

A Review of the Trade and Poverty Content in PRSPs and Loan-Related Documents¹

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1. Introduction

It is an old adage that *beggars cannot be choosers*, but creditors have powers over debtors too. This was seen most starkly in North-South relations in the two decades which succeeded the brief era of ‘commodity power’ (1973-79) when structural adjustment policies imposed on the weaker developing countries a ‘Post-Washington Consensus’. This included among its ingredients trade liberalisation and market openness without any of the preferential asymmetry to which poor developing debtor countries, especially in Africa, would have been entitled to before or since.

The conditionalities associated with structural adjustment are now acknowledged by both the World Bank (WB) and the International Monetary Fund (IMF) to have not been a thoroughgoing success. With the urgent need for more flexible debt relief amid continuing commodity earnings declines, came HIPC; with the renewed donor focus on poverty came the Comprehensive Development Framework (CDF); and finally in the late nineties, a donor- and creditor-led restructuring and refocusing of development assistance and debt relief was devised and implemented based on poverty reduction strategies and the related agreed national programmes and papers (PRSPs). Aside from their spending-focus on domestic social (rather than international, traded and production) sectors, PRSPs ostensibly had the distinctive feature that they were ‘owned’ by the developing country concerned and generated there by consultation within government and between government and the private sector and civil society, not handed down from Washington. Logically, the lending programmes which have followed on from (eventually donor grant-funded) PRSPs should have similar or at least complementary orientations. If there is a mismatch between the trade, international or even production focus between PRSPs and the succeeding lending, that might be a concern as great as the previous, sometimes unhelpful, bias towards external trade liberalisation of the previous Structural Adjustment Programmes and Structural Adjustment Loans. The aim of this study, therefore, is to investigate the trade and poverty content of existing PRSPs and loan-related documents.

Thus, responding to widespread demands that the development and recovery process in HIPC countries be locally owned, and recognising that Structural Adjustment Programmes of the previous two decades had had mixed results, especially in Sub-Saharan Africa, the International Financial Institutions (the WB and IMF, hereafter called the IFIs) with the consent of leading bilateral aid donors introduced the PRSP process in 1999. The objectives of PRSPs include improving donor coordination and ensuring that governments and civil society groups take the lead in defining policies. PRSPs aim to put poverty alleviation at the core of national spending priorities by integrating macroeconomic, social and sectoral policies.

Although the WB and IMF maintain that they have moved away from a one-size-fits-all approach to policymaking, partly through decentralising operations and adopting consultation exercises, many commentators have complained that macroeconomic policy choices have not been adequately debated and that few countries have deviated from the Washington Consensus (Whaites (2002); DFID (2002)). This could be for a number of reasons. The **main criticism** often put forward is that the IFIs and donors

hold the purse strings, and influence what developing country governments sign up to in exchange for lending. In conformation with the new poverty focussed approaches of PRSPs, following Structural Adjustment Lending the WB has developed the Poverty Reduction Support Credit (PRS-C), whereas the IMF transformed the Enhanced Structural Adjustment Facility into the Poverty Reduction Growth Facility (PRGF). Both of these instruments might be expected to be in support of the PRSPs of developing countries. However, the possible folding in of the PRGF and PRS-C conditionalities within the HIPC Completion Point triggers is a source of worry for some stakeholders, concerned that PRSPs will be inviolable as the centrepiece of national policy while the IFIs continue to possess the leverage of their lending instruments.

A **second criticism** is that the IFIs no longer need rely on financial incentives alone, as their influence in the PRSP process may be winning arguments upstream. Through global and national-level studies, and extensive networks of contacts, the IFIs have a strong influence on policy debates. In addition to their knowledge advantage the most influential position is where their lending function, imposing conditions, supports this advice.

Trade liberalisation and economic openness have continued to be key elements of IFI supported programs over the past quarter-century. It is an article of faith of the Washington Consensus that trade liberalisation plays a key role in achieving sustainable economic growth. There has also been discussion about the impact on the poor of structural reform in general and trade policy reform in particular. The assumption on the linkage between trade and poverty is that trade liberalisation is good for growth allowing resource allocation consistent with the exploitation of comparative advantage, thereby increasing productivity and permitting the import of diverse and modern technologies that are important for productivity improvements. In turn, it is also assumed that growth in incomes of the poor is strongly related to the overall growth of the economy. The emphasis, therefore is on trade liberalisation helping the poor overall through trickle-back if not through trickle-down effects. However, while cross-country studies have generally indicated the growth effectiveness of outward-looking policies, recent criticisms have called this conclusion into question. In a detailed review of the most influential studies on trade liberalisation and growth, Rodriguez and Rodrik (1999) express scepticism “that there is a strong negative relationship in the data between trade barriers and economic growth, at least for levels of trade restrictions observed in practice”. Moreover, they “view the search for such a relationship as futile”. They conclude that indicators of openness generally confuse trade volumes with particular policy stances, so that the results found in such studies fail to be robust. They advocate that no single relationship between trade policy and growth rates holds for different countries across different time periods. Lutz (2001) analyses recent theoretical and empirical approaches on the relationship between trade liberalisation and growth. He finds no evidence for convergence in growth rates between liberalising economies. He concludes that neither theory nor evidence provides robust proof of a positive relationship between openness and growth. Harrison and Hanson (1999) examine the impact of trade liberalisation on employment and the distribution of costs of reform across different groups. They argue that recent studies examining the link between openness and growth are inconclusive because indicators of trade openness are flawed. Finally, in a recent contribution, Chang (2002) asserts that *interventionist*

trade policy has been instrumental in determining the success of most industrialised countries during their development. He cites the case of the US, which in the late 19th and early 20th century imposed some of the highest import tariffs in the world. Similarly, the temporary industrial protection allowed to countries like Korea during their growth phase as NICs is widely documented and cited.

While maintaining that adjustment costs are low relative to the gains from trade, the IFIs concede that in the short run liberalisation may have an adverse effect on some groups of poor people, depending on their sources of income and the impact on the prices of goods and services that they consume. Thus, there is a need to examine the impact of trade liberalisation in some detail to help design policies that protect those among the poor who may be adversely affected by trade. The WB and IMF suggest that there are at least **three ways** to deal with these possible negative impacts.

First is to plan trade policy reform in a sequenced manner and in the context of a comprehensive and domestically owned development agenda encompassing financial reform, institutional change and improved delivery of social services.

Second is to compensate those who are hurt by trade reforms. The World Bank PRSP Sourcebook Chapter on International Trade emphasises the importance of combining trade liberalisation with effective safety nets.

Third is to analyse the impact of proposed trade policy measures through conducting Poverty and Social Impact Analysis (PSIA). The IFIs, under pressure from NGOs and some donors, have agreed to introduce more systematic analysis of the likely poverty impact of policies proposed in their loans. This analysis is to help inform national debate about social and economic policies, and make explicit and accessible the logic underpinning reform proposals and conditions. PSIA attempts to assess the consequences of policy interventions – before, during and after – on the well-being of different social groups, with a special focus on the vulnerable and the poor. Amongst the structural and sectoral reforms and policies that could be subject to PSIA are those related to international trade. When policies are expected to have adverse effects on the poor countervailing measures can be built into programs.

NGOs, however, have expressed concern that their objectives of opening up debates about different social and economic policy options are not being met through such approaches. Bilateral donors too, while being contributing members of the IFIs themselves, also harbour and sometimes express doubts; while developing country governments themselves express their doubts less overtly for the reasons outlined earlier.

The structure of this report is as follows. Section 2 sets out the objectives of the research in more detail and section 3 discusses the results of our audit. Section 4 continues by providing an overview of the influence of IFIs on the PRSP process. Finally section 5 provides a summary of conclusions and policy recommendations based on the findings of this report.

2. Objectives and Method

The objectives of this study are to review the trade and poverty content of existing PRSPs and loan-related documents (such as PRS-Cs and PRGF Memoranda of Understanding), and to assess how any discussion of trade policy has been informed by an understanding and analysis of poverty in each country. The research questions include:

- 1) Is there an identifiable section in the PRSP relating to trade?
- 2) Does any trade section relate back to, and is it informed by, the description and analysis of poverty covered at the beginning of the PRSP?
 - In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty (risk, access to services and voice), does this inform the trade section of the document?
- 3) Does the PRSP discuss trade policy options explicitly?
 - Is there an understanding of how they might differ from sector to sector?
 - Is there an understanding of how they might differ in their impact on vulnerable groups?
 - Is there an explicit discussion of trade and gender linkages?
 - Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments?
- 4) Does the PRSP cover other national and international factors affecting trade?
 - Does any discussion take into account supply-side constraints on trade including infrastructure, education, information and marketing?
 - Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?
 - Does the discussion cover demand side constraints such as market access in other countries, regions and / or industrialised countries?
 - Are ongoing discussions in the WTO referred to and analysed?
 - Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?
- 5) Is there any discussion on how the content of any trade section in the PRSP was formed?
 - If so, who participated in, or was consulted, in drafting the text?
 - Who was responsible for the final draft of the text?
 - To what extent does it reflect the content and direction of the World Bank Sourcebook Chapter on International Trade?
- 6) To what extent, and in what depth, does any of the trade / poverty analysis of completed PRSPs (including trade policy reform measures and recommendations) inform and determine the content of the creditors' and donors' lending instruments, the PRS-C and the PRGF? Are the loan conditions relating to exports, commodities, international trade, foreign exchange revenues, and so on, shaped in any way by the preceding PRSPs?

3. Results of the Study

For seventeen countries (nine in Africa, four in the western hemisphere, two in Asia and two transitional) which had completed their PRSPs, a number of policy documents were analysed. These were the PRSPs, the review of the PRGF, the PRS-C documents and the World Bank Sourcebook Chapter on International Trade.

We analysed the documents with respect to **six main issues**. **First**, we examined whether trade policy is explicitly treated as a section in the document. **Second**, we looked at whether any trade discussion was reflected and influenced by definitions of poverty covered within the documents i.e. whether the poverty impact of trade policy had been mentioned. **Third**, we observed whether the documents discussed trade policy options explicitly and **fourth** we noted whether other demand or supply-side factors that could influence international trade had been considered. **Fifth**, we examined whether any evidence had been provided in the documents as to how the content of any trade discussion had been formulated and the extent to which this content reflected the views of the IFIs. **Finally**, we analysed whether any trade / poverty analysis within completed PRSPs had influenced the content of any related loan documents.

The results of this report are presented in individual country notes (see appendix 1). These notes contain supporting evidence for the judgements made in the summary matrix (figure 1) that presents the main results. In brief, these are the findings.

3.1 Is Trade Policy Treated Explicitly in PRSPs?

Trade policy was generally not treated as an *autonomous* section in most of the PRSPs that were analysed. The only cases where trade policy had been covered as an identifiable section in PRSPs were for Ethiopia, Honduras, Malawi, Mozambique, Tajikistan, Vietnam, Yemen and Zambia. Overall such sections were found to be brief and subsumed within a much broader discussion of the macroeconomic environment. However, all the PRSPs did include at least some mention of trade policy which was often spread thinly throughout the documents. Similarly, even for those countries which possessed an identifiable trade section within their PRSP elements of trade policy frequently arose throughout different sections dealing with, for example, agriculture, tourism and infrastructure. In general the focus of trade policy discussion was on (the promotion of) exports. Very little coverage of policy regarding (liberalisation of) imports was provided for other than support for broadly defined trade liberalisation.

3.2 Is Trade Policy Being Informed by Descriptions and Analyses of Poverty?

Generally, the attention paid to the poverty impact of trade reform in PRSPs, even for those countries with an identifiable trade section, was found to be very weak. Although all PRSPs were found to have discussed and analysed both income and non-income aspects of poverty this rarely informed trade policy. The most common exception, e.g. for Bolivia and Nicaragua, was discussion and limited analysis of the effect of external price shocks on the poor. Linkages between trade policy and access to basic services and voice were found to be absent in all of the documents

Figure 1: Summary Matrix of Trade and Poverty Content in PRSPs

	Albania	Bolivia	Burkina Faso	Ethiopia	Guinea	Guyana	Honduras	Malawi	Mozambique	Nicaragua	Rwanda	Tajikistan	Tanzania	Uganda	Vietnam	Yemen	Zambia	Total
IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?	x	x	x	✓	x	x	✓	✓	✓	x	x	✓	x	x	✓	✓	✓	8
DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP?	✓	✓	x	✓	x	x	x	x	✓	✓	x	x	✓	x	✓	x	✓	8
In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document?	x	✓	x	x	x	x	x	x	✓	✓	x	x	x	x	x	x	x	3
- risk	x	✓	x	x	x	x	x	x	✓	✓	x	x	x	x	x	x	x	3
- access to basic services	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	0
- voice	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	0
DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY?	x	x	✓	✓	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	11
Is there an understanding of how they might differ from sector to sector?	x	x	✓	x	x	✓	x	x	✓	x	✓	✓	✓	x	✓	x	✓	8
Is there an understanding of how they might differ in their impact on vulnerable groups?	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	✓	1
Is there an explicit discussion of trade and gender linkages?	x	x	x	x	x	x	x	x	x	x	x	x	x	x	✓	x	✓	2
Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments?	x	x	x	✓	x	x	x	x	x	✓	x	x	x	x	✓	x	✓	4
DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE?	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	17
Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	17
Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?	✓	✓	✓	✓	✓	x	✓	✓	✓	✓	✓	x	x	x	x	✓	✓	12
Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised?	✓	✓	x	✓	x	x	✓	x	x	x	x	✓	x	x	✓	x	x	6
Are ongoing discussions in the WTO referred to and analysed?	✓	x	x	x	x	x	✓	x	x	x	✓	x	x	x	✓	✓	x	5
Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	0
IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?	✓	✓	✓	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	15
If so, who participated in, or was consulted, in drafting the text?	✓	✓	✓	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	15
Who was responsible for the final draft text?	✓	x	✓	x	x	x	✓	✓	x	✓	x	✓	✓	x	x	x	✓	8
To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?	✓	✓	✓	x	✓	✓	✓	✓	✓	✓	x	✓	✓	✓	✓	✓	x	13
DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?	✓	✓	✓	x	x	✓	✓	x	✓	✓	✓	✓	x	x	✓	✓	✓	12

3.3 Do PRSPs Discuss Trade Policy Options Explicitly?

About half of the PRSPs reviewed discussed trade policy options. With the exceptions of Ethiopia, Nicaragua, Vietnam and Zambia these discussions took place for the various approaches that could be used to enhance the export performance of various sectors (typically agriculture, manufacturing and tourism). The PRSPs for Ethiopia and Nicaragua placed some emphasis on trade policy being used to promote the well-being of the rural poor, although no distinction was made between the impact such policy would have on consumers and producer groups. Vietnam's PRSP went further to also include a brief discussion about how trade promotion could be used to benefit female entrepreneurs. The PRSP for Zambia, in addition, considered how trade policy would be used to benefit smallholder farmers which it perceived to be a particularly vulnerable target group.

3.4 Do PRSPs Discuss Other National and International Factors Affecting Trade?

An area of consistency in the trade policy of all the PRSPs reviewed was that other significant measures that affect trade were found to be discussed. Development of infrastructure (ports, telecommunications, road, rail and air networks) were found to be thoroughly covered in all the documents and, although the link was not always made explicit, such measures facilitate trade through the reduction of transactions costs. Most countries also made some attempt at examining issues of trade not solely at the international level. Where relevant, this often consisted of trade policy in the context of regional agreements that had either recently come into force or were being planned for the future. About half of the countries complained of market access restrictions in foreign markets, commonly associated with failure to meet strict standards or compete under conditions of high transport costs. With the exceptions of Albania, Honduras, Rwanda, Vietnam and Yemen, commitments under the WTO were absent from any discussion of trade policy². For the preceding countries, where such an analysis had been found to have taken place, (usually within the context of an application or recent acceptance of membership) no PRSP took into account whether domestic formulation of poverty sensitive trade policy would be in contradiction to WTO rules.

3.5 How is the Content of any Trade Policy in PRSPs Formed and is it Consistent with the Views Expressed in the World Bank PRSP Sourcebook on International Trade?

The PRSPs for Ethiopia and Guinea did not provide any discussion of the consultation process which had been adopted in the formulation of the documents. Other than Malawi, all other PRSPs reviewed contained some information about how the documents *as a whole* had been derived. Malawi was the only country to list membership for each of its thematic working groups which had been responsible for writing specific sections (e.g. on trade) of the draft. For those countries which had indicated the group responsible for drafting the final text (for the PRSP as a whole) this was found to be often based in a Ministry of Finance or its equivalent.

² Of the 17 countries examined, Ethiopia, Tajikistan, Vietnam and Yemen are not members of the WTO.

In terms of direction, discussions in all the PRSPs reviewed were either entirely or broadly consistent with the WB and IMF line on trade policy (see appendix 3 for a summary of IFI approaches to trade in PRSPs). However, for four countries we found a number of issue-specific deviations from the Washington consensus on trade.

