new discoveries and do not have access to public services such as education, health, or potable water.

41. Small miners are, therefore, poor individuals who are already well integrated into global trade but who do not benefit significantly from this integration. While growth prospects in this field may not be enormous, far more attention will have to be paid to this sector to improve the quality of life of this large group of people who already make a contribution to it, and to ensure its

sustainability. The government has started this process with a World-Bank financed program that has just been completed. The DTIS will propose the next steps to be taken.

- ***Core Component 2: Increasing the productivity of key factors to build capacity for the production of exportable goods***

42. In turn, increasing the production of exportable goods requires increased capacity and production, in terms of quality, quantity, and cost. The foregoing review of the difficulties related to increased production in general, and increased production of exportable goods in particular, has highlighted a sizable number of "cross-cutting" constraints. CASEM 2005 provided a comprehensive listing of these constraints, which can be grouped into four major categories, including: (i) low physical and technical capacities on the supply side (arable land, small size of farmed lands, the low level of intensification and mechanization of production, limited facilities for storing, preserving, and processing products, etc.); (ii) limited human resources (poor organization and low level of professionalization of the stakeholders, and consequently, low productivity and lack of access to global markets); (iii) low cost-competitiveness (limited public services and high cost of infrastructure services such as transportation, energy, and water); and (iv) poor institutional framework (market organization, access to information and to foreign markets, limited public extension services and services supporting production and trade).

43. Easing these medium- and long-term constraints requires, on the one hand, investment strategies (physical and human capital, infrastructure) aimed at increasing factor volume and productivity, and, on the other hand, competitive strategies (trade policies, market access, institutional support, etc.) in order to build gain greater returns on these investments in promising subsectors thanks to regional and international trade. The investment aspects are examined in the subsections which follow, while the trade and development policies are examined in Core Component 3. The result of the Investment Climate Assessment, to be conducted in early 2006, will be very useful for this section of the study.

- **Investment and Productive Capital**

44. It is already widely acknowledged at the macroeconomic level that poor private investment levels and the inefficiency of public investment constitute serious obstacles to the diversification and deepening of growth in the countries of the subregion. In this respect, Burkina Faso has differed from the other WAEMU countries by having a relatively high level of investment (approximately 25 percent of GDP as opposed to the WAEMU average of 14 percent.) However, it is also true that much of the investment is public, and that overall efficiency is less than the subregional average (a capital-output ratio of approximately 5/1 as compared to 4/1). In terms of the outlook for export growth, the investment challenge can be addressed on three complementary fronts: (i) attracting private investment and foreign investment, (ii) channeling these flows toward the exportable goods sector, and, in so doing, (iii) supporting public investment.

45. At the subsector level, preliminary studies suggest that private investment is the key to unlocking physical and productivity constraints to the activation of promising subsectors. Indeed, preliminary discussions with exporters have already revealed that the main obstacles they face in their efforts to conquer and satisfy new markets come from the weak production capacity of often informal producers and from the unreliable supply which results. Investment is even more critical

in the case of activities to preserve and process products, which would allow Burkina Faso to handle a greater share of the value-added chain itself.

46. What limits the ability of producers to improve production techniques in order to enhance and "securitize" supply? To answer these questions, the diagnostic study will perform macro and sectoral analyses of investment. The study will analyze the structure of investment (destination by sector) as well as investment constraints, in particular financial ones. It will also examine the destination of foreign investment flows, especially in exportable goods subsectors. These analyses will be based on important work already carried out by FIAS for Burkina Faso.

Table 5: Annual FDI flows (in millions of U.S. dollars)

	1999	**2000**	**2001**	**2002**
Benin	61	60	44	41
Burkina Faso	**13**	**23**	**8.8**	**8.2**
Côte d'Ivoire	381	235	44	223
Guinea-Bissau	8.6	0.7	0.7	1
Mali	51	83	122	102
Niger	0.3	8.5	23	8
Senegal	136	63	32	93
Togo	70	42	63	75

Source: FIAS Report, 2004.

47. **Foreign investment**. Foreign investment is important for local investment, for transformation, and for growth. It not only brings financial resources in foreign exchange which facilitates the procurement of capital goods, but also provides a channel for the dissemination of new technologies and the conquest of export markets. The spin-off effects on local investment and growth have been documented in a number of studies.[17]

48. In this regard, it is evident that foreign investment in Burkina Faso is still very low when compared to the gains made by other countries as a result of the reforms and privatizations of the 1990s. It is possible that one reason for the decline of horticulture exports is the failure to attract foreign direct investment (FDI). The FIAS report provided a comprehensive stock-taking of the obstacles to foreign investment. These are mostly: (i) high start-up and transaction costs, notably for the establishment of businesses and the tax system; and (ii) institutional problems which cloud the general business environment. Above and beyond these aspects, however, there is also the central question of profitable opportunities and absorption of FDI in the countries of the subregion. The exportable goods sector and the possibilities for large-scale production for international or regional markets can offer FDI opportunities. The experience of Sub-Saharan Africa with FDI is peculiar when compared with that of the emerging Asian countries. The vast majority of FDI in Africa has been directed toward infrastructure—non-traded goods—as well as toward the mining sector (Pigato, 2000).[18] The share devoted to other exportable goods—agricultural or industrial—is still negligible when measured as a proportion of GDP. In contrast, the experience of the emerging countries of Asia (for example India, China, Malaysia) and North Africa (for example, Tunisia) confirms that the most significant and lasting gains in terms of the growth effect of FDI are found in the manufacturing sector, but also in large-scale agro-industrial production and export.

[17] See Pigato, World Bank (2000).
[18] Pigato, M. (2000) : Foreign Direct Investment in Africa: Old Tales and New Evidence, ARWPS 8.

