**Republic of Burundi / Enhanced Integrated Framework (EIF)**

# Burundi

## Diagnostic Trade Integration Study (DTIS) Update

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### Volume 2 - Annexes

**July 2012**

## Annex 1: Burundi – Evaluation of the implementation of the 2004 DTIS Action Matrix

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | **Implemented activities** | **Ongoing activities** | **Status of the action** |
| ***Macroeconomic framework***<br><br>Objective: Ensure greater macroeconomic stability | | | | | | | |
| Action 1. Elaborate a growth and poverty reduction strategy: complete a full PRSP, including a trade development strategy | High | Ministries of Planning, Finances, Trade and Industry<br><br>PRSP Secretariat / REFES<br><br>Public Private Consultation Committee | As soon as possible in 2004 | Submission of a complete draft; review by the IMF and World Bank Executive Boards | Complete PRSP adopted in September 2006, but actions related to trade development are scattered in this PRSP | PRSPII , finalized and adopted by the Government in early 2012, mentions the objective to develop a National Export Promotion Strategy | Absence of a comprehensive trade development strategy |
| Action 2. Formulation and implementation of appropriate monetary and fiscal policies | High | Ministry of Finances<br><br>Central Bank | Ongoing | Regular consultations with the IMF | Regular consultations have been organized with the IMF, which considers that significant steps have been taken to improve the conduct of monetary and fiscal policy since 2004.[1] | Ongoing consultations with the IMF under the Extended Credit Facility | |
| Action 3. Support the introduction of the VAT, and of strategies to reduce generalized tax exemptions, to improve the collection of other taxes, to broaden the tax base, and to offset the loss of revenue as a result of the COMESA CET. | High | Ministry of Finances<br><br>Ministry of Trade and Industry<br><br>Public Private Consultation Committee | As soon as possible | Regular consultations with the IMF | - VAT in force since 01/07/2009<br><br>- Exemptions were removed, except those granted according to a legal framework or by the Investment Code<br><br>- Significantly improved revenue collection since 2010 | Ongoing reforms in revenue collection and tax policy (completing comprehensive taxpayer registry, implementation of risk-based controls, amending the VAT law, etc.). Authorities' commitment to broaden tax base by | Eliminate VAT on goods not destined for sale<br><br>Eliminate advances on VAT applied to imports during customs clearance |

[1] IMF Country Report No. 11/269 (September 2011)

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| | | | | | under the new revenue authority (OBR)<br><br>- Burundi receives annual compensations from COMESA to offset the loss of revenue since 2009 due to entry in the customs union | streamlining tax exemptions regime.[2] | |
| Action 4. Exchange regime: liberalization of the exchange system; ensure a viable exchange rate | High | Ministry of Finances<br><br>Central Bank | Ongoing | Regular consultations with the IMF<br><br>Monitoring of the spread between official and parallel market exchange rates | Regular consultations have been organized with the IMF<br><br>Exchange rate liberalization measures, resulting in a narrowing of the spread between the official and parallel market exchange rates.[3] | | |
| Action 5. Achieve a sustainable external debt position | High | Ministry of Finances<br><br>Central Bank | Ongoing; linked to the completion of the PRSP | Approval of PRGF financing and approach to Paris Club | Substantial debt relief granted in the framework of the HIPC and MRDI initiatives in 2009, but remaining high risk of debt distress, owing to very low export base.[4] | | |
| Action 6. Strengthen macroeconomic analysis and projections | High | Ministries of Planning, Finance<br><br>PRSP Secretariat | As soon as possible; during one year | Availability of macroeconomic data | Macroeconomic data regularly published by the Ministry of Planning | ISTEEBU to recruit and deploy more staff in different ministries to improve statistical capacity and | |

[2] Cf. IMF Country Report No. 12/28 (February 2012)

[3] IMF Country Report No. 11/269 (September 2011)

[4] Ibid.

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| | | Central Bank | | | Despite recent progress in the production of reliable national accounts, statistical capacity remains weak and the reliability of statistics (national account, government finance, BoP) is limited[5] | increase the breadth of data useful to policymaking[6]<br><br>Continued IMF assistance | |
| Action 7. Strengthen the collection and treatment of data necessary to establish an electronic database | High | ISTEEBU<br><br>Ministries of Planning, Finance and Labor<br><br>Professional and civil society organizations | As soon as possible; during one year | Availability of macroeconomic data | Capacity building program for officials of the Ministries of Planning, Finances and ISTEEBU were organized by the PAGE project and AFRISTAT to establish an electronic database | | |
| ***Trade policy***<br><br>Objective: liberalize the trade system ; remove discriminatory elements ; strengthen government revenue | | | | | | | |
| Action 1. Adoption of the COMESA CET | High | Ministries of Finances, Trade and Industry | 1st quarter 2004 | Imports from COMESA duty free | - Entry in COMESA FTA (01.01.2004) and customs union (06/2009)<br><br>-Entry in EAC and application of FTA tariffs (01.07.2007)<br><br>- Adoption of the EAC CET in the 2009 budget law (31.12.2008) | Ongoing harmonization of EAC, COMESA and SADC programs in the framework of the Tripartite | |
| Action 2. Full | High | Ministries of Finances, | December | Publications of the | New EAC CET tariff | Ongoing | |

[5] IMF Country Report No. 12/28 (February 2012)

[6] Ibid.

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| implementation of the COMESA CET | | Trade and Industry | 2004 | new tariff rates | schedule published in 2007, aligned with COMESA CET ;<br><br>Full implementation of the EAC CET starting 1st July 2009 | harmonization of EAC, COMESA and SADC programs in the framework of the Tripartite | |
| Action 3. Eliminate tariff exemptions on imports | High | Ministries of Finances, Trade and Industry, External Relations | As soon as possible, over a three-month period | Publication of the new duties schedule; publication of a government decree abolishing the exemption system | Tariff exemptions on imports granted only in the following cases:<br><br>- Investment Code revised by law 1/24 of (10/09/2008) and by law 1/23 (09/2009) determining advantages<br><br>- law on Free Zones 1/15 (31/07/2001)<br><br>- Conventions signed with embassies and donors | | |
| Action 4. Eliminate the negative tariff escalation | High | Ministries of Finances, Trade and Industry<br><br>Central Bank | 1st quarter 2004 | Publication of the new tariff schedule | New EAC CET tariff schedule published in 2007 ;<br><br>Full implementation of the EAC CET starting 1st July 2009 | | |
| Action 5. Eliminate export prohibition for cotton and sugar | High | Ministries of Finances, Trade and Industry | Immediately | Publication of relevant texts | - COGERCO exports the whole cotton production since the textile company (COTEBU) closed in 2007<br><br>- Liberalization of sugar | | |

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| | | | | | commercialization by decree n°121/VP2/12 (07/08/2007) | | |
| ***Trade facilitation*** <br><br> Objective: reduce transaction costs for imports and exports, transport, port facilities and customs procedures | | | | | | | |
| Action 1. Preparation of an Action Plan to address all issues related to the transit and movement of consignments to/from Burundi (physical infrastructure, bureaucracy encumbrances, unnecessary paperwork), in collaboration with neighboring countries. | High | Ministries of Finances, Trade and Industry | As soon as possible, over a six-month period | Completion of the Action Plan, with a clear distinction between what Burundi can do alone and what it can do in collaboration with other countries, to address all trade facilitation issues on all corridors and entry ports in Dar es Salam and Mombassa-Mpulungu, as well as ports in Eastern DRC | | Regional trade facilitation programs at the EAC and COMESA levels (transnational roads; joint border posts; NTBs; electronic system for data exchange; harmonization of customs revenue services towards single collection at entry points; cross-border trade facilitation; establishment of a customs guarantee regime, etc.) | Action Plan not prepared |
| Action 2. Establish an integrated customs tariff and design a comprehensive reform program for the customs administration, including the customs valuation system. | High | Ministries of Finances, Trade and Industry | As soon as possible, over a six-month period | Adoption of an integrated customs tariff and of a customs reform program | Law 1/36 of Dec. 31 2008 provides for the implementation of the EAC TEC starting July 1 2009 <br><br> New Customs Code (2007) | | |
| Action 3. Implementation of a comprehensive reform program for the customs administration, including a transaction-based customs valuation system conform to | High | Ministries of Finances, Trade and Industry | As soon as possible, over a six-month period | Program in effect | Customs modernization initiated by the OBR since 2010, but implementation of the new Customs Code still | Ongoing modernization of customs by the OBR. <br><br> Ongoing reform of | |

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | **Implemented activities** | **Ongoing activities** | **Status of the action** |
| multilateral commitments. | | | | | mixed.<br><br>Since 2004 the EAC adopted the customs valuation system based on the WTO agreement on the implementation of Art. VII of GATT 1994, but difficult implementation in Burundi. In Nov. 2010, the EAC Secretariat established a customs valuation manual to enable countries to follow the same valuation procedures | the customs valuation system in the EAC. | |
| Action 4. Reach an agreement with donors on a comprehensive trade facilitation reform program, including an implementation calendar and financing plan | High | Ministries of Finances, Trade and Industry | As soon as possible, over a one-year period | Agreed comprehensive trade facilitation program | A trade and transport facilitation program in East Africa (EAC) was approved by IDA and ADF in Nov. 2006 for 195.5 million Units of Account over a 4-year period.<br>EU regional integration support program (9th and 10th EDF) | EU regional integration support program (9th and 10th EDF) | |
| Action 5. Ensure the electronic exchange of data required for trade facilitation | High | Ministries of Finances, Trade and Industry<br><br>Central bank | As soon as possible, over a one-year period | Présence de connexions établies entre les parties concernées | | Ongoing introduction by EAC revenue authorities of the RADDEX system for electornic data exchange | |
| ***Export Promotion / Diversification*** | | | | | | | |

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| Objective: Increase non-traditional exports through implementation of a national export promotion policy | | | | | | | |
| Action 1. Establish and implement a national export promotion policy | High | Ministries of Finances, Trade and Industry, Planning | As soon as possible, over a one-year period | Preparation and adoption of the enabling legislation and of a new export promotion framework | | | No evolution since 2004 |
| Action 2. Creation of a National Export Promotion Council and an Investment and Export Promotion Agency | High | Ministry of Trade and Industry<br><br>Professional associations, AEB (Association des Employeurs du Burundi)<br><br>Civil society | As soon as possible, over a six-month period | Recruitment of director and staff; provision of sufficient budgetary resources; creation of small unit to oversee external representation | Only an Investment Promotion Agency “API” was created (decree 100/177 of 19/10/2009). This Agency includes an export promotion service, which is not operational yet. | | National export promotion strategy to be elaborated after the DTIS update, and framework to be established |
| Action 3. Provide support to non-traditional exports (cut flowers, fruits and vegetables, essential oils, ethnic products, manufactured products, etc.) | High | Ministries of trade and industry, agriculture, interior, transports, post and telecommunications<br><br>Investment ~~and Export~~ Promotion Agency | As soon as possible, over a one-year period | Establishment and implementation of a system for coordination and supervision, transportation and marketing | EIF Window II projects between 2005-2008 to develop non-traditional exports (essential oils, pvc tube production, flowers, fruits and vegetables), with limited results | | No evolution since 2004 |
| Action 4. Make the duty drawback scheme operational and phase out the Export promotion fund | High | Ministries of Finances, Trade and Industry<br><br>Central Bank | As soon as possible, over a six-month period | Publication of relevant texts | The Export Promotion Fund is not operational anymore due to lack of funds | The duty drawback scheme is functional in theory, but its application remains difficult due to budgetary issues | |
| Action 5. Establish a system for standards, quality control and certification to ensure the quality of products | High | Ministry of Trade and Industry | As soon as possible, over a three-month period | Strengthening of the BBN, provision of laboratory equipment, | New law on standardization and quality assurance (2010). Several capacity building | A capacity building program for audit, certification and accreditation is ongoing with | Still very weak capacity overall, making Burundi’s participation in the EAC standardization |

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| | | BBN<br><br>Professional associations, AEB (Association des Employeurs du Burundi) | | Organization of a metrology system<br><br>Establishment of an operational certification system<br><br>Effective presence of advisors and qualified auditors<br><br>Strengthening of the BBN documentation center | programs for BBN(training, acquisition of laboratory equipment) | support from CIR and UNIDO<br><br>Ambitious recruitment plans by BBN | agenda difficult. |
| Action 6. Creation of a one-stop-shop for trade | High | Ministries of trade and industry, finances, transports, post and telecommunications, API ~~CCIB~~ | As soon as possible, over a six-month period | Reduction of cost and simplification of administrative procedures | Creation of the Investment Promotion Agency (API), with export promotion service (not operational yet) | API~~The Agency~~ envisages the creation of a one-stop-shop | |
| ***Market Access***<br><br>Objective: increase non-traditional exports | | | | | | | |
| Action 1. Establish an Action Plan and strengthen firms' capacities | High | Ministries of Trade, Transports, Finances, Planning<br><br>Federal Chamber of commerce~~-~~, AEB (Association des Employeurs du Burundi) and industrial association~~s~~ (AIB) | As soon as possible, over a six-month period | Action Plan specifying the necessary actions at the level of firms (human resources, capital improvement, rationalization, etc.)<br><br>Support for the rehabilitation of the essential oils sector must be primordial | A significant support was provided to RUGOGARM for the production of patchouli oils with Integrated Framework funds (US$300,300), but the project has not managed to produce enough to export yet | | Action Plan not elaborated yet |

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| Action 2. Identify clearly the sectors with a strong potential for vertical and horizontal diversification | High | Ministry of Trade | As soon as possible | Identification of high-potential sectors and evaluation of related constraints and difficulties | | | No identification of sectors with a high potential for diversification carried out |
| Action 3. Provide support to the industry | High | Ministries of Trade, Finances | As soon as possible | Strengthening of specific firms | Support provided by UNIDO to some businesses for quality control of food products | Assistance to strengthen compliance with SPS in certain exporting firms is planned | Overall, support to industrial firms was insufficient |
| Action 4. Technical evaluation at the micro and macro levels, of the constraints concerning the participation to the free trade area and the common external tariff | High | Ministries of Trade, Finances, Planning | As soon as possible, over a three-month period | Comprehensive evaluation of the FTA and CET constraints ; Implementation of accompanying measures.<br><br>Analysis of market access issues | Partial assessments were carried out, notably the evaluation of revenue loss followed by compensation by COMESA | | A complete evaluation still has to be done |
| Action 5. Evaluate the preferences granted to Burundi in the framework of international conventions and agreements | Medium | Ministries of Trade and Industry, External Relations and Cooperation | 6 months | Preparation of a document listing preferences, analyzing their utilization rates and proposing ways to improve the utilization of existing preferences | | | The evaluation has not been done |
| Action 6. Prepare and start implementing and Action Plan aiming at solving market access issues in regional and developed countries | Medium | Ministries of Trade and Industry, Transports, Posts and Telecommunication | 6 months | Clear identification of the measures to be taken to enable Burundi to benefit from existing preferences (AGOA, EBA, | | | The Action Plan has not been prepared yet |