First, in the case of Ethiopia, ADLI³ constituted the main departure from WB philosophy through advocating the use of protection with offsetting policies for exporters (e.g. duty drawback). The WB considers such an approach to be second best to a liberalised import regime. Second, for Rwanda, the use of subsidies for coffee inputs was justified in the PRSP, against the WB stance which views such intervention as costly and distortionary. Third, for Vietnam, antidumping tariffs were suggested as a means to counter “unfair competition”, the use of which the WB views with scepticism for fear of capture by domestic lobbies. Finally, the PRSP for Zambia placed emphasis on the use of Export Promotion Zones, which the WB assesses to have been poorly managed and unsuccessful throughout Africa as a whole.

3.6 Do the Trade Policy Components in PRSPs Inform Loan Documents (PRS-C and PRGF)?

In order to answer the preceding question for the seventeen selected countries a number of loan documents were analysed: PRGF and PRS-C documents, Letters of Intent (including the memorandum of economic and financial policies) and Development Letters. Access to loan documents for the study was limited since not all documentation had been made available on the IFI or national websites. Furthermore, since documents are generally put on the websites several months after their publication we encountered problems with obtaining loan documents for recently completed PRSPs due to their sequencing. However, we believe that it is possible to draw conclusions on the basis of the available loan-related documents that were found for all countries except Guinea.

Overall the loan documentation appeared to focus on macroeconomic and structural policies, while PRSPs took these policies as a point of departure and added a poverty component. The loan documents often set conditions on trade reform that failed to be underpinned by sufficient analysis of the links between poverty and trade policy e.g. the PRS-Cs of Albania and Burkina Faso propose that continued trade liberalisation is a *causa sine qua non* for growth and poverty reduction without any discussion of policy alternatives. Only one of the PRS-C arrangements studied included a PSIA related to trade policy (Vietnam).

In a number of cases we observed that PRSPs were consistent with PRGF and PRS-C programs. We noted four exceptions where PRGF and PRS-C trade policy components were not based on a similar discussion in the PRSP. First, for Ethiopia, the ADLI macroeconomic program referred to in the PRSP was not mentioned in the loan documents. This may have been a reflection of the inconsistencies between ADLI and the IFI’s preferred approach to economic management and trade policy. Second, in the case of Malawi, the loan documents referred to food import subsidies and adjustments in trade taxes that were not discussed under the PRSP. Third, for Tanzania, the Letter of Intent provided much more sectoral discussion of trade policy than did the PRSP. The PRSP also failed to provide any commentary on SADC, EAC and unification of the tariff structure which were elaborated upon in the Letter of

³ The Agricultural Development-Led Industrialisation national strategy.

Intent. Similarly, the Ugandan Letter of Intent also discussed regional and preferential trade agreements (EAC, AGOA and EBA) which were overlooked in its PRSP.

4. The Influence of the WB and IMF on the PRSP Process

A result of our audit suggests that the trade content of existing PRSPs is broadly consistent with the stances taken on trade policy by the WB and IMF, often set out as conditions within loan documents. This observation begs the question as to the influence that the IMF and WB have had on the nationally owned PRSP process. This section proceeds to outline the various pathways of their influence and the extent to which this has been perceived to be a problem by donors, NGOs and civil society groups. In particular we discuss how IFI roles in analytical work, the PRSP consultation process and trade capacity building in developing countries has allowed them to shape the trade and poverty content of national poverty strategies.

4.1 IMF and WB Analytical Work

In theory, the IFIs are now prepared to let borrowing developing country governments set their own policies. In practice, these institutions and the bilateral donors (especially when operating in consortium) have strong influence over the choices made in PRSPs. Their role in setting lending conditions and being the most prominent development research institutions issuing data and studies on a wide range of topics is well known. IMF and WB studies make recommendations that have to be taken very seriously by developing countries negotiating funding with donors. Are these studies being produced without the involvement of those officials in governments and civil society groups who are presupposed to be the main stakeholders in the PRSP process? The WB has long conducted analysis in developing countries. This analysis serves as a building block for Country Assistance Strategies (CAS) which set out programmes for each country and policy changes that must be made in exchange for WB support. The WB's Economic and Sector Work – the studies it carries out or commissions in its client countries to examine economic policy, institutions and reforms – may be the source of official views which dominate the PRSP process at the expense of civil society inputs. Since the introduction of the PRSP process the WB is increasing its output (IBRD/IDA (2001)) and scope (Martin (2000)) of such studies. However, very few studies appear to examine the link between trade, growth and poverty.

The WB's country studies feed into its Country Policy and Institutional Assessment exercises that rate and determine how much money countries receive. The rating is based on 20 criteria, covering economic management, structural policies, policies for social inclusion, public sector management and institutions. Under this system the WB rates the extent to which governments comply with the creditor community's definition of good policies, and then allocates more funds to governments that score well. In 2001 the WB allocated almost five times more money to governments that achieved its 'A' rating compared to those rated 'F' (Globalization Challenge Initiative (2002)). The WB argues that it must carry out certain assessments to ensure that its funds are properly used and will be repaid. These include reviews of public expenditure, financial accountability and procurement (IBRD/IDA (2001)). There is also a case to be made that it must undertake these studies since few others are doing serious policy analyses in these areas (World Bank (2001a)). These reports have the advantage of accessibility and transparency to a level unknown two decades ago.

The WB conducts two main forms of analysis in its client countries: core reports which are national in scope and carried out for all countries, and sector- or issue-specific reports which are done only in selected countries (see figure 2). The WB also produces some regional reports and less formal policy notes, often resulting from workshops and conferences.

Figure 2: WB In-Country Reports

<i>Core Reports</i>	
Poverty Assessments – Aim to provide in-depth analysis of poverty issues, and evaluate the effects of economic and social policies on the poor.	
Country economic memoranda or Development policy reviews – Provide an overall assessment of a country’s economic and sectoral policies and development path. Development policy reviews are gradually replacing Country economic memoranda.	
Public expenditure reviews – Analyse the equity and efficiency of public expenditure and assess the effectiveness of public expenditure management processes in achieving fiscal discipline and enabling cost-effective public service provision.	
Country financial accountability measures – Diagnose a country’s private and public financial management systems, assess the strengths and weaknesses of public sector accountability arrangements and identify risks any weaknesses pose to the use of WB funds.	
Country procurement assessment reviews – Analyse a country’s public sector purchasing procedures, and establish the need for an action plan to improve a country’s system for procuring goods, works and services.	
<i>Sector or issue reports</i>	
Institutional and governance review	Diagnostic trade integration study
Social protection, health and education sector review	Country infrastructure framework report
Rural development assessment	Corporate governance assessment
Social analysis	Energy-environment review
Country gender assessment	Financial stability assessment
Country environmental analysis	Economy-wide assessment
Financial sector assessment	Review of spending priorities
Investment climate assessment	Ownership assessment

Source: World Bank (2001b)

IFI research is widely disseminated and respected among international audiences (World Bank (2000b)). There is by now a countervailing body of work which is beginning to raise concerns about WB and IMF analyses, viewed as being limited in scope (see Hildyard (1998); Tandon (2000); Mehta (2001); Bretton Woods Project (2001)). Some commentators argue that the IFIs have difficulty understanding and acting on the concerns of the poor because they are politically dominated by the US and other G7 countries (Griffith-Jones (2002)) and because the need to cross physical and social boundaries inherently complicates efforts to predict (Lohmann (1998)). Ellerman (2001) argues that “experimentation, debate and the exercise of critical reason [of WB studies] are curtailed to stay within the safe boundaries of official wisdom”. A more favourable suggestion, however, is that not all studies suffer from these shortcomings, when policy “spaces” are “autonomously created [by] less

powerful actors [who] set agendas” rather than by “powerful actors from above” (Brock and McGee (2002)).

Other authors argue that IFI in-country research simply serves to crowd out local capacity (Randel *et al.* (2002)). Gosovic (2001), suggests that “...global intellectual hegemony should be of special concern to developing countries. Their intellectual dependency means that they tend to rely wholly on a handful of sources in the North for data, analysis, explanation, policy and prescriptions, including in relation to their own national development”. This is a particular concern in francophone countries (and for France herself). Specifically in the case of Benin, but equally valid for other developing countries, Bierschenk *et al.* (2003) propose that donor responses to the capacity problem linked to the PRSP process (technical assistance and establishment of parallel implementation units) result in a high cost for governments in terms of lack of ownership and increased dependency. They argue that “for a given agreed policy measure, there is a general tendency for the government to reduce its own contributions to the process every time donors increase their financial engagement”. Relatively few civil society organisations seem to be involved with WB studies in a substantive way. A recent WB evaluation recognised that “there has been less participation in Public Expenditure Reviews and other aspects of economic and sector work” (World Bank (2001c)). Other WB publications also recognise that analytical work has not changed sufficiently in line with the principles of ownership and participation which underlie the PRSP process (World Bank (2001c); World Bank (2000a)).

Many officials and NGOs support the concept of the introduction of Poverty and Social Impact Analysis (PSIA) which the WB has announced, under pressure from NGOs and some governments, as its new approach. Oxfam and the UK’s Department for International Development are among those who have recommended that the WB make available further analysis of the likely poverty impact of proposed policies to help foster an informed national debate, and make explicit and accessible the economic logic underpinning policy proposals (Oxfam International (2001); DFID (2001)). Ministers in the HIPC Finance Ministers Network recently urged the WB and the IMF to “dramatically accelerate PSIA in HIPCs, [since] analysis of the links between macroeconomic and structural policies and poverty reduction remains among the weakest areas of most PRSPs.” The WB defines PSIA as the “analysis of the distributional impact of policy reforms on the well-being or welfare of different stakeholder groups, with particular focus on the poor and vulnerable” (World Bank (2002a)). PSIA aims to make more transparent the links between policy and poverty and to improve public understanding of the reasoning behind policy choices. This is supposed to encourage the use of more diverse analytical approaches as well as promoting greater transparency and accountability in the process of making policy recommendations (see Appendix 2 for a discussion on PSIA).

4.2 The Consultative Process

Concerns have also been raised about the extent of in-country consultations and the influence the IFIs are having on the nationally-owned PRSP process (see Bretton Woods Project (1999); Bretton Woods Project (2000)). Craig and Porter (2001) observe that “PRSPs from wildly divergent countries reveal great universality in vocabulary, process, form, content and even prescription. With some exceptions, PRSPs provide a good deal of evidence of the macro still driving the national, the global the local, the rational the practical, the technical driving the political and economic”. Many contributions of the recent official review of PRSPs recognise that “in several cases countries put forward macroeconomic and structural policies that were similar to those of the recent past” (World Bank and IMF (2001)). Even official donors in strong support of the IFIs have expressed concern on behalf of development partners. DFID (2002) point out that “increasingly, national NGOs and CSOs are expressing concern that the new agenda around PRSPs has failed to deliver both a different way of doing business and a real dialogue around a broader choice of policy options. It is a matter of concern if NGOs and CSOs become disenchanted and disengage at an early stage in the formulation of a PRSP”. Abugre (2000) adds that “if the PRS process were a government-led process, why would the Bank and the Fund send numerous missions to the country to develop the PRS? Why would the Bank develop a 1000 page Sourcebook to tell developing country groups how to create a PRS?”

A growing body of country studies are beginning to emerge which appear to support these views. A recent study on the Ugandan PRSP process found that multi-stakeholder discussions led to very little substantive policy change. The conditionality embodied in the WB’s loans to Uganda did not match the conclusions of the PRSP discussions but appeared to come from an inside track of analysis and discussion (Nyamugasira and Rowden (2002)).

In the case of Malawi, Jenkins and Tsoka (2003) suggest that “there are few grounds for believing that the implicit hypothesis contained within the PRSP approach – that PRSPs will change the nature of conditionality, leading to enhanced ownership of the strategies themselves, and therefore more effective implementation – will hold true in the case of Malawi.” They continue by arguing that “the development of Malawi’s PRSP got off to a slow start in the latter part of 2000, hamstrung initially by the extremely non-consultative nature of the process...” with “...almost complete exclusion of civil society (and indeed bilateral donors as well, who had complained bitterly about excessive Bank intervention), turf battles between the National Economic Council and the Ministry of Finance, and the reliance on previous Policy Framework Papers, which had been fairly crudely assembled into an iPRSP under the direction of a small group of officials working with World Bank Staff members”. In terms of the drafting of the final PRSP they contend that “it is worth noting how large a role donor relations played in this phase of the PRSP’s development. First, the macroeconomic framework i.e. trade and balance of payments of the PRSP was required, under the terms of continued conditionality, to rely on the already agreed IMF/WB framework. This was unrealistic in a variety of – sometimes contradictory – ways. Not least of these was the tendency for growth and trade projections to be tailored to show that Malawi could expand and export its way out of indebtedness if it were granted the recommended level of debt relief.”

For Benin, Bierschenk et al. (2003) suggest that for many people the PRSP is viewed as a replacement for adjustment programmes, simply serving to increase demands on governments with the "...IFIs taking the lead role in the political and macroeconomic spheres". Similarly, for the case of Mali, Dante et al. (2003) find that "some civil servants...judged the PRSP to be a 'political thing', an instrument of the Mali Government and the World Bank" casting doubt on the nationally-owned process. Although they concede that the WB and IMF had limited their influence on the process voluntarily they argue that "the IFIs still have their own lending institutions [PRGF, PRS-C], which will allow them a close engagement with the patterns of public expenditures even if their conditionalities are not directly included in the PRSP". It is even suggested that the Malian authorities went as far as "...reading the PRSPs already accepted (like those of Burkina Faso or Mauritania, available on the IFIs' websites).." so that "...the Malian authorities...could obtain a precise idea of what the IFIs wanted".

In Tanzania Evans and Ngalwea (2003) summarise the PRSP as "...being a relatively modest document that commits the government to little that is new...". They criticise the preparation of the iPRSP as having been hurried and non-consultative "...written with the help of Bank staff based largely on the policy framework set out in the Policy Framework Paper". The full PRSP process took just six months with "representation from both the World Bank and IMF participating in working group meetings..." and "...the Dar-based leading adviser for the World Bank playing a pivotal role in moving the draft through its various stages".

For Mozambique Falck et al. (2003) suggest that the WB and IMF commented on all successive drafts of the PRSP which progressively "took into account [their] comments". They criticise the consultative exercise on the grounds that "...neither the parliament nor the political parties were brought into the PRSP process" and "...awareness among civil society institutions of the content and role of the [PRSP] is low". They suggest that "even if the World Bank and IMF step back and avoid undue interference in the [PRSP] process, there is still a danger that they, by nature of the support and advice they are able to provide, and the close relationship they have with the Ministry of Planning and Finance, become the dominant influence on both the process and content".

Mutebi et al. (2003), for Rwanda, suggest that following the first draft of the full PRSP "there followed considerable debate over several months particularly from the IMF, mainly concerning the macroeconomic framework and the deployment of three public expenditure scenarios. The World Bank also had concerns about some of the sectoral substance, about the need for more prominent attention to governance as a set of cross-cutting issues, and more minor matters of presentation". They argue that such intervention was perceived by the Rwandan government as being unreasonable and late especially since "in March 2002, the Bank insisted that the PRSP be revised before it could be submitted for endorsement".

However, a case can be made for the reluctance of the WB and IMF to fully endorse a hands-off approach to PRSPs. Jenkins and Tsoka (2003) are of the view that there are few grounds for believing that the implicit hypothesis contained within the PRSP approach – that PRSPs will change the nature of conditionality, leading to enhanced ownership and therefore more effective implementation of the strategies themselves –

will hold true for many developing countries due to the absence of high-level political commitment in developing countries. As a result if conditionalities are not enforced there could be "...the worst of both worlds : no ownership, but no responsibility either".

All of the above critiques concern the process of engagement in PRSPs. **Nevertheless it is still remarkable that the critics of the IFIs and the PRSP process almost entirely neglect the core subject of our study: international trade and its impact on poverty.** Almost all of the 21 debtor countries which have successfully negotiated with the IFIs PRSPs are themselves heavily trade-dependent if only to service foreign debt, let alone pursue plausible recovery and development strategies.

4.3 Trade Capacity Building in Developing Countries: The Integrated Framework

The role of the IFIs has also become increasingly dominant in trade capacity-building in PRSPs. In February 2002, the heads of the WB, IMF, WTO, UNDP, UNCTAD and ITC met to discuss the Integrated Framework (IF) – an initiative to enable these agencies to collaborate to help governments in poorer countries understand increasingly complex trade policy areas and better participate in multilateral trade negotiations. Their statement “reaffirmed the lead role of the World Bank in supporting the process to mainstream trade into development plans and strategies for poverty reduction” (World Bank (2002b)).

The IF process begins with the WB leading Diagnostic Trade Integration Studies (DTIS) to “identify specific technical assistance activities and investments that will enhance trade capacities” (World Bank (2002c)). The results of these studies – which will be carried out by WB staff or by consultants – are then expected to be integrated into PRSPs and tabled at donor coordination meetings.

The IF recently received \$18 million from official donors, despite achieving very little in its first phase from 1996 to 2000, according to officials and critics alike (Solignac Lecomte (2001);Prowse (2002)). The first phase of the new IF has recently been completed in Cambodia, Madagascar and Mauritania. Integration studies are underway in 11 other LDCs and are likely to start soon in the remaining 35 LDCs and perhaps also in middle-income countries (WTO (2002)).