49. It follows that Burkina Faso, like all the countries of the subregion, can encourage FDI flows by finalizing the reform programs in infrastructure privatization, but even greater gains are possible in the exportable goods sector, notably in the agro-industrial sector (textiles, fruits and vegetables, etc.). It is in the latter that large-scale production for international markets is a possibility, and this will justify significant investments and suitable partnerships between local producers and overseas investors.

50. **Public investment.** However, to support promising subsectors, it is also appropriate to adopt investment strategies that target them more directly. To this end, public investment should play a strategic role in creating conditions for the profitability of private investment and for foreign investment inflows. In this regard, available information shows worrying tendencies as regards the orientation and sustainability of the public effort. For example, public investment in the exportable goods sectors mentioned previously has dropped off considerably since 1996. Thus, in the 1996-1998 period for which detailed data are available, erratic tendencies or a scaling back in public investment can be observed (-11 percent a year on average for agriculture and -28 percent for livestock rearing, see Table 6). The diagnostic study will examine this question and assess the extent to which public investment is consistent with the objectives of diversifying the economy and promoting export growth.

Table 6: Public investment in Burkina Faso, 1991-1998

(in millions of CFA francs)

Area of investment	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Agriculture+Livestock	13,650	20,820	16,570	16,840	23,240	18,620	20,320	14,370
Growth (%)		*52.53*	*-20.41*	*1.63*	38.*00*	*-19.92*	*9.19*	*-29.28*
Agriculture	13,320	20,310	16,090	16,210	22,130	16,790	18,500	13,430
Growth (%)		*52.48*	*-20.78*	*0.75*	*36.52*	*-24.13*	*10.18*	*-27.41*
Livestock rearing	330	510	480	630	1,110	1,820	1,820	940
Growth (%)		*55.55*	*-5.88*	*31.25*	*76.19*	*63.96*	*0.00*	*-48.35*
Total Public Invest-ment Program (PIP)	65,140	78,170	72,050	85,210	94,660	12,6430	151,100	162,510
Growth (%)		*20.00*	*-7.83*	*18.27*	*11.09*	*33.56*	*19.51*	*7.55*
Agri+Livestock/PIP	20.96	26.23	23	19.76	24.55	13.12	13.44	8.84

Source: CAPES (2003).

❑

➢ **Infrastructure services and transaction costs**

51. Along with the costs of primary inputs, the costs and quality of infrastructure services constitute the principal determinants of production and marketing costs. Several studies have already established that the costs of infrastructure services in Burkina Faso are among the highest in the subregion. This is particularly the case for the services most critical to production (energy and water) and trade (transport). For example, Table 7 indicates that the cost of water is almost four times higher in Burkina Faso than in Mali and Niger, two countries in the same "landlocked' Sahelian area. Similarly, energy is 36 percent more expensive for industries in Burkina Faso than in Mali. The differences in transportation costs are equally alarming. For example, the average cost of local road transport in Burkina Faso is 65 percent higher than in Mali.

Table 7: WAEMU, factor costs in 2000

Factor	Unit	Burkina Faso	Benin	Côte d'Ivoire	Mali	Niger	Senegal	Togo
Water	CFAF/m3 for 100 m3	**1,206**	293	396	315	386	614	257
Road transport	CFAF/km	**55**	34	31	34	42	34	32
Freight (Europe)	CFAF/kg	**5,750**		5,350			5,350	
Electricity (industrial)	CFAF/kWh	**110**	45	36	81			
Telecommunications (WAEMU-EU)	CFAF/min	**780**	475	535		700	424	600

Source: FIAS, 2004; WAEMU, 2004.

Table 8: Burkina Faso, transport costs as a percentage of cost price (1999)

Export products	**Cost price (c.i.f., CFAF/kg)**	**Transport costs as a percentage of cost price (%)**
Fruits and vegetables		
- Mangoes (air, Europe)	770	88.4
- Mangoes (ship, Europe)	486	82.1
- Green beans (air, Europe)	1065	71.1
Oil seeds		
- Groundnut (truck, Abidjan)	177	35
- Sesame (Europe)	246	50.3
- Shea nut (Europe)	126	65.6
Other products		
- Cotton (Bangkok)	630	25
- Sugar	379	48.7
Livestock products		
- Cattle (CFAF/head)	142,800	15.4
- Meat (CFAF/kg)	1,128	29.4
- Leather and hides (CFAF/kg)	1,494	16.5

Source: Study on facilitating trade in agricultural products, Logistic Consulting Group, 1999.

52. As a result, the relative weight of infrastructure costs in the cost price of important sectors in the economy is high, notably for perishable goods regarded as export and growth vectors. For

example, transit costs[19] represent 88 percent of the c.i.f. cost price for mangoes, 70 percent for green beans, 65 percent for shea nuts, and 30 percent for meat.

53. The study will investigate the reasons for these comparatively high costs. It will focus on analyzing three services which seem to be the most essential to both production and marketing. These are: (i) energy, (ii) water; and (iii) transportation, especially by road. Preliminary analyses and various consultations with operators indicate that these services are the most constraining and have the most potential to reduce costs and increase the marketing and production capacity of the economy. Moreover, an assessment will be conducted to determine which services are the most crucial for the insertion of rural populations and the poor into the economy, and hence for having growth lead to poverty reduction.

54. **Energy**. The high cost and low capacity of electricity in the two large activity zones, Bobo-Dioulasso and in particular Ouagadougou, constitute a bottleneck for the introduction of food preservation services (for example, cold storage for fruits and vegetables) as well as for agro-food processing industries. The high costs are attributable to the fact that a substantial share of electrical power is produced at thermal power plants, and thus uses imported fuel. However, even in the Bobo-Dioulasso area which is largely supplied by electricity from connections with Cote d'Ivoire, the costs are just as high. This is the result not only of a national "price equalization" policy for energy, but also of the stated policy of the electricity company (SONABEL) which charges relatively high prices in order to finance the investment necessary for further expansion of the interconnected grid. In this context, the expansion of interconnections between Ferkessedougou-Bobo-Dioulasso to Ouagadougou on the one hand, and Ghana-Pô to Ouagadougou on the other hand, will help ease capacity constraints and reduce energy costs in the Ougadougou area and, through the price equalization policy, to the population as a whole.

