Burkina Faso

The Challenge of Export Diversification for a Landlocked Country

Diagnostic Trade Integration Study for the Integrated Framework program



September 2007

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Photo of gold processing on the front cover used with the permision of High River Gold Mines Ltd. who opened the new mine at Taparko-Bouroum in 2007.

CURRENCY EQUIVALENTS
(Exchange Rate as of May 29, 2007**)**

Currency unit	=	CFA franc (CFAF)
US$1.00	=	CFAF 487.6

ABBREVIATIONS AND ACRONYMS

ACV	Agreement on Customs Valuation (WTO)
AFD	French Development Agency
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
AICB	Inter-professional Cotton Association of Burkina
BCEAO	Central Bank of West African States
BOAD	West African Development Bank
BRGM	Office of Geological and Mining Research
CASEM	Board of Directors for the Ministry of Trade
CBC	Council of Burkinabé shippers
CET	Common External Tariff
CFAF	Franc of the African Financial Community
CSLP	Poverty Reduction Strategy Framework
DEMPEC	Department for Small-scale mining
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms (agreement)
ECOWAS	Economic Community of West African States
EPA	Economic Partnership Agreement
ETLS	ECOWAS Trade Liberalization Scheme
FCFA	Franc of the African Financial Community
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HACLC	High-level Authority for Coordination and Fighting Corruption
ICA	Investment Climate Assessment
IMF	International Monetary Fund
INERA	National Institute for the Environment and Agronomic Research
ITC	International Trade Center
MAHRH	Ministry of Agriculture, Hydraulics, and Fish Resources
MCE	Ministry of Mines, Quarries and Energy
MCPEA	Ministry of Trade, Enterprise Promotion and Artisans
MEBA	Ministry of Basic Education and Literacy
MEF	Ministry of Economy and Finance
MESSRS	Ministry of Secondary and Tertiary Education and Scientific Research
MID	Ministry of Infrastructure
MRA	Ministry of Animal Resources
MS	Ministry of Health
MT	Ministry of Transport
OHADA	Organization for the Harmonization of Business Law in Africa
ONAC	National Bureau for External Trade
ONATEL	National Telecommunications Office
OTRAF	Organization of Road Transporters of Faso

PRECAGEME	National Capacity-building project for Mining and Environmental Management
SMIG	Guaranteed Interprofessional Minimum Wage
SOBFEL	Burkinabé Fruit and Vegetable Corporation
SOFITEX	Textile Fiber Company
TEU	Twenty Foot Equivalent Unit
TRIE	Inter-state Road Transport
UNPCB	National Union of Burkinabé Cotton Producers
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
VAT	Value-added Tax
WAEMU	West African Economic and Monetary Union
WCO	World Customs Organization
WTO	World Trade Organization

Map of Burkina Faso

PREFACE

The Burkina Faso Diagnostic Trade Integration Study (DTIS) has been prepared under the Integrated Framework (IF) for Trade Related Technical Assistance to Least Developed Countries in response to a request from the Government of Burkina Faso.[1] The ultimate objective of the study is to build the foundation for accelerated growth by enhancing the integration of its economy into regional and global markets.

Preliminary missions were held in July and again in November 2005 to discuss the objectives and priorities of the study and to ensure proper ownership of the process by the authorities. Terms of reference were then prepared and transmitted to the Government for approval. The main mission, consisting of national and international consultants, visited Burkina Faso in January 2006. A technical workshop was held in December 2006 to review the draft report, and a second presentation was made in February 2007 during the Semaine de Réflection organized by the World Bank. The study has now been reviewed internally within the World Bank, and among the IF agencies and selected donors. The report and its Action Matrix were discussed during a validation workshop, held June 21-22, 2007 in Ouagadougou, and the report was revised to incorporate the suggestions received.

The members of the main mission, and their areas of responsibility, were as follows: Philip English (World Bank, task team leader), François Arvis (World Bank, transport and trade facilitation), Serge Duhamel (World Customs Organization, customs), Mombert Hoppe (World Bank, trade data), Charles Ncho-Oguie, (consultant, macro), Joseph Ouedraogo (consultant, mining), Jan-Hendrik van Leeuwen and Abdoulaye Zonon (consultants, private sector development and trade institutions), and David Wilcock and Salifou Konaté (consultants, agriculture). Emmanuel Diarra (World Bank, private sector development) and Siaka Coulibaly (World Bank, macro) also participated in the main mission. Louis Goreux (consultant) prepared the first draft on cotton, Christophe Ravry (World Bank) assisted with updates on cotton and horticulture, and Mulumba Kamuanga provided additional inputs on the livestock section. Felicia Avwontom did the translation from French to English.

The study team wishes to thank the Government of Burkina Faso and notably the Director General for Private Sector Promotion, Ministry of Trade, Enterprise Promotion and Handicrafts, Lancina Ki, for his support to the DTIS process. We also thank all the members of the national steering committee who enriched the study through their active participation in various meetings and workshops. Finally, we owe a special word of thanks to Josette Percival and Suzane Rayaise for their dedication and professional administrative support throughout the entire process.

1The IF is a multi-agency, multi-donor program established to promote the integration of the least developed countries into the global economy. The participating agencies are the IMF, the ITC, UNCTAD, UNDP, the World Bank and the WTO. For additional details see http://www.integratedframework.org/.

EXECUTIVE SUMMARY AND ACTION MATRIX

1. Burkina Faso presents an interesting paradox. It is one of the best economic performers in West Africa, yet its integration into the world economy, as measured by its trade and foreign investment performance, is among the lowest. Economic growth has been strong, averaging over 5.5 percent per annum for the last ten years, which is higher than all other countries in the subregion. This has been achieved in spite of droughts and cricket invasions, and the turmoil in Côte d'Ivoire, and without significant oil or mining exports. Macroeconomic management has been consistently strong, and inflation low. At the same time, its export-to-GDP ratio is only one-third that of Senegal or Mali, while foreign direct investment inflows are far below the average for sub-Saharan Africa (0.3 percent of GDP vs 2.5 percent). At a time when globalization is determining the fate of nations, Burkina Faso seems to be on the sidelines – and doing fairly well.

2. Part of the explanation is that Burkina Faso does benefit from trade and international financial flows, but in different ways. Significant trade takes place on an informal basis with neighboring countries, which does not show up in official data. More importantly, huge capital inflows come in the form of remittances, including many from within the CFA Franc zone. In addition, Burkina Faso has benefited from generous support from donors, impressed by its solid economic record. But if the country is to raise economic growth rates to the levels necessary to make major inroads on poverty, and reduce its aid dependence, there can be no doubt that it will need to improve its performance on exports and foreign investment.

Cotton

3. Another significant factor explaining the above paradox is the one export sector which the country has developed successfully - cotton. It is not just the quantity of exports which is important for a country's development but also the type of exports, notably the extent to which labor, and especially the poor, is directly engaged. Cotton production in Burkina Faso now involves some 250,000 small farmers, most of whom live near or below the poverty line. And the growth in production has brought in many new farmers. Thus, the benefits have been widely spread across the rural economy, to farmers, those who sell goods and services to farmers, transporters of inputs and outputs, and employees in the ginneries, cottonseed oil refineries, pesticide firms, and even the banks who provide the finance. In addition, cotton has enabled growth in maize production, through the residual effect of fertilizer applied to cotton fields (or simply the diversion of some of this fertilizer to maize) and the entry of the well-organized cotton growers' association into the direct provision of fertilizer for maize.

4. The growth of cotton exports has indeed been impressive – 17 percent p.a. on average over the last 10 years. Burkina Faso is now the largest exporter of cotton in sub-Saharan Africa, with sales totaling CFAF 147 billion (US$294 million). Poverty among cotton households has fallen from roughly 62 percent in 1994 to 47 percent in 2003, while poverty among other rural households remains at 57 percent. There is still room for significant growth in exports, particularly from the eastern parts of the country. However, the sector faces serious challenges internally and externally which demand immediate attention if this backbone of the economy is not to bend. Our first message, therefore, should be no surprise. ***Do what it takes to confront these new challenges and create a profitable and sustainable sector.***

5. The biggest problem facing the cotton sector is the continued decline in its CFAF price, driven in the 1990s by the falling world price, but aggravated in the last few years by the rise in the value of the Euro to which the CFA franc is tied. Certainly, cotton subsidies in the US and, to a lesser extent, in Europe exacerbate the problem and Burkina Faso should continue to fight for action on this front at the WTO. But even complete elimination of these subsidies will not solve the problem. Global production is growing faster than demand, driven in part by the increasing use of genetically-modified (GM) seed varieties which reduce the number of pesticide applications, cutting costs while actually raising yields. If the Euro retains or even increases its current strength relative to the US dollar, the competitiveness of the sector could be in jeopardy.

6. A variety of actions are needed urgently in order to preserve the livelihoods of the many cotton farmers. Burkina Faso has recently decided to adopt GM seeds, and it needs to promote their utilization without delay to avoid falling too far behind the competition. Agricultural production must be improved through more research, extension services, animal traction, storage, rural roads and protection of soil fertility. The cotton companies must also get serious about improving their efficiency and coping with foreign exchange risks, accepting that they are now responsible for their own profitability, without recourse to subsidies from the state or donors.

7. The recently approved pricing mechanism is an important first step to reflect the evolution of world prices and send the appropriate signals to both farmers and ginners concerning the need for higher productivity. This mechanism needs further improvement to strengthen its viability in the event of further sharp price declines or currency appreciation.

8. In spite of current problems, and while recognizing that each sector is in a sense unique, the success of cotton provides some useful lessons:

- All the links in the supply chain received careful attention
- Producer risks were minimized
- Farmers were well organized and participated actively in sector management
- A strategic foreign investor provided production expertise, market links, and access to low-cost financing
- Consistent technical and political support from the government
- Reform has been gradual, allowing time for stakeholders to adapt
- But, the sector never benefited from true private sector participation, thereby undermining its financial sustainability.

9. It is time to adapt these lessons to other sectors of the economy in order to reduce dependence on cotton. Cotton now accounts for some 57 percent of exports by our calculations – even more if official figures are used. Such dominance is unhealthy, especially where an agricultural commodity is concerned, as it exposes the broader economy to the inevitable shocks resulting from weather, global market conditions, and the like. It is also likely that some marginal cotton farmers would be better off in alternative livelihoods if they were available. Our second message is therefore the following. ***Identify a few other sub-sectors, develop a strategy, and devote the kind of focused attention to them that cotton has enjoyed.***

Animal products

10. The second pillar of the economy has been the livestock sector. Exports of live animals have been hurt by the problems in the Côte d'Ivoire, which was the major market, and official figures suggest a major fall in sales (to CFAF 3.3 billion) in 2004. However, the informal nature of this trade makes it hard to obtain reliable data and our analysis suggests that exports are much

more robust. This study estimates that live animal exports recovered to CFAF 36 billion (US$72 million) in 2005, while hides and skins exports totaled another CFAF 23 bil. (US$46 mil.). This discrepancy is a major problem which needs to be resolved quickly so that Government policy can be properly informed. Official figures run the risk of generating skepticism whereas this study indicates that the sector deserves a high priority in Government development strategies. In fact, demand for meat is likely to grow strongly in the sub-region and Burkina Faso should have a competitive advantage to supply these nearby markets.

11. In the short term, the focus should be on improvements in the productivity of live animal production by increasing the rate of off-take, improving the quality of animals, promoting semi-intensive and intensive production units, building the capacity of inter-professional associations, reducing the role of intermediaries, and reducing or eliminating the export tax on live animals.

12. In the medium to long term, however, the greatest opportunities lie in adding value through local slaughtering to launch meat exports, and thereby expanding the supply of hides and skins. However, this would represent a major restructuring of the industry requiring a much more structured, formal, and complex organization of the supply chain. In addition to the above improvements in live animal production, this would require the establishment of fattening operations, detailed market studies, a market information system, an export financing arrangement, rehabilitating slaughter houses, and elaborating a strategy based on new, modern sector, private operators. ***The livestock sector deserves top priority given the number of poor involved, and the potential for evolution toward meat export.***

Crop alternatives

13. The need for a new generation of modern operators emerges as a key theme in the development of horticulture, sesame, cashew, shea nuts, and other agricultural exports. Trade in all of these products has been dominated by small-scale and informal national actors, but this approach has reached its limits in overseas trade, and is a constraint to regional exchange as well. This is most apparent in the demise of fresh fruit and vegetable exports. The European market has evolved rapidly, with a steadily increasing focus on high quality, adherence to standards, consistent supply, and direct sales to supermarket chains. Burkinabè exporters have had modest success in the past but they have proven unable to respond to the changing market conditions. ***Different private sector operators must be developed, and foreign investors attracted, to lead the sector in new directions***, injecting new ideas and standards that others may then emulate. Regional market opportunities should be given special attention as they may be the most feasible, especially for vegetables, but it is worth pursuing the huge European market as well, for mangoes among others.

14. ***Sesame presents the most exciting opportunity for diversification in agricultural exports which engages a large number of poor farmers***. Production has been growing over the last five years, and international demand is strong, notably in Japan. The crop does not require irrigation and is resistant to rainfall shortages. A doubling in exports over the next five years, from the current level of US$10 million, appears realistic if appropriate measures are taken. But some of the same issues need to be tackled in this sector in order for it to reach its potential: quality control, respect of standards, organization of an inter-professional association, entry by a modern firm as sector leader, market studies, and adoption and implementation of a coherent strategy.

15. Groundnuts also involve large numbers of small farmers, and have exhibited rapid growth in production. Official export data shows only very modest flows, but this is probably an underestimation since exports pass mainly through informal channels to neighboring countries. However, the market prospects for groundnuts are less promising than for sesame. The current

focus on oil-producing varieties needs to shift in favor of edible groundnuts, in view of the stiff competition from cheaper palm oil, among others. More information is needed about the regional opportunities for groundnut products.

16. Shea nuts have received a lot of attention, perhaps disproportionate to their role and potential. As production is based on collection from naturally occurring wild trees, the capacity to control and expand output is limited. Furthermore, much of the value added is in processing into butter, which is done primarily in Europe and to a lesser extent in coastal cities of West Africa due to the dominance of a few large European firms, and the risks of transporting butter long distances. A particular emphasis on research is needed to permit the development of plantations.

17. Cashew nuts are an emerging export with modest potential. International demand is strong, but so is the competition. Burkina Faso faces higher transport costs than the many coastal Africa countries involved, especially those in East Africa who are much closer to the main, Indian market. Nonetheless, the entry of a major Indian investor with plans for establishing a plantation as well as a local processing capacity is welcome news.

18. All of these sub-sectors share three common requirements to succeed: i) modern enterprises with access to finance and markets, ii) vertical coordination of the supply chain and/or a strong inter-professional organization, and iii) a state which removes obstacles, facilitates coordination, promotes the private sector, and supports research.

19. A recent, and more controversial, development is the start of exports of a major cereal crop, maize. For good reason, the historical focus of cereal production has been on reducing the national deficit to promote food security. Yet, maize production has grown faster than domestic demand to the point where surpluses are now available at least in years of normal rainfall and there is reason to believe that this trend will continue. Restrictions on maize exports will hurt the farmer by driving down domestic prices, and thereby discourage production, which benefits no one. ***It is time to promote a regional trade in cereals to help all the countries in the sub-region manage the ebb and flow of their harvests.*** The 2004 famine in Niger was a dramatic example of what can happen when national priorities lead to beggar-thy-neighbor policies. All ECOWAS countries need to respect the Community's call for free trade in primary products. Food security can be achieved more efficiently and effectively on a regional basis.

Minerals

20. Gold mining and export involves huge numbers of people in Burkina Faso, not far below those participating in cotton, but it receives much less attention. This is undoubtedly because the sector is dominated by informal operators, offers jobs which are mostly menial and dangerous, and is associated with an unstructured, sometimes chaotic, social milieu. The growth potential of small-scale mining also appears limited. And yet, one can not talk about trade and poverty in Burkina Faso without dealing with the estimated 200,000 people struggling to make a living in gold mining. And reported sales probably reflect only 15 percent of actual exports.

21. There is little question that the sector needs to evolve to a more structured system, but in the short- to medium-term this will not mean simply replacing small-scale mining with industrial operations. Rather an intermediate solution is preferable in order to keep the majority of workers employed, while raising their productivity and their share of the rents, and reducing the dangers and social costs. Critical to this process is the introduction of new processing equipment which could increase the current recovery rate of gold from 30-40 percent to a level closer to 90 percent. This will increase significantly the size of the available resources and revenues, since under cur-

rent practices much of the un-recovered gold is lost forever. This equipment could also help improve control over sales. It could be leased or sold to a new class of semi-formal mining operators holding artisanal mining licenses, who would be more easily monitored.

22. Nonetheless, the growth potential in the mining sector lies squarely in large-scale industrial mining, and with the recent strength of international gold prices, large investment is now flowing in. If prices hold, gold exports could surpass US$300 million by 2011, which is roughly the level of cotton exports today. Zinc could add another US$280 million. Thus, Burkina Faso's export (and FDI) profile is likely to change substantially in the next five years, to show a more diversified export mix, and a healthier export/GDP ratio. However, the impact on the poor could be disappointing unless the Government's revenue share is used wisely – and transparently. There will also be a temptation to squeeze the mining companies in order to get a fair share of the rents, but the risky nature of the mining business, and the global competition for mining investment must be taken into account. The Ministries of Finance and Mines need to harmonize their interpretation of the Mining Code and its application and establish an open dialogue with the private sector. Burkina Faso should also sign and implement the Extractive Industries Transparency Initiative. ***Industrial mining represents a major new source of foreign exchange and government revenue that must be carefully managed. However it will do little to generate employment and must be supplemented with other dynamic sectors.***

Processed products and manufactures

23. While most exports involve little or no processing, cotton does require some basic ginning, hides and skins undergo the first stage of tanning, and sugar cane receives substantial processing before export. The process of cleaning, sorting, packing and shipping fresh fruit and vegetables is also becoming increasingly demanding, and can no longer be characterized as unsophisticated raw material export. And of course industrial mines are highly capital-intensive. Thus, the export sector is contributing to the industrial base of the economy. Nonetheless, it is true that Burkina Faso's comparative advantage remains in natural resource-based products. More advanced levels of processing will be constrained for some time by the high cost of electricity, the country's landlocked nature, and the greater attractiveness of large urban centers on the coast.

24. Numerous studies have now confirmed that textile production will not be efficient in Burkina Faso, and would require subsidies which can not be justified. On the other hand, opportunities exist for expanded production of cottonseed oil and cake for the local and regional market. The most interesting opportunity for moving up the value chain lies in meat export, and Government should refocus its energies on this sector, but to facilitate – and not duplicate – the role of the private sector. This will also have important benefits for the hides and skins business.

25. Though handicraft products represent only a small share of exports at present, they employ a significant number of workers and have major potential to expand. A sustained program of support has provided the physical and human resources to serve as a platform for accelerated growth. However, the Artisanal Village of Ouagadougou, which is at the heart of the sector and could play a key role in its expansion, is handicapped by its two missions that are difficult to reconcile. While its more social mandate could be handled by an NGO, its purely commercial objectives require private management, since they need responsiveness to market demands, innovation in design, and aggressive marketing. Examples of successful private sector handicraft export already exist and the lessons learned need to be applied to the sector more broadly.

Investment climate

26. The investment climate clearly leaves much to be desired. Key problems identified by the Investment Climate Assessment (ICA) are financing (cost and access), taxation (level and administration), corruption, transport, electricity and competition from the informal sector. However, these constraints need careful interpretation. Interest rates in Burkina Faso are not higher than many other countries in the region. Financing may be restricted because banks judge the proposed projects to be unprofitable, or for want of collateral. In the case of mango exports, past failures have discouraged financial institutions. Foreign companies have notably fewer problems with finance, presumably because they are considered more reliable, use own funds, and/or have access to cheaper credit abroad. Improving other aspects of the investment climate, and attracting more foreign investors, may be the best way to tackle this constraint.

27. Similarly, tax levels are not much different than in the rest of UEMOA and the total tax burden is relatively low. However, the administration of the tax system is clearly a problem: time-consuming procedures, monthly payments, frequent audits, and lengthy delays in VAT reimbursements. ***Delays in VAT reimbursement have become a tax on exports and on mining investment which can be easily removed***. There is no debate over the importance of electricity cost and reliability as a constraint to processing activity, but this will take much longer to resolve.

28. Because of its focus on urban enterprise, the ICA did not capture two issues which appear particularly important for exporters. First, access to land is critical for investors interested in fruit and vegetable exports, intensive ranching or fattening operations, and difficulties in securing land titles discourages irrigation investment and impedes access to credit. Land reform is a complicated and lengthy process, but ***it is recommended that the Government explore options to establish an interim system to identify land for sale with secure title to private exporters***.

29. Second, the inflexibility of labor market regulations was ranked fairly low in the ICA but emerged as a priority in discussions with exporters. As many export activities are seasonal (agriculture) or variable (mine exploration) in nature, operators need to have the freedom to hire and lay-off workers according to business requirements. Labor legislation in Burkina Faso is among the most restrictive in the region on this and other matters, although some reforms are now being considered.

30. Streamlined labor laws and fiscal administration, and easier access to land would encourage the creation of formal sector firms and reduce the burgeoning informal sector. Other measures are required within the transport and customs areas where informal operations are expanding and undermining the development of modern practices.

Transport and Trade Facilitation

31. Integration into the global economy is not just about exports but also cheap and reliable access to imports which, as inputs, contribute to the competitiveness of exports and production for the local market. As final products, they can provide healthy competition and yield direct benefits to consumers. However, the rules of the game must be the same for everyone, and not penalize legitimate businesses. Efficient transport and customs services help reduce trade costs, but when they are unstructured they can undermine the modernization of the economy.

32. Transport is inevitably an issue for a landlocked country such as Burkina Faso, and has become more so with the unrest in Côte d'Ivoire and the disruption of this principal corridor to the coast. Fortunately, other options were readily available in Ghana, Togo and Benin. In addi-

tion, the direct cost of transport has been kept down to reasonable levels through the use of old trucks, overloading, and low wages. However, various unnecessary charges and procedures have offset this advantage, while the informal nature of the trucking business has created significant indirect costs and blocked the evolution of the industry. This is particularly a problem for imports, which affects input supply for both exporters and manufacturers for the local market. It also supports unfair import competition by facilitating customs fraud.

33. The frequent road-side demands for bribes are well documented. Less understood is the number of unnecessary yet legal fees imposed on trucking. These include compulsory insurance, storage fees charged by the Chamber of Commerce, payment for convoys even for sealed containers, and various duplicate forms. Indeed, the cost of these dispensable fees likely exceeds the cost of bribes, and yet these could be easily eliminated.

34. More importantly, the current system leads to various economic costs, such as higher inventories to compensate for the unreliability of service, extra road maintenance costs due to truck overloading, customs revenue losses, and investors scared off by the complications of transport. ***There is a need to move to a more modern form of transport which relies on containers that remain sealed until they reach their destination, and transport companies which are chosen because they perform and not because they are next in line.*** This will assure the predictable transport service necessary for modern supply chain management, encourage investment in trucking, and increase customs revenues.

Customs

35. Customs stands on the front lines between Burkina Faso and the regional and international economy, and thus plays a key role in defining the rules of the game for both imports and exports. Its traditional role of raising revenues and protecting local industry has declined somewhat, while trade facilitation and security have grown in importance. As its functions have become more complex, so has the commercial context in Burkina Faso. The traditional corridor through Côte d'Ivoire has been disrupted, new emerging market competitors are supplying cheaper imports, well-established international importing firms are being replaced by new ones with different practices, and informal traders are growing in importance.

36. This combination of factors appears to have led to a major problem of fraud. Formal private sector companies complain of their inability to compete with cheap imported goods when they evade most of the standard import duty and VAT. This may be leading to further informalisation of the economy and lower investment. Customs needs to develop a data base of prices for the main imported items, drawing on information provided by the pre-inspection company, and preferably in collaboration with neighboring countries which have similar concerns. The antifraud unit also needs strengthening.

37. Burkina Faso's customs administration needs the capacity to differentiate between private companies according to the degree of risk involved, and to tailor its services and controls to meet their different profiles. Some companies with an established track record will warrant quick clearance of their imports and/or exports, for both duty declaration and security certification. Yet these are the ones who attract most of the controls by Customs. It is recommended that a new service be created to improve understanding of private sector clients and design customized treatment. This would assist in fighting fraud, by redirecting attention where it is most needed, while also supporting trade facilitation and security requirements.

38. The proliferation of private customs commissioners has also aggravated the situation. Their numbers need to be rationalized by increasing the qualifications required to perform this service, raising the amount of the deposit guarantee, conducting background checks, insisting on a minimum threshold of activity, and excluding anyone with relations working in the Customs administration.

39. There can be no doubt that corruption within customs must share some of the blame for rising fraud. This must be counteracted by a combination of training, closer controls, serious sanctions, encouragement of "whistle-blowing", and the termination of family links with commissioners. ***Fraud and corruption must be tackled urgently in order to protect legitimate existing producers and attract serious foreign investors***.

Trade policy and institutions

40. As a least developed and African country, Burkina Faso enjoys privileged access to the largest industrialized markets – the EU through the Cotonou Convention and the Everything But Arms agreement; and the US through AGOA. In addition, raw materials and handicrafts enjoy free access to the sub-region through the UEMOA and ECOWAS trade agreements, as do manufactured goods satisfying a minimum level of local value added. Standards can sometimes serve as non-tariff barriers, and they are growing tougher, but these more often reflect consumer demands rather than conscious efforts to prevent imports. Rich country subsidies, notably on cotton, have dampened prices, though they do not seem to have impeded Burkina Faso's capacity to export. The battle to eliminate export subsidies and substantially reduce other forms of support needs to continue in the context of the Doha Development Agenda negotiations. But restrictions on market access have not been a major impediment to Burkina Faso exports.

41. Three of the biggest trade policy challenges facing Burkina Faso today are i) the negotiation of the ECOWAS Common External Tariff (CET), ii) the negotiation of an Economic Partnership Agreement (EPA), and iii) the implementation of the UEMOA and ECOWAS free trade agreements. While almost all countries have signed on to the CET, Nigeria has yet to complete its transition period, and a number of modifications to the UEMOA structure have still to be resolved. The EPA is expected to cover a wide range of issues, from goods to services to competition, where it is proving hard to develop regional positions. These negotiations have certainly provided a boost to the ECOWAS Common External Tariff and to the development of common positions on some topics, such as competition policy. It will be necessary to ensure their ownership and application at the national level. In term of market access, given the existing level of access enjoyed by Burkina Faso, the benefits of an EPA seem limited, while the costs of opening to EU imports are clear. The effective implementation of regional free trade agreements is critical in preparation for an EPA, especially for a landlocked country which naturally trades a lot with its neighbors.

42. However, the most important trade objective must be to expand and diversify exports. In addition to the many sector-specific measures already summarized, some effective cross-cutting institutional instruments are needed. The Ministry of Trade must develop its capacity to coordinate the trade agenda across government and the private sector. A critical pre-requisite will be the development of more reliable data on exports to design policy and monitor progress.

43. An export promotion agency, ONAC, exists but it needs restructuring, so that it is focused on a more limited, and manageable, set of activities, which do not compete with private sector providers, while becoming an effective advocate for the needs of private exporters. A new

judicial status is required to break free of the constraints of the public sector and permit ONAC to recruit more suitable employees, remunerate them competitively, and set performance standards.

44. Clearly the capacity of the private sector demands strengthening. A matching grants scheme is needed which targets exporters. It is recommended that it draw on the lessons learned from the successful FAMEX scheme in Tunisia and be housed in the MEBF. Skills development could be enhanced by restructuring the management of the employers' training tax. At present, this tax is absorbed into the general budget. It should be allocated to a special account, managed by a small, independent, professional team, under the guidance of a tripartite board.

45. The best capacity-building program will not, however, bring in the finance, technology and market contacts of competent foreign investors. For the moment, an investment promotion agency is not recommended, but an experienced overseas consulting firm could be contracted to find strategic investors in specific areas already identified in this and other studies. It too should have a performance-based contract. ***Foreign investment and management expertise will be critical for diversification.***

46. Finally, it is recommended that a high-level committee be established, with very senior political leadership, to ensure that the importance of the export agenda is clearly understood by the various ministries and agencies involved. This should be associated with the plans for a presidential council for investors, as the objectives of promoting exports and foreign investment are intimately connected. ***Without high-level political support, the export agenda is too easily undermined by the narrower territorial preoccupations of each Ministry.***

Action Matrix for Burkina Faso

(*priority actions for the first year marked in bold italics*)

Objectives	Actions to be undertaken	Actors	Schedule	Indicators
Cotton				
Increase farmer productivity	***Strengthen assistance to facilitate the adoption of improved cultivation practices.***	***UNPCB, MAHRH, ginning companies***	***0-12 months***	***Number of advisers for producers increased***
	Promote the use of organic fertilizer		0-36 months	Number of equipped producers increased
	Improve producers' equipment: oxen, ploughs, carts	Idem, financial institutions	0-36 months	
	Rotate the cultivation of cotton with other crops (apart from maize) to protect the soil and diversify sources of income	UNPCB, MAHRH, ginning companies	0-60 months	Cotton cultivated with vegetables, and other plants; use of organic fertilizer increased
	Introduce and expand use of genetically-modified seeds	Idem, INERA	0-36 months	Number of farmers using new GM seeds expanding
Improve marketing	Improve rural roads and storage facilities	MID, ginning companies	0-60 months	Number of roads and storage facilities increased
Strengthen research	Conduct new research on the recommended nature and amount of fertilizer and the protection of the soil; pursue research on genetically modified seeds	INERA, MAHRH, ginning companies	0-60 months	Budget for cotton research strengthened in public and private sectors
Manage price fluctuations	***Modify and apply the new pricing system***	***AICB, MA, MFB***	***0-12 months***	***Pricing system modified***
Livestock raising				
Get a clear picture of export data	***Refine data collection by MRA and coordinate with other concerned agencies***	***MRA, customs, MEF***	***0-12 months***	***One set of export data used by everyone***
Increase the rate of off-take	***Conduct quick surveys to determine possibilities for increased off-take;***	***MRA, NGOs***	***0-12 months***	***Survey completed***

Objectives	Actions to be undertaken	Actors	Schedule	Indicators
	Raise the awareness of livestock farmers and facilitate their access to cattle markets and other direct contacts with exporters (trade fairs)	MRA, NGOs, producer organizations	0-36 months	The rate of off-take increases from 11% to more than 15%
Develop semi-intensive animal production systems to increase live animal exports	(1) Encourage the progressive settlement of pastoralists in the south-west to create animal finishing areas; (2) increase semi-intensive or intensive production units; (3) improve access to feed, finance and basic services, (4) constitute public-private partnerships and improve production incentives, more secure access to property titles, (5) strengthen research-development on local species.	MRA, organizations of producers and exporters, financial institutions	0-48 months	Number of semi-intensive operations
Reorganize and strengthen associations of actors and professionals	Consolidate the financial autonomy of associations (for example, UNACEB) and restructure them; reduce the role of brokers and encourage their reorientation to other functions.	MRA, ONG	0-60 months	Functioning interprofessional organization
Gradually increase meat exports	Put in place a medium-term strategy for meat exports: (1) ***conduct a trade feasibility study on exports to target markets (Côte d'Ivoire, Ghana, etc.)*** (2) Create a market intelligence system for meat; (3) improve vertical integration production-transformation-marketing, (4) audit slaughterhouses and raise their standards, (5) train actors, (6) create competitive companies, (7) establish a financing system and an export insurance-credit mechanism	MRA, MCPEA, UEMOA, CEDEAO, Associations of producers and exporters	0-60 months	Quantity of meat exports
Reorganize statistics services on exported animal products	***Put in place an Interministerial Coordinating Committee or restructure existing services to improve statistical data; train MRA staff.***	***MRA, MCPEA, MEDEV, MFB***	***0 -12 months***	***Consistent statistics on livestock sector production and export are available.***

Objectives	Actions to be undertaken	Actors	Schedule	Indicators
<u>Other Agriculture and agro-industry</u>				
<u>General recommendations</u>				
Improve sector information produced (production data, export markets, statistics on exports)	Five-year action program for (1) diagnosis and conception of a "market data and information" program; (2) financing and execution of the project; (3) identification of sustainable mechanism for financing	MAHRH, Customs, MCPEA, Inter-professional organizations	0-60 months	Significant improvement in information on production and its costs, and on export markets
Strengthen export companies	Create a program to promote partnerships in agricultural export and a "business development" program to increase the size and skills of local companies	MAHRH, MCPEA, foreign and domestic companies	0-60 months	Program reviewed, designed and executed with the specific objectives of strengthening local firms and creating partnerships
<u>Oilseeds: sesame</u>				
Create a better organized and stronger sector	Support the development of an oilseed inter-professional organization	MAHRH, organization of farmers, private sector	0-24 months	Inter-professional organization of oilseeds created and operational
Encourage the development of private companies that are "sector leaders"	***Examine options for improving incentives to invest in large companies operating in the sesame sector***	***MAHRH***	***0-12 months***	***Study conducted with recommendations for action***
Increase exports of sesame from Burkina to Japan	Examine feasibility, then execute the project to improve information on the Japanese market, support services, comply with standards, build stronger companies and better relations with producers	MAHRH, Japanese importers, producer organizations, MCPEA	0-36 months	Feasibility study conducted, study tour to Japan, project financed and executed, increased exports

Objectives	Actions to be undertaken	Actors	Schedule	Indicators
Consolidate and expand Burkina Faso's position in the organic sesame market	Diagnose the strengths and weaknesses of Burkina Faso's participation in the EU's organic sesame market; recommend and undertake corrective actions	MAHRH, private companies in Burkina and the EU, and groups in the sector	0-36 months	Increased exports of organic sesame
Increase the share of exports of sesame processed in Burkina	***Study the options for increasing packaging in Burkina for specific markets. Technical aspects to be reviewed: cleaning, sorting, packaging, pressing for oil, market for cookies***	***MAHRH***	***0-12 months***	***Increase in the percentage of sesame processed to a certain degree in Burkina***
Oilseeds: groundnuts, cashew nuts and karité:				
Improve the groundnut action plan	***Conduct a more detailed diagnosis of current and potential production of groundnuts to identify national, regional and international markets and the potential for edible peanuts***	***MAHRH, donor projects, groups of operators, interested firms***	***0-6 months***	***Improved groundnut plan includes export component***
Increase profitable exports of shea nuts	***Organize a conference to reinforce regional exports of shea nuts (centered on improving profits for all participants)***	***MAHRH, ECOWAS, donors, private enterprises***	***0-12 months***	***Regional conference on shea nut exports held; action plan revised***
Decide on the level of support to provide to the cashew nut sector	***Conduct a more detailed study on (1) the potential for increasing exports from existing orchards and (2) the need to plant new orchards***	***MAHRH, private enterprises***	***0-12 months***	***Assessment of the sector conducted and action plan revised if necessary***
Cereals				
Evaluate potential to expand maize exports	***Multidisciplinary study on current maize production, trends and possibilities for expanding exports with hybrids, a rotation program with cotton, etc.***	***MAHRH, INERA, cotton firms, enterprises***	***0-12 months***	***Study conducted, including action plan***

Objectives	Actions to be undertaken	Actors	Schedule	Indicators
Better information on increased regional cereals trade	Pilot program in the Bobo region to enhance the quality of information (production, price, exports, production and marketing costs)	MAHRH, CIC-B, ECOWAS, MCPEA, traders, neighboring authorities	0-48 months	Pilot program under way, maize exports increasing
Increase the volume of processed cereals sold with greater value added	Support the creation and marketing of new cereals products by creating a cost-sharing fund for product development and by facilitating access to credit	MAHRH, INERA, firms, CIC-B	0-36 months	New cereals products developed (or old ones improved) and markets expanded
Implement Burkina standards for cereals	Finance assistance to increase trade in cereals, in compliance with quality standards	MAHRH, enterprises, CIC-B	0-24 months	Larger share of cereals trade complies with quality standards and price differentials
Cowpeas: Re-launch the sector action plan	Conduct a more targeted assessment of development in the sector centered on sub-regional markets (notably Nigeria), the requirements to access these markets, and the development of the inter-profession.	MAHRH, ECOWAS, private enterprises	0-36 months	Revised action plan completed and more modern enterprises involved in large-scale exports
Horticulture				
Assess and improve Burkina's competitiveness in the horticultural exports	***Organize the "Burkina Horticultural Competitiveness Summit" with emphasis on EU and regional markets, after a preparatory study.***	***MAHRH, regional and local enterprises***	***0-12 months***	***Horticultural study conducted, summit held with donor action plan and commitments***
Increase Burkina exports of fruits and vegetables to sub-regional markets	Improve market intelligence on targeted markets through diagnosis within a "training framework", followed by surveillance of markets and of prices.	MAHRH, enterprises	0-36 months	Market diagnosis completed; data collection for monitoring put in place
	Improve the inter-professional organization of target sectors	MAHRH, enterprises, associations	0-60 months	Stronger operational inter-professional organizations

Objectives	Actions to be undertaken	Actors	Schedule	Indicators
	Promote the creation of professional horticultural trade enterprises (see general actions for the "development of enterprises")	MAHRH, enterprises, associations	0-60 months	Creation and smooth operation of a number of strengthened enterprises or partnerships for export
Increase Burkina's market share in European horticultural product markets	***Resolve the structural conflict of interest problem at SOBFEL***	***MAHRH, SOBFEL***	***0-6 months***	***Clear and non-contradictory objectives established by SOBFEL***
	Professional study of potential in EU market for expanding exports of green beans, mangoes and future promising products; revision of sector action plans	***MAHRH, EU and local horticultural enterprises***	***0-6 months***	***Joint market study conducted, action plan revised and possible formation of joint-ventures***
	Promote the development of partnerships between European and Burkina horticultural firms.	MAHRH, EU and local enterprises	0-60 months	Creation of EU-Burkina partnerships in each key sector with the size, skills, logistics and financial means to become serious actors.
	Prepare a long-term action plan with more active participation by public agriculture and food research institutions in the development of export horticulture	MAHRH, MESSRS, research institutions, associations	0-60 months	Study, action plan, achievement of greater participation
	Prepare an action plan to transform Bobo-Dioulasso into a sub-regional horticultural export center	MA, export companies, partnerships	0-60 months	Study, action plan, investment and creation of a pilot project
Mines				
Increase the efficiency of artisanal mines	Support local workshops to improve and build processing units	MCE	0-36 months	Number of units produced
	Delivery of these units to 50 sites			Number of units installed
	Supervision and sensitization of artisan miners	MCE	0-48 months	Number of artisan miners and sites served

Objectives	Actions to be undertaken	Actors	Schedule	Indicators
	Support for supervision (BUMIGEB) and monitoring (DEMPEC, IGAME) structures in the Ministry	MCE	0-36 months	% of sales of gold from the artisan sector done through official channels
Improve the living conditions of artisanal miners	Provision of social infrastructure to 50 sites and creation of a fund to support community projects	MS, MEBA, MCE	0-48 months	Number of schools and dispensaries built at mining sites
Improve the living conditions of local communities	Create a fund to support community projects in the mining areas	MCE, mining companies, local communities	0-24 months	Number of projects financed
Improve sector management	***Eliminate delays in reimbursing the VAT or exempt mining firms***	***MEF***	***0-12 months***	***Reimbursement is done in less than 2 months on average***
	Replace temporary admission of vehicles with temporary registration			***Temporary registration available to mining companies***
	Training of government personnel on the mining strategy, the law, and how to apply it	***MCE, MEF, Customs,***	***0-12 months***	***Number of complaints from mining firms reduced***
	Long-term training of specialists	MCE, MEF, MESSRS	0-60 months	Number of specialized personnel trained
	Regular meetings of the joint MCE-MFB-GPMB consultation committee	MCE, MEF, GPMB	permanent	Number of meetings per year, number of private sector participants
	Sign and implement the Extractive Industries Transparency Initiative	MCE	0-24 months	EITI signed and ratified

Objectives	Actions to be undertaken	Actors	Schedule	Indicators
Industrial and processed products				
Increase the value-added of by-products	Promote the transformation of seeds into oils and meal for cattle feed	MCPEA, MRA	0-36 months	Production of cottonseed oil and cottonseed meal increased
Encourage transformation of agricultural products (juice, dried fruit, oil, etc.)	Organize the actors; facilitate access to technology; collect, organize and disseminate market information; promote quality and certification.	MCPEA, CDS, CNRST, CEAS	0-48 months	Level of sales increased
	Create an agro-industrial park for SMEs	CCI-BF	0-24 months	Park created and numerous SME installed
Increase exports of shea butter	Attract one or more strategic investors to organize groups of producers, make shea butter an export-quality product and identify buyers. Provide technical assistance to groups of producers and exporters	MOA, MEBF, NGO	0-24 months	Amount of new investments in the preparation of industrial shea butter
Develop the hides and skins sector	***Put in place a strategy underpinned by increased supply, improved product quality, and more rational use of modern slaughterhouses.***	***MRA, Tan-Aliz, Other actors***	***0-12 months***	***A credible reevaluation of export growth possibilities is done***
Increase exports of artisanal products	Reform the *Village Artisanal* by (i) separating its social and commercial functions; (ii) giving its commercial function an independent status, and (iii) recruiting a private operator to manage the commercial function on a contractual basis.	CCIA, MEBF	0-24 months	Study completed Restructuring done
	Attract one or more strategic investors capable of (i) organizing production, (ii) contributing to design, quality control, and working capital, and (iii) identifying buyers.		0-24 months	Investor(s) attracted
	Provide technical support to the reorganized *Village*, to producers' associations, to brokers, and to exporters		0-24 months	Exports increase 50%.