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| | | | | etc.), and of the measures to implement at the regional level.<br><br>Agreement on the plan and its initial implementation | | | |
| ***Regulatory Environment for Investments***<br><br>Objective: Attract both local and foreign investment by revision of the entire macro business framework to ensure simplicity, automaticity and streamlined procedures | | | | | | | |
| Action 1. Modernize and harmonize the existing codes to ensure consistency across codes and with COMESA and WTO agreements. | High | Ministries of Trade and industry, Finances, Planning and Reconstruction, External affairs and cooperation, Labor, Justice, Environment<br><br>Professional associations and civil society | As soon as possible, over a 1-year period | Completion of relevant codes<br><br>Setting of a timeframe for the training of national officials | All the codes were update to conform to Burundi's obligations<br><br>Revised Investment Code in force since 2009, deemed favorable to foreign investors | | Improvements are still needed to take into account entry in the EAC<br><br>Some codes still need application texts |
| Action 2. Assess the strengths and weaknesses of Business law in order to modernize it | Medium | Ministries of Trade, Justice<br><br>Professional associations and civil society | As soon as possible, over a 1-year period | Action Plan for the strengthening of business law | New Commercial code (2010), Code of Private and Public-Participation Companies (2011) | | The evaluation has not been done |
| Action 3. Update the legislation on competition and bankruptcy | Medium | Ministries of Trade, Justice<br><br>Professional associations and civil society | 1 year | Elaborate and pass texts | Law 1/07 of 15/03/2006 on bankruptcy<br><br>Law 1/08 of 15/03/2006 on firms in difficulty<br><br>Law 1/06 of 25/03/2010 on competition | Writing the regulations (decrets d' application) for bankruptcy legislation | |
| Action 4. Elaborate a law on commercial arbitration | High | Ministries of Trade, | As soon as possible, | Elaborate and pass texts | Approval of the Burundian arbitration | | The Action Plan has |

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| | | Justice<br><br>Commercial Court of Bujumbura | over a six-month period | | centre (Centre Burundais d'Arbitrage et de Conciliation) (OM 530/2181 of 21/12/2004) | | not been prepared yet<br><br>Need to revise article of the Civil Code related to commercial arbitration<br><br>Burundi's adhesion to New York Convention on International Arbitration is required |
| ***Capacity Building in the Ministry of Trade and Industry***<br><br>Objective: Enhance the ministry of trade capacity to coordinate, implement and monitor progress on envisaged policy reforms | | | | | | | |
| Action 1. Reorganize the structure of the ministry to enhance its capacity to elaborate and implement the trade policy; Train personnel, buy essential equipments and vehicles | High | Ministries of Trade, Justice | As soon as possible, over a 1-year period | Preparation of a restructuring plan for the ministry ; implementation of the plan, timeframe for the training of personnel ; preparation of a detailed inventory of necessary equipment and vehicles | Sufficient computer equipment provided by PAGE project in 2011 | Management continue to benefit from training in the framework of the WTO | There is no precise capacity-building program<br><br>The Ministry of Trade and Industry is still largely unequipped<br><br>Still limited capacity and resources of the Ministry of Trade, as well as of the new Ministry of EAC Affairs |
| Action 2. Strengthening the Ministry of Trade and Industry, and the institutions dedicated to promoting trade | High | Ministries of Trade, Planning and relevant institutions | As soon as possible, over a 1-year period | Institutions strengthened | | | The detailed needs of the Ministry of Trade and Industry have not been identified |
| ***Sectors with High Potential: Coffee Sector***<br><br>Objective: Rehabilitate the sector, liberalize prices and commercialization, introduce modern risk management tools, and privatize production | | | | | | | |
| Action 1. Increase production and rehabilitate processing/transformation | High | Ministries of Agriculture, Trade and | 2004 and 2005 | Action Plan for the rehabilitation of | A reform of the coffee sector is ongoing, based on privatization and | | Limited achievements so far . Overall the production equipment |

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| capacity | | industry, Finances<br><br>European Union, World Bank and other donors | | production capacity<br><br>Annual production 30,000t<br><br>Improved storage facilities | quality improvement | | is outdated and coffee trees are ageing, resulting to highly fluctuating yield |
| Action 2. Draft legislation on bankruptcy law and realization of collateral against which credits are advanced. | High | Ministries of Finances, Trade and Industry<br><br>Donors | First quarter 2004 | Preparation of enabling legislation<br><br>Link between price risk management and credit risk | Law 1/07 of 15/03/2006 on bankruptcy | Writing of the regulations (decrets d'application) for bankruptcy legislation | |
| Action 3. Set up regulatory and financial environment enabling coffee sector access to price protection on international markets | High | Ministries of Finances, Trade and Industry<br><br>Coffee exporters association | In 2004 during a 1-year period, in coordination with Actions 1 and 2 above | Preparation of enabling legislation establishing modern risk management instruments<br><br>Visits in Tanzania and Uganda, where pilot experiments on risk management where implemented with small coffee cooperatives<br><br>Contacts with risk management instruments providers (commodities division in international banks, international | A reform of the coffee sector is ongoing, based on privatization and quality improvement<br><br>This reform will enable Burundi to enter more lucrative niche markets | | No trips to study risk management in Tanzania and Uganda have been organized |

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| | | | | traders)<br><br>Development of a staff training program on modern risk management instruments | | | |
| Action 4. Improve quality, grading and quality control of Burundi's coffee | High | Ministry of agriculture<br><br>OCIBU<br><br>BBN | As soon as possible, over a 3-year period | Development of a training program for national testers | | Program included in the ongoing State divestiture process from the coffee sector | |
| Action 5. Create effective coffee promotion capacity; create niches; facilitate entry into specialty markets | Medium | Ministry of Agriculture<br><br>Coffee exporters association (ABEC)<br><br>Investment and Export Promotion Agency (APIE) | As soon as possible | ABEC and APIE to take on coffee public relations representations, especially in Japan and the USA. | Foreign investors have already acquired and modernized a limited number of coffee washing stations to produce high-quality coffee for niche markets | | No trips to study risk management in Tanzania and Uganda have been organized |
| Action 6. Establish and maintain effective research and extension capacity | Medium | Ministry of Agriculture | Ongoing process to be accelerated and completed over a three-year period | Preparation of a program with an appropriate timeframe | | Ongoing restructuring of the coffee sector, including research and extension capacity | |
| Action 7. Privatization of washing stations, coffee mills, and transport, to increase the level of production price relative to international prices | Medium | Ministries of Agriculture, Finances | Ongoing process to be accelerated and completed | Preparation of a program with an appropriate timeframe and initial implementation | Ongoing restructuring of the coffee sector, including privatization of washing stations.<br><br>Limited success of the | | Coffee mills are hard to privatize because they are expensive and outdated |

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| | | | over a three-year period | | first phase of privatization (2009), second phase launched in 2012 | | |
| Action 8. Liberalization of coffee commercialization and export, to increase the level of production price relative to international prices | Medium | Ministries of Agriculture, Finances | Ongoing process that can be completed over a three-year period | Preparation of a program with an appropriate timeframe and initial implementation | Ongoing restructuring of the coffee sector, including liberalization of commercialization | | |
| Action 9. Support coffee producers associations, and negotiations in the sector, to increase the level of production price relative to international prices | High | Ministries of Agriculture, Interior, Good governance<br><br>Chamber of commerce | As soon as possible, over a 3-year period | Creation of associations. Establishment of a communication / information system to follow the level of production price relative to international prices<br><br>Following the yield of the created associations | Producer associations already created | | A communication / information system to follow the level of production price relative to international prices remains to be established<br><br>System to follow the yield of associations remains to be established |
| ***Sectors with High Potential: Tea Sector***<br><br>Objective: Reform of production and commercialization | | | | | | | |
| Action 1. Rehabilitate the dilapidated production capacity in the tea sector | High | Ministry of Agriculture<br><br>OTB | As soon as possible, over a 1-year period | Effective rehabilitation of production capacity | Production facilities in the tea sector were rehabilitated in 2009/2010 | | |
| Action 2. Liberalize and privatize the tea sector, which is still entirely under Government control | Medium | Ministries of Agriculture, Finances, Good governance | As soon as possible, over a 2-year period | Full liberalization and private ownership | A private tea factory started operating in 2011 and producers were authorized to sell where and to whom it is the most interesting for them | | The rehabilitation of production facilities was deemed necessary prior to full liberalization of the tea sector |
| Action 3. Improve tea quality | Medium | APIE, OTB | As soon as possible, | Establishment of a quality | | Planned UNIDO-CIR capacity- | |

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| | | | over a 2-year period | management/control system | | building program on SPS compliance for exporting | |
| Action 4. Support tea producers associations | High | Ministries of Agriculture, Interior<br><br>OTB, CCIB | As soon as possible, over a 1-year period | Creation of a number of associations<br><br>Existence and performance of well-organized associations | | | No action undertaken to create producer associations |
| ***Sectors with High Potential: Cotton Sector***<br><br>Objective: Reform of production and commercialization | | | | | | | |
| Action 1. Prepare reform of the sector which is still entirely under Government control | Medium | Ministries of Agriculture, Finances | Two years | Full privatization | Privatization of the management of the textile company Complexe Textile de Bujumbura (COTEBU) | | No other action undertaken to privatize the sector |
| Action 2. Implement the agreed changes, learning form experience in other parts of the continent | Medium | Ministries of Agriculture, Trade and Industry | Two years | Full privatization | | | No action undertaken to find models for the privatization of the sector |
| Action 3. Support tea producers associations, organize the sector | Medium | Ministries of Trade and Industry, Justice | As soon as possible, over a 1-year period | Creation and effective functioning of well-organized associations.<br><br>Number of associations | | | No action undertaken to create cotton producers associations |
| ***Implementation of WTO Agreements***<br><br>Objective: Ensure compliance with WTO Agreements, enhance capacity, and improve understanding of international agreements | | | | | | | |
| Action 1. Undertake detailed inventory of existing legislation, notably to extend tariff | Medium | Ministries of Trade and Industry, Justice, External Relations and | As soon as possible, over a 3-month | Completion of inventory highlighting existing gaps | | Ongoing exercise in the framework of the COMESA, particularly | No detailed inventory realized concerning WTO obligations. |

| Proposed measures | Priority | Responsible institution and body | Proposed timeframe | Monitoring indicators | Results | | |
|---|---|---|---|---|---|---|---|
| | | | | | Implemented activities | Ongoing activities | Status of the action |
| consolidation, reduce the gap between bound and applied tariffs, apply the WTO system for customs valuation, and establish standards | | Cooperation, Finances<br><br>CCIB | period | | | concerning trade in services | |
| Action 2. Prepare an Action Plan and timeframe for compliance with WTO agreements | Medium | Ministries of Trade and Industry, Justice, External Relations and Cooperation, Finances<br><br>CCIB | As soon as possible, over a 3-month period | Completion of Action Plan and timeframe | | | Action Plan not prepared yet |
| Action 3. Compliance with WTO agreements | Medium | Ministries of Trade and Industry, Justice, External Relations and Cooperation, Finances | As soon as possible, over a 3-month period | Compliance with WTO agreements. Priority measures in the short run can include measures to extend tariff consolidation, reduce the gap between bound and applied tariffs, apply the WTO system for customs valuation, and establish standards. | | | Actions to be undertaken |
| Action 4. Train staff and increase awareness on WTO agreements and related issues in institutions, professional associations and civil society | Medium | Ministries of Trade and Industry, Justice, External Relations and Cooperation, Finances<br><br>CCIB | As soon as possible, over a 3-month period | Training program completed by staff<br><br>Creation of relevant institutions | Training was provided and workshops on WTO matters were organized | Continuing education on WTO matters | |

## Annex 2: Burundi's trade statistics

### Reliability of trade statistics and use of mirror data

A country's trade statistics can hardly give a perfect description of its trade flows. This is because the accuracy of the picture given by the official data reported in databases is reduced by errors, omissions and non-reporting, but also often by the existence of large smuggling and/or informal flows. Moreover, while the availability of data on trade in goods is generally good, far less data on trade in services is available. For these reasons, trade statistics cannot be the only source used in the analysis of a country's trade performances, but they remain a useful resource to indicate orders of magnitude and assess trends and patterns over time. It is however important to ensure that every effort is made to improve the quality of the data[7].

It is usually assumed that the export data reported by a country are less accurate than the corresponding mirror data, i.e. the import data reported by their partners for the same flows. This is because import data are often used for the calculation of import duties, which can imply greater diligence and regularity involved in their record-keeping. Mirror data are also likely to be more reliable when the exports from a developing country like Burundi are estimated using mirror data from more developed partners where administrative capacities and the customs system are stronger. The use of mirror data is therefore often recommended to analyze exports, even if this kind of data also has shortcomings[8].

### Main issues with the data reported by Burundi in Comtrade

In many cases, Burundi reports much larger export values than the corresponding import values reported by its main partners (whereas mirror data are usually supposed to be around 10 % higher than regular data due to fob/cif differences[9]) (table 1).

**Table 1: comparison between regular and mirror data for Burundi's exports to its main partners**

| *(USD thousands)* | 2010 | | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|---|---|
| | Regular | Mirror | Regular | Mirror | Regular | Mirror | Regular | Mirror |
| Belgium | 15,364 | 4,308 | 6,292 | 10,180 | 8,598 | 2,981 | 3,803 | 5,724 |
| DRC | 7,269 | n/a | 7,039 | n/a | 5,921 | n/a | 14,690 | n/a |
| Germany | 2,464 | 23,107 | 8,408 | 24,510 | 5,659 | 14,062 | 3,514 | 31,277 |
| Kenya | 10,285 | 1,826 | 7,268 | 1,200 | 7,559 | 1,129 | 11,225 | 2,269 |
| Rwanda | 3,021 | n/a | 4,732 | 3,334 | 4,462 | 3,547 | 10,385 | 2,051 |
| Singapore | 7,242 | n/a | 2,458 | n/a | 1,596 | n/a | 533 | n/a |
| Switzerland | 31,815 | 462 | 20,666 | 1,508 | 21,736 | 694 | 17,042 | 750 |
| Tanzania | 1,755 | 608 | 9,478 | 311 | 2,152 | 429 | 1,954 | 21 |

[7] On these issues, see for example the International Trade Center's guide on trade statistics consistency issues (http://legacy.intracen.org/appli1/TradeCom/Documents/TradeCompMap-Consistency%20of%20Trade%20Statistics-UserGuide-EN.pdf)

[8] For example, mirror data do not measure trade flows with non-reporting partners (like the DRC, which does not report data in Comtrade). These methods also rely on the quality of the data reported by importing countries, which may be low for some African partner of Burundi and undermine the quality of the analysis of regional trade.

[9] Free on board (i.e. excluding insurance and freight costs) / Cost including insurance and freight.