The relationship between the DTIS and PRSPs has raised concerns. Rather than shaping trade policies to achieve poverty reduction goals, Wolfensohn (2002) suggests that DTIS “can become important building blocks for governments as they formulate their poverty reduction strategies.” When framed in this way, the choice of models to analyse the benefits of the accepted wisdom of trade liberalisation will profoundly impact the PRSP. Concerns have already been raised that the WB is pursuing its traditional agenda of tariff reduction through these studies, overlooking supply-side measures related to diversification and protection of new industries (Tan (2002)). Rodrik (2000) has criticised the limitations of prominent WB studies on trade, saying that they assume “misleading indicators of trade policy selected to systematically bias results in favour of trade liberalisation and growth.”

NGOs signed a statement in March 2002 arguing that the allocation of the lead role in trade capacity-building to the WB was “a cause for concern” even though the UNDP

and UNCTAD endorsed it. Such groups have urged that developing governments be given “the flexibility to choose the agency and the form of assistance that they feel to be most appropriate.” (Bretton Woods Project (2002a)). This resonates with the recommendations of developing country Trade Ministers for an increase in the “resources for UNCTAD to carry out in a full and effective manner the technical assistance and capacity-building activities on trade related issues” (Zanzibar Declaration (2001)). Our own experience on the ground, through the ODI Fellowship Scheme, is that developing country governments derive more advantage from technical assistance which supplies disinterested competence and expertise; all the more relevant to trade policy where the usual domestic versus international interests and inducements collude.

5. Conclusions and Recommendations

Based on the observations derived from our audit of the trade and poverty content of PRSPs and loan-related documents and from evidence on the influence of the IFIs on the PRSP process, a number of conclusions can be drawn.

First, the extent and depth of trade coverage in completed PRSPs is limited. Most PRSPs tend to focus more on expenditure rather than economic growth. IFI loan instruments appear to be responsible for the asymmetry between the heavy outward orientation in loan conditions, whilst there being a strong emphasis on social spending and redistributive mechanisms, rather than production and growth stimuli, in the PRSPs themselves. This is possibly a result of bilateral donor or NGO pressure and ideologies. Issues such as employment and wages are given more attention in PRSPs but the important linkages between these with production and trade have been omitted. There is a strong economic reasoning to include growth components in PRSPs and these should derive from inputs from national authorities, the productive sector and civil society.

One of the present authors took the opportunity of this study to question the WB’s Vice President for Economics and Chief Economist, Nicholas Stern, in a closed but on-the-record meeting at the Agence Française de Développement in Paris on 19 December 2002, at which he was the sole speaker⁴. His response to the query of why is there so little trade content in current PRSPs while the external orientation and trade policy conditions of PRS-C and other IFI loans is manifest was:

- a) To agree. PRSPs and particularly I-PRSPs are weak on trade policy content;
- b) Early PRSPs were even weak on growth – which made it rather unlikely that they could be distributive at all, given they were for poor indebted countries.
- c) The WB have recognised their own inadequacies in this area and have just created an International Trade Department (after 50 years and as a result of the lessons learned of the post-Washington Consensus, as these featured in nearly half of the Stern speech) “to help in the PRSP process”.
- d) The WB’s involvement in PRSPs is in supporting change. The WB is definite that there will be a bigger role for international trade in PRSPs in the future.

⁴ “Au-delà des frontières : Innovation, Participation et Développement”

Second, the trade content that does exist within PRSPs is rarely underpinned by poverty analysis. In terms of conditionalities it is difficult to see how international trade-related conditions such as fiscal reform, supplementary trade taxes e.g. VAT, tariff reductions and standard trade facilitation measures are justified analytically if they are not underpinned by ex-ante analysis of the likely poverty impact brought about by trade reform. There is, therefore, a need to strengthen such analysis in PRSPs. This can be achieved through an increased use of Poverty and Social Impact Assessments of trade reform and by more vigorous debate about policy options and potential trade-offs between competing interests of sectors and urban and rural populations.

Third, within existing PRSPs, some trade policy choices have been considered, but few developing countries go beyond a simple discussion of standard export promotion measures. Supply-side issues which facilitate trade and complement trade policy e.g. infrastructure, marketing etc. appear to be well covered in PRSPs and, therefore, require urgent donor attention and resources.

For further study the authors recommend that in-country case studies be carried out in three sample cases. Firstly, for Malawi and Zambia, whose PRSPs provide adequate (although still limited) assessment for trade-based recovery. Both countries represent cases where there is heavy reliance on single commodity exports (copper for Zambia and tobacco for Malawi) and where there is a clear priority to diversify. Such countries have, in addition, become poorer because of economic mismanagement and volatile commodity markets. Secondly, in contrast to the above, the case of Ethiopia presents an interesting departure from the Washington consensus on trade policy with its emphasis on Agricultural Development Led Industrialisation (ADLI).

Appendix 1: Country Notes

Albania

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

No, although a rather vague coverage is outlined under the *Macroeconomic Framework* (p. 52): 'In the context of its foreign economic relations, the government plans to make a gradual reduction of the current account deficit to 6.7% in 2004. Over the past few years a part of imported products have been replaced by domestic products, mainly building material and products of light and foodstuff industry. On the other hand, the government will step up its efforts to create conditions for export promotion. This would help to ensure that a considerable part of the remittances from the Albanian emigrants will no longer flow out of the country to finance imports, but would be invested in the country. The trade balance as a share of GDP is forecast to decrease from 21.7% in 2000 (after an increase in the years 2001-2003) to 21.1% in 2004. The private transfers are forecast to amount to \$600 million by 2004, accounting for more than 35% of the volume of imports.'

Other discussion of trade policy in the document concerns reforms relating to Albania's transition to a market economy and objectives for European integration. In particular trade liberalisation - elimination of quantitative restrictions and reductions in tariffs (p. 4).

'The opening up of Albania to the international economy has been a factor of critical importance for all transformation processes in the country. It has helped Albania not merely to cope with emergency situations, but also to receive macroeconomic stability and support the economic recovery and growth. The imports account for about one third of the goods and services delivered to Albanian consumers. With exports amounting to only one fourth of import financing, the economic opening has helped to ensure that most of the imports are financed through one-sided private (emigrants' remittances) and official transfers and the support programs of the international institutions' (p. 39).

'Albanian total exports increased by 129.3% in the 1993-2000 period, at an average growth rate of 16.2%, whereas during the same period imports increased by 77.8%, at an annual growth rate of 9.7%. The difference in the average growth rates is due to the considerable increase of imports in the first years of transition. Despite higher average export growth rates, the trade balance during this entire period has been characterised by a high and rising deficit: from \$490 million in 1993 to \$814.1 million in 2000. The export weaknesses are related to both the exporters' smaller volume than imports and its structure. The export of actively processed goods accounts for the highest share of total exports. The exports of domestic products are low and are mainly composed of mining products, vegetables and medicinal herbs. A positive trend in the import structure is the growing share of machineries and equipment. This has been favoured by the reduction of import tariffs on this category of goods from 5% in 2000 to 2% in 2001. However, it should be noted that the trade policy during the whole transition period, especially until 1999, has been dominated by fiscal objectives. Albania's WTO membership and its regional and European integration efforts are having their favourable effect on the promotion of development-driven objectives of trade policies' (pp. 39-40).

'A characteristic of the 1993-2000 period has been the high level of private transfers, which have financed a considerable part of imports. They amounted to \$438.6 million in 2000. In contrast with the previous years, the balance of services for the years 1999 and 2000 has been closed with a positive surplus, \$101.3 million (under the influence of Kosovo events) and \$2.4 million, respectively. The balance of payments current account has closed with deficit every year, mainly due to the increase of imports. The current account deficit amounted to \$151.8 million in 2000' (p. 40).

'The liberalisation of foreign trade is one of the first measures taken by the Albanian Government in the transition to a market economy. Albania became a member of the World Trade Organisation in 2000. The country's trade regime is assessed to be rather liberal, with a moderate level of customs tariffs, easy system of licenses and an almost complete absence of non-tariff barriers. Nevertheless, the situation of the trade balance has worsened. The import/export relation is nearly four to one. The volume of exports remains at low levels and the base of export products is not diversified' (pp. 63-64).

'A government's priority in the medium-term in regard to the deepening liberalisation and the promotion of exports will be: 1) the free trade agreements with the countries of the region and the EU; 2) the facilitation of the border procedures; 3) approval of the strategy for the promotion of exports and

the revision of the legislation with the aim of facilitating and promoting the exports; 4) the establishment of an export promotion agency and the introduction of mechanisms to guarantee export transactions and 5) the development of export promotion programs' (p. 67).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP?

Yes. In the context of assessing transition reforms 'the experience...in the last 10 years shows that the private property and the market mechanism stimulate the free initiative of the people and create conditions for an effective use of the production resources. But during their implementation process the transition reforms have also been accompanied, especially at the beginning, with the deterioration of some living standard indicators for some particular groups of the population and certain areas of the country....the opening of the country to world trade and culture has led to an explosive increase of the needs of the people, who used to be happy with little in the past. Multiplied needs have been converted into multiple economic activities of many people and, ultimately, into increased well-being. But to many other people, who have limited opportunities, the increase of needs had been merely experienced as an increase of their poverty' (p. 31).

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document? No

- risk No

- access to basic services No

- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY? No

Is there an understanding of how they might differ from sector to sector? No

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages? No

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments? No

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE? Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?

1) *Infrastructure*: 'The development of the economic infrastructure is of an essential importance to support growth and the economic development of the country through trade facilitation, the reduction of production costs, and the increased level of the economy's competitiveness. The objective is to gradually create a network of modern infrastructure (telecommunications, energy, roads, ports, airports) and to set up effective systems for their management and maintenance' (p. 79).

2) *Customs*: 'Improvements of fiscal administration is considered an aspect of special importance. Reforms in the tax and customs administration will be deepened' (p. xxi). 'The facilitation of business access procedures...will be achieved through...increased transparency of the tax and customs administration bodies in their relations with business' (p. 64).

3) *Marketing*: (p. xxiv)

4) *Access to credit*: (p. 15, p. 38).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?

Yes, 'Regional and European integration have become realistic, short-term prospects' (p. 3). 'The fundamental objective of the long-term policies of the Albanian Government, which is based on popular consensus, is Albania's European integration. The fulfilment of the criteria for Albania's association and, subsequently, for its full membership in the EU requires....continued steps for further trade liberalisation' (p. 5).

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised?

Yes. 'The Albanian economy still suffers from the use of backward technology, especially in the countryside. The institutional problems of the land, the low level of credit, the weak infrastructure and lack of access to market are serious obstacles to agriculture' (p. 38).

Are ongoing discussions in the WTO referred to and analysed?

Yes. 'After becoming a WTO member in September 2000, Albania began to advance rapidly on trade liberalisation and on further opening up its economy' (p. 3). 'Albania's membership of the WTO is an important step towards the institutionalisation of the country's trade relations, promotion of foreign investments, reformation of the entire market system and the acceleration of Albania's regional and European integration process' (p. 39).

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?

No, but under the *Action Plan* (p. 108), 'Improvements of trade balance situation by considering appropriate policies and instruments for substitution of a part of imports...' fails to rule out the use of tariffs or NTBs.

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes

If so, who participated in, or was consulted, in drafting the text?

Only mentioned in broad terms. 'The GPRS is a product of the coordinating efforts of the central government, the local government, civil society, the private sector, and representatives from the groups that are mostly affected by poverty and international partners' (p. 7).

'The institutional structure of the preparation of the GPRS is composed of: 1) Steering Committee, 2) Working Group and 3) Sector Technical Working Groups.

The Steering Committee is composed of some of the members of the Inter-Ministerial Committee of Economic Policies, one representative of the donor community and one representative of the Civil Society. It is chaired by the Prime Minister.

The Working Group, set up by the Steering Committee, is responsible for the coordination of the operational activity of all institutional links in the process of the strategy's preparation and implementation. The Working Group, chaired by the Minister of Finance in his role as the GPRS National Coordinator, is composed of the deputy ministers and one department director each from the Ministries of Finance, Health, Education, Labour and Social Affairs, Local Government and Decentralisation, Agriculture, Public Economy and Privatisation, Economic Cooperation and Trade, Transport, Public Works and Tourism. In addition the Working Group appointed two non-government organisations as consultants for the preparation of the strategy: The Institute for Contemporary Studies and the Institute for Fiscal Education.

The Sector Technical Working Groups, set up in the aforementioned ministries, are responsible for the elaboration of the sector issues of the strategy and for the supply of the relevant information. The Sector Technical Working Groups in the Ministries of Labour and Social Affairs, Health, Agriculture and Education and Science are composed of 9-10 members: half of the members are representatives of the ministries, while the other half are representatives of the Civil Society Advisory Groups.' (p. 10).

Consultations also involved parliament, local government and the business community. (p. 14)

'The criteria for the identification of the civil society actors was selective and qualitative. The selective criteria included geographical location, the legal status, the sector interest, the organisational links and the female presence in them. The qualitative criteria related to the representativeness level of the organisation, its ability to articulate and contribute, its interest in the process, and its preferences of sector policies...the process used ensured that the selection was made by the civil society organisations themselves.' (p. 12)

'The main problems encountered in the meetings and during the coordination of the work between Civil Society Advisory Groups and the ministerial Technical Groups can be summed up as follows: 1) difficulties regarding the proper selection of the representatives of the civil society, 2) difficulties in communication, 3) ambiguities in proper perception and implementation of relevant roles' (p. 13).

'The consultations with the parliament were not adequately intensive, because the parliament had dissolved at the moment when the strategy's drafting process had just got underway. The local government is still not fully aware of its role and contribution to the implementation of the strategy, because the decentralisation process is still in its initial stages. Finally, the business community is conservative in its recommendations, because it has misgivings about the chances for their materialisation' (p. 15).

Donor's Role: 'A group with the main donors, under WB guidance, was set up in December 2000. This group, which was composed of representatives from WB, IMF, UNDP, UK (DFID), USAID, UNICEF, Italy, Holland, Canada and OSCE, met several times to discuss the GPRS process and the donors' role. The meetings were also attended by representatives of the Ministry of Finance. The group focused on the further funding process and the GPRS-related priority actions. The donors made their comments on the first and second GPRS drafts...' (p. 18).

Who was responsible for the final draft text?

The document implies that the Ministry of Finance was responsible. 'At the end of May 2001 the Ministry of Finance distributed the first draft of the strategy to the line ministries, the donor community and the civil society representatives' (p. 13).

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent. Although transition process had adverse impact on the poor in the short-run the document concedes 'It should be, however, noted that these costs have been due to sometimes distorted implementation of economic reforms, the incoherencies, delays, contradictions and lack of clear programs, rather than due to their successful implementation' (p. 31).

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRS-C yes although the numerous PSIA studies undertaken do not cover trade (see p. 50).

Under *Macroeconomic Outlook*: 'The current slowdown in major world economies is not expected to have a significant impact on Albanian growth prospects, as the size of Albania's exports and private capital inflows is still limited. However, there is likely to be some reduction in the interest of foreign investors in key privatisation projects, and in the flow of remittances, as the European countries, particularly neighbouring countries where Albanians are working, face a more difficult economic situation. These combined with political uncertainty, could put at risk balance of payments and budget financing in 2002. In the medium term economic growth is projected to remain strong, with GDP growing by 6-7 percent a year. An increase in exports and private sector activities is expected to lead growth during this period...Exports and private remittances are projected to continue to play an important role in supporting growth, given Albania's proximity to the rest of Europe and its low cost labour force. Export growth is expected to strengthen following the transfer of key enterprises to strategic foreign investors (e.g. copper, chromium as well as increases in exports of shoes and textiles. The openness of the economy has contributed to improved domestic production and is expected to lead to increased exports. Imports are projected to grow, reflecting a higher demand for capital equipment associated with stronger investment activities – but at a slower pace than exports. As a result the current account deficit is projected to decline from relatively high rates in the 1990s to more sustainable

levels in the first half of this decade. Albania's recent accession to the WTO is expected to strengthen its trade policy and to provide further incentives for increased investment' (pp. 4-5).

Under *Objective 1: Promoting Sustainable Growth and Supporting Private Sector Development*: 'Intensified efforts are needed to accelerate the development of the rural economy. Agriculture, which is composed of about 400,000 smallholder farms, has been a major force behind Albania's growth since transition and has become the dominant sector – accounting for about 50 percent of GDP. Over the next few years, the rural sector will likely continue to be the main source of employment and income growth for the poor. It is expected that non-farm rural activities will be closely linked to agriculture in the near future. Increased productivity and employment opportunities in rural areas, as well as improved access to and quality of social services and finance institutions, are critical for poverty reduction. The strong growth performance in agriculture in the early transition period was the result of intensive resource utilisation, mainly labour and land, on the thousands of newly created private farms, as these farmers adapted to the changing situation and modified their structure of agricultural production. Since these initial benefits have been reaped, more drastic and more targeted improvements will be needed in the future. The Government has helped to foster a conducive environment for the development of the sector through its ongoing land reform program, key investments in rehabilitating the rural infrastructure, notably irrigation, the reform of the banking sector, and liberalisation of trade and pricing of rural products. Continued implementation of these initiatives should foster further growth, but further efforts are likely to be needed' (p. 15).