Objectives	Actions to be undertaken	Actors	Schedule	Indicators
Investment Climate				
Improve the investment climate	Reform/strengthen the HACLC by changing its legal status and increasing its powers	Ministry of Justice	0-24 months	More corruption cases successfully pursued
	Create a commercial arbitrage court with executor powers, and campaign to include an arbitrage clause in trade contracts.	Ministry of Justice	0-24 months	Debt collection costs reduced (in % of the debt)
	Accelerate reimbursement of the VAT and exempt some exporters	***MEF***	***0-12 months***	***Average reimbursement period reduced to 2 months***
	Implement tax reform that includes a reduction in the number of taxes and modernization of tax administration	MEF	0-48 months	Number of taxes paid by exporters reduced
	Revise the Labor Code by relaxing regulations related to temporary employment, hiring, and redundancies	Ministry of Labor	0-24 months	Rigidity index reduced
	Create reserved land areas for private investors	Ministry of Territorial Administration	0-24 months	Reserved areas created
	Increase electricity supply and reduce its cost		0-60 months	Cost of electricity reduced
Transport and Trade Facilitation				
Preservation of road assets and encouragement of containerize traffic	***Creation of an autonomous road fund***	***MID***	***0-12 mo***	***Decree/law creating the fund***
	End the queuing system ('tour de rôle')	MT, transporters union, national competition commission	0-24 months	Revision of transit agreements
	Implementation of a weighing program to fight against overloading of merchandise, coordinated along all the corridors.	WAEMU, governments of coastal countries	0-36 months	Effective control of load in freight-originating ports and at the borders

Objectives	Actions to be undertaken	Actors	Schedule	Indicators
Simplify transit for secure cargo	Prepare the evolution of the TRIE towards a system similar to the IRT with a sub-regional benchmarking study	WAEMU	0-24 months	Report and seminar for dissemination
	Exempt trucks chartered by certified operators from escort—at least for sealed containers, ideally for tarpaulin-covered trucks operated by the same operators and carrying non-sensitive products	***WAEMU, ECOWAS, MCPEA, MT***	***0-12 months***	***Elimination of escort for traffic that complies with the criteria***
	Exempt cargo in containers from unnecessary charges (mandatory national insurance and customs storage)	***WAEMU / CBC/ CCI-BF/customs***	***0-12 months***	***Reduction of indirect transportation costs for traffic that complies with the criteria***
	Secure cargo should have a reserved fast lane at the border	***MEF***	***0-12 months***	***Fast lane in place***
Simplification of procedures	***Accelerate exchange control by the BCEAO***	***BCEAO***	***0-6 months***	***Measure implemented***
	Review the regulations on mandatory insurance on imports	***MCPEA***	***0-6 months***	***Idem***
	Harmonize and computerize the complete transit chain	***ECOWAS, WAEMU, CBC, CCI-BF***	***0-12 months***	***Idem***
	Accelerate the implementation of the unique customs declaration form from the border to the point of consumption	ECOWAS, MEF, MCPEA, WAEMU, CCI-BF	0-24 months	Idem
Customs				
Trade Facilitation	Ratify and implement the Revised WCO Kyoto Convention	MFB	0-24 months	Updating of national documents
	Reinforce the framework for cooperation between Customs and private companies	***MEF***	***0-12 months***	***Service created, agents trained***
	Train registered customs clearing agents	***Customs school***	***0-12 months***	***Better services provided to operators***

Objectives	Actions to be undertaken	Actors	Schedule	Indicators
	Prosecute agents in breach of regulations and revision of eligibility conditions for the profession	***MEF***	***0-12 months***	***Legal capacity of agents improved***
	Reinforce the administrative capacity of Customs	***MEF***	***0-12 months***	***Increased effectiveness of the fight against fraud and specialization of agents***
	Strengthen the capacity of the Direction de la Valeur et des Enquêtes and its surveillance services	MEF	0-24 months	Better targeting on risky sectors
Fight against fraud	***Optimize statistics information from Sydonia and from Cotecna, notably from its database relating to the determination of the customs value of merchandise***	***MEF***	***0-12 months***	***Fraud reduced; Harassment in formal sector eliminated***
	Develop exchange of information among customs services in the sub-region, the regional local office of the WCO in Dakar, and UEMOA	WAEMU, WCO, MEF	0-24 months	Collaboration has become systematic
	Strengthen collaboration with the General Directorate of Taxation to foster understanding of all informal sector activities.	MEF	0-24 months	Idem
	Disseminate information on the outcome of the fight against fraud	MEF, media	0-24 months	Number of press releases
Fight against corruption	***Update the code of ethics to promote equitable treatment of users, better describe the forms of active corruption and specify bans on practicing the profession of customs agent for customs officers and relatives***	***MEF***	***0-12 months***	***Code of Ethics updated. Services to users more respectful and more equitable***
	Develop closer supervision of officer's activities by the immediate hierarchy; training of the hierarchy	MEF	0-24 months	Abnormal behavior noted. Number of undesirable agents identified
Computerization	Effective implementation of the direct entry of declarations at customs agents' offices	MEF	0-24 months	Service in place and being used
	Gradual implementation of the "selection of customs clearance operation to inspect" (selectivity) function and introduction of risk analysis	***MEF***	***0-12 months***	***Equity, effective controls and limited human intervention***

Objectives	Actions to be undertaken	Actors	Schedule	Indicators
	Further training in the use of Sydonia++, for customs staff and for the employees of registered customs agents	MEF	0-24 months	Better understanding of software and of customs clearance operations Technical errors reduced
	Development of a Sydonia++ statistics chain at customs and automation of statistics requests	MEF	0-24 months	Statistics reports available on a regular basis
	Strengthen production and management of statistics at customs. Recruitment of two statisticians for customs or upgrading of skills of two technicians	MEF	0-24 months	Good command of statistical operations and quality production
	Security audit of system, equipment, access procedures, etc.	MEF	0-24 months	Audit conducted
Securitization of revenues	***Modify COTECNA's contract to make it a capacity building and knowledge transfer contract for the benefit of Burkina Customs***	***MEF***	***0-12 months***	***Better division of roles between customs and its service providers***
	Better use of COTECNA tools—the securities' database, and expansion of the reconciliation field	***MEF, Cotecna***	***0-12 months***	***Better control against under invoicing. Additional revenues.***
	Prepare a study on products that are the main source of revenue, focus analysis on these products, and make the study available to all services through the WEB site or Sydonia ++.	***MEF***	***0-12 months***	***Study prepared and implemented. Revenues increasing.***
Trade policies and institutions				
Support the formulation and monitoring of an export strategy	***Develop and maintain a database on exports that is accepted by all government services***	***MEF, ONAC, MCPEA, Customs, MRA, MAHRH, MCE***	***0-12 months***	***Official tables available yearly***
	Formulate a national export strategy based on the DTIS		***0-12 months***	***Strategy approved***
	Strengthen the capacity of the MCPEA by creating a unit for the implementation of the Integrated Framework program	***MCPEA***	***0-12 months***	***Unit established***

Objectives	Actions to be undertaken	Actors	Schedule	Indicators
	Amend the mandate of the existing interministerial committee, to include all ministries concerned with exports	***MCPEA, MEF, Office of the Prime Minister***	***0-6 months***	***Committee established and meets regularly***
Strengthen the institutional framework for promoting exports and investments	***Conduct a study on options for reforming ONAC; refocus its activities on services that cannot be provided by the private sector***	***MCPEA***	***0-12 months***	***Study conducted and status of ONAC adapted***
	Create a matching grant fund to develop exports, partially financing the preparation and execution of export plans	MEBF	0-24 months	Fund established with independent management
	Conduct a study on the reform of the Taxe Patronale d'Apprentissage to make it an effective system for financing professional training	***Ministry of Works***	***0-12 months***	***Study conducted and implemented***
	Create a presidential council of investors and adopt a national plan to improve the investment climate	***Presidency***	***0-12 months***	***Council established and operational; plan adopted***
	Train Embassy staff in export promotion and evaluate their performance	Ministry of Foreign Affairs, ONAC	0-36 months	Training completed, system of evaluation modified
	Conclude a performance-based contract, with a reputable investment brokerage firm	MCPEA	0-24 months	Number of foreign investors attracted
Improve compliance with standards	Strengthen FASONORM	MCPEA	0-36 months	Exports experience fewer problems related to standards

1. GROWTH, TRADE, AND POVERTY

RECENT MACROECONOMIC PERFORMANCE

1.1 Burkina Faso is a land-locked country located more than 1,000 km from the sea, with modest natural resources and rather poor and uncertain rainfall. During the last ten years, Burkina Faso has faced considerable external obstacles, notably an unfavorable regional context owing to the crisis in Côte d'Ivoire, a difficult international environment marked by volatility and the declining trend in cotton prices and, more recently, rising oil prices and an appreciating currency. In spite of these obstacles, Burkina Faso's economic performance is commendable, compared with that of other countries in the sub-region (Table 1.1 and Chart 1.1). Indeed, its average growth rate was close to 6 percent between 2000 and 2005 and is rising steadily; inflation remained moderate at around 2 percent on average since 2000, and poverty is declining. In fact, Burkina Faso's economic rate of growth is the highest among UEMOA countries. This trend continued in 2006, as Burkina Faso registered growth of 6.4 percent.

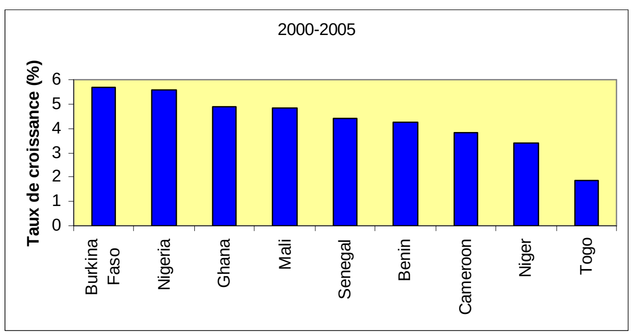
Table 1.1 : Macroeconomic Performance of Burkina Faso

	1986/93	1995/99	2000/05
Annual GDP growth (%)	3.4	5.0	5.9
Inflation (CPI, annual average)	-0.2	4.0	1.7
Poverty rate (%, 1998, 2003)	--	55	46
Budget deficit (end of period)	-4.9	-3.3	-3.9
Current account balance (end of period)	-5.9	-10.6	-9.3
External debt/GDP (end of period)	48.0	57.8	33.0

Source : IMF, World Bank

1.2 This performance is the fruit of a stable political environment and of sustained structural reforms implemented by the government during the last decade. In particular, the devaluation of the CFA Franc in 1994 and domestic adjustment efforts (market liberalization and restructuring of public enterprises) helped improve the efficiency of the economy and revitalized private investment, thus stimulating growth. This favorable environment also attracted significant capital flows from expatriate Burkinabé (60 billion FCFA, or about US$120 million in 2006) and from development aid (95 billion FCFA or US$190 million in 2006).

Chart 1.1: GDP growth rates in West Africa



Source: World Economic Outlook, 2006.

1.3 In 2004, Burkina Faso became the first country in the sub-region to prepare and implement a Poverty Reduction Strategy Paper (PRSP). It was also the first to reach the completion point and benefit from debt cancellation under the Enhanced Initiative for Heavily Indebted Poor Countries (HIPC) in 2002. In 2004, Burkina prepared a second generation PRSP for 2004-2006, which underscores economic diversification and trade deepening as catalysts of sustained and inclusive growth.

1.4 Thanks to these efforts, Burkina Faso has succeeded not only in accelerating growth, but also in reducing its volatility in comparison with neighboring countries. Indeed, despite the shocks mentioned above, growth has been less volatile and thus more sustained in Burkina compared with neighboring countries in the Sahel region, notably Mali and Niger. In contrast to these neighbors, Burkina does not seem to have experienced negative growth periods during the last ten years despite the shocks affecting the agricultural sector.

1.5 The challenge for Burkina Faso is to step up efforts to consolidate this sound performance in order to accelerate growth and deepen the fight against poverty. These efforts should be deployed on three fronts. The first consists in maintaining macroeconomic stability to improve the international competitiveness of the economy; the second, diversifying exports to expand trade and stimulate growth; and the third, strengthening social sectors and small operators in order to make growth inclusive and to maximize its impact on poverty reduction. This study focuses on the second challenge, taking into account the importance of participation by small operators.

THE CHALLENGES OF INTERNATIONAL COMPETITIVENESS

1.6 Different studies indicate that the devaluation of the CFAF considerably improved the international competitiveness of Burkina Faso and helped stimulate some exports, notably cotton. Burkina's nominal effective exchange rate has remained relatively stable during the last ten years, with an average growth rate of about 1 to 2 percent according to various estimates. This is largely due to the fixed parity of the CFAF to the French franc, and then to the euro since 1999, and to the fact that the major share of Burkina Faso's trade is with European or with WAEMU countries.

1.7 The restrictive monetary policies of the BCEAO (Central Bank of West African States), and internal fiscal consolidation efforts have helped dampen the domestic rate of inflation considerably. As a result, Burkina Faso has been able to curb the "reappreciation" of the real exchange rate since the devaluation, thus minimizing the erosion of its international competitiveness. Indeed, between 1994 and 2005, cumulatively, the real exchange rate (RER) "reappreciated" 19 percent (Table 1.2) owing largely to the appreciation in the euro in relation to the dollar since 2001. Consequently, the real exchange rate in 2005 remained 25 percent lower than the 1993 level, indicating that overall, during the last ten years the country remained competitive at the international level, thanks to the effective control of internal inflation. However, the CFAF has continued to appreciate in 2006 and 2007 relative to the dollar, with serious consequences for the cotton sector (see Chapter 2).

Table 1.2: International Competitiveness of WAEMU Countries, 1994-2005

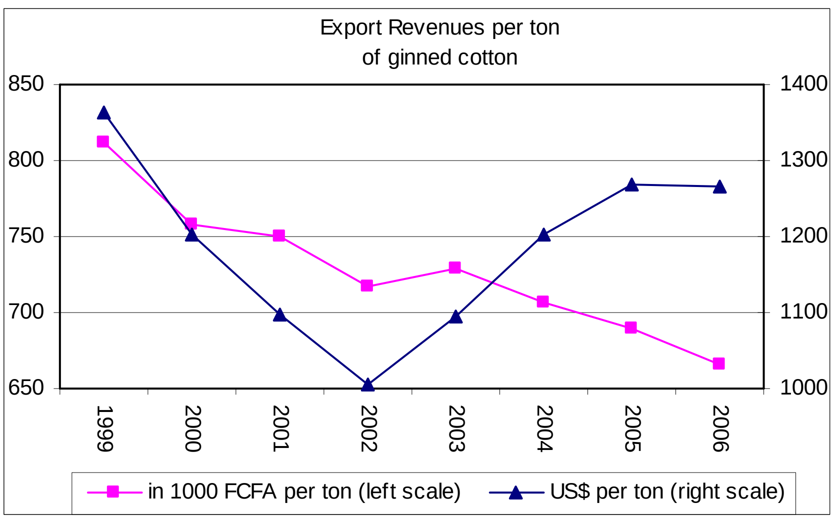
	RER (Base 100 = 1993)		Growth 2005/ 1993 (Net depreciation)	Growth 2005/ 1994 (reappreciation)
	1994	2005		
Benin	68.4	89.2	-10.8%	+30.4%
Burkina Faso	63.2	75.1	-24.9%	+18.8%
Côte d'Ivoire	62.5	84.3	-15.7%	+34.9%
Mali	60.8	69.4	-30.6%	+14.1%
Niger	68.6	77.1	-22.9%	+12.4%
Senegal	66.0	70.9	-29.1%	+7.4%
Togo	68.1	83.9	-16.1%	+23.2%
WAEMU	64.3	78.8	-21.2%	+22.6%
CEMAC	67.5	83.5	-16.5%	+23.7%
Zone Franc	65.6	80.7	-19.3%	+23.0%

RER = Real exchange rate
Source: Author's calculations from AFD (2005).

1.8 As is the case in all WAEMU countries, inflation in Burkina has three main components: (i) the cost of imports, (ii) the prices of agricultural products, especially subsistence crops, which are particularly vulnerable to natural shocks, and (iii) the prices of other non-tradable goods (construction, services), whose fluctuations depend on the preceding variables, but mostly on the evolution of domestic demand owing to fiscal and monetary policies, as well as external resource flows. Burkina Faso has managed to keep food prices down through expanded output, but it will be important to reduce the relative importance of food crops by diversifying the rural economy. Export crops can play an important role in this regard. Consequently, the challenges of macroeconomic stability, international competitiveness, and economic diversification are inextricably linked. It is important to maintain a stable and competitive real exchange rate in order to improve international competitiveness, thus promoting diversification of exports and sources of growth. In return, diversification reduces extreme concentration and thus growth volatility, allowing the economy to better absorb shocks; this contributes to the stability of domestic prices and thus to the maintenance of a real competitive exchange rate.

1.9 The value of the US$ has fallen 23 percent with respect to the Euro and the FCFA between 1998-99 and May 2007 (and considerably more since the early 2000s when the US dollar enjoyed a period of strength). While large inflows of foreign aid and remittances may enable Burkina Faso to support such an exchange rate for the time being, its appreciation is creating major problems for the competitiveness of its exports, and notably cotton. While the price of cotton in US$ has recovered somewhat in the last few years, the continued decline in the value of the dollar has resulted in a steady deterioration in the FCFA revenues earned from cotton (see Figure 1.1).

Figure 1.1: Export Revenues per ton of cotton fiber



Source: author's calculations

THE STRUCTURE OF THE ECONOMY

1.10 In spite of the encouraging performance noted above, the burkinabè economy remains undiversified and highly dependent on two main sectors: agriculture and livestock (20 and 12 percent of GDP 97-04), on the one hand, and government (16 percent of GDP), on the other hand. As Table 1.3 shows, the structure of the economy has changed very little during the last ten years. Agriculture is the main productive sector, accounting for about 20 percent of GDP on average. It remains very extensive, with little irrigation, and is thus highly dependent on the vagaries of the weather, resulting in great variation in agricultural growth.

Table 1.3: Burkina Faso: Structure of the economy, 1997-2004 (% of GDP)

	1997	2004	Average 97-04
Gross Domestic Product	100.0	100.0	100.0
Primary Sector	**35.7**	**34.4**	**36.8**
Agriculture	19.1	18.9	20.4
Livestock	11.6	11.9	12.5
Fisheries and Forestry	5.0	3.6	3.9
Secondary Sector	**19.2**	**17.8**	**16.5**
Mines	0.6	0.8	0.5
Manufactured Goods	13.8	12.1	11.4
Electricity, Gas and Water	1.3	1.0	0.8
Construction	3.5	3.9	3.9
Tertiary Sector	**42.8**	**39.6**	**40.5**
Trade	16.0	7.5	8.1
Transport	4.5	7.2	6.5
Non-tradable Services	11.3	14.7	15.9
Other Services	11.0	10.2	10.0
Taxation and indirect taxes	2.4	8.3	6.2

Sources: World Bank, Burkina Faso: Poverty Assessment, 2005.

1.11 Agriculture employs close to 78 percent of households, with the majority engaged in the food crop sub-sector, which accounted for about two-thirds (63 percent) of the value added of the sector in 2005. Cotton is the main cash crop and accounts for about 21 percent of the value-added of agriculture. However, the economic weight of cotton is more important in terms of revenue generation for the population. According to the 2003 survey on the living conditions of households, cotton accounts for about 27 percent of cash income from agriculture, compared with 25 percent for cereals, which nevertheless represents two-thirds of the value of agricultural products. In addition, several manufacturing sector industries depend on cotton—ginning, cotton oil, and fertilizers.

1.12 Fortunately, Burkina Faso's cotton sector has recorded remarkable growth. National production has quadrupled since 1996, a 17-percent annual growth rate, which now makes Burkina Faso the top ranking cotton exporter in sub-Saharan Africa. Growth in cereal production has been lower, with the exception of maize whose production in the last ten years has doubled, due, in part, to the fact that maize cultivation alternates with cotton production during the annual production cycle. In total, agricultural production increased 7.3 percent on average between 1997 and 2003 (but by only 5.3 percent, if the poor rain year of 2004 is taken into account). Livestock farming also registered reasonable growth of 5.9 percent, although there has been a slowdown in the past five years, partially owing to the crisis in Cote d'Ivoire, which is the main export market for livestock products from Burkina.

1.13 The secondary sector is modest in size—about 17 percent of GDP—but its two important components, manufacturing industries and construction, also recorded sound performance. In addition, the mines sub-sector has recovered significantly since 2002. The performance of the construction sector partially reflects remittances from expatriate Burkinabè as well as development aid, among others. However, the industrial base still remains weak.

1.14 The tertiary sector accounts for about 40 percent of GDP. Non-tradable services have been the second pillar of growth for the last ten years, with increased public spending due to development aid and ultimately to external debt reduction. This sub-sector also has a significant ripple effect on other services and on construction.

Table 1.4: Burkina Faso : Sectoral Growth, 2001-2004 (%)

	2001	2002	2003	2004 (Est.)	2001-04 Average
Primary Sector	**15.0**	**2.4**	**10.8**	**5.2**	**8.4**
Agriculture	32.2	1.0	15.5	5.7	13.6
Livestock	4.9	4.9	2.5	2.5	3.7
Fisheries and Forestry	3.0	3.0	3.0	4.5	3.4
Secondary Sector	**0.4**	**14.1**	**10.4**	**4.1**	**7.3**
Mines	-87.7	64.2	4.2	17.2	-0.5
Manufacturing	3.7	14.5	11.4	3.9	8.4
Energy	-1.0	35.2	10.9	3.2	12.1
Construction	-0.5	8.3	7.4	4.6	5.0
Tertiary Sector	**2.4**	**3.7**	**5.5**	**3.8**	**3.9**
Tradable Services	2.3	5.6	7.8	2.0	4.4
Transport et Telecommunications	2.7	5.2	6.7	3.6	4.6
Trade	2.7	5.2	6.7	3.6	4.6
Banking and Insurance	7.1	10.4	6.5	-17.6	1.6
Other services	0.8	5.2	9.8	3.6	4.9
Non Tradable Services	2.7	0.7	1.9	6.9	3.1
Gross Domestic Product	**6.8**	**4.6**	**8.0**	**6.0**	**6.4**

Source: Poverty Reduction Strategy Paper, 2004.

THE CHALLENGES OF TRADE INTEGRATION

Boosting exports

1.15 In contrast with its sound macroeconomic performance, Burkina's trade performance raises great concerns, even when compared with the other countries in the sub-region. In spite of the growth performance of the cotton sector, Burkina's export rate remained the lowest in the sub-region, barely reaching 10 percent of GDP over the last ten years (see Table 1.5). The trend was even negative in recent years, with the export rate falling 4 percentage points between 1998 and 2004 (from 12.9 to 8.6 percent) owing to the closing of industrial gold mines, and to the reduction in livestock product sales. In contrast, Mali's export rate rose more than 3 percentage points over the same period, in spite of the difficulties plaguing its cotton sector. Consequently, the current account registered a significant structural deficit, which averaged 14 percent of GDP over the 1998-2004 period, and remained at 13.4 percent in 2006. This disequilibrium was financed by relatively significant flows of external resources, primarily grants or highly concessional assistance, as well as remittances from burkinabè expatriates.

Table 1.5: Average Annual Export/GDP Ratio 1998-2004

Year :	1998	2002	2004	Average
Côte d'Ivoire	39.4	49.6	48.1	**43.6**
Togo	29.7	33.8	33.5	**31.7**
Senegal	30.3	30.6	27.8	**29.8**
Mali	24.8	31.9	28.0	**28.3**
Guinea-Bissau	14.4	29.9	34.9	**28.1**
Niger	17.8	15.2	15.9	**16.5**
Benin	17.1	14.3	15.1	**15.3**
Burkina Faso	**12.9**	**8.5**	**8.6**	**9.6**
WAEMU	30.0	33.3	31.3	**30.8**

Source: World Development Indicators, 2006.

1.16 The well-known export weaknesses are a major challenge that Burkina will have to address to diversify its economy and strengthen growth. The experience of emerging countries indicates that countries that participate more in international trade are more successful at accelerating growth and reducing poverty than the others. China and India are the most recent and obvious examples of the effect of trade on growth, even for big countries with extensive internal markets. Trade is even more important for small countries such as Burkina Faso (see Table 1.6). In spite of the success of cotton in Burkina Faso, the ratio of exports plus imports in relation to GDP remains far below the ratio of small and medium-sized countries which have been most successful in promoting growth, and the trend for Burkina Faso has been going in the wrong direction. In addition, this ratio masks the fact that trade in Burkina Faso is dominated by imports. A comparison of exports to GDP would show an even clearer contrast.

Table 1.6: **Evolution of trade integration in emerging countries and Burkina Faso**

(exports + import/GDP)

	1970s	1990s
Vietnam	0.58	1.59
Costa Rica	0.76	1.18
Thailand	0.47	0.89
China	0.13	0.32
Burkina Faso	**0.45**	**0.41**

Source: Author's calculations.

1.17 Exports are an important growth lever for several reasons. The first is demand. Exports access the international market, which is much larger and richer than the domestic market. As a result, demand is anchored in a sometimes more demanding but much more important market, with much greater opportunities for growth in sales. This is true for all countries, but even more so for small and poor countries where effective domestic demand is highly constrained by the small size of the market and the low level of incomes.

1.18 The second effect of export growth is related to production. The greater exposure of local operators to international competition and to the rigors of the international market encourage emulation, the adoption of innovations and thus the competitiveness of exportable goods sectors, which is favorable to transformation and growth. The third is that a dynamic export sector fosters national and foreign investments, thus increasing access to capital and to technology. The fourth effect is that it helps generate foreign exchange, which helps improve the capacity to import and to finance imports of intermediary and capital goods that are essential to growth as well as to the improvement of technology and productivity. Finally, export-led growth helps avoid inflationary pressures that often result from domestic consumption-led growth, thus helping maintain macro-economic stability and international competitiveness. For these reasons, trade integration is essential to accelerated growth.

Understanding current trade flows

1.19 It is not easy to understand the current status of exports let alone to identify trends. As indicated in Box 1.1, except for cotton, there are major discrepancies in all other important export categories, between statistics from Customs, from the Ministry of Economy and Finance, after adjustments, and from the Ministry of Animal Resources (MRA), in the case of live animals. This is due, in part, to the size of informal trade, which dominates trade in live animals, in gold, cereals, and peanuts. Official Customs statistics indicate that 53,112 heads of cattle were exported in 2003, and report a declining trend; the MRA reports 152,356 cattle and a rather stable trend. Customs also seems to underestimate the value of animals. Similarly, most gold exports are not accounted for as this sector is dominated by small miners whose buyers prefer selling through informal channels, especially in Ghana.[2]

1.20 Even more surprising, exports through more formal channels to markets outside Africa are also affected by this problem. The most striking example is that of hides and skins, mostly exported by a single modern firm to Europe and North Africa. According to Customs, these exports almost stopped in 2004, while MEB estimates that they reached 22.6 billion CFAF and became Burkina's second major export, according to their calculations—or the third, according to this study. In contrast, Customs statistics on fruit and vegetable exports present a more positive picture, with recent growth that is not in line with discussions with sector actors.

1.21 For the current study, official figures for live animals and gold have been corrected. The Balance of Payments Committee of the MEF also makes adjustments for its macroeconomic forecasting model, and their results seem more realistic, except for live animals. In contrast, the Ministry of Trade, Business Promotion and Handicraft *(Ministère du Commerce, de la Promotion de l'Entreprise et de l'Artisanat*--MCPEA) and its export development agency (ONAC) use Customs data that give a very different impression of the situation. An export development policy must be based on thorough knowledge of the current situation: it will therefore be important to generate more accurate data. Finally, we used adjusted MEF data, except for live animals, for which MRA figures are more convincing.

[2] It is estimated that these exports are ten times higher than official figures.

Box 1.1: Export Structure in Burkina Faso : Difficult to determine

	Value (in billions of CFAF)						
	According to Balance of Payments Committee, MFB						According to Customs
	1992-2001	2002	2003	2004	2005	Share (%)	2004
Cotton	62.3	97.4	119.9	163.2	146.9	57.0	153.9
Live animals	15.6	34.9*	23.2*	27.0*	36.3*	11.6	3.3
Leather and skins	9.7	18.0	18.6	22.6	22.9	8.4	0.1
Oilseeds	7.6	13.1	14.7	19.5	22.1	7.7	13.1
Non-monetary gold	9.0	4.7	5.2	7.0	9.5	3.0	1.1
Fruits, vegetables and cereals	2.7	2.5	1.3	1.5	1.7	0.7	5.8
Other	23.0	20.7	21.6	31.0	32.3	11.6	38.2
TOTAL	**130.1**	**191.3**	**204.5**	**271.9**	**271.7**	**100**	**215.7**

* After corrections by authors

Source: The Balance of Payments Committee, as reflected in the Automatic Forecasting Instrument (*Instrument Automatisé de Prévision—IAP)* of the Ministry of Economy and Finance; Customs figures for 2004 are from the CASEM report (2005).

Live animals: There are two sources of official statistics on live animal exports: the MRA and Customs. The MRA collects data through 14 livestock markets. This data is probably overestimated by 15 percent because of misleading information from buyers on their intentions (export or local sale). But Customs' data seems to underestimate exports to a much larger extent. There may be a general lack of interest for exports as they generate a lower level of revenues than imports, and are under-recorded due to corruption. Because MEF estimates are based on Customs figures, this study uses adjusted MRA data.

Hides and skins*:* The difference between MEF and Customs data is even more striking. Customs data show a dramatic decline in 2003 and almost no exports in 2004, which is not in line with other information on the soundness of the only exporter, TAN-ALIZ. MEF data are surprising in the opposite sense, but are probably more realistic.

Gold*:* Given that most of the gold is exported through informal channels, this study based its analysis on surveys conducted among gold miners during the PRECAGEME project. Our estimates for 2005 are around CFAF 10 billion, or ten times higher than Customs statistics. Because MEF estimates are similar for that year, this study kept its estimates.

Diversifying trade

1.22 With such unreliable data, analysis is risky. But one thing is clear: exports from Burkina are highly concentrated on one primary product, cotton, which accounts for 57 percent of exports from the country. This concentration worsened with the success of cotton and problems in other sectors. On average, cotton accounted for 48 percent of exports during the 1990s. However, the situation is less dramatic than suggested by statistics from Customs, which show that the share of cotton in exports is more than 70 percent, owing to the underestimation of other products.

1.23 Nonetheless, cotton dominance signals the need to diversify sources of exports. It is never healthy to be so dependent on one product, especially a primary product with fluctuating prices. In addition, cotton prices have been on a downward trend over the last ten years, and they are denominated in dollars which have been losing value relative to the CFAF. In spite of promises to gradually eliminate subsidies to producers in developed countries, which are partly responsible for the falling prices, it is highly likely that the falling trend will continue, perhaps with a brief recovery in 2012, when these subsidies are supposed to end.

1.24 The other agro-pastoral products represent approximately 30 percent of Burkina's exports in 2001-2004. These are primarily live animals, hides and skins, and oilseeds. Fruits and vegetables were considered a particularly promising sub-sector ten years ago, but, since then, the sector has known a relative and absolute decline. These exports are traditionally dominated by mangoes and green beans sold in Europe, but there are also exports to the sub-region.

1.25 Oilseeds include sesame, shea nuts, peanuts and cashew nuts. These exports have grown steadily, especially sesame and shea nuts, because of a surge in international demand. According to FAO figures, sesame exports have tripled in volume and in value in the last ten years to exceed CFAF 5 billion (US$10 million) in 2004. The case of shea nuts is less clear, as part of the crop informally crosses borders into neighboring countries before being re-exported abroad. The FAO database shows that exports varied from CFAF 0.3 to 2.3 billion (US$0.5-4.5 million) for the 2000-04 period. In contrast, MFB estimates that shea nut exports have amounted to about CFAF 5 billion (US$10 million) on average since 1998, and exceeded CFAF 10 billion (US$20 million) in 2004.

1.26 Exports of livestock products from Burkina Faso grew steadily after the devaluation. This involved mainly live cattle, goats, and sheep, most of which are shipped by truck to coastal countries, but also sometimes on the hoof. According to MRA figures, the increase in goat exports has been particularly strong since the devaluation, with an average annual growth rate of 10 percent between 1995 and 2001. Since 2000, Customs figures have been so different from those of MRA that it is difficult to identify any trends. Growth seems to have been reversed for all categories with the crisis in Côte d'Ivoire, which used to be the largest market for Burkina Faso. However, the new figures for 2005 show a major pick-up in all categories, as well as record sales for small ruminants.

1.27 Exports of hides and skins were relatively successful in the 1990s, reaching exports of CFAF 9.7 billion on average. This figure has doubled during the last five years, according to MFB. Hides and skins have thus become as important as all the oilseeds put together. There were modest exports of meat in the past, but these have been negligible since the closing of the responsible parastatal.

1.28 The largest source of exports outside the agro-pastoral sub-sector is gold. This sub-sector comprises two very different components—one modern, the other informal. The modern sector closed in 1998, following a fall in gold prices, but reopened in 2006 and benefits from significant foreign investments. The informal sector of small miners continued, but with less control from the government and thus more and more unreliable data. Gold is easily transported and sold in Ghana through informal circuits that elude customs. The real value of gold exports is estimated at around US$20 million.

1.29 In recent years, the modern mining sector has benefited from significant investments and will continue to grow in terms of production and of exports. Extensive exploration is currently underway and the perspectives are encouraging for the discovery and exploitation of new deposits, notably zinc but also manganese and phosphates. The total value of mining exports may approach those of cotton by 2010 (see Chapter 5). Some measure of export diversification therefore is expected thanks to the mining sector, although the number of people directly involved will remain small.

1.30 Manufacturing industries make a minor contribution to exports—perhaps CFAF 10 billion—with the bulk of production destined for the local market. However, a non-negligible part of so-called "agricultural" products are, in fact, made up of transformed products, such as cotton fiber, cottonseed oil, shea butter, sugar and hides and skins. Other products are likely to be exportable to the local markets: mopeds, tires and inner tubes, sheet metal, batteries, cardboard, insecticides and pesticides.

1.31 The geographic destination of exports and the origin of imports indicate that foreign trade in Burkina is concentrated not only on a few products, but also on a few countries. For example, over the 2001-2003 period, Singapore, France, Colombia, and West Africa were the main destinations for Burkina exports. Imports consist primarily of intermediary products, food commodities, and oil products. France is the top supplier of products to Burkina Faso (about 30 percent of the country's imports), followed by Côte d'Ivoire (about 14.4 percent). Close to 30 percent of Burkina imports come from ECOWAS countries.

1.32 Once more, the lack of reliable data on exports makes it difficult to analyze the geographic destination. However, as an enclave country, regional trade is particularly important for Burkina Faso, even according to official statistics (Table 1.7). WAEMU absorbs approximately 18 percent of Burkina exports, the highest among all member countries. In contrast, the proportion of its exports to other African countries is among the lowest. The role of regional trade would be even greater if one took into account informal flows not captured in official figures. The bulk of these exports are livestock products, notably live animals, but also agricultural exports, such as fruits and vegetables and cereals, gold, as well as some exports of manufacturing products.

Table 1.7: Geographic destination of exports, average 1998-2000

	Africa (outside WAEMU)	WAEMU	Rest of the world
Benin	11.2	4.4	84.3
Burkina Faso	2.2	18.0	79.8
Côte d'Ivoire	21.4	11.8	66.8
Mali	2.1	13.6	84.3
Niger	37.5	6.5	55.9
Senegal	19.4	17.6	63.0
Togo	13.8	8.5	77.6

Source: WAEMU, 2004

RECENT GAINS IN POVERTY REDUCTION

1.33 In spite of some weaknesses in the data, recent studies on growth and poverty in Burkina converge on an encouraging assessment: Burkina's sound macroeconomic performance during the last decade also translated into appreciable gains in terms of poverty reduction. These gains were not initially apparent in the official statistics on poverty. Indeed, demographic and health surveys conducted by the National Institute for Statistics and Demographics *(Institut Na-*

tional de la Statistique et de la Démographie) in 1994, 1998, and 2003 revealed a "resilience", or even a slight increase in the incidence of poverty, which is reported to have risen from 44.5 percent (1994) to 45.3 percent (1998) then to 46.4 percent (2003). This is surprising given that the average per capita income rose steadily during the period at an average annual rate of close to 3 percentage points, and that this growth was based on the production of small farmers.

1.34 However, a study conducted as part of the preparation for a poverty assessment [3] by the World Bank attributes this paradox to a change in methodology from one survey to another, making the results not directly comparable. After the necessary adjustments to ensure comparability, the authors concluded that, indeed, the incidence of poverty declined significantly by about 8 percentage points, from 54.6 percent in 1998 to 46.4 percent in 2003 (see Table 1.8). Similarly, and on the basis of the same survey data, another study conducted by Grimm and Gunter on growth and poverty in Burkina Faso[4] concluded—also after reexamining the data—that the incidence of poverty has declined considerably (in the order of 14.6 percentage points) between 1998 and 2003, from 62 percent to 47 percent. Thus, the two studies converge on the conclusion of a significant drop in poverty during the 1998-2003 period. This tallies better with the macroeconomic evidence on average income.

Table 1.8: **Burkina Faso: Evolution of poverty rate (% of population below poverty line)**

	1994	1998	2003
WB poverty assessment			
National rate		54.6	46.4
Farming households, tradable products		53.1	47.1
Farming households. non-tradable products		61.8	55.3
Grimm/Gunter Study			
National rate	55.8	61.8	47.2
Cotton households	62.1	58.2	46.8
Farming Households non-cotton	64.1	71.6	57.2

Source: World Bank, Poverty Assessment, 2004; and Grimm and Gunter, 2004.

1.35 Rural poverty is higher than urban poverty, but it seems that the former declined more rapidly. According to the World Bank's poverty assessment, the sharp decline in the incidence of poverty between 1998 and 2003 (about 8 percentage points) is associated with the incidence of poverty in the rural sector (-8.8 points), since the incidence in urban areas has changed less (-2.5 points). This should reflect the sound performance of its agro-pastoral sector, which increased revenues in areas where most of the poor are found.

1.36 Although data on poverty should be treated with circumspection—especially when making comparisons among countries—a few preliminary conclusions can be drawn using such an analysis for countries where data is available (Table 1.9). As in all African countries, poverty in Burkina Faso is more pronounced in rural than in urban areas. But poverty in urban areas is similar in most countries in the sub-region, and clearly lower in Burkina Faso than in Mali or Senegal. The relative situation of Burkina Faso is similar for rural poverty (with the exception of Benin). Burkina's performance was similar to those of Cameroon and Ghana, two coastal countries that are richer and better endowed with natural resources.

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

[4] M. Grimm and I. Gunter, « Operationalizing Pro-Poor Growth: A Country Case Study on Burkina Faso », October 2004. This study was conducted within the framework of a program financed by French, German, and UK development agencies, and by the World Bank.

Table 1.9: Urban and rural poverty rates in select African countries

	Year 1			Year 2			Gain (in points)		
	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
Benin (1999, 2002)	29.3	/	/	28.5	23.6	31.6	-0.8	/	/
Burkina (1998, 2003)	**54.6**	**22.4**	**61.1**	**46.4**	**19.9**	**52.3**	**-8.2**	**-2.5**	**-8.8**
Cameroon (1996, 2001)	53.3	41.4	59.6	40.2	22.1	49.9	-13.1	-19.3	-9.7
Ghana (1992, 1998)	51	28	64	39	19	49	-12	-9	-15
Mali (1994, 1998)	69	/	/	63.8	30.1	75.9	-5.2	/	/
Senegal (1994, 2001)	57.9	/	/	57.1	45.7	65.2	-0.9	/	/

Source: World Bank, Poverty Assessments Benin, Burkina Faso, Cameroon, Mali, and Senegal.

THE CONTRIBUTION OF TRADE TO THE FIGHT AGAINST POVERTY

1.37 The encouraging developments noted above confirm the determining role of growth and its sectoral distribution in the fight against poverty. In general, the more intense growth is and the sectors that employ the majority of the poor, the greater its impact on poverty reduction. Alternatively, the more growth is based on an enclave or worsens inequality, the less its likely impact on poverty reduction. Consequently, the promotion of exports, notably in agricultural sectors which employ a large part of the population, not only has the potential of stimulating growth, but also of increasing its impact on poverty reduction.

1.38 Burkina Faso has enjoyed strong growth in agricultural production, for the domestic market as well as for exports. Thus, the poverty of households specialized in the cultivation of crops considered non-tradable (such as cereals) fell at the same rate as poverty among households that focus on tradable goods (notably cotton). Table 1.9 shows this evolution between 1998 and 2003, according to the World Bank's Poverty Assessment. However, this same table also shows the results of another analysis which distinguishes between cotton producers and other agricultural producers, over a longer period. Grimm and Gunter estimate that the rate of poverty among cotton farmers declined sharply, from 62.1 percent in 1994 to 46.8 percent in 2003—a 15 percentage point reduction in the rate of poverty, compared with 7 percentage points for subsistence farmers. At the same time, the percentage of rural households earning income from cotton almost doubled, rising from about 10 percent to 18 percent over the decade. The reduction in the incidence of poverty among households employed in the cotton sector made a positive and significant contribution to the reduction of rural poverty—and thus national poverty in Burkina Faso.

1.39 Burkina Faso has succeeded in making cotton its main export commodity and an engine of growth. Cotton has served to create employment and increase farming income, but also in manufacturing industries (ginning, oil, cotton cakes, thread), inputs (pesticides) and services (transportation of inputs and the harvest). Overall, the cotton sub-sector contributed an average of up to CFAF 4 billion to government revenues during 2002-04 (WAEMU, 2005). In addition, it has also had a positive impact on the production of maize, which is cultivated in rotation with cotton (see chapter 2). Unfortunately, falling prices over the last 12 years, a rising currency more recently, and an inadequate cotton pricing mechanism have challenged the competitiveness of the industry and resulted in a financial burden for the government.

1.40 Export crops will probably become even more important now that subsistence farming is approaching food self-sufficiency, at least for traditional crops. The growth in these crops will be limited by the growth rate of the domestic market, unless they also become export products (which is not impossible). This phenomenon has already been observed in countries such as Ghana and Uganda, where subsistence farming is normally able to meet the national needs for basic products (Table 1.10).

Table 1.10: Evolution of poverty rate in Ghana and in Uganda (% of population below the poverty line)

	1st Year	2nd Year
Ghana (1994, 1998)		
Farming households, cash crops	64	39
Farming households, subsistence crops	68	59
Uganda (1994, 2000)		
Farming households, cash crops	63	30
Farming households, subsistence crops	63	46

Source: Christiaensen, Demery and Paternostro (2002).

1.41 In summary, Burkina Faso has succeeded in making cotton a true leading sector. A few other primary sectors—such as livestock products—have had some measure of success following the devaluation of the CFAF. In contrast, other sub-sectors—such as fruits and vegetables, and meat—have instead suffered from unsuccessful liberalization of the sub-sectors, the withdrawal of subsidies, and the absence of structured support to the private sector. In view of the decline in cotton prices, the inherent risks of an undiversified economy, and the need to involve more actors in economic growth, it is becoming urgent for Burkina Faso to intensify its efforts to develop other sources of exports. The prospects are encouraging for several sub-sectors on the regional and international markets, and Burkina Faso can benefit from lessons drawn from the experience with cotton. The following chapters analyze the case of cotton followed by promising sectors that can allow Burkina Faso to improve its export performance, diversify its economy, accelerate growth, and further reduce poverty

2. COTTON: A CRISIS OVERSHADOWS PAST SUCCESS

2.1 With the tenfold increase in its production during the last 25 years, Burkina Faso has become the largest cotton producer in sub-Saharan Africa. During the last ten years, cotton production increased at an average annual rate of 17 percent in Burkina Faso, compared with 2 percent a year in the world, and Burkina Faso's share in world exports tripled. Such a performance is unmatched anywhere else in sub-Saharan Africa and is all the more striking because it was achieved in a context of falling world prices. For many years, the government, the ginning company and the farmers have drawn profits from the sector, particularly after the 1994 devaluation.