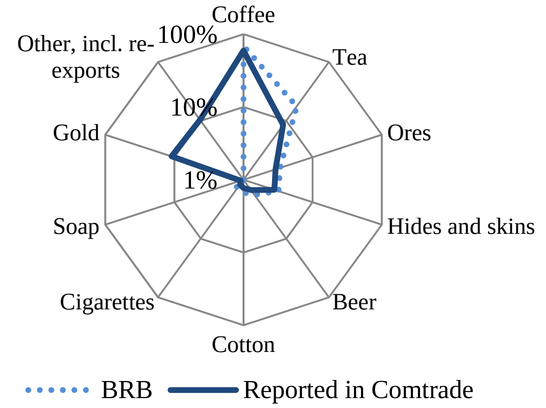
| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Uganda | 2,879 | 1,087 | 6,439 | 426 | 3,049 | 909 | 3,682 | 774 |
| United Arab Emirates | 10,451 | 13,710 | 28,903 | 118 | 61,750 | 16,075 | 53,418 | 18,048 |
| United Kingdom | 15,793 | 76 | 559 | 299 | 175 | 282 | 7,650 | 206 |
| **Sum** | **108,338** | **43,358** | **102,242** | **41,886** | **122,657** | **40,108** | **127,896** | **61,120** |

Source: Comtrade/WITS

Part of the problem appears to be caused by the limited reliability of Burundian external sector statistics, which suffer from a "high degree of uncertainty" due to "severe coverage and measurement difficulties" (IMF 2012). Concerning trade, one issue is the inclusion of re-exports in export figures (e.g. re-exports of machinery and vehicles to EAC partners). Notably, the difference between the data reported by Burundi and the United Arab Emirates seems to correspond to the large gold exports that Burundi reports, which are actually re-exports coming from the DRC (Global Witness 2009).

In this regard, the export data reported by Burundi in Comtrade significantly differ from similar data published by the central bank (BRB) on its website[10], because the later seems to exclude gold and various re-exports (machinery, vehicles, petroleum oil, etc.) (figure 1). There would therefore be a need to distinguish between exports and re-exports but, like for many other countries, no such data is currently reported by Burundi in Comtrade. Another inconsistency is the 2010 value of tea exports, estimated at around USD 18 million in the BRB data, but only at USD 10 million in Comtrade.

**Figure 1: difference between BRB and Comtrade export data (2010, logarithmic scale)**

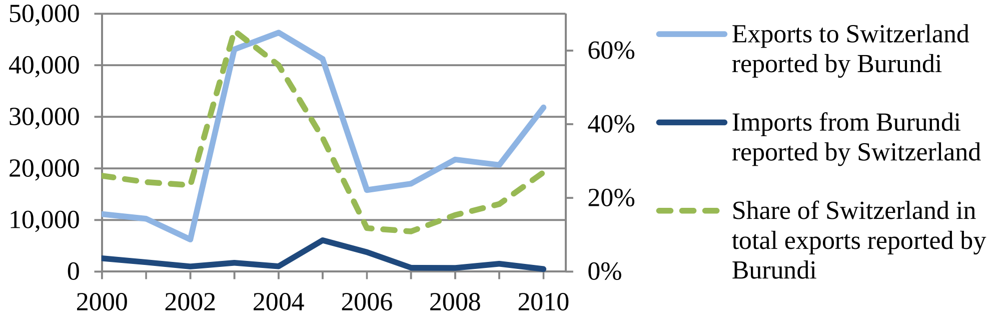



Source: BRB, Comtrade/WITS (HS rev. 2)

Another country for which major differences exist between regular and mirror data is Switzerland (figure 2). Between 2007 and 2010, Burundi reported USD 23 million of annual exports to Switzerland on average (almost entirely coffee), while Switzerland reported less than USD 1 million on average during the same period. This has to do with the fact that many international coffee buyers are based in Switzerland: the coffee bought by these buyers, but destined for other international markets, appears to be recorded in the Burundian data as exports to Switzerland, even though only a small fraction actually ends up in this country. Improving on this issue might however be difficult if the Burundian exporters and customs agents are not aware of the final destination of the coffee exported.

[10] www.brb.bi/se/docs/bulmens/iv8.pdf

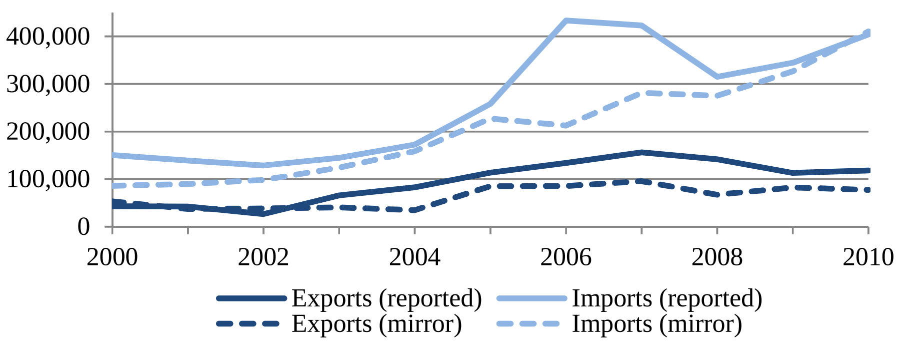
**Figure 2: Burundi's exports to Switzerland (USD thousands and %)**




Source: Comtrade/WITS

It therefore seems safer to use mirror data to assess Burundi's export performances, which is the solution used in the DTIS update as specified in graphs and tables. In this regard, it is reassuring to see that the correlation between the data declared by Burundi in Comtrade and the corresponding mirror data is good for most years when aggregate figures are considered for exports and imports (figure 3). Given what precedes however (e.g. case of Switzerland), the mirror data is likely to give a better view of the real destination of products.

**Figure 3: difference between reported and mirror data for Burundi (USD thousands)**




Source: Comtrade/WITS, HS

Concerning imports, one puzzling aspect of the data available in Comtrade for Burundi is the underreporting of oil imports in recent years. This concerns both the oil imports reported by Burundi and the oil exports reported by partner countries.

Overall, the issues described above suggest that improvement on the way transactions are declared and recorded could increase the accuracy of Burundian trade data, which in turn would provide a more accurate basis for the elaboration of Burundi's trade policy. The fact that the recently created OBR has been in charge of customs since 2010, and has so far been credited with an improvement of the quality of customs transactions recording, is in this regard a promising development.

Finally, the authorities could request technical assistance to start collecting specific types of trade data that could be of specific interest for Burundi:

- given the current focus on regional trade flows and the importance of informal trade (notably for the poor), it would be beneficial to have more information on these flows, including estimates of their volumes, and information on the type of goods and services exported/imported, the regions involved, etc. Burundi could learn from neighbors' experience on this subject. For example, Ugandan authorities have conducted several annual surveys since 2007 to evaluate the extent and key characteristics of informal cross-border trade and its evolution over time. Likewise, Rwanda has collected similar data in 2009/2010.[11]

- in addition to the national statistics currently available, firm-level data should be collected to enhance the understanding of the micro foundations of export dynamics and of the challenges faced by Burundian exporters, especially concerning their entry and survival in export markets. Burundi could for example participate in the World Bank's new Exporter Dynamics Database[12], which is based on data obtained directly from customs agencies, and already covers over a dozen African countries (including Kenya, Tanzania and Uganda).

[11] See the boxes of informal cross-border trade in the Great Lakes region in the DTIS update Chapters 1 and 3. For a list of similar data collection initiatives undertaken in Africa, see: Lesser, Caroline & Evdokia Moisé-Leeman. 2009. Informal Cross-border Trade and Trade Facilitation Reform in Sub-Saharan Africa. OECD Trade Policy Working Paper 86. Paris: OECD. Accessible at www.oecd.org/dataoecd/24/6/42222094.pdf.

[12] This database notably includes data on basic characteristics of exporters (number, size and growth), their concentration and degree of diversification in products and markets, their dynamics in terms of entry, exit and survival, and the average unit prices of the products they trade. See http://econ.worldbank.org/exporter-dynamics-database

## Annex 3: The evolving coffee sector in Burundi: completing on-going reforms and upgrading the quality of coffee exports

### 1. Introduction

**The coffee sector has historically been the backbone of the Burundian economy, but has suffered from a declining performance in recent years.** Coffee represents a crucial source of income for hundreds of thousands of rural households and remains the country's main export product. However, the sector has performed well below its potential in both quantitative and qualitative terms, prompting the authorities to re-launch in 2005 a reform process initiated just before the civil conflict.

**Despite the clear momentum for reform in the coffee sector, progress has been limited so far.** Over the course of the last decade, numerous studies have been conducted to identify the constraints to the development of the coffee sector. These different reports have established comparable diagnostics and proposed similar recommendations to strengthen the sector and increase exports. Moreover, the authorities have shown commitment to the reforms, and donors have provided ample technical and financial support. It is therefore puzzling that improvements in the performance of the coffee sector are rather modest. This suggests that in addition to targeted liberalization and privatization measures, reforms need to take into account the whole set of constraints currently hampering the development of the coffee sector, including Burundi's limited institutional capacity, weak financial sector, or high transport costs, as well as the political economy resistances slowing down reforms.

**Rather than adding a new study to the existing ones, this chapter takes stock of the available information on the Burundian coffee sector.** It presents the sector and its reform, synthesizes the main recommendations, and analyzes the current opportunities for and obstacles to the modernization of the sector. The review will put a special emphasis on Burundi's potential to export specialty coffee, including concrete recommendations and examples based on other countries' successful experience with product differentiation and marketing strategies for exports of specialty coffee.

### 2. Presentation of the coffee sector

**Historically, the State has been heavily involved in the coffee sector in Burundi.** The cultivation of *Arabica* coffee was forcefully introduced and developed by the colonial authorities starting in the 1930s. During the colonial period, it progressively became an important source of revenue for the State and for rural populations, as well as the center of a complex web of political, economic and social relations between the authorities, local elites and coffee-growers (Cochet and Ndarishikanye 2000; Hatungimana 2008). After the independence, the postcolonial State continued to support the development of coffee as Burundi's main cash crop, as the ruling elite extracted increasing amounts of rents from its production and commercialization (Sumit Oketch and Polzer 2002; World Bank 2008c). While the sector was for the most part privately-owned since the independence (the State intervening mainly in research, agricultural extension and price setting), coffee processing facilities were privatized in 1976, and the organization of production, processing and exports was placed under the responsibility of a public authority, the OCIBU[13]. A massive increase of the planting area was encouraged by the State between 1980 and 1993[14]. During the same period, 133 coffee washing stations[15] were built with support

[13] *Office des Cultures Industrielles du Burundi*

[14] The area under coffee grew from 40,000 hectares to over 85,000 hectares, and the number of coffee trees planted, largely through coercion, increased from 90 million to 220 million (World Bank 2008).

from the World Bank to develop the production of fully-washed coffee. However, production did not increase in the same proportions and declined severely thereafter. A liberalization and privatization process was initiated in 1991, but was brought to a halt by the civil war. With the stabilization of peace and the return of donors, the liberalization process was recently re-launched by the authorities, after years of declining production and exports.

**The coffee sector is still dominant in the Burundian economy.** In recent years, on average, coffee has represented between 60 and 80 percent of export revenues, and around 3 percent of GDP. Moreover, contrary to some countries where large producers account for most of the production, in Burundi coffee is grown by an estimated 600,000 to 800,000 rural households (out of a total of 1.2 million), for which it constitutes an important source of income. The different coffee processing activities along the value chain are also significant sources of employment and income in Burundi. This highlights the potential impact of a successful reform of the sector on export performances and poverty reduction.

**Despite on-going reforms, yields and production of coffee have continued to decline (Figure 1).** Production decreased rapidly in the 1990s, partly due to the perturbation of agricultural activities caused by the conflict and the 1996-1999 embargo. The ineffective organization of the industry and authoritarian approach adopted by the authorities to expand production, which provided poor incentives to farmers and led to inefficient decisions (e.g. planting on soils deemed inappropriate for coffee), have also been blamed for the dramatic decrease in yield (World Bank 2008c). Furthermore, this trend seems to have been amplified by the production techniques that were rigidly imposed by the authorities on coffee growers, in order to intensify production and tighten control (e.g. ban of intercropping with food crops[16], compulsory integral mulching even where sufficient resources were lacking) (Cochet and Ndarishikanye 2000). Production levels have not recovered since then: in crop year 2010/2011 (an "on year" in the biennial production cycle), production reached 21 thousand tons, half of the record 41 thousand tons produced in 1994/1995, but also below the levels reached during the 1950s and 1960s[17]. Moreover, coffee production has been characterized by a high volatility in the 2000s: expressed in thousands of 60 kilo bags, it went from 499, to 133, to 412, to 112, to 347 in crop years 2006/07 to 2010/11[18]. This phenomenon, amplified by the diminishing fertility of soils and ageing of Burundian coffee trees but also found in some other countries[19], has a strong impact on export earnings and farmers' income. Moreover, it also affects buyers' perceptions of the reliability of Burundi as a supplier.

[15] CWSs are "wet processing" facilities, the first step of transformation of ripe cherries harvested from coffee trees. Through this multi-step process, the skin and mucilaginous substance surrounding coffee beans are removed to produce fully-washed *parchment coffee*. "Fully-washed" coffee (i.e. processed in CWSs) is dominant in Burundi since the 1990s, even if some farmers still choose to do manual washing on the farm, resulting in "washed" Arabica.

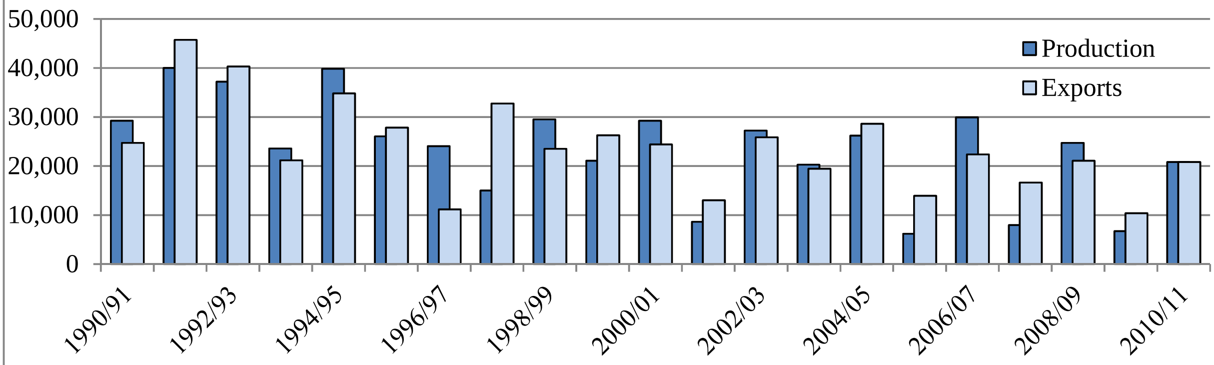
[16] Mixed farming of coffee trees intercropped with subsistence crop, such as bananas or beans, is *de facto* practiced throughout the country. Developing polyculture has been recommended to provide additional sources of income/consumption, mitigate land degradation and erosion, and protect biodiversity (World Bank 2011a).