'In the area of infrastructure, the energy sector which is critical to fostering growth is facing a serious crisis with a severe electricity shortage necessitating extensive load-shedding. The crisis, which has intensified rapidly and has wide-ranging economic and social implications, is the result of a combination of several factors including: 1) excessive demand caused by chronic failure to curb illegal use and non-payment; 2) impact of a dry year on the largely hydropower-based system; and 3) transmission capacity constraints limiting electricity imports' (p. 16).

Under *Reform Program*: 'The Government intends to maintain macroeconomic stability, which is the backbone of its growth and poverty reduction objectives. For this purpose, it has recently agreed with the IMF on a three-year PRGF program. The objectives of this program are to keep the annual rate of inflation at around 3 percent, to maintain the momentum of growth at around 7 percent a year, and to keep foreign exchange reserves at about 4.5 months of imports. These objectives are expected to be achieved through continued prudent fiscal and monetary policies and through efforts to contain the current account deficit' (p. 16).

Under *the Proposed Credit*: 'The measures supported by the PRSC complement other IDA assistance programs to Albania, particularly in the social sectors (education, health and community social services) and basic infrastructure (transport, water supply and sanitation). A Public Expenditure Support Credit of \$30 million equivalent was approved in May 1999. Other credits approved in 1999 included an Irrigation II Project, a Structural Adjustment Credit, a Micro-credit Project, a Community Works Project, and an Emergency Road Repair Project' (p. 43).

PRGF (Letter of Intent): Yes

'The GPRS recognises that inclusive growth and poverty reduction require a sound macroeconomic framework, and sustainable fiscal and financial policies. In this regard, it aims at balancing increased spending to reduce poverty against the need to ensure macroeconomic stability. The main priorities under the GPRS in support of poverty reduction include: 1) reorientating expenditure towards poverty-sensitive areas – in particular health and education, where indicators have deteriorated sharply since the early 1990s; 2) improving vital infrastructure, especially the provision of electricity and water, which are key requirements for both the welfare of households and supporting productive capacity; 3) strengthening governance and public administration, including reform of the civil service; 4) deepening market institutions and fostering an environment conducive to private investment, notably FDI; and 5) promoting rural development, as well as agricultural and food-processing activities' (p. 3).

'Economic performance in 2002 and thus far in 2002 has been mostly favourable despite electricity shortages and harsh winter weather. GDP growth decelerated to about 6.5% in 2001, somewhat lower than initially expected, owing to weak agricultural growth and worsening electricity situation, while construction and private sector manufacturing remained strong...The current account deficit narrowed in 2001 to 6.25% of GDP, from 7.25% of GDP a year earlier. The widening trade deficit was more than

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accommodated by rapid growth in private remittances in the last quarter of 2001, as well as an increase in net tourism receipts' (p. 4).

'We have proceeded with the reform of tax and customs administration. In the area of customs administration, we have established regional customs directorates and enhanced cooperation with the EU-financed customs assistance mission (CAM-Albania) and the Tax Directorate to improve the valuation of imports and fight under-invoicing' (p. 4).

Under *External Policies*: 'With the envisaged foreign support, we expect that the balance of payments position will remain sustainable. However, Albania's sizeable investment and infrastructure needs and, in the near term, the need for electricity imports, will put pressure on the current account deficit, which is expected to amount to nearly 8.25% of GDP in 2002. By 2005, the current account balance is expected to improve by about 3 percentage points. While private remittances are expected to increase further over the medium term, they should moderate in 2002 with a possible reversal of the exceptional inflows at end-2001. Inflows of foreign direct investment and bilateral and multilateral support are expected to finance the current account deficit, although moderate financing gaps are projected to continue into the medium term and are expected to be filled by other donors, including the World Bank. We intend to ensure the sustainability of foreign borrowing by observing ceilings on medium- and long-term non-concessional borrowing.

We are committed to maintaining a liberal trade regime and enhancing regional cooperation. Since 1998, the top tariff rate has been cut from 30 percent to 15 percent, and further cuts are foreseen in line with our WTO commitments. We are in the process of negotiating a number of regional free trade agreements and, under the terms of the Memorandum of Understanding signed in June 2001, we are working towards concluding these negotiations by end-2002' (p. 12).

Bolivia

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

No. Most references to trade policy are spread throughout the document.

‘Beginning in 1985, the government began the structural reforms that made it possible to stabilize the economy and bring about conditions conducive to growth. These reforms redefined the role of government, turned the economy towards a free market direction, and promoted opening to the rest of the world. Actions were established to liberalize markets for goods and factors, open the economy to foreign trade and liberalize the financial system...’ (p. 18).

‘Opening the economy to foreign trade made it possible to reduce the production costs of tradables. Customs tariff dispersion was eliminated, quasi-tariff barriers were reduced and a tariff system featuring low, uniform rates was adopted’ (p. 19).

‘To promote exports, and particularly non-traditional ones, mixed institutions were established to support the export sector. Measures such as the drawback certificate and customs drawbacks were implemented. These measures increased exports of non-traditional goods and imports of capital goods. The elimination of quantitative restrictions and tariff reduction led to improved expectations in the tradables sector’ (p. 19).

‘On international economic relations it was proposed that a commercial policy should be established to define a legal and regulatory framework for domestic and international trade and the market. In this connection, action is being taken to get countries to eliminate some barriers on imports and Bolivian national exports, such as quasi-tariff instruments derived from sanitary controls’ (p. 52).

‘Support for diversification of non-agricultural income also includes programs specifically directed towards promoting the processing of agricultural products, facilitating their marketing, ensuring effective participation in domestic markets and opening up opportunities on foreign markets’ (p. 68).

‘One of the structural problems that affects Bolivia most is the deficit in the trade balance. In recent years, the trade deficit has been about 8.9% of GDP, which indicates that the Bolivian economy is highly dependent on foreign resources to finance a significant percentage of its imports

To some extent, this situation has been moderated as a result of increased Bolivian exports in traditional products, particularly minerals and natural gas. There has also been significant growth in the area of non-traditional products but it has not yet had a significant impact on the gap between exports and imports.

The domestic market is limited and does not allow for large-scale expansion of non-traditional production activity. This has meant that efforts to promote production activities are limited by the lack of markets for various products.

In this context, it is not enough to tie issues of the relationship with and support from the International Community solely to the area of financing and foreign investment. One of the structural solutions to the problem of the sustainability of Bolivia’s development process is to open markets, particularly in the more developed countries’ (p. 213).

‘Sectors like modern agriculture that are strongly tied to agroindustry and thus an important component of the manufacturing sector, and extractive industries such as hydrocarbons and ores will continue to play a crucial role in the growth of the economy. Exports of natural gas to Brazil, the discovery of zinc and silver deposits and natural gas reserves and possibilities for expanding export volumes and installing plants to convert natural gas to synthetic hydrocarbons should usher in significant increases in the economic growth of these sectors and the economy as a whole. These sectors are also expected to have an effect on other activities such as construction of infrastructure, pipelines for hydrocarbons, roads for mining, construction of thermoelectric plants both to operate the mining complex and to take advantage of abundant natural gas reserves as well as to harness the potential for added value exports in the form of electricity to border towns in Brazil’ (p. 199).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP? Yes

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document?

Yes, but limited to an assessment of risks from external shocks.

- risk

A reasonably in-depth study of external shocks is undertaken which attempts to measure the poverty impact of a loss in terms of trade.

‘In the 1990s, the economy was affected by external shocks and natural phenomena, particularly at the end of that decade when both types of phenomena had a negative effect on growth rates in per capita GDP in 1999 and 2000. It is likely that this contraction of per capita income increased poverty levels’ (p. 202).

‘External shocks and natural phenomena make it necessary to allocate resources through safety nets to replace the losses incurred by households. To estimate the effect of such shocks, a simulation was prepared of the decline in the terms of trade through a reduction in the price of export products that account for a large portion of national exports (soy, zinc and silver)...The estimated results show that if this situation occurred and there were no resources to counteract the effect, economic growth would slow in 2002, reaching only 1.6% (compared with 4.5% estimated for the base year), private consumption would fall by -0.1% and public consumption by -1.1%. (compared to 3.6% and -0.6% estimated in the base year). In the next year (2003) and because a lesser shock is assumed, the economy would grow at a rate of 2.6% (compared to 5.0% in the base scenario) and private consumption would grow at a rate of 0.7% (3.4% in the base scenario). This would mean that per capita income would fall by 0.6% in the year 2002 and grow by only 0.4% in the year 2003. As a result of external shocks, the Headcount Index of poverty would increase in the year 2002 and be slower to decline. In comparison with the base scenario, the Headcount Index of poverty would be 1.5 percentage points higher in 2002 and 2.5 percentage points higher in 2003’ (p. 204).

‘The adverse effect of external shocks and natural disasters affects the effort to reduce poverty and could lead to social unrest due to a decline in incomes and employment and reduced consumption. The economy must also make fiscal adjustments as well as adjustments in the balance of payments so as not to provoke imbalances that could subsequently have a negative effect on future growth rates. The creation of social safety nets is very costly in fiscal terms. It is thus important to ensure flows coming from international cooperation partners for these purposes and to seek preventative mechanisms to provide flexibility and accelerate access to such resources and to earmark them for coping with such external shocks either by creating programs such as the Intensive Employment Program (PIE) or some other type of program to at least avoid sharp declines in income and employment for the poorest population’ (p. 204).

- access to basic services No

- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY? No

Is there an understanding of how they might differ from sector to sector?

No. Tourism is the only sector to be prescribed separately e.g. ‘The BPRS will support the development of rural tourism as an activity for generating non-agricultural income...These actions are interlinked in order to ensure the active participation of the rural populations, as they are the ultimate beneficiary of developing tourism in rural areas. Incentives will be provided to encourage the participation of local populations in developing rural tourism at two different levels. On the one hand, actions will be orientated towards promoting local ownership of programs and projects proposed in the National Tourism Plan. Efforts will be concentrated in developing strategies ...that involve the active participation of local populations. There will also be an effort to promote the development of rural SMEs so that they may undertake initiatives aimed at generating local tourism potential’ (p. 68).

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages? No

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments? No

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE?

Yes. 'Exchange policy consisted in establishing a real, single and flexible exchange rate through min-devaluations. A competitive real exchange rate was maintained through ongoing depreciation of the nominal exchange rate and low domestic inflation levels' (p. 19).

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?

1) *Customs*: 'The Customs Reform...introduced improvements in the efficiency and control of the customs system' (p. 194).

2) *Infrastructure*: 'The insignificant road infrastructure is a significant obstacle to marketing and makes production by small producers difficult owing to high transport costs. Similarly access to public social and financial services is also difficult' (p. 42). 'Actions agreed in support of production and improved production infrastructure refer to 1) establishment of policies on finance, development and promotion to benefit small producers; 2) product marketing systems, 3) technical assistance and productive training and 4) construction, maintenance and improvement of roads and irrigation systems' (p. 50). 'With respect to production infrastructure, the sectors and production networks voiced a need for improved coverage and quality of the infrastructure of services for production and tourism (roads, irrigation, river ports, silos, assembly and marketing systems, land and air terminals, energy, basic sanitation, telecommunications and air transportation). To reduce costs of production services administered by public and private agencies, the following actions were identified: increase the percentage of public investment for infrastructure construction. In addition, rates and tariffs should be updated for operation of infrastructure and production services, to defray maintenance costs and broaden coverage' (p. 52). 'A requirement for reducing poverty is a road infrastructure that allows for economic development. The multiplier effects of an adequate road infrastructure are important for increasing production. The benefits include energizing trade, reducing transaction costs, promoting access to products essential to the development of the most depressed communities, generating employment and facilitating access to basic services' (p. 79). 'The BPRS indicates actions relating to support for microenterprise and microfinance, rural development and construction of infrastructure to benefit the poor population, creating sources of income and employment and giving rural populations greater access to markets' (p. 194). 'Thus, provision of production infrastructure such as irrigation and micro-irrigation systems, rural electrification and roads, legal security in land tenure and technical and technological support in the production, marketing and management of primary agricultural rural activities will make it possible to increase agricultural yields and enhance the productivity of other rural economic activities such as tourism and handicrafts, which will be supported to diversify employment opportunities and increase incomes' (p. 198).

3) *Marketing*: '...it was pointed out that agricultural marketing is conducted through intermediaries, which distorts market incentives, restricting the participation of small producers in competitive markets' (p.46).

4) *Information*: '...transaction costs are quite high which lads to production disincentives and bids up prices of final products, leading to delays and loss of competitiveness. Insufficient information on quality standards, prices and trends in national and international markets was also identified' (p. 47).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?

Yes, but in a general context e.g. 'Based on this background and in an effort to make the International Community a strategic partner for Bolivia's development, the BPRS establishes the need to focus the relationship with the International Community on...incorporating in the agenda for bilateral discussion

those issues that pertain to market liberalisation and free trade treaties with the OECD countries in order to provide long-term sustainability for the development policies contained in the BPRS' (p. 207).

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised?

Yes, but in broad terms e.g. 'Access to competitive markets has been identified as a priority...' (p. 46).

Are ongoing discussions in the WTO referred to and analysed? No

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO? No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED? Yes

If so, who participated in, or was consulted, in drafting the text?

A rather broad description of the process is provided within the text. 'This process brought together the various sectors of the civil society, the policy system and representatives of the State at the local, departmental and national levels...' (p. 45).

Who was responsible for the final draft text? NA

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent.

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRGF (Letter of Intent): Yes

'Since 1985, Bolivia has achieved substantial progress in the areas of macroeconomic stability and structural adjustment under a series of democratically elected governments. Anchored by sound fiscal policy and a comprehensive program of structural reforms, economic growth averaged 4 percent a year during the 1990s, as inflation was reduced to low single-digits. Direct foreign investment exceeded 10 percent of GDP during the latter part of the decade and the import coverage of gross official international reserves rose to more than six months of goods and services. However, despite the overall good performance of the 1990s, external shocks and the negative impact on domestic demand of the successful coca eradication programme, resulted in a sharp economic slowdown in 1999, when real GDP grew by only 0.4 percent' (p. 2).

'The economic recovery in 2000 proved to be slower than envisaged in the program. Real GDP growth is estimated to have recovered to nearly 2.5% in 2000, compared with the program target of 4%. The stagnation of domestic demand continued, owing to falling income in the informal sector from coca eradication and a reduction in contraband-based commerce, as the ongoing customs reform has reduced illegal imports' (p. 3).

'Although there were some delays in the structural adjustment program, progress has been achieved in several areas. The customs reform advanced with the issuance of regulations in August 2000 for implementation of the 1999 Customs Law that establishes an autonomous customs agency with an independent board of directors and professional staff' (p. 4).

'Given the advanced stage of the customs reform, we expect significant revenue increases from taxes on imports in 2001 (10% increase in ordinary customs revenue, including tariffs, VAT, excise taxes, and hydrocarbon taxes on imports). Building on the progress made last year, the Customs administration will implement modern control mechanisms such as: an automated transit control system by June 2001, using magnetic cards; a computerised customs control system being installed (ASYCUDA) is expected to become fully operational by end-2001 for exports, imports and transit regimes; and a system of customs control a posteriori for imports will be established by end-2001. The government is committed to strengthening the Customs administration by assuring the full funding of the agency's budget in the short- and long-term' (p. 5).

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‘The government will continue implementing an exchange rate policy aimed at preserving Bolivia’s external competitiveness. The Government of Bolivia believes that the current exchange rate system, by which the central bank manages the boliviano in the daily foreign exchange auctions, has served the country well. The central bank will continue to monitor developments in the foreign exchange market closely’ (p. 7).

‘The external current account deficit is projected to decline from 5.5% of GDP in 2000 to 5.1% of GDP in 2001. Export growth is expected to reflect continued strong growth of Bolivia’s two major exports, natural gas and soy products. Over the medium term, the current account deficit will remain in the region of 5% of GDP, fully covered by foreign direct investment inflows. The central bank will be able to maintain gross international reserves at more than 5.5 months of imports of goods and services. During the period of the program, Bolivia will keep the current account of the balance of payments free of restrictions and will refrain from increasing external tariffs or introducing non-tariff barriers for balance of payments purposes’ (p. 10).

‘The investment projects in export sectors, such as oil and gas exploration, electric energy and mining, are expected to contribute to a vigorous growth in exports and economic activity over the medium term. Nonetheless, this outlook depends in part on the environment in the region, and the Bolivian authorities stand ready to adjust their policies, if necessary, to ensure attainment of these medium-term objectives. The government will also seek to open export markets through free trade agreements, with the aim of expanding investment in labour intensive sectors, such as agriculture and mining’ (p. 10).

Burkina Faso

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

No. Most references to trade policy are spread throughout the document.