2.2 The expansion of cotton growing in Burkina Faso has contributed to poverty reduction. Currently, cotton is cultivated by some 250,000 small family farms, and one Burkinabè out of six earns cash income from cotton cultivation. Cotton expansion did not occur at the expense of other food crops. Quite to the contrary, it helped boost the production of cereals, in particular maize, which is grown in rotation with cotton and benefits from fertilizers bought with cotton credit. From 1980 to 2003, maize production increased six-fold, allowing Burkina Faso to export during bountiful years.[5]

2.3 In spite of important reforms, the cotton sub-sector, like all the other cotton supply chains in West Africa, is now facing enormous difficulties. These are due primarily to a combination of external shocks (the decline of the world cotton price and of the dollar) and the fact that economic actors continue to behave as if the State will always be there to bail them out in time of crisis, regardless of the liberalization of the sector. As a result, these actors have continued to set relatively high producer prices and to invest little in improved productivity in the operation of the cotton companies or in the field; nor have they managed price risks using existing price volatility instruments. Accumulated losses over the last three years now exceed US$130 million and require an urgent recapitalization of the three cotton companies.

2.4 The cotton companies have focused exclusively on output expansion through increased acreage without paying attention to economic profitability. There is an urgent need to concentrate on productivity enhancement at all levels of the supply chain. At the same time, there are some positive lessons to be drawn from this experience which may be relevant to the development of other sub-sectors.

THE PRODUCTION SYSTEM

2.5 Cotton farming was launched in West Africa in the wake of the Second World War as a vertically integrated sector. A public enterprise (currently known as SOFITEX) was established in partnership with a French public enterprise (CFDT, which became DAGRIS). It was granted a monopoly for the purchase of seed cotton and a virtual monopoly for the supply of inputs. It provided technical support to farmers and financed cotton research. SOFITEX delivered inputs (seeds, fertilizers and pesticides) on credit and collected seed cotton in villages. Since farmers could only sell their seed cotton to SOFITEX, the latter recovered the cost of inputs by deducting it from the purchase price of seed cotton. SOFITEX dealt with village associations acting as intermediaries with farmers; in turn, banks dealt with SOFITEX, which was the intermedi-

[5] FAOSTAT. For an analysis of the correlation between cotton and maize production, see CAPES: "*Exportations, Croissance et Lutte contre la pauvreté au Burkina Faso*", p. 35.

ary with village associations. This practice considerably lowered administrative costs and allowed small farmers to obtain credit easily.

2.6 With the expansion of cotton cultivation, producer associations had to be strengthened. The cotton growers' association (*Union Nationale des Producteurs de Coton du Burkina*—UNPCB) became a five-level pyramid with some 250,000 growers at the bottom, 8,000 cotton producer groups at the second level, 180 departmental unions at the third level, 17 provincial unions at the fourth level and an apex at the top. As messages were transmitted rapidly from the top to the bottom and vice-versa, management remained in close contact with its base and the UNPCB became a credible institution and an indispensable element in everything related to cotton policy. In its capacity as co-owner, with 30 percent of shares, the UNPCB has participated in the management of SOFITEX since 1999, and in the management board (established in June 2000), where it now holds 6 seats out of 12.

2.7 The SOFITEX monopoly was removed in 2004 with the creation of two private enterprises: FASOCOTON in the center of the country and SOCOMA in the east. These two new enterprises currently account for less than one-fifth of national production, but their share could increase in the coming years. The main provisions of the memorandum of understanding signed on September 3, 2004, can be summarized as follows:

- The model of the integrated sector will be maintained.

- A single floor price, applicable throughout the country, will be announced on the eve of sowing and will be supported by a smoothing fund and a line of credit.

- Each enterprise will have a monopoly on the purchase of seed cotton within its zone for eight years; however, it must (i) supply producers with quality inputs on credit; (ii) clear up input credits on collection of seed cotton; and, (iii) buy all the seed cotton produced in its zone at a price no lower than the national floor price.

2.8 Producers located in each of the three zones continue to be represented by a single association, the UNPCB. The management committee was replaced in 2005 by the *Association Interprofessionnelle du Coton du Burkina* (AICB) with 6 seats held by the producers and 6 by companies – two seats for each company. Each company can be managed as it wishes, but the producer price remains the same in the three zones.

THE PRICING PROBLEM

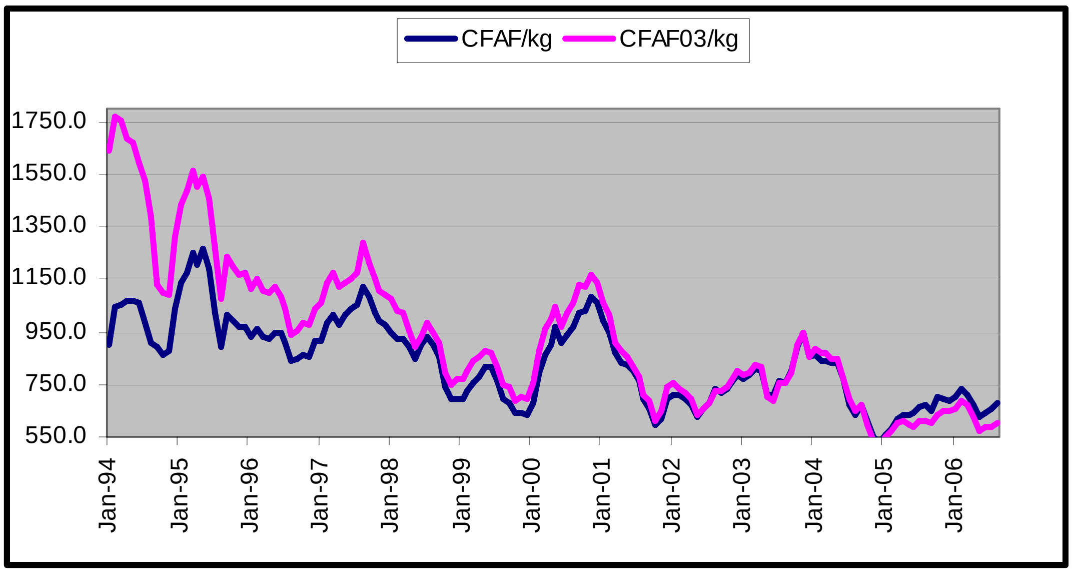
The evolution of world prices

2.9 World cotton prices (as measured by Cotlook Index A) fell by half in constant dollars during the last twenty years. On the one hand, world cotton consumption per capita remained stagnant, while the share of synthetics in total fiber consumption quadrupled. On the other hand, world production continued to increase at the same rate as the population, despite the drop in prices. This can be explained in two ways. Falling world prices were offset by increased subsidies in several countries, including the United States, China, Greece, and Spain; indeed, production rose in the United States and in China, the largest world producers. At the same time, production costs declined in several countries due to the use of genetically modified seeds (GM), and the opening of new territories such as Mato Grosso in Brazil.

2.10 Since world cotton prices are quoted in US dollars while the bulk of expenses in the Burkina cotton sector are incurred in CFA francs or in a currency that has fixed parity with the CFAF (previously the French Franc, today the euro), the sector's financial situation is affected by changes in both dollar prices and exchange rates. The sector's situation improved considerably with the devaluation of the CFA franc in 1994, which coincided with high dollar prices. It deteriorated in 2004 with the combined decline in the dollar and in dollar prices. In December 2004, the F.O.B price (CFAF 480 per kg) was 30 percent below the cost price (estimated by SOFITEX at CFAF 685). Since its devaluation in 1994, prices have followed a cyclical three-year pattern along a strong downward trend when prices are expressed in constant CFA franc (at 2003 prices).

2.11 The elimination of subsidies to producers by the United States and the European Union could raise world prices by 10 to 15 percent, but this would be a one-time increase, which would not be repeated and would not affect the long-term trend. The new interest in bio-fuels in the United States appears to be encouraging a shift out of cotton into corn and other crops which can be transformed into ethanol. One can hope, therefore, that the price of cotton in US$ may stabilize or even increase slightly in the coming years.

Figure 2.1 : Index A per kg in constant and current CFAF (Jan. 94-Aug. 2006)



The negative impact of the exchange rate

2.12 On the other hand, the exchange rate has continued to appreciate since 2001 and there is no sign of a change in this tendency in the near future. Over the last three years, the value of the dollar has deteriorated significantly in relation to the euro. This is the major factor explaining the accumulated losses in the sector, as the world cotton price has actually recovered slightly from the lows hit in 2004/05. This erosion in the dollar is extremely costly for exporters of commodities such as cotton whose price is quoted in dollars. Unfortunately, the euro-dollar relationship is essentially an exogenous factor for Burkina Faso, as it shares a common currency with 13 African countries who have collectively agreed to fix it to the euro.

Producer prices

2.13 In spite of the volatility of world prices, prices paid to producers have remained fairly stable in real terms during the last twelve years. They averaged 195 CFAF at 2003 prices, with variations from the average ranging from -10 percent to +6 percent. The downward trend in world prices was offset by the increase in the share of world prices received by Burkina Faso producers: from less than 50 percent in the first five years following the devaluation to 60 percent in the last seven.

Figure 2.2 : Index A and Producers Prices per kg of fiber in 2003 CFAF

2.14 In the years following the devaluation, the sector made large profits, a sizable part of which went to the Treasury, which had to fight inflation stemming from the devaluation; the level of the public deficit was then the most critical performance criteria in IMF-supported programs. When world prices fell, the share of the treasury fell and SOFITEX succeeded in reducing its costs; but these savings were insufficient. In 2004/05, prices in CFAF were at their lowest, all the harvest, which was abundant, was bought at the agreed price, but cotton companies suffered heavy losses.

2.15 By announcing the floor price before sowing, the risk resulting from price fluctuations within the crop year is shifted from the producer to the cotton company. The latter can reduce this risk by selling part of the crop in advance (even before the cotton is sown) and by resorting to different market instruments (purchase of put options, futures market sales). But the use of these instruments is limited. First of all, the most active futures market is the New York Cotton Exchange, but this relates to a different type of cotton and so the fluctuations on this market are often different from those of the cotton exported by Burkina Faso; the creation of a futures market in euros was envisaged some years ago, but the project seems to have been abandoned. As well, the futures contracts do not exceed 18 months and the most active contracts are only effective for six months. Therefore, the futures market does not protect against the risk stemming from the price fluctuations from one year to another.

2.16 A significant portion of production costs cannot be adjusted downwards when world prices fall; these are the cost of inputs bought the previous year, the cost of transportation from the factory to the port of the importer, and financial costs. Based on reasonable estimates of the magnitude of adjustments that could be made between the collection of seed cotton from villages and the delivery of cotton fiber at the importer's port, a 23 percent drop in world prices (which is not unusual) would reduce producers' income by half (net of input costs). Such a drop would have dramatic consequences in cotton-growing areas where revenue from the sale of cotton constitutes the bulk of household cash income. Ignoring this problem would be detrimental to the fight against poverty.

2.17 In order to reduce fluctuations in producers' income from year to year, Burkina Faso producers have been paid in two installments. Upon delivery of seed cotton in year t, they were paid on the basis of the floor price announced on the eve of sowing and, if world prices were higher in year t, they would receive a bonus in year t+1. Part of the bonus was then supposed to be paid into the fund set up to support floor prices in bad years. Since the floor price had been carefully chosen, the system worked in a more or less satisfactory manner, but its weaknesses appeared in 2004/05. Furthermore, the advent of two new companies called for an adjustment.

The new price scheme

2.18 The new system sought to address three problems: (i) the bonus was not distributed during the year in which the profits were made, which was likely to give the wrong signal. Thus, producers obtained the highest price ever in 2004/05, when world prices were at their lowest and the financial situation of companies was at its worst since the devaluation. (ii) There were no objective criteria to determine the amount that should be paid to the fund in prosperous years. In 2003/04, the sector had made a large profit, which was fully distributed to producers the following year, whereas the major portion should have been used to replenish the support fund, which was empty.[6] (iii) When SOFITEX had a purchase monopoly, the sector's profits (or losses) were basically those of the company. With the privatization of the sector and the creation of two new private companies, such a procedure was no longer applicable; the profits (or losses) of the sector had to be assessed and each company's contribution to the support fund in bountiful years had to be determined based on objective, unquestionable criteria.

2.19 The objective of the new scheme is to smooth out the amplitude of yearly price fluctuations, without modifying the long-term trend, which is defined as the centered five-year average of the world price (Index A in CFAF, less CFAF 48 to shift from FOB to CIF). The system allows for a zone of non-intervention going from 95 percent to 101 percent of the pivot price, with a floor price set at 95 percent of the pivot price. Three scenarios may occur:

(i) The price obtained exceeds the upper limit of 101percent of the pivot price and there is a surplus. A portion goes to the smoothing fund and the rest is shared among producers and cotton companies. The share that goes to the fund depends on the fund's replenishment level and on the amount of the surplus.

(ii) The price obtained falls between the floor price and the upper limit. The fund does not intervene, but companies have to pay producers the difference between the price obtained and the floor price paid upon delivery of the seed cotton.[7]

[6] The CFAF 35 bonus per kg was calculated by dividing the 2003/04 profit by the production for the same year. However, since the 2004/05 production exceeded that of the previous year, producers received more than they ought to, and SOFITEX lost 4.6 billion in 2004/05.

[7] If, as anticipated before sowing, the realized price is equal to CFAF 680 (or CFAF 172.7 per kg of seed cotton), producers must receive a second payment of CFAF 8.7 per kg.

(iii) The price is lower than the floor price. The fund makes a payment to each company and, in cases when the fund's resources are insufficient, a drawing is made on the line of credit, which is reimbursed as soon as the sector has a surplus.

2.20 The new pricing system, with its smoothing fund and credit line, was designed by representatives of producers and companies without interference from government or partner representatives. It was adopted by the *Association Interprofessionnelle du Coton du Burkina* (AICB) on March 29, 2006, and presented to the government the next day and to partners two days later. This reform was therefore planned and adopted by the profession.[8] While this system represents an important step toward a more realistic pricing mechanism, it was subsequently agreed to reduce the period used to set the price from seven years to five in order to better reflect recent trends. It would also be advisable to limit the floor price which determines the first payment to 90 percent of the pivot price, providing more flexibility in the event that prices fall significantly after the start of the planting season. If the AICB decides to pursue the smoothing fund, it would be advisable that its financing not have any impact on the public finances of the Government of Burkina Faso.

2.21 The new system was adopted in March 2006 and applied for the 2006/07 season. Using the proposed formulas, the floor price for seed cotton was set at 165CFAF/kg. The actual price for cotton fiber for the 2006/07 season was determined on April 1, 2007, by calculating the average of Index A, expressed in CFAF and corrected to obtain an FOB price. While the world price in cents/pounds was consistent with projections, the fall in the dollar resulted in losses of about 15 million euros. Unfortunately, the reform was adopted at a time when companies were in a critical financial situation following the heavy losses incurred during the 2004/05 and 2005-06 crop years. Companies needed to be recapitalized, while the old support fund was empty and the smoothing fund had not yet been established. The first year of implementation of the new pricing system led to an additional deficit on top of those of the two previous years, making for a total deficit of US$93 million, and the de facto bankruptcy of the sub-sector without rapid intervention by the State or donors. The donor community has been called to the rescue and must assess the viability of the pricing system and help operationalize it as soon as possible.

2.22 Since the floor price is calculated from the moving five-year average of Index A, the smoothing mechanism cannot modify the long-term price trend. While the world cotton price appears to have reached its nadir and may rebound somewhat, the rising exchange rate has posed a major challenge to the industry with no signs of reversal in its direction. Productivity must be increased for the Burkina Faso cotton sector to remain competitive and for producers' incomes to rise.

INCREASING PRODUCTIVITY

Changing behavior in the management of the ginneries

2.23 A recent audit has estimated the total required recapitalization of the three cotton companies at 87 billion CFAF (US$175 million), of which 69.6 billion CFAF (US$143 million) is for SOFITEX alone. While SOFITEX is now a private company, with shareholders who should hold management accountable, they do not yet seem prepared to play this role. The culture of the enterprise has not evolved, and its personnel still behaves as if it was a parastatal. The depreciation of the dollar is certainly beyond their control, and constitutes something of an un-

[8] " *Prix Plancher et Fonds de Lissage» Association Interprofessionnelle du Cotton du Burkina*" /Louis Goreux, avril 2006.

foreseen shock. However, they could have done much more to reduce operating costs and manage foreign exchange risk through forward contracts.

Strengthening the capacity of producers

2.24 The UNPCB has become the key player in the management of the sector. It holds 50 percent of AICB votes. It assists producers with cultivation practices and credit management. To this end, the UNPCB now has about 90 advisors and plans to hire 30 more. Adding the 30 advisors financed by SOFITEX brings the total number of advisors to 150 for 250,000 cotton farms, which is still far below the number needed. Assistance should therefore be strengthened to facilitate the adoption of improved cultivation practices.

Improving feeder roads and storage facilities

2.25 Although cultivated areas have quadrupled in the last ten years, little has been done to expand feeder roads, a need which is particularly acute in the eastern zone. Companies should generally be responsible for maintaining the feeder roads located in their zones. Storage facilities for inputs were built in 1995; however, since then, few new facilities have been built, although production has quadrupled. The cost of constructing storage facilities and feeder roads is high and cannot be borne by cotton firms. Burkina presented a financing request at the Paris Forum in July 2004, but has not received any response.

Improving farm equipment

2.26 Well-equipped farms in Burkina Faso yield two tons of seed cotton per hectare. However, the national average is only one ton per hectare because yields are very low in many small farms that are not properly equipped. Two oxen, a plow, and a cart cost over one thousand dollars, which corresponds to the average income (net of input costs) earned from the cultivation of two hectares of cotton for two years. With oxen, a farmer could sow seeds in a timelier manner and obtain a better yield. Soil fertility would be improved by spreading manure from oxen, which could be fed in part with fiber by-products (crushed seeds and cotton seed meal). Five years ago, a mixed financing system (farmers, AFD, and local banks) was implemented. Burkina Faso presented a similar request at the Paris Forum, but this request has yet to result in concrete achievements.

Improving the input package

2.27 One-third of world output now comes from genetically modified (GM) seeds. Experiments conducted in Burkina suggest that, with the BT gene, the frequency of insecticide spraying could be reduced from 6 per season to 1 or 2, and yields could be increased by one quarter without damaging fiber quality. Administrative and legal measures are already in place and local varieties containing the BT gene could be available in 2007/08. The increase in the cost of seeds would be more than offset by savings on the purchase of seeds and, if yields rose by 15 percent, the producers' net income would increase by 30 percent (Box 2.1).

2.28 The profitability of cotton farming has been eroded by the rising cost of fertilizers. The high cost of fertilizers is attributable to the high cost of transportation from the port to the village and to the limited number of reliable fertilizer firms interested in the West African market. The nature and dosage of fertilizer recommended need to be updated give the changes in the weather and soil conditions.

Box 2.1 : **Cotton Initiative, WTO Negotiations, and GM Cotton**

In May 2003, four African countries, including Burkina, submitted to the WTO the "*Initiative sectorielle en faveur du coton"* (sector initiative for the promotion of cotton). This initiative called for the elimination of subsidies as they increase cotton production in industrialized countries and reduce world cotton prices, thus harming African cotton exporters. These African countries presented a solid case showing that the elimination of subsidies would help reduce poverty among millions of Africans living on less than a dollar per day, and that it would be in the interest of the United States and the European Union. The initiative had a huge impact on public opinion and on the WTO, but has yet to bring about a substantial reduction in subsidies.

According to a recent World Bank study, sub-Saharan Africa would earn 150 million dollars per year if cotton subsidies were eliminated[9]. But cotton prices are not only affected by trade policies; they are also affected by technical innovations. The use of genetically modified seeds has grown rapidly since they help improve yield and reduce costs. In the United States, China, Australia, and South Africa, two-thirds of cotton is produced from GM seeds. The use of these seeds has pushed down world cotton prices and countries that did not adopt them have been penalized. According to the above study, the use of GM seeds would allow sub-Saharan Africa to earn 200 million dollars per year, which would exceed the extent of harm caused by the subsidies. The adoption of GM seeds has become more urgent as negotiations under the Doha "Development Round" have stalled.

Intensifying agricultural research and preserving soil fertility and the environment

2.29 Cotton research is conducted by the *Institut National de Recherche Agronomique* (INRA), which receives an annual contribution of CFAF 250 million (US$ 500,000). Such a limited budget cannot do much, especially on complex issues such as measures for preserving soil fertility and protecting the environment. This may explain why yields have not improved during the last 25 years. Much more resources should be devoted to research as additional resources for the development of biotechnologies could generate considerable payoffs. Furthermore, cotton research should not be limited to national boundaries; it should have a regional dimension.

2.30 There are alternatives to animal traction being developed in Burkina Faso – notably direct seeding and seeding under a vegetative cover. By retaining a permanent ground cover, the latter technique is especially efficient in fighting erosion.

Combining cotton cultivation with other ventures

2.31 Rotating the cultivation of cotton with that of cereals (hybrid maize in particular) has been very successful, and research on optimal rotation plans should be intensified. Legumes could be used more widely to provide nitrogen and reduce the need for imported fertilizers. In low lands, cotton cultivation could be associated with that of fruits (mangoes, citrus, bananas) and vegetables (tomatoes, onions, green beans).

[9] K. Anderson, E. Valenzuela and L. A. Jackson "GM Cotton Adoption, Recent and Prospective: A Global Analysis of Economic Impacts" World Bank, February 2006.

Increase value-added by transforming cottonseed meal

2.32 While attempts to transform fiber have been disappointing, Burkina has succeeded in exploiting the seeds, previously considered a byproduct of little value. Given the cost of shipping seeds to the port, export is less profitable than local processing into oil and cattle feed. There is a potentially large local market for cottonseed meal, given Burkina's large livestock herd which is often underfed during the dry season.

WHAT LESSONS CAN WE LEARN FROM THE EXPERIENCE WITH COTTON EXPORTS?

2.33 There are various positive lessons to be learned from the rapid growth of cotton exports, and at least one warning to be drawn from the recent crisis:

1) The different components of the cotton production chain have been closely linked within an integrated sector: agricultural research, identification of a technical process, its dissemination by extension workers, distribution of inputs and the collection of seed cotton in villages, ginning, export of the fiber, and sale of seed to local oil mills. This vertical integration was probably necessary to launch a new culture that would require expensive inputs and the application of a rigorous technical regimen. With the progress made in the training of producers, the initial model can now be more flexible. For products other than cotton, the integrated sector model may not be appropriate, but the different components of the production chain need to be well coordinated.

2) The risks incurred by cotton producers were reduced to a minimum. Services and inputs were provided to them with no money down; fertilizers and pesticides were delivered to the villages in a timely manner. On the eve of sowing, producers knew the minimum price that they would get per kg of seed cotton and they knew that everything they produced would be bought. The guarantee of a minimum cash income was an incentive for many households living in poverty to become involved in cotton cultivation. Thanks to the guaranteed income from cotton, households could obtain fertilizers for the production of foodstuffs, which helped improve food security.

3) Producers participated actively in the management of the sector through a well-organized association. Mutual trust was established between producers and ginners, thus preventing conflicts.

4) The participation of foreign companies has provided the sector with easier access to external financial resources and has allowed good technological supervision.

5) The sector has developed gradually. With the elimination of the SOFITEX monopoly and the creation of two new private companies in 2004, the integrated sector model was maintained in each of the three zones. Because producers were very attached to the announcement of a floor price before sowing, this practice was also maintained.

6) However, genuine private sector participation was inadequate. The main foreign strategic investor was in fact a parastatal company which did not demonstrate the behavior normally expected of an independent operator. Continued expectations of state support delayed needed reforms and tough pricing decisions.

THE WAY FORWARD

2.34 In the next ten years, cotton production will increase at a slower pace than it did in the previous ten. The current crisis, and the likelihood of still lower producer prices (possibly 145 CFAF/kg for first quality cotton and only 120 CFAF/kg for second quality in 2007/08), will inevitably require some consolidation of the sector on the most productive lands, and around the more dynamic farmers (using animal traction or mechanization). More farmers could participate if yields were significantly improved, notably through the adoption of genetically-modified seeds. In this case, the area cultivated could still expand, particularly in the eastern zone. A greater emphasis on quality would also help ensure better prices for all actors in the industry.

2.35 Even if a declining price trend reduces cotton's appeal, more households could be attracted by cotton growing as it provides a guaranteed source of cash income and a means of obtaining credit. Import demand from Asian countries, especially China, will continue to grow. Eliminating cotton subsidies in the United States and the European Union would boost prices, but this would be a one-off occurrence. Prices will remain volatile and the financial situation in the sector could deteriorate sharply as a result of a drop in dollar prices and/or a depreciation of the dollar in relation to the euro. If the drop were temporary, steps could be taken to avoid the collapse of producers' incomes as this would discourage them.

2.36 World prices have declined in real terms during the last 10 years and may decline further. The sector can only remain competitive by reducing production costs and one cannot rely on the development of a local textile industry to improve the lot of peasants in the next 10 years (see Chapter 6). Reducing the production cost of seed cotton is the surest way to improve the living conditions of farmers and to reduce poverty.

3. LIVESTOCK: THE SECOND PILLAR

ANIMAL PRODUCTION AND THE EXPORT ENVIRONMENT

3.1 The last national survey in 2003 produced the following estimated herd sizes: cattle, 7.3 million head; sheep, 6.7 million; and goats, 10 million. These figures represent a major expansion in the livestock population over the last 30 years. In 1970, the corresponding figures were 2.5 million, 1.7 million, and 2.5 million, respectively. Two basic production systems are used in raising these animals: (a) transhumant systems involving a continuous search for new pasture and water, especially during the long dry season; and (b) extensive, sedentary, agro-pastoral systems where animals have a fixed base but extensively graze from that base, and fed with crop residues during the dry season. In both systems, purchased veterinary and feed inputs go primarily to cattle production. For years, livestock specialists have been promoting the development of "semi-intensive" sedentary production systems, building on "system b" above, but with fattening operations to add value to the animals before they are slaughtered. However, it is estimated that only 2 to 5 percent of livestock farms (mainly "embouche bovine"), located mostly in the outskirts of the largest cities, use this more intensive production approach.

3.2 The limited development of more intensive livestock production is largely explained by low consumer purchasing power, which favors meat of much lower quality, sold at low market-clearing prices, and that can be largely satisfied by production from extensive production systems. This is complicated by other production factors, keeping Burkina's livestock production in a "low-equilibrium trap":

- Low performance of local animal species;
- Feeding problems during the dry season (mainly insufficient hay and water);
- Expensive veterinary inputs which encourage the use of prohibited or fraudulent alternatives;
- Declining availability of affordable grazing land (due to population growth and urbanization), which has led to increased conflict between herders and farmers;
- Very limited technical training for producers;
- Feeling of "insecurity" due to increasing livestock theft; and
- The persistence of certain diseases such as contagious bovine pneumonia and trypanosomiasis, and the appearance of new diseases such as avian flu.

3.3 Burkina livestock exports are made up of the following products:

- Live animals: cattle, sheep, goats, and poultry – accounting for the bulk of export value;
- Red meat: beef and mutton in minimal quantities; and
- Hides, skins and leather.

3.4 Opportunities for export expansion are largely in the sub-region, with the exception of hides and skins, which are mostly sold to the EU, and potential meat exports to non-European markets such as the Middle East. Better-watered Sahel countries, like Burkina, have a natural comparative advantage in basic livestock production using traditional extensive grazing production systems. However, since independence, all development and sectoral policy efforts have only led to an increase in production that is parallel to the natural growth of the livestock population. In recent years, it has been easier to export this increased production to foreign markets thanks to the following positive factors, which should also boost production:

- Entry into force of the WAEMU and ECOWAS free trade agreements classifying livestock products as primary products, which are exempt from taxation within the region, thus giving preferential access to regional meat over meat from outside the region;
- Mad cow disease in European livestock, which may have weakened regional demand for European meat[10] ;
- World Trade Organization (WTO) trade talks and budget pressures in the EU, which have been tending towards reducing export subsidies on meat from the EU and North America; and
- More interest in the consumption of naturally-fed or free-range animals.

3.5 Unfortunately, all these advantages have been offset by the massive disruption of its largest market as a result of the civil war in Côte d'Ivoire. Following an encouraging spike in 2001, exports plummeted sharply until 2004. However, this should not mask the success experienced in the sector between 1992 and 2001, when the growth rate was 12 percent per year[11], nor its future potential when the Côte d'Ivoire market finally stabilizes and when the markets in Ghana and in other coastal countries are fully exploited. Indeed, MRA data suggest that there was a recovery from 2004, and new records set for exports of small ruminants in 2005[12].

Table 3.1 : Estimates of the Value of Live Animal Exports from Burkina, 1999-2005

Year	**Heads Exported**			**Value of Exports (in billions of CFAF)**			
	Cattle	**Sheep**	**Goats**	**Cattle**	**Sheep**	**Goats**	**Total**
1999	112 102	159 137	103 822	15.12	3.31	1.95	20.38
2000	148 036	192 272	124 573	22.08	4.21	1.77	28.06
2001	205 510	207 775	197 232	32.14	4.65	2.84	39.63
2002	173 011	181 307	140 672	28.32	4.22	2.32	34.86
2003	129 503	94 455	125 573	19.41	2.03	1.78	23.22
2004	140 704	156 381	153 294	21.10	3.44	2.45	26.99
2005	180 761	258 590	216 446	27.11	5.68	3.46	36.25

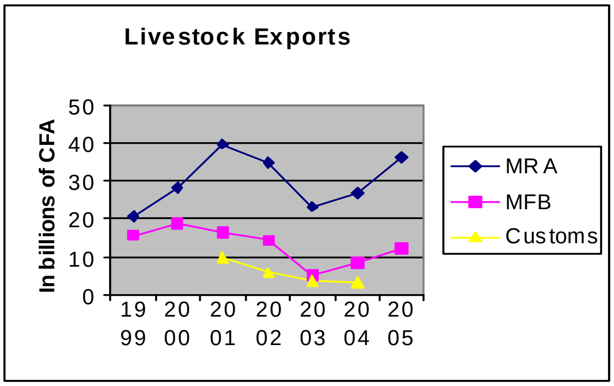
Sources : Revised MRA data (herd strength) and FOB prices estimated by the authors.

3.6 There is a serious problem with the reliability of export information in the sector, as mentioned in Chapter 1. The Ministry of Animal Resources (MRA) collects volume data from 14 cattle markets, but does not estimate values. The Customs Department controls the exit of trucks carrying live cattle and produces estimates on the volume and value of these exports. The two data sources have become increasingly divergent, to the extent that MRA figures on cattle exports were five times higher than Customs figures in 2004. The MEF's balance of payments committee made adjustments to arrive somewhere between the two, but seems to draw more on Customs. We deemed it more realistic to use MRA figures for the number of heads exported, with a 15 per-

[10] The panic caused by the BSE disease was too short-lived to have a lasting impact on the decline of European meat imports.
[11] CAPES, 2003, p. 24. Their estimates are based on MFB data.
[12] Live animal exports in 2005 are estimated at 212 660 for cattle, 304 224 for sheep and 254 642 for goats. Comparable data for 2001 was 241 776, 244 441, and 232 038.

cent deduction to reflect the possibility of overestimation[13]. Using average values for each species, we arrive at the amounts indicated in Table 3.1.[14] The total value of exports in 2004 (about CFAF 27 billion) is in sharp, indeed remarkable, contrast with the customs estimate of CFAF 3.3 billion. The figure retained by the MFB for this year is only CFAF 8.3 billion (see Figure 3.1).

Figure 3.1 : Livestock Exports



Sources: MRA, MEF, et MCPEA (2005) pour les chiffres des douanes.

3.7 This issue is crucial for understanding the size of exports and their relative importance, but also the evolution of trade. According to our estimates, live animals are the second largest export of Burkina Faso; according to customs, they are the fourth largest, after cotton, oilseeds, and even fruits and vegetables. MEF data indicate a drastic decline from 2000 to 2003 and a weak recovery in which exports remained below 1999 levels. In contrast, MRA statistics suggest a full recovery in 2005, with exports exceeding 1999 levels by 80 percent. The Ivorian crisis has certainly complicated the analysis of the situation. However, this does not mask the need for improved collection and coordination of export figures if the government wants to undertake a viable export promotion strategy (See Figure 3.1)

Box 3-1 : The need to coordinate the collection of animal data

a) The MRA Directorate of Studies and Planning (Direction des Etudes et de la Planification, DEP) has investigators in the cattle markets who are responsible for collecting data on the entry, sales and prices, and uses of animals brought and sold. These data are centralized monthly. The regional and provincial directorates of the MRA collect information on animal slaughtering, vaccinations, and the treatment of infections at feeding workshops, etc. The reports are sent to the DEP. Each year, the DEP prepares a report of animal statistics disseminated to the different services of the ministries, to development partners, and to private individuals.

[13] With the exception of local collection markets, in the larger export markets (Ouagadougou, Bittou, Pouytenga and Bobo-Dioulasso and Nyangolodougou), more than 85 percent of the animals declared as destined for exports cross Burkina's borders. Double counting can also cause bias, but the error margin is low. (Williams et al., 2004). Since animal products were classified as raw products in the WAEMU and ECOWAS tariff scheme and became non-taxable, the Customs Department's lack of interest in collecting export statistics has been obvious.

[14] We used the following average prices: 150 000 CFAF/cattle, 22 000 CFAF/sheep and 16 000 CFAF/goat to calculate the value of exports.

b) The General Directorate of Forecasting and Agricultural Statistics (DGPSA) of MAHRH, which conducts agricultural surveys, including on draught animals.

c) The Ministry of the Economy and Finance (Ministère de l'Économie et des Finances) through its Customs Department has data on the import and export of animal products as well as on the different taxes. The Ministry of Commerce (through ONAC) also has Trade Point for market information, including on animal products.

d) Development partners support sector actors to establish monitoring stations at cattle markets.

e) Economic operators (road and rail carriers) also have animal statistics reflecting turnover on live animal exports.

Consolidating these animal statistics collection and processing services by strengthening the statistics services of MRA and creating an Interministerial Committee would allow harmonization and optimization of the whole process, and would ensure consistency of statistical information as a planning tool.

Trends in demand

3.8 Burkina animal exports face three types of competition:

- Exports from neighboring Mali and Niger on the regional market;
- The development of supply in traditional importing countries (Côte d'Ivoire and Nigeria);
- International meat supply, subsidized or not[15].

3.9 Some coastal importers of live animals have increased their herds, and both Mali and Niger have dramatically increased herd size.[16] The most dramatic change among coastal countries has occurred in Nigeria, where the domestic herd of cattle has jumped by 70 percent to 15 million in the last 30 years, leading to a significant fall in imports from Burkina Faso since 1991. Since 2002, cattle exports to Côte d'Ivoire have been less than 60 percent of what they were prior to that country's civil unrest. In contrast, Ghana has not developed its own livestock industry. As a result, its cattle imports from Burkina Faso doubled between 1995-6 and 2002-3. 43 percent of Burkina Faso's cattle exports now go to Ghana. Its sheep and goat exports have increased sevenfold. However, a part of these imports are actually in transit for Côte d'Ivoire.

3.10 In general, the demand for meat in growing coastal cities will continue to expand as incomes and populations grow. In addition, most coastal countries are also rehabilitating their slaughter facilities, which suggests that they are not content to rely on imported meat from overseas. Whether they are interested in encouraging meat exports from the Sahelian countries, as opposed to exports of live animals, is a different question. If they respect WAEMU and ECOWAS principles and regulations, competition between these two approaches should be done freely.

3.11 One is tempted to venture the hypothesis of an accelerated recovery in live animal exports to Côte d'Ivoire as soon as the socio-political situation stabilizes. As urban populations in the Sahel region grow and their incomes improve, domestic demand will compete with that of

[15] Meat imports from the EU have declined somewhat. Currently, competition is more likely from US poultry wings, Brazilian CAPA, and Asian poultry, which are sometimes considered by suppliers as waste and are thus sold at very low prices.
[16] The results of the 2006 census put the number of cattle in Niger at 7.46 million heads (MRA, 2006).

neighboring countries. This "livestock revolution" will not bypass Burkina Faso[17]. However, given the estimated per capita GDP growth rate (2.2 percent) and the fact that many households are too poor to afford meat on a regular basis, domestic demand for meat is unlikely to have a significant influence on beef exports in the near future. Nonetheless, Burkina Faso's first challenge will be to ensure steady growth of its herd and/or its output per animal to stay ahead of domestic demand.

HOW TO INCREASE LIVE ANIMAL EXPORTS

3.12 The main obstacles to the development of live animal exports are as follows:

- Low financial autonomy of existing inter-professional organizations and lack of professionalism at each level of the sector. Poor structuring of stakeholders at the regional level and no formal contracts between the different actors in the chain;
- Relatively high cost of animals compared to net meat yield;
- High cost and inappropriate operating conditions in livestock transport[18];
- Formal and illegal taxes affecting animal exports;
- Limited access to production and marketing credit, and high cost of credit; and
- Lack of reliable market information on the size and differentiation of target markets in neighboring sub-regional countries.

3.13 To address these impediments, there is no escaping the need to develop more intensive production systems, especially in the biggest market, that for beef.

3.14 However, in the short to medium terms, it is necessary to:

a) Encourage livestock farmers to increase the off-take ratio of cattle in the current system (awareness raising, information, improvement of access to local collection and distribution markets)[19]
b) Put in place concrete measures to increase productivity in sedentary agro-pastoral livestock farming (for example, the timely preservation of natural or cultivated animal feed, supplemented by the use of cottonseed meal produced in Bobo-Dioulasso[20], to partially resolve food constraints during the dry season).
c) Increase the number of semi-intensive or intensive production units; this will require public-private partnerships to improve production incentives: (i) improving production zones, with more secure access to land or to property titles, and better physical protection against animal theft; and (ii) improving access to the basic services required for livestock/animal production (water points, improved access or herding routes, effective extension and veterinary services and better access to telecommunications).

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[17] In West Africa, like in sub-Saharan Africa in general, studies show that demand and animal-based production will increase steadily during the next 25 years at the rate of population growth, taking into account the runaway urbanization (Delgado *et al.*, 1999)
[18] The cost of transporting cattle is 600 000 to 800 000 CFAF per truck of 35 head of cattle; when the railways were working normally, the price per wagon of 40 to 45 head from Bobo was 700,000 CFAF.
[19] Studies are underway to find out the real rate of offtake by animal type. It is hoped that this action will result in concrete measures to encourage the reduction of herds (Y. Sanon, personal correspondence, January 2007).
[20] Cottonseed meal is essentially exported outside Burkina.

d) Strengthen inter-professional associations such as UNACEB, which are already working to reduce transaction costs by developing contracting in regional live animal trade, and boost trade between Burkina and importers in coastal countries.
e) Reduce the presence of traders / intermediaries at market sites; these traders collect fees on the sales price of cattle, to the detriment of producers (livestock farmers) and exporters. This plethora of actors has made itself indispensable in animal markets, but their value added is highly questionable. It is desirable to promote direct contacts between livestock farmers and exporters and to reorient these intermediaries towards other more productive functions.
f) Reduce the Contribution to Livestock Sector paid when exporting (3000 CFAF/cattle, 250 CFAF/small ruminants, 50CFAF/poultry and 100 CFAF/kg of skin) by eliminating the 60 percent share which goes to the general budget; or keep the same level of tax and increase the share (40 percent) which goes to the Livestock Development Fund (FODEL).
g) Improve the use of the FODEL to focus more on investments which favor the intensification of livestock-raising.

3.15 As this sub-sector will evolve gradually, it is critical to put in place a long-term program of studies to identify production assistance models that are likely to create viable feeding operations. While the long-term strategy should promote progress towards the export of livestock by-products (mainly meat and hides and skins), the government and its partners can take measures to maximize animal exports in the short and medium term, including: (i) the organization and improvement of professional standards in livestock exporting sectors; (ii) reduce illegal levies and other forms of border corruption; and (iii) a sharp increase in information supply and market studies. The planned interventions of donor-funded projects such as the World Bank-financed PAFASP should foster the implementation of these essential improvements.

MEAT EXPORTS: THE FUTURE OF THE LIVESTOCK SECTOR?

3.16 To date, there is no structured meat export business in Burkina Faso. Current Burkina meat exports are insignificant (according to the MRA, 46 tons in 2002, 34 tons in 2003, and 40 tons in 2005). These small quantities were exported mostly by informal operators who do not necessarily have the requisite technical and management expertise and knowledge of export markets. Another key weakness of the sector is the absence of a slaughterhouse that meets international export standards. The country's main slaughterhouse in Ouagadougou is state-owned. Following years of inadequate maintenance, its operations practically came to a standstill in 2001. Its rehabilitation was funded by the government which, at the re-opening of the facility in 2004, handed over its management to a specially created management company, rather than contracting it out to an international firm with expertise in meat exporting. Its effectiveness is hampered by a cumbersome governance structure, lack of access to financing, and poor marketing strategy. Facing difficulty competing in the domestic market with low cost informal and semi-formal slaughter operations, and having neither the expertise, nor the equipment, nor the international standards, to mount an effective export campaign, it operates at less than 50 percent capacity.

3.17 Indications are that Burkina Faso meat would be competitive on taste and quality but marginally competitive on price in sub-regional export markets, where it competes with cheap meat imports from outside Africa. On the regulatory front, the adherence to new ECOWAS standards for meat processing and classification is being monitored by the Government's Competitiveness Committee with the assistance of FASONORM. However, there is still substantial work needed to implement these standards, ensure traceability, and identify and conquer specific sub-regional market niches in beef and/or mutton. (Increasingly stringent access rules, particularly the traceability requirements, will preclude meat exports to the European market for the foreseeable future).

3.18 The sub-regional market offers the best export opportunities, in particular, the urban centers of the West African coast. In Côte d'Ivoire, for example, government statistics show that live animal imports are declining, while national meat production and meat imports (from all sources) have been increasing steadily. The key questions are whether and how Burkina meat can be competitive on the wholesale and retail markets, especially given the tendency of large supermarket chains to bypass wholesale intermediaries altogether. Ghana is another potential growth market for Burkina meat exports, but the language barrier could delay trade expansion.

3.19 Substitute products in the main coastal export markets (Côte d'Ivoire, Ghana, Benin, Togo, and Nigeria) are: non-African meat from Europe and America in the form of deli or canned meats, Asian chicken, US chicken wings, and the so-called fifth quarter (head, skin, offals). Currently, none of these products really constitutes an obstacle to cattle and meat exports from Burkina. Imports from Europe are falling with the reduction of subsidies. Chicken imports are not expected to be a major competition for good Sahelian beef.