[17] Source: World Bank (2011a).

[18] Source: International Coffee Organization (ICO)

[19] Cf. ISABU-OCIBU (2009) for a study on the causes of this cyclical production pattern in Burundi. See also the ICO's study on the subject, which notably emphasizes the biennial production cycle of Arabica coffee in Brazil and identifies potential causes (ICO 2010).

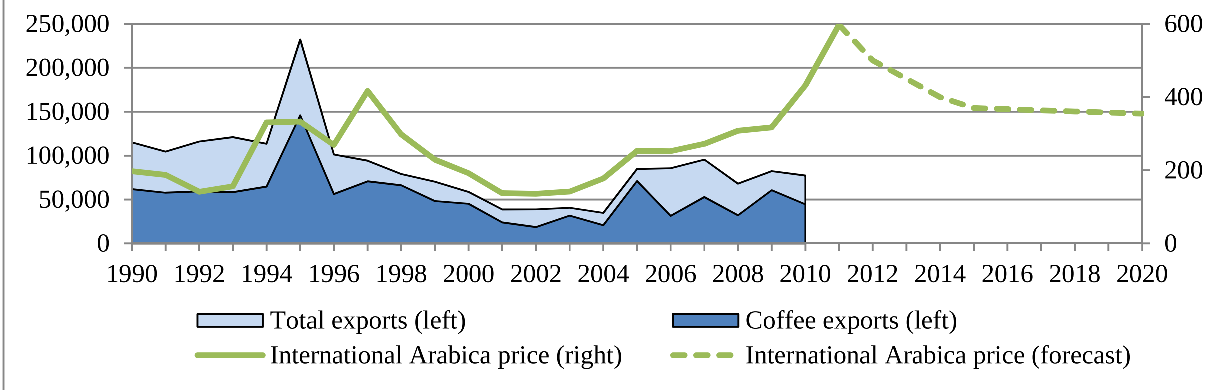
**Figure 1: Burundi's coffee production and exports (crop years)**




Source: International Coffee Organization

**Although they have been decreasing in volume, Burundi's coffee exports have benefited from booming international prices in recent years.** Following the decline of production, coffee exports in tons have been on a downward trend since the 1990s (Figure 1). They have, however, increased in value since 2002, thanks to the strong increase of the international price for Arabica coffee during the last decade. This price reached in 2011 its highest nominal level at almost \$6.00/kg reflecting tight supply conditions, especially from Brazil, the world's dominant Arabica supplier (World Bank 2012f). Current forecasts suggest that Burundi will not be able to rely on this trend in the coming years, as the price for Arabica is expected to steadily decline to around \$3.55/kg by 2020 (Figure 2)[20]. In fact, Arabica coffee futures have already registered a 20 percent fall and were hovering around a 17-month low in the first quarter of 2012[21]. Arabica prices dropped 10 percent in March 2012 alone, principally due to a good crop in Brazil (World Bank 2012g). However, buoyant demand and low stocks in consuming markets, as well as prospects for poor harvests in other large producing countries like Colombia, suggest that the market could remain tight in the near future and mitigate the forecasted decline in prices[22].

**Figure 2: Burundi's coffee exports in value (calendar years)**




Source: Comtrade/WITS (mirror export data); World Bank DEC/Prospects Group

[20] Source: World Bank DEC Prospects Groups, Commodity Price Forecast (January 2012). Accessible at: www.worldbank.org/prospects

[21] http://af.reuters.com/article/commoditiesNews/idAFL6E8F21SI20120402

[22] http://www.reuters.com/article/2012/03/21/us-coffee-supply-idUSBRE82K12Q20120321 ; ICO (2012)

## 3. The difficult reform of the sector[23]

**A first attempt at liberalizing and privatizing the sector in 1991/92 resulted in a partial reorganization of the coffee industry and failed to improve its performance.** Measures aiming at enhancing incentives and the quality of coffee did not have the expected results. For example, the setting of a minimum guaranteed price for producers was intended to stimulate production, but producer prices remained among the lowest in the world (and producers did not benefit from the booming prices in the mid-1990s). More generally, farmers were largely left out during the first phase of the reform. The partial restructuration left a predominant role to the State in the organization of the industrial process from cherry to green coffee, but allowed the entry of private companies:

- Five SOGESTALs[24] were created in 1991 to manage the 133 coffee washing stations (CWS) spread across the country. This innovation has been credited with an improved management of CWSs compared to centralized OCIBU control. Some new private CWS were also built.

- The end of SODECO's[25] monopoly on coffee curing[26] in 1995 led to the establishment of two private companies (SONICOFF and SIVCA). These companies built one dry mill each and only developed curing capacity of 10,000 tons, versus 60,000 tons for SODECO. Moreover, the state's monopoly and quotas on coffee curing were only banned in 2002, thus allowing the two private curing factories to process fully washed coffee. In total, established curing capacities are well above current production levels.

- The deregulation of roasting led to the establishment of two private roasting factories, alongside the OCIBU which previously had the monopoly for this activity.

- The OCIBU became a mixed public-private company owned by the State, SOGESTALs and SODECO, the banking and insurance sector, the scientific research institute ISABU and (with 14% of shares) coffee growers.

- While the State previously had a monopoly on marketing and exports through the BCC[27], an auction system to private exporters was introduced (under OCIBU control) to foster transparent and efficient sales practices. It is deemed to have encouraged collusion instead, due to the limited number of licensed bidders belonging to the exporters' association ABEC[28]. Licenses were in theory attributed to actors with reasonable counterpart risk, but reportedly tended to be given to members of the ruling elites.

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[23] This section notably draws from International Alert (2007) and World Bank (2008; 2011a).

[24] *Société de Gestion des Stations de Lavage*, public-private companies set up as joint ventures in which the State maintained a large ownership.

[25] *Société de Déparchage et Conditionnement de Café*, a public-private company with two curing factories (previously wholly public). The State owns 82% of shares, the rest being owned by the SOGESTALs and private operators. One SODECO factory was sold in early 2012 (cf. below).

[26] After wet processing, the coffee beans are still separately covered by thin membranes, called silverskins, and parchment-like shells. Curing is the process of removing this parchment and silverskin to produce green coffee, which is the internationally traded commodity, before the roasting process. Additional steps are also carried out in dry mills (sorting, removal of defective beans, grading by size, polishing, and packaging).

[27] *Burundi Coffee Company*

[28] *Association Burundaise des Exportateurs de Café*

Finally, in addition to its share in the various management structures created, the State (through OCIBU's Department of State Property) remained the sole owner of all industrial assets (premises, factories, equipments, etc.) after the first phase of the reform. For example, SOGESTALs only rented public-owned CWSs. Overall, the maintained weight of the State limited the arrival of private actors, and thus did not foster the competition and investments which could have improved sector performances. Moreover, OCIBU was the owner of coffee after its delivery to the SOGESTALs, and both SOGESTALs and the SODECO were paid fixed fees for their services, coffee prices being pan-seasonal and pan-territorial. This ineffective pricing mechanism to share coffee revenue did not give the actors of the value chain proper incentives to increase volume and enhance quality.

**The reforms, which stalled between 1994 and the early 2000s, have progressively resumed in the recent period.** In addition to the declining production, the coffee industry had to face the weak financial situation of companies in the sector, and their impact on public finances - the State was regularly forced to finance companies in which it owned large shares (Republic of Burundi / PAGE 2008). Presidential and ministerial decrees were adopted in 2005 to i) open access at all levels of the sector to private operators, i.e. full *de jure* deregulation of the sector; ii) limit OCIBU's role to that of a coordination and regulation agency; iii) deregulate prices throughout the sector and authorize direct sale; and iv) abolish the orchard tax imposed on producers by OCIBU. Despite this liberalization on paper, corresponding changes concerning the organization and property of the industry were not implemented in practice. OCIBU maintained a *de facto* control over the sector after 2005, notably through the setting of producer prices, persistence of regulations on curing, and dominance of the auction system over direct sales from producers to foreign buyers, despite strong the appetite shown by specialty coffee roasters[29]. Continued pressure by donors and negotiations between the actors involved in the sector eventually pushed the OCIBU to announce full deregulation of the sector in 2006. This shifted the debate towards the different options for privatizing the various institutions and facilities, particularly CWSs. In 2006, a Coffee Reform Committee was established to pilot the preparation of privatizations.

**The role of coffee growers and their incentives to implement the reforms were not adequately addressed.** Farmers were largely disenfranchised from the coffee sector in which they shared no ownership, they continued to receive low prices set by the OCIBU for their cherries, and faced limited access to extension services. Despite possessing one of the best varieties of coffee in East Africa, Burundi has experienced the lowest producer prices on the continent. Artificially low prices and difficulties with higher-paying, direct-sales contracts have deterred farmers from investing in their trees or in fertilizers, mulch, and other inputs to improve production. Indeed, many farmers abandoned their coffee trees and some even pulled them out (despite the legal prohibition to do so) and replaced them with other crops, mostly food crops deemed more desirable and needed.

**The latest phase of the reform, initiated in late 2008, aims at accelerating the liberalization, privatization and reorganization of the coffee sector.** Based on a disengagement strategy adopted in December 2008[30], the Government launched several reform processes in two broad areas: (i) strengthening of the value chain; and (ii) transformation of coffee institutions.

[29] One reason is that, as processed coffee remained OCIBU's property, direct sales required State clearance. If the proposed sale price was below a composite average tender price for that week, OCIBU had the authority to prohibit the sale.

[30] This strategy was commissioned by the Government through the World Bank's PAGE project. Its objectives were to (i) increase coffee farmer incomes; (ii) enhance sector competitiveness to ensure its sustainability; and (iii) secure best returns on state assets (Republic of Burundi / PAGE 2008).

***i) Strengthening the coffee value chain:***

- *Production:* under PAGE, farmer organizations associated with 21 targeted CWSs across the countries have received training to improve their productivity. Technical and financial support to improve yield and quality has also been provided in the framework of other donor-funded projects, such as the USAID's *Burundi Agribusiness Program* or the World Bank's *Agro-Pastoral Productivity and Markets Development Project*, and will continue to be available in the coming years (see Annex ). Moreover, Intercafé developed a strategy to attract donor, public and private support for farm rehabilitation, and a program to replant 7 million coffee trees is expected to be implemented starting in 2012 (World Bank 2011c).

- *Processing:* the reform aims at improving processing efficiency through privatization of facilities and private investment. New private CWSs were built (including by coffee grower associations), bringing the total number to more than 160. In 2009, the Government launched an international bidding process for the privatization of 117 CWSs, but the offer attracted limited response from investors, and only 13 CWSs were sold[31]. The second phase of the bidding process for the remaining 104 stations was delayed, but a call for tenders was issued in November 2011 and resulted in 28 CWSs being attributed in February 2012, mainly to Burundian operators[32]. Concerning the curing of coffee, new private companies were established, and one SODECO plant was sold in early 2012. Today, private mills can reportedly handle around half of the parchment coffee produced[33].

- *Marketing*[34]*:* while the liberalization process is still not complete, the authorities no longer fix floor prices for direct sales between farmer associations/private enterprises and coffee buyers since 2008. This direct trade is currently limited to coffees that ARFIC qualifies as specialty, and requires a licensed exporter. The auctions are now conducted on an irregular basis, and a Commercialization Committee composed of ARFIC and other actors of the value chain determine what coffees will be sold at auction, based on stocks of parchment coffee.

***ii) Transformation of coffee institutions:***

- *ARFIC*[35]*:* this institution was created in 2009 as the new public regulation authority for the coffee sector, in replacement of OCIBU. ARFIC's main missions include: quality control and enforcement of quality standards; provision of information to all actors in the sector; arbitration in case of conflict; contribution to policy formulation; monitoring of national/international production and market tendencies; and authorization of professional licenses.

- *InterCafé was* established as an autonomous professional organization, composed of professionals from all segments of the value chain and financed with resources from the sector. It is a forum for consultation, responsible among other tasks for: representing the sector in government discussions;

[31] The buying company (Webcor Group, from Switzerland) also built more efficient CWSs, and now owns 23 percent of Burundi's wet mills.

[32] Overall, around half of all CWSs are now privately owned or were recently privatized. See www.cafeduburundi.com/processing/coffee-washing-stations for a database of all existing CWSs, with information on ownership, location, number of producers, etc.

[33] See : www.cafeduburundi.com/processing/dry-mills

[34] www.cafeduburundi.com/markets/exports

[35] *Autorité de Régulation de la Filière Café*

contributing - in cooperation with the Government and ARFIC - to the elaboration of coffee sector development strategies and policies; contributing to the coordination and financing of agricultural extension services; and encouraging marketing and promotion of Burundian coffee.

**The on-going reform will most likely take several years to be fully completed.** In addition to the finalization of the privatization process (CWSs, SODECO), it will take time and capacity-building efforts for the newly established institutions, such as InterCafé, to be fully operational. In the coming years, these institutions will be called on to play major and complementary roles in the organization of the coffee sector, and in its transformation to promote the marketing of high-quality coffee on specialty markets

## 4. The way forward for the reform of the Burundian coffee sector

**Numerous reports and studies have been prepared since the current phase of the reform was launched, which together provide a comprehensive set of recommendations.** Moreover, various actions are currently being implemented by the authorities and coffee sector institutions, with support from several donor-funded projects[36]. The recommendations formulated to improve the performance of the Burundian coffee sector concern two main dimensions: (i) the finalization of the reform of the sector; and (ii) the strengthening of production and development of Burundi's presence on specialty markets[37]. Additionally, the importance of logistics and access to finance to create a supportive environment for the coffee sector are discussed.

**Concerning the reform of the coffee sector, the main challenge is the implementation of a State divestiture strategy that will lead to the highest efficiency possible, while gathering the consent of all actors.** The majority of stakeholders recognize that further liberalization and privatizations are required to reduce administrative inefficiencies, enhance competitiveness and attract private investment. However, reforms are unlikely to be successful if the broad political-economy context is not carefully taken into account, so as to limit the risks of conflict and rent seeking[38]. The coffee sector has historically been the object of intense social, economic, political and ethnical tensions (Sumit Oketch and Polzer 2002, Hatungimana 2008), making its reform a sensitive issue with a high risk of conflict (International Alert 2007, 2008). Despite consultations, diverging views about how the reform should be carried out, as well as real or perceived conflicting interests between different groups of public and private stakeholders, have delayed reforms on several occasions. On a positive note, the authorities have now demonstrated their commitment to finalizing the reform.