‘Acceleration of growth is a prerequisite for reducing poverty. The Government will therefore implement major structural reforms in order to more fully open up the economy to the outside, lower production costs while improving factor productivity, encourage initiative and support activities to generate income and create jobs, particularly in rural areas’ (p. ii).

‘Macroeconomic performance in Burkina Faso was impressive during the 1990s. Real GDP grew at an average rate of 5% during 1994-99 compared with 3% during 1980-93. Despite a significant deterioration in the terms of trade between 1997 and 1999, the growth rate held steady at 5.6% on average. The increase in GDP was achieved through the adoption and implementation of stabilization and structural adjustment programs – supported by the Burkina Faso development partners – aimed at improving public expenditure management, liberalizing the national economy, and benefiting from a more openness to external trade’ (p. 1).

‘A new paradigm, therefore, has to be adopted to guide macroeconomic policy: a paradigm focusing on the pursuit of quality economic growth, i.e. sustainable growth in the face of external shocks (such as a sudden drop in cotton or gold prices), and stronger because it is fuelled by a broader economic base’ (p. 1).

‘A number of recent government studies have identified the main obstacles to a balanced growth: 1) weak human capital, which contributes to low labour productivity and very high unemployment; 2) inadequate infrastructure for economic development, which explains the high cost of production factors and the narrow scope of the modern sector of the economy; 3) insufficient national capacity, which aggravates governance problems; and 4) the limited external openness of the economy (despite the success of Burkina Faso’s stabilization and adjustment programs), which limits opportunities for growth and job creation’ (p. 2).

‘Efforts to achieve the goals of the strategy paper will focus on a set of programs organized under four strategic objectives, for which quantified priority actions are planned:
Objective 1: Accelerate growth based on equity...- increase the competitiveness of the economy and reduce factor costs...’ (p. 3).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP? No

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document? No

- risk No

- access to basic services No

- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY? Yes

Is there an understanding of how they might differ from sector to sector?

Under *Improving the Competitiveness of the Economy and Reducing Transaction Costs* the document sets out policy measures for agriculture, food crops, cotton, fruits and vegetables, oleaginous crops, livestock, the mining sector, industry, tourism and the extra-territorial economy (pp. 33-37).

In particular:

Agriculture – Livestock:

‘Agriculture and livestock exports will be the main engine of economic growth in Burkina Faso over the medium term. Poverty reduction requires a rapid increase of employment opportunities. While an increase in exports is necessary for higher GDP, the development of non-exports will also be

encouraged, as they strongly affect the domestic economy. Studies carried out in Burkina Faso indicate that rural households devote 45% of their additional revenues on agricultural non-exports and 22% on local non-agricultural products. Because of its multiplying effect, an increase in agricultural revenues will lead to a rapid and direct positive impact on poverty reduction. Furthermore, for reasons having to do with food security and nutritional balance in rural and urban areas, cereal production will be encouraged. The Government will continue to disengage itself from production and marketing activities while strengthening its support and advisory role vis-à-vis private operators (extension services, research and development, information on market conditions), developing the supporting infrastructure needed by the sector (transport, water etc.) and upgrading human resources (basic education, technical and commercial advisory services). Furthermore, to lessen the major constraint associated with total factor productivity, the Government will take the necessary steps to facilitate access for farmers to animal traction and fertilisers. If Burkina Faso is to promote sustainable agriculture capable of ensuring stable incomes for agricultural producers, it is absolutely essential that it focus on moving to more mechanised and intensive agriculture by controlling the supply of water and introducing irrigation techniques – these being the means to promote development and diversification of agricultural production.

The Government's strategy is accordingly based on professionalization of the sector by 1) better organization of the players and the markets; 2) improvement of their intervention capability and 3) reorganisation of the economic environment in which they operate. To this end the Government has undertaken reforms aimed at:

- 1) creating a legal framework conducive to the mergence of professional agricultural organisations, using an approach involving participation of farmer representatives;
- 2) supporting these organisations (by studies and research) in order to set up an effective chamber of agriculture;
- 3) training organization members to improve their productivity;
- 4) creating a framework designed to spur investment in the fields of infrastructure, development, production and marketing, thereby favouring private investment in the agricultural sector;
- 5) improve marketing channels for inputs and agricultural products in order to boost the competitiveness of sectors with a high potential for growth;
- 6) setting up a regulatory framework favouring contract agriculture' (p. 33).

Food Crops: 'For certain grains, such as corn, the Nigerian and Malian markets offer good opportunities, provide that improvements in logistical arrangements and commercial practices reduce distribution costs and facilitate access to credit for wholesalers. This means revising distribution channels. Moreover, the new arrangements will have the added advantage of reducing the incidence of certain dubious business practices and making prices more transparent. Currently the duopoly exercised by BRAKINA and Grand Moulins has a heavy impact on the corn market in Burkina Faso' (p. 34).

Cotton: 'Growth in cotton output could be achieved by speeding up development of land that is currently available but not exploited, by rehabilitating degraded soils and improving access to modern means of production needed to mechanize cotton farming. Above all, however, cotton output could be strongly boosted by policies leading to higher producer prices. Consequently the government will move to restructure the sector in such a way as to dilute the impact of the SOFITEX monopoly, by pursuing a two-pronged strategy:

- 1) Gradual liberalisation of the sector by encouraging entry of new companies and greater competition, which would tend to raise both output and farm-worker income;
- 2) Improved regulation of the sector and of SOFITEX performance by introducing State-SOFITEX performance contracts, which would set output targets for the company and guarantee farmers an internal pricing system more in line with external market conditions' (p. 34).

Fruits and Vegetables: 'Burkina Faso possesses competitive advantage for producing and exporting fruit and vegetables to countries on the coast and to Europe. These advantages should be enhanced in order for this sector to grow. For French beans, in particular, the emphasis should be on research and on training for farmers and packagers so as to improve the quality of the product. Steps should also be taken to end the Air Afrique/Air France duopoly, especially by encouraging 'charter' airline transportation, which would lower air freight costs and improve services. Air Afrique's monopoly of ground services should also be lifted. Finally, an effort should be made to improve the bargaining capabilities of private sector economic agents (through training and information) and to increase storage capacity in warehouses and areas reserved for exports. Other vegetables and fruits such as tomatoes, eggplants, carrots and strawberries could be a profitable line of business, directed at the

extensive markets in Abidjan, Lomé and Accra. As for mangoes, given the favourable agronomic conditions for producing the 'Kent' variety, the emphasis should be on research and conversion of some of the existing plantations. In addition, extra marketing is needed to promote the 'Amelia' variety in Europe and, above all, in countries in the subregion, particularly Niger, Togo and Benin' (p. 34).

Oleaginous crops: 'Sesame is undoubtedly the most promising product in this group. Steps should be taken to allow the company TROPEX to achieve high quality, professional standards. The opening up of the south-west region by extension of the rural road network will help this branch of activity. One possibility would be to concentrate on developing white sesame, which fetches a premium price on international markets. Shea is once again in demand as an input in the food processing industry and in the para-pharmaceutical industry (beauty products). It therefore offers interesting export opportunities for Burkina Faso to exploit. Nevertheless for this to happen, Burkina Faso must first solve the organisational and quality problems that have so far restricted the country's ability to compete. More incentives are needed to encourage private sector participation. In order to get round the constraint imposed by the regulations for cocoa farmers, Burkina Faso's economic agents should arrange, in their contracts, for the products to be picked up at the edge of their fields, and they should investigate which ports are best suited to ship their products...For other products, such as cowpea, output has increased markedly since the devaluation of the CFAF (at an annual average of over 20%). This product is currently sold to Ghana and Côte d'Ivoire. Other buoyant markets exist, and could be exploited if proper trading arrangements are put in place to reduce financing and transport costs. The main potential markets are Togo, Benin and Nigeria, although Nigeria has a greater competitive advantage than Burkina Faso, given its greater proximity' (p. 35).

Livestock: '...the short-term outlook for growth in this sector is limited by the rise in consumer prices and the decline in purchasing power following devaluation. Nevertheless, in the medium and long term, increased urbanisation and growth in per capita income will translate into a growth in domestic demand supplementing that of the countries on the coast, especially Côte d'Ivoire. In order to give Burkina Faso cattle an edge over the Malian competition, preferential agreements should be reached between Burkina Faso exporters and SITARAIL to ensure that specially conditioned wagons are available to transport their animals. The Government should also resolutely pursue liberalisation of the animal hides and skins export sector to make it more competitive and dynamic.

In the case of commercial periurban livestock, breeding levels could be recovered and maintained by providing technical training for producers, better quality veterinary services, the introduction of animal health inspection and substantial funding. In time, the market will grow in line with urbanisation and trends in the purchasing power of the population' (p. 35).

Industry: 'The experience of numerous countries (Thailand, Malaysia, Mauritius etc.) suggests that Burkina Faso, too, could develop new branches of industry, above all through small and medium-sized enterprises (SMEs) and by addressing regional and international markets. That could lead to an export boom that would turn those branches into pillars of growth, leading a transformation of the economy. To accomplish this, the economy of Burkina Faso must become much more open to foreign trade (both to lower the cost of imported inputs and to win market shares) and to direct FDI. There would have to be a firm resolve to open up the economy and to pursue an ambitious export-orientated economic program. The linchpins of future growth should be the SMEs, especially those in the clothing and food processing sectors and manufacturers of simple agricultural materials. Other buoyant segments could devote themselves to fruit and vegetables and horticulture. Here, the State will help economic agents to identify niches for the development and export of new products for which demand is strong on international markets. This export-orientated strategy aims to:

create a much more favourable environment for SMEs by a) retrenchment of State monopolies in the electricity, oil and gas, water and telecommunications sectors; b) simplification of the red tape needed to establish an enterprise and carry out investments: definition of the status of investors and courses open to them; c) revision of the tax system to encourage a boom in SMEs

Exploit opportunities to conquer new external markets. The creation of an information documentation centre to facilitate the gathering, processing and dissemination of economic and business information pooled in a national database integrated to global networks will help keep productive sectors informed. This in turn could lead them to seek out niches and to develop an ethos of quality, effectiveness and competitiveness.

Make private sector support programs more effective by a) setting up a trade point and an entrepreneur centre; b) establishing permanent facilities for Government-private sector consensus building; and c)

formation of a group to reflect on growth and competitiveness issues, an organ that will follow flexible procedures and be responsible for proposing strategies;
 Combat fraud, unfair competition and corruption by reinforcing appropriate judicial mechanisms and through joint action with civil society organisations and private sector;
 Consolidate the legal framework for business by creating and strengthening commercial tribunals' (p. 35).

Tourism: 'Tourism could also expand considerably in Burkina Faso...The constraints are mainly related to its relatively high transportation costs, because it lacks charter flights, and to weaknesses in its accommodation facilities' (p. 35).

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages? No

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments?

No, but some emphasis is placed on improving rural incomes e.g. 'Establishment of the right conditions for accelerated growth in the agricultural sector will have a twin impact on poverty reduction. The first (structural) effect is related to the important part played by agriculture in the performance of the overall economy. This effect derives from the combination of several factors, the most important of which is the net gain in public resources from export revenue (cash crops) and savings due to lower imports of food products compared to those that would have been needed in the event of a shortfall in national output. This public sector surplus will serve to finance access to social services and other transfers to the poor. The second beneficial effect of accelerating agricultural sector growth is more direct and consists of an immediate improvement in farmers' average incomes, and, by extension due to the multiplier effect, rural incomes in general. Given the nature and structure of poverty in Burkina Faso today, that improvement will contribute substantially to aggregate poverty reduction. Poverty in Burkina Faso continues to be an essentially rural phenomenon (accounting for 94% of the total). There are also disparities between one region and another due, above all, to differences in natural resource endowment and within each region subsistence farmers are the worst off (poverty has increased by two percentage points among subsistence farmers and more than three out of four people classified as poor are subsistence farmers)' (p. 45).

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE?

Yes. 'For a country of modest size, such as Burkina Faso, the key factors determining price competitiveness in the short term are the real exchange rate, the terms of trade, and the cost of raw materials and intermediary goods. Given that Burkina Faso is a member of the WAEMU, which has opted for a fixed exchange rate system, it cannot resort to adjustments of the nominal exchange rate to cushion the impact of terms of trade 'shocks' (p. 31).

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?

Market access: 'Production activities in the rural sector are the main source of employment and income for approximately 80% of the population of Burkina Faso. Agriculture and livestock are the primary sectors driving the growth of the national economy, accounting for nearly 35% of GDP and 60% of exports. There are 1300,000 farms, 87% of which focus on subsistence farming and/or extensive livestock breeding, and productivity is low. Small farmers have difficulty securing loans and gaining access to markets and agricultural support services)' (p. 11).

1) *Infrastructure:* 'Macroeconomic stability is a prerequisite for accelerating growth and ensuring the overall competitiveness of the economy. The Government accordingly intends to pursue a policy of ensuring a sound macroeconomic framework that will minimize financial disequilibrium and lead to stable and non-inflationary growth. The actions and reforms necessary to achieve these objectives will focus on efforts to adjust the macroeconomic framework by maintaining a prudent budgetary policy and targeting the development of economic infrastructure and basic social services, coupled with implementation of a more incentive-orientated tax policy aimed at sharpening the country's competitive advantages and reducing the tax burdens on economic operators in the formal sector' (p. 31).

2) *Education:* ‘The authorities in Burkina Faso...will therefore concentrate on exercising control over the factors that determine long-term competitiveness, that is to say factors capable of bringing about lasting changes in production capacity, particularly overall factor productivity. The factors referred to are both primary (labour, capital, energy and transportation) costs and transaction costs. Acceleration of growth and diversification of economic activities presuppose marked increases in the productivity of labour and of capital in all sectors. Raising the productivity of labour requires upgrading skills and raising the average level of education of the population. According to the conclusions of the study on competitiveness, one additional year of schooling of the labour force would translate into a three to four percentage point increase in Burkina Faso’s GDP. That is why Burkina Faso’s growth strategy accords education top priority...Professional training is another essential factor in raising productivity, encouraging private sector investment, attracting foreign capital, facilitating technology transfer, and reinforcing the ability of enterprises to compete in a rapidly changing world market. The sustainability of a high level of growth can only be guaranteed if there are ongoing improvements in labour qualifications. As for capital, studies show that the marginal efficiency of capital is low in Burkina Faso. The incremental capital-output ratio, which measures that efficiency, turns out to be 5, indicating investment productivity of 20%. That is mainly due to the low productivity of public investment, which accounts for three-quarters of total investment. Needed reforms and measures include: 1) raising the gross primary school enrolment ratio and the adult literacy rate, which will contribute to increases in the overall productivity of the economy; 2) lowering the unit labour costs by adjusting the minimum wage and reducing welfare costs borne by formal sector enterprises; 3) increasing the efficiency of public investment by acting on the recommendations of the study on reform of the Public Investment Program (PIP); and 4) accelerating the development of financial markets.

3) *Reduction of Factor Costs:* ‘Burkina Faso has relatively high factor costs, compared with other countries in the region. Transportation, telecommunications, water and energy costs, in particular, are far higher than the average for countries in that area and in many cases the highest. Monopoly-based market structures and the tax system, rather than the disadvantages of being a landlocked country, account for many of Burkina Faso’s non-competitive costs. To eliminate these constraints, the Government has decided to carry out the following reforms: 1) trade liberalisation; 2) privatisation of existing state interests in order to facilitate the entry of new firms, resources and technology into various segments of the market, and 3) the establishment or strengthening of the Government’s regulatory capacity in the public service sector. Transaction costs include non-quantifiable components related to the business environment. Thus, delays in the handling of files, illicit payments to accelerate processing and an ineffective judiciary which delays settlement of lawsuits are examples of hidden costs that may discourage economic agents and hamper investment and growth as much as, if not more than, direct production and sales costs. Generally speaking, these transaction costs are considered to be high in sub-Saharan Africa’ (p. 32).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?

Yes. ‘Burkina Faso would like to benefit from the regional integration process under way in the West African Economic and Monetary Union (WAEMU) in order to transform its landlocked status – currently a handicap – into an asset and position itself at the crossroads of the economies of the sub-region. Swift implementation of an ambitious program of complementary structural reforms to eliminate the four key obstacles outlined above would soon enable Burkina Faso to achieve growth rates permitting a significant alleviation in the incidence of poverty. Given the current low level of competitiveness of the national economy, the West African economic integration process will undoubtedly entail some economic and social costs (on the poorest segments of the population (p. 30)). Even so, the Government is confident that it can work with other members of the Union both to minimize the costs and to take full advantage of the opportunities that a much broader regional market will offer’ (p. 2).

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised? No

Are ongoing discussions in the WTO referred to and analysed? No

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO? No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes, but broadly defined for the PRSP as a whole.

If so, who participated in, or was consulted, in drafting the text?

P.4 refers to four levels of dialogue that took place:

1) central government (an interministerial committee was formed comprising the directors of research and planning from each ministry). This committee was split into four thematic groups (improving the economic environment of the poor, human resources development, natural resources management and improved governance and aid coordination). Committee operated under the supervision of the Ministry of Finance;

2) with institutions representing the people (parliament);

3) with the country's development partners;

4) with civil society.