3.20 Some markets have indicated a preference for good quality Sahelian meat over other imports (like those from the EU) with price margins of 400-600 CFAF/kg vis-à-vis meat imported from the EU. Furthermore, the price competitiveness of Burkina meat is expected to improve with the reduction of European subsidies on meat exports, on the one hand, and the rising cost of South American meat due to increased transport costs, on the other hand. A quick look at West African markets indicates potential sales of at least 20-30,000 tons, if the business is well-run.

3.21 Major constraints need to be addressed to increase Burkina meat exports in sub-regional markets. With regard to livestock farming, there is a recent trend towards more intensive activity in peri-urban areas, but the vast majority of the livestock is still being raised in the traditional, extensive manner with little quality control. A move towards more intensive livestock farming in a more controlled environment, using a combination of small holder plots and larger irrigated farms would increase the number and the average weight of animals, as well as improve the quality of hides and skins.

3.22 Burkina lacks meat exporting enterprises of the size, capitalization, and technical professionalism that these markets require. The now-defunct ONERA demonstrated what a large company could do, but also the pitfalls of conducting this business with a state-owned company.

3.23 Current knowledge of potential meat markets in the sub-region is fragmentary and anecdotal at best, and there are no clear strategies on how to approach the market. Recent studies (Konaté, 2004, and IEPC) have demonstrated that potential markets may exist, but practical work remains to be done. Market knowledge limitations include the lack of a price monitoring system in key markets.

3.24 There is no clear micro-economic (cost/benefit) analysis of potential sector profitability. Several studies have shown negative results on the assumption that Burkina would compete with the cheapest wholesale meat in target markets. An alternative strategy for greater vertical integration and quality product sales at prices closer to retail prices seems much more promising. However, achieving this more sophisticated business model requires more capital and much greater technical expertise. Furthermore, it is still unclear how to deal with traditional marketing issues such as the higher value of the 'fifth quarter' in coastal markets.

3.25 The livestock sector's Action Plans and Investment Program are focused on production. There is no real export strategy for live animals, let alone for meat.

3.26 Among all possible interventions, we consider the following the most important in addressing these constraints:

1) Upstream, accelerate the implementation of fattening operations where animals receive treatment, and a balanced and adapted diet to reach an acceptable weight. In the medium term, it is recommended that the government also encourage the gradual settlement of some pastoralists in cotton areas in the south, which have more abundant water resources, to establish semi-intensive livestock finishing areas. This should be combined with concrete actions to increase productivity of sedentary livestock in these zones, in which the large herds were constituted with profits from cotton, in order to ensure a regular supply of appropriate animals for meat production.

2) Create and develop animal feed manufacturing units to give livestock herders opportunities to have better quality food; also veterinary services and private veterinarians that cater to the health of animals and provide veterinary inputs.

3) Support the production, preservation and storage of animal feed for the dry season.

4) Conduct serious studies on the commercial feasibility of developing Burkina meat exports for very specific target markets. The first set of markets to be studied are those in Côte d'Ivoire and Ghana, making sure the following topics are covered by competent professionals: (i) identify what meat market niches to target; (ii) know what is required to access and compete in these markets; (iii) know the characteristics of the main actors and competitors in the target markets, their marketing strategies, and how Burkina companies might form strategic business alliances; (iv) know the most constraining formal and informal barriers; and (v) know how these target markets are likely to grow and evolve.

5) Support the creation of a Market Intelligence System. This system would guide interested firms towards the best market opportunities. In addition to collecting needed data on precisely defined products, quantities, and prices, the system will assess the factors that affect competitiveness in these sectors (aspects such as logistics, business structures, and regulations).

6) Develop a solid strategy for meat exports: drawing on these studies, develop an export development strategy with the private sector. To capture the potential of meat exports in the sub-region, substantial private investment and management expertise would need to be attracted to modernize slaughter facilities and provide cold storage and refrigerated transport equipment for meat. Improved livestock raising practices and slaughtering infrastructure would also increase the supply and improve the quality of raw hides and skins. This, in turn, would create room for additional investment in tanning facilities to capitalize on this increased supply and the excellent export growth prospects for wet blue hides and skins.

7) Establish a system to finance pooled exports of cattle meat, similar to the system used for cotton, and establish a domestic and export credit insurance mechanism to cover commercial and even political risks. In the first place, the difficulties faced by economic operators in gaining access to bank credit[21] should be reduced. This will reduce the importance of the traditional capital markets, which operate generally in the short term, and in

[21] Burkina Faso banks are considered "excessively liquid" and are criticized for not taking risks (with collateral requirements often higher than 100 percent).

the informal sector, and which finance exports on the same terms as all other commercial operations.

3.27 The government's plan to build a new slaughterhouse in Bobo-Dioulasso raises some concerns. One may wonder whether this would be an appropriate use of public funds, as long as the viability of the Ouagadougou slaughterhouse has not been established. A better approach may be to focus efforts on the Ouagadougou slaughterhouse first, and commission a feasibility study on a private complex that includes a ranch, a slaughterhouse, and a meat export operation. Based on the findings of this study, the Ouagadougou slaughterhouse could be restructured with or without the participation of an international investor, before mobilizing public funding to finance an additional slaughterhouse in Bobo-Dioulasso.

4. AGRICULTURAL DIVERSIFICATION OPTIONS

4.1 While cotton dominates exports in Burkina Faso, the country does sell a wide variety of other agro-pastoral products, which are produced on a small scale and sold to regional and international markets:

- Oilseeds, with most of the best export opportunities found in international markets;
- Cereals, cowpeas, and livestock products, with most of the export potential in West African markets; and
- Fruits and vegetables, which have export opportunities in both sub-regional and international markets.

4.2 Each of these sub-sectors has been the subject of substantial previous studies and sector "Action Plans". Our purpose is not to call into question this work, but rather to (1) determine priorities across sectors, (2) identify the main constraints which hamper their expansion, (3) underscore the key cross-cutting issues among the sectors, and (4) identify some themes which seem to have been underestimated up till now.

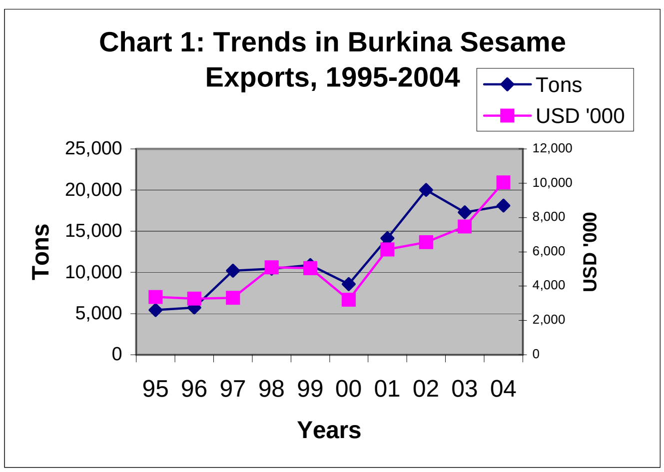
OILSEEDS

4.3 Traditionally, the "oil seeds sector" in Burkina is composed of four sectors: groundnuts, sesame, shea nut (karité), and cashew nuts. The first two are field crops for which acreages could be rapidly expanded under the right circumstances; the other two are tree crops, and their production can only be expanded after additional research (for the sheanut) or substantial delays while newly planted trees reach productive age (for cashew trees). The principal export markets for most of these sectors (with the possible exception of groundnuts) are outside West Africa. Sesame has had the greatest success, owing primarily to the initial efforts of private-sector exporters to organize production specifically for export markets. Their approach, with minor variations, could be used in the other three sub-sectors.

Sesame

4.4 After cotton and live animals, sesame is Burkina Faso's most important agricultural export. It is estimated that production has varied between 13,000 and 20,000 tons, much of it coming from the Boucle de Mouhoun region in the Western part of Burkina Faso. Sesame is grown as a cash crop on small plots. Part of the production is destined for the European Union (EU) organic market, for which most of Burkina Faso's production could qualify (except sesame grown on old cotton soils). Organic exports to the EU have recently encountered a problem

Chart 4.1 : Trends in Burkina Sesame Exports, 1995-2004



with salmonella contamination as a result of harvested seeds coming into contact with threshing grounds in the villages, a critical technical problem that has a low-cost solution. These sales on the EU organic market represent a valuable niche market that is worth expanding. Other promising markets include that of Japan, an exclusive importer of varieties with a “natural milkish white” color (9,000 tons of these varieties were exported to Japan in 2000). The overall trend in exports of Burkina sesame (in tonnage and in value) according to FAO statistics is shown in Chart 4.1.

4.5 Sesame is an attractive crop in semi-arid zones since it can survive with low rainfall. The Burkina Faso National Agricultural Research system has conducted some research on varieties, but the expansion of production and exports is attributable to the efforts of private sector entrepreneurs. Between 1995 and 2004, exports of sesame rose from 5,500 to 18,000 tons and the value of exports reached US$10 million in 2004

4.6 Burkina is a small producer, but it is far below its full potential. Expansion of sesame exports is hampered by the following constraints:

- Its role as a small, secondary crop, even in areas where it is common;
- The almost total absence of any inter-professional organization;
- The limited financial resources of individual export traders who, despite their early success, can not afford to adequately pre-finance the production season and provide needed technical advice to producers; and
- The destabilizing impact of occasional “pirate buyers” who disrupt contractual agreements by paying slightly higher prices to farmers without paying pre-production expenses.

4.7 ***Sesame is one of the best candidates in Burkina Faso for export expansion for poverty reduction***. If our recommendations are implemented, these exports could double within five years given the ideal agro-climatic conditions and the strong international demand. The way forward is better organized private traders, operating under the umbrella of a public-private sector partnership to provide inputs and technical guidance to farmers, and greater clarity in communicating the challenges the industry faces in marketing the product to specialized niche buyers. This will require a concerted public-private collaboration effort that should include the following recommendations:

- **Support inter-professional organizations**: This requires public-private effort aimed at developing (i) rigorous professional procurement standards; (ii) product quality standards; (iii) the government’s capacity to play its expected regulatory and promotional role; and (iv) training of stakeholders at all levels of the sector. The details should be prepared by private stakeholders, with assistance from the government and donor projects;

- **Encourage consistent high quality development**: This must be accompanied by the creation or development of businesses or partnerships with the needed size, capitalization, and technical sophistication. This will involve developing better technical packages for targeted varieties. This approach should cover all aspects of the sector, from production to processing, packaging, and export. The government plays an important role in the development of varieties and production of certified commercial seeds. Some niche markets (such as European food industries) require that the product meet high cleanliness and homogeneity standards. These standards can only be respected through investment in mechanized processing facilities (cleaning/sorting).

- **Encourage adoption of an "Asia Strategy" that targets Japan in particular**: Various Asian markets for sesame oil and seeds are expanding steadily, and Burkina Faso, through its existing commercial ties, is well placed to become a bigger player in these markets. This can be supported by (i) improving information systems, (ii) enhancing supporting services; (iii) widening dissemination of norms and standards and their implications for production and processing, and (iv) promoting greater exchange between Burkina and Asian (especially Japanese) inter-professional associations, with emphasis on the quality of sesame seeds.

- **Provide incentives for a major private operator to play the role of "Supply Chain Leader":** The experience of SOPROFA demonstrated some of the advantages of the existence of a large, better financed company, capable of playing a leadership role. It also demonstrated, once again, the pitfalls of having a public enterprise play this role. Efforts should be made to find one or two private international firms that can play a bigger role in Burkina Faso and provide incentives for them to do so, perhaps in the context of one or several joint ventures with local firms; and

- **Develop Processing of Sesame in Burkina:** As with the other oil crops, Burkina should explore the possibilities of progressing from the export of raw seeds to that of processed products such as sesame oil and cake, which could be more profitable. The pros and cons of partial industrial processing of sesame for export should be examined. However, this will make sense only if the increase in export profit margin substantially exceeds aggregate investment costs.

Groundnuts

4.8 Groundnut production was a classic colonial export crop in West Africa. After Burkina's independence in the 1970s, when the government company SOFIVAR was founded, groundnut production declined. Production subsequently rose again, from 75,000 tons in 1975 to 160,000 tons in 1989. Since 1997, estimated production has increased steadily, from about 150,000 tons to 358,000 tons in 2003, primarily for the local and regional markets. It is generally believed that export statistics are unreliable, for, despite this significant growth, exports recorded in 2002 were only 3,700 (about 1 percent of production). This is also not consistent with informal discussions with private exporters in Pouytenga - the most important groundnut export market.

4.9 About 60 percent of all Burkina farms produce groundnuts as a cash crop. Ten times as many farms in Burkina grow groundnuts as sesame because the domestic market for groundnuts is better and the product is less fragile in post-harvest handling. Groundnuts are grown in pure stands 80 percent of the time, but the lack of organic and inorganic fertilizer use (only 4 percent use chemical fertilizers and 16 percent use organic fertilizers) keeps yields low, at about 800 kg/ha. Groundnuts are the most important snack food in Burkina (sold boiled or roasted), and vast quantities of groundnut butter are sold locally for the preparation of groundnut sauce stew. The export market to countries such as Ghana, Cote d'Ivoire, and Mali is generally for similar uses.

4.10 The recent strong growth in groundnut production by the majority of Burkina farmers creates a production base from which exports could be developed. However, these growth possibilities face the following constraints:

- ***Information on production***: Lack of adequate information on current production, varieties grown, farm-level costs and profit, and current and potential markets in the sub-region and at the international level, makes it virtually impossible to design a useful action plan ;

- ***Strong competition in international markets*:** World-wide demand for groundnut oil has weakened over the past 30 years, and prices have declined sharply due to consumer concerns about aflatoxin, the substitution of other oils, and the domination of palm oil in the cheap international cooking oil market. In this context, the varieties of groundnut cultivated in Burkina for oil production are estimated to be non competitive (especially in relation to large-scale producers such as the United States, China, India);
- ***Information on regional markets*:** lack of knowledge of regional markets for raw groundnuts or groundnut-based products makes it difficult to estimate the size and importance of these markets;
- ***Sector organization***: There is no inter-professional organization; this seriously hinders the development of intensive contractual production of groundnut varieties for export;
- ***Inadequate technical packages and technical support to farmers***: The results of agricultural research (conducted preferably in collaboration with countries such as Senegal), would help increase yields from 0.8 to at least 2 tons/ha for many specialized varieties available, but the profitability of these investments has to be demonstrated to farmers;
- ***Entrepreneurs in the sub-sector***: The lack of operators that have the size and marketing sophistication to organize quality production in sufficient volumes for specific export niches.

4.11 It is generally accepted that Burkinabe producers would be more competitive by producing varieties for snacks and confectionary. In the late 1990s, private operators made promising attempts to organize production, artisanal packaging, and small-scale exports of confectionary groundnuts to Europe. This type of approach should be further explored. Furthermore, a study should be conducted to analyze the potential for increasing exports of mass-market groundnut-based products to sub-regional markets.

4.12 All efforts to promote this sub-sector must begin with improvement of the information base on current and potential production and on regional and international target markets. This is a classic task for the state as part of its duties to foster an environment within which private sector businesses can develop. It is important that the private firms have the size, technical and market knowledge, and financial resources needed to respond to the very specific market opportunities that emerge. While overall market prospects do not look as encouraging as for sesame, the size of the existing production base provides the potential to dramatically leverage small improvements in production productivity and to rapidly respond to well-targeted niche export markets.

Shea nuts (karité)

4.13 The shea nut comes from a naturally-occurring fruit unique to Africa. There are 17 countries across the semi-arid belt of Africa where several similar species of this tree grow naturally. Burkina's production is one of the largest (due to relatively dense tree populations) and innumerable efforts have been made to promote village-level and semi-industrial processing of the crop. While the fruit is used locally as a food additive, it is the nut of the fruit, which is particularly appreciated because of its high fat content. Shea butter ("beurre de karité") is a fatty substance with a worldwide market, principally as a food additive (for example, to replace cocoa butter in chocolate), but also as a component of high-visibility beauty products manufactured in OECD countries. The butter also has antiseptic and pharmacological properties

4.14 Shea trees have yet to be grown in plantations, although there has been experimentation in producing hybrids with more stable year-to-year nut production. Shea trees are found in 28 percent of the Burkina territory, where a majority of the population resides. Total production is declining due to aging of tree populations, illegal felling, demographic pressure on the land, and livestock overgrazing. It is traditionally women's activity to gather the fruits, sell the nuts to traders or transform them into butter, which they sell on the local markets or export. Some estimate that up to 300,000 to 400,000 women, primarily those in rural areas and belonging to the poorest segments of the population are engaged in this activity. NGOs are very interested in improving production, processing, and marketing. Micro-economic studies have shown that the financial returns of collection and primary processing at the village-level are very low.

4.15 The main export is raw nuts, with up to 35,000 to 40,000 tons in volume exported in the best of recent years. Two large trading and processing firms located in Scandinavia dominate the international market. Given their monopoly and the existence of other natural oils as substitutes, prices have remained very low in this sector (recent wholesale export prices have been estimated at between 8 and 14 US cents/kilo). Nonetheless, exports of shea nuts and shea nut butter today represent the fourth source of foreign currency for Burkina Faso, after cotton, livestock products and sesame. Prospects for increasing sales are generally considered good for two reasons: (i) the European Union has adopted a ruling authorizing the substitution of cocoa butter with other vegetable fats in chocolate manufacturing (up to 5 percent of its weight) and (ii) a growing number of European and American beauty product manufacturers are using shea nut butter as an ingredient, following the success of the products of l'Occitane, a top quality French manufacturer.

4.16 Under current circumstances, growth in sheanut exports is limited by:

- the inability to increase local supply;
- the weaknesses and poor organization of local stakeholders;
- the monopoly held by international shea nut buyers and refiners, which allows them to control the market; and
- the high transportation and transit costs of Burkina nuts.

4.17 Thus, despite the efforts of many promotional and technical projects on shea nut, poverty reduction impacts in this sector have remained limited. In recent years, the situation has changed to a small degree, with greater interest in medium-scale industrial processing and exporting, especially to Togo, Ghana, and Cote d'Ivoire. Several Burkina investors are setting up similar processing facilities. The major question is whether these efforts can succeed in creating differentiated shea nut products of consistent quality to allow investors to capture significant market segments in either the sub-regional or international markets, and to pay village-level gatherers and primary processors a higher price. Both agronomic and bio-chemical processing research could pay substantial long-term dividends, as could detailed feasibility studies in targeting well-defined market niches.

Cashew nuts

4.18 The cashew nut is the newest and least important of the four "oil seed" sub-sectors in Burkina. The cashew nut is the fruit of the cashew tree; the top part of the fruit contains the nut, within which is the curved kernel that is known as the "cashew nut". Hand extraction of unbroken kernels is quite difficult and most kernels in the global market come from India, which has a vast labor force specialized in this task. Like groundnuts, cashew nuts are roasted before consumption.

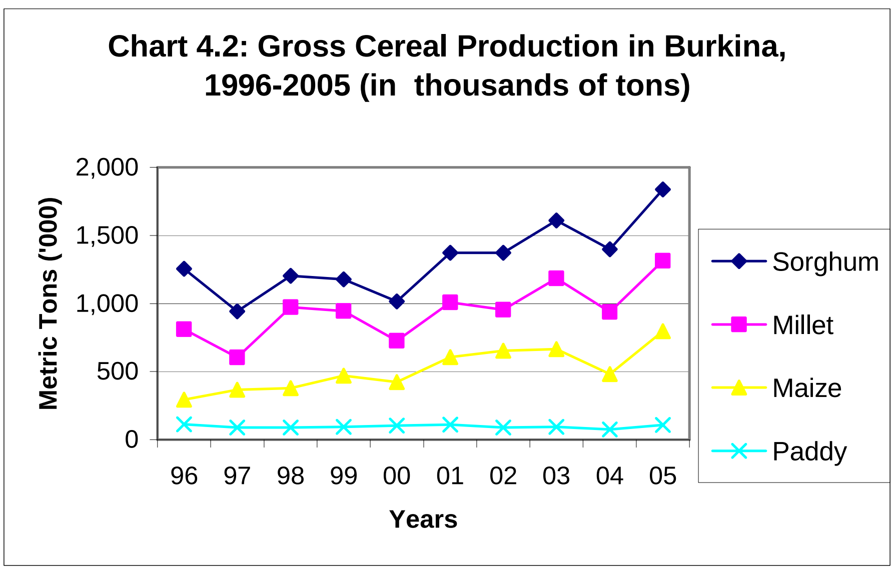
4.19 The cultivation of this tree crop was introduced on a large scale in Burkina in the 1960s. Export of cashew nuts only began in the 1980s by FLEX FASO, a former state company. Additional cashew orchards were planted under the *"Projet Anacade"*. A number of preliminary efforts to study this sub-sector have not resulted in any viable estimates of quantities currently produced. Exports are estimated to have fluctuated between 500 and 7,000 tons over the last 10 years (but generally increasing), with prices per ton representing only a third of those of sesame. Burkina is a minor exporter, compared with several countries on the West African coast (Côte d'Ivoire, Guinea Bissau, Benin, Nigeria, Senegal, and Ghana), which all share the advantage of access to the sea, which facilitates export to India. However, recent estimates by the African Cashew Alliance – Burkina indicate that annual production now reaches roughly 25,000 tons.

4.20 The market for this product is expanding around the world, but there are many producing and processing countries, which all enjoy cost advantages over Burkina with respect to transit and shipping. Development efforts would need to first fully exploit existing cashew orchards. If this can be done profitably, more trees could be planted since they grow well over a wide swath of the country. The main question for this sub-sector is whether the private sector can organize and vertically integrate itself sufficiently to be considered a serious international market player. The recent arrival of a large investment from India is promising because the investor could play the role of sector leader. If this investor succeeds and/or other serious actors emerge, the sector could benefit from financial support from the government and from donors for agricultural research on tree cultivation, and perhaps for market analysis.

CEREALS AND NIÉBÉ

4.21 Cereal production makes up a large part of the value produced by agriculture in Burkina Faso. Over 3 million hectares of semi-arid farmland in Burkina are devoted to cereal production. Sorghum takes up the largest area (47 percent), closely followed by millet (41 percent). Most of the final 12 percent of cereals land is planted with maize, with smaller areas devoted to rice and fonio.[22] Little is exported. Virtually all export potential is in West Africa.

Chart 4.2 : Gross Cereal Production in Burkina, 1996-2005



4.22 After stagnating during the 1990s, aggregate production of sorghum and millet has been increasing since 2000, while paddy rice has shown no progress (Chart 4.2). However, maize production has doubled and registered a record harvest in 2005 (as did sorghum and millet). The

[22] In comparison, cotton production occupies about 500,000 hectares or 17 percent of the area devoted to cereals.

Government announced a significant cereals surplus. The growth in maize production is largely attributable to its close association with the expanding cotton sector: on the one hand, the two are grown in rotation, and residual cotton fertilizer in the soil benefits the subsequent maize crop; on the other hand, the Cotton Growers' Association has begun supplying fertilizer specifically for maize. Thus, as cotton acreage expands, so does that of maize. However, maize yields have declined slightly over the past five years. During the past ten years, maize yields have averaged about 1.5 tons per hectare, typical for open pollinated varieties in African savannah conditions.

Table 4.1 : Burkina Cereal Production and Trade, 1995-2005

Crop/Product	Average Production 2000-2005 (in thousands of T)	Average imports 2000 to 2004 (in thousands of T)	Average Exports 2000 to 2004	
			In thousands of T	In % of average production
Sorghum	1490	-	2.0	0.1 %
Millet	1020	1,8	6.4	0.6 %
Maize	604	15.1	32.2	5.3%
Rice	97	274	1.5	1.5 %
Fonio	12	0	1.6	13.3 %
Wheat	---	67	5.1	---
Total	3223	358	47.8	1.5 %

Source : FAO-Stat

4.23 Most cereals produced in Burkina are consumed locally; only about 1.5 percent by weight is exported. Imports of cereals are much more significant; they made up about 11 percent by weight of what was produced nationally over the 1996-2005 period (Table 4.1). However, the situation varies significantly, depending on the cereal. Although large quantities of rice and wheat are imported, the country is normally self-sufficient in the three most important cereals – sorghum, millet and maize. Indeed, maize exports are now a fairly regular occurrence, although they are sometimes offset by imports. On average, over the last five years, maize exports have represented roughly 5 percent of the total harvest, with imports equaling about half of this amount. A larger share of the very small fonio harvest is also exported. Millet and fonio exports are destined for niche consumer markets in neighboring countries.

Can Burkina Faso be a cereals importer and exporter?

4.24 A number of constraining factors limit available cereals supply and thus the size of possible cereals exports. These include agro-ecological, structural, and policy factors. Sahelian cereals are subject to significant year-to-year variability in supply due to rainfall variability and a harsher climate than in more temperate parts of the world. Burkina has roughly maintained per capita cereals production in sorghum and millet. This is unlikely to change with current technologies, so exports of these two cereals may not increase, and will more likely decrease as soil impoverishment and land availability become more important constraining factors for smallholder production. On the other hand, owing to changing tastes and to an increasing urban population that consumes more wheat, rice, and maize, the domestic supply and prices of sorghum and millet will probably stabilize.

4.25 Food availability is a sensitive concern in a country that has a long history of occasional poor harvests. With limited capacity to purchase imported cereals in times of crisis, the emphasis has been on food self-sufficiency. Nonetheless, as national income (and thus the capacity to import) grows and domestic demand for the three main cereals is met, it may be time to modify traditional habits. At least for maize, it is likely that production will continue to exceed national demand, as cotton production is expected to continue to grow and yield could also improve considerably.

4.26 There are five reasons why it may make sense to encourage trade in cereals, in general, and in maize, in particular:

1) Restricting sales to the domestic market inevitably lowers the incomes of farmers. If traders cannot take advantage of higher prices across the border, then they will purchase less of the harvest or at a lower price.
2) Lower prices discourage farmers from producing more; this is not a good way to encourage national food availability.
3) Regional trade in cereals will help all countries cope better with poor crop years. Allowing markets to compensate for localized production shortfalls (and limiting the resulting higher prices) by drawing on a large regional free-trade zone should allow for greater inter-annual price stability. The 2004 crisis in Niger was severely aggravated by restrictions on the flow of Nigerian exports. Keeping one's grain for oneself may seem to make sense when one has a surplus, but one thinks differently when suffering from a shortage and it is one's neighbor who has the surplus.
4) The implications of a restrictive trade policy may be regressive. Constraints on exports will keep prices a little lower for urban consumers, but they are likely to be somewhat better off on average than the farmers who suffer from reduced prices. Even if some farmers are also net buyers of cereal, discouraging trade is not the best way to assist them.
5) Restrictions on trade in primary products are against the UEMOA and ECOWAS agreements, for the very reasons outlined above.

Recommendations for gradual expansion of cereals exports

4.27 Burkina cereals exports represent only a small fraction of total national production and this is not likely to change fundamentally in coming years. However, it is possible to envision combined state-private sector efforts that may lead to a gradual expansion of exports in the context of expanded and more fluid sub-regional cereals trade. This would contribute both to higher producer incomes and to enhanced food security, providing neighboring countries respect their commitments.[23]

4.28 The measures can be taken, both within Burkina and at the regional level. They involve five broad strategies (four medium-term and one longer-term), all consistent with the national cereals action plan:

- ***Improving Information to Promote Cereals Trade in the Sub-Region*:** The history of cereals trade reforms has largely taken place at the national level and has generally involved limiting the role of the state in the control of domestic cereals trade. It is only in the past five years or so that the first tentative steps have been taken to promote private cereals trade at national and sub-regional levels and the first attempts made to build a more modern, professional cereals marketing industry. Improved information systems are one of the key compo-

[23] The creation of a regional cereals "trading space" might involve at the outset, reinforcing trade across the following areas: those portions of Burkina, Mali, northern Cote d'Ivoire and Ghana, and Guinea in an approximate 500 km radius around Bobo Dioulasso

nents of this "paradigm shift". The Burkina Cereals Action Plan project[24] constituted a radical innovation in that it developed its own trade-oriented cereals database, with information provided by cereals traders. This new system is based on cereal trader needs and uses a group subscription with the national ONATEL cell phone system. This cereals database needs to be complemented by better collection of basic production data by the MOA. This effort to implement the cereals action plan should be closely monitored at the national level and supported with appropriate complementary donor investments at the sub-regional level.

- ***Development of the "Inter-Professional" CIC-B and the development of new cereals product markets*:** The Burkina Faso government has sponsored the development of an inter-professional committee for local cereals, the CIC-B (Comité interprofessionnelle des Céréales et Niébé du Burkina Faso), and the execution of the national cereals action plan (excluding rice and wheat). Cereals organizations can begin to adopt a modern focus by developing transformed cereals products, such as breakfast and baby cereals and easy-to-prepare cereal products such as millet couscous. While destined primarily for the domestic market, some of these products, such as fonio and millet couscous, may also have considerable export potential. With the expansion of more intensive livestock raising, which requires greater quantities of industrial livestock feeds, mostly based on maize, there is substantial potential for the development of a feed industry inter-profession. To the extent that this contributes to greater exports of meat, this may prove the most efficient way to "export" maize. Donors could foster this type of product development by funding competitive grants to inter-professional groups, in partnership with foreign investors or with the support of Burkinabè applied food technology research institutions.

- ***Standards for Quality of Cereals and their Use*:** Standards exist for Burkinabè coarse grains (relating to moisture content, presence of mold, of poor quality grain, of impurities), but these standards are only applied occasionally. Semi-industrial grain processing companies may demand that the millet or maize that they buy meet stricter quality standards, but also pay more for grain meeting those standards. Assistance to inter-professional groups to develop and use appropriate cereals quality standards should be supported. To the extent that consumers are willing to pay for better quality, this will improve the competitiveness of these products in sub-regional markets.

- ***Better Marketing of Cereals to Niche Markets*:** Well-cleaned and attractively packaged, Burkina fonio could gain substantial sub-regional market share. Export market development opportunities, in "minor" cereals, as well as other neglected crops, should be explored by the private sector for the opportunities they may afford in export promotion and in the development of small, professional sub-sector organizations. While the state needs to focus on priority sectors, the private sector should be encouraged to pursue any such opportunities through competitive market development matching grants.

[24] Funded by GTZ, the EC, and Danish cooperation.

Box 4.1 : Note on Niébé (Cow Pea or Black Eyed Pea)

Niébé beans, or "cowpea", is an African legume. It is a drought-tolerant crop that is important for food security and nutritional adequacy in West Africa, since the high protein content of the beans makes them a nutritional supplement to cereals. Niébé hay is prized for household livestock feeding. Since niébé has always been considered a secondary crop in the traditional subsistence farm economy, it is primarily grown inter-cropped with the dominant cereal crop (maize, sorghum or millet). When grown under pure stand conditions, yields per hectare can be 3 to 4 times higher than the 200-300 kg/ha commonly reported from the inter-crop. Burkina is estimated to be the third largest producer of niébé beans in West Africa, but its per capita consumption is only one-quarter that of Nigeria. The market in Nigeria and in other coastal countries is estimated to have a "structural deficit" of half a million tons of niébé beans. The MOA produced a very sensible action plan for the development of niébé (Statistika, May, 2003), which concluded that this sub-sector could become a "cash crop" through export expansion. The plan had the following general objectives: (a) to strengthen stakeholder organizational capacity by organizing a Niébé Committee as part of the Cereals Inter-professional organization (CIC), (b) to promote the production of pure stand cow pea, and (c) to develop a better statistical base. These objectives were to be met through the following activities:

- Intensifying production of the varieties demanded in the West African market. The coastal markets seem to want larger, more whitish beans than what is commonly produced in Burkina;
- Improving storage and reducing insect losses; and
- Increasing exports through the provision of organizational assistance to the sub-sector, better access to credit, much improved information on the market, and better enforcement of UEMOA and ECOWAS trade agreements.

The development of sub-regional Niébé bean markets should probably be handled like plans for the promotion of increased groundnut and sesame exports. A new generation of firms must clearly identify the requirements of target markets, modify the quality characteristics of the commodity (through very targeted applied research and development programs, perhaps through cost-sharing with importers), and facilitate the development of integrated input supply and marketing firms with the financial means needed to "professionalize" a portion of sub-sector production.

FRUITS AND VEGETABLES

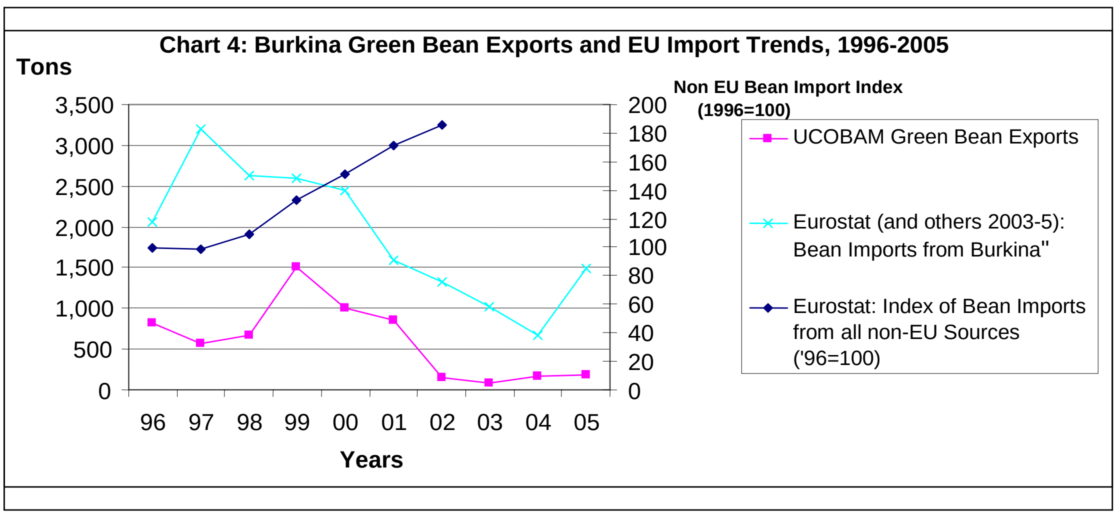
4.29 One of the greatest opportunities for high-value export expansion in Burkina Faso is in the area of fruits and vegetables, but this sector also presents the greatest challenges. Estimates of Burkina Faso's annual production of fruits and vegetables range from 350,000 to 400,000 tons. The production provides employment to an estimated 375,000 people. Most vegetable producers are small holders who cultivate plots of less than 0.5 ha. Fruits are produced primarily on small orchards ranging from 1 to 10 ha. Fruits and vegetables are relatively high value crops, with total value produced representing one-third of that of cotton while only occupying one tenth of the surface required by cotton. However, only a small fraction of fruits and vegetables produced are exported. Fruits and vegetable exports represent less than 1.0 percent of total exports. It is estimated that there are between 10 and 14 exporters of fruits and vegetables, with most of them exporting only small quantities. Only one of these exporters is a structured export firm that has obtained significant export results. This firm belongs to a foreign investor.[25]

The Fruit and Vegetables Production Environment

4.30 *Vegetable Production:* Production statistics for vegetable and fruit crops in Burkina, like in most developing countries, are very unreliable. The biggest vegetable crops by average area planted (between 1996/97 and 2001/02) are onions, cabbage, tomato, green beans and eggplant. Most of this output is for the local market. Green beans represent Burkina's big success in terms of vegetable exports to Europe, although exports have been in sharp decline in recent years

4.31 *Fruit Production:* In Burkina, like in other Sahelian countries, fruit production is dominated by mangoes, with an estimated total production of 150 to 200 thousand tons per year, of which less than 5 percent is exported. The next most important is all citrus fruits (oranges, lemons, limes, grapefruit), with an estimated production of 75,000 tons. Mango harvesting begins in mid-January, but the bulk of the harvesting is done between March and May, which allows some portion of the production to be exported during the winter/spring season in Europe, prior to the arrival of temperate European fruits on the market. This is also true for Burkina's small papaya production, whose season extends from October through April.

Chart 4-3 : Burkina Green Bean Exports and EU Import Trends, 1996-2005



Sources: UCOBAM, Eurostat 1996-2002, Burkina Customs and Air France 2003-5.

4.32 *The Rise and Fall of Burkina "Extra Fine" Green Bean Exports:* Chart 4-3 presents the evolution of Burkina's green bean exports over the past ten years—a precipitous collapse from about 3,200 tons in 1997 to 664 tons in 2004, followed by a recovery to about 1,500 tons in 2005. This decline occurred whereas EU green bean imports from all non-EU sources almost doubled between 1997 and 2002. Almost all of Burkina's competitors in this market, both from sub-Saharan and North Africa, dramatically increased their exports during the same period. While green beans exporters from Kenya, Senegal, and Morocco were able to modernize their production methods and adapt them to the changing exigencies of the market, Burkina exporters were handicapped by the disorganization of the supply chain and were unable to face competition.

[25] The company is Fruiteq, a subsidiary of AGROFAIR, which specializes in fair trade. It has the ECOCERT certification, and exported 1000 tons of mangoes in 2007.

4.33 Most analysts agree that the following points largely explain this collapse:

- The European green bean market has diversified its sources and has become more demanding in terms of quality standards and traceability;
- European market prices have declined in real terms, whereas Burkina export costs are among the highest among current competing countries;
- Burkina exporters have remained rather traditional in that they: (a) require pre-financing of inputs and marketing costs by importers; (b) are linked to a small number of traditional francophone importers in the Rungis wholesale market in Paris; (c) are only loosely organized among themselves; and (d) have no partnership with a substantial foreign partner (in contrast with Morocco and Kenya);
- The bankruptcy of Air Afrique and the general decline in the number of other European airlines serving Ouagadougou resulted in a virtual Air France monopoly on airfreight, which coincided with the recent period of sharply higher fuel costs. In addition, lack of coordination among exporters and declining volumes have prevented the occasional chartering of freight-only flights during peak periods;
- State and donor support for UCOBAM was withdrawn without an adequate transition to an alternative private structure, worsening the situation.

4.34 Because of these factors, some analysts question Burkina Faso's chances of competing in the rapidly evolving and restructured EU market for winter green beans as well as similar horticultural products. While this conclusion seems too pessimistic, it underscores the magnitude of the challenge facing the government and private sector operators

The Opportunities and Challenges of Exporting Mangoes to the EU

4.35 Burkina's second significant experience with horticultural exports to the EU is with mangoes, exported both by sea, mostly from Abidjan, and by air from Ouagadougou. Mangoes also illustrate well the complexities of further developing small existing export niches. Burkina is a very small player in the EU market and faces stiff price and quality competition from other suppliers. As shown in Table 4.2, in 2005 officially recorded mango exports from Burkina to the EU amounted to 1,154 tons, or 0.6 percent of total EU imports (182,355 tons). This amount seemed to increase substantially in 2006 to reach more than 2000 tons. It is estimated that 5000 tons were exported to the sub region, and it is suspected that a significant portion of this volume is re-exported towards Europe by Cote d'Ivoire exporters. It also indicates the level of potential competition in this year-round mango market. All mango exports from 14 African countries only make up 12 percent of the European mango market.

4.36 The "sea mango" trade is expanding, and the bulk of the mangoes on the EU market arrive by sea. West African mangoes are available between March and June, a period that falls between exports from South America and South Africa and those that come later from Israel and Spain. There are two different market segments: one for higher quality ("tastier") air-shipped mangoes and a "basic market" for cheaper mangoes of lesser quality, which ripen during their sea voyage or under gas treatment in special "ripening rooms" in the EU.

Table 4.2 : Exports to the EU from Non-EU Countries (2005		
Exporting Country	**Exports to EU**	
	In tons	**In percentage**
Brazil	78,961	43
All other non-African Exporters	81,839	45
Côte d'Ivoire	9,835	5
South Africa	3,849	2
Senegal	3,043	2
Mali	2,560	1
Burkina	1,154	0.6
All other African Exporters (9)	1,114	0.6
Total Non-EU Exporters	182,355	100

Source : Eurostat

4.37 Mango exports to neighboring countries (especially Niger) and "organic mangoes" also offer interesting opportunities. A significant proportion of Burkina's mango exports is certified as "organic" by the subsidiary of ECOCERT, headquartered for West Africa in Burkina. Given the very limited use of agro-chemicals, this has offered exporters an opportunity to be more competitive in this growing market niche. Finally, there is the transformation of mangoes. Currently, this is largely confined to drying mango slices, using either solar or gas-fired driers. Although the volume of dried mango exports seems small (230 tons), it still represents the equivalent of approximately 3,500 tons of fresh mangoes (or about three times the weight of fresh mangoes exported in 2005).

4.38 The sector faces several problems:

- It has not been structured, with no inter-profession until 2006;
- There are few serious operators;
- Exporters have no contracts or even direct contact with producers, depending for collection, on unreliable informal go-betweens;
- Local banks are reluctant to finance mango businesses, having too often been "burned " in the past;
- Some actors in the sector are not ready to meet quality standards currently required in Europe, notably EurepGap.

Exports to Sub-Regional Markets and to Non-African Markets

4.39 Considering the difficulties of succeeding in the lucrative yet highly competitive European fresh horticulture markets, some specialists have argued that it is in Burkina Faso's interest to concentrate on expanding market share in the growing West African sub-regional markets for horticulture products. The new World Bank-funded program for support to agro-sylvo-pastoral sub-sectors (PAFASP) and the Ministry's Action Plan both put emphasis on this strategy, focusing on products such as onions and mangoes.

4.40 However, occasionally taking advantage of exceptional market prices in neighboring countries (as is currently the case with mango exports), does not, in itself, make a growth export industry. Improving horticultural exports to neighboring countries does not preclude continuing to engage in long-distance exporting to the EU market, or vice-versa. Many of the interventions needed to develop exports for the sub-regional market are also essential to support sustainably exports to the EU. In some respects, the sub-regional markets are easier targets, but in other respects the required increase in professionalism is similar. Our recommendations for pursing both regional and international horticultural market opportunities are broadly consistent with the MOA's fruit and vegetable action plan.

Increasing Burkina's Market Share in Sub-Regional Markets

4.41 Focusing on the sub-region seems more realistic and easier to manage, while still potentially quite profitable. Sub-regional markets are more tolerant of variations in product quality and less demanding than non-African markets in terms of standards, traceability, etc. The quantities needed to be a significant player in these markets may be smaller and opportunities to mobilize and turn over short-term capital are greater. Processing and marketing are less demanding. Furthermore, lower labor costs, working in a known and comfortable socio-economic milieu, can reduce unit costs.

4.42 Lack of market intelligence about neighboring countries has prevented a transition from occasional selling of more traditional commodities to a modern, semi-industrial trading model requiring better organization, planning, larger capital and, certainly, investment in infrastructure such as storage warehouses, and fixed and mobile cold chain infrastructure.

4.43 Gaining and keeping significant market share in a commodity such as bulb onions requires fairly deep market analysis, some attention to evolving quality standards, and significant investment in infrastructure. The cost of these more sophisticated marketing elements cannot be supported by the smaller volumes of goods sold by traditional horticultural traders. Those higher cost items can only be recovered when spread over large sales volumes.