55. The DTIS will take stock of the various sectoral studies on the energy strategy and of the recommendations made to speed conclusion of the interconnections in order to increase supply and reduce cost of electricity in Burkina Faso. The other important issue—the improvement of transportation services—will be addressed in the section on trade facilitation policies (Core Component 3).

56. **Water**. The management of water resources—resources essential to the development of agricultural production and exports—is given special attention in the PRSP. Indeed, the development of agricultural irrigation is written directly into the national sustainable development strategy. To this end, the PRSP envisions simultaneously educating the people about proper use of the resource, which is scarce in the Sahelian region, including by: (i) establishing a water information system; and (ii) education and public awareness efforts aimed at promoting the rational and economical use of water resources. The CSLP also calls for the creation of an institutional framework for water management by developing procedures for implementing the laws and regulations regarding water. However, beyond these special efforts, Burkina Faso does not appear to have a sectoral strategy for the development of water resources in order to increase and stabilize agricultural production. The DTIS will revisit this question and make appropriate recommendations.

[19] These are the costs relating to the transport, logistical, administrative, customs, banking, tax, and data processing operations that are necessary for the merchandise to effectively reach its destination.

- **Human capital**

57. Improving the international competitiveness of the Burkinabe economy requires a greater investment in human capital as well as greater flexibility in wages, working conditions, and labor productivity in order to reduce the unit cost of labor. The various studies on the question indicate that, in comparison with other countries in the subregion, the human capital stock is still weak and wage costs relatively high. The weak contribution of human capital results from two major problems relating to the education and development of the workforce: (i) the low adult literacy level and the low rates of primary and secondary education; and (ii) the high level of underemployment of workers, even skilled workers, because of low level of production, particularly in the modern sector.

58. Comparative analyses show that the average worker has the equivalent of 1.12 years of schooling, compared to averages of 2.64 years for Senegal and 2.04 years for the subregion. While universal primary and even secondary education are government priorities, as articulated in the PRSP, it is evident that progress in these areas has fallen short of the stated objectives.

59. The volume and productivity of human capital depend not only on formal education but also on workers' years of experience. Here, the high level of underemployment in agriculture, as well as in industry and trade, constitutes a major obstacle to drawing the greatest benefit from labor and to improving the productivity of human capital in Burkina Faso. The sheer size of the informal sector and the weak organization and low degree of professionalization in the subsectors also constitute impediments to swift improvement in the human capital stock and the contribution it makes to growth.

60. It also bears noting that wage costs in Burkina Faso are relatively high in relation to the average level of income and when compared to those of other countries in the region. With low productivity and high wage costs, unit labor costs in Burkina Faso are also relatively high. This constitutes a significant obstacle to competitiveness, especially for export-oriented subsectors.

61. The DTIS does not contemplate undertaking new analytical work on the classical aspects of developing human capital (education, health, etc.) in Burkina Faso. Comprehensive strategies for this have already been developed and implemented in the PRSP with regard to education and health, the two sectors with the greatest impact on the accumulation of human capital. The DTIS will set out a brief review of the gains made under these strategies, emphasizing the areas of greatest relevance to the subsectors producing exportable goods. A significant proportion of the analysis in this area will be devoted to human capacity building through alternatives to formal education (professional training, information and supervision, professionalization of industries, etc.)

Core Component 3: Strengthening trade and export promotion policies

62. The problems of physical and human capacities, as well as the concomitant problems with competitiveness (productivity, factor costs, and the costs of infrastructure services) could be largely attenuated by investment policies. Beyond these problems, export promotion in Burkina Faso faces another group of constraints and challenges, notably the quality of regional and international trade policies, and of the policies targeting export promotion.

- **Trade policies in the context of regional integration**

63. Burkina Faso belongs to two regional blocs, the WAEMU and ECOWAS.[20] The WAEMU is already a customs union with a common currency (CFA franc) and strives to achieve economic union (macroeconomic, trade, financial, infrastructure services, and labor market integration, etc.). The larger ECOWAS also envisions evolution toward this objective, although for now it is only a free trade area, with duty exemption for products originating in the region. A common external tariff (CET) based on that of the WAEMU is currently being negotiated. Burkina Faso's trade strategies are thus determined primarily by the trade agreements of these groupings. As a landlocked country, it would be altogether normal for a substantial proportion of its trade to be with neighboring countries. Burkina Faso should therefore judiciously take advantage of these arrangements to enhance its competitiveness and increase its exports. The first step is vigorous implementation of regional free trade and trade facilitation policies, removing tariff barriers and other obstacles to trade with it neighbors.

64. **The CET/WAEMU regime.** Burkina Faso and the WAEMU Member States have established a CET as a coordinated effort to reduce tariff and nontariff barriers in order to unify the WAEMU area and open it further to the global economy. Instituted in 1996, the CET was supposed to be implemented by 2001 by all the countries of the subregion. The targeted objective is gradually to reduce average import tariffs to about 12 percent, and to eliminate tariffs on products satisfying the regional "rules of origin."

65. The effective implementation of the CET and the other measures to eliminate nontariff barriers will contribute considerably to reducing trade and import costs, thereby promoting competitiveness and the production of exportable goods. This freeing of markets should favor a shift in resources away from the production of import substitutes toward the production of export products. Simplification of tariff arrangements should also enhance transparency and reduce abusive practices on the part of customs officers. There may be forgone revenue in the short term; however, the gains to consumers and exporters can more than offset these losses in the long term.