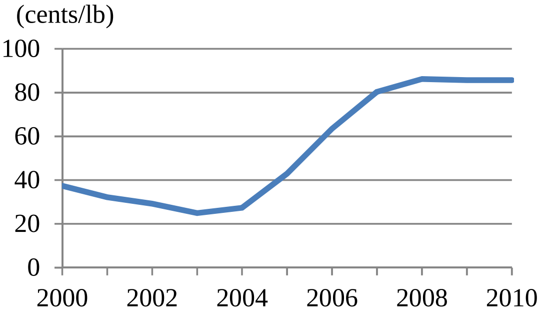
[36] See Annex 1 below for a synthesis of the main recommendations in selected recent studies, and for a summary description of ongoing donor projects.

[37] On the issue of specialty markets, see the coffee case study in Chapter 3 on export diversification.

[38] Concerning the conditionality set since 2004 on coffee sector reform, the IMF estimated in a recent assessment of its engagement in Burundi that "while extensive and stringent conditionality likely reflected the urgency of addressing a critical mass of issues to deliver swift macroeconomic stabilization and boost growth, political-economy and capacity constraints might have been underestimated, undermining the traction of conditionality and pointing to incomplete ownership." (IMF 2011)

**Ensuring a transparent and equitable sharing of revenues along the value chain will be critical for sustainable reform of the coffee sector.** Efforts must be made to prevent conflicts between producers and the existing private companies, or the firms that expected to buy privatized facilities. Several private investors (for example, Webcor) have complained about the return on their investment and lack of support from coffee farmers (World Bank 2011c). The producer associations that have emerged in the 2000s are also claiming a role in the privatization, including through participation in the capital of the sector's entities (Box 1). Concerning CWSs privatization, one solution envisaged since the 2008 divestiture strategy has been to reserve 25 percent of the shares to producer associations. It has so far been rejected by the confederation of producer associations (CNAC), who has alternatively demanded that producer associations be granted a majority share of 51 percent or even full ownership. Additionally, the issue of coffee ownership has long been a subject of debate (International Alert 2007). Historically, the value added in the fully-washed process was captured by other actors in the value chain (SOGESTALs, SODECO, OCIBU) (USAID 2008). President Nkurunziza announced in 2007 that producers were the owners of coffee, "from the cherry to export" (i.e. considering processing plants as mere service providers), even if the legal framework remained unclear and producers' marketing capacity (through the CNAC) limited (World Bank 2008c). Producers associations have deemed that the current privatization strategy forces them to sell their cherries at CWSs, rather than at later stages of processing, and hence deprives them of this ownership right. Nevertheless, the average price paid to Burundian growers has significantly increased since 2004, suggesting that farmers have been able to benefit from the increase in world prices (figure 4). In 2010, producer associations have argued that farmers who sold their cherries to newly privatized CWSs received a lower price than those who went to CWSs managed by SOGESTALs, but this was caused by the different pricing structures of the two entities[39]. In all cases, it will be essential to ensure that the sharing of revenue remains equitable once the reform is completed. This can be achieved by a combination of two factors: (i) enabling producer associations to take shares in CWSs; and (ii) making sure that privately-owned CWSs pay a competitive price for coffee cherry, especially if quality is enhanced in the future.

**Figure 4: price paid to Burundian coffee growers (in current terms)**




Source: ICO

**Box 1: The representation of coffee producers in Burundi**

***An increasingly well-structured movement:*** While Burundian coffee growers have historically been excluded from the organization and reform of the coffee sector, producers associations have progressively emerged since the late 1990s, These associations coordinate the collection of cherries, provide various services to farmers and support their interests. These movements are currently structured

[39] The coffee growers who sell their coffee to the CWSs managed by SOGESTALs receive first an advance payment (72 percent) and then a bonus when the washed coffee is sold. Webcor opted for a different system and pays immediately the totality of the crop on the basis of world prices at the time of the purchase. This should normally be beneficial to the farmers who prefer to be paid as soon as possible. However, as a result of the recent increase in international coffee prices, the coffee growers selling their coffee to SOGESTALS received a slightly higher price (World Bank 2011b).

at four successive levels: 3,226 associations (hills level), 143 unions (CWS level), 5 federations (SOGESTAL level) and since 2004 one confederation (national level), the CNAC[40]. The CNAC claims to have over 127,000 individual members (around 16% of coffee growers), who own coffee orchards and pay a membership fee to their local association. According to International Alert (2007), producers associations are also positively viewed among non-members, notably because they provide some services to both members and non-members alike. Reasons mentioned for not joining include the weak capacity of associations to integrate all those wishing to join, the fact that many poor farmers cannot afford membership (fee, participation in communal work) and the little differentiation between services offered to members and nonmembers.

***The limits of the movement:*** the establishment of representation structures is an important achievement, but producer organizations still suffer from organizational weaknesses, as well as limited resources and capacities. Even though farmer associations are now stakeholders in coffee sector institutions, these limits have constrained their capacity to participate in all segments of the coffee value chain and claim an equitable distribution of benefits (World Bank 2011c). A draft law on agricultural "pre-cooperative" was adopted in May 2011 to clarify their legal status and increase their responsibility in the management of coffee processing. Capacity-building programs have been recommended in order to effectively enable producer organizations to take on this role and increase their bargaining power with other actors of the value chain (World Bank 2008c, 2011). This is also particularly important regarding coffee certification and marketing capacity, as the reform is expected to increase the share of direct sales of high-quality coffee between producer associations and buyers/roasters. In recent years, donors like USAID or the World Bank have started to provide support and capacity-building to producer associations (cf. Annex 1).

***Position in the ongoing reform process:*** while it agrees with the overall goal of privatization, the CNAC has voiced concerns about the privatization strategy in recent years. Its main claims have concerned the ownership of coffee beans and of CWSs, large shares in the management structures of companies along the value chain, and an increased role in the reform and organization of the sector.

## 5. Conclusion

**Reforming and modernizing the coffee sector remains a high priority for Burundi.** As stressed in the DTIS update and in other studies of Burundi's trade, extreme dependence on coffee is an issue in itself. Burundi would therefore strongly benefit from diversification in other high-value primary products, manufactures or services, similar to what most other coffee-exporting countries have already experienced. In the meantime, coffee remains the dominant export crop and a major source of revenue for large share of population, hence the necessity to improve the performances of the sector. This is all the more important given the expected decrease in international prices for coffee in the coming period. The sector currently underperforms, compared to the production and export levels previously reached, but also to Burundi's clear potential to produce large quantities of high quality coffee.

**Significant progress has been achieved since the first DTIS, concerning both the organization of the sector and the production of higher quality coffee, but much remains to be done.** The first challenge is to finalize

[40] *Confédération Nationale des Associations des Caféiculteurs du Burundi - Murima w'isangi* (www.cnacburundi.com)

the sensitive reform of the sector and the liberalization/privatization process, focusing on its efficiency and inclusiveness. The success of the reform will notably depend on the ability of government to set up an efficient regulatory framework through ARFIC, and of other institutions (InterCafé, CNAC and producer associations) to effectively play their role in structuring the sector, which will require extensive capacity building programs.

**Another related challenge is to strengthen productivity and quality, notably to increase the share of coffee that qualifies for specialty markets.** In addition to paying significant premiums, these markets are also very dynamic: for example, certified coffee's share in the global coffee market is expected to grow from 8% in 2009[41] to 20-25% in 2015 (ITC 2011). Specialty buyers have already proved their interest in Burundian quality coffee and would likely respond positively to continued improvements (e.g. development of local cupping capacity), as well as to a stabilized environment. Finally, it is worth insisting on the fact that a majority of coffee will probably not qualify for specialty markets and remain commodity coffee, at least in the medium term (this is notably true for the washed and lower quality fully washed coffee) [42].

**Most actors agree on the overall objectives of the reform (liberalization, privatization and focus on quality), even if the debate on how to best reach them is still open.** However, resistances have slowed down reforms in the past, and have limited their impact on the sector's performances so far. This shows that completing the reforms will require an in-depth understanding of the political economy environment, as well as appropriate solutions to address the diverging interests, real and perceived, of the different stakeholders along the value chain. The reforms only recently paced up, as did the various projects aiming at strengthening coffee production and quality. It is to be hoped that these will produce concrete results in the coming years and finally reverse the downward trend currently observed. Making sure that this dynamic does not falter, like previous reforms attempts in the past, is crucial for Burundi's export performances and for poverty reduction in the country.

## 6. Existing studies and projects on the coffee sector in Burundi

Many studies and reports on the Burundian coffee sector and its reform have been carried out over the last decade, a number of which were used to write this chapter[43]. Most of these studies were prepared by several past and ongoing donor-funded projects targeting the coffee sector, with the objective to facilitate its reform and develop its value chain.

| Selected studies and summary of main recommendations | |
|---|---|
| *Rapid Strategic Environmental Assessment of Coffee Sector Reform in Burundi*<br>(World Bank 2011c) | This report puts forward an Action Plan to address the environmental and socioeconomic risks associated with the reform of the coffee sector:<br>- <u>*Short term:*</u> (i) training program on shade-grown coffee and integrated pest management; (ii) regulations making the preparation of municipal land-use plans mandatory; (iii) environmentally sound regulations for the CWSs; (iv) studies about the potential for recycling water in the CWSs economically; (v) coffee certification program; (vi) market study on the potential of coffee to access niche markets. |

[41] This share already stands at 16 percent in the United States, the largest single market for coffee.

[42] Cf. the projections of exports by class of coffee until 2017 in USAID (2008, p.49).

[43] The reports can be accessed online, notably at the "coffee library" hosted on the website www.cafeduburundi.com, or on the website of the PAGE project (http://page.bi/spip.php?article36).

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| | - *Medium term:* (i) preparation/implementation of municipal land-use plans; (ii) payment-for-environmental-services program; (iii) demarcation of protected areas; (iv) training program on water and solid waste management; (v) capacity-building program for enhancing enforcement and monitoring of environmental and social standards (both for production and processing); (vi) capacity-building program for coffee cooperatives.<br>In addition, a communication strategy targeting coffee growers is proposed, to promote production of high-quality coffee with environment-friendly methods. |
| *Désengagement de l'Etat du Burundi de la Filière du Café – Rapport de Stratégie*<br>(Republic of Burundi / PAGE 2008) | The objectives of this study, realized by a consortium of three firms and financed by PAGE, were to (i) increase coffee farmer incomes; (ii) enhance sector competitiveness to ensure its sustainability; and (iii) secure best returns on state assets.<br>Based on in-depth legal, financial and industrial due diligences, it proposes a strategic framework for the State's divestiture at different levels of the coffee value chains (CWSs/SOGESTALs, SODECO and OCIBU) and for the prior restructuration of the sector's companies. This strategy has formed the basis for the privatization process launched in 2009. |
| *Coffee Value Chain study*<br>(USAID 2008) | This study provides an analysis of the coffee value chain in Burundi, including how it is conditioned by the reform of the sector. It identifies the main constraints and opportunities at different stages of the chain, notably concerning the potential and requirements for Burundi to enter specialty coffee markets. A five-year action plan for a pilot program is set out, organized around three interrelated challenges:<br>(i) Improve coffee quality through best practices investments at all stages of the value chain<br>(ii) Implement an effective strategy for specialty coffee marketing<br>(iii) Complete the liberalization/privatization process at all stages of the value chain<br>To spearhead Burundi's coffee sector reform and entry on specialty markets, the pilot program (to be implemented in the framework of the USAID BAP project) is designed for an initially limited number of high-potential CWSs. |
| *Breaking the Cycle: A Strategy for Conflict-sensitive Rural Growth in Burundi*<br>(World Bank 2008c) | - *Privatization strategy:* (a) identify the market structure that will lead to the greatest efficiency; (b) specify competition rules that will govern organization of the market structure and the deregulation process; (c) detail modalities of the property transfer from State to private companies, with a view to attracting experienced long-term investors.<br>Prevent potential conflicts by (i) considering and mitigating the risk of rent-seeking (ii) creating forums to hear the concerns of all stakeholders, and striving to gather assent of the majority (iii) ensuring the respect of equity principles and aligning foreign investors' incentives with those of key domestic stakeholders (possibly by reserving a minority equity position for producer associations).<br>- *Specialty markets:* (i) develop a comprehensive marketing strategy targeting key markets (marketing material and media kit, samples, trade shows, etc.); (ii) develop capacity to conduct strategic country buyer/roasters tours; (iii) promote quality through cupper training; (iv) improve existing cupping laboratory and build new ones; (v) launch pilot relationship coffee initiative; (vi) develop production/processing/marketing techniques needed for traceable quality coffee. |
| *Reform of the Coffee Sector in Burundi: Prospects for Participation, Prosperity and Peace*<br>(International Alert 2007) | This report focuses on the complex political-economy context of the coffee sector reform, and the need for a strategy that minimizes the risk of conflict, notably concerning the distribution of revenue along the value chain in a privatized context. Recommendations are made targeting different actors:<br>- *Government:* take full account of the social/political dimensions of the reform; support producer associations and facilitate their participation in CWSs/SOGESTALs, including minority blocking power if necessary; take into account concerns of employees of privatized companies; review agronomic extension measures; etc.<br>- *Donors:* accept a progressive privatization and maintain constructive dialogue on the reform with the government; support the strengthening of producer associations; etc.<br>- *Private businesses:* concentrate more financial efforts on buying shares in the privatized |