4.44 For Burkina fruits and vegetables to be more competitive and gain market share in sub-regional markets, marketing innovation and infrastructure investment need to be implemented by firms that are larger and/or are organized differently from traditional firms. These new firms must have an organizational and logistics management capability run by a core of trained, professional staff with enough incentives to innovate, analyze markets, and capture market share. These principles have been partially demonstrated and confirmed by various state-owned Burkina agricultural marketing firms during the past 20 years (UCOBAM, ONERA, FLEX FASO, etc.), but the sustainability of these firms was continually undermined by the well-known weaknesses and vulnerabilities of state-owned companies. The challenge at this time is to develop innovative marketing firms, of a certain size, within the Burkinabè private sector.

4.45 Attaining the size and organizational complexity needed to become a key player in the sub-regional market requires innovation and, perhaps, the development of new mentoring relationships (or partnerships) with foreign companies (European, Ivorian, or other) experienced in the logistics of horticultural products. How can this assistance be provided through support programs for businesses? This is the challenge facing projects such as the PAFASP. The main advantage for new exporting countries is that expertise in modern horticultural trading and cold chain logistics exist in other countries. This expertise can be transferred through bilateral assistance, or even more easily through "joint ventures".

4.46 **Recommendations:** We support the strategy of the government, the private sector and technical and financial partners, which lays emphasis on promoting substantial increases in horticultural exports towards sub-regional markets. In this context, we offer the following additional recommendations:

- ***Improve Market Intelligence***: The top priority is to hire international and Burkinabè horticultural trading professionals to conduct assessments of the targeted West African markets. These assessments should be done by mixed teams of private sector operators and consultants within a "training framework for enterprise development" and should be complemented by regular market and price monitoring.

- ***Create New Professional Associations***: Associations that succeed are usually based on a group of firms that are interested in a sector; have achieved a certain level of sales volume; and are facing obstacles related to logistics, policy, or financing that are hampering further growth. Members coalesce around specific objectives to solve specific problems; finding solutions teaches the power of group effort and reinforces the usefulness of association membership. This is the type of focused and functional association that needs to be promoted at this stage in the development of export horticulture in Burkina. An apex organization for all fruit and vegetable commodity lines can be created later.

- ***Promote the Creation of Professional Horticultural Trading Firms***: With adequate support from donors (through partial matching-funds granted on a competitive basis), stakeholders must find innovative ways of developing existing firms or promoting the creation of privately-owned horticultural trading firms (or integrated production and trading firms) of sufficient size to have their own storage and cold chain facilities, and minimal capacity to conduct market analysis and provide a needed level of logistical and overall business management. These firms could work with production cooperatives depending on the model of collaboration to be developed. One possibility is an adapted variant of the "contract farming" model that comprises a central farm for production quality demonstration purposes, combined with a packing house and needed storage and cold-chain infrastructure, and appropriately scaled transportation capacity. This model has been used successfully in neighboring Ghana and Côte d'Ivoire.

- ***Promote joint-venture enterprises and other methods of intensive technical assistance*:** In order to grow more modern horticultural exporting firms, it may be advisable to use business development approaches such as "joint ventures" or intensive technical assistance in the form of 3-6 month internships for advisers in specific enterprises, perhaps to make them viable candidates for joint ventures with international firms. The "new export horticulture businesses" will be more like other businesses and less like the traditional horticultural farm. Therefore, new models are needed to train their senior staff. Public and private business schools, which have started to appear in West Africa (often with links to foreign business schools), may be useful in institutionalizing marketing capacity and business development.

Regaining Market Share in the EU

4.47 Exports of fruits and vegetables from Burkina Faso remain far below their potential. Demand in the sub-region and especially in Europe is strong and increasing and, in terms of production potential as in quality of products, Burkina should be able to gain an increasing share of this market. At the present time, Burkina green beans exports to Europe represent less than 2 percent of the market, while Burkina mangoes, even including re-exports, have captured less than 4 percent of the European market. Burkina Faso does not lack arable land and, since out of a total of 224,000 ha of irrigable land, only 12.000 ha are irrigated, there is a large unexploited potential for irrigated farming.

4.48 The government and private sector partners remain intent on regaining lost EU market share in green beans and mango exports and expanding into new products. This is going to be challenging since it involves radically increasing the sophistication of production and marketing and encouraging the emergence of new types of private firms, most likely operating in partnership with EU firms, something that is not common in Burkina at this time, in contrast with what is happening in other countries in Africa.

4.49 Burkina has lost market share in green beans especially, because the EU market has evolved quickly (in terms of quality standards and business operating practices) while Burkinabè firms have hardly changed. Burkina green beans are still being shipped to a part of the market that is in relative decline - Rungis importer/wholesalers who then sell to smaller supermarket chains, to wholesale green markets, and to small retail shops – in contrast with the rapid growth of the large supermarket chains. As a recent World Bank study on the rapidly changing EU horticultural industry underlines, "the importance of spot markets – traditionally the core markets for horticulture – is dramatically decreasing in favor of the 'standing order' markets".[26]

4.50 One of the characteristics of the vast European horticultural market is that it is in permanent evolution and certain products, once available only seasonally or in some type of transformed state (dried, canned, frozen), are increasingly available in fresh forms. The distribution of fruits and vegetables is controlled 85 percent by large-scale distribution—supermarket chains. These chains entrust supply to specialized logistics firms based on highly restrictive terms and conditions with respect to quality, health security, delivery schedule, and price. In particular, they insist on compliance with standards such as HACCP, ISO, fair trade, organic products, BRC – British Retail Consortium, GFSI – Global Food Safety Initiative and particularly EUREP-GAP. Such a certification becomes a "license" to export into well-defined EU markets. The opportunities in the expanding EU market are ever increasing, but "the bar" keeps getting higher. At the present time, Burkinabè horticultural firms are not in a position to meet EU conditions.

4.51 What is required is a change in behavior among exporters: to show increased professionalism and to behave like entrepreneurs intent on consolidating their investment by controlling their input, choosing their orchards, and building loyalty among producers. It should be possible to establish a contractual relationship, within which, in exchange for technical support to the farmer, producers guarantee their production to "their" exporters and therefore, refrain from side-selling to the highest bidder. What is also required is a change of mentality on the part of the producer, to become a businessperson who considers his orchard or his farm as an "asset" to be maintained and increased in value.

4.52 Most European industry professionals underscore that exporting firms must operate in new ways. An international horticultural business that wants to succeed in the EU markets must have the following characteristics:

- It is "suburban" rather than "rural"; it is an agribusiness rather than a farm;
- It needs production facilities and centers with sufficient volume to allow for critical investment in post-harvest handling and larger-scale logistics; and
- It will involve firms that can present convincing business plans to their bankers, based on a firm's international management team with proven horticultural business management experience.

4.53 It is hoped that the traditional system can evolve in order to involve the maximum number of small farmers, but the speed required for this evolution is high. The consensus of expert

[26] "The European Horticultural Market: Opportunities for Sub-Saharan African Exporters", World Bank Working Paper No. 63, Patrick Labaste, editor, 2005, page xv.

opinion is that it will be increasingly difficult for Burkina exporters to maintain EU market share unless they are paired with the right EU partners for integrated production/marketing operations. This type of investment could re-establish Burkina Faso's reputation, and serve as a leader in the sector. Blue Skies in Ghana is a typical example of the new approach, which is increasingly widespread (Box 4.2). It is probably necessary to reform the sector as it exists, while looking for strategic investors.

Box 4.2 : Blue Skies – a Ghana Success Story in Innovation in Export Horticulture

Blue Skies, near Accra, Ghana prepares cut pineapple, papaya, and other tropical fruits for export by air to Europe. These products are cut by hand and packaged in pre-labeled plastic containers that are provided to them by purchasing European supermarkets, located mostly in the UK, Holland, Germany, and Switzerland. Fruit salads or whole fresh pineapples (peeled, sliced and cored) go right onto supermarket refrigerated shelves. Blue Skies, which has been in existence for nine years, represents an example of how strategic alliances can allow an exporting company to enter markets currently unattainable by most other firms in that country. It has cultivated loyal buyers in Europe through its rigorous quality control (it was one of the first firms in Africa to be EUREP-GAP certified) and maintains excellent relations with local staff and farmers. The following key points summarize the Blue Skies story:

- It is a firm with origins and major stockholders in the UK. It sources different tropical products for different niche markets in Europe from packing plants in South Africa, Egypt, and Ghana.
- The company has provided capital at low EU rates, sophisticated technical knowledge, and trust-based marketing contacts with selected EU supermarket chains, especially those in the growing market of high-quality convenience foods. Having a business based on the pound sterling has allowed contracts with local fruit out-growers to constantly gain value (against the Ghanaian Cedi). All production and packinghouse staff are also under employment contracts denominated in pounds and adjusted periodically for exchange rate variations.
- In 2003, the company was using between 50 and 60 percent of the total refrigerated air-freight capacity between Accra and various European passenger flight destinations. This influenced the feasibility and choice of the destination supermarket clients. The company's products are taken from the processing facility to the nearby Accra airport in refrigerated trucks.
- The company has some small demonstration fields near its processing facility. However, most pineapples are provided by selected smallholder out-growers who are all EUREP-GAP certified. As the business has expanded, some of the more experienced producers have trained other out-growers in the required quality-oriented production techniques. Surplus production that does not meet quality standards is sold in Accra markets.
- Men and women are equally represented in the company; 70 percent of upper level management is female. Workers enjoy excellent social and health care benefits (including HIV treatments). Staff moral and loyalty are very high.

4.54 The Burkina Fruit and Vegetable Action Plan has identified a number of promising vegetable and fruit export opportunities (in particular, fresh peas, cherry tomatoes, Antilles peppers, lime), which may very well be an excellent choice of target commodities. But what seems to be missing is specific planning on how these markets could be penetrated by Burkinabè private sector companies, probably through some joint production/marketing arrangements with European horticultural firms. The new government-sponsored firm, SOBFEL, is not sufficient in its present form (see Box 4.3)

Box 4.3 : SOBFEL ((Burkinabè Fruit and Vegetable Company)

This is a joint stock company in which the government has a 15 percent capital participation, with the rest of the capital being owned by fruit and vegetable exporters and other larger-scale corporate investors. It was set up to avoid some of the problems of poor performance that had characterized state companies. Its objectives are, first, to be financially successful and, second, to provide leadership to other companies in the sector in view of promoting cooperative sub-sector organization. It completed its first production season in 2005-2006. SOBFEL has received substantial state/donor assistance that is partially justified by its mandate to be a sub-sector leader and organizer. However, it has paid little attention to this role since it is concentrating on attaining its main commercial export targets. The company is in the potentially conflict-producing situation of competing with private sector firms (some of which are among its shareholders), whereas it is supposed to be leading coordination and planning efforts within the whole sub-sector. Its role in the *Terminale Fruitière de Bobo* seems to have discouraged several exporters from participating, making the first year performance of the *Terminal* disappointing. Substantial work is required to resolve these conflict-of-interest situations, which may disorganize the sub-sector rather than provide sub-sector leadership.

4.55 The involvement of a Cote d'Ivoire company (Ivoire Logistique) as a major shareholder in the *Société de Gestion de Terminaux Fruitières* (SGTF), and of a French company (*Léon Vincent*) in the management of the *Terminal Fruitière de Bobo* are steps in the right direction. However, the situation remains unsatisfactory because SOBFEL—a state-created entity rather than a truly private firm – owns the terminal, making the management structure rather cumbersome and creating conflicts of interest. Furthermore, these foreign companies are not exporters but simply service providers, at least for the time being. SGTF is taking on the role of exporter by offering pre-financing for the whole logistics service, and financing for certification of mango orchards; it is even considering providing payment services for collectors (*pisteurs*). These measures are no doubt necessary to safeguard investments in the terminal, but the question is whether the approach is viable.

4.56 If the need for greater foreign contribution is accepted, then the next question concerns Burkina's attractiveness as an "investment destination" compared to countries such as Kenya, Ethiopia, Egypt, Morocco, and even Mali and Senegal. Regarding high quality horticultural products that can be exported by air, Burkina enjoys an obvious geographic advantage as one of the sub-Saharan sites closest to Europe—five-hours by air.

4.57 Bobo-Dioulasso is closer than Nairobi, or Lusaka, but is in competition with Bamako, Niamey, and Dakar as possible investment sites. In terms of access to large, high-quality, irrigated areas close to international airports, Burkina is not as well located as Mali, but its water availability is equivalent to that of Senegal.

4.58 For a summary view of Burkina's readiness and attractiveness as an investment partner for EU horticultural investors, we reviewed the list of five basic production factors and five "advanced" production factors, as defined in a recent World Bank assessment of EU horticultural markets. The results are presented in Table 4.3 above.

Table 4.3 : Is Burkina Ready to Expand Horticultural Exports to the EU	
Factor	**Situation in Burkina**
Basic Factors:	
1. Non-restrictive policies towards horticultural development	**Good:** Recent sector liberalization oriented towards modern business practice, but traditions of heavy-handed state interventionism and ambivalence to foreign investment
2. Suitable and controllable climate conditions such as day and night temperature, humidity, solar radiation, and precipitation	**Good:** Basic environment good for winter vegetable and fruit production; importers will have to source from elsewhere during rainy season
3. Availability of labor and horticultural skills	**Good:** Abundant and cheap non-skilled agricultural labor; skilled horticulturalists rarer but more could be trained
4. Local general infrastructure; access to road/rail/sea/air transport, telecommunications, electricity, and water	**Good/Poor**: Basic road, rail, and airport infrastructure limited and need improvement in Bobo-Dioulasso; limited paved feeder roads ; electricity is extremely expensive and grid limited
5. Basic horticultural infrastructure, supply of horticultural inputs and services	**Good/Poor**: Most inputs are available but many are very expensive since imported; some could be improved with industry growth and a long-term national investment strategy
Advanced Factors	
6. Access to logistics infrastructure linking production locations and international consumer markets	**Poor:** Despite favorable geographic location in relation to the EU, exports suffer from high logistical costs (Air France monopoly) and lack of meaningful presence in EU markets; the situation could be improved through partnerships
7. Existence of production and distribution facilities to control temperature, solar radiation, humidity and irrigation	**Poor:** Burkina should start largely with dry season exports since the costs of advanced production environment controls are largely prohibitive
8. Transparent and guaranteed management information systems	**Poor:** These are not strong points of current exporting firms but could be improved over time via partnerships
9. Support from supporting services industries (finance, supply)	**Poor:** Especially poor in the commercial banking sector but could be improved over time through partnerships
10. Existence of entrepreneurial management and horticultural specialists	**Poor:** Personnel with skill levels needed to operate in sophisticated EU markets largely absent. Again, could be dramatically improved over time through mutually beneficial business partnerships

Source: Factors taken from Labaste, 2005; assessment of situation by author.

4.59 On the basic horticultural production factors, Burkina qualifies, but not brilliantly. This probably is a good reflection of its current export situation where both green bean and mango tonnages have declined in recent years and there is very little foreign investment in export horticulture. Meeting the basic production conditions may have been sufficient in years past to begin to develop an export horticultural industry targeting EU markets, but this is no longer the case.

4.60 In terms of the more advanced factors, Burkina rates “poor” across the board, which is an indication of the size of the challenge facing the country if it wants to maintain its strategy of regaining or increasing EU market share. Two overall conclusions emanate from this review. First, if the Government, its private and development partners want Burkina Faso to be a serious player in EU horticultural markets, the allocation of both short-term and long-term resources will need to be increased sharply and more serious longer-term sub-sector planning done. Second, many of the deficiencies found in “advanced readiness” for the EU market can be met, at least partially, by engaging in a substantial effort to promote mutually beneficial partnerships between EU and Burkina horticultural firms.

Recommendations

4.61 *In the short-term*, we take as a given the stated objective of the MOA to regain and keep EU market share in green beans and mangoes and expand into other products. To this end, we make the following recommendations:

- Clear up contradictions between SOBFEL’s roles as a private sector competitor and a sub-sector coordinator by simplifying its mandate;
- Develop a practical strategy for providing private sector-led industry coordination; constitution of associations of producers, gatherers, and exporters, and of inter-professions;
- Launch a campaign to raise awareness about quality and certification standards.
- Promote EUREPGAP certification among exporters and at the Ouagadougou airport packaging house and cold storage facilities, and maintain certification for those who have recently acquired it[27];
- Rehabilitate the Bobo-Dioulasso airport to make use of its excellent runway and make Bobo the hub of the region;
- Use the services of EU horticultural professionals to estimate the dimensions and requirements of the potential market for Burkina green beans and mangoes that can be obtained over the next two to five years;
- Undertake another market study, by a mixed team comprising the private sector and consultants, on the non-traditional products identified in the Fruit and Vegetable Action Plan (such as fresh peas and hot peppers). This could be done with the involvement of capable outside horticultural firms (from the EU, Middle-East, etc.) and potential investment partners) in the commodity targeting process;
- Organize a Burkina Horticulture Competitiveness Summit to chart the future of export horticulture. This could include evaluations of efforts made to date, such as the creation of SOBFEL and other strategies. European professionals and local private organizations should participate in organizing the summit.
- Undertake a study on promoting investments in horticulture. This study would include the following elements:

[27] This includes the SGTF, Fruiteq, Burkinature, and the UFMB.

- o Creating an inventory of high-quality irrigable land within 50-100 km of the Ouagadougou and Bobo-Dioulasso airports (on paved roads) that could be available to export-oriented partnerships under secure, long-term leases;
- o Explore how the partnership-run "nucleus-estate" model could be made compatible with small-holder farming traditions in Burkina;
- o Conduct a survey among firms in Europe that purchase horticultural products in SSA to verify attitudes about investing in Burkina compared with investing in other African countries;
- o Undertake an inventory of mango orchards.

4.62 *In the longer-term,* the groundwork has to be laid for the country's potential future as an internationally competitive horticultural exporter. Much will depend on the outcome of the Horticultural Competitiveness Summit. Assuming that the response is positive, we recommend:

- Promote the development of "joint ventures", strategic production and marketing alliances between foreign professional horticultural firms and current or future Burkina firms to target specific markets.
- Transform existing firms into competitive companies. Sometimes the business incubator model may focus on financing (such as the Kenya Acacia Fund) or providing hands-on, commercial technical assistance to local firms, solving problems in the value chain and gaining market footholds.[28] Avoid the creation of firms by the state where the latter goes beyond the core functions of the state and makes commitments that may undermine the competitive position of non-subsidized private sector firms;
- Create a revolving venture capital fund, whose management structure involves capital contributors and technical advisors, with the state playing the role of a minor partner at most. This could fund competitive matching grants and loans at "international" interest rates to help launch export businesses. For the most sophisticated markets, this program could encourage significant participation of foreign horticultural firms that can bring cheaper capital, technical expertise, and detailed knowledge of markets.
- Develop a long-term plan with the involvement of state training and research institutions. Burkina lacks many of the science-based dimensions that are indispensable to a modern horticultural sector. Many of the state institutions for technical training and research (especially INERA) need to be involved in the development and execution of this plan. Funding should go to training and research units that get results. It would be important for different educational units to be involved in the business incubator process.

Final Crosscutting Issues and Recommendations

4.63 Modernizing production and export systems based on production by small farmers is a major challenge. These farmers have extraordinarily limited means, and are balancing subsistence survival concerns with a desire for greater market-based cash income. Caution and risk aversion are dominant for those on the edge of survival. Beyond the farm gate, marketing systems are dominated by fairly small-scale traders who often do not possess the size and modern business skills needed to respond to current export opportunities.

4.64 Three repeating themes emerge from the sub-sector reviews. First, the firms in different sub-sectors are generally quite weak. Their lack of capacity to pursue export opportunities is

[28] The advantage of the joint venture (EU-Burkina) model is that the needed technical assistance comes through normal private sector business operations, which is usually far more effective than project-based technical assistance.

manifest in their lack of viable market intelligence, lack of management skills, limited access to investment capital, and lack of partners either in production and processing or in the required marketing organization in target markets, whether outside or in the sub-region. Second, there is little vertical coordination or "inter-professional" organization across firms in each sub-sector. This makes it difficult to undertake needed improvement in product quality (for example, producing the right varieties of niébé or groundnuts with the highest market demand). And third, there still is a need for the state to play at least a facilitating role (as in the cotton sub-sector), and also in research-development, if non-marginal increases in overall agricultural exports are to be achieved. One of the secrets of successful agribusiness development in countries around the world has been the effective incorporation of the nation's agricultural and food research institutions in development programs and the dissemination of production and processing innovations for various agricultural products

4.65 Substantial assistance is needed to "grow firms" capable of responding to market opportunities as well to promote inter-firm, vertical sub-sector development. The question is how to do it so that the resulting firms and organizations are sustainable. Several models for agribusiness firm development have been advanced across our sub-sector reviews. Burkina Faso must take advantage of the opportunity for "joint ventures" (or "partnerships", or "strategic alliances") between Burkina firms and foreign firms with a significant presence in the destination markets

4.66 Given that almost all agricultural production in Burkina is small scale, it is almost inevitable that these export joint ventures will involve linking a more efficient post-harvest processing and marketing channel with production. This may involve (a) a nucleus estate and out-growers; (b) a marketing company linked to a cooperative structure that provides farmers with improved inputs and buys and conditions their production; or (c) a regulated corporate entity (such as in the case of cotton) which provides input and purchases products in cooperation with a producers' cooperative

4.67 Questions remain about the appropriate business model. However, there is a general consensus on some of the characteristics that these new, modernized businesses should have: (a) better market knowledge and surveillance; (b) more assured access to cheaper investment and operating capital – probably foreign capital through partnerships with foreign firms; and (c) technical knowledge on production, processing or transformation, and logistical management.

4.68 The development of strong, functional business associations is critical. For the most part, those that exist have limited capacity and are not active. They were developed "top-down" as part of donor development programs rather than "bottom-up" in response to the needs of firms. Effective and sustainable business associations arise from the need to functionally solve problems that are common to individual members and that the members cannot solve on their own. There must first be businesses capable of exporting and then functional associations to solve problems, and not the reverse. This is all the more true for inter-professions, which must be founded on active and democratic associations.

5. MINING: THE LARGE AND THE SMALL

5.1 Although Burkina Faso does not have a long history of mining, it is endowed with a huge geological and mining potential, embedded in more than 70 000 km² (1/4 of the territory) of favorable sedimentary volcanic rocks. In many African countries (South Africa, Ghana, Mali, Tanzania, etc.) and elsewhere (Canada, Scandinavia), these geological formations have led to large-scale mining of gold, manganese, copper, zinc, etc. In fact, geological and mineral exploration in Burkina Faso has uncovered a huge mining potential. These minerals are mainly composed of gold (60 percent), zinc, phosphates, manganese, copper, and titaniferous magnetite.

5.2 So far, only one industrial gold mine has operated since the country gained independence, between 1984 and 1999, allowing some 14,000kg of gold exports. Other semi-industrial plants, which have since ground to a halt, were established and fared relatively well with gold production reaching some 2,800kg. In 2006, the main activity in the mining sector – outside exploration – is traditional gold mining. It employs more than 200,000 people across the country and generates substantial income for a segment of the rural population, especially in the dry season. Between 1986 and 2006, this activity yielded 15,800 kg of gold exports, slightly higher than industrial production. However, as described below, the actual amount is probably much higher.

5.3 This study seeks to appraise the situation and examine ways and means of restructuring traditional gold mining and promoting the budding industrial mining sector.

OVERVIEW OF MINING IN BURKINA FASO

Traditional mining

5.4 Traditional mining essentially involves gold. It is an age-old activity in Burkina Faso as illustrated by the vestiges still found in the central and southern parts of the country. More recently, traditional mining was triggered by the discovery of a gold nugget in 1975 at Gangaol (Séno Province). After successive droughts recorded in the 1970s, which caused huge losses in cattle and grain, gold washing spread across the entire region, attracting an increasing number of people with the announcement of each new discovery.

5.5 Nowadays, this activity, albeit uncertain and dangerous in nature, mobilizes some 200,000 people who work in more than 200 sites throughout the country. Some mining sites accommodate up to 5,000 and 20,000 people at a time, which causes serious social problems.

5.6 Faced with problems of a social (promiscuity, banditry, drug abuse, prostitution, poor hygiene, lack of clean water), safety (fatal accidents, handling of dangerous chemical products, including mercury), health (spread of communicable diseases, including HIV/AIDS) and environmental (various forms of pollution) nature, the State initially attempted to ban the activity, before resolving to organize, support and supervise the sector. Accordingly, various projects were established, notably the now-completed PRECAGEME (National Mining Sector and Environmental Management Capacity Building Project), and the CBMP (Burkinabè Precious Metal Counter). Numerous awareness-raising campaigns on various issues were organized and were fairly successful, judging from control surveys.

5.7 Studies on the income of miners reveal that, in spite of the problems, they generally earn a living wage, which varies between CFAF 4,000 and more than 100,000, while sometimes peaking at more than a million CFA francs (US$2000). Unfortunately, with their rudimentary tools, artisan gold miners extract merely 30 to 40 percent of the gold ore that is painstakingly extracted from wells, sometimes as deep as 50m or more, and often not ventilated and filled with water.

5.8 The PRECAGEME project, which ran from 1998 to 2004, supported local companies to design and manufacture user-friendly processing equipment for use in humid areas without applying chemical products like mercury. This equipment, which has been installed in eight pilot small-scale mining sites, extracts between 75 percent and 85 percent of gold found in rocks and between 90 percent and 95 percent of free gold. It has a daily mineral processing capacity of at least 3 tons as opposed to three days for one manually-processed ton. Processing costs range from CFAF 35,000 to CFAF 125,000 per ton for mechanized and manual, respectively.

5.9 Between 1986 (the year of inception of CBMP) and 2006, artisan gold mining officially produced 15,800kg of gold exports, despite a steady decline in declared quantities since 1999 (755kg declared in 1999, against 225kg in 2005), despite the operation of some major mining sites over this period. While gold trade was liberalized in 1996 and private gold counters opened, fraud rose steadily. Several studies claim that such fraud entails the disappearance of between 50 percent and 90 percent of production. This cannot be justified by local jewelry consumption, which averages a mere 22kg annually.

5.10 For 2006, we estimate that the declared quantity of 225kg represents only 10-15 percent of actual production and exports. This means that Burkina Faso's artisan gold miners produced at least 1,500kg of gold exports worth some CFAF 14.5 billion.

PROSPECTS

Industrial Mining

5.11 In 2006, four average-sized gold mines entered the production phase (Taparko, Kalsaka and Youga). Development of the zinc mine at Perkoa began in March 2007, while work will begin soon on the gold mines at Inata and Guiro, and the manganese mine at Kiéré. The feasibility study for the gold mine of Essakane was being completed in 2007, with predicted output of 300 000 ounces per year by 2010. So far, more than 6 million ounces of gold reserves have been proven and production is expected to begin in 2007 for an average period of 8 years. The forecasts of gold and mineral export earnings of Burkina Faso are shown in Table 5.1.

Table 5.1 : Industrial mining production forecasts for 2007 to 2010

	Year	**2007**	**2008**	**2009**	**2010**
Gold US$425/ounce	Turnover (US$million)	28.94	125.38	163.97	192.90
	Exports (ounces of gold)	48,226	208,979	273,281	321,507
Metal zinc US$1500/t	Turnover (US$million)			280.80	280.80
	Exports (tons)			62 400	62 400
Total (US$ million)		28.94	125.38	444.77	473.70

Source: statistics compiled from mining companies

5.12 Although production activities started in 2005, exports were not expected before 2007. Production is expected to begin at the large Essakane mine in 2010. There are ongoing technical studies on two other gold deposits that are expected to boost gold exports by 2010-2012. Moreover, technical studies on copper deposits found in the Gaoua region are well underway, and the findings are promising in terms of an increase in known reserves. In 2010, the value of mineral exports may outstrip that of cotton (some US$300 million in 2004).

5.13 However, the exploration and development phases are already generating significant revenue and jobs. By June 2007, 3001 exploration permits had been issued to mining companies, whose activities resulted in the employment of hundreds of workers. Mining companies invested more than CFAF 7 billion in 2005. Mines that have begun exploration, as well as projects that are well underway, plan to recruit at least 2150 permanent workers by 2009. Various other activities are developing around the mines and could generate even more jobs than the mines themselves.

Small-scale mining

5.14 Artisan mining may increase its production and curb fraud if Government, with the support of its partners, continues the installation of pilot units in major sites. An increasing number of technically qualified companies are applying for permits to carry out artisan or small-scale mining. So far, 94 permits have been issued. Unfortunately, the applicants lack the financial resources to operate these mines and are content with becoming gold buyers. Pilot units ensure proper gold mining and reduced fraud. Hence, the following measures should be taken:

- support to local manufacturers of this equipment to ensure affordability to small-scale miners and enhance the quality of raw materials to meet user expectations;
- help to small-scale mining promoters to acquire more equipment for increased and improved production, by fully processing ore mined, through rapid extraction of at least 75-90 percent of the gold, instead of the current 30-40 percent.

5.15 If all the sites were equipped with these units, officially declared production would have stood at 562.5kg (225/0.40) in 2006. However, since this quantity represents only 15 percent of gold, actual production should have totaled 3750kg (562.5/0.15) in the absence of fraud – a turnover of US$72.34million (using the price of US$600 for an ounce of gold), that is, about CFAF36 billion in export earnings. Losses or undisclosed revenue of such magnitude clearly justify support not only for manufacturers and small-scale miners, but also for State regulatory and supervisory bodies, to enable them to play their role.

CONSTRAINTS TO DEVELOPMENT

Industrial mining

5.16 The Government of Burkina Faso has already demonstrated its resolve to promote this sector through the following measures:

- Adoption of the Mining Investment Code in 1993;
- Establishment of Policy Declaration on Mining in 1996, followed by attendant reforms implemented by PRECAGEME;
- Adoption of the Mining Code in 1997;
- Adoption of a new Mining Code in 2003, which grants further fiscal and customs incentives to mining investors.

5.17 Yet some persistent problems still hamper investments in the mining sector. These problems pertain to the interpretation of the mining law by the various stakeholders, namely taxation and custom officials. This problem was raised by virtually all mining investors interviewed, who complained about the lengthy processing of applications and the short validity of permits. Furthermore, there are complaints about red tape in VAT rebates considering that VAT payments are made well in advance for raw materials and services, which deprives mining companies of liquidity, and even though the companies have no guarantee of eventually selling output. Companies further complained about the fact that, since some geological services taxed, VAT costs are included in their invoices, which makes exploration very costly in Burkina Faso. Mining companies call for full VAT exemption, as is the case in neighboring countries (see Chapter 7).

5.18 Moreover, the strict limitation of the temporary admissions system to some tools and equipment hinders operations, especially when a company holds several permits (up to 20 or more at a time).

5.19 Some companies have raised the issue of temporary jobs. The Labor Code provides that a temporary employment contract shall become permanent when renewed more than twice. Yet, exploration is subject to considerable uncertainty and companies cannot hire permanent workers. Companies call for either amendments to the Labor Code or the introduction into the Mining Code of new provisions governing temporary employment.

5.20 These companies also mentioned major delays in issuing documents, arbitrary interpretation of legal instruments by officials, and a contrast between the relative flexibility of interpretation by the Ministry of Mines, and the more restricted approach of the Ministry of Finance and Budget. To address these problems, it is desirable to organize workshops and seminars for consultation and training on knowledge and enforcement of legal and regulatory instruments of the mining sector to enable all stakeholders to learn, understand and interpret mining instruments in an identical manner. To this end, the Ministry of Mines, Quarries and Power and the Ministry of the Economy and Finance are putting in place a broad-based stakeholder consultation forum to further clarify the roles and scope of each entity.

Small-scale mining

5.21 The major constraints to small-scale gold mining relate to:

- ***Land tenure***: gold washing is carried out on leased land, or using proxy exploration or mining permits which will eventually be returned to the rightful owner(s). The land therefore does not belong to the gold digger (even though the Mining Code sets a two-year timeframe for small-scale mining permits), who will be reluctant to carry out long-term investments;

- ***Inadequate knowledge of technical characteristics of sites and mining methods***: artisan miners, who are usually illiterate, dig and follow the vein haphazardly, and spend energy which often does not pay off. They may also find sterile minerals or barren lodes that are hard to extract with their rudimentary tools. They therefore need guidance and technical assistance to improve their activity;

- ***Rudimentary tools and poor equipment***: to get to the vein, gold miners have to dig into great depths, and at a certain depth, they need ventilation and lighting equipment. Sometimes pits are filled with water and in the absence of motor pumps, mining cannot continue. Lack of processing equipment has led to the grinding of ore in mills meant for grain, and as such, are detrimental to the rate of extraction, which, depending on the granulometry of the gold ore, varies from 20 percent to 40 percent. The solution is to rapidly equip the major sites with processing units manufactured by PRECAGEME, although they should be improved to prevent early corrosion of crusher jaws, hammers and crusher liners;

- ***Social problems*****:** poor feeder roads, lack of schools, clinics, maternities, grain banks, bore holes, public latrines, and day care centers to protect children from dust and chemical products such as mercury. Finding solutions to these problems will improve the socio-economic and health conditions of artisan gold miners. Insecurity, prostitution and drug abuse are also rife around small gold mines and should be addressed.

ACTION PLAN FOR THE DEVELOPMENT OF THE MINING SECTOR

Industrial Mining

5.22 Following the revitalization of the joint consultative committee MMCE – MFB – GPMB, fruitful consultations should be established among stakeholders who all stand to gain from the sound implementation of the mining law. The Ministries of Finance and Mines need to harmonize their interpretation of the Mining Code and its application and establish an open dialogue with the private sector. It may also be necessary to pursue the training of staff in the various ministries involved in the implementation of the mining law and to consider the publication, by ministerial order (*Arrêté*), of a detailed list of mining equipment exempted from VAT, and move from Temporary Admission to Temporary Registration for vehicles. There is also a need to introduce flexibility in the Labor Code.

5.23 The growth potential in the mining sector lies squarely in large-scale industrial mining. However, the impact on the poor could be disappointing unless the Government's revenue share is used wisely – and transparently. Mineral wealth in Africa has often been a source of distorted spending priorities, corruption and violence rather than development. The Government needs to establish a clear system for sharing mineral revenues with the local communities located in the mining areas. More generally, the revenues earned from mining should be publicly disclosed and fully integrated into the national budget. Burkina Faso should sign and implement the Extractive Industries Transparency Initiative. Industrial mining represents a major new source of foreign exchange and government revenue that must be carefully managed.

Artisanal Mining

5.24 Many actions can be undertaken to improve small-scale mining, notably:

a) Improving conditions for gold mining and processing to boost gold extraction;
b) Improving social, health and safety conditions for artisan miners;
c) Protecting and restoring the environment (hazardous use of mercury and disposal of used batteries in the mines);
d) Curbing fraud to improve statistics, export earnings and fiscal revenue of the State;

Preliminary project proposals are included in Annex A to enhance the socio-economic conditions of small-scale gold miners, and to improve artisan gold export earnings.

a) Improving conditions for gold mining and extraction, as well as the income of artisan miners.

5.25 The following actions should be taken:

- Help miners in the assessment of mineral reserves, including feasibility studies and evaluation of reserves; introducing material and financial incentives, at least for holders of artisan or small-scale mining permits;
- Provide equipment for ventilation, pumping, lighting and excavation;
- Manufacture heavy duty equipment for crushing and grinding ore; dissemination of such equipment;
- Provide technical and financial assistance to bodies responsible for the supervision and monitoring of gold mining activities: DEMPEC, BUMIGEB, IGAME.

5.26 Regarding the dissemination of processing units, there is a need to:

- identify a limited number of manufacturers who will be trained and equipped with equipment and essential raw materials;
- open a credit line for manufacturers to enhance their financial viability. In this regard, the PRECAGEME project was able to equip 8 sites, and the Ministry of Mines, Quarries and Power installed equipment at another 5 sites. Unfortunately, local manufacturers lack the financial means to meet demand and improve the quality of tools.

b) Improving the social, health and safety conditions of artisan miners.

5.27 To achieve this objective, the following actions should be undertaken:

- Conduct awareness and information campaigns as much as possible in all significant sites on:
  - human hygiene problems caused by working conditions and overcrowding,
  - occupational diseases caused by artisan gold mining as well as hazards related to these activities; transmissible diseases like STDs/AIDS,
  - hazardous use of mercury and other chemical products that may cause pollution,
  - awareness-raising on the use of protective equipment to prevent occupational accidents (gloves, glasses, boots) and health hazards (condoms),
- Develop social amenities on "permanent" sites, including:
  - grain banks whose management will be organized and controlled;
  - boreholes for clean water;
  - separate public toilets for men and women;
  - day care centers for children;
  - building of temporary school facilities on the "permanent" sites when these sites are far from villages that are equipped with such facilities, or increasing the accommodation capacity of schools when such sites are situated less than 5km away from villages with such facilities;
  - building of primary health units at sites with a population of more than 1,000 people, and providing these sites with qualified health workers to handle emergencies and births;

- establishing police stations at sites with more than 5,000 people, and reinforcing the logistics of the existing economic police force to periodically patrol other mining sites.

c) Protecting and restoring the environment

5.28 The following actions should be undertaken:

- Conduct environmental awareness campaigns on all active sites;
- Increase awareness on reforestation schemes implemented on some sites and fighting abusive deforestation;
- Increase awareness on the hazards of using mercury in artisan gold mining; providing subsidized equipment to gold traders; planning for local manufacturing of equipment ;
- Examine the possibility of financing the refill of excavations.

d) Curbing fraud

5.29 It will be difficult to uproot deeply embedded fraud by way of regulations, as it is always difficult to monitor all networks and to have the requisite number of law enforcement officers for these tasks. A worthwhile measure against fraud is to formalize the gold processing chain. This can be achieved by granting financial and material assistance to holders of artisan mining permits. Credit lines may be established for miners to purchase heavy-duty processing units and compel all stakeholders of the equipped sites to process their minerals with such equipment. This will help raise the gold extraction rate to at least 75 percent, as well as control the quantities of gold produced.

5.30 It will equally be necessary to liberalize the price of gold to discourage clandestine sales and to implement some existing regulatory provisions that provide for the introduction licensed dealers. Thus, with a liberalized gold trade, local buyers could be monitored from the districts and provinces.

5.31 With regard to licensed gold exporters, there is a need to revisit the laws defining the specifications and conditions for establishing dealerships, as the financial requirements are not readily available to applicants. Quantities of gold received by these dealers may be tracked at district and provincial levels and at the level of production by the processing units. Dealers who deliberately do not declare their quantities of gold should be punished immediately and have their licenses revoked.

6. INDUSTRIAL AND PROCESSED PRODUCTS

6.1 The size of the manufacturing sector in Burkina Faso is estimated at 11 percent of GDP, but the modern industrial sector is much smaller. Its estimated size, according to an MCPEA report, is only 2 percent of GDP[29]. Its contribution to employment is also modest: 8 percent of salaried employment, 2.3 percent of total employment[30]. The modern sector comprised 72 production units in 2005, seven of which accounted for 78percent of total value added (2004). The textile sector, essentially cotton ginning, represents 37 percent of the value added of the modern industrial sector. Food processing accounts for another 32 percent. The sector is thus little diversified. In this chapter, the sector is defined in a broader sense to incorporate products that are processed in the informal sector and that can be exported, such as hides and skins, shea butter and artisan crafts products. In contrast, cotton ginning and animal slaughtering are covered in the chapters dealing with those sectors.

6.2 The food-processing sector is still underdeveloped in Burkina Faso. The transformation of agricultural products such as the production of shea butter and vegetable oils is still largely artisanal and hardly oriented towards industrialization. A large part of these products is exported unprocessed to other countries in the sub-region or transformed for local consumption or for re-export to European markets. However, there are some promising niches, such as dried fruit and vegetables which have reached a turnover in excess of CFAF 1 billion.

6.3 The largest export of processed products (with the exception of cotton fiber) is hides and skins, which have reached a significant value of more than CFAF 20 billion (US$40 million), although the MCPEA estimate is only CFAF 5.5 billion.[31] It is also one of the only processed products exported outside the sub-region. The other is sugar, with a value of US$4.8 million in 2003 and 2004[32], which benefits from a European quota under the Lomé Convention, but would otherwise find it difficult to keep this market.

6.4 A small range of other modern manufacturing sector products is exported to neighboring countries for an estimated total of CFAF 12 billion (24 million), half of which are cigarettes (CFAF 6.2 billion in 2004). Landlocked countries such as Burkina Faso are not well-placed to develop manufacturing export industries. Many of these industries depend on a certain number of imported inputs and it is usually easier for a coastal country to ensure regular supply of input and at lesser cost. The market for manufactured products is also quite limited in Burkina Faso. Thus, countries such as Côte d'Ivoire and Senegal have always enjoyed a much larger industrial base. Agglomeration in these production centers worsened with the creation of WAEMU and the elimination of customs duties on trade within the Community on products that meet rules of origin conditions. The Ivoirian crisis has perhaps slowed down this development, but this effect is only temporary. Increased integration and free trade within the CEDEAO is likely to favor Ghana and Nigeria.

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[29] MCPEA, *Rapport sur l'Industrie au Burkina Faso* 2003-2004, July 2005.
[30] World Bank, Creating Better Jobs for Poverty Reduction in Burkina Faso, Oct. 2006.
[31] The first figure is from the Balance of Payments Committee, MFB, the second from the *Rapport sur l'Industrie au Burkina Faso 2003-2004*, MCPEA.
[32] www.faostat.org

VEGETABLE OILS

Cottonseed Oil

6.5 There are currently two industrial plants in Burkina and approximately 100 artisanal units producing cottonseed oil. While the artisanal units produce exclusively for the local market, an estimated 20 percent of the industrial production is exported, primarily to the sub-region. Until recently, the two industrial producers had trouble competing with imported cooking oils, mostly produced in Asia, which were sold substantially cheaper on the local and sub-regional markets; reportedly because most of the imported product bypassed duty and VAT payments. As a result, the local plants were operating far below capacity. The situation changed in 2006 as increased transportation costs diminished the competitive advantage of the imported product. Today, the principal industrial plant operates at close to full capacity and as a sign of renewed confidence in the strength of the market, DAGRIS, the majority owner of this plant, was considering investing in a second processing plant.

Shea butter

6.6 Burkina Faso is the top world producer of shea nuts, but less than 10 percent of the export is in the form of locally produced shea butter. These sales are destined primarily for use in cosmetic products rather than in the food sector, which represents the largest market. More processing takes place in three industrial plants in the sub-region, while the rest is done in Europe where the nuts are transformed into a vegetable oil using an industrial process that involves mechanized extraction and chemical solvents.

6.7 It is estimated that 75 percent of local shea butter is produced on an artisanal basis, using a laborious and time consuming process. The nuts are transformed into a buttery substance for use as a base in skin creams, hair lotions, or pharmaceutical products sold mostly on the local market. A number of processing units have progressed to a semi-industrial phase, using a procedure that greatly facilitates production and improves the quality of the product. SN-SITEC is the only Burkina plant that produces shea butter at an industrial level, as a sideline to its main activity of extracting cottonseed derivatives.