66. In this regard, and nearly a decade after the adoption of the CET, there is still no solid evidence of the net effect that implementing the CET and the associated measures has had on the effective level of protection for Burkina Faso. Certainly, simple average tariffs have been reduced compared to the previous tariff structures, but the little evidence available suggests that the reduction may still fall short of the objectives initially sought. This is a result of various surtaxes in Niger (Import Verification Fee), in Côte d'Ivoire (Special Fax on Oilseed Plants), and in Togo (Data Processing Fee). Only Benin and Burkina Faso appear to have set limits and followed both the spirit and the letter of the WAEMU's tariff reduction policy. And non-tariff barriers persist throughout the region.

67. The DTIS will reconsider this important question of the effective implementation of the WAEMU's tariff reduction policy by Burkina Faso and its neighbors in order to assess its impact in terms of changes in effective protection rates. Lessons will be drawn for Burkina Faso in terms of actions and with a view to export promotion. Recent studies on CET implementation in the countries of the region (BNETD, 2004) will be used, and these will be supplemented by similar analyses of Burkina Faso based on customs statistics.

[20] The West African Economic and Monetary Union (WAEMU) is comprised of eight countries, including seven from French-speaking West Africa (Benin, Burkina Faso, Côte D'Ivoire, Mali, Niger, Togo, and Senegal) and Guinea-Bissau. The Economic Community of West African States (ECOWAS) includes all the WAEMU countries as well as Ghana, Cape Verde, Guinea, the Gambia, Liberia, Nigeria, and Sierra Leone.

68. **The case of EPAs.** Burkina Faso is one of the 77 ACP (African, Caribbean, and Pacific) countries which signed the Cotonou Agreement with the European Union (EU) in 2000. This calls for the negotiation of new Economic Partnership Agreements (EPAs) to bring the EU's earlier unilateral preferential trade arrangement for ACP countries into line with WTO rules. It embraces a broader view of economic and social development based on the pillars of trade, development assistance, and the strengthening of democratic institutions.

69. EPAs will have two obvious impacts on Burkina Faso and its region, in addition to several other potential costs and benefits. First, the introduction of reciprocal free trade with the EU, which accounts for 45 percent of Burkina Faso's imports, will certainly have an impact on tax receipts and on the national industrial fabric. Reciprocity will lead to direct customs revenue losses on imports from the EU estimated at 5 percent of tax receipts. Added to this will be the indirect revenue effects arising from the diversion of trade from third countries to the EU. Second, local industry will experience heightened competition from European imports. What impact will this have? Will it mostly be the loss of market share by the most industrialized ECOWAS countries? What will be the requirements and possibilities for an "upgrading" of production structures within the context of the development assistance offered by EPAs? The DTIS will examine the implications of these two effects.

70. **Market access problems**. Beyond tariff policies, a number of constraints limit Burkina Faso's ability to take advantage of existing preferential arrangements. For example, the very strict standards applied in the markets of the Quad countries (Canada, the United States, Japan, and the EU), particularly with regard to agricultural products (such as fruits and vegetables, and livestock products), represent a significant non-tariff barrier for Burkina Faso. In certain cases, and notwithstanding the fact that average tariffs are low, some products fall victim to tariff peaks in Quad markets (for example, de-boned beef in Japan). Finally, weak administrative capacities faced with the complexity of certain "preferential" regimes, particularly as regards rules of origin and standards, hamper the ability of Burkina Faso and the countries of the sub-region to take advantage of these opportunities—for example in the case of the African Growth and Opportunity Act (AGOA) or the European Everything But Arms (EBA) initiative. The DTIS will examine these questions, paying particular attention to the problems of standards and institutional capacities referred to later ("Core Component 4").

- **Trade facilitation**

71. Increasing the volume of trade in general and exports in particular requires that the national territory be connected to the rest of the world by a functional transport network. As noted earlier, transport costs account for a significant proportion of production costs and effect both the profit margin and the sale price. This makes high trading costs an obstacle to exports, particularly in the case of a landlocked country like Burkina Faso.

72. Burkina Faso's trade facilitation policies take three forms; two of which are focused on transportation issues: (i) regional and international management of transit issues; (ii) policies geared toward improving national transportation; and (iii) the effectiveness of customs procedures.

73. **Managing transit issues**. Prior to the disruptions following the Ivorian crisis, the Abidjan seaport was the most economical for Burkina Faso's international trade. Since 1904, Ouagadougou and Abidjan have been linked by a 1,200 kilometer railway, and it was the first in Africa to be privatized - in the 1990s. Two-thirds of trade passed through Abidjan, with the remainder passing essentially through Lomé, Togo and to a far lesser extent through Ghana or Benin. Since 2003,

Burkinabè traders have sought alternative transport routes, which has led to significantly higher costs (approximately 43 percent higher for 2TCx20 containers, according to estimates in the 2004 CSLP). Generally, transportation costs have been particularly affected by travel conditions throughout the sub-regional corridors. To address these issues, the WAEMU developed a regional transport scheme (Inter-State Road Transit—TRIE). Unfortunately, the lack of harmonization, cumbersome procedures, and fees are hampering its operation.

74. **National transport policies**. Burkina Faso is a relatively large country (250,000 km^2) and most of its exports originate from the rural areas. The question of merchandise transport can thus not be reduced to the link between the major cities, Ouagadougou and Bobo-Dioulasso, and the rest of the world. Improving trade requires a good national transport network to connect the centers of production, especially in rural areas, to the regional corridors. This is a prerequisite to enable the majority of the population to contribute to trade and reap its benefits. To this end, with help from donors, Burkina Faso has prepared and implemented an ambitious transport development policy (Priority Transport Sector Program—PPST) which has made it possible to expand the network considerably.

75. **Customs procedures**. The customs service is also an important component of trade facilitation and typically constitutes one of the major constraints affecting trade integration and the improvement of export sector performance in developing countries. In the case of Burkina Faso, customs also manages transit trade to other landlocked countries such as Mali and Niger. A number of trade facilitation measures have been adopted in the WAEMU framework, notably a regional customs code.