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| | entities; explore markets for specialty coffee; invest in the production of coffee, notably by providing fertilizer; etc.<br>- *Producer associations:* strengthen and extend the movement, including around private CWSs; acquire shares in CWSs and privatized enterprises, notably by mobilizing financial contribution from members; etc. |
| **Main projects in the coffee sector** | |
| *Watershed Approach to Sustainable Coffee Production in Burundi*<br>(World Bank, 2013-2017) | This project, which is currently pending approval, builds on the action plan established in World Bank (2011c), and aims at developing sustainable land and water management (SLWM) technologies for coffee production. Following a value chain approach, the project will be structured around three components, corresponding to the three coffee phases:<br>(i) *Sustainable coffee production:* to support the development of adequate training programs and incentives for extension agents and farmers on SLWM technologies, notably shade-grown coffee (which helps maintain biological diversity, prevents soil erosion and land degradation, helps adapt to climate change, and provides alternative sources of income within niche markets) and polyculture (which promotes better, more stable revenues for farmers, and has ecological benefits).<br>(ii) *Sustainable coffee processing:* to promote environmentally sound water management and treatment by the coffee washing stations, pilot cost effective integrated mitigation systems and support the establishment of criteria, standards, and regulations.<br>(iii) *Sustainable coffee marketing and certification:* ensuring that Burundi meets certifications standards through improved environmental (organic, shade-grown, biodiversity friendly coffee) and social management (fair trade), financing initial certification costs, upgrading the technology used to enable coffee traceability; increasing contacts with international buyers to develop the commercialization of specialty coffee. |
| *Agro-Pastoral Productivity and Markets Development Project*<br>(World Bank, 2010 - 2016) | The objective of this project is to increase small producers' productivity and market access for targeted commodities, including coffee as a priority. The main components of the project are:<br>(i) Support to agricultural productivity and access to markets: promote the adoption of technology packages by producers through matching grants for small-scale productive investments and input purchase (e.g. seedlings, manure, fertilizers, pesticide, pruning); capacity-building of professional associations/public institutions for agricultural research and extension, certification and standards, etc.<br>(ii)Irrigation development and feeder road rehabilitation. |
| *Economic Reform Support Grants (ERSG) III, IV and V*<br>(World Bank, 2009, 2010, 2011) | Through budget support, these successive Development Policy Operations, organized in programmatic series, have supported the acceleration of the coffee sector reform undertaken by the authorities since 2008. ERSG VI is expected to be adopted in late 2012. |
| *Building Capacity for Coffee Certification and Verification for Specialty Coffee Farmers in EAFCA Countries*<br>(EU/ICO/CFC/EAFCA[44], 2010-2014) | The project's objective is to build capacity in coffee certification and verification in nine East African countries, including Burundi. Activities focus on the strengthening of farmers' skills to meet certification standards, through the training of master trainers, certifiers/verifiers and trainer-of-trainers within national coffee institutions (ARFIC for Burundi).<br>At the end of 2011, four master trainers and three auditors/certifiers had been trained in Burundi. During the second phase of the project, starting in 2012, it is envisaged to train 650 farmers.[45] |
| *Burundi Agribusiness Program*<br>(USAID, 2007- 2012) | This is a 5-year value chain development initiative, implemented by DAI and Michigan State University. It is primarily focused on the coffee sector, around four components:<br>1. Facilitating the process of privatization and liberalization of the coffee sector;<br>2. Assistance to producer organizations and small enterprises to raise the level of coffee quality through improved practices in production and processing; |

[44] East African Fine Coffees Association, joined by Burundi in 2002 (www.eafca.org)

[45] See www.eafca.org/downloads/cfc/CFC-ICO-EUAnnualReportJanuary2012.pdf

| | |
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| | 3. Specialty coffee market development targeting the U.S., Europe and Japan;<br>4. Improving coffee production and productivity.<br><br>Actions so far have notably concerned:<br>- Targeted research and technical support to farmers and associations to improve coffee productivity/quality;<br>- Capacity-building for existing producer associations and support for the creation of new ones;<br>- Assisting CWSs in installing eco-friendly technologies for waste water management;<br>- Facilitating informational sessions on the coffee reform process;<br>- Collaboration with associations to develop grant requests to set up producer-owned and operated CWSs;<br>- Training to develop local cupping capacities, in collaboration with the Alliance for Coffee Excellence;<br>- Facilitation of marketing activities, notably through organization of trade visits;<br>- Development of an internet platform and database on the Burundian coffee sector[46]. |
| *Stabex*<br>(European Commission, 2007-2010) | Stabex funds have been used for coffee infrastructure development in recent years, principally to rehabilitate 145 CWSs (drying tables, electromechanical equipment) and around 170 km of access roads. Support was also provided to modernize OCIBU laboratory equipment, rehabilitate SODECO storage facility, and subsidize inputs (fertilizers, tools). |
| *PAGE – Economic Management Support Project*<br>(World Bank, 2004-2011) | This project provided support for the reform of the coffee sector, through its private sector development component. Several studies have been commissioned by the project in collaboration with the Coffee Reform Committee, including:<br>- State divestiture strategy for the Burundian coffee sector (Republic of Burundi / PAGE 2008)<br>- Conflict prevention in the coffee sector privatization process (International Alert 2008)<br>- Burundi coffee value chain diagnostic and strategy development (PAGE 2007a)<br>- Technical note in support of the development of a specialty coffee pilot program (PAGE 2007b)<br>The project also facilitated the initial phase of the privatization process launched in 2008/2009. |

[46] www.cafeduburundi.com

# Annex 4: Complements on non-tariff measures

## *Annex 4.1: Non-tariff measures - What are the issues?*

### Non-tariff measures vs. non-tariff barriers

Contrary to tariffs, NTMs do not apply only to imported goods. They may apply either to imported goods only, or to both imported and domestically-produced goods, depending on their type. For instance, whereas a QR will apply only to imported goods, a technical regulation will typically apply to both imported and locally-produced goods, since otherwise it would run afoul of GATT Article III (national treatment).

NTMs apply to PRODUCTS, not to processes. Thus, an environmental regulation that prohibits dumping toxic effluents in a river as part of the production process is not an NTM, even though it may affect trade flows by raising the production costs of the domestic producer. There is thus a logical inconsistency in the MAST classification's treatment of domestic subsidies and regulations, since subsidies are included on account of their potential effect on competition with imported products, whereas domestic regulations are not. The reason for this inconsistency is that including all domestic regulations on production in the list of NTMs would extend its scope to the point where everything ought to be there, at which point it would become unmanageable. The upshot is that regulations may be trade-relevant but nevertheless not included in NTM inventories.

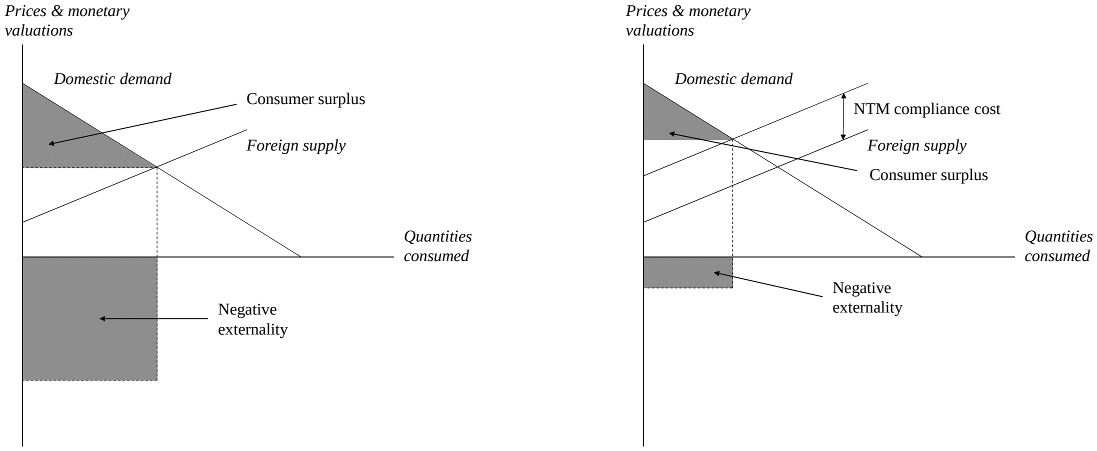
Not all non-tariff measures are bad, and approaching them only from the angle of trade and business costs would lead to wrong choices. Any society needs regulations to protect local and global public goods such as public health or the environment, and the fact that some of those regulations may increase business costs or reduce trade does not make them illegitimate or contrary to WTO rules.

Legitimate NTMs must be imposed only in response to what economists call a "market failure" such as a negative externality. The argument is illustrated in Figure 1 for the case of a consumption externality. Suppose that diesel engines emit toxic particles unless a regulation imposes the presence of particle filters in the exhaust. Panel (a) of Figure 1 illustrates the situation prior to the imposition of a regulation, with all diesel cars imported. The grey triangle in the upper part is "consumer surplus". The grey rectangle in the lower part measures the "negative externality", i.e. the cost in terms of public health imposed by toxic emissions. The height of the rectangle is the cost per unit consumed (per km traveled by owners of diesel-powered cars), and the base is the use diesel-powered cars.

Panel (b) illustrates the situation after the imposition of a regulation mandating the use of particle filters. The cars are more expensive, which shifts the foreign supply up by the compliance cost. reduces purchases of such cars. Total use goes down, which reduces consumer surplus. If the analysis stopped there, the measure would be deemed a bad one, since, as illustrated, it has a strong trade-inhibiting effect. However, the negative externality on public health is reduced through two effects: (i) a direct effect which reduces the amount of toxic emissions per km traveled; this shows up as a reduced height of the rectangle below; (ii) an indirect effect which reduces the number of km travelled by diesel-powered cars (because they are now more expensive); this shows up as a reduced base of the rectangle.

**Figure 1: externality and cost-raising technical regulation**

(a) Welfare before NTM (b) Welfare after NTM




Source: Adapted from Beghin et al. (2011)

NTMs which do not constitute appropriate responses to market failures are non-tariff barriers (NTBs) and may run afoul of WTO rules. Thus, whether a regulation is WTO-consistent or not provides a convenient test of whether it is an NTB or not. GATT Article VII (concerning customs valuation), the WTO's Technical Barriers to Trade (TBT) and Sanitary and Phyto-Sanitary (SPS) agreements, and a number of rules on import-licensing procedures[47]contain disciplines regarding NTBs. Their objective is to discourage "regulatory protectionism", based on three basic principles: (i) non-discrimination, (ii) transparency, and (iii) proportionality.

The SPS and TBT agreements recognize the right of member states to adopt regulations that potentially affect trade with other member states, but impose three types of disciplines on those regulations:

- On the process of adoption of the measures and on their implementation:
- On their proportionality to the objective sought;
- On their necessity.

The first discipline covers transparency and nondiscrimination both by design (de jure) and through implementation (de facto). In clear, it requires that measures be "fair" in the sense of not encouraging national  producers of a like product or altering competition. For SPS measures, it means that they should be based on scientific evidence.

[47] See Cadot, Maliszewska and Saez (2010).

The second discipline concerns the "proportionality" of the measures, which means that the instrument chosen to serve a non-trade objective like our health issue with diesel engines should be the least trade restrictive among available instruments. If a technical regulation is based on an international standard, there is a presumption that it satisfies the proportionality test.

Finally, the third discipline concerns the "necessity" of the measures, which should be needed to achieve a legitimate policy objective—a criterion we already discussed in terms of  "market failure".

**Non-tariff barriers are of special concern in a small country**

When the domestic market fits the extreme assumption of a perfectly competitive market, whether a given level of trade restrictiveness results from a tariff or a quantitative restriction is inconsequential—they have the same effect on domestic welfare.

However, when the domestic market is imperfectly competitive, non-tariff barriers implemented via quantitative restrictions (e.g. quotas, restrictive licensing, prohibitions) are worse. At an equal level of import reduction, they reduce the importing country's welfare more than tariffs; worse,if they are intended to protect domestic jobs, they can only fail to achieve the objective. This is particularly important for a small country like Burundi where domestic production is unlikely to take place under competitive conditions.

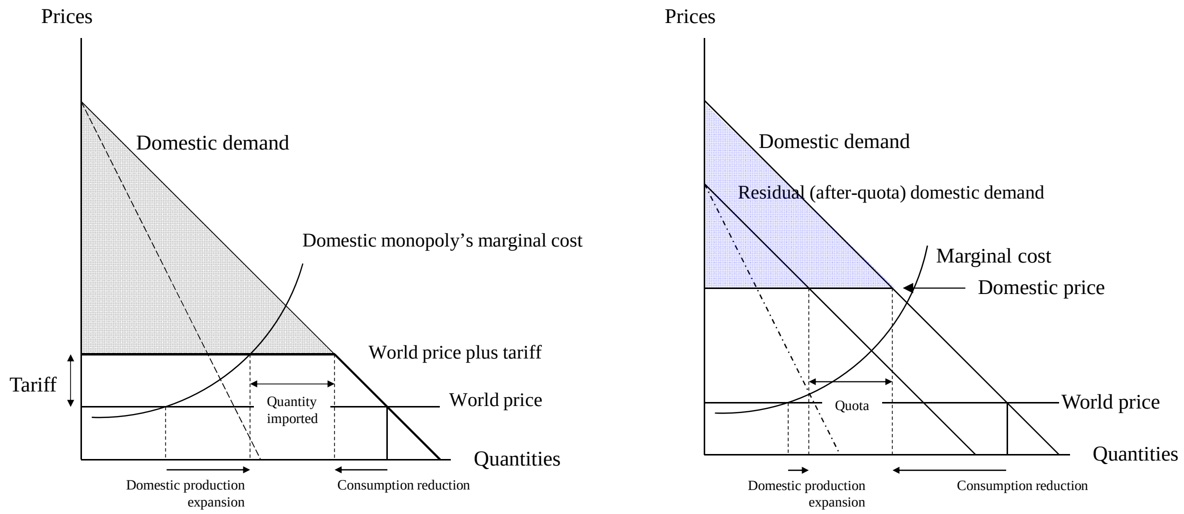
The damaging effect of a quantity-based instrument is illustrated in

**Figure 2** by comparing the effect of a tariff vs. a quantitative restriction (QR) inducing the same reduction in imports, in the presence of a domestic monopoly. By the fact that they reduce imports by the same amount, the tariff and the QR are comparable. In fact, a quantity-based econometric analysis à la Kee, Nicita and Olarreaga (2009) would ascribe them the same ad-valorem equivalent, since they reduce trade by exactly the same amount. Yet, they have very different effects on the domestic market. Panel (a) shows that under a tariff the domestic monopoly is competing with importers, albeit on a tilted playing field since imports are taxed by the amount of the tariff. But that does not give back full monopoly power to the domestic producer, who cannot sell at more than the world price plus the tariff.

By contrast, panel (b) shows that with a QR, the domestic producer can let importers take their fixed share of the market, and then behave like a monopoly on the residual demand, allowing him to (i) restrict output and (ii) charge high prices. The resulting price is higher than under the tariff; worse, the domestic producer uses the protection conferred by the QR to charge high prices rather than hire more (since maintaining a high domestic price calls for output and employment restriction, not expansion). Thus, the QR penalizes domestic consumers without creating jobs. It is a very inefficient protectionist device.

**Figure 2: effect of a tariff vs. a QR under domestic monopoly**

(a) Tariff (b) QR




The market power conferred to the local producer extends to importers, who align their price with the domestic producer's, in particular when, as is frequent in sub-Saharan Africa, the local producer is also the main importer. The principle illustrated in

**Figure 2** carries over to many quantity-based instruments (e.g. prohibitions or non-automatic licensing) and to any market structure that is less than perfectly competitive. It is thus fairly general.

In addition to this mechanical effect, non-tariff barriers have a high propensity to be captured by special interests because they are un-transparent and complex. The design of technical regulations often requires expertise that can only be obtained from the industry itself. But then it is easy for the industry to influence the regulation's design to suit its needs, for instance by making it more difficult for foreign producers to comply. This can be both tempting and damaging in a small market where domestic producers can be forced to comply with certain regulations because all of their sales are domestic, whereas foreign producers may be altogether discouraged from selling on that market if the fixed cost of adapting products to local regulations cannot be recouped on long enough series. Dairy trade in the EAC is a case in point. Several EAC members have been periodically erecting non-tariff barriers in milk trade such as unrealistic protein contents, outright non-recognition of quality certificates from partner countries, and so on (see Jensen and Keyser forthcoming).