6.8 The world market price for the nuts is set by multinational buyers. Prices have remained fairly low but stable, providing a limited source of supplemental income to the women harvesters. Although the markups are much higher in cosmetics than in the food industry, the price for the butter has so far remained linked to the world market price for the nuts and does not fully reflect the value added locally.

6.9 While it can be expected that the processing of shea nuts into a fatty food ingredient will remain the prerogative of two to three multinationals, the use of shea butter as a base for beauty products leaves room for specialized producers for the following three reasons: (i) it is generally recognized that a number of valuable aspects of the product are lost during the industrial transformation process; (ii) in the cosmetics industry, the absence of chemical products is considered an asset; and (iii) there is a growing and unmet demand for an organically certified product. There is therefore the potential to increase the revenues of women producers in Burkina Faso by exporting shea butter rather than nuts.

6.10 The dream of numerous Sahelian organizations has been to bring about a sharp increase in producer prices thanks to transformation activities in villages or to more developed industrial and larger-scale production of shea butter-based intermediate products. However, the biochemistry of shea butter is quite complex, making it a considerable challenge to relocate a major part of the industrial transformation process to Africa rather than to Europe. Indeed, shea butter that contains impurities can easily become rancid during transportation over long distances. In addition, and as with the transformation of cocoa, major non-African buyers and manufacturers have persistently sought to retain for themselves the ultimate refining of the product and the attendant significant value-added.

6.11 There is a consensus among international buyers of shea butter that for the locally produced product to live up to its sales potential, a profound restructuring of the value chain is required. Past efforts to bring small producer groups and international buyers together have had mixed results at best, in spite of a series of programs funded by donors, who had procured training and equipment for producer groups to improve the quality of their products. The ability of small producer groups to build durable links with a highly segmented and rapidly evolving niche market through the timely provision of a product that complies with the international standards of the cosmetic industry is limited by their lack of management expertise and access to finance. As a result, international manufacturers of beauty products procure their shea butter primarily from multinational producers—the product quality may be less than optimum, but at least it is consistent and reliable.

HIDES AND SKINS

6.12 This sector is highly dependent on the meat sector, since the number of hides depends on the level of activity in slaughterhouses. There are three main groups of actors in this sector:

- collectors of hides and skins ;
- artisanal tanners and leather workers (about 300);
- The TAN-ALIZ industrial tanning firm that was created by merging two privatized public enterprises.

6.13 The MRA estimates that TAN-ALIZ can export more than 3 million goat and sheep skins and about 25,000 cowhides per year. This tannery accounts for 85 percent of all hides and skins production and for practically all exports. Its capacity is constrained by its inability to collect an adequate number of raw hides and skins of acceptable quality. Only a small portion of its raw material is procured from the official slaughterhouse in Ouagadougou, the remainder through an extensive network of collectors who procure from informal and semi-formal slaughter operations in Burkina and neighboring countries.

6.14 The main export markets are in Europe where the Burkina product is considered competitive on price. Although the European market for different types of hides and skins is enormous, it is very competitive. European buyers are mostly interested in skins that have been processed to the wet blue stage, the products before wet blue being too expensive to transport and requiring a basic tanning process that is in decline in Europe because of environmental concerns. Any processing beyond wet blue requires a high level of know-how and this is where Europeans have built their reputation. Goat and sheep leather is used for shoes, clothing and accessories, the final use being determined by the quality of the skin, which, in turn, depends on how the animal was raised and how it was slaughtered. World demand for wet blue leather is strong and is expected to increase, since any decline in demand in Europe is more than offset by an increased demand from Asia.

6.15 TAN-ALIZ has established its reputation as a reliable supplier of medium-quality goat and sheep skins, and it is the only major industrial facility in the sub-region capable of complying with international standards. It could substantially increase its export revenues by combining increased supply and improved product quality. It is thus closely linked to the organization and the future of the supply chain. Increasing supply will greatly depend on the transformation of exports from live animals to meat. Improving quality will require a change in livestock raising and slaughtering practices.

6.16 The TAN-ALIZ company is an interesting case because it benefits from a de facto monopoly on hides and skins exports that could be questioned. Why not encourage competition in this sector? Isn't there a negative impact on producers? In contrast, its success in complying with international standards and in exporting significant volumes is impressive. The fact that its market is international means that it faces competition in its products and is thus obliged to remain competitive. In addition, hides and skins are marginal products for livestock farmers. These products are not the reasons for raising animals. It is even possible that the presence of such a tannery increases demand for these by-products. Finally, livestock farmers also have the possibility of exporting hides and skins on live animals, while hides and skins are probably exported across borders informally. As long as these options remain, the abuses of this monopoly are probably minor. However, it would be useful to conduct a study of this component of the sector, to improve supply, increase transparency, and strengthen, if possible, the benefits to the poor.

TEXTILES

6.17 The textile industry has been established in Côte d'Ivoire and in Senegal for 50 years and for more than 35 years in Benin, Burkina, Mali, Niger, and Togo, but the experience has been disappointing everywhere. The four largest producing countries (Benin, Burkina, Côte d'Ivoire, and Mali) currently transform less than 5 percent of their fiber production, whereas 25 years ago, they were transforming 25 percent.

6.18 FASO FANI was the main textile company in Burkina, operating from weaving to garment production. It was closed at the end of the 1990s because it was incurring heavy losses. The printing section reopened in 2006 under the new name of FASOTEX. However, in 2007, it was still looking for foreign investors. As the equipment has become obsolete and the fabric has to be imported, it can only operate with significant subsidies

6.19 Apart from one spinning plant, the only other textile manufacturing firm in Burkina Faso is *Filature du Sahel* (FILSAH), a spinning plant that was founded in 2000. Located in Bobo-Dioulasso, it currently employs 80 permanent and 90 temporary workers and has a capacity of 5,400 MT of cotton yarn per year. The company was severely hit by the crisis in Côte d'Ivoire, which was its principal export market, supplying more than 50 percent of its production to the COTIVO and FTG textile factories. By 2005 its capacity utilization had declined to 10 percent. The firm was restructured with a rescheduling of its debts and an infusion of new capital by the *Fonds Burkinabè de Développement Economique et Social* and by SOFITEX, which now holds 37.5 percent of the shares. It currently transforms 1 percent of the national fiber production and has to be subsidized

Table 6.1 FILSAH Direct Cost Structure

	CFAF/Kg	% of Total Direct Costs
Cotton	504	56,3
Electricity	195	21,8
Direct Labor	50	5,6
Spare Parts	36	4,0
Transport	110	12,3
TOTAL	895	100

Source: FILSAH

6.20 Under its new business plan, the firm intends to export primarily to the Mahgreb and Europe. However, its prospects are uncertain as it faces stiff competition from Pakistani and Turkish suppliers in both markets.

The firm's main handicap is its cost structure, in which electricity accounts for a disproportionate share (Table 6.1). The firm projects to increase its production to fifty percent of its capacity, but, at that level, its gross margin would still only be a fraction of what would be required to cover its overhead and depreciation. As for timely delivery, the firm will have trouble competing with Turkish suppliers who can deliver their product in three days compared to a forty-day delivery time for FILSAH.

6.21 The Sahel enjoys a comparative advantage in the production of cottonseed, which is cultivated manually in areas where the opportunity cost of family labor is very low. But the Sahel does not have any comparative advantages in the transformation of fiber into netting, which constitutes the first step in the textile/clothing sector. This first phase requires little non-specialized labor, but rather machinery and a lot of electricity, which is very expensive in the Sahel and in Burkina Faso, in particular. As Table 6.2 shows, the cost of labor in Burkina Faso falls well within the range of labor costs of competing countries, but the competitiveness of a textile mill in Burkina Faso is seriously altered by the cost of electricity.

Table 6.2 : : Structure of textile mill costs in a number of countries:

(Units: USD/Kg of cotton fiber)

Type of cost	Burkina Faso	Brazil	China	India	Korea	Turkey
Labor	0.09	0.06	0.04	0.05	0.21	0.22
Electricity	0.36	0.11	0.23	0.30	0.17	0.25

Source: ITMF – Comparison of production costs

6.22 In 2003, the West African Development Bank (BOAD) financed a study aimed at defining a WAEMU development strategy for the textile industry and at identifying the most profitable niches, notably in the garment sector. The authors presented a strategy that would help increase the share of processed cotton production within WAEMU from 5 percent in 2003 to 25 percent in 2010. However, according to the authors, investors should receive a 30 percent subsidy on their fiber purchases, a subsidy that should be guaranteed for thirty years at least.[33]

6.23 A second study covering Central and West Africa was undertaken the following year by the World Bank. The authors noted that investors would only be interested if they were offered multiple incentives: subsidies on inputs and on transportation, concessional investment loans and tax exemptions[34]. A third study was conducted by the FAO in 2005, which concluded that investors would need a 40 percent subsidy on cotton fiber; electricity and factory rehabilitation would also need to be subsidized. The authors concluded that the strategy proposed was both ambitious and risky, and the internal rate of return would be very low and risks related to the textile and garments component would be high[35].

6.24 A fourth study covering the four countries including Burkina Faso was organized by the World Bank. The conclusions of the study confirmed those of the second study, stating that the textile and clothes manufacturing industry had fallen into a precarious situation characterized by disinvestments; and that attracting new investors to a region where established investors were go-

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[33] *"Etude d'identification et de promotion d'unités régionales dans la filière coton de l'UEMOA* » March 2003, box 47, page 65.

[34] Executive Summary, page 2, Padeco Study, Volume 2, February 2004.

[35] Page 67. A subsidy of one billion CFAF for 4000 tons of fiber is equivalent to a subsidy of 40 percent on the price of factory-gate delivery fiber [620=680-60 (factory cost to FOB)]. 40 percent =100.000/ (4*620). Page 65 section 9.3.1 and page 66 section 9.3.5.

ing out of business would not be easy"[36]. According to the authors, the most promising activity would consist in using waste from ginning factories to make cotton bale wrapping; but this, together with artisanal activities, would only cover 2 percent of fiber production. This could be followed by the production of fabric to make uniforms for the army, the police and schools. However, since uniforms are now sewn by local tailors, this would not generate increased downstream activity. It would probably take 5 to 10 years to produce export-level fabric and 15 to 25 years to create a garment-making chain for exports[37]. In summary, Burkina Faso cannot have a competitive textile industry in the short or medium terms.

OTHER MANUFACTURING PRODUCTS

6.25 The remainder of the manufacturing sector consists primarily of import-substituting businesses in a limited number of sub-sectors for a small domestic market characterized by a weak purchasing power. Few of these firms face strong competition from other formal sector local manufacturers. However, there is often competition from the informal sector or from imports, and sometimes in an illegal manner. For example, in the case of labels for vegetable oil, a modern firm was concerned by the counterfeiting of its labels by local producers. As well, they often have to compete with cheap imports, a significant portion of which is imported fraudulently. In only a few sub-sectors have firms been able to establish an export base, and then only tentatively (Table 6.3).

6.26 The producers that are most competitive and that plan to expand their exports (soft drinks, pesticides) are essentially manufacturers who are able to produce a wide range of products based on a limited number of imported ingredients. This gives them the ability to adapt their products quickly to changing demand and to respect delivery deadlines.

6.27 During the informal survey conducted for this study, none of the firms interviewed had established any significant backward linkages with local suppliers. Reasons given include: lack of competitiveness of local products in terms of price and delivery deadlines; difficulties getting VAT owed to exporters reimbursed. In one case, it was easier to import the same product (packaging) tax-free.

6.28 There is a strong consensus among these firms on the key obstacles that they face. Because of the restrictions on employing temporary workers, all these firms employ a significant portion of their workforce through temporary employment agencies. In the case of seasonal production, such as pesticides, this proportion can be as high as two-thirds of the entire workforce. The resulting labor costs can be twice as high as for direct hires and, since employment agencies do not guarantee that they will provide the same laborer the next time, the firms are obliged to train new temporary workers all the time.

[36] Report dated December 2005 and received in February 2006.
[37] Ibid.

Table 6.3 : Some exports of manufactured products

Product	No. of firms	% of Production Exported	Import Quotient (% of value added)	Competitive Advantage	Competitive Disadvantage	Plans to expand Exports
Rubber Tires and Tubes	1	10% (Mali)	High (>50%)	Quality	Cost	No
Soft Drinks, Beer	2	7% (Mali, Niger, Benin, Côte d'Ivoire, Nigeria)	High (>50%)	-Cost -Product Flexibility (new flavors can be introduced, using different concentrates) -Delivery deadline	Sanitary Controls (not required for imported products)	Yes
Agricultural Pesticides	1	10% (Mali, Niger)	High (>75%)	- Product Flexibility (entire product range can be formulated on the basis of six ingredients) - Just-in-Time Delivery	Obligation to Monitor Product Performance (not required for imported products)	Yes

Source: Survey by authors

6.29 Fraudulent imports are definitely considered a major problem by most import-substituting firms. In the case of tire producers, this problem significantly undermines their competitiveness and limits their potential to export to the sub-region. Soft drink producers also face the problem of fraudulent imports, but their capability to quickly introduce new flavors and different bottle sizes enables them to compete on product variety and, to a lesser degree, on price. The sole pesticide manufacturer sells most of its production under contract to the three cotton companies; its main competitors are large multinational pesticide firms, none of which manufacture locally. The firm plans to enter the local retail trade, but it will have to compete with cheap imports from Asia. The issue of fraudulent imports is addressed in detail in Chapter 9.

THE CRAFTS SECTOR

6.30 Burkina Faso is generally recognized as a regional center for crafts production with a broad range of products rooted in historical traditions. Typical products include wooden masks, leather boxes, bronze statuettes, ceramic pottery, and ethnographic works. The importance of Burkina Faso as a crafts producer is reflected in the *Salon International de l'Artisanat de Ouagadougou* (SIAO), a bi-annual trade fair that is considered the most important crafts trade fair in West Africa and is becoming increasingly popular with overseas buyers.

6.31 With less than one percent of exports, crafts still represent only a small portion of overall export revenues, but the proportion is growing and export revenues have doubled since 1998. Moreover, the sector is an important creator of jobs. Although reliable statistics on employment in the crafts sector are rare, a recent study estimated that 900,000 people (of whom 500,000 women) derive some or all of their incomes from the sector.[38] The majority of their production is for the domestic market. Nevertheless, the sector comprises about 50 exporters, mostly informal operators who collect their products from networks of artisanal producers and sell them through overseas trade fairs or incidental buyers. Only a handful of exporters have succeeded in establishing sustained contacts with international buyers.

Table 6.4 : Exports of artisanal products (CFAF billion)

	2002	2003	2004
Woodwork	889	225	785
Bronze, other metals	21	107	47
Leatherwork	12	6	5
Basketwork	50	32	19
Artwork	368	441	362
Musical instruments	22	50	17
Total	**1362**	**862**	**1199**

Source: Burkina Faso Customs Statistics

6.32 The sector has benefited from considerable donor support, much of it focused on the *Village Artisanal* in Ouagadougou (VAO).[39] This center groups together 70 production units, employing 500 workers; its 2005 revenues were CFAF 360 million (US$720,000). Its main supporter is LUX-DEVELOPMENT, which has been supporting the center since 1997, but this support is scheduled to end in 2007. The VAO has managed to cover its operating costs since 2004. However, it is under pressure to increase its sales revenues as it is unclear whether the structure, at current levels of performance, will be sustainable without external support.

6.33 The world market for artisanal home products and accessories is growing fast, but it is dominated by suppliers from Asia and Latin America. This domination is leading a growing number of international buyers to look for fresh designs and alternative sources of supply; but, so far, sub-Saharan Africa has remained relatively unexplored due to concerns about the reliability of supply and consistency of quality.

6.34 The U.S. market could represent an important export opportunity for West African producers, all the more so as their products benefit from duty free access under AGOA. This market

[38] UEMOA, *Etude sur la compétitivité sectorielle des économies des pays membres de l'UEMOA*, 2005.
[39] This section benefited from discussions with the VAO accountant, LUX-DEVELOPMENT staff in Ouagadougou and Niamey, and an expert of the USAID West Africa Regional Hub, and from comments by the VAO Director General.

is highly segmented and includes mainstream retail stores, high-end department stores, boutiques, catalogues, street markets and, increasingly, internet sales points. In addition, there is a growing demand for Afro-centric products from the African-American middle class, which is being met through a network of church fairs and dedicated catalogues. Regional taste differences are far less pronounced in the U.S. than in Europe and, hence, each U.S. market segment represents a much more homogeneous and larger marketing opportunity. Nevertheless, only a small number of West African exporters have managed to establish durable links with one or more of these segments

6.35 In Burkina Faso, artisanal activities are mostly individual or family-based. This characteristic is at the root of its lack of success in international markets for three main reasons: (i) the lack of organization by the craftsmen, which prevents them from working on large orders; (ii) the lack of technical expertise in international trade, which results in marketing that is unprofessional and depends more on personal contacts; and (iii) inadequate knowledge of trends in design, which translates into production of articles that are not adapted to international trade.

6.36 The few successfully established crafts exporters in the region share the following key characteristics:

- Efficient organization of the supply chain, using networks of artisanal crafts producers;
- Rigorous quality control to ensure consistency in product quality;
- Awareness of design trends in key export markets and the ability to quickly adapt products accordingly;
- A more professional management approach, usually involving more than one person.

6.37 At first glance, the VAO is well positioned to meet these conditions, but its performance is handicapped by its dual missions that are difficult to combine: (a) become a profitable exporter of crafts products to a demanding and constantly evolving export market; and (b) provide a platform for capacity building and advocacy for its members. The first mission requires an efficient management structure, low overhead, and solid marketing and technical expertise. The second mission typically leads to a cooperative or NGO structure that, experience has shown, rarely results in sustainable export performance. The fact that the VAO reports to the Chamber of Commerce, and that the management is headed by a salaried individual, suggest that the second mission has taken precedence over the first. The VAO has succeeded in its capacity-building role. However, in terms of export development, which is the focus of this study, it has not achieved its potential. The essentially cooperative style of management runs the risk of undermining its efforts to exert adequate production and quality control over its producers" In spite of years of technical assistance in product development, visits to international trade fair, etc., it has not yet been able to establish a lasting client network in key export markets.

6.38 It is revealing to contrast the experience of the VAO with that of one of the more successful private craft exporters in the country. This individual, a French national and longtime resident of Burkina Faso, has succeeded in establishing a profitable crafts export business using a network of over 400 crafts producers, most of whom are located in Burkina Faso, whom he provides with intensive hands-on training and quality control support. Familiar with the latest design trends in his export markets, he is able to constantly provide his producers with design updates and new product ideas. As a result, the vast majority of his revenues come from repeat customers in Europe and Asia. Without having benefited from any financial and technical support, this entrepreneur realizes annual revenues that exceed those of the VAO..

6.39 The substantial investments that have been made over the years in buildings, equipment and human capital should position the *Village Artisanal* to play a key role in accelerating crafts exports from Burkina Faso; however, its business model and management structure will have to be revised.

Conclusion

6.40 As long as problems related to labor and high factor costs persist, the promotion of labor-intensive assembly type of manufacture and heavy industry would make little economic sense. And as long as weak purchasing power restricts the size of the local market, import substitution activities will have trouble competing with cheap imports from countries where economies of scale can be achieved.

6.41 Economic integration within the WAEMU has been an additional blow for import substitution activities in Burkina Faso as, in several cases, it is more profitable to invest in a larger coastal country that would allow for economies of scale, and thus lower costs.

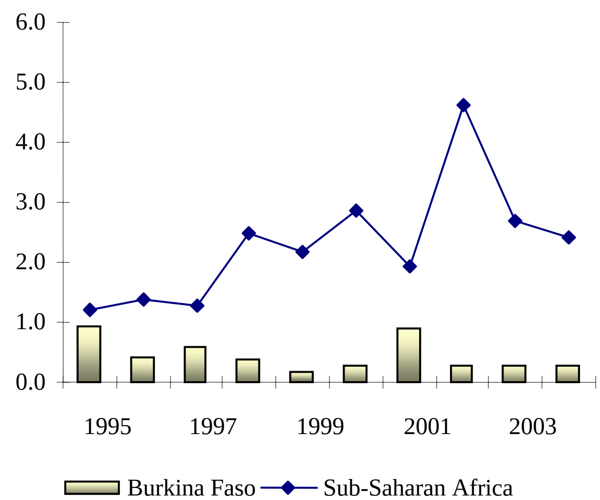
6.42 Burkina Faso enjoys significant competitive advantages in resource-based industries where the potentially abundant availability of local raw materials offsets the lack of skilled labor and high factor costs. In particular, agro-industry—processing agricultural and livestock products for export to the sub-region and beyond—offers important opportunities which so far remain underexploited.

7. THE BUSINESS ENVIRONMENT

A DIFFICULT CONTEXT

7.1 The World Bank's *Doing Business 2008* survey, which compares 178 countries according to a set of business indicators, classifies Burkina Faso among the most difficult countries in the world—161st position. One of the major problems is the ease of exporting and importing, including the number of documents required, the time required, and the costs involved. The country is ranked 170th. Other important concerns are the registration of property (170th), the award of permits (169th), and the employment of staff (152nd). It is therefore not surprising that the rate of private investments remains relatively low and foreign direct investment flows (FDI) are by far lower than the average for sub-Saharan Africa (see Chart 7.1).

Chart 7.1 : 7.1 FDI Flows as a Percentage of GDP (1994-2003).



Source: SIMA Database, World Bank.

7.2 The 2005 survey was the subject of a national workshop and, since then, progress has been made in this area. Business startup procedures have been reduced from 15 to 8 and the overall time it takes to comply with all procedures has been reduced from 3 months to 1 month, according to the 2007 survey, and 7 days, according to the government. The stated goal is to reduce procedures to 4 and the time required to 1 day. An important factor in this regard will be the establishment in 2007 of the *Centre des guichets uniques* ("one-stop shop" centre) in the *Maison de l'entreprise du Burkina Faso*. But it is clear that much still needs to be done.

7.3 The World Bank also conducted a more in-depth analysis of the investment climate in Burkina Faso in 2006, based on a survey of 146 formal sector and 99 informal sector firms. Ten of them were exporters of manufactured goods and 10 were foreign firms. This presents a useful but partial view of the situation, especially for the analysis of exporters' problems, as this activity is based on agro-pastoral production which is not covered by the ICA methodology. Thus, access to land emerges as less of a problem than in our assessment of constraints to the promotion of horticulture, for example. However, some conclusions can be drawn from the relative importance of the different constraints facing established entrepreneurs.

7.4 Table 7.1 presents the six major constraints for four different categories of firms: all modern sector, manufacturing, exporters, and foreign. The figures indicate the percentage of respondents who saw the constraint as "severe" or "very severe". The importance of access and cost of financing is immediately obvious. It is also obvious that foreign firms are generally less concerned about these two factors. Indeed, while 40 percent of the firms saw access to financing as a severe constraint, the comparable figure for local firms was 85 percent, probably the highest constraint for them. Foreign firms typically have better access to financing at acceptable rates, which is one of the reasons why our study underscores the importance of attracting foreign investors.

Table 7.1 : Major constraints facing formal sector firms*

Constraint	Formal Sector	Informal manuf. sector	Exporter	Foreign firms
Access to financing	79	72	60	
Tax rate	77	68	70	70
Financing costs	71	62	70	50
Corruption	55	56		50
Transport	53	49	70	60
Informal sector practices	52		60	60
Tax administration			60	
Electricity		61		60

* Percent of firms classifying the constraint as severe or very severe.

Source: Investment Climate Assessment: Burkina Faso, World Bank, 2006.

7.5 The other key factors identified in this evaluation are not very surprising. The tax rate and, to a lesser extent, tax administration, seem to be significant factors, as are corruption, transportation, and informal sector practices. The MCPEA (*Ministère du Commerce, de la Promotion de l'Entreprise et de l'Artisanat*) study on factor costs identified the fraudulent entry of imported goods as the primary reason for the non-competitiveness of industries. Transportation is covered in Chapter 8, and Chapter 9 deals with customs-related corruption and informal sector practices. In this chapter, we also cover corruption, as well as taxation, and factor costs. However, we have included two themes that clearly emerged from our own larger sample of exporters—the labor code and access to land.

THE REGULATORY FRAMEWORK

7.6 Corruption is a major obstacle to private sector development. The government has taken several initiatives to address this problem, including the adoption of a national good governance scheme *(Plan national de bonne gouvernance)* for the 1998-2003 period and the creation of a high-level anticorruption authority *(Haute Autorité de Coordination de la Lutte contre la Corruption—HACLC)* in 2001. A national policy to achieve good governance by 2015 *(Politique nationale de bonne gouvernance à l'échéance 2015)* is being prepared, establishing the fight against corruption as a policy priority. Although these initiatives testify to the Government's seriousness in tackling corruption, measurable impact has been limited so far. In fact, the general perception is that corruption has worsened in recent years. Respondents to the investment climate survey estimated that "informal payments" accounted for 6 to 8 percent of annual receipts.[40] The effectiveness of the HACLC—which was created by simple ministerial decree—could be improved by passing a law to formalize its legal existence and give it the authority to bring cases directly to justice.

7.7 The investment regime is defined in the Investment Code, which was adopted in 1995 and revised in 1997. It includes a special regime for exporters, giving them a 7-year duty and tax exemption on imported inputs and a 50-percent unlimited exemption on income taxes. Although the law does not provide for the creation of free trade zones or firms, it does have provisions for duty-drawback, temporary duty-free admission, and bonded warehousing for imported inputs. These stipulations would imply that exporters of agro-industrial goods could import their inputs duty-free and tax-free, but in reality, few exporting agro-businesses have benefited from these exemptions.

7.8 Burkina Faso is signatory to the OHADA treaty and, as a result, its trade legislation is gradually being brought in line with this unified code. There have been several improvements in the judiciary system since 2000, including improved salary conditions for judges; the creation of new appeals courts; a relatively frequent publication of jurisprudence and new legal instruments; and the recruitment of new magistrates and clerks who have been provided with additional training, particularly on OHADA legislation. Still, this is just the beginning of what should become a fundamental overhaul of the judiciary. A national action plan on judicial reform *(Plan d'action national pour la réforme de la justice)* was adopted in 2002 to implement a comprehensive reform of the judiciary, but the estimated cost of CFAF 21 billion has not been incorporated in the national budget and is only partially covered by donor support. The perception remains that the judiciary suffers from many serious shortcomings, including inefficiency, lack of independence and objectivity in decisions, and persistent weakness in the enforcement of such decisions. According to the *2007 Doing Business Survey*, it takes 41 procedures and 15 months on average to enforce a contract in Burkina Faso; collecting a debt can cost more than 95 percent of the amount of the debt. The assessment of the investment climate found that 60 percent of business leaders did not believe that courts "were fair, impartial, and not corrupt." An arbitration court to speed up the resolution of commercial disputes has been envisaged, but not yet established.

Tax-related issues

7.9 *Doing Business* surveys have shown a strong correlation between the tax burden and the size of the informal sector, with the tax burden measured by the level of the different taxes, the complexity of the tax system, and the transparency of the tax administration. In Burkina Faso, where it is estimated that 70 percent of GDP comes from the informal sector, the tax burden is generally perceived as excessive in the formal sector. In contrast, the tax structure is largely defined by UEMOA agreements, and the tax-to-GDP ratio in Burkina Faso is among the lowest in this group of countries (11.8 percent in 2004, compared with an average of 15 percent).

7.10 This suggests that it is the tax administration that matters, including the fact that informal sector competitors are not taxed. Indeed, businesses have to deal with 45 different tax payments, which take up to 270 hours to file. The introduction of a special tax on informal sector enterprises did not result in any notable improvement in tax receipts, which means that widespread tax evasion continues. Specific problems that are frequently cited by exporters include:

[40] World Bank, Investment Climate Assessment: Burkina Faso, June 2006.

- Delays in VAT reimbursements on inputs used for exports, which can have a significant impact on a company's cash flow;
- The 0.5 percent minimum tax on turnover (i.e. not on profits), which has to be paid, even in case of losses;
- The high frequency of tax payments (one or more taxes are due each month).

7.11 According to two recent IMF studies, it takes 10 months on average to settle a VAT reimbursement in Burkina Faso, whereas the international standard is one month[41]. The situation was most dramatic for SOFITEX, which was owed some CFAF 10 billion by the government at end-2005. This problem was raised by many of the exporters interviewed for the DTIS. The IMF describes reimbursement delays as the "Achilles' heel" of the VAT and a real "export tax." Companies that produce for local markets can deduct the VAT paid on inputs before submitting the VAT collected on their sales. An exporter does not collect taxes on his foreign sales, but still pays VAT on inputs. The VAT system incorporates the principle of reimbursement as a fundamental element; in industrial countries, the amounts reimbursed to firms can reach 50 percent of the total collected. However, in least developed countries (LDCs), the percentage is normally less than 10 percent. Once the Ministries of Finance in LDCs have collected such revenues, they seem reluctant to release them.

7.12 Mining companies also complain about this problem. They pay for expensive goods and services such as drilling, which can cost more than US$10 million per year, even during the pre-feasibility period. It can easily take 7 years of investment before production starts. The VAT (18 percent) on such an amount is US$1.8 million. For companies which may wait one year to be reimbursed, this delay significantly diminishes their cash flow. A country in need of investment and exports would do well to eliminate this tax.

7.13 This problem can be addressed in two ways. The IMF suggests that reimbursements should be accelerated by simplifying procedures and keeping VAT receipts in a special account for reimbursements, thus avoiding excuses about cash flow. The other solution would be to simply exempt export-only companies, such as ginning and mining firms. Indeed, one solution does not preclude the other.

7.14 The complexity of taxes and the manner in which they are administered are also cited as a serious shortcoming. This is a major concern for exporters. Tax inspectors have broad authority to interpret and apply the law and impose fines; meanwhile, businesses face the immediate threat of closure or seizure of their bank accounts, without recourse to speedy appeal. Whereas most SMEs in industrialized countries can go for years without undergoing a formal tax audit, each formal sector enterprise of any size in Burkina Faso is audited several times every year.

7.15 The Burkina Faso government is implementing a tax reform program. In light of the correlation between tax burden and size of the informal sector, it is important to pursue this reform by (i) reducing the number of taxes, eliminating those that cannot be considered absolutely essential; (ii) expanding coverage of the informal sector, (iii) streamlining and improving tax administration, and (d) establishing a transparent set of rules covering inspections, and offering the possibility of a quick appeal process. In line with the IMF's recommendations, VAT reimbursement can be improved by (i) replacing full audits with periodical controls based on an assessment of

[41] IMF, «VAT Refunds: A Review of Country Experience », November 2005, and IMF, «Burkina Faso – Nouvelles étapes de la réforme des administrations fiscale et douanière», March 2006.

the company's risk profile; (ii) eliminating payment authorizations by the Ministry of Finance, and (iii) putting aside part of VAT receipts as the funds necessary for VAT reimbursements.

The Labor Code

7.16 In Burkina Faso, more than 90 percent of the workforce is employed in the informal sector at wages far below the statutory minimum and with little or no job security or social protection. Thousands of new jobs need to be created each year to absorb newcomers into the workforce. In such a country, one would expect labor regulations to be flexible and designed to facilitate entry into formal sector employment. That is not the case in Burkina Faso. As a matter of fact, the country's labor regulations rank among the most rigid in the world. The labor code provides for several types of labor contracts, all of which have to be formally registered with the Ministry of Labor. The recent introduction of a contract allowing the hiring of trainees can be considered an improvement, but it was largely offset by new restrictions on the hiring of temporary workers. Most enterprises are faced with fluctuating business activity and need to adjust their labor force accordingly. Many end up using temporary employment agencies; this has the perverse effect of substantially increasing labor costs to the employer and offering no job security to the employee. It should be noted that restrictions on the ability to hire temporary laborers particularly affect agro-industry, where activity is often seasonal. Nevertheless, this is one of the key sectors expected to boost formal sector employment in the years to come.

7.17 There is consensus within the business community that any restriction on the ability to terminate employment adversely affects the willingness to hire. In Burkina Faso, any decision to fire or lay off a worker has to be submitted to the labor inspectorate for review before it can be implemented. It entails a high risk of litigation, litigation which has to be addressed by a labor tribunal generally perceived as biased against the interests of the employer. And any negative judicial decision exposes the employer to substantial costs and penalties.

7.18 Although the minimum wage in Burkina Faso—CFAF 345,732 a year (about US$ 690)—is more or less in line with the levels adopted elsewhere in the region, it represents almost twice the country's per capita income (US$ 350 in 2004). At this relatively high rate, many private firms, especially those in low-tech activities such as agro-processing, have an additional incentive to continue operating in the informal sector to avoid compliance with the minimum wage law. As a result, the poor continue to work in informal activities for only a fraction of the mandatory minimum wage.

7.19 Both the ICA and a recent World Bank study on the Burkina Faso labor market conclude that Burkina Faso's labor legislation in its current form represents a major obstacle to business formalization and to formal sector employment growth[42]. These studies recommend that the Labor Code be revised to increase flexibility in the labor market, and that policies to determine minimum wage levels be reassessed. The evaluation of the investment climate supports this analysis and proposes the following recommendations:

a) In case of economic layoffs, the outcome of the procedure for consultation with unions is communicated to labor inspectors, and ultimately to the Ministry of Labor. Companies' internal consultation procedures should be maintained, without the obligation to inform the labor inspector or even the Ministry of Labor. Article 106 should be repealed and Article 102 redrafted accordingly.

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[42] World Bank, "Creating Better Jobs for Poverty Reduction in Burkina Faso", Washington D.C., June 2006.

b) It would be advisable to repeal Article 103 of CdL04, which establishes priorities in the case of worker lay-offs.

c) It would be advisable to repeal priority rules for hiring after layoffs, as mentioned in collective bargaining agreements. Such measures are prejudicial to competitiveness on the labor market and do not allow companies to hire the best candidates for positions.

d) The costs of termination, expressed as the salary-weeks equivalent of the value of all the payments made to a terminated employee, remain high in Burkina Faso, the equivalent of 57 salary-weeks in 2005. This should be reduced to the same level as in Senegal, Benin, and South Africa, i.e. 35-38 weeks.

Land Tenure Problems

7.20 There is uncertainty about land ownership in Burkina Faso. In theory, all land belongs to the State. In practice, traditional and communal land ownership is the rule. This uncertainty stems from the land reform law *(Loi sur la réorganisation agraire et foncière—RAF)*, the revised version of which dates back to 1996. This law stipulates that in principle, all land belongs to the State; but it allows for the issuance of development permits and the possibility of transferring full ownership to private operators, as well as the management of some lands by village communities. These provisions have rarely been applied because customary ownership still prevails in reality. The resulting tension between formal and customary ownership is yet to be resolved.

7.21 The persistent insecurity of land ownership stands in the way of any form of medium or large-scale commercial agriculture or intensive livestock production. Small holders are affected as well, as they run the risk of having to vacate the land they cultivate in favor of the customary owner. This is a major obstacle to the development of commercial schemes. The land situation is made even more confusing by the virtual absence of a well-functioning rural land register.

7.22 The lack of secure access to land is a key impediment to private investment in irrigation and other land improvements. It also precludes access to bank financing. This explains why most physical improvements to agricultural land continue to be financed by donor projects or other sources of public funds.

7.23 A formal 2006 statement by the Minister of State in charge of Agriculture on securing land access reflects a growing consensus within the Government that land reform must become a national policy priority. Neighboring Niger decided to embark on a comprehensive land reform in 1993. After extended delays, the program was launched in the early 2000s. It involves extensive consultations among stakeholders through a network of land tenure commissions *(Commissions foncières)* which are authorized to issue land deeds that are filed in rural registries *(Dossiers ruraux)*. These registries are intended to become repositories for all future land transactions and to provide ultimate protection to all holders of such deeds. A key characteristic of the legislation is that it gives equal weight to customary and "modern" ownership. The process is still in its infancy and its successful completion will depend on continuous donor support.

7.24 As a sensitive and politically volatile issue, land reform is bound to be a long process, no matter what policy Burkina Faso decides to adopt. In the meantime, the government could consider a similar approach to the one adopted by Madagascar, which faces an equally complex land situation. Having concluded that comprehensive land reform would take years to be implemented, the Government of Madagascar has taken an interim measure: identify tracks of state-owned land that are relatively free of customary claims and set them aside as land reserves *(Réserves foncières)*. Strategic investors are given secure access to this land on the basis of a long-term lease (*bail emphytéotique*). Reflecting Madagascar's development priorities, these tracks have been reserved for private tourism and industrial investors.

7.25 In Burkina Faso, commercial agriculture and intensive livestock-raising are strategic sectors for private sector investment and development. There is considerable land, with untapped irrigation potential, in the south-west and north-east of the country that suits this purpose. A program could be envisioned whereby the Government would (a) identify appropriate parcels of land that are relatively free of customary claims; (b) clear these parcels of any remaining claims; (c) define the legal and operational modalities under which these parcels could be set aside as *Réserves foncières* to be leased to strategic investors under a lease of 30 years or more.

FACTOR COSTS

7.26 The MCPEA study on factor costs reveals several interesting facts on the relative importance of various factors for Burkina Faso companies and provides comparisons with other countries in the sub-region. Based on a survey of 24 formal sector firms, the study confirms that electricity and transportation costs are the top two constraints, with capital costs in third place.

Table 7.2 : Industrialists' opinion on factor costs (in %)

	Electricity	Water	Telephone	Transport	Capital	Work	Other Factors
High	87	45.5	59.1	77.3	61.9	21.7	41.7
Acceptable	8.7	40.9	36.4	18.2	33.3	69.6	58.3
Low	4.3	13.6	4.5	4.5	4.8	8.7	0
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: BBEA, Study on factor costs in Burkina Faso, 2006.

7.27 The same study provides several comparisons of West African countries. These are certainly not the most competitive countries, but they are serious trade competitors for Burkina Faso in the sub-region, which is the main market for its industry. The comparison of the cost of capital is presented in Table 7.3. This table clearly shows that such costs are not very different in Burkina Faso than in other UEMOA countries (except Niger), and are even lower than in many countries when inflation is taken into account. On the other hand, neighboring English-speaking countries seem to enjoy some advantage in terms of real rates after inflation. UEMOA countries benefit from acceptable nominal interest rates, which are however higher in real terms due to the low level of inflation.

Table 7.3 : Real interest rates in the different countries, 2004 (in %)

	Benin	**Burkina Faso**	**Côte d'Ivoire**	**Mali**	**Niger**	**Senegal**	**Ghana**	**Nigeria**
Minimum prime rate	10.1	**9.3**	10.0	8.3	4.0	8.5	19	20
Maximum prime rate	13.7	**14.4**	11.0	14.8	11.0	15.2	21	25
Inflation rate	0.9	**1.70**	1.4	-3.1	0.2	0.5	12.6	21.1
Real minimum prime rate	9.2	**7.6**	8.6	11.4	3.8	8	6,4	-1.1
Real maximum prime rate	12.8	**12.7**	9.6	17.8	10.8	14.7	9.4	4.9

Source: BBEA, Study on factor costs in Burkina Faso, 2006.

7.28 The situation is not very different with respect to labor costs. The minimum guaranteed wage in industry *(salaire minimum industriel garanti—SMIG)* in Burkina Faso is similar to that in Benin, Mali, and Nigeria, and lower than in Senegal and Côte d'Ivoire. But it is 33 percent higher than in Ghana, a country that is more developed, with access to the sea, and with a more flexible labor code. And social contribution costs borne by employers in Burkina Faso are the highest in UEMOA.

7.29 Unit labor costs are a better indicator as they take into account labor productivity, which unfortunately is low in Burkina Faso. Thus, labor costs as a percentage of value added are actually lower in Senegal in spite of its higher minimum wage (see Table 7.4).

Table 7.4 : Labor data

	Benin	Burkina Faso	Côte d'Ivoire	Mali	Niger	Senegal	Ghana	Nigeria
SMIG (CFAF/month)	27 000	**28 723**	36 607	27 528	18 899	36 174	21 600	28 000
Employee social contribution rate (%)	3.6	**5.5**	3.2	3.6	1.6	5.6	n.a.	n.a.
Employer social contribution rate (%)	16.4	**21.5**	14.1	17.4	15.4	8.4	n.a.	n.a.
Unit labor costs as % of value added	0.35	**0.33**	n.a.	n.a.	0.25	0.29	n.a.	n.a.

n.a. = not available

Source: BBEA, Study on factor costs in Burkina Faso, 2006, and ICA 2006.

7.30 The telecommunications sector in Burkina Faso presents a mixed picture. The cost per minute for domestic calls is the highest in UEMOA, except for Côte d'Ivoire, but Internet connection costs are close to the average, and the cost of a long-distance call to France is among the lowest. The cost of long-distance calls is perhaps the most important for exporters. But there is also the question of service reliability, for which we have no data.

Table 7.5 : Telecommunication costs

	Benin	Burkina Faso	Côte d'Ivoire	Mali	Niger	Senegal	Ghana	Nigeria
Average cost per minute (conventional)	23	**29.5**	59	15	25	21	n.a.	16
Hourly cost of connection to Internet	1 320	**1 180**	1 000	500	3 000	1 770	500	n.a.
Average cost of international call to France	564	**236**	448	450	945	140	n.a.	n.a.

n.a. = not available

Source: BBEA, Study on factor costs in Burkina Faso, 2006.

7.31 The cost of water is very high in Burkina Faso, two times more than in Benin and almost as high as in Mali and Niger. This is apparently attributable to the scarcity of water, but also to its poor quality, which requires more treatment. Fortunately, water is not a very important component in the cost structure of most Burkinabè industries.

Table 7.6 : Cost of water

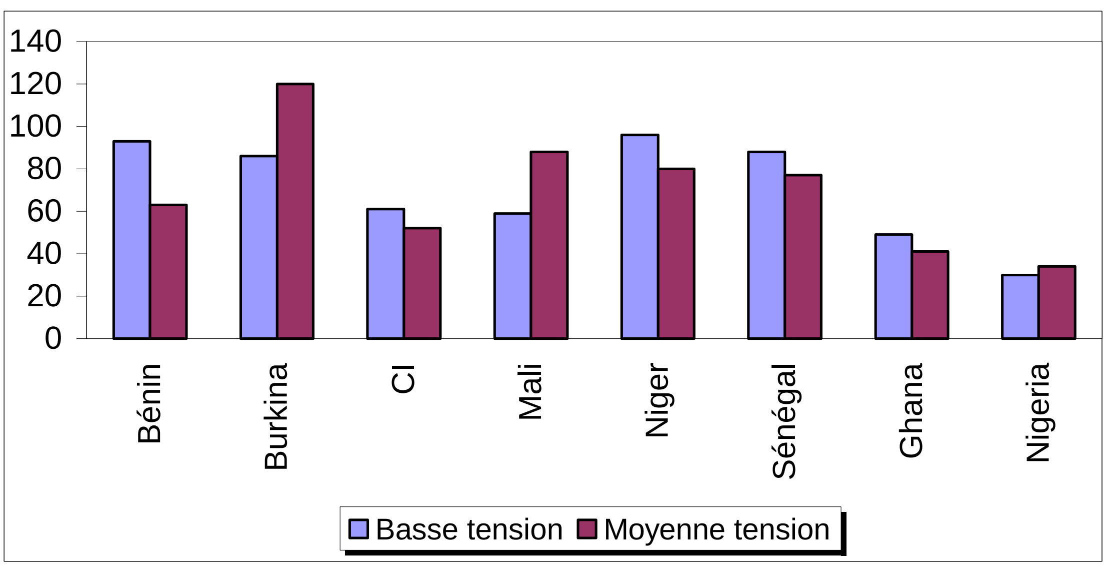
	Benin	Burkina Faso	Côte d'Ivoire	Mali	Niger	Senegal	Ghana
Water cost per m^3 (CFAF)	307	**617**	570	321	332	576	432

Source: BBEA, Study on factor costs in Burkina Faso, 2006.