76. The study will take stock of Burkina Faso's situation in terms of the cost and effectiveness of transport services and the administrative procedures associated with regional and international trade. The study will make a quantitative and qualitative assessment of the national transport network (the size of the network—road, rail, etc., as well as the condition of the infrastructure and services). Particular attention will be devoted to the main connections between the production centers and international transport routes. Finally, the study will prescribe actions aimed at eliminating the bottlenecks identified. In particular, these will include institutional and policy reforms, measures to facilitate greater private sector participation in transport services, and the introduction of modern information and communication technologies in the transport and trade sectors.

- **Strategies geared toward export promotion**

77. As a reflection of its determination to encourage exports, the government has introduced a package of measures targeting the subsectors engaged in exporting. Some involve tax incentives, others financing mechanisms, as well as support services such as standards and quality norms and improving market access. Above and beyond the appropriateness of these policies, what is most important is the extent to which they are efficiently implemented.

78. **Tax incentives**. As part of the implementation of adjustment programs in the early 1990s, the government liberalized foreign trade. In particular, export taxes were eliminated and the implementation of the CET endeavored to reduce import duties and taxes. Moreover, special steps were taken to ease the cash flow problems being experienced by export enterprises. Enterprises re-exporting at least 20 percent of final production benefit from temporary suspension of customs duties and taxes on imported intermediary inputs. Other incentives are set out in the December 1995 investment code for export enterprises. New enterprises focusing on exports enjoy a privileged regime, in particular exemption from customs duties and taxes on construction materials,

raw materials, capital goods, and spare parts. They also benefit from full and permanent tax exemption, but must pay the business profits tax (*Impôt sur le benefice industriel et commercial*—IBIC), which has also been reduced by 50 to 75 percent (CAPES 2003). The study will conduct a review of these incentives and will examine: (i) the relevance of these measures; (ii) their degree of implementation; and (iii) the incentive effect from the standpoint of exporting enterprises.

79. **Public services in support of exporters**. The creation of enterprises, the identification and possible penetration of new export markets, and the facilitation of financing have prompted the State to create a set of support services, directly or through public or mixed structures. Before the period of structural reforms, the government used the integrated subsector approach structured around state enterprises to promote diversification and exports. With the withdrawal of government from production activities, some subsectors (as in the case of fruits and vegetables) were abandoned, contributing to declining production and exports. In the context of private sector development and export promotion strategies, the government has put new structures in place which are more autonomous and adapted to the liberalized and competitive economy, and which are geared toward assisting operators engaged in investment and exports. Noteworthy in this regard are: (i) the establishment of the *Centre de Guichet Unique ("One-Stop Center")* which covers at one location all the formalities required for exporting; and (ii) the *Trade Point du Burkina Faso* for export facilitation, which has a sizable computerized information base on markets, procedures, and so forth. Both are located at the National Foreign Trade Office (ONAC) which has been in existence since 1974.

80. Harmonization of norms and standards. Market access—in wealthy countries in particular—requires not only the ongoing ability to respond to demand, but also to conform to norms and standards which are becoming more and more demanding, particularly for agro-industrial products. In view of these requirements and because of poor preservation, conditioning, and processing networks, Burkina Faso has encountered serious difficulties in consolidating its markets, notably for perishables such as fruits and vegetables, meat, oilseeds, etc. It is with this in mind that, alongside its transformation policies, the government has worked with the WAEMU to create and standardize norms for Burkinabe products. A national organization (FASONORM), also based at ONAC, was created to this end and given the mandate to regulate, promote, and certify the quality of these products. The organization also assists Burkinabe exporters with accessing information on the prevailing standards in importing countries and provides them with training on complying with them. According to UNIDO (2004), this information gap was often identified by producers as a major obstacle to exporting.

81. Ministerial or semi-public support structures for commerce can play an important role in supporting the private sector and the promotion of exports. Unfortunately, in a number of developing countries their impact has been minimal. In this regard, the DTIS will examine the functions, capacities, and achievements of ONAC. The review will be extended to the Burkina Faso Enterprise Office (Maison de l'Entreprise) and the Chamber of Commerce, Industry and Crafts of Burkina Faso (CCIA-BF). The DTIS will review these arrangements with a view to answering the following key questions: (i) What is the relevance of these instruments to the expectations and needs of operators and market demands? (ii) To what extent are these measures effective and actually implemented by the authorities? A small user survey may prove necessary. These analyses should lead to recommendations for strengthening the institutional support framework for trade promotion in the new context of liberalization and promotion of the private sector.

- **Toward an export development strategy in the CSLP**

82. To meet a major challenge in a sustained manner, the State must have (i) an integrated strategy and (ii) an administrative structure serving as an anchor which is responsible for implementation and follow-up. The challenge of universal education required a sectoral strategy for primary education and the strengthening of the Ministry of Basic Education and Literacy, which constitutes a priority axis of the CSLP. Burkina Faso can learn important lessons from its success in the cotton subsector and from the disappointments in the fruit and vegetable subsector. It is essential to have an integrated approach to export development in general, as well as for its various subsectors, and to have structures capable of framing the process. By extension, the Burkina Faso Government should translate its "desire" to promote exports as an engine for diversification and equitable growth into (i) a "sectoral strategy" integrated into the CSLP, and (ii) a mandate to an administrative structure to implement this strategy.

83. Given the magnitude of the challenge, disparate policies caught up in other sectors may not suffice to bring export levels to the amount targeted in the CSLP. The absence of a strategy that is cohesive with the other components of the CSLP seems inappropriate. As noted by the local think tank, CAPES, "the export problem is not explicitly articulated" in the CSLP, which has more of a "growth," "employment", and income improvement focus. Yet such a small country will inevitably depend on trade for a significant share of its growth and employment, and the success of the cotton sector proves it can be done.