Who was responsible for the final draft text?

Interministerial Committee (p. 4)

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent.

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRS-C Yes, but includes elements of PSIA which are not mentioned in the PRSP.

Under *Macroeconomic and Structural Reforms*: 'Taking into account the decline in cotton exports and in workers' remittances, as well as the significant decline in imports of investment goods, the current account deficit (excluding official transfers) is estimated at 17.9% of GDP' (p. 3).

'Under *Structural Reforms*: 'Burkina Faso significantly outperforms comparable African countries on most performance indicators of structural reforms. With regard to trade, the adoption of the West African Economic and Monetary Union (WAEMU) common external tariff (CET) took place in a number of stages from 1998 to January 2000. The process involved a reduction of the maximum rate from 37% to 21%, the adoption of four rates for customs duties (0, 5, 10 and 20%) and of a statistical tax of 1%, a shift in the classification of products subject to the different rates, and a temporary protection tax of 15% for eligible products. The new product classification became effective in April 1999 with a temporary maximum rate of 25%, which was reduced to 20% on January 1, 2000. These measures led to a reduction of the level of protection in Burkina Faso. Corporate income tax has also been reduced from 45% in 1996 to 35% in 1999' (p. 4).

Under *Medium Term Prospects and Financing Requirements*: 'An econometric model was developed in close collaboration with the Government's economic team in order to design an appropriate mix of fiscal, monetary and public investment policies that would bring the economy to a higher growth path while maintaining an adequate level of consumption. Under the base scenario, simulation results indicate that real GDP growth could average 4.5% per annum over the period 2000-05, while the GDP deflator will stabilise below the WAEMU target at 2.4% on average. At the annual real GDP growth rate of 4.5%, and given the current elasticity of poverty reduction with respect to mean income (about 1.5), poverty in Burkina Faso will decrease by only 16% (about 7 percentage points) and the country will not meet the poverty reduction targets embodied in the International Development Goals. Also, this scenario carries with it a significant downside risk. Because cotton remains the main export crop, the Burkinabè economy will remain vulnerable to climatic and terms of trade shocks. In the case of a serious adverse external shock, real GDP growth rate may fall below the population growth rate, which could exacerbate poverty and worsen domestic and external imbalances' (p. 3).

Appendix 1: Country Notes

Under Track Record from Previous Adjustment Operations: 'The proposal PRSC I follows the 1998 EMRSO and the 1999 SAC III for Burkina Faso and would provide medium-term support for the Government's public sector management reform plan derived from the PRSP. SAC III supported a reform aimed at: 1) improvement of the competitiveness of the economy, in the interests of raising growth rates substantially over the medium term and alleviating poverty; 2) improvement of public finance management, particularly with regard to tax policy and the use of public resources; and 3) implementation of the third phase of the CET completed on January 1, 2000. Tax and trade reform were considered essential to creation of an environment conducive to efficient private sector investment and growth. Public finance reform and regional integration would benefit Burkina Faso's growth over the medium and long-term by improving the Government's resource mobilisation system, improving efficiency and productivity; and providing Burkina Faso's economic agents with free access to the significantly larger WAEMU market' (p. 7).

Under Progress to Date on the Implementation of the PRSP: 'Because of the delayed and partial receipt of funds provided under the HIPC Initiative in 2000, the execution of priority poverty reduction programs did not effectively get off the ground until early 2001. The problems were exacerbated by a difficult economic situation characterised by a slowing of growth and a public finance situation that was less favourable than expected. In fact, the economy of Burkina Faso was hard hit by unfavourable exogenous shocks (rise in oil prices, appreciation of the dollar vis-à-vis the CFA franc, decline in transfers from expatriates and the return of migrants from Côte d'Ivoire, introduction of the WAEMU's common external tariff), which slowed growth in 2000. The GDP growth rate in constant prices, estimated at 2.2%, remains well below the level required to have an impact on poverty' (p. 8).

PRGF Yes.

'The latest available estimates point to a real GDP growth of 5.7 percent in 2001. Stimulated by an increase in producer prices of approximately 18% (including the bonus payment), together with abundant rainfall, cottonseed production rose by about 45% to just over 400,000 metric tons. Since cotton producers represent approximately 20% of the population, the rise in incomes should contribute significantly to poverty reduction in cotton-producing areas. Annual inflation averaged 4.9%, essentially because of the strong pressure on grain process, following the poor harvest of end-2000. However, as a result of the slide in year-end prices, year-on-year inflation stood at 1% in December 2001. The GDP deflator is estimated at 3.5%. Mainly as a result of a recovery in cotton exports and lower capital goods imports, the external current account deficit, excluding grants, fell to 15.9% of GDP in 2001, well below the 2000 level of 17.6%. Including grants, the current account deficit is estimated at 12.7% of GDP, about 2 percentage points of GDP lower than in 2000. The overall balance improved significantly, leading to an accumulation of gross foreign assets of about CFAF 27 billion' (p. 4).

'With legislative elections scheduled for May, and a difficult international economic climate, the year 2002 will be full of uncertainties, especially concerning cotton export prices. The government wishes to continue encouraging the keen interest shown by farmers in expanding surface areas set aside for alternating cotton and grain crops, as this is one of the main factors for poverty reduction. SOFITEX, in cooperation with cotton producers, announced that the producer price will be maintained at CFAF 175 per kilo of cottonseed, but that no bonus would be paid given that SOFITEX will, at best, break even in 2001/02. This decision will be incorporated in a new amendment to the interprofessional agreement between SOFITEX and the National Union of Cotton Producers in Burkina Faso (UNPCB). It is also understood that the producer price could be lowered in October 2002 if international process were to fall further. The government endorses these agreements and will not intervene to amend them. Provided a further rise in the cotton harvest and a normal year for grain, GDP growth is expected to reach 5.7% in 2002. The recovery in the agricultural sector could curb the rise in food process, so that the annual inflation rate is not expected to average more than 2%' (p. 5).

'As regards the balance of payments, a further rise in exports is expected in 2002, driven by the increase in the 2001/02 cotton volume. Imports are expected to rise only very modestly. In all, the current account deficit, including grants, should represent only 14% of GDP, compared with 15.9% in 2001. The overall deficit should also narrow, resulting in an increase in the official reserves, estimated at about CFAF 40 billion' (p. 5).

Appendix 1: Country Notes

‘As regards regional integration, the government will continue its efforts to observe WAEMU directives and standards, and in particular the convergence criteria, within a reasonable timeframe. It will continue amending its national legislation to comply with the five directives for harmonization of the legal, accounting and government finance statistics framework’ (p. 8).

‘In keeping with the study on the competitiveness of the Burkiabé economy, the government made progress in liberalizing trade arrangements. After the deregulation of rice and sugar marketing in 1996 (except for a remaining rule on the volumes imported), the SOFITEX monopoly over cottonseed marketing was removed. Similarly, to comply with the pertinent WAEMU and WTO regulations, the government decided to eliminate in June 30, 2002, the 59 tariff lines still subject to administratively set customs values. This constitutes a structural performance criterion under the program’ (p. 9).

PRS-C Yes, although no PSIA of trade reform is undertaken.

Under Track Record from Previous Adjustment Operations: ‘The proposed PRSC I follows the 1998 EMRSO and the 1999 SAC III for Burkina Faso and would provide medium-term support for the Government’s public sector management reform plan derived from the PRSP. SAC III supported a reform program aimed at: 1) improvement of the competitiveness of the economy, in the interests of raising growth rates substantially over the medium term and alleviating poverty; 2) improvement of public finance management, particularly with regard to tax policy and the use of public resources; and 3) implementation of the third phase of the ET completed on January 1, 2000. Tax and trade reform were considered essential to creation of an environment conducive to efficient private sector investment and growth. Public finance reform and regional integration would benefit Burkina Faso’s economic agents with free access to the significantly larger WAEMU market’ (p. 7).

Under the Proposed Credit (PRSC I): ‘The general objective of the November 2000 CAS is to support the Government’s efforts, as described in June 2000 RSP, to achieve sustained high growth rates, to reduce the high incidence of poverty, and to improve the nutrition, health and education of the rural population, which constitutes the largest group among the poor. The CAS has three specific objectives: 1) supporting policies and programs aimed at improving the supply side of the economy to allow for sustained, broad based and export-orientated growth...’ (p. 23).

Under Competitiveness of the Economy and Regional Integration: ‘The new tax system can be broken down as follows: 1) customs taxes and duties observing the TEC rates of WAEMU, applied on the import-parity values... (p. 88)...Activities have been undertaken to strengthen the position of Burkina Faso in the regional integration process in the framework of WAEMU, which, while providing an unprecedented opportunity for the country’s economic development, involves social costs and risks as well. These have to do mostly with the impact of the ongoing reforms on the poorest segments of the population. The government is therefore working to reinforce attendant regional solidarity measures to ensure consistency and synergy between national and regional policies to combat poverty’ (p. 89).

Under Rural Development: ‘The agricultural sector is the main source of employment and income for about 80 percent of the Burkinabè population and generates important growth and employment linkages with the potentially dynamic non-agricultural rural economy. The sector is made up of around 1.3 million farm households, largely subsistence orientated, with limited access to services, markets and basic socioeconomic infrastructure. The sector is also the principal source of growth for the economy – contributing 32 percent to GDP and 60 percent to export earnings in 1998’ (p. 31).

‘Priorities for the rural sector include: support measures to open the economy, increase competitiveness and improve access to markets (both domestic and export) for agricultural products, for farmers and for agro-enterprises’ (p. 32).

‘The main goal is to increase the production of local staples in which the country has a comparative advantage (millet, sorghum, maize) through better research and extension (service delivery) and to create an incentive framework favourable to the increased involvement of the private sector in transport, storage and marketing of cereals’ (p. 33).

Ethiopia

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

Yes. Most trade content falls under Chapter VIII, 'Private Sector and Export Development'. However, the emphasis is on export promotion and import policy is not covered.

There is also a failure to analyse in the document the causes of past trade policy (export) weaknesses e.g. 'Trade, exchange rate and other structural reforms resulted in about 6.3% average annual growth in real exports. However, despite this trend, Ethiopia's participation in the global economy is still minimal Per capita exports were less than \$15 in 1999 compared to the Sub-Saharan average of \$163. The reforms of the 1990s have not led to a diversification of exports away from agriculture nor have they spurred the export of agricultural products and manufactured goods significantly' (p. 108).

Ethiopia's export strategy is built around ADLI. 'ADLI is seen as a long-term strategy, during the first stage agriculture is to play a leading role in the growth of the economy. But the extremely small ratio of urbanisation of the country could well raise market outlet as a critical issue owing in the main to inadequacy of domestic demand, thereby making exports necessary. This implies that agriculture has to be made internationally competitive, and that part of its production has to be orientated towards exports' (p. 38).

The Ethiopian strategy hopes to achieve 'rapid export growth through production of high value agricultural products and increased support to export orientated manufacturing sectors particularly intensified processing of high quality skins/leather and textile garments' (p. 41).

Export promotion is envisaged to take the form of the following measures: 'diversification into high value crops, increased processing of skins/leather and textiles, export credit guarantees, duty drawback, voucher system and bonded manufacturing warehouses' (p. 114).

Sequencing of policy is seen as important: 'Policy must avoid incorrect sequencing of reforms and liberalisation without adequate regulatory mechanisms and capacity building to implement these mechanisms' (p. 28).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP?

Yes, but only within the limited context of export promotion (specifically in agriculture) e.g. 'The Government recognises the importance of exports for rapid and sustained economic growth, which is pro-poor. Agriculture is the only source of livelihood for about 85% of Ethiopians who account for the majority of the poverty affected population. As the country's exports rely heavily on agricultural products that originate mainly from smallholder peasant farming, developments in the export sector will significantly contribute to reducing the poverty situation in rural households. Similarly, better performance in the country's agro-processing and manufactured exports will reduce the incidence of poverty among the urban population through creating better employment opportunities and increasing the market for the actual and expected increase in agricultural production' (p. 113).

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document?

No. Although non-income aspects of poverty are discussed - e.g. food insecurity (p. 8, p. 11), external shocks (p. 10, p. 42), access to health (p. 12) and education (p. 13) services and infrastructure (p. 15) – trade links are rarely made.

- risk

Price volatility is addressed due to the dominance of merchandise trade coming from agriculture and an increased tendency of concentration on a single product (coffee). The PRSP proposes to diversify the export base into value-added goods and services (p. 33, p. 35, p. 38).

- access to basic services

No

- voice

No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY?

Yes

Is there an understanding of how they might differ from sector to sector?	No
Is there an understanding of how they might differ in their impact on vulnerable groups?	No
Is there an explicit discussion of trade and gender linkages?	No
Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments?	
Yes, a distinction is made between rural and urban environments in the context of agricultural export development (see above).	
DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE?	Yes
Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?	Yes
<ol style="list-style-type: none"> 1) Extension of credit to small hold farmers, output marketing, promotion of commercialisation and intensive farming for export purposes (p. iii) 2) Development of infrastructure e.g. 'Food security depends, <i>inter alia</i>, on reliable access to market and road infrastructure and transport services in order to reduce isolation of communities and link them to regional and national markets' (p. 75). 3) Trade facilitation measures e.g. improving management capability, institutional development, technology, transportation and customs procedures (p. 35). 4) Telecommunications development but not explicitly linked to trade (p. 64). 5) Improved marketing (p. 59). 	
Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?	
Yes. A limited assessment is made of Ethiopia's experience under AGOA and EBA (p.35).	
Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised?	
Yes. The PRSP discusses 'developing a short-to-medium term strategy to cope with periodic terms of trade shocks. The long-term solution is diversification of exports and full exploitation of existing market opportunities in the US and the EU' (p. 27).	
The PRSP also encourages 'linkages between buyers abroad and domestic suppliers' (p. 175).	
Are ongoing discussions in the WTO referred to and analysed?	No
Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?	No
IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?	No
If so, who participated in, or was consulted, in drafting the text?	NA
Who was responsible for the final draft text?	NA
To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?	
Broadly consistent. Abolition of export duties, export price controls and devaluation (p. 114) is consistent with World Bank philosophy.	
However, ADLI constitutes the main departure through advocating protection with offsetting policies for exporters (e.g. duty drawback) which the World Bank views as second best to liberalised import regimes.	

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRGF (Letter of Intent): No. The documents fail to mention the ADLI approach to development.

‘The first annual program under the PRGF arrangement was satisfactorily implemented, notwithstanding delays in the disbursement of external finance assistance and constituted deterioration of the terms of trade. Real GDP growth in 2000/01 is estimated to have risen from 5.4% in 1999/2000 to 7.9%, slightly higher than the inflation projection, as agricultural output rose by 13.2%. Inflation turned negative in 2000/01, reflecting a bumper cereal crop and large inflows of food aid; the negative inflation trend continued through September 2001. The external current account deficit (including official transfers) fell to 4.2% of GDP in 2000/01 from 5.2% in 1999/2000. Coffee exports (which accounted for 40% of merchandise exports in 2000/01) were lower than expected as both the volume and prices fell in 2000/01 and the first quarter of 2001/02. With a slower-than-anticipated pace of project implementation, imports were also lower than expected’ (p. 4).

‘On the revenue side, the government has embarked on comprehensive tax policy reforms and an overhaul of tax administration. In December 2000, the rate of the sales tax was increased from 12% to 15% and the 10% import duty surcharge was removed. In February 2001, new legislation on presumptive taxation and a 5 percent withholding tax on imports became effective’ (p. 5).

‘Trade restrictions and administrative controls on access to foreign exchange were lifted in December 2000, and the foreign exchange market started to operate more efficiently. At end March-2001, the NBE issued directives that lifted the previously existing restrictions on the purchase of foreign exchange for holiday travel and education purposes’ (p. 6).

‘The external current account deficit is projected to increase to 7.1% of GDP in 2001/02, up from 4.2% in 2000/01, mainly as a result of the drop in the terms of trade and the impact of September 11, 2001 events, but it is projected to decline to 6.2% in 2002/03. The value of merchandise exports is projected to decrease by 9% in 2001/02, reflecting a fall in export prices and virtually stagnant volume. The value of merchandise imports is projected to increase moderately (by 2.6 percent) as a rise of 5.3% in volume in 2001/02 will be partly offset by lower prices. Worker remittances, non-factor export services and net foreign direct investments are also expected to fall as a result of recent events. Some modest improvements are, however, projected in 2002/03’ (p. 12).

‘It is expected that much of the demobilization, reconstruction and sector development efforts will continue to be funded by multilateral and bilateral donors, leading to further improvement of the capital account in 2001/02. The balance of payments is also to benefit from the recent Paris Club rescheduling agreement and the approval of the enhanced HIPC Initiative decision point on November 8, 2001. Balance of payments projections are subject to substantial uncertainty because of Ethiopia’s vulnerability to terms of trade shocks, particularly as regards coffee and oil process and drought. In view of recent development of world prices, the government will consult with Fund staff if balance of payments developments endanger the achievement of the program objectives’ (p. 12).