7.32 Electricity causes many problems to Burkina Faso enterprises. As Chart 7.1 shows, the cost of low-voltage electricity is among the highest in the region, and by far higher than in Ghana, Nigeria, and Côte d'Ivoire. The contrast is even more striking for medium voltage, which is probably the most expensive. This high cost is attributable, among other reasons, to the mode of production and the low interconnection between Burkina Faso and countries with the lowest electricity costs such as Côte d'Ivoire, Ghana, or Nigeria. The electricity produced in Burkina Faso comes primarily from thermal plants as hydroelectricity is not developed. Burkina Faso only recently started getting involved in interconnectivity with neighboring countries. If one were to choose a key place to start reducing costs to enterprises, it is clear that electricity would be the priority.

7.33 Unfortunately, the situation has worsened since this data was collected, with the surge in hydrocarbon prices. Furthermore, there is no quick fix as interconnection with coastal countries will take another five years. In the near future, Burkina Faso must focus on exports that do not require much electricity.

Chart 7.2 : Comparative cost of electricity in Burkina Faso and neighboring countries (in CFAF/KWh)



Source: BBEA, Study on factor costs in Burkina Faso, 2006.

8. TRANSPORT AND TRADE FACILITATION

8.1 The economies of landlocked countries in sub-Saharan Africa are particularly constrained by geography. Being landlocked translates not only into transport costs over relatively long distances (at least 1000 kilometers in the case of Burkina) but also into inefficiency in the transit chain. In a development context, transit is constrained by low economies of scale, procedures, service productivity, and vulnerability to illegal rents, designated as "hassles" in West Africa. Controlling the cost of trade logistics is a key concern for economic operators, public decision makers, and regional organizations.

8.2 Compared with other landlocked African economies, Burkina Faso's situation is relatively unusual and, in many ways, more favorable. First, the country is served by four corridors, effectively in competition.

- The Abidjan road and railway corridor is Burkina's "historic" corridor. It is also the shortest route for the important production zones in the country's southwest region.
- The Lome corridor, also traditional
- The Tema (Ghana) corridor, which has developed considerably in response to the Ivoirian crisis.
- The Cotonou corridor, basically reserved for oil imports, less convenient for general merchandise.

In fact, there is a certain degree of competition among these corridors, which is beneficial to landlocked countries in terms of costs and transit times.

8.3 Furthermore, Burkina itself is a major transit country first for Mali, but also for Niger and for the northern area of Cote d'Ivoire. This activity weighs on infrastructure and on the customs administration's capacity to manage transit. But it is also a source of service activities and a further reason to create a regional dynamic of transit facilitation and to seek economies of scale.

THE TRANSPORT SYSTEM

Road Transport

8.4 Highway transport of goods is extremely unstructured in Burkina Faso and in West Africa as a whole, with well-known characteristics: few specialized enterprises offering quality services; a very old and poorly maintained fleet of vehicles; excessive supply and low level of utilization of the fleet; and overloading.

Transport services are provided by three categories of enterprises:

- Groups of commercial companies (notably trading networks of Lebanese origin) which own their own fleet of vehicles operating on their own account. This category of transport has been very successful during the Ivorian crisis.
- Companies operating on someone else's account. There are few companies specializing in transport, except for those carrying fuel.

- Independent transport, mostly informal. Rich individuals invest in old trucks driven by non-wage drivers. This type of transportation is more dependent on traditional supervision by trade unions (OTRAF) and on queuing mechanisms (tour de rôle).

8.5 Three international groups[43] are present in Burkina. They offer import-export logistics services and are the only ones able to provide full-fledged logistics support enabling exporters and importers to access world markets: the Bolloré Group (with two subsidiaries, SDV and SAGA), Maersk Logistics, and DHL for express courier. However, there are many local operators, as this profession is a traditional opening for former customs officers.

Railway Transport

8.6 The 1,200 km railway line is Burkina's historic access way. SITARAIL (controlled by the Bolloré Group) carried one million tons before the crisis and targeted a gradual development of activities to reach 2 million tons by 2009. Train circulation was basically stopped between December 2002 and October 2003. Since then, the train operates in virtually normal conditions thanks to an agreement between the various parties. Transit time is extended by controls at four checkpoints; but all in all, these operations only extend transit time by four hours. Railway transport is therefore faster than road transport and 30 to 40 percent cheaper from the ports to Ouagadougou (according to shippers).

8.7 Moreover, the Ouagadougou Railway Station is adjacent to a multimodal terminal for SETO containers, managed under concession by the SAGA Group and modernized with AFD credits. It is a real dry port offering possibilities for speedy customs clearance. The combination of the Abidjan port, SITARAIL, and the existing multimodal platform is a better solution than the road in many regards, but it is hardly used. The Ferké railway station in the north of Côte d'Ivoire, also equipped for containers, plays an important role in the export of fresh produce in refrigerated containers from Mali and Burkina.

8.8 Despite the advantages of the train and the absence of incidents, railway transport has only recovered 80 percent of pre-crisis traffic, whereas total traffic in Burkina has increased considerably. Exporters of the most sensitive fresh products (mangoes) use this mode of transport. The reasons why major institutional shippers like SOFITEX have not returned to railway transport are not obvious. There may be subjective parameters like the "political" preference for the other corridors. Also, independently from regional tensions, several interest groups prefer the road and are able to influence the modal choices of private or public shippers: traders or individuals who purchased trucks on the assumption that the Ivoirian crisis would hurt rail transport and now need to make them pay.

Airfreight

8.9 The share of airfreight is very marginal. Air France is the only company that serves Burkina regularly with links to Europe: 2,000 tons of imports and 900 tons of exports in 2005. The Bobo and Ouaga airports can accommodate jumbo jets, but only Ouaga receives this freight traffic with 5 mixed flights (7 tons) and two cargo flights per week (45 tons). For imports, the cost is in the order of €4/kg from France (February 2006). Given the unused export capacity, there is a small export potential to Paris at the fairly low rate of €2/kg.

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[43] The Geodis Group has a representation in Bobo.

8.10 In contrast, the development potential of dedicated cargo activity from Bobo or Ouaga is more doubtful. Indeed, thanks to the performance of the multimodal route, Burkina is logistically close by surface route to European markets (two weeks for operators who are able to control the chain), a real comparative advantage in relation to eastern or southern African countries, which can only export fresh produce by air. Furthermore, given recent developments, fuel accounts for half of the cost price of freight; this further raises the quality requirements for products shipped by air. Product-specific studies are necessary, but volume and price thresholds are high. Some exporters believe that exports of mangoes from the Bobo-Dioulassou region (including from neighboring countries) could justify cargo flights if the Bobo airport is upgraded.

8.11 There is no need to envisage an aggressive public policy (for example, investments in cargo facilities such as refrigerated terminals); international experience in this area shows that such a policy is neither necessary nor useful[44]. The air cargo market is very responsive to transport demand; constraints lie elsewhere.

LOW-COST LOGISTICS BUT SUB-OPTIMAL PRACTICES

8.12 The average price on the most active routes is in the order of CFAF 25 per ton per km (t/km), which is clearly lower than in other sub-regions in sub-Saharan Africa. It is even lower than in Western Europe. The average t/km price is €5.5 in France, compared with €3.8 in Burkina. However, this low price is largely related to the practice of overloading and does not include indirect charges ("hassles") or procedure-related fees, which are a major part of transit costs.

8.13 In practice, the share of freight that is containerized is only about 20 percent. The rest of the goods is shipped in bulk in trailers or on tarpaulin-covered flatbed trucks, including cotton for export. This low level of containerization has several consequences on the quality of the logistics chain:

- the unloading of containers in ports is on the quay and constitutes a risky operation for cargo integrity;
- logistics operators do not have any control over these operations and cannot guarantee the integrity of the logistics chain;
- The practice of unloading creates informal employment and vested interests that are difficult to change;
- It is very difficult to ensure the security of non-containerized goods in customs transit (problem with seals); thus, for the customs administration, it is justified to maintain control and escort mechanisms.
- Axle overload is considerable. The ECOWAS standard is 11.5 tons per axle. Yet, for transit, typically, three TEUs (Twenty Foot Equivalent Units) are unloaded onto a tractor-trailer, which represents 40 tons. When the weight of the truck is added (25-30 tons), this translates into 15 tons on the back axle. The overload is even more considerable for regional traffic, notably for Ghanaian trucks in transit.

8.14 Due to the excess supply of transport services, trucks are used very little, with one or two transit trips per month, and significant waiting times at ports. Moreover, a queuing system persists, at least, in Francophone ports. It penalizes:

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[44] Of course, this observation does not apply to the very important area of air transport security, which is the focus of a regional program financed by the World Bank

- Structured transport companies faced with unstructured competition dragging down the sector. In fact, they are confined to niches such as the oil sector which are excluded from queuing.
- International logistics firms which cannot choose their transport partner and establish long-term relationships, as is the case in more advanced economies. Large companies are intent on having reliable transport sub-contractors and are ready to support the development of reliable local firms, by granting bank guarantees, for example.

8.15 In practice, queuing has been weakened by the post-crisis boom in independent transport; however, it is an obstacle to the consolidation of the transport sector. As a result, the available logistics services for international trade operators are fragmented with multiple procedures.

8.16 Exporters who want to use traditional logistics solutions (open truck transport and consolidation in the port) have no chance of participating in a sustainable way in an international trade chain. The major international purchasers demand reliable, seamless, and secured solutions. Unfortunately, the door-to-door logistics and the consolidation of small shipments in Burkina have failed to develop. It is theoretically possible, but for lack of demand and given the operational constraints of international logistics firms, customized service is only affordable for significant flows.

8.17 Today, there is no coalition of interests that is ready to radically revise or revisit the traditional organization of logistics. Transporters' and drivers' unions are the main defenders of the current system, which is a source of clients and revenue. Shippers' associations and chambers of commerce are also, to a lesser extent, beneficiaries of the current system.

THE ADMINISTRATIVE AND REGULATORY FRAMEWORK

8.18 Logistics is a crosscutting issue with implications for trade, financing, infrastructure, and transport. Facilitation implies good policy coordination by different organizations. In the case of Burkina, and of WAEMU countries in general, there are many stakeholders. With regard to transit, there are three major issues: the financing of regular maintenance, the control of axle load, and the clarification of the roles of government bodies.

Maintenance and need for a road fund

8.19 The transit network is generally in good condition, but this reflects the significant investment made with development assistance rather than the existence of a coherent maintenance policy. Contrary to its neighbors, Burkina does not have a road fund that allows for independent management of works. The World Bank has concluded that a road fund is both necessary and feasible as it would allow multiyear management of expenditures and allocation of revenues. For example, tolls are collected on the major transit highways by the Treasury and included in the general budget. It would be logical to allocate toll receipts to the road fund to cover a substantial part of its needs.

Control of axle load

8.20 The widespread practice of overloading has a considerable cost for infrastructure and for the logistics chain. It its detrimental to containerization, and consequently to the facilitation of transit and to the modernization of transport and logistics services. Logic and practice dictate that control should be exercised at freight-originating points first, i.e. ports, rather than en route, where it is more difficult and penalizing. Given the competition among ports, this approach should be coordinated between Dakar, Abidjan, Lomé, Cotonou, and Accra and should be applied with the same rigor in each of the freight-originating points. In the current situation, a stricter application in Lomé would immediately divert traffic from land-locked countries towards Accra, especially as Ghanaian transporters are apparently those who load the most.

Role of government bodies and conflicts of interest

8.21 Public bodies such as the *Conseil Burkinabé des Chargeurs* (CBC) and the Chamber of Commerce (CCIA) combine traditional functions (procedures management), commercial activities and an overall mission of facilitation and economic development. This is a form of conflict of interest: the organizations have no incentive to question traditional procedures which provide their income. This is true for:

- issuance of bills of lading by the CBC, redundant with the TRIE carnet.
- storage at Ouaga Inter, which must be paid to the CCIA, even if the merchandise remains on the vehicle.
- CCIA's monopoly on transit guarantee (TRIE).

8.22 The *Conseil des chargeurs* plays a very important role with respect to the monitoring of transit performance and facilitation problems. Regrettably, it is financed by a procedure-specific levy. It would be much simpler for the levy to be collected by Customs and repaid to the CBC, as is the case with the payment of the TRIE guarantee to the CCIA.

THE CYCLE OF PROCEDURES

8.23 Importers experience little difficulty preparing for importation. In contrast, there are a lot of concerns about operations carried out after the arrival of merchandise at the port of entry in the sub-region. These include, in particular:

- transit conditions;
- customs clearance timeframes and conditions at Ouaga Inter;
- the time it takes for BCEAO to approve bank transfers for the payment of letters of credit.

8.24 The export cycle is shorter and faster. In practice, Customs process export declarations during the day. Furthermore, export transit is not constrained like import transit by escort measures. Exporters are few and regular and have been able to optimize their logistics with the customs offices concerned. The main office concerned, that of Bobo, has, according to general opinion, been responsive to exporters.

8.25 In the case of Burkina, transit is regulated by the combination of bilateral transit agreements, the WAEMU Customs Code and the Community system of transit carnet (TRIE). The latter is theoretically governed in West Africa by two conventions adopted by ECOWAS. All ECOWAS countries are members of this system, which is closely based on the TIR (Transit International Routier) in Europe. It is underpinned by:

- A standard for participating vehicles and enterprises.
- A single carnet system for the trip, to which is attached a deposit that can be claimed by Customs in transit countries.
- A concept of national guarantee whose role is to certify participating enterprises and to distribute carnet and the related deposits.

8.26 In actual fact, the implementation is only partial: the booklets are only distributed in WAEMU countries. They are sold by chambers of commerce in WAEMU countries, the national guarantors managing the national guarantee funds for transit, which have been in existence for much longer than the TRIE. The system is not in place in Anglophone countries, where transit is guaranteed by deposits issued by banks and insurance companies for the amount of duties and taxes owed in the transit country.

8.27 Regulations impose import insurance from ports (minimum 0.3 percent of fob value). This is a relatively obsolete obligation to the extent that it requires the use of local companies and that it is incompatible with the practice of direct bill of lading of international firms present in Burkina.

8.28 Administered trucking is a traditional constraint in francophone Africa, which stems from transit agreements. In principle, a request for freight is addressed to the Togolese freight office, located near the port, which, in collaboration with the union of transporters assigns trucks in turn and verifies the distribution of destinations. It is largely by-passed in Ghana and, in the case of independent transport, in Togo. It remains a serious constraint for forwarding agents who prefer to establish partnerships with reliable transporters. This system encourages the fragmentation of services and weakens the logistics chain due to the tenuous relationship between the principal (freight forwarder) and his agent (transporter).

8.29 The escort system is relatively flexible; vehicles leave in groups, several times a week, but not necessarily in a convoy, the information on the convoy is checked at the conventional control points. The waiting time at exit is negligible. Once in Burkina Faso, the waiting time is related not to customs but to transit agents who do not have clear instructions. Border crossing does not seem to be a major problem.

8.30 Information on vehicles escorted is faxed to headquarters, and there is a radio system for monitoring passage from a central base in Ouaga, with several control points along the road to Ouaga Inter. There is a customs officer in the front vehicle to ensure liaison. Burkina Faso and Togo have no computerized transit module, which would allow the transfer of information on carnets from the originating office to the destination office. The management of the carnets in Burkina is not like a guarantee procedure for individual operations, but rather like a tax. These guarantees are not called. Once in Ouagadougou, the correspondent service assumes responsibility for the TRIE carnet, while the chamber of commerce takes charge of loading. Payment is due to the CDC, even if the merchandise is not put into storage (container, for example).

8.31 Obviously, the current cycle includes many administrative agents. Circulation of information is not assured, whereas its flow is indispensable for trade facilitation. The use of information technologies would facilitate each of the individual cycles, but also allow the circulation and crosschecking of information. The priority is to begin strengthening computerization of customs clearance operations; the current system (ASYCUDA ++) already allows the declarer to submit declarations online, but this possibility is not used.

TRANSIT OPERATION COSTS

8.32 The simulation below is based on a 40-ton truck coming from Lomé with CFAF 30 million worth of merchandise, in three declarations. In total, all indirect costs add at least about 50 percent to the transport services as such. Potentially, the indirect costs should not represent more than 15 to 20 percent[45], which is already significantly higher than in a developed country (5 percent).

8.33 Official organizations and unions such as OTRAF consider that the "hassles" en route are the major problem affecting the quality of transit. This is also the view of most operators. There are, indeed, several dozen informal payments along roads, amounting to CFAF 100,000 per trip. Contrary to widespread opinion, the "hassles" are only a marginal cause of the costs and delays in transit. *The impact of legal procedures, related to freight, escort, and terminal charges (notably at Ouaga Inter) is much higher than that of the hassles.* These procedures would not be justified in the framework of a secured and liberalized transit and add about 25 percent to the cost of transport per se, or twice as much as "hassles".

Table 8.1: The structure of transit costs (CFAF)

		Quantity	Base	Total
Transit Togo	Unit value			**121000**
Queuing	10000	1	Vehicle	10000
Terminal 'solidarity' Togo	10000	1	Vehicle	10000
Escort Togo	10000	1	Vehicle	10000
CBC bill of lading	10000	1	Vehicle	10000
TRIE Togo	6000	1	Vehicle	6000
Guarantee Togo	0.25%	1	Value	75000
Within Burkina				**225500**
TRIE Burkina	6000	1	Vehicle	6000
Guarantee Burkina	0.25%	1	Security	75000
CBC consignment note	2500	1	Vehicle	2500
Border computer tax	5000	1	Carnet	5000
Escort	5000	1	Vehicle	5000
Ouaga Inter Storage charges	1050	40	Tons	42000
Transport insurance	0.30%	1	Value	90000
Forwarding services				**170000**
Togo freight forwarder	25000	3	declarations	75000
Border freight forwarder	20000	1	,,	20000
Ouaga freight forwarder	25000	3	,,	75000
Shipping Services				**1100000**
Transporter	1000000	1		1000000
Additional transport costs	100000	1		100000
Total transit				**1616500**
Non-transport transit costs				**526500**
- "hassles"				100000
- avoidable legal fees				246500
- necessary fees				180000

Sources: Author's estimates

[45] We have taken into account 50 percent of the current level of services that are really indispensable in a liberalized transit regime, consignment note, guarantees and shippers, computer tax.

8.34 Moreover, our simulation does not take into account other illegal payments independent from hassles along the road, which could occur at key stages of the transit. The mission was unable to obtain precise information on these potential payments in terms of amounts and beneficiaries. It is very likely that they are significant: the difference between the amount of the simulated transit price (1.5 million CFAF) and the cost indicated by shippers (1.8 million CFAF) is in the order of CFAF 250-300,000, or 25 percent of the transport costs.

8.35 Hassles are a serious problem and deserve attention. However, their impact in terms of delays and costs should not be exaggerated. The logistics chain is even more affected by the set of superfluous legal procedures and the facilitation payments that they can entail.

IMPROVING THE TRANSIT CHAIN

8.36 Transit is a customs regime that allows the differed clearance of goods. Seamless transit is based on three major principles:

- Ensuring cargo integrity for customs purposes by sealing adapted vehicles (closed trailers, containers).
- Payment by the consignee or its agent (freight forwarder, transporter) of a deposit corresponding to the value (duties and taxes) that may be due in the transit country.
- Proper management by Customs of information on cargo in transit and notably the reconciliation of information on inflows and outflows recorded in the customs territory. This involves identifying infractions and quickly releasing the deposits paid by users.

8.37 None of these principles is respected in the case of transit in Burkina. The main sources of problems are: (i) the unstructured and quasi-informal nature of transit logistics, (ii) weak customs capacities, and (iii) deficiencies in the TRIE system.

Ensuring cargo security

8.38 Most of the vehicles in transit are overloaded trucks, operated independently, and cannot be sealed in compliance with standards. Customs are justified in enforcing a relatively restrictive escort system on this traffic. The system, as it exists in Burkina and Togo, seems relatively optimized, all things being equal. The possibilities for improvement are limited, if the market structures remain unchanged. It is an illusion, and even counterproductive, to invest in equipment (border posts) or technology systems (GPS, sealing nets) to facilitate this type of transport which basically does not need it.

8.39 Reforms should instead seek to help ensure the emergence of an effective logistics sector that complies with transport and customs regulations and offers the best services for shippers, respecting loading regulations and all customs guarantees. Eventually, logistics should be provided primarily by organized enterprises working in association with professional logistics specialists.

8.40 Today, only containerized traffic and notably direct bills of lading from international logistics companies offer sealing possibilities that justify exemption from burdensome procedures and from the additional charges borne by general traffic. In spite of the demands of these operators, this exemption is not guaranteed. Granting free transit to professional operators whose vehicles are reliable from a customs perspective should be done with immediate effect, and with two components:

- The freedom to choose one's transporter, and exemption from queuing and from freight procedures (including passage through the terminals).
- Exemption from escort.

8.41 A formal sector enterprise has more fixed costs than an independent transport enterprise which pays no welfare costs and pays its drivers less. The difference could be around 20 percent. Consequently, formal sector enterprises need to increase operations and to have reliable markets that can only be provided by international operators. An enterprise that increases the level of usage of its vehicles from 3,000 km per month to 6,000 km per month would reduce its costs by 20 percent. It is therefore quite possible that transportation costs will remain the same after reforms aimed at modernizing the sector.

Management of information and customs' capacity

8.42 Customs should improve the management of information on merchandise in transit. Contrary to the widely held idea, it is not at all necessary to interconnect the information systems of countries in which the transit corridor is located. This interconnection is helpful, but only makes sense if national systems are already in place and effective; the sub-region is far from this today. The WAEMU facilitation program should lay emphasis on strengthening national transit modules rather than on interconnection.

8.43 In the same vein, the regional investment program of juxtaposed border posts does not seem to be a priority in view of other aspects of the regional facilitation program. These investments should probably take place at a more advanced stage of transport sector and transit regime reforms, and after the strengthening of national capacities. These projects are potentially complex (problem of legal status) and above all very expensive (CFAF 2.5 billion (or close to US$ 5 million). This cost is excessive compared with the level of traffic—it represents four years of guarantee funds, which are potentially more useful!

The guarantee system

8.44 The TRIE guarantee system is relatively simple for users, which is important. On the other hand, the TRIE is basically not different from a parafiscal tax collected by chambers of commerce to finance investment programs. The TRIE is not based on customs risk, but on the value of the merchandise. It is accessible to all without constraints and, in practice, distributed by customs agents at ports or at border posts. The national guarantee fund is not kept by customs, but is paid to the chamber of commerce notably to finance facilitation investments. Customs maintain the escort system, which is in contradiction with the very existence of a guarantee mechanism, which should permit freedom of transit. The regional facilitation program envisages the issuance of a single carnet obtained at the entrance to the sub-region and shared by national chambers. Without changes in TRIE management and access requirements, the impact will be marginal.

8.45 A recent WAEMU study financed by the World Bank proposes a system that is a little closer to the TIR with a real chain of international guarantees, but is reserved for container transport and has a licensing procedure. Its analysis proposes a few interesting avenues to develop the transit system and foster the emergence of reliable and quality services. Unfortunately, they do not go far enough in analyzing the shortcomings of the current system. For example, the distribution of carnets to carriers should not be envisaged: the major freight forwarders are reliable partners who can vouch for their transportation sub-contractors as long as they have the choice of carrier and control of their operations (with an exemption for queuing). Moreover, and subject to a feasibility study, it should not be difficult to set up a guarantee mechanism for freight forwarders through the financial system rather than chambers of commerce, which would be much less costly. The current rate of 0.5 percent of the value is high for traffic that would be secured.

THE ECONOMIC IMPACT OF TRANSIT

8.46 The cost of logistics and, hence, that of being landlocked, cannot be envisaged solely in terms of transport costs and delays, but rather at five levels:

1. The direct costs of transport
2. The indirect costs: procedure fees, freight forwarders' margins, insurance, "hassles"
3. The induced costs for enterprises, notably in terms of stocks or logistics organization, including the consolidation of upstream supply.
4. The opportunity cost which is the losses incurred by the country as a result of transit conditions: customs fraud, additional maintenance costs due to overloading, new activities discouraged by operating conditions.
5. The economic impact of overloading vehicles.

8.47 Contrary to a widely held opinion, the direct costs of land transport are relatively low. Aggregated for import and export, they represent some CFAF 50 billion, or 1.7 percent of GDP, or 7 percent of external trade. The direct impact is thus not negligible but much less than what most decision makers think.

8.48 However, the indirect costs are excessive and the induced effects significant. Indeed, logistics is a major operational constraint for productive activities in Burkina Faso. Opportunity costs are also considerable. For example, given the potential level of customs fraud, the shortfall on duties and taxes in the current system is probably higher than the costs of surface transport. As for the overloading of vehicles in transit, it could cost about 1 percent of GDP per annum.

CONCLUSIONS AND RECOMMENDATIONS

8.49 For Burkina Faso, the consequences of being landlocked are by and large incorrectly or at least partially perceived. The costs and delays incurred by external trade are very moderate. The additional cost of transport is a small fraction of GDP and transit delays are less than those in most landlocked or the coastal countries at a comparable level of development. Furthermore, the well-known "hassles" only have a modest impact on the performance of the corridors. By contrast, it is a symptom of a serious governance deficit and of the outdated character of the trade logistics chain in Burkina and in the sub-region.

8.50 The issue is therefore one of quality and adequacy of the logistics chain and services. The problems are very serious:

- A logistics system bordering on the informal: unpacking containers at the port to facilitate the overloading of vehicles that cannot be secured for customs purposes.
- Fragmented and poor quality transport services. The fleet is very old and there are virtually no structured enterprises. Even international freight forwarders have a hard time finding reliable local partners and are impeded by the traditional market organization (queuing).
- A multiplication of en route procedures explained in part by the need for a secured customs control of imports, and in part by the many organizations involved.
- Massive fraud : in axle load, transit and customs declaration.

- The existence of many interest groups that benefit from the current organization and create barriers at entry for enterprises willing to propose a quality logistics system integrated with an international chain.

8.51 These operating conditions translate into significant costs for formal sector enterprises in Burkina, be it the rare transport enterprise or those in production : informal or fraudulent competition, induced logistics costs (stocks, consolidation). The opportunity costs for the economy are also very high. The situation seems to have worsened with the Ivoirian crisis, which pulled the logistics system into the informal sector with the development of independent transport and the loss of confidence in the railway whose good performance is nonetheless unaffected by the crisis.

8.52 The measures envisaged, and especially the regional facilitation program, propose many relevant actions. Unfortunately, the sequencing of the measures seeks to facilitate without really taking the steps to change logistics organization and services through traditional facilitation measures (information technology, juxtaposed border posts), applicable in a more advanced environment. These have little chance of having any impact on trade as it is organized today, and the impact on the economy will be negligible and not necessarily positive[46].

8.53 Priority must be given to the emergence of operators capable of offering quality and secure logistics for customs purposes. In other words, this involves facilitating the emergence of transport companies able to work in partnership with international logistics enterprises to provide Burkina Faso with a first-class link to international markets. Thus, priority measures include those that discriminate in favor of the modern sector and penalize activities that are not in line with transport and customs standards. Our simulations show that such services would not be more expensive than those currently available.

[46] This point is not totally obvious, but the economic impact of facilitation measures depends essentially on the structure of the services market. Equivalent investments will have a stronger impact on the northern Kenya corridor where services are deregulated and consolidated, than in West Africa. Messrs Marteau and Raballand of the World Bank, as well as the author of this report will soon publish an analysis on this subject in the World Bank's Policy Research Working Papers series.

9. CUSTOMS

9.1 The customs administration traditionally performs numerous functions. In developing countries, revenue collection remains the major task, while fraud control is also important. Hence, trade facilitation is often relegated to the background, in spite of globalization and the need to develop intra-regional trade. Burkina Faso, as a landlocked WAEMU country, is particularly affected by the latter.

9.2 At the same time, the country faces new flows of goods from emerging countries, particularly from Southeast Asia, which represent increasingly tough competition for the few local industries. These new imports have visibly enriched a new breed of operators attracted by quick and easy gains, and the consequences are already evident within some administrations, especially customs, which finds itself at a crossroads of influences. This new situation calls for appropriate measures to be taken by the authorities, notably to ensure professional integrity.

9.3 Trade in imported goods in Burkina Faso has undergone many changes which have impacted seriously on trade facilitation in terms of transport and customs:

- the persistence of the Ivorian crisis, which called into question the previous patterns, with the partial closing of the traditional supply corridor and the emergence of new routes;
- the emergence of specific supply corridors in the north of Côte d'Ivoire (the so-called rebel zone) for shipping goods by road to Burkina Faso and its adverse effects on cross-border activities, notably in the Bobo-Dioulasso region;
- the intensification of international competition from emerging countries (China, India, Brazil, etc.), which put on the world market highly competitive and affordable products that are better suited to household incomes;
- the emergence of new national or foreign economic actors who have taken over some sectors hitherto dominated by large multinationals, which were reliable and responsible partners, but which have withdrawn;
- the emergence of new small traders, virtually operating on the fringes, who are most often relatives of public servants or other traders.

9.4 This chapter discusses the impact on customs and the next chapter will deal with the effects on transport services.

TRADE FACILITATION

9.5 For a good number of customs administrations that still focus heavily on revenue collection performance, dialogue and partnership with the business community are still abstract concepts, even risky. In the minds of many customs officers, including senior staff, business operators are still considered potential tax evaders. There has been a shift in this mentality since the introduction of tariff reforms that have made them less onerous and more acceptable in principle. However, the specific needs of the business community are still not fully addressed and the concepts of timeliness and urgency are often not appreciated by customs officers. Trading in a rapidly changing global environment is a major challenge for landlocked countries.

9.6 The disadvantage of being landlocked can be partially offset by simplified and efficient customs procedures, which are obvious assets in international competition. Given the weak industrial base in Burkina Faso, the customs administration can easily know its partners and establish productive dialogue with the most serious ones, thus building a genuine partnership.

9.7 The effective implementation of the Revised Kyoto Convention of the World Customs Organization in 2006, will provide developing countries with a new opportunity to devise genuine strategies to revamp relations, streamline procedures, and effectively establish partnerships with credible and genuine traders. Burkina Faso did not adhere to the first Kyoto Convention. It has not yet made known its stance on the Revised Kyoto Convention. It is now time for countries like Burkina Faso to implement a sound facilitation policy through solid partnership involving major, reputable and willing traders.

9.8 Initiatives should be taken at the national level by economic sector representatives (Chambers of Commerce or specialised professional organizations) to lobby for simplification and facilitation and to press for the ratification of the Revised Kyoto Convention. In the absence of a suitable national initiative, WAEMU or ECOWAS could launch a regional campaign to promote this instrument and conduct a comparative study of facilitation measures in force within the region.

9.9 Improved relations between the customs administration and the business community are desirable because, in addition to facilitation, it is henceforth incumbent on the customs administration to secure international trade transactions. No sooner had customs administrations launched the process of facilitation and partnership than it is now required to ensure, as a matter of priority, the security of logistical operations. Although there is only an apparent contradiction between the two concepts, there are reasons to fear that these administrations, which have inadequate staff and resources, may face theoretical and practical difficulties in dealing with the two concepts as equal priorities. The traditional, and long cherished, repressive role, notably in French-speaking countries, may once again take the driver's seat and overshadow the facilitation needs of traders.

9.10 The imminent and temporary installation (on a free trial basis) of a scanner in Dakola, the main transit point to Ghana, illustrates the possible confusion between the notions of facilitating and securing the logistical chain, as long as the installation of this new equipment is not viewed as an additional facilitation instrument but rather as another screening tool. During the test run of this equipment by Cotecna, it would be desirable to organize the flow of trucks and the selection of operations for screening. Choices will have to be made not only to justify the cost of this equipment but also to safeguard the interests of carriers and end users, as well as enforce current procedures for convoy. The introduction of this sophisticated screening method should not cause further delays or cause delivery uncertainties.

9.11 Many recent port experiences tend to indicate that new equipment, upon installation, disrupts established procedures and causes surprising reactions among customs officers and users. Many people stand to lose from transparent procedures. To avoid start-up problems and address organizational and coordination deficiencies between Customs, Cotecna and other actors in Dakola, and to secure the gains of current facilitation measures, it will be necessary to design procedures in a spirit of genuine partnership to fully assess stakeholders' needs, consider all scenarios and seek appropriate solutions.

Box 9.1 : An example of trade facilitation

In 2005, measures were taken to allow the immediate clearance of some goods considered sensitive on various grounds:
- size (heavy goods, iron rods, cement);
- risk of theft within customs facilities;
- cost reduction concerns of businesspeople, especially parking and immobilization of vehicles in these same premises;
- the needs of some agricultural or industrial activities, such as campaigns for phytosanitary inputs and fertilizers for cotton growing or inputs for breweries;
- consumer needs at given periods of the year (such as the difficult time just before the harvest), for rice and flour, for instance; and
- low risk presented by responsible importers.

The release of goods before the deposit of itemized declarations and the payment of taxes and duties enhances business competitiveness by:
- reducing delays;
- improving door-to-door operations;
- limiting stock levels and, consequently, depreciation costs; and
- allowing reciprocal knowledge of the needs of the administration and of businesses.

To secure revenue collection through these procedures, the customs administration uses annual deposits paid to customs revenue offices to guarantee the payment of taxes and duties by established traders and clearing agents. In implementing this procedure to clear goods, the customs administration consulted businesses, better understood the needs and challenges of industrial and commercial activity as well as developed relations based on mutual confidence and reciprocal respect of commitments made. This initiative is all the more laudable because it was entrusted by the Director General of Customs to regional customs offices. This practice of administrative deconcentration of decisions helps ensure accountability of the line of authority and brings users closer to the local customs office without obligation to refer back and forth to the central administration.

This commendable initiative is already bearing fruit, although some large businesses approached by the administration were not yet keen on benefiting from these incentives. In fact, these firms found alternate ways of addressing their customs clearance difficulties. However, this pragmatic approach is ill-advised as it may breed fraud. The arbitrary nature of procedures and, especially, of benefits and privileges, explains the scepticism of some businesses. The administration should take the first step, through a sound communication policy, to convince traders of its determination to grant equal, transparent, and sustainable services.

9.12 The partnership requires a lot of effort on the part of the administration:

- open-mindedness and availability of senior and junior staff;
- preparatory work, reflection on pending problems;
- coordination with other government services (army, police, gendarmerie, health services, phytosanitary services, agriculture, health, consumers, weights and measures, forestry, etc.);
- coordination with professional bodies (e.g. the Chamber of Commerce, which manages the parking lot and the weighbridge as well as sells and issues transit passes);
- design of procedures and preparation of final documents.

9.13 Given the limited capacity of the administration, operators can play a greater role by drafting their own proposals that may be discussed directly with the administration.

9.14 To further improve relations, develop partnerships, and envisage other forms of facilitation for the customs administration, it may be worth setting up a specialized body at headquarters—in the department of regulatory affairs if there are any plans to centralize this task, or at the relevant office which covers the main customs offices, if the intention is to decentralize the activity—that will be specially responsible for study and design of appropriate, simplified and standard procedures tailored to business needs. This measure would go further than the current provisions already applicable to some businesses by way of MOUs on fast-tracked clearance of goods before declaration by mainstreaming the approach for taking into account real user needs.

9.15 This approach could be generalized through the official creation of a bureau for facilitating and implementing licensing audits for enterprises. These licensing audits allow customs services to better understand corporate activities and specific needs; to establish relations of trust with the business; and, for businesses, to enhance knowledge of the benefits of the various customs clearance schemes.

9.16 The creation of this entity in Burkina Faso's customs administration may target another complementary and henceforth indispensable goal for the whole customs administration, namely business licensing to ensure trade security (licensed traders). An increasing number of countries will henceforth require prior disclosure before the shipment of goods and some form of "certification" of logistic operations. Only thorough knowledge of businesses, their modes of operation and their officers, especially the logistical and customs departments, will help certify shipments for destination countries.

9.17 To foster and enhance the competitiveness of Burkina Faso's products and facilitate their admittance into the destination countries, the customs administration of Burkina Faso should be able to disclose information to secure the logistical chain in a reliable and swift manner. This new facilitation service could also oversee the implementation of the WCO Standard Framework and, more specifically, the second pillar of customs-corporate partnerships that clearly provides for licensed business operators.

9.18 The creation of this facilitation service and its dual responsibility for facilitation and security should allow security to be envisaged as a complement to facilitation and not the contrary, and allow security to be entrusted to a new agency whose scope excludes systematic repression and fraud control measures. The creation of this service will require modern communications technology, but will especially require training for the officers who will run it. Partnership is a real challenge for customs administrations, and it will be in the best interests of economic efficiency and credibility of Burkina Faso customs to immediately establish more modern relations with reliable businesses to focus its control on the most risky companies.

SPECIAL RELATIONS WITH CUSTOMS CLEARING AGENTS

9.19 As in all of WAEMU and in keeping with the Community's customs code, customs clearance in Burkina Faso is exclusively performed by customs clearing agents. This restriction hampers the development of direct and trusting relations between the customs administration and businesses. This mandatory intermediation entails additional costs which are not always consistent with the expected efficiency and professionalism.

9.20 Over the last few years, the profession has attracted more operators than necessary for the needs of Burkina Faso's international traders because of:

- the limited number of professional requirements, owing notably to the small amount of financial guarantees and the fact that, in some cases, proof of ethical standards is a mere formality;
- the absence of standard diploma requirements to exercise the profession;
- some complacency on the part of authorities in issuing licenses and temporary clearance certificates;

9.21 In practice, there are three main categories of clearing agents:

- a small group comprising mainly large international shippers – integrated units capable of managing operations from the point of departure to the point of delivery;
- a fairly limited group of established and reputable national professionals;
- a third group of mainly new players, with little experience and dealing essentially with informal sector traders.

9.22 The first two groups are established professionals who have earned their reputation through long term relations with commercial or industrial entities. These two groups have individually developed and secured their client portfolio and systematically refuse to deal with doubtful operators to avoid tarnishing their reputation and engaging in any dispute with the customs administration of Burkina Faso.

9.23 The third group is the preferred vehicle for fraudulent transactions, under-quantification and under-valuation of goods, which seriously compromise customs revenue. Worse still, this group peddles unethical professional advice to novice international traders, becoming a real champion of organized fraud. The outbreak of the Ivorian crisis has compounded the situation with the emergence of petty traders who seek out like-minded intermediaries.

9.24 It is necessary to take urgent action against this problem that is detrimental to lawful traders, by setting the following professional requirements for customs clearing agents:

- raising the minimum statutory guarantee and introducing mandatory payment or deposit of guarantees;
- setting appropriate professional qualifications (equivalent to a university degree);
- setting minimum qualifications for all employees of customs clearing agents;
- investigating the criminal and customs clearance record of officers and agents with signing powers;
- barring close relatives (spouses, children, etc.) of incumbent clearing agents from practising;
- introducing a required volume of consignment or consignment orders to justify activity.

9.25 Apart from these professional requirements, it is necessary to embark on a campaign to clean up the profession and withdraw licenses or, initially, suspend the licenses of the following:

- clearing agents with activity thresholds too low to justify their existence;
- those without guarantees or unable to renew them;
- agents who are unable to adapt to ASYCUDA ++ ;

- those who are close relatives of active customs officers; and
- clearing agents found guilty of customs fraud.

9.26 In addition to these operations designed to restrict access to, and to clean up the professional environment of clearing agents, it will be desirable, in conjunction with the appropriate professional associations, to set up a special training programme for clearing agents and their staff to help them to fulfil the basic requirements, specifically through new computer applications.

FIGHTING FRAUD IN BURKINA FASO

9.27 Burkina Faso's customs administration focuses its action on revenue generation and collection, areas where it has achieved exemplary results. However, it has lagged in putting in place anti-fraud measures. Yet, these two responsibilities are closely related and it is certainly possible to boost revenues by improving operational methods in the fight against new forms of fraud.

9.28 Like all customs administrations, Burkina Faso customs face multiple forms of fraud. In spite of the introduction of the Common External Tariff (CET), the substantial reduction in custom duties, and the simplification of the tariff structure, the cumulative rate of custom duties, the VAT and other smaller taxes, including WAEMU and ECOWAS community levies stand at about 45 percent for heavily taxed goods and consumer goods in general. For informal sector actors, this rate is an incentive for fraud, particularly under-invoicing.

9.29 Concurrently, there has been a rise in new imports from emerging countries, which are affordable to Burkina Faso's low income households, though of average quality. They are truly competitive compared to regional enterprises, some of which have a history of mismanagement and are ill-prepared to face international competition. When these goods are admitted fraudulently, the outcome is disastrous. Some industrial activities in West Africa have been hard hit by fraud and Burkina Faso is no exception, although the poor economic decisions and mismanagement of local enterprises should not be underestimated.

9.30 The slow and inadequate response of customs and other administrative and professional entities contributed to the collapse of some industrial activities; it also led to the emergence or very rapid growth of new business players with unorthodox practices. These companies, which have grown into major operators in Burkina Faso or within the sub-region, have amassed huge profits notably from under-invoicing, to the extent that they now wield influence at economic and political levels.

9.31 Public bodies, including the most powerful, like Burkina Faso Customs, encounter real difficulties in opposing these activities which are detrimental to such a small economy already faced with numerous external constraints. It seems obvious that many small national and foreign investors are now reluctant to operate under such specific local market conditions. Entire sectors of the economy are now "reserved" or totally "locked up", which is harmful to competition and foreign investment.

9.32 The Department of Valuation and Investigation is responsible for fighting customs fraud. This reflects a rather standard and old notion of combating fraud based on valuation. This department is responsible for design, enforcement and tracking. All three duties have a single objective, although combining them under a single entity may cause serious confusion. This central responsibility is discharged throughout the country by Mobile Brigades under the authority of Heads of Subdivision and Control Units of the four regional branches, all of which fall under the authority of Regional Directors.