84. Concern for exports has resurfaced with the CSLP but it is subsumed in other sectoral strategies, in particular in the policies on diversifying the sources of growth and developing the private sector. The "export" perspective can structure/reorient/prioritize the diversification and growth strategy by anchoring it in the realities of the regional and global markets, which are so much large and more lucrative, but also more demanding. The DTIS will discuss the desirability of and pre-conditions for a "sectoral trade strategy" as a cornerstone of the CSLP.

85. The preparation, execution, and follow-up of a strategy require a clear and stable institutional base. The government traditionally entrusted these responsibilities to a relatively powerful Ministry of Commerce which also had responsibility for the conduct of structural adjustment programs. However, with a multiplicity of points for decision-making and strategy development/execution—Ministry of Economy and Development, Ministry of Finance, Ministry of Integration, etc.—responsibilities can be diluted, reducing the effectiveness of trade policy implementation. Thus, the development of a trade strategy by the Ministry of Commerce could assist the Government.

86. However, the government may also need an inter-ministerial structure with support at the highest political level in order to ensure collaboration between ministries and effective problem-solving. One can cite the example of Tunisia and the High-Level Council for Exports and Investment (CSEI), which is chaired by the President of the Republic. The DTIS will examine the history of export promotion policies in Burkina Faso and will propose some institutional changes to strengthen implementation in the future.

4. Implementation of the study

87. **Objectives.** The role of the diagnostic study is to help the government organize these diverse elements into an integrated framework made up of complementary policies and programs which work together to increase growth by expanding foreign trade. Ultimately, the DTIS should enable the government to devise a genuine sectoral trade strategy for the CSLP, structured around export promotion as one of the essential pillars of equitable growth. The DTIS should also give the government a framework to establish priorities and sequence its interventions and those of its development partners in the implementation of the CSLP.

88. **Substance**. The substance and structure of the study flow from the preceding review of the "Core Components" for trade integration in Burkina Faso. See Annex 1 for the proposed outline of the study.

- First, a stock-taking of Burkina Faso's performance in terms of development objectives, particularly growth, poverty, and foreign trade, will be presented. In addition, this section will explore the apparent links between trade, growth, and poverty reduction, as a guide to subsequent prioritization.

- In a second part, a review of the core components for trade integration will be conducted:

    a. What are the "vectors" for achieving diversification of the economy and increased production of exportable goods, and what are the competitive strengths of Burkina Faso in these sectors in the regional and global contexts?

    b. What are the main cross-cutting constraints on building capacities in those sectors in the medium and long terms (physical and human capital, and infrastructure, in terms of quantity, quality, and costs), and what are the prospects for development of these factors given the investment policies of the government set out in the CSLP?

    c. Which global or targeted policies does the government intend to use to foster competitiveness and international trade (regional and global trade strategies, targeted measures and institutional supports, etc.)

    d. How is it possible to ensure that, beyond trade promotion and the intensification of growth, the strategies promote job creation and income generation for the majority of the population, and thereby to poverty reduction?

- A final section will address institutional aspects and the making the Integrated Framework operational: How can these policy components be reflected in a cohesive sectoral strategy and plan of action in the CSLP, and how can effective implementation be ensured?

89. **Documentation.** As previously noted, many analyses have been conducted on almost all of these areas. The study will therefore begin with available documentation and information as a base, and then concentrate largely on "prioritization" and "operationalization" aspects. However, additional analyses are necessary in certain key areas, including the fruit and vegetable subsector, the oilseed subsector, trade facilitation, and the institutional framework for export promotion. In-depth research must therefore be performed out in these areas. The participation of international consultants will be sought in this connection.

90. **Government/World Bank cooperation.** This study will be carried out jointly by the relevant technical units of the government and the World Bank. This will enable both parties to develop a common understanding of the problems associated with foreign trade in Burkina Faso, and the recommendations of the study will be transformed into a plan of action and implemented in the CSLP. The Competitiveness Committee will serve as the steering committee for the study and will facilitate its drafting, review, and adoption by the concerned ministries, and the government as a whole. This Committee is the obvious choice as it was established to design and implement private sector development strategies for the Government. Collaboration with this structure will also serve to reinforce the World Bank project under which it was created. The Competitiveness Committee includes all relevant ministries involved in exports, including the Directorate of Trade and Private Sector Promotion (Ministry of Commerce), the Directorate-General of Economy and Programs (Ministry of Economy and Development) – which includes the CSLP Permanent Secretariat – the Ministry of Finance, the Ministry of Agriculture, and the Ministry of Animal Resources. Structures designed to support trade and the private sector are also involved, in particular the Maison de l'Entreprise and ONAC, as are private sector associations.

91. Analytical work will be directed by several members of the Steering Committee who will have both the time availability and skills necessary for this task, working in close collaboration with the team of national and international consultants. They may be brought to Washington or another site conducive to intensive team work and writing of the report, free of their usual responsibilities. As a result, the document will be the fruit of participatory work between the government team and the team of external consultants, including support personnel from the World Bank.

92. The product will be reviewed by the World Bank and the other Integrated Framework Program partners. The Competitiveness Committee will assume the task of getting the study validated and releasing the results and recommendations. The process will be supported by the European Union as principal donor, as they chair the group of donors concerned with private sector development in Burkina Faso, and by the German agency, GTZ, which chairs a similar group of donors focused on rural development.