Sometimes the regulation may not even be aimed at foreign producers, but can be manipulated by large producers to penalize smaller ones. Jensen and Keyser (forthcoming) argue that this is the case with harmonized dairy regulations in East Africa. This is a particularly interesting case, as the harmonization of EAC dairy standards is based on international standards and has been supported by donors. However, the authors argue that international standards are too tight for the capabilities of local producers and have the potential to stifle regional dairy trade, a significant source of income for small-scale producers and traders.

**Measuring non-tariff measures**

Information on NTMs is very fragmentary. Three sources have been used: (i) Private-sector surveys, (ii) Notifications to the WTO, and (iii) Official data collected at the country level. In addition, in the EAC, a joint initiative of the East African Business Council EABC) and the East African Community Secretariats has led to the creation of an NTB Monitoring Mechanism. This mechanism has proved a precious source of information on NTBs in the region, but recently it has failed to gather steam, as the incentive for private-sector actors to report NTBs to monitoring mechanisms and participate in dialogue structures is weak when complaints are not perceived to translate into political action.

Private-sector surveys can bring very useful information (see e.g. Hoekman and Zarrouk 2009 for a good example on the Middle East and North Africa region). However, the information provided by the private sector in surveys needs to be treated carefully. Experience shows that private-sector claims are sometimes based on misunderstandings, poor information, or even sometimes biased in order to make a point. A mission on the ground collecting information from a variety of stakeholders makes it possible to check and recoup the information through an inquiry process. A survey, by contrast, provides raw information that cannot be checked systematically unless complemented by a mission, which is typically not the case because survey costs (which are in any case substantial) would become prohibitive and because polling companies typically do not possess the expertise needed to conduct a substantial field mission.

Private-sector surveys have also been so far haphazard in coverage, depending on particular research projects. Recently, with large funding from donors, the Geneva-based International Trade Center (ITC) has initiated a systematic program of surveys. The effort is ongoing, but results are not yet published. In 2004, the EABC commissioned a Business Climate Survey (BCI) for East Africa. The survey covered 500 companies and 150 government officials in order to identify NTBs in the region. The results, as summarized by EAC (2006), highlighted

*"inadequate government structures/procedures, mismanagement, erratic application of rules and bureaucratic staff attitude coupled with low staff morale. For the private sector, NTBs represent an additional cost factor and sometimes even lead to complete loss of markets or customers. The consequence has often been that both businesses and public sector officials responsible for enforcing trade related requirements resort to corrupt practices, which appear to be a pragmatic way of overcoming NTBs."*[48]

The EACNTB MM has relied primarily on repeated consultations with private-sector stakeholders and government officials through one-to-one interviews, a round of national workshops to sum up and discuss the interview results, national working committees to further discuss the findings, and a regional workshop.

Based on this process, the 2006 report of the EAC NTB MM (EAC 2006) identified eight areas of concern in terms of NTM (see also Okomu and Nyankori 2010):

1. Customs and administrative documentation procedures;
2. Immigration procedures;
3. Cumbersome inspection requirements;
4. Police road blocks;
5. Varying trade regulations in the three EAC countries;
6. Varying, cumbersome and costly transiting procedures in the three EAC countries;
7. Duplicated functions of agencies involved in verifying quality, quantity and dutiable value of imports and export cargo;
8. Business registration and licensing.

Since then, the process has produced a number of reports, but no systematic inventory of non-tariff measures has been undertaken.

The tripartite (EAC-COMESA-SADC) reporting and monitoring mechanism (www.tradebarriers.org), while well-designed, has not enjoyed very strong uptake, in all likelihood because the failure of member states to act on complaints make them largely useless and perceived as such by the private sector.

Systematic data on non-tariff measures has been collected worldwide and published in UNCTAD's TRAINS database, which is accessible through the World Bank's WITS portal. However, the data is only available for one year (2001) and both country and measure coverage are incomplete. Fewer than 100 countries reported data, and the classification used was focused on so-called "core" NTBs—quotas, prohibitions and the like—whose use has been declining. In 2009, under the *aegis* of UNCTAD, the multi-agency support team (MAST) classification was adopted, with broad categories shown in Figure 3. It has been technically updated in January 2012 to make it suitable for WTO notifications as well, but the structure remains the same. Thus, the updated MAST classification is now the basis for all NTM databases.

[48] EAC (2006), p. 3.

**Figure 3: the 2009 Mast nomenclature**

| | | | |
|---|---|---|---|
| IMPORT MEASURES | TECHNICAL MEASURES | **A** | SPS measures |
| | | **B** | Technical regulations |
| | NON-TECHNICAL MEASURES | **C** | Pre-shipment inspection |
| | | **D** | Price-control measures |
| | | **E** | Licenses, quotas, prohibitions and QRs |
| | | **F** | Charges, taxes & para-tariff measures |
| | | *G* | *Finance measures* |
| | | *H* | *Anti-competitive measures* |
| | | *I* | *TRIMs* |
| | | *J* | *Distribution restrictions* |
| | | *K* | *Restrictions on post-sales services* |
| | | *L* | *Subsidies (excluding export subsities* |
| | | *M* | *Government producrement restrictions* |
| | | *N* | *Intellectual property* |
| | | *O* | *Rules of origin* |
| | | **P** | Export measures (including export subsidies) |

Annex 4.2 proposes a rough concordance table between the 2-digit 2009 MAST nomenclature and the EABC's categories. As of end-2011, coverage was as shown in Table 1.

**Table 1 : NTM data collection country coverage, 2011**

| | LAC | NA | ECA | MENA | SSA | SA | EAP |
|---|---|---|---|---|---|---|---|
| Covered | Argentina<br>Bolivia<br>Brazil<br>Chile<br>Colombia<br>Ecuador<br>Mexico<br>Paraguay<br>Peru<br>Uruguay<br>Venezuela | | E.U. | Egypt<br>Lebanon<br>Morocco<br>Tunisia | Kenya<br>Mauritius<br>Tanzania<br>Uganda<br>Senegal<br>Namibia<br>Burundi<br>Madagascar<br>South Africa | Bangladesh | Japan<br>Philippines<br>Indonesia<br>Cambodia<br>Laos<br>HK, China |
| Expected 2012 | | | | Cameroon | | | China |
| Large countries missing | | USA<br>Canada | Russia | Turkey | Nigeria | India<br>Pakistan | Korea<br>Malaysia |

Notes: LAC: Latin America & the Caribbeans; NA: North America; ECA: Europe & Central Asia; MENA: Middle East & North Africa; SSA: Sub-Saharan Africa; SA: South Asia; EAP: East Asia & the Pacific.

Compared to 2001, when comparison is possible, NTMs today seem to consist more of technical measures (SPS and product standards) and less of old-style command-and-control instruments such as quantitative restrictions and prohibitions. This evolution reflects the modernization of the regulatory apparatus in most countries around the world to respond more to consumer demands for traceability and protection and less to producer demands for protection against competition.

However, recent quantitative analyses of the effect of non-tariff measures on consumer prices suggests that, whether or not they are justified by genuine non-trade concerns, NTMs contribute to raise consumer prices and can affect the incidence of poverty. For instance, using price-gap calculations, Cadot and Gourdon (2011) found that eliminating Nigeria's import prohibitions would be equivalent to a cash transfer to consumers equal to 8% of their income on average (with more to poorer ones). Using panel-data econometrics, Cadot and Gourdon (2011) found that SPS measures could raise consumer prices in sub-Saharan Africa by as much as 20% on average.

## ***Appendix 4.2: Concordance table, EAC business council-Mast 2009***

| EAC | | Mast 2009 | |
|---|---|---|---|
| | | A000 | SANITARY AND PHYTOSANITARY MEASURES |
| v | Trade regulations (non harmonized) | A100 | Prohibitions or restriction of products or substances because of SPS reasons |
| v | Trade regulations (non harmonized) | A200 | Tolerance limits for residues and restricted use of substances |
| v | Trade regulations (non harmonized) | A300 | Labelling, Marking and Packaging requirements |
| v | Trade regulations (non harmonized) | A400 | Hygienic requirements |
| v | Trade regulations (non harmonized) | A500 | Treatment for elimination of plant & animal pests & disease-causing organisms in final prod. |
| v | Trade regulations (non harmonized) | A600 | Other requirements on production or post-production processes |
| v | Trade regulations (non harmonized) | A700 | Regulation of foods or feeds derived from, or produced using genetically modified organisms |
| v | Non recognition of accredited labs | A800 | Conformity assessment related to SPS |
| v | Trade regulations (non harmonized) | A900 | SPS measures n.e.s. |
| | | B000 | TECHNICAL BARRIERS TO TRADE |
| v | Trade regulations (non harmonized) | B100 | Prohibitions or restrictions of products or substances for TBT reasons (e.g. environment, security) |
| v | Trade regulations (non harmonized) | B200 | Tolerance limits for residues and restricted use of substances |
| v | Trade regulations (non harmonized) | B300 | Labelling, Marking and Packaging requirements |
| v | Trade regulations (non harmonized) | B400 | Production or Post-Production requirements |
| v | Trade regulations (non harmonized) | B500 | Regulation on foreign species & GMO for reasons other than food safety |
| v | Trade regulations (non harmonized) | B600 | Product identity requirement |
| v | Trade regulations (non harmonized) | B700 | Product quality or performance requirement |
| | Non recognition of accredited labs | B800 | Conformity assessment related to TBT |
| v | Trade regulations (non harmonized) | B900 | TBT Measures n.e.s. |
| | | C000 | PRE-SHIPMENT INSPECTION AND OTHER FORMALITIES |
| iii | Inspection requirements (cumbersome) | C100 | Pre-shipment inspection |
| i | Customs & administrative documentation procedures | C200 | Direct consignment requirement |
| | | C300 | Requirement to pass through specified port of customs |
| i | Customs & administrative documentation procedures | C400 | Import monitoring and surveillance requirements and other automatic licensing measures |
| i | Container imports verification procedures | C900 | Other formalities, n.e.s. |
| i | Systems for imports declaration & applicable duty rates | C900 | Other formalities, n.e.s. |
| vii | Inspection requirements (cumbersome) | C900 | Other formalities, n.e.s. |
| vii | Certification & compliance verification (duplication) | C900 | Other formalities, n.e.s. |
| iii | Quality inspection procedures | C900 | Other formalities, n.e.s. |

| EAC | | Mast 2009 | |
|---|---|---|---|
| | | D000 | PRICE CONTROL MEASURES |
| | | D100 | Administrative pricing |
| | | D200 | Voluntary export price restraints (VEPRs) |
| | | D300 | Variable charges |
| | | D400 | Antidumping measures |
| | | D500 | Countervailing measures |
| | | D600 | Safeguard duties |
| | | D700 | Seasonal duties |
| | | D900 | Price control measures n.e.s. |
| | | E000 | LICENCES, QUOTAS, PROHIBITIONS & OTHER QUANTITY CONTROL MEASURES |
| | | E100 | Non-automatic licence |
| | | E200 | Quotas |
| | | E300 | Prohibitions |
| | | E400 | Quantitative safeguard measures |
| | | E500 | Export restraint arrangement |
| | | E900 | Quantity control measures n.e.s. |
| | | F000 | CHARGES, TAXES AND OTHER PARA-TARIFF MEASURES |
| i | Discriminatory taxes & charges on EAC products | F100 | Customs Surcharges |
| | | F200 | Service charges |
| i | Discriminatory taxes & charges on EAC products | F300 | Additional taxes and charges |
| i | Discriminatory taxes & charges on EAC products | F400 | Internal taxes and charges levied on imports |
| | | F500 | Decreed Customs Valuations |
| i | Discriminatory taxes & charges on EAC products | F900 | Para-tariff measures n.e.s |
| | | G000 | FINANCE MEASURES |
| | | G100 | Advance payment requirement |
| | | G200 | Multiple exchange rates |
| | | G300 | Regulation on official foreign exchange allocation |
| | | G400 | Regulations concerning terms of payment for imports |
| | | G900 | Finance measures n.e.s. |
| | | H000 | ANTI-COMPETITIVE MEASURES |
| | | H100 | Restrictive import channel |
| | | H200 | Compulsory national service |
| | | H900 | Anti-competitive measures, n.e.s. |

| EAC | | Mast 2009 | |
|---|---|---|---|
| | | I000 | TRADE-RELATED INVESTMENT MEASURES |
| | | I100 | Local content measures |
| | | I200 | Trade balancing measures |
| | | I900 | Trade-related investment measures, n.e.s |
| | | J000 | DISTRIBUTION RESTRICTIONS* |
| | | J100 | Geographical restriction |
| | | J200 | Restriction on resellers |
| | | K000 | RESTRICTION ON POST-SALES SERVICES* |
| | | L000 | SUBSIDIES (excluding export subsidies under P700)* |
| | | M000 | GOVERNMENT PROCUREMENT RESTRICTIONS* |
| | | N000 | INTELLECTUAL PROPERTY* |
| i | Discretionary interpretation of rules of origin | O000 | RULES OF ORIGIN* |
| | | P000 | EXPORT RELATED MEASURES |
| | | P100 | Export license, quota, prohibition and other quantitative restriction |
| | | P200 | State trading administration |
| | | P300 | Export price control measures |
| | | P400 | Measures on Re-Export |
| | | P500 | Export taxes and charges |
| | | P600 | Export technical measures |
| | | P700 | Export subsidies |
| | | P900 | Export measures n.e.s. |
| iv | Road blocks | | Trade facilitation |
| v | Axle load/GVM regulations | | Services regulation |
| vi | Transit procedures (non harmonized, cumbersome) | | Services regulation |
| ii | Immigration procedures | | Services regulation |

Source: Burundi (2010b); UNCTAD (2009).