Guinea

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

No, trade policy is only mentioned as part of:

1) Broader sectoral coverage (exports) e.g. promotion of tourism (p.56, p. 80), craft industries (p. 81), hydroelectric power (p. 68), agriculture (p. 73) and mining (p. 78).

2) Tax and Budgetary Policy (dealing with customs reform), monetary policy and reform of the financial system (dealing with exchange rate policy) and Subregional integration.

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP?

No

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document?

No. Although non-income aspects of poverty are discussed - e.g. limited access to basic services, poor quality of public services, exclusion of the handicapped, inadequate basic infrastructure and scant participation in decision making (p. 11) – they do not inform any trade discussion.

- risk No

- access to basic services No

- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY?

No

Is there an understanding of how they might differ from sector to sector? No

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages?

No explicit discussion although one objective of the Cross-Border Initiatives Program (PIT) is to encourage participation of ‘women from rural communes along the border with Mali through involvement in joint micro projects.’ (p. 65).

Also, the promotion of craft industry exports under the PRSP acknowledges that ‘craft industries employ 15% of Guinea’s labour force, providing opportunities for vulnerable population groups such as the young, women and handicapped’, (p. 81).

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments?

No

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE?

Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?

Yes, although not explicitly linked to trade policy.

The PRSP discusses reducing corruption (p. 29) and rationalisation (p. 56) of customs, development of basic services (p. 56), promotion of credit facilities for microbusiness (p. 61), infrastructure improvements (p.28) – to boost *commercial* performance as a whole by ‘enhancing the competitiveness of Guinea’s economy’(p. 65), development and management of port facilities, revival of railroads (p. 71), and regulation of the liberalised telecommunication sector (p. 71).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?

Yes, support is expressed for sub-regional integration (p. 57).

Appendix 1: Country Notes

‘Subregional integration has become an important aspect of the national development policy...Subregional integration policy has two components: monetary integration and the 2002-04 Cross Boarder Initiatives Program (PIT).’ (pp. 64-65.

PIT aims to harmonise customs and transit documents, reduce regulatory obstacles and non-tariff barriers.

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised? No

Are ongoing discussions in the WTO referred to and analysed? No

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO? No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED? No

If so, who participated in, or was consulted, in drafting the text? NA

Who was responsible for the final draft text? NA

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS? NA

Guyana

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

No, but trade policy is referred to generally throughout the text.

Under *The Causes of Poverty*: '1. Poor Economic Policies: As a result of the 'statist' policies adopted by the Government from the mid-1970s to 1989, GDP fell by 3.3% per year between 1982 and 1990, and per capita income plummeted from \$600 to \$350 in the same period. In addition, real interest rates were generally negative, gross international reserves were depleted, and Guyana increasingly relied on suppliers' credit to finance its external trade. As economic difficulties mounted and external and internal balances deteriorated, the country was unable to meet debt service obligations, leading to the cessation of support from the International Financial Institutions. This, in turn, further deepened the economic crisis, depressing investments, employment and growth.

By 1988, the Government controlled over 80% of the total value of recorded imports and exports and 85% of total investment. Import cover was less than two weeks, and there was virtually no new domestic or foreign investment. The most dramatic reaction to the deterioration in living standards and the increase in poverty was the massive emigration of highly trained Guyanese to North America, the United Kingdom and other countries of the Caribbean.

To arrest the worsening social and economic conditions, Government introduced changes in the economy with the implementation of the Economic Recovery Program (ERP) in 1989. The key elements of the ERP were 1) liberalisation of exchange and trade system; 2) removal of price controls and subsidies; 3) removal of restrictions on capital flows; and 4) reforms in tax policy and administration. In spite of the implementation of these reforms the economy continued to contract with GDP falling precipitously by 5% per year between 1989 and 1991 and inflation rising in excess of 100% in 1991.

In 1992, the Government accelerated the pace of economic and structural reforms. Measures were introduced to 1) strengthen and modernise the regulatory and supervisory framework of the Bank of Guyana; 2) reform the financial sector; 3) improve the legal and regulatory framework; and 4) reform the judicial system and Deed registry. A new Companies Law was enacted, and actions were taken to establish regulatory frameworks for insurance and securities trading. An ambitious privatisation program was also implemented.

As a result, Guyana experienced sustained positive growth rates and single digit inflation. Real output grew at over 7.4% a year, allowing per capita income to increase from \$350 to \$750 between 1992 and 1996. This output trend was sustained by a buoyant international economic environment, underpinned by Guyana's access to preferential markets and large inflows of private capital and led by growth in gold, rice, sugar and forestry. Over the past three years, however, economic growth has slowed due to exogenous factors including decline in commodity prices, unfavourable weather conditions and a difficult political and industrial environment...' (p. 7).

Under *Issue Arising From Consultations*: '

1. Limited Economic Opportunities: The major underlying issue within the economic sector was the need to create more jobs. Among the key constraints identified were low commodity prices, inaccessible markets, narrowness of the economic base, limited access to credit, and the use of labour from other communities to do contract work. The focus was therefore on the following areas: 1) low levels of manufacturing and value-added; 2) constraints to agricultural production and productivity; 3) underdevelopment of eco-tourism; 4) inequity of the tax system.

a) low levels of manufacturing and value-added: Notwithstanding the abundant resources and opportunities for growth in the manufacturing sector, the general consensus was that there is an absence or inadequacy of processing facilities attributed to the different business and political environment and the high cost of capital. This contributes to high levels of waste and spoilage of agricultural produce and low levels of job creation.

In addition, there is an absence of legal/regulatory framework to support cottage industries and small businesses, many of which lack access to credit. Inaccessible markets, both local and foreign, for Guyanese products accrue from poor standards or product quality and packaging, dumping of foreign products, and inability of exporters to maintain and increase their share of foreign markets. As a result, there is no job security and, often, producers of inputs, especially farmers are paid uneconomic prices. Unreliable power supply, the high cost of energy, and the absence of a deep-water harbour contribute to the high cost of production and the uncompetiveness of Guyanese products in regional and international markets.

b) constraints to agricultural production and productivity (p. 18): The key issues discussed in the agriculture sector related to delays in granting of land titles, poor quality of extension services, high cost and misuse of pesticides, poor maintenance of drainage and irrigation systems, poor farm-to-market roads and high costs of capital equipment....The state of farm-to-market roads was described as inadequate. In several instances, there was poor maintenance of roads and bridges. Although several of these roads may have been repaired recently, due to substandard construction work, overloading of vehicles and poor supervision of road use, these roads are impassable in the rainy season. Further, it is costly to transport produce from the hinterland areas to Georgetown or to external markets, and in many areas, access is simply non-existent. As a result, many farmers lose substantial income in the process, especially during the rainy season.

c) underdevelopment of eco-tourism: Eco-tourism holds great potential for job-creation and economic expansion in Guyana. However, the consensus from the consultation is that the sub-sector 1) is largely unorganised; 2) faces limited international marketing; 3) faces high cost of local travel; 4) is beset by an absence of skills within the industry' (pp. 17-20).

Under *Recommendations Identified During Consultations*: 'Manufacturing and Value Added: Develop export and industrial processing zones, restructure local industries to attract foreign capital, provide technical assistance to local industries to improve management, quality standards and packaging, develop a deep-water harbour, develop legislation to support development of more cottage industries and small businesses.

Agricultural production and productivity: accelerate processing of land titles, improve extension services, providing adequate transportation for extension workers, rehabilitate and maintain farm-to-market roads, establish and enforce road use standards, especially in agricultural and mining areas, review the drainage and irrigation systems before allocation of additional resources, develop policy on demarcation of crop/livestock farming, grant incentives for equipment and machinery depots throughout the country for agriculture and logging

Tourism: increase Government involvement in promotion of tourism, create a stable political and business-friendly environment, conduct sustained training of personnel within the sector' (p. 22)

Under *Systemic Policies to Support Private Sector Growth and Poverty Reduction*: 'After several years of state intervention Guyana's private sector remains embryonic. To ensure its rapid development and success keep pace with the rapidly changing external trade environment, Government's support is essential. Systemic support will be provided in 1) export promotion; 2) investment promotion; and 3) development and expansion of small business and cottage industries.

Export Promotion: Given Guyana's limited market, the objective of the Government export promotion program will be to create conditions for the export sector to be an instrument for sustaining rapid and broad based growth. This will require maintaining competitive exchange rate, eliminating trade barriers and providing more effective export promotion services for Guyana's exports. In addition, Government, through Guyana Office for Investment (GOINVEST), will 1) provide information and company matching services; 2) support local companies to participate in overseas trade fairs and domestic exhibitions and 3) coordinate industrial cooperation.

Further 1) the National Bureau of Standards will be strengthened to enforce and maintain high environmental, hygienic and production standards; 2) technical assistance will be provided to firms to improve quality at the factory level and 3) information on WTO requirements regarding technical standards will be disseminated to the local private sector. To promote increased private sector participation in the economy, a stock market will be established to permit swifter and more transparent transactions for transfer of ownership/shares in local industries and facilitate the sale and transfer of shares from privatised public entities.

Investment promotion: With a high debt burden and a nascent private sector, and low technological development, foreign private capital will be critical to the economic and social transformation of Guyana. To stimulate foreign investment, the Government will: 1) work with stakeholders to improve political stability; 2) improve infrastructure; 3) accelerate judicial reforms; 4) sign trade treaties with its major bilateral trading partners; 5) expand trade and investment promotion abroad...' (p. 29).

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Under *Development and expansion of small businesses and cottage industries*: ‘Since the 1989, more than 200 small businesses have been established, creating over 8000 jobs in the process. Although many of the products such as craft, mixed crops, livestock and manufactured goods are traded domestically, their export value is high. While systemic support to the private sector will benefit small businesses and cottage industries, specific policies will also be adopted to give them prominence and to integrate them fully into the formal economy, given the potential for rapid job creation. Towards this end, measures will be taken to 1) simplify the process of business creation through revisions of the Companies Act; 2) accelerate registration and licensing procedures and 3) implement curricula reforms. In addition, Government will work with the Small Business Association, the Institute of Private Sector Development (IPED) and other stakeholders, to lay the Small Business and Cottage Industries Bills before the National Assembly. These Bills and their regulations will codify procedures to accelerate the rapid expansion of micro enterprise and small businesses in Guyana. Further, there is strong evidence in Guyana that access to savings, services and micro-loans have raised and stabilised the incomes of the poor. IPED and the Bank of Nova Scotia, in particular, have been successful in facilitating credit, providing training and supporting the development of micro enterprises. This kind of intervention has been beneficial particularly to low-income women.’ (p. 30).

Under *Special Intervention Strategies*: ‘e)Sustaining the Rural Economy and Competing in Global Markets: The development of agro-industrial estates is premised on the following factors. First, estates provide the ideal catalyst for accelerating the development of value-added products; and second, sustained improvements in income levels in rural areas are dependent on the speed with which outputs in key productive sectors are processed and packaged for international markets. Therefore, to establish a linkage between rural economies and the export market, and to stimulate increased value-added production, Government will establish industrial estates in Regions 2, 3 and 6 to advance the processing of local raw materials for exports. The development of these estates will yield several benefits. It will I) provide markets for local raw materials and sustained income for rural farmers; ii) minimise the mismatch between supply and demand for inputs; iii) generate over 15000 jobs in rural and interior areas; and iv) reduce rural-urban migration. In addition, it will increase demand for secondary school places, and for accelerated development of technical vocational institutes and skills and leadership training’ (p. 47).

Under *The Macroeconomic and Budgetary Implications for Priority Actions* :

‘B. Maintaining External Viability: An integral element of the long-term economic strategy is maintenance of a viable balance of payments...the external current account deficit (excluding official transfers) will rise sharply from 20 percent of GDP in 2001 to an average 23.4 percent of GDP between 2002 and 2006. This reflects high import content of the public investment program. By 2010, the deficit of the current account balance will decline to 12 percent of GDP. The capital account is projected to improve due to increases in external flow, including program loans and grants in the early years. Project borrowing is expected to increase sharply during 2002-06..Because of the continued vulnerability of the new economy to external shocks over the medium term and the amortization of external debt, gross international reserves will be maintained at about 4 months of imports of goods and non-factor services during 2002-2006’ (p. 52).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP? No

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document? No

- risk No

- access to basic services No

- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY? Yes

Is there an understanding of how they might differ from sector to sector? Yes

Under *Expanding the economic base to benefit the poor*: ‘The opportunities for growth in manufacturing, agriculture, mining and forestry are immense. Recent experience in other developing

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economies indicates that manufacturing can generate very rapid economic growth while employing substantial numbers of youth and women, who comprise a large portion of the poor. Development of agriculture can also contribute substantially to poverty reduction as many of the poor live in rural areas and are involved in agriculture. Transformation of this sector, therefore, would provide quick income-generating opportunities for the poor. Finally, Guyana's bio-diversity provides the country with a unique tourism product whose full potential remains to be realised. Government strategy in these sectors will be to support the private sector by removing constraints that impede progress and provide the infrastructure that stimulates production.

Improving the environment for manufacturing

The manufacturing sector provides a key link between domestic raw materials and international markets and can greatly assist the attainment of higher income levels among the poor. In Guyana, the availability of raw materials such as agricultural produce, wood and precious metals provide a strong basis for the rapid expansion of this sector. In response to private sector requests, the Government will develop garment-manufacturing parks in strategic locations to stimulate production of manufactured goods and take advantage of Guyana's access to markets in the US through the Enhanced Caribbean Basin Initiative. Further, Government will study the economic feasibility of building a deep-water harbour. The inadequacies of Guyana's current port facilities have been estimated to increase the country's cost of production of exports by 30 percent.

Eco-tourism and economic opportunities for Amerindians

Guyana's pristine tropical rain forests, fauna and magnificent waterfalls have tremendous tourism potential. However, they are not well known. The marketing of Guyana's forests will stimulate tourism and expand economic opportunities for Amerindians to market their art and crafts, thereby creating employment opportunities for the extreme poor. The Ministry of Tourism, Industry and Commerce in collaboration with the Tourism and Hospitality industry has developed an eco-tourism strategy to promote Guyana as a tourist destination point. Within the context of that strategy the Government will implement a number of measures to develop the sector.

First, in response to requests from the private sector, the Government will establish an autonomous National Tourism Board to license tourism operators and regulate, research and develop tourism products. Second, guidelines will be put in place for the construction of lodges, and the establishment of buffer zones around interior lodges, in order to blend them into the environment and preserve the natural habitat. Third, the safety of tourists will be improved through better coordination with law enforcement agencies and tour operators. Finally, increased emphasis will be placed on 1) promotion of eco-tourism; 2) collaboration between the major political parties and trade unions in creating a stable political and business-friendly environment; and 3) sustained training of personnel within the sector to maximise Guyana's comparative advantage of eco-tourism within the Caribbean.

Restructuring and modernising the traditional sector): World markets have always been important, as exports have been the principal engine of growth as well as the main source of foreign exchange for Guyana. Unfortunately, Guyana's preferential access to certain markets is likely to be eroded and exports are likely to encounter more intense competition. Sustained economic growth and poverty reduction, therefore, will depend on the ability of exporters to reduce production costs and develop new product lines. In line with these objectives, Government will redouble its efforts to support the restructuring of the traditional sectors.

1) *Modernising the sugar industry:* The sugar industry continues to be an important contributor to economic growth. In addition to the sector's key role in generating exports, it is also a major source of rural employment. Following many years of declining production and profitability, the sugar industry went through a period of restructuring in field and factory rehabilitation. In addition, a private sector firm was contracted to manage the operations of GUYSUCO. In 1999, GUYSUCO's production reached 321000 tons, the highest level in over two decades. Gains were achieved in both factory and field performance. In the past GUYSUCO was able to sell its sugar largely because of its access to preferential markets in the European Union, the United States and the Caribbean. Even so, these markets did not absorb all of GUYSUCO's exports and the company had to sell about 15 percent of its production at much lower prices in world markets, sometimes incurring losses on its marginal sales. With global trade liberalisation, access to preferential markets is likely to be further curtailed and Guyana will need to compete increasingly at world market prices. In light of this, in 2001 GUYSUCO developed a strategy to modernise the industry and reposition itself both to profit from its comparative

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advantage as a competitive, low cost, regional sugar producer and to reduce its production costs to be able to compete in international markets. In line with recommendations of a cost-benefit analysis conducted recently, and as part of its overall strategy to improve its international competitiveness, GUYUCO will 1) modernise and upgrade the Skeldon factory; 2) sell unproductive assets; 3) restructure management contracts; and 4) continue discussions with trade unions to link wages to productivity and profitability indicators.

2) Modernising the agriculture sector (p. 32): As many of the poor live in rural areas and are involved in agriculture, transformation of this sector will provide quick income-generating opportunities for the poor. Removal of constraints that impede progress will also reduce poverty. The strategy to transform the agriculture sector to benefit the poor will centre on the following elements including 1) acceleration of conservation of leaseholds to freeholds; 2) expansion of land size for agricultural activities, depending on type of activity; 3) emphasis on the improvement of extension services; and 4) improved drainage and irrigation services.