Study Team

- **Government members**

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David Wilcock, consultant (agriculture)
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Peer Reviewers

Dirck Stryker (AIRD)
Patrick Labaste (IBRD)

Timeline

1. Identification mission	March 2005
2. Preparatory mission	June
3. Second preparatory mission	October
4. Review of Concept Note	December
5. Main mission	January 23 – Feb. 3, 2006
6. Draft consultants' reports completed	end February,
7. Meeting of writing team	mid-March
8. First draft of DTIS	early April
9. Government review	April
10. Bank and IF Agencies' review	May
11. Action Plan finalization workshop	June
12. Validation workshop	September

ANNEX 1: Proposed Outline for the Diagnostic Trade Integration Study for Burkina Faso

Executive Summary

Matrix of Actions

Part I: Stock-taking

2. Context and recent economic trends
   a. Context and challenges
   b. Profile and sources of growth
   c. Profile and dynamics of poverty
3. Trade, growth, and poverty
   a. Structure and performance of foreign trade
   b. The dynamics of trade, growth, and poverty

Part II: Diversifying the Production of Exportable Goods

4. Agro-industrial subsectors
   a. Cotton and derivatives
   b. Oilseeds
   c. Fruits and vegetables
   d. Livestock products
   e. Cereals
5. Nonagricultural subsectors
   a. Gold and other mining products
   b. Tourism, cultural and other services
   c. Crafts

Part III: Building Capacities for the Production of Exportable Goods

6. Investment and the business climate
   a. The regulatory framework
   b. Private and foreign investment
   c. Financing investment and trade
7. Infrastructure and support services for production and commerce
   a. Energy
   b. Water
8. Human Capital
   a. Basic education
   b. Vocational training

Part IV: Improving Trade Policies and Strategies

9. Regional and multilateral policies
   a. WAEMU and ECOWAS trade regimes
   b. Preferential agreements (AGOA, TSA, Cotonou, EPA)
10. Trade facilitation
   a. Transport
   b. Customs
   c. Transit
10. Targeted export promotion policies
   a. Tax incentives
   b. Market access facilitation services
      i. Standards and quality issues

    ii. Strategies for identifying and penetrating new markets

11. Inclusion policies to strengthen poverty reduction effects
    a. Export promotion and rural development strategy
    b. Export promotion and urban strategy
    c. Export promotion and opportunities for women

Part V: Strengthening the Institutional Framework

12. The institutional framework
    a. Directorates within the Ministry of Commerce
    b. Institutions supporting foreign trade (ONAC, Chamber of Commerce, Maison de l'Enterprise, etc.)
    c. Private organizations of producers/exporters
13. Institutionalization of a sectoral strategy for export promotion in the PRSP
    a. The DTIS, the Integrated Framework, and the PRSP
    b. Toward implementation

Annexes:

14. Summaries of sectoral strategies and supplementary analytical studies
15. Statistical tables

Annex 2: Burkina Faso: Economic growth, 1998-2003

	1997	1998	1999	2000	2001	2002	2003	98-03 Average
				(Ratio, as a percentage of GDP)				
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Primary Sector	**34.4**	**37.0**	**37.5**	**35.8**	**38.5**	**37.7**	**38.7**	**37.5**
Agriculture	18.2	20.8	20.5	18.5	21.9	21.2	23.0	21.0
Livestock	12.0	12.1	13.1	13.2	12.7	12.7	12.1	12.6
Fishing and Forestry	4.3	4.1	4.0	4.1	3.9	3.8	3.7	3.9
Secondary Sector	**17.1**	**16.3**	**15.4**	**16.3**	**15.4**	**16.8**	**17.1**	**16.2**
Manufactures	12.4	12.4	11.0	11.5	10.9	11.9	12.3	11.7
Electricity, Gas, and Water	0.5	0.6	0.6	0.8	0.7	0.9	1.0	0.8
Construction and Public Works	4.3	3.4	3.8	4.0	3.8	3.9	3.9	3.8
Tertiary Sector	**41.3**	**39.8**	**40.5**	**42.4**	**40.6**	**40.3**	**39.4**	**40.5**
Trade	10.2	9.0	7.5	7.8	7.5	7.6	7.5	7.8
Transportation	5.8	6.1	6.2	6.9	6.7	6.7	6.6	6.5
Nonmarket services	16.5	15.5	17.1	16.8	16.1	15.5	14.7	15.9
Other services	8.7	9.2	9.7	10.9	10.4	10.5	10.6	10.2
Indirect taxes and fees	7.2	6.9	6.5	5.5	5.5	5.2	4.8	5.7
				(Percentage growth)				
Gross Domestic Product	**6.8**	**8.5**	**3.7**	**1.6**	**6.8**	**4.6**	**8.0**	**5.5**
Primary Sector	**-3.7**	**16.6**	**5.3**	**-3.2**	**15.0**	**2.4**	**10.8**	**7.8**
Agriculture	-11.5	24.5	1.9	-8.1	26.5	1.0	17.1	10.5
Livestock	8.1	9.6	12.2	2.5	2.5	4.8	2.5	5.7
Fishing and Forestry	3.6	2.8	2.0	3.0	3.0	2.5	3.5	2.8
Secondary Sector	**20.2**	**3.6**	**-2.2**	**7.7**	**0.4**	**14.1**	**10.4**	**5.7**
Manufactures	21.2	5.0	-7.3	6.0	0.9	14.7	11.4	5.1
Electricity, Gas, and Water	18.5	31.1	4.9	29.3	-1.0	35.2	10.9	18.4
Construction and Public Works	7.5	-4.8	15.2	8.9	-0.5	8.3	7.4	5.7
Tertiary Sector	**10.9**	**4.5**	**5.7**	**6.2**	**2.4**	**3.7**	**5.5**	**4.7**
Trade	-2.2	-4.3	-13.1	5.3	2.7	5.2	6.7	0.4
Transportation	21.3	13.1	6.4	13.1	2.7	5.2	6.7	7.9
Nonmarket services	14.8	1.6	14.7	-0.6	2.7	0.7	1.9	3.5
Other services	14.8	14.7	8.3	14.3	1.8	6.1	9.2	9.1
Indirect taxes and fees	12.1	3.6	-1.4	-13.8	5.4	0.0	-1.1	-1.2

Source: "Poverty Assessment," Burkina Faso.