## ***Annex 4.3: Extractions from Burundi's NTM database***

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **10.05** | **Maïs Destiné à l'ensemencement** | | | | | | |
| 1005.10.00 | Autorisation spéciale pour des raisons SPS | A140 | 1993 | Décret11loi n°1/033 du 30 juin 1993 portant protection des végétaux | Ministère de l'Agriculture et de l'Elevage | Déclaration et obtention d'une autorisation administrative | Convention Internationale pour la Protection des Végétaux |
| 1005.10.00 | Obligation d'enregistrement pour les importateurs | A150 | 1993 | | | Inscription auprès de l'autorité administrative compétente. | |
| 1005.10.00 | Conditions de stockage et de transport | A640 | 1993 | | | Tous les végétaux, les produits végétaux, les végétaux destinés à la multiplication, ainsi que les produits stockés doivent être tenus et conservés dans un bon état sanitaire par ceux qui les cultivent, stockent, vendent ou transportent. | |
| 1005.10.00 | Obligation de quarantaine | A860 | 1993 | | | L'autorité compétente, après avoir constaté que des végétaux, des produits végétaux ou des végétaux destinés à la multiplication sont contaminés par des ennemis des végétaux ou présentent des signes suspects de contamination, peut prescrire les mesures de quarantaine suivantes : consignation provisoire ; saisie ; désinfection ou désinfestation ; destruction. | |
| 1005.10.00 | Obligation de certification | A830 | 1993 | | | Certificat phytosanitaire du pays d'origine ou d'un certificat de réexportation | |
| 1005.10.00 | Évaluation de la conformité avec les SPS | A800 | 1993 | | | Certificat phytosanitaire du pays d'origine ou d'un certificat de réexportation | |
| 1005.10.00 | Obligation d'inspection | A840 | 1993 | | | Contrôle phytosanitaire | |
| 1005.10.00 | Réglementation en matière d'étiquetage, de marquage et de conditionnement | A300 | 2009 | Loi n°1/07 du 19 mai 2009 portant modification de certaines dispositions du décret11loi n°1/032 du 30 juin 1993 sur la production et la commercialisation des semences végétales au Burundi | | Embages portant des étiquettes renseignant sur la nature, la pureté de la variété, l'origine, l'âge, l'état sanitaire, le poids et le calibrage | |
| 1005.10.00 | Processus de croissance végétale | A610 | 2009 | | | Contrôle de la qualité | |
| 1005.10.00 | Origine des matières premières et produits semi-finis | A851 | 2009 | | | Embalages portant des étiquettes renseignant sur la nature, la pureté de la variété, l'origine, l'âge, l'état sanitaire, le poids et le calibrage | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Profilés en H | | | | | | | |
| 7216.33.00 | Licence combinée à ou remplacée par une autorisation spéciale d'importation | E140 | 2007 | Loi n°1/02 - Code des douanes | OBR | Licence + Formulaire de déclaration des importations | OMC |
| 7216.33.00 | Évaluation de la conformité de la qualité liée aux OTC | B800 | 2007 | | OBR | Licence + Formulaire de déclaration des importations | OMC |
| 7216.33.00 | Réglementation de la qualité ou de la performance du produit | B700 | 2007 | | OBR | Licence + Formulaire de déclaration des importations | OMC |
| 7216.33.00 | Exigence d'une autorisation pour des raisons liées aux OTCreasons | B140 | 2007 | | OBR | Licence + Formulaire de déclaration des importations | OMC |
| 7216.33.00 | Règlementation en matière de traçabilité | B850 | 2007 | | OBR | Licence + Formulaire de déclaration des importations | OMC |
| 7216.33.00 | Inspection avant expédition | C100 | 2007 | | OBR | Licence + Formulaire de déclaration des importations | OMC |
| 7216.33.00 | Règlementation de surveillance et de suivi des importations et autres mesures aut | C400 | 2007 | | OBR | Licence + Formulaire de déclaration des importations | OMC |
| 7216.33.00 | Impôt général sur les ventes | F410 | 2007 | | OBR | Licence + Formulaire de déclaration des importations | OMC |

***Annex 4.4: Calculation of the NTM incidence measure by level of income***

Let *i* index households, *k* index products measured using the HH survey's 47-products classification, and $\ell$ index products using the HS6 nomenclature used in the NTM database. Let $n_\ell$ be the number of NTMs applied to product $\ell$, and

$$n_k = \frac{1}{L_k} \sum_{\ell=1}^{L_k} n_\ell \tag{1}$$

be the average number of NTMs applied to all HS6 products $\ell$ that make up *k* (the HH classification is much broader than HS6 since it has only 47 products whereas HS6 has several thousand consumer goods).Let also $\omega_{ik}$ be the share of good *k* in household *i*'s expenditure. Our measure of NTM incidence at the household level, $n_i$, is

$$n_i = \sum_{k=1}^{K} \omega_{ki} n_k \ . \tag{2}$$

NTM incidence $n_k$, is a product-specific variable and does not vary across households. By contrast, consumption weights $\omega_{ik}$ vary across households. For inferior goods, weights go down with income; for superior goods, they go up. Thus, average incidence varies with income. **Error! Reference source not found.**plots the relationship between the average value of $n_i$ at each centile of the income distribution and the log of expenditure per capita (used to approximate income, see footnote **Error! Bookmark not defined.**) through a non-parametric ("smoother") regression curve.

A smoother regression, unlike an OLS regression, does not impose any functional form—linear, quadratic or other—on the estimated relationship, but re-estimates a linear (OLS) regression for each observation, taking as the sample a sliding "window" of points around that observation. Here, each window represents up to 80% of the overall sample (the 0.8 bandwidth indicated in the figure), although it decreases as one moves toward the sample's bounds.

***Annex 4.5: Estimating the ad-valorem equivalent of NTMs***

Let the estimating equation be

$$\ln\left(\hat{p}_{ik}\right) = \hat{\alpha}_0 + \hat{\alpha}_1 \ln\left(1+t_{ik}\right) + \hat{\beta}_A + \hat{\gamma}_A I_i + \hat{\delta}_i + \hat{\delta}_k \,. \tag{3}$$

If the coverage ratio of NTM type A on a given product k in country i is 1,

$$\ln\left(\hat{p}_{ik}\right)\Big|_{c_{iAk=1}} = \hat{\alpha}_0 + \hat{\alpha}_1 \ln\left(1+t_{ik}\right) + \hat{\beta}_A + \hat{\gamma}_A + \delta_i + \delta_k \,. \tag{4}$$

If it is zero,

$$\ln\left(\hat{p}_{ik}\right)\Big|_{c_{iAk=0}} = \hat{\alpha}_0 + \hat{\alpha}_1 \ln\left(1+t_{ik}\right) + \hat{\beta}_A + \hat{\delta}_i + \hat{\delta}_k \,. \tag{5}$$

Subtracting (5) from (4) gives the log-difference

$$\ln\left(\hat{p}_{ik}\right)\Big|_{c_{iAk=1}} - \ln\left(\hat{p}_{ik}\right)\Big|_{c_{iAk=0}} = \ln\left(\frac{\hat{p}_{ik}\big|_{c_{iAk=1}}}{\hat{p}_{ik}\big|_{c_{iAk=0}}}\right) = \hat{\gamma}_A \,. \tag{6}$$

Thus,

$$\frac{\hat{p}_{ik}\big|_{c_{iAk=1}}}{\hat{p}_{ik}\big|_{c_{iAk=0}}} = 1 + \hat{a}_{ik,A} = e^{\hat{\gamma}_A} \tag{7}$$

where $a_{ik,A}$ is the ad-valorem equivalent (AVE) we are looking for. Thus,

$$AVE_A = \hat{a}_{ik,A} = e^{\hat{\gamma}_A} - 1 \,. \tag{8}$$

With $\hat{\gamma}_A = 0.314$, the implied AVE is 36.89%.

## Annex 5: typology of tourism destination in sub-Saharan Africa (World Bank 2011a)

In order to better understand which SSA destinations are highest performing and why, a typology of SSA destinations was developed by the World Bank's Africa Region tourism team, using seven key indicators[49]. The resulting categories are:

- ***Pre-emergent.*** These are countries that have *not yet developed* their tourism sectors. They have governance or security challenges, have shown low interest in tourism, and have low short-to medium–term tourism growth prospects. This group also includes three countries with little or no tourism data: Somalia, Liberia, and Equatorial Guinea.

- ***Potential.*** These are countries *initiating tourism*. These countries are working on governance issues, have shown some interest in tourism, have some basic infrastructure for tourism, but still face difficulties with tourism regulation, resources, and institutions.

- ***Emerging.*** These are countries *scaling-up tourism*. These countries have solid institutions, are prioritizing tourism, and are performing reasonably well in terms of quality and competitiveness.

- ***Consolidating.*** These are countries that are working on *deepening and sustaining success*. These countries have relatively mature tourism sectors, are committed to tourism, and are in the top ten countries for economic and tourism performance.

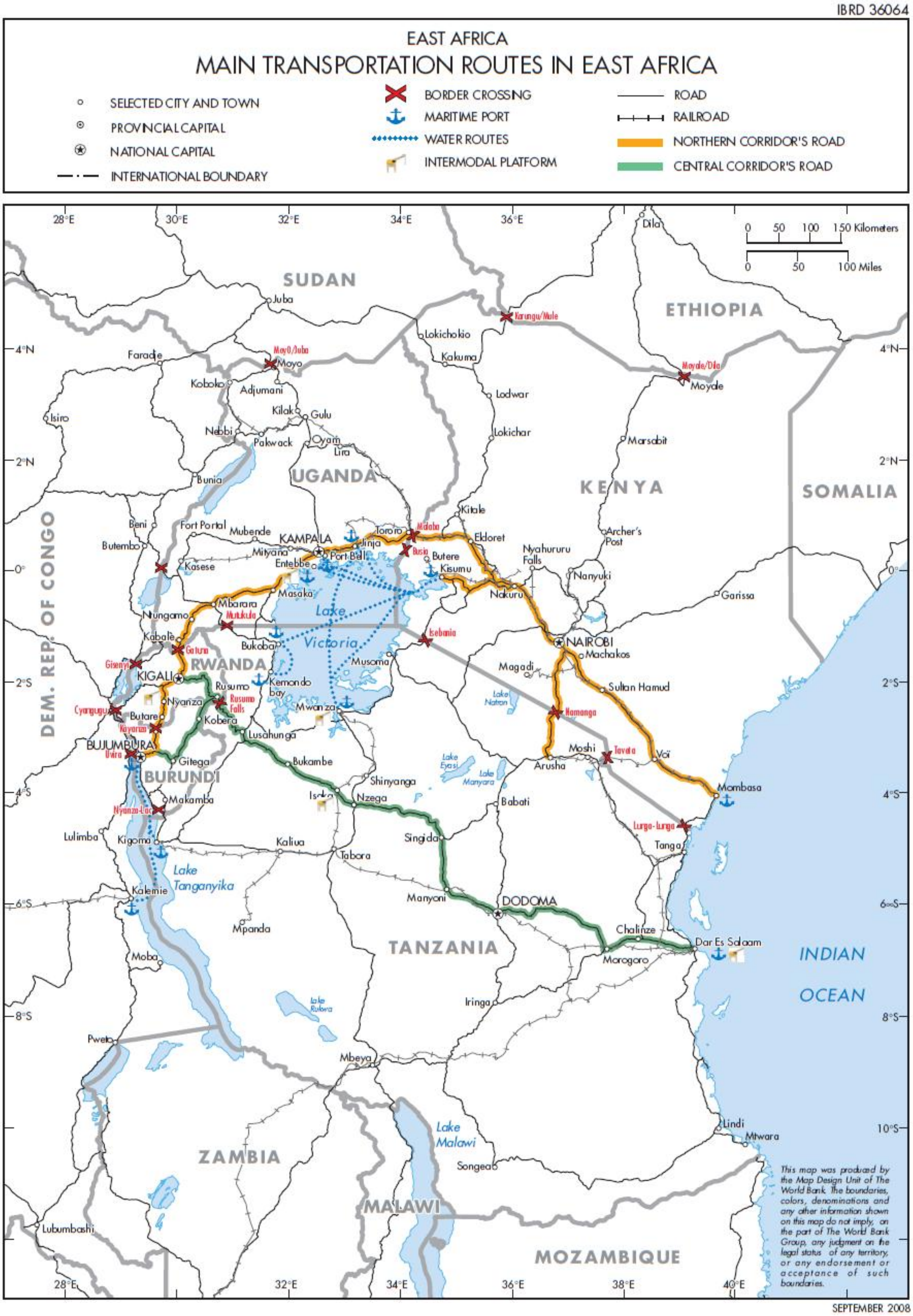
| **Summary of tourism strategy recommendations by development sequence** | | |
|---|---|---|
| **Development sequence** | **Strategy area** | **Strategy recommendation** |
| **INITIATING TOURISM** | *Institutional Foundations*<br><br>*Infrastructure Foundations*<br>*Policy foundations* | • Build and sustain commitment to tourism from leadership in the country<br>• Focus scarce resources on the tourism segments and locations of highest potential following a fact-based evaluation of assets, discussion of alternatives, and consideration of potential impacts and constraints<br>• Put in place institutional mechanisms for implementing the strategy, engaging selected local governments, other ministries, the private sector, donors, and local communities<br>• Put in place independent monitoring to help ensure transparency and accountability<br>• Enhance access infrastructure, utilities and sanitation in the selected locations<br>• Streamline visa and work permit processing for the key tourism segments<br>• Review and improve in the selected locations land policies including registration, tenure, and land use to enable the use of property as collateral<br>• Review transport policies; consider open skies policy in selected locations<br>• Review labor policies in selected locations<br>• Address critical health and security concerns in selected locations<br>• Support strategic first movers |
| **SCALING-UP** | *Destination* | • Scale-up and replicate success in other high potential zones |

[49] International arrivals relative to population (World Bank SSA Tourism Database); tourist receipts per long-haul tourist arrival (UNWTO data); forecasted growth in tourist arrivals 2010 to 2020 (WTTC data); Doing Business rank for SSA (The World Bank's Doing Business Report 2010); Tourism Competitiveness Index for tourism regulation, infrastructure, and tourism resources (World Economic Forum, TTCI index).

| | | |
|---|---|---|
| **TOURISM** | *planning and incremental infrastructure*<br>*Investment and destination promotion*<br><br>*Access to land and finance*<br><br>*Adaptive growth management* | • Undertake thorough economic, environmental, and social analysis of each project/destination area prior to development<br>• Provide information and support such as destination research and incentive programs, and support to anchor investments<br>• Promote the destination and products; consider new markets and products; study the branding of competing destinations<br>• Engage in ongoing investor promotion and follow-up such as aftercare<br>• Generalize policy reforms<br>• Provide SME and micro finance support with a focus on women and young people in tourism development<br>• Promote and facilitate public-private partnerships (PPPs)<br>• Decentralize responsibilities and build capacity of local governments<br>• Monitor destination areas for signs of stress (e.g., consult with local communities) |
| **DEEPENING AND SUSTAINING SUCCESS** | *Diversification and high-value added*<br><br>*World class tourism competencies*<br><br>*Social inclusiveness*<br><br>*Environmental management* | • Explore options for new markets such as cultural heritage, intra-regional travel, MICE (Meetings, Incentives, Conferencing & Exhibitions)<br>• Add value to existing products and support product innovation in order to improve economic multipliers and length of tourist season<br>• Develop customer awareness and a culture of tourism<br>• Provide technical/vocational and professional capacity building<br>• Support entrepreneurship with programs to encourage SME expansion<br>• Include tourism awareness in community outreach activities and school curricula<br>• Enhance community linkages by promoting local sourcing of goods where possible<br>• Recognize and support informal tourism services and supply chain<br>• Develop standards to encourage sustainable tourism operations<br>• Develop policies to anticipate and mitigate the impacts of climate change; mainstream carbon-friendly technologies<br>• Develop and use sustainable tourism indicators to monitor destination performance |

Source: World Bank (2011a)

## Annex 6: Main transportation routes in East Africa




Source: World Bank