9.33 In organizational terms, territorial coverage appears to be satisfactory, and functional links are provided. The interventions of the central services, with national jurisdiction, are hampered by low staff strength and inadequate means of transport, comprising only two vehicles without communication equipment (radio). The ratio of staff specialized in fraud control to the total workforce shows a clear mismatch; it seems that this department has been neglected for a good number of years. For now, specialized anti-fraud units, and more particularly, field services (customs offices and mobile brigades) operate at their own initiative and somewhat blindly, notwithstanding the vast amount of information available and the emergence and multiplication of new forms of fraud.

9.34 The fact that anti-fraud efforts are primarily geared to valuation is not surprising as well, in spite of the presence of Cotecna that ought to allay all the concerns of the customs administration in this regard. Traders regularly bypass pre-inspections by splitting consignments or by avoiding import declarations. In both cases, they are normally subject to penalties.

9.35 In practice, customs inspection officers hardly question the values certified by the pre-inspection company, out of laziness or lack of incentive, despite a database on the value of goods made available to them by Cotecna. This database appears to be little known and even less used by custom officers. This is very unfortunate given the importance of the database and high cost charged to the State by Cotecna to provide this service.

9.36 It seems surprising that the customs administration is striving to develop its own database in spite of limited data and staff although it is mainly focused on the leading contraband goods, namely: tyres, inner tubes, cigarettes, sugar, flour, textiles, used clothing, tomato concentrate, pasta and alcoholic drinks. It is further surprising and deplorable that, while this list of products is virtually identical in all countries of the sub-region, no regional initiative has been undertaken in this area not only to safeguard government revenue but also to protect industries affected by customs fraud; the various uncoordinated attempts by countries of the sub-region to curb this phenomenon have been a waste of energy and competencies.

9.37 The co-existence and succession of pre-inspection companies in the countries have only worsened the situation and the waste, with each company introducing its own products upon entry and withdrawing them upon exit, and the successor establishing its own products, without any exchange among them as they are all competitors.

9.38 Neither States nor regional organizations have attempted to put an end to this anarchy that is costing the countries more than it would take to develop a sub-regional database that would serve as a decision-making tool for customs valuation, at least for the leading imports of the majority of countries. WAEMU and/or ECOWAS could issue a call for tenders to implement this database that could self-finance by introducing consultation fees. Such a regional database would only guide decisions on customs value and would not become an automated valuation instrument, or even the equivalent of minimum or benchmark custom values, which have been abolished under the WTO.

9.39 The current situation has led the investigations unit to concentrate corporate inspections around Ouagadougou. Thus, in 2006, corporate inspections essentially involved large business entities of the formal sector, which are less risky for the Treasury. This approach is not really effective as the informal sector continues to gain ground and operates businesses that have developed elaborate, and sometimes sophisticated, fraud schemes.

9.40 It seems vital for the Burkina Faso customs administration to implement a bold anti-fraud policy by establishing a sound information sharing system and giving priority to rational intelligence gathering and processing. The intelligence function, which is now vital to customs administrations, was not accorded due importance, even though a few agreements on mutual administrative assistance have been signed with some customs administrations (Côte d'Ivoire, France and Belgium). Similarly, the opening of a WCO regional liaison office in Dakar ought to have fostered the sharing and dissemination of fraud-related information.

9.41 This lack of know-how and failure to use intelligence should be seriously and immediately addressed by halting the current practice of individuals who wilfully withhold information notwithstanding all rules, and the following measures should be implemented as soon as possible:

- developing an information-sharing system;
- establishing clear rules applicable to all central and national services, as well as to field services in charge of gathering, disseminating and analyzing information;
- establishing an efficient intelligence unit, that will serve as the focal point of the system and will oversee all activities, including monitoring, operations and performance;
- implementing outreach and training activities, using foreign experts as needed and improved equipment, notably computer tools;
- using the new ASYCUDA ++ applications for comprehensive data collection and automatic selection of operations to be inspected.

9.42 Lastly, given the very low number of lawsuits, it would be desirable to seek the prosecution and sentencing of some customs evaders, leading to exemplary and heavy penalties in an effort to deter high-profile fraudsters in the informal sector.

ANTI-CORRUPTION DRIVE

9.43 All customs officers in Burkina Faso are recruited on the basis of their diplomas and selected by public competitive examinations. Upon recruitment, they all undergo an initial training programme that runs from several months to several years depending on their level. Subsequently, they undergo continuous training as appropriate. During these initial and continuous training courses, custom officers learn public service rules and especially, the code of conduct. Compared to neighbouring countries, Burkina Faso is better off in terms of customs training and the serious efforts made by the authorities in this regard deserve to be emphasised.

9.44 Unfortunately, the situation has deteriorated. A large number of customs officers still operate, either directly or through close family relations, commercial activities that are incompatible with their functions. This blend of business and administrative activities are confusing to all, including public servants, traders, relatives, as well as social, customary and traditional relations in urban and rural areas. In extreme cases, certain import sectors are considered to be reserved for 'initiated' friends and relations.

9.45 It is necessary to promote recognition among customs officers of the consequences of corruption on the economy in general and to foster genuine partnership with businesses by launching anti-corruption campaigns dealing with the negative economic impact of new forms of corruption. It is also indispensable to encourage traders to introduce internal disciplinary measures within their professional associations and ultimately, to establish anti-corruption charters in private businesses.

9.46 For the purposes of whistle-blowing, a confidential 'hot-line' could be opened immediately at Customs headquarters to report cases of corruption involving custom officers or staff of private companies.

9.47 Lastly, it will be necessary to develop preventive internal controls carried out by immediate supervisors or specialized services like the Inspectorate of External Services. It would be desirable to replace a chain of command akin to a paramilitary body by some form of closer oversight exercised by line supervisors, much more present but also more demanding with regard to the daily attitude and behaviour of customs officers and company staff in the fight against corruption.

9.48 Modern customs administrations cannot perform their basic duties efficiently in a corrupt environment, and less so in the context of new international security requirements; this also applies to Burkina Faso customs, which had attained a commendable level of integrity in the region as a result of bold policies until the past few years. It is therefore necessary to urgently implement appropriate action to tackle corruption and promote professional integrity.

COMPUTERIZING THE CUSTOMS ADMINISTRATION

9.49 Customs administrations are increasingly dependent on automated services and procedures because only new technologies can help them cope appropriately with rapid changes in international trade. The transition to ASYCUDA ++ was completed at the end of 2004, and as of January 1, 2006, this upgraded version had been installed in fifteen custom offices in Burkina Faso. Apart from Customs, few administrations in developing countries can boast of such sophisticated computer equipment or receive such constant support from UNCTAD and external financial partners. Yet, so far, plans for the automation of custom services are only partly implemented.

9.50 Priority has logically been placed on the revenue generation potential of the latest version of ASYCUDA ++, the introduction of new customs accounting methods, and the training of custom officers. While these efforts are laudable, the benefits of the new tool are not yet maximized. While some problems can be easily solved, others are more serious. The first relates to the training of customs officers during the transition period. It appears that the average capacities or training of officers selected as unit chiefs did not match the challenges and needs. Thus, a major link seems to be missing in the system.

9.51 Furthermore, initial technical plans were made to install ASYCUDA ++ in offices. Given the inadequacy of telecommunication systems, measures were taken to use wireless technology to link up the various units equipped with ASYCUDA ++ to the central site in particular, since each office is equipped with its own server. But this solution was not applied across the board. For the time being, it is limited to customs units and is not yet accessible to users. Consequently, the latter must go to customs offices and consult the Fast Track Clearance Unit (UBD) to prepare and validate their customs declarations, while a major function of ASYCUDA ++ is to enable users to prepare declarations online and not at customs offices, in order to limit duplication and unnecessary trips and contacts with customs services.

9.52 Other important functions of the new ASYCUDA ++ have not yet been activated, such as the automatic selection of operations for customs clearance screening. This is not surprising because automated selection completely changes the system in place, limits the prerogatives of control officers and assumes sound risk analysis and information sharing among the different units. This situation is unfortunate because a substantial number of improvements brought in by the new system are not yet implemented and customs screening operations are still largely empirical and personalised.

9.53 Similarly, the transit function of ASYCUDA ++ should be implemented, as a matter of priority, in landlocked countries like Burkina Faso. Real-life situations are currently simulated at the Dakola border office. Declarations are prepared in the Fast Track Clearance Unit office although they cannot be sent electronically to the receiving office due to poor telecommunication systems. Accordingly, they are listed on a daily basis or prior to the despatching of convoys, and then sent by fax to an Ouagadougou office responsible for centralising the monitoring of completed declarations and transit operations.

9.54 Online transmission of transit declarations would constitute remarkable progress in these operations as destination offices may be notified immediately of any new bills of lading and carriage of goods. Ghanaian customs are putting in place the Tr@denet system in their border office facing Dakola, and this system is also expected to swiftly handle transit goods to and from Burkina Faso; it would therefore be desirable to link up both systems to track transit operations from the port of departure in Ghana to the port of entry in Burkina Faso for the greatest benefit of both administrations and users.

COMPILATION OF STATISTICS

9.55 At Customs headquarters, the departments in charge of information technology and statistics perform specific tasks that go far beyond the scope of customs administrations. They have the vital duty of compiling external trade statistics for the purposes of preparing the trade balance and informing economic policy.

9.56 Given the persistent difficulties encountered in compiling customs statistics in many years, a worthwhile priority action should seek to reorganize and revamp the office by recruiting seasoned statisticians or laying special emphasis on vocational training to develop an appropriate statistical office. In terms of equipment, it may be desirable to use an IT application for hardcore statistical purposes to reduce errors and confusion caused by too many manipulations.

OPTIMIZING THE PRE-INSPECTION CONTRACT

9.57 Like many countries of the sub-region, the Government of Burkina Faso successively hired several companies specialized in pre-inspection. In 2004, the government signed a 12-month contract with Cotecna, extended by a two-year contract and renewable twice. This service contract is a typical pre-shipment inspection contract. All goods whose FOB value exceeds three million CFAF are in principle subject to inspection, except some special goods.

9.58 The Cotecna contract contains an interesting provision that requires the company to provide Customs with a database on values and to update it on a monthly basis. Unfortunately, customs officials and officers do not seem to take due advantage of this provision. The database could guide decision-making by providing precious information on the valuation of goods, which the customs administration currently lacks. Consequently, each customs office should be equipped with a dedicated terminal to access this customs valuation tool, which should be used regularly by inspectors. Given the cost of the contract, it is unfortunate that this tool is not better used.

9.59 Moreover, sometimes a major provision of the contract is not executed, that is the reconciliation of operations to help collate Cotecna data with customs declarations to detect any irregularities in the payment of duties and taxes. It is unfortunate that Burkina Faso does not do reconciliations owing to mutual misunderstandings or suspicions stemming from shared computer equipment, or out of sheer unwillingness. The absence of reconciliation or partial reconciliation of a few operations erodes the efficiency and credibility of these contracts that are time-consuming and costly to users.

9.60 New types of service contracts are emerging gradually with special emphasis on technology transfer and capacity building. In an era of growing security concerns, some contracts are shifting to technological development, including through the installation of x-ray equipment in ports and border crossings. Burkina Faso seems to have embarked on this path as it was planning, during the mission's visit, to test x-ray equipment installed at the Ghanaian border point of Dakola. It is most desirable to revise the contract by assigning broader technical responsibilities to Cotecna for ensuring security in the handling of large flows and providing information on values and risks, as it has been doing in Senegal for many years, and in the process, gradually shifting valuation duties to the customs administration.

CUSTOMS VALUATION

9.61 Sound customs valuation is a key component of revenue collection. The increase in new flows and new importers in Burkina Faso does not make Customs' task easier. The relative apathy observed in some customs services in this regard since the advent of pre-inspection companies has led to an automatic and somewhat blind acceptance of the custom valuation made by these firms and has diminished the traditional curiosity and responsiveness of control officers, especially, those in charge of inspection and declaration reviews.

9.62 Fraudsters have also devised perfect coping strategies and, for instance, have refined the art of undervaluation to the extent that transaction amounts are lower than Cotecna thresholds, without causing any reaction whatsoever. During its visits to Dakola and the Declaration Review Unit of the Regional Office, the mission, based on a cross-section of real transactions, noted many such transactions that ought to have attracted the attention of custom officers.

9.63 After making remarkable efforts to secure the transit of goods and their shipment to points of clearance, Burkina customs should now give priority to customs valuation. Such priority seeks to maintain and secure current revenue levels, which may shrink in the coming years as a result of increased free trade within ECOWAS, and of the possible impact of the Economic Partnership Agreement (EPA) that will abolish most customs duties on EU imports.

9.64 Although revenue collection remains a prime concern, there is a need to optimize the customs administration's tools to generate even more revenue by taking the following measures:

- working more closely with Cotecna and using all its information from reconciliation, even partial, and from its database;
- limiting exemptions, especially by using a clearer presentation which elaborates on the "other goods" category, which accounts for 80 percent of the total value of exemptions;
- ensuring better dissemination and use of information on fraud;
- developing and optimizing all ASYCUDA ++ functions.

9.65 Over the last five years, Burkina Faso Customs have displayed their ability to achieve revenue collection targets. They have also increased measures to improve transit operations, not only for imports into Burkina Faso, but also for exports to neighbouring land-locked countries. While tax collection remains so important, it now seems necessary to worry about the needs of users, to facilitate clearance operations for legitimate trade, and generally to reduce the costs of clearing customs, which constitute significant additional costs and a handicap in relation to coastal countries.

9.66 The technical tools being established, ASYCUDA ++, x-ray equipment and databases, which seek to promote systematic information exchange, should normally usher in a culture of relations between Customs and various categories of users. This new culture of facilitation should be established in a context of new international trends to secure the logistic chain that represents a different approach of cargo handling based essentially on risk management. The will benefit legitimate users, who may declare their goods upon unloading in the port, thus allowing customs services at the port of destination to prepare their inspection.

9.67 This can only be achieved if customs administrations in the region initiate a productive dialogue among themselves and link up their systems. To speed up the process, the two main regional organizations, namely WAEMU and ECOWAS, should immediately establish new information systems in the Community and send a strong message to users and investors who have been expecting these developments for many years and have been patiently bearing the brunt of overlapping national legislations. While tensions persist within the Community, this period should be used to seek solutions for the benefit of all economic stakeholders.

10. TRADE POLICY AND INSTITUTIONS

TRADE POLICY

10.1 A country's trade policy should be based in principle on an open and outward-oriented economy with limited state involvement in commercial activities. The key elements of an effective trade policy process are:[47]

- A clear trade and export strategy, developed with and supported by stakeholders, based upon careful identification of the key constraints to trade;
- Effective consultation with the government, private sector and civil society;
- Successful inter-ministerial coordination;
- Collection and timely dissemination of accurate, easily accessible trade information;
- Capacity for analysis of trade related information and provision of advice on all major trade issues;
- Effective trade support institutions – standards, export promotion, customs

10.2 With the adoption of the Common External Tariff (CET) by WAEMU member states, Burkina Faso's trade policy is defined essentially at the regional level. An export strategy, on the other hand, is very much a national challenge. This chapter therefore focuses on regional policies, current preferential agreements and those under negotiation and, above all, trade support structures for export development. However, a few observations on trade policy need to be made.

10.3 First of all, the introduction of the CET was a critical phase in the development of the country's trade policy, as it greatly simplified and reduced tariff protection. The maximum tariff was reduced to 20 percent, and the number of tariff bands to four (0 percent, 5 percent, 10 percent, and 20 percent). Thus, the tariff system became one of the most liberal in Africa, while lock-in at the community level reduces the possibility of slippage. This system no longer represents a major obstacle to economic competitiveness or to domestic competition. For this reason, this study focuses on non-tariff constraints at the border (customs, other procedures) and, in particular, "behind the border" policies, institutions, and interventions that hamper trade.

10.4 The WAEMU tariff system is, indeed, a little more complicated, as there is also a statistical charge (1 percent) and community solidarity levy (1 percent). In addition, a Decreasing Protection Tax was adopted in 1999, as a transitional measure, to help some industries in the country adapt. This measure was expected to end in 2003, but it has been renewed twice. Burkina Faso is one of the countries (with Senegal and Côte d'Ivoire), which continues to apply this tax on some products. It is time to eliminate this tax once and for all.

10.5 The major challenge at this time is the extension of the CET to non-WAEMU countries of the ECOWAS. These countries have accepted the principle of a single tariff structure, but with the possibility of proposing a few changes in the classification of some products deemed a priority. Especially for Nigeria, this reform represents a big step forward, as its average tariff would fall from 28 percent to 12 percent. Nonetheless, there is a risk that the process could lead to an increase in protection. First, Nigeria insists on the need for a temporary band of 50 percent. This category should not become permanent, and especially, other countries should not adopt it. Secondly, the product reclassification process could lead to a slight increase in average protection.

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[47] OECD (2001) 'The DAC Guidelines: Strengthening Trade Capacity for Development, OECD, Paris

Let us hope that the requirement for 15 countries to agree on any change will make such an amendment difficult.

10.6 Besides the CET, there is an internal free trade scheme within WAEMU and ECOWAS. Local products (animals, vegetable and mineral products) and handicrafts are supposed to circulate freely between member countries, as are processed products which are in compliance with rules of origin and which are thus certified. In 2004, Burkina Faso had 186 approved products within the framework of WAEMU. Considering the nature of its exports, free trade in local products is the most important at the moment. But official regulations are not always respected, as we saw in the case of maize exports in chapter 3. It is in Burkina Faso's interest to strengthen the implementation of these policies by its neighbors, but it should also implement them.

REGIONAL POLICIES

10.7 As a member country of WAEMU and ECOWAS, Burkina Faso benefits from the regional integration measures taken by these two organizations. WAEMU's integration process is much more advanced; however, ECOWAS has been reinvigorated for a number of years thanks to Nigeria's reengagement.

10.8 The objective of WAEMU is to build a common socio-economic space. According to the Regional Economic Program, WAEMU's main pillars for establishing this space are: (i) strengthening political and economic governance through initiatives that promote peace and democracy; (ii) deepening economic integration and consolidating the gains of the Customs' Union; (iii) creation of an environment conducive to investment and preparation of a common investment code; (iv) harmonizing indirect domestic indirect taxation; (v) harmonizing public enterprise privatization models; and (vi) implementing sector policies.

10.9 WAEMU may be credited with:

- the adoption of the CET by all member countries;
- intra-community free trade under certain conditions;
- VAT reform, which helped reduce the dependence of government budgets on customs duties, thanks to the expansion of the tax base;
- the application of the pact of convergence, stability, growth and solidarity, and of multilateral surveillance, which allowed the definition of a number of convergence criteria to be met;
- the implementation of common policies in the industrial sector *(Politique Industrielle Commune)* and the agricultural sector *(Politique Agricole de l'Union)*, although the results are mixed;
- The establishment of an economic infrastructure policy in transport *(Programme d'Actions Communautaires des Infrastructures et du Transport Routier)*, energy (West African Power Pool), information and communication technologies (INTELCOM II), and finance. But so far concrete actions have been few.

10.10 Regional integration in the context of the ECOWAS is definitely less advanced than in WAEMU. However, in the political area, and especially in conflict resolution, it has had some successes. The application of the CET is underway and is supposed to be finalized in 2008. The adoption of a common currency has been postponed a number of times, which is not necessarily bad given that its rationale is yet to be proven. To date, Burkina Faso's foreign trade was focused primarily on WAEMU countries, but with the Ivorian crisis, the need to turn towards the Ghanaian and Nigerian markets has deepened the interest in the regional integration process within the ECOWAS.

PREFERENTIAL TRADE AGREEMENTS

10.11 For several years now, developing countries have been granted agreements facilitating access to the markets of developed countries. They started with the Generalized System of Preferences (GSP), adopted by UNCTAD in 1968, followed by the different Lomé and Cotonou Conventions, with respect to relations between the European Union and its former colonies in Africa, the Caribbean and the Pacific (ACP). More recently, the EU proposed the Everything But Arms (EBA) initiative for the Least Developed Countries (LDC), and the United States responded with the Africa Growth and Opportunity Act (AGOA), which is open to all African countries that meet certain criteria. Burkina Faso, as an ACP, LDC, and African country, has had access to all these agreements. The GSP is still applied to countries such as Japan and Australia.

10.12 The EBA is the most generous and also the most important, at least for LDCs such as Burkina Faso, because it is offered by the market that is most important for non-cotton exports, and hence, for diversification. This initiative liberalizes all imports of products from LDCs, except for arms and munitions. The most sensitive agricultural products—namely rice, sugar and banana—were excluded temporarily, but their liberalization is taking place over four to eight years, from 2001. While waiting for full liberalization of these products, they enjoy free access to European markets within the quota limits established by the Community.

10.13 In spite of all these difficulties, the share of LDCs in the imports of developed countries continued to decrease due to the supply and competitiveness constraints of beneficiary countries, and to the dynamism of competing countries. Burkina Faso is not an exception. Quality standards sometimes serve as non-tariff barriers, but, increasingly, they reflect the demands of the market. Subsidies in developed countries (and in China) also played a role, especially for cotton, and Burkina Faso is working within the WTO and the Doha Development Round to address this problem. But, in general, market access is not the problem.

Economic Partnership Agreement

10.14 To date, trade relations between the EU and ACP countries have been governed by a non-reciprocal trade preference system within the framework of successive Lomé and Cotonou Conventions. But these agreements were deemed not in compliance with WTO regulations because they discriminate between developing countries without being a regional and reciprocal agreement. Discrimination is allowed, according to WTO regulations, only if all LDCs are considered together (e.g. EBA), all developing countries together (e.g. GSP), or within the framework of a reciprocal regional agreement aimed at internal free trade. The EU also insists on the need to amend trade relations with ACP countries given the lack of impact of preferential agreements.

10.15 The 2000 Cotonou agreement therefore envisages that trade relations between the EU and the ACP countries will be governed by the principle of reciprocity under which almost all products from ACP countries like those from the EU will have free access—that is, without customs duties or quotas—on the respective markets of the trading partner. African countries will benefit from a certain asymmetry, allowing them to maintain import duties on a limited number of products. However, the 15 member countries of ECOWAS will have to agree on which products to continue protecting. The liberalization of the remaining products will not be immediate either, but will be spread out over a period of time to be defined, but possibly exceeding 10 years.

10.16 Like most of the countries of ECOWAS, Burkina Faso undertook a study to assess the future impact of economic partnership agreements (EPAs) on its economy and find ways to make the most of these agreements. This analysis was difficult as the negotiations were still a long way from specifying the details of the agreement at the time. Nevertheless, this study concluded that an EPA would result in the erosion of the level of protection of all sectors except the food processing industry, which essentially uses inputs from the EU and which is not subject to customs duties. Consequently, European products will benefit from increased competitiveness on the Burkina market. In addition, another fear for land-locked countries such as Burkina Faso is that these agreements will increase competition between Burkina exports and European exports in third country coastal markets. Third, on the public finance front, EPAs will result in the loss of customs duties on products from Europe as well as on a number of imports which will now be sourced from the EU rather than a third country.

10.17 Burkina's exports will have little or no advantage under this agreement because they already benefit from trade preferences under the EBA initiative. These accords are likely to result in increased competition for a weak Burkina productive sector and a reduction in government revenues. This could be offset if the EPA succeeds in its objectives of improving the investment climate and promoting regional integration. It is not clear, however, that trade negotiations offer the most appropriate mechanism to achieve the necessary reforms, especially given the tight time frame. Therefore, it is not surprising that ECOWAS countries recently asked for an extension of the negotiation period in order to better understand the challenges. However, the strong possibility of such an agreement provides another reason for improving the competitiveness of Burkina products as soon as possible.

TRADE SUPPORT STRUCTURES

10.18 Today, apart from the Ministries, there are three principal agencies that provide cross-sector support services for trade: *Office National du Commerce Extérieur* (ONAC), the *Chambre de Commerce, d'Industrie et d'Artisanat du Burkina Faso* (CCIA), and *la Maison de l'Entreprise du Burkina Faso* (MEBF). Others include several specialized bodies such as the *Salon International de l'Artisanat de Ouagadougou* (SIAO), and the associations of the different agricultural sectors. Table 10.1 summarizes some of the key characteristics of the three main structures.

Table 10.1 : Support Structures for Exporters

Organization	Support Services	Organizational Structure	Sources of Funds
ONAC	- Training/ Technical Assistance - Trade Point	Parastatal, linked to the Ministry of Commerce	- Government budget - Service fees - Donors (CCI)
CCIA	- Representation of private sector interests - Trade fairs - Promotion of commercial exchanges	Semi-private organization, linked to the Ministry of Commerce	- Membership fees - Service fees (warehousing, issuance of certificates of origin, etc)
MEBF	- *One-stop shop* - *Cheques Conseils* - Matching Grant Fund	Private not-for-profit Association	- Government budget, - cost-sharing by beneficiary firms - donors (EU, IDA)

10.19 The ONAC was created in 1974 with the objective of promoting exports, specifically by providing training and technical assistance services, financial support for participation in international trade fairs and foreign trade missions, market research and analyses, and information services on export products and markets. During the first two decades of its existence, ONAC's funding was secured through a 0.25 percent levy on all imports and exports. This allowed the organization to establish an elaborate structure and provide a range of services. However, the

Box 10.1 : What is Required for Successful Export Promotion?

Seven factors have been identified as important for a successful export promotion effort:[48]

1) There must be an appropriate enabling environment for exports. An anti-export bias is likely to arise when there is an overvalued exchange rate, a tariff structure that leads to high nominal and effective rates of protection, significant non-tariff barriers to trade due to costly customs procedures, inappropriate quality controls, excessive administrative barriers, lack of trade finance, and weak trade supporting infrastructure.

2) The export promotion/development agency should be autonomous but needs high level government support. This is important to gain the confidence and trust of the business community while having sufficient political clout to influence policy making.

3) The strategy of the export promotion agency must be demand-driven, with a board comprising mainly experienced exporters and headed by a respected business leader.

4) *Strike an appropriate balance between offshore and onshore objectives and activities*. Trade promotion organisations have tended to focus on offshore activities such as market research and information gathering, trade representation and trade fairs, but such activities will be ineffective unless appropriate attention is given to the onshore objective of enhancing competitiveness by assisting firms on issues such as pricing, quality, standards, access to appropriate inputs, and applying relevant business models.

5) *Proper staffing is crucial*. An effective trade promotion organisation requires staff with commercial experience from the private sector and so must be able to offer salaries and conditions that will attract such staff.

6) *Adequate funding must be made available*. While donor financing can initially be useful, the agency must be sustainable, which requires adequate funding from domestic sources. Charging for services through user fees, probably on a cost-sharing basis, is one important source of revenue and discipline to ensure that the services are relevant and of value to clients. Other activities with important externalities, such as those which enhance the country's reputation for quality, should be covered through a line item in the government budget and member dues.

7) *Ensure monitoring and evaluation of results*. The effectiveness of trade promotion activities must be monitored and periodically evaluated to ensure that lessons are learned, strategies are refined and best practices are applied.

[48] De Wulf, L (2003) 'Why have trade promotion organizations failed, and how can they be revitalized?, paper presented at the conference on 'Maximising the Benefits of Globalisation for Africa', Dakar.

impact of its services on exports was difficult to assess while a tax on exports was contrary to its objective of export promotion. The withholding tax was therefore abolished in 1995 and henceforth, ONAC's funding came from annual Government budget allocations. This funding declined dramatically in the following years.

10.20 Based on its current subsidies, ONAC is not able to offer all the services it proposes. Furthermore, some of them compete with the private sector that it is supposed to promote. It would seem necessary to bring ONAC's functions in line with its financial means. To this end, it should concentrate on services that cannot be, or are not provided by, the private sector. Training is an area where there is a growing supply of private service providers and it would make no sense for a publicly funded institution to be in competition with them. A significant portion of ONAC's training courses was sponsored by such international organizations as the WTO, UNIDO, UNCTAD and ITC, and ONAC could concentrate on them. But even here, ONAC should rely on private trainers and training institutions to deliver these courses, rather than maintain a permanent training staff itself.

10.21 An important improvement in ONAC's governance structure was achieved in 1998 with the introduction of a 12-member supervisory board, 9 of whom are representatives of the private sector. An additional measure to reinforce customer orientation would be to have its operations based on annual work plans that include specific performance indicators that are submitted to its board for approval, combined with periodic performance reviews

10.22 A key obstacle to ONAC's increased effectiveness is its current legal base which prevents it from hiring or contracting appropriate experts at sufficiently motivating salary conditions. Such a structure needs people with private sector experience, but it is practically impossible to attract them with civil servant salaries. A study should be conducted to analyze the options that are available to restructure ONAC.

10.23 In 1998, Trade Point and FASONORM were added to ONAC as separate service providers. Trade Point is designed as a trade facilitation center, providing electronic information services to local exporters on export prospects and to international buyers on local products. Other services include: information on export market entry regulations and conditions of trade, subscriptions to databases, and assistance for website design. Its website is linked to the international network of Trade Points. The center has received support from a number of donors, including the ITC, UNCTAD and DANIDA. The performance of Trade Points around the world has been mixed, although the concept is potentially a useful one. Generally located within parastatal organizations, these centers have had trouble keeping up with the accelerated development of electronic information services and being responsive to evolving client needs. Moreover, the question is whether such a structure should be providing services such as website design and customized market research, which could be provided by private operators on a commercial basis.

10.24 FASONORM was created to define product standards and provide product certification services both for the domestic and export markets. It should be recognized that this mission implies a potentially enormous range of activities, and that substantial resources, both physical and human, are required for the structure to gain international credibility. Absent that, exporters in particular are required to obtain their product certification services elsewhere. FASONORM is still an embryonic entity but, reportedly, its activities will be scaled up with financial and technical support from the European Commission. Recently, the new Director of ONAC decided to entrust this unit to another private organization that seemed better positioned to succeed. This is a step in the right direction to refocus ONAC on its priority functions.

10.25 The *Chambre de Commerce, d'Industrie et d'Artisanat* was created in 1948. Although it has close ties with the Ministry of Trade, it is an independent association administered in majority by private sector representatives. It represents several economic sectors to which it provides a vast array of consulting, representation and administrative services. Membership is mandatory for all enterprises formally registered and it is partly financed by membership fees, income from its warehouses, and a number of services it provides.

10.26 Its extensive membership is a strong point in its relationship with the government, but this diminishes exporters' voice in relation to the more numerous firms that produce for the national market. The fact that agriculture is not covered by the CCIA reinforces this bias. As well, as indicated in chapter seven, financial dependency on payments by operators for services provided has encouraged the continuation of services, or of a monopoly, which are in conflict with trade facilitation. This is the case of the warehousing at Ouaga Inter, which must be paid to the CCIA even if the merchandise remains in the vehicle, and its monopoly on transit guarantee (TRIE).

10.27 MEBF was established in 2002 with the encouragement of the Burkina business community, which had expressed frustration at the multitude of uncoordinated donor projects intended to support them. In line with best practices, the operating principle of MEBF is not to provide these services itself but to act as an intermediary, contracting out these services to private providers in order to build up the local market for business support services. So far, two donors have decided to entrust their support programs to the MEBF: the European Commission with its *Cheque Conseil* program, which provides subsidies for a number of consulting services, and IDA, which provides partial financing for a broad range of training and technical assistance services. It is expected that other donors will entrust their programs to the MEBF, providing a financial base for the secretariat. One of the key challenges facing MEBF will be to secure its financial sustainability in light of the short lifecycle of most donor programs. More than the average three- to five-year cycle of a project is needed to achieve structural changes.

EXPORT PROMOTION INSTRUMENTS

10.28 *A matching-grant fund:* In recent years, the Government has been looking for new means to support Burkina entrepreneurs by diversifying and reinforcing the nation's export base. To this end, the Government conducted a comparison of export promotion programs in other countries, notably the ones implemented by APEX-CI in Côte d'Ivoire and CEPEX in Tunisia. The APEX-CI experience is inconclusive, as the country's exports have been seriously undermined by the political crisis. Furthermore, APEX-CI was charged with multiple missions, resulting in obvious dispersion of effort and an excessive number of staff. The Tunisian example, however, illustrates how a country can succeed in diversifying its exports relatively quickly (Box 10.2).

10.29 In the context of Burkina Faso, where much of the expansion of the export base is expected to stem from a diversified range of agricultural products, support services should be provided in the form of contractual extension services provided to export-oriented farmers, to their out-growers, or to farmer associations or groupings. The World Bank's Agricultural Diversification and Market Development Project (PAFSP), which will be launched in 2007, will include several of these critical elements, with an emphasis on comprehensive capacity building within a number of selected agricultural value chains.

10.30 This approach could be complemented by a re-engineering of the MEBF, drawing on lessons learned from the experience with FAMEX in Tunisia. Support to exporters was not one of the priorities of the MEBF, owing to the nature of its external financing to date. It will be important to raise the importance of this objective in its mandate and capitalize on its good reputation in the private sector. The MEBF could be equipped with a dedicated export development window, through which it would provide initial subsidies to assist exporters in introducing new products and/or developing new export markets.

Box 10.2: Export Promotion : The Tunisian Approach

The main agency responsible for export promotion in Tunisia is the *Centre de Promotion des Exportations* (CEPEX). This structure was established in 1973 as part of the Ministry of Commerce to provide technical and financial support to Tunisian exporters. In 1997, the *Conseil Supérieur de l'Exportation et de l'Investissement* (CSEI) was created and is presided by the Head of State. A sudden and substantial decline in Tunisia's exports in the late 90's revealed the country's vulnerable export position, which was based primarily on garment assembly firms, operating as sub-contractors for buyers in a small number of European markets. The Government concluded that CEPEX had failed to prevent the export decline and that a new export promotion approach was required. A subsequent request for assistance to the World Bank led to the creation of the *Fonds d'Accès au Marché d'Exportation* (FAMEX) in 1999.

FAMEX has a strictly limited mission: (i) help existing exporters introduce new export products or enter new export markets; (ii) help garment manufacturers graduate from subcontractors to independent garment exporters; and (iii) encourage entrepreneurs to become exporters. To this end, FAMEX manages a matching grant fund that provides partial financing for the development and execution of export plans. FAMEX does not provide these services itself, but acts as an intermediary between its clients and a network of local and international consultants. Breaking with a long tradition of strict control of parastatals, the Government agreed to an arms-length relationship, allowing FAMEX to be managed as an independent private sector agency.

FAMEX has been instrumental in expanding Tunisia's export base by supporting Tunisian exporters who have introduced new export products, notably engineering and consulting services and food products, and entering new markets in Europe, sub-Saharan Africa, the Middle-East, and North America. Based on these results, the Government decided to continue the program with a World Bank-financed FAMEX II.

The Tunisian experience offers interesting lessons on the decisive factors for the success of an effective export promotion program:

- Well-defined objectives
- Protection of the decision-making process from any political interference;
- An effective management structure comprising a small team of highly-qualified experts, remunerated according to private sector standards
- Emphasis on establishing effective links with strategic export markets
- Based on cost-sharing and the use of outside expert services
- Assessment on the basis of specific results.

10.31 Chapter three on agriculture mentions several examples where this type of support could be useful, notably matching grants that are provided to private exporters to:

- explore export markets
- identify the requirements of target export markets in terms of requisite support to improve product quality
- identify outside firms that have the required expertise

10.32 Any program aimed at reinforcing the skills of private sector exporters in a poor country like Burkina Faso would have to include a modest element of subsidy to turn manifest needs into effective demand. It can be expected that this type of subsidy support will be required for some time, before a self-sustaining, purely commercial market for support services is developed. This raises two questions: how to secure a reliable source of financing to supplement contributions from beneficiaries and secure the program's sustainability; and how to avoid exporter dependency on subsidies.

10.33 Some support structures have attempted to raise additional revenues by selling trade services for a fee. This approach has its limits as it may lead the structure to provide unfair competition to purely commercial providers of support services, thereby obstructing rather than promoting the development of a private sector.

10.34 The *employer training tax (taxe patronale d'apprentissage):* Clearly, a program to reinforce technical, marketing and general management skills in the private sector would need to be designed and implemented with a mechanism built in to establish sustainability in the longer term. The *taxe patronale d'apprentissage*, a tax levied on the payrolls of enterprises and with annual proceeds of about US$ 4.6 million, could become a key instrument enabling the government to ensure sustainability of enterprise support programs. At the latest count, fifteen countries in sub-Saharan Africa had introduced some form of training levy scheme. One of the problems with many of these schemes is the failure to transfer the proceeds of this tax to a dedicated fund, with the training levy simply becoming an additional tax. This is the case in Burkina Faso, where the proceeds are transferred to the Treasury.

10.35 There is a growing body of lessons learned around the world from these schemes from which the following critical factors of success can be identified.

The unimpeded transfer of the levy proceeds into a secured account needs to be ensured to prevent misappropriation of the funds;

The scheme should be managed by a professional management team contracted for the purpose; this team should be provided with complete management and financial autonomy, based on transparent decision making procedures;

A solid governance structure needs to be put in place, including a tri-partite board with oversight responsibility;

The scheme should not provide skills development services itself, but rather act as an intermediary; there should be no restrictions on service providers, with private, public, NGO and institutional entities all being eligible, and with allocations made on a competitive basis.

10.36 Experience has shown that, once clear private sector ownership and transparent procedures have been established, such a scheme tends to be able to secure additional funding from other sources. A notable example is Côte d'Ivoire, where the national training levy scheme received substantial donor support once the Government had committed itself to reform its management structure and provide direct oversight and control to private sector representatives.

10.37 *Attract foreign investors:* The divestiture of the State from most of the sectors with export potential has produced a vacuum that needs to be filled. The approach so far has been to focus on capacity building at the base through a multitude of donor programs, providing technical and financial support to smallholder farmers and their associations. But this approach has not yet succeeded in establishing a group of modern exporters who maintain sustainable links with export markets. The experience with the cotton sector provides a clue to what is missing. In this sector, a strong and well-structured operator with substantial management and technical skills and with access to financing has played a key role in organizing the supply chain and facilitating its access to the export market

10.38 Recognizing that the reinstatement of the State in the management of liberalized subsectors is not an option, the Government has instead attempted to jumpstart the process of organizing the supply chains by handpicking selected members of the local business community and grouping them together in business structures that were created at its initiative and not at the initiative of private entrepreneurs, often with substantial State participation. In most cases, this approach has resulted in failure and the vacuum persists.

10.39 To accelerate exports, the Government should concentrate on the business environment and trade facilitation, and establish a program to identify and attract strategic investors to selected sub-sectors with clear export potential. These investors should possess the necessary technical, financial and management capability and knowledge of export markets to act as catalysts in organizing supply chains and establishing durable market linkages.

10.40 The domestic business community is characterized by a lack of accumulated capital and a dearth of skilled managers. Without an extensive export tradition, the country has a limited knowledge of export markets and their requirements. Thus, as an initial phase, this investment program should focus on attracting foreign investors, who could ideally establish partnerships with domestic investors. These foreigners could be Africans from neighboring countries, which would be good for regional trade, but also for access to international markets. This was the case in Mali, where a partnership between Ivorian and Malian investors ensures smooth transit through Côte d'Ivoire for mango producers selling to Europe.

10.41 Building an investment promotion institution is a process fraught with risks. There are numerous examples in Africa and elsewhere of investment promotion institutions that, under the guise of "establishing a positive image of the country abroad" have become little more than glorified travel agencies for cabinet members and their entourage. An effective investment promotion program would have to start with a commitment from the highest level of government. In addition, numerous issues would have to be resolved, including:

- the establishment of the appropriate institutional set-up, allowing for the flexibility to hire the best available experts at incentive wages;
- the anchoring of the institution to the highest level of government, reflecting the multi-sector aspects of investment promotion; and
- the adoption of a results-oriented operational approach from the start.

10.42 The institution-building process is likely to take years before it is completed. But the urgent need to accelerate economic growth requires tangible results much sooner. Therefore, in parallel with the building of an investment promotion institution, it is recommended that the Government contract an international firm with a strong track record of identifying investors and matching them with specific investment opportunities. This firm would not be required to identify the investment opportunities—this work presumably would have been completed before—but for each investment opportunity, to identify a number of potential strategic investors and develop a matchmaking approach. A significant element of performance-based remuneration would be built into the firm's contract.

A VISION, A WILL, AND A WAY

10.43 Meeting the challenge of international competitiveness is not an easy thing. There is certainly an increasingly stiff competition resulting from the integration into the world economy of new emerging countries such as China, India, and Eastern Europe. Burkina Faso is a landlocked country and its economy is not well-developed. Besides, international trade poses significant challenges to the government.

10.44 First of all, the trade agenda far surpasses the mandate of a single ministry. One could even say that the "Ministry of Trade" is not the most important body. Cotton, sesame, live animals, and gold are not the responsibility of this ministry. And the difficulties faced with regard to customs, taxation, the labor code, or infrastructure, are most often not the responsibility of the Ministry of Trade or sector ministries. What is called for is a vision and a strategy, which includes all these stakeholders and which is accepted by all. This study offers the possibility for providing the basis for such a strategy.

10.45 However, it is rare to achieve such consensus and collaboration without the support, indeed the stewardship, of a head of state or head of government. The President of South Korea used to demand a monthly report on export performance. The President of Tunisia chairs the Export and Investment Council. Political will at the highest level is needed to ensure that all stakeholders fully understand the importance of international trade, and that all overcome their internal priorities to work together. In contrast with Mali and Niger, Burkina Faso does not yet have a structure such as the Presidential Council of Investors (*Conseil Présidentiel d'Investisseurs),* which could serve as a consultation and monitoring instrument at the political level. However, plans were being initiated in 2007 to establish such a body.

10.46 At the technical level, a way, a mechanism is needed for collaboration and for the implementation of recommendations emanating from political bodies. Annual meetings between the government and the private sector are supported by a technical committee with equal representation of both parties, which has known some measure of success in supporting meetings and especially in monitoring. There is also the competitiveness committee based at the Ministry of Trade, which supported this study. It should better integrate sector ministries such as Agriculture and Animal Resources if it wants to pursue the trade agenda and not only that of private sector development. Given the number of inter-departmental committees, there is perhaps a need to streamline them rather that create another one.

10.47 Drawing on other country experiences, and on what exists in Burkina Faso, we propose the following recommendations to strengthen the institutional framework for export promotion:

- restructure ONAC with a new status and a more focused mandate;
- create a matching grant fund for technical assistance
- redefine the role of the *taxe d'apprentissage*
- hire a firm to identify foreign investors
- establish a presidential committee for investments and exports; and
- develop an inter-departmental structure for technical cooperation.

10.48 Finally, the most difficult constraint for the government is that it cannot achieve anything without private sector initiative. Only the private sector can export. The role of the State is to facilitate its task and encourage private investment. There is no recipe that guarantees investor response. We have identified some actions that will increase the probability. The Government needs to strengthen its commitment to a business-friendly environment.

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