ANNEX 3

INTEGRATED FRAMEWORK
FOR TRADE-RELATED TECHNICAL ASSISTANCE
TO LEAST DEVELOPED COUNTRIES

(The IF)

Objective of and Participation in the IF Program

- Inaugurated in 1997 by six core agencies: IMF, ITC, UNCTAD, UNDP, WTO, and World Bank. A number of multilateral and bilateral donors also participate in the program.

- The IF is a multi-agency multi-donor program aimed to coordinate technical assistance to the least developed countries (LDC) to assist them in enhancing their trade opportunities. Its main objective is to assist LDCs to identify the main barriers to expansion of trade and provide trade-related technical assistance in a coordinated way to remove these barriers.

- This will be achieved by assisting LDCs in mainstreaming trade priorities into their national strategies such as Poverty Reduction Strategy Programs (PRSP) and building their capacity to formulate trade policies, to negotiate trade agreements, and to tackle supply-side challenges in responding to new market access opportunities.

- Strong country ownership and commitment, and an effective participatory process, which brings together all stakeholders in the government (Ministries of Trade, Finance, Planning, Agriculture, etc), outside the government (private sector, civil society), and in the donor community, are essential for the success of the IF.

Stages of the IF Process

- Preparation phase. This would include: an official request from the country to participate in the IF process; a technical review of the request prepared by the World Bank and considered by the Integrated Framework Working Group in Geneva (IFWG); and a pre-DTIS mission to the country to lay the groundwork for the IF process, to discuss the scope of the diagnostic study with all stakeholders, and agree on a timetable for processing of the IF.

- Diagnostic phase. A Diagnostic Trade Integration Study (DTIS) prepared by a group of international and local specialists in collaboration with all stakeholders. Normally, the preparation of the DTIS is led by the World Bank. Typically, the DTIS includes a review of country's trade policies and performance, an analysis of selected sectors with export potential, identification of main constraints to expansion of trade, and recommendations for policy reforms to remove these constraints. The DTIS also includes an Action Matrix spelling out the policy recommendations of the DTIS and priority technical assistance needs. The DTIS and the Action Matrix are discussed and validated by all national stakeholders, donors, and IF agencies during a National Workshop and revised in light of these discussions. The final Action Matrix is approved by the Government.

- Implementation phase. After the approval of the Action Matrix, the trade policy priorities are incorporated into the country's PRSP or PRSP progress report. A donor meeting is held to secure financing of the technical assistance needs identified in the Action Matrix and integrate them into donors' assistance programs. Implementation of the IF and interactions with donors is a continuous process. Some of the technical assistance projects can be financed from the Integrated Framework Window II funds (see below).

Funding of the IF Program

- An IF Trust Fund was established in 2001 to finance the IF Program. Contributions have been pledged by both multilateral and bilateral donors towards the fund. The IF Trust Fund is managed by UNDP on behalf of donors.

- The IF Trust Fund has two finance windows operating simultaneously. Window I funds are used to finance the preparation of diagnostic studies, mainstreaming activities in the countries, and the costs of the National Workshop. Window II funds are available to finance concrete, modest, and priority technical assistance projects identified in the DTIS Action Matrix. Window II would provide bridge financing until mobilization of donor funds, and allow prompt funding for follow-up technical assistance projects particularly for trade capacity-building. A maximum amount of $1 million is available for each country under Window II.

- Projects for Window II funding are selected by a Local Project Approval Committee (LPAC) chaired by an appropriate government body. Membership of the LPAC includes as a minimum: The Ministry of Finance or Planning, the Ministry of Trade, UNDP Resident Representative or delegate, the Lead Facilitator, and the World Bank Resident Representative or delegate. During the pre-mission, UNDP organizes a briefing session to inform all parties about project formulation and approval process for Window II projects.

IF Management Structure

- Geneva. The Integrated Framework Steering Committee (IFSC) oversees and governs the IF process. It is a tripartite arrangement with representation from agencies, donors, and LDCs. The day-to-day activities of the IF are managed by the Integrated Framework Working Group (IFWG). The IFWG is chaired by the WTO and consists of representatives of the six core agencies and two representatives each from the least-developed and donor countries. The WTO houses the IF Secretariat which services both the IFSC and IFWG.

- Multilateral donors. The UNDP manages the IF Trust Fund, both Window I and II. The UNDP also manages a fund "Strengthening the National Implementation of the IF ($38,000 for each country)" to support the IF related activities of the Integrated Framework Steering Committee (IFSC) and the Focal Person in the IF country (see below). The lead role in assisting preparation of the DTIS and overseeing implementation of the follow-up activities, with funding provided by the IF Trust Fund, is given to the World Bank.

- Country level. The national management structure includes the following. The Ministry of Trade (MT) is the IF implementing agency. The MT appoints an IF Focal Person (main counterpart of the IF in the government), and sets up an IF National Steering Committee (IFNSC). The IFNSC comprises representatives of the main stakeholders in the government, outside the government and in the donor community, and manages the IF process in the country. The private sector is adequately represented in the IFNSC. In countries where both the IF and JITAP are in place, the government establishes arrangements to ensure synergies including the use of a single national steering committee for both the IF and JITAP, the appointment of the same focal point, and to link the DTIS and JITAP capacity building activities. The MT also identifies a Lead (donor) Facilitator to assist and support the government in managing the IF process. The Lead Facilitator serves as a focal point for interaction between the country and donors at the country level. Early involvement of the donors at the country level is crucial for a successful implementation of the program.

Progress in Implementation of the IF Program

- To date, DTIS reports have been completed and implementation has started for 14 countries. IFWG has approved the IF program for 14 new countries. Sierra Leone is one of these 14 new IF countries.

- Funds pledged by multilateral and bilateral donors to the IF Trust Fund is presently about $26 million ($15 million for Window I and $11 million for Window II).

Further Information

- www.integratedframework.org

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