In addition, Government will strengthen the Guyana Rice Development Board (GRDB) to carry out rice research to increase yields, implement a pure-line seed paddy production program, and devote more resources to improvement of milling yields. Through extension services, Government will seek to improve the management and use of fertilisers and pesticides to both increase yields and protect the environment. In response to private sector requests, GRDB, in collaboration with the National Bureau of Standards, will impose strict quality standards on rice products for the export market, while the Government will work with the CARICOM Secretariat to enforce existing protocols.

Developing new sectors to support growth:

Guyana offers advantages in mineral and human resources that will need to be tapped in the medium term. Over the same time period, the economic opportunities presented by its proximity to markets in North America and its strategic location as a gateway to the Caribbean and South America will be developed. Towards this end, Government will pursue and promote the 1) exploration of mineral resources and 2) development of information technology.

i) Exploration and exploitation of mineral resources (p. 32): Detailed geological surveys point to an abundance of mineral and other natural resources in Guyana. At present, about 35 percent of export proceeds come from bauxite, gold and diamonds. While the fortunes of the bauxite industry are declining, due to high production costs and increased competition, focus will be placed on extensive marketing of Guyana's potential in other mineral resources. In line with this, Government will place concessions in all mineral categories under continuous review in an effort to attract investors.

ii) Introducing information and communication technology: the implementation of an information and communication technology (ICT) strategy or 'Connectivity Agenda', will be another priority in diversification of the economy. It will be a pivotal tool to improve governance, accountability and transparency, generate employment – especially for women and youth – develop human resource potential, and strengthen national unity. ICT will facilitate E-transactions, increase public sector efficiency and transparency; and grant citizens access to public services by making them available on-line. Through outreach programmes, ICT will enable low-income individuals to gain access to the internet. It will also promote E-exports such as outsourcing and data processing, encourage economic diversification and create new jobs, particularly for the young; and establish network connectivity to lower unit costs and benefit from network externalities. To take advantages of the opportunities in this sector, Government will 1) introduce communications reforms; 2) provide incentives for the development of informatics parks with a full complement of infrastructure and 3) support the provision of training in information technology.' (pp. 30-32).

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages? No

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments? No

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE? Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?

Infrastructure:

Under *Non-Growth Complementing Infrastructure*: ‘The deterioration in internal and external balances significantly reduced the resources available to maintain economic infrastructure, generate economic growth and create employment. Since, over 70% of Guyana’s population live in rural areas along a narrow coastal strip below sea level and are involved in agriculture, mining, fishing and forestry, road and river transportation, and the maintenance of both sea defences and drainage and irrigation systems are critical to increased output. Yet, Guyana did not have the resources to maintain and/or rehabilitate its critical infrastructure. As a result, the transportation network fell into a serious state of disrepair, greatly increasing the cost of goods in Georgetown. It also made it costly for private entrepreneurs to operate, especially in the hinterland. The lack of maintenance made interior roads impassable, and the deterioration of ferry services made river transportation and river crossing in particular, a severe bottleneck to trade and economic production.

Frequent power outages forced businesses to operate high-cost generators. Companies that used water in industrial processes had to dig their own wells or truck water from central locations. The collapse of telephone services meant that it was very difficult to communicate within Guyana and overseas, forcing some businesses to operate entirely without telephones. Inadequate port facilities required expensive trans-shipment of goods to larger ports. The deterioration of the network of sea defences led to flooding of agricultural and residential land by sea water, which continues to threaten the coastal strip where most of Guyana’s farmland lies.

Over the last decade, Guyana began to rehabilitate its economic infrastructure, including its road network, bridges, drainage and irrigation, water systems and sea defences. In tandem with these changes, more acres of land were brought under cultivation, resulting in the rapid expansion of rice and sugar production. This, in part, may explain the reduction of poverty between 1993 and 1999. Yet, to further reduce poverty to acceptable limits, it is crucial that infrastructure development is accelerated to sustain growth, especially in rural and hinterland communities’ (pp. 10-11).

Under *Infrastructure to support growth*: ‘The medium-term infrastructure strategy is to improve the maintenance, quality and coverage of sea defence, roads and drainage and irrigation schemes. This is vital for reducing poverty and ensuring access to economic opportunities. Well-functioning infrastructure services can improve competitiveness and market access, which are key elements for generating income and employment.

The overall strategy for infrastructure development will evolve around the following principles. First, Government will consider the use of greater private sector involvement in the implementation of complicated infrastructure projects. Second, it will put together packages of sufficient size to make projects more attractive to international contractors, without excluding local bidders. Third, it will pursue the creation of joint ventures for public works to encourage the transfer of technology to the local construction industry.

a) Sea Defences

About 90 percent of the population live on the coastal strip, which accounts for less than 2 percent of Guyana’s land area. The soil in this strip is fertile although most of it is below mean high tide level and exposed to flooding. Sea defences are therefore critical in protecting investments in agriculture, roads, communications and water systems. The objective of the sea defence program in the medium term will be to reduce breaches, build local capacity to do maintenance and rehabilitation works, and increase community participation in the inspection and protection of the sea defence system. Increased budgetary allocations will complement donor support in maintenance and rehabilitation works. The capacity of the construction industry will be improved through the training of local contractors and consultants in sea defence practices. In addition, greater reliance will be placed on local communities to monitor potential breaches and protect against the removal of materials of sea defence infrastructure.

b) Roads and River Transport

Road and river transport are by far the principal forms of transport in Guyana. Improving overall road maintenance, and rehabilitating farm-to-market roads, bridges, stelling and ferries would lower transportation costs and integrate rural economies with that of Georgetown. It would also lengthen vehicle life, save foreign exchange in fuel and spare parts imports, and generate savings in travel time. The Government will therefore continue to rehabilitate farm-to-market roads, bridges, stelling and ferries and allocate increased resources to preventative maintenance. The capacity of the Roads Administration Division (RAD) of the Ministry of Public Works and Communications, and of the

Ministry of Local Government, which is responsible for the maintenance of main roads, will also be strengthened. To sustain the maintenance and reconstruction programs, several options including user fees and the contracting-out of ferries to the private sector will be considered. In addition, Government will rehabilitate the Mahaica-Rosignol road and reconstruct the Mahaica, Mahaicony and Abary bridges. The Berbice River Bridge will also be constructed through build-operate-own (BOT) arrangement with a private sector company. The Government will construct the access road leading to the bridge at Everton. This infrastructure development will open up the eastern portion of Guyana and generate economies of scale, in particular, with the increased trade between Guyana and Suriname and the restructuring of the Skeldon and Albion sugar factories. Further, Government will work actively with its counterparts in Brazil and the private sector to study the economic feasibility of developing a deep-water harbour, a container port and the construction of the Guyana-Brazil road. Guyana's strategic location vis-à-vis the Americas, particularly Brazil, offers natural advantages for the southern regions of Brazil to export and import goods through Guyana. The cost savings are likely to be considerable while the job creation opportunities for Guyana and, in particular, the integration of the hinterland communities into the macroeconomy cannot be overemphasised' (pp. 42-43).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets? No

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised? No

Are ongoing discussions in the WTO referred to and analysed? No

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO? No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes, but discussed for the formulation of the PRSP as a whole.

If so, who participated in, or was consulted, in drafting the text?

Under *Origins of the Report*: '...In recognition of the country's high incidence of poverty, in 1993 the Government sought assistance from the Carter Center to develop 'home-grown policies' whose implementation would improve standards of living. The National Development Strategy (NDS) that emerged was deep in content and analysis. Its formulation was truly participatory. Over 200 professionals from Government and civil society, including NGOs, the business community and the University of Guyana, working in over 23 technical groups, were involved in producing this comprehensive document: the 6 volume NDS contains 42 chapters. During its preparation, and after the completion of the first draft in 1996, its formulators visited several regions of Guyana to learn the people's wishes, hopes and aspirations directly from them, and to obtain ideas for the solution of their local problems. The NDS was subsequently revised and updated in 1998 and 1999, by an independent group of members of civil society, tabled in Parliament in August 2000, and following the hiatus to accommodate preparations for elections, re-tabled in August 2001.

In October 1999, the Government organised a Business Summit with the private sector to chart a new course of rapid investment and growth in Guyana, with the twin goals of employment creation and poverty reduction. The objectives of that Summit were to identify the constraints that impede private sector development, and to seek a consensus on the measures to be put in place to accelerate private investment. The Summit formulated an action plan to advance the course of private sector development and subsequently established a joint Government-private sector unit to oversee its implementation.

In 2000, using the vast information available in the NDS and the Business Summit, the Guyana Government began the task of developing a Poverty Reduction Strategy that would place sustained emphasis on policies and programs that would markedly reduce poverty...The Government's Interim Poverty Reduction Strategy Paper (I-PRSP) was accepted by the Boards of the World Bank and the International Monetary Fund (IMF) in December 2000. A comprehensive public participation process to finalise the PRSP was then conducted until October 2001. The process was based on a plan which focused on face-to-face consultations and which was developed and adopted by large sections of civil society and the donor community, A Poverty Reduction Strategy Secretariat (PRSS) was established in the Office of the President to implement the Participation Action Plan (PAP).

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The consultations were very successful. With active participation by a large cross-section of the population, significant issues not mentioned in the I-PRSP were discussed. Many of the issues and recommendations from the public consultations have been incorporated into PRSP. In addition, through prioritisation of recommendations, the consultations have assisted in the sequencing of programs and reallocation of resources. In short, the public consultations have markedly helped to improve the content and substance of the PRSP' (p. 2).

Under *Participation and Poverty Reduction*: 'Over 200 consultations, consisting of 109 community and 98 target group consultations were conducted. This compares favourably with 72 consultations that were proposed in the Participatory Action Plan completed in May 2001. The consultations attracted over 8400 participants with fairly broad representation from each of the 10 regions of Guyana. They enabled communities to share ideas on the nature, causes and effects of poverty and to make joint proposals for reducing it' (p. 13).

Under *Organizational and Institutional Framework*: 'The strategy for public participation was predicated on encouraging broad engagement, involving key stakeholders in the consultation process, and, providing flexibility to civil society to drive the process. This strategy led to the creation and/or strengthening of four units to implement or monitor the participation process. These four units were the 1) Donor Coordination Unit (DCU); 2) PRS Steering Committee; 3) PRS Secretariat; and 4) Resource Teams.

Donor Coordination Unit: Government and donor relations are cordial. Nonetheless, the Government is committed to strengthening this relationship. Towards the end, a high-level committee consisting of representatives of donor agencies, mission heads and line ministries was established. Specifically, the DCU was charged with the following: 1) establishment of thematic groups, involving donors and line ministries to review, plan and develop project pipelines so as to minimise duplication of donor programs; 2) review of the Participation Action Plan (PAP) and provision of continuous advice for its successful implementation; and 3) strengthening of capacity of line ministries to formulate policy and improve their data collection capabilities. In recognition of these functions, the donor community provided resources to implement the PAP. In addition, there is ongoing engagement to operationalise the Thematic Groups.

PRS Steering Committee: The Government established a PRS Steering Committee comprising two representatives from Government and ten members of civil society drawn from trade union movement, non-governmental organisations, Amerindian groups, religious organisations, youth, women and the private sector. The Steering Committee provided advocacy for the PRS participation process. Its members participated in the public awareness program for the consultation process. They provided leadership to the consultation strategy by establishing the nature of, and agenda for, consultations, and identified the types of consultation activities, their locations and venues and the schedule. They also monitored implementation of the consultation schedule, making recommendations for fine-tuning the process, as appropriate, in light of lessons learned. They also assisted in the analysis of reports emanating from the consultations, identifying areas where coverage of the issues was deemed inadequate as a meaningful input to the drafting of the PRSP. In some cases members of the Steering Committee also served as resource persons to the consultation process.

Poverty Reduction Strategy Secretariat (PRSS) and Participation Action Plan (PAP): The Government established a Poverty Reduction Strategy Secretariat (PRSS) to manage the participation process. The PRSS was tasked with developing and implementing the PAP with the active support of civil society....The PAP went through a process of intense discussions both among the donors and civil society. Several changes were made to improve its scope and depth and Government, sections of civil society and the donor community adopted the final plan. Following this, donors committed resources towards its implementation. To begin the public consultation process, the PRSS prepared information briefs including a summary of key issues and proposed solutions, organised orientation sessions for key stakeholders and conducted training sessions for the regional Resource Team. The PRSS also established eight regional Resource Teams to undertake community consultations and persons were trained to carry out consultations in the other two regions...' (pp. 13-15).

Under *PRSP Consultations*. 'Four types of consultation used: community consultations, target group consultations, regional consultations and national review conference' (p. 15).

Who was responsible for the final draft text?

NA

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRS-C:

Yes, but there is limited trade coverage. PSIA is undertaken for reforms in water, sugar and bauxite sectors but proposals are not related to trade policy.

Under *Structural Reforms*: ‘Since 1998, Guyana has continued to make substantial progress in implementing structural reforms. These reforms focused on strengthening the financial system, the privatization of public enterprises, trade liberalization and improvements in tax administration and the budget process...In 2000, a new revenue authority was made operational, combining the Inland Revenue and Customs and Excise departments, which has strengthened tax administration and revenue collection. The final phase of the Common External Tariff was implemented, reducing the maximum import duty to 20% (40% for agricultural items)’ (p. 3).

Under *Government Strategy and Program*: ‘With threats to the preferential regime and possible changes in the European Union sugar policy, many producers in the Caribbean will become uncompetitive and face closure. To avoid this fate in Guyana, the Government is undertaking a major restructuring and modernization of the industry to reduce costs, maintain competitiveness and to ensure the long term sustainability of sugar’s contribution to the economy...The Government’s strategy consists of auctions to reduce production costs, improve regulatory framework for the industry and open new regional export markets’ (p. 7).

Letter of Development Policy: Yes.

Under *Restructuring Traditional Economic Sectors*: ‘In the past, the mining, forestry and sugar sectors have served Guyana well. In recent years, however, erosion of preferential trade arrangements in sugar, low and declining levels of investments in the mining and forestry sectors and the increasing urgency in diversifying and seeking new areas of economic growth and opportunities have combined to heighten the urgency in undertaking fundamental reforms to improve the business environment and competitiveness. To this end, the Government is implementing reforms to improve the profitability and sustainability of the sugar sector. Such reforms include construction of a new sugar mill, reduction of redundant labour, implementation of a new wage policy that is based on inflation and profitability, and revision of private management contract that shift performance indicators to profitability targets’ (p. 3).

Honduras

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

Yes there is a brief section on trade policy under *Improving Competitive Access to International Markets* (p. 66) e.g. ‘Specific Objective: Promote the insertion of the Honduran economy into channels of world trade, guaranteeing the access of national products, both traditional and new, to export markets under competitive conditions’

‘Create conditions that allow Honduras to participate more fully and competitively in new export markets through:

- continuing to simplify tariff and non-tariff procedures
- assuring the implementation of commitments in the framework of the WTO
- establishing a modern system of strategic market information
- establishing pre-certification systems, quality control and phytosanitary inspection
- promoting alliances between national and foreign business people for marketing Honduras products
- establishing an advisory body, with the participation of businesses and public sector organisations, to help define and implement negotiation and market-access strategies’ (p. 66).

Other references to trade policy are spread throughout the remainder of the document.

Under *Efficiency of the Factors of Production and Competitiveness*: ‘The inefficiency of high levels of investment in generating a higher per capita GDP in the country is closely related to the economy’s low productivity, which in turn reflects the use of inappropriate technology and the limited capacities of the Honduran worker. This situation is generally found in both large- and small-scale producing units, and in the agricultural sector as well as in manufacturing and services....The productivity of the Honduran worker is the lowest in the Central America region. This is the result of the limited use of irrigation and mechanisation in land suitable for crop production, where Honduras is also below the regional mean. A similar situation can be found in infrastructure support for product activities, such as electric-energy consumption and telephone lines. Competitiveness in Honduras is also affected by another series of factors, notably the vulnerability of macroeconomic stability; a restrictive legal, administrative and political framework; the low quality of human resources; deficiencies in the quality of natural resource management and environmental control; and market inefficiencies. A combined analysis of these factors, in a competitiveness framework, stresses the need for Honduras to make further efforts to qualify as a country with an adequate competitive climate; by addressing its insufficient openness to the international market and unfavourable structural and macroeconomic conditions’ (p. 23).

‘Taking as a reference to the country with the greatest openness (Luxembourg=100%), Honduras can be seen as a semi-open (46%) country, that limits the ability of its producers of goods and services to compete internationally in quantity and quality. Likewise, Honduras scores low on other structural factors that encourage investment, such as technology, institutional and governmental efficiency, infrastructure and finance’ (p. 24).

Under *Adjustment and Stabilisation Measures*: ‘The macroeconomic and sectoral framework is closely related to economic growth and therefore to poverty reduction. It is recognised that although structural economic adjustment seeks to establish positive long-term effects on production growth rates and therefore on poverty reduction, in the short-term, while the economy is being reorientated, some measures can have negative effects on vulnerable groups. In the 80s the economy was characterised by high fiscal deficits, financed mainly by external resources, and a progressive deterioration in the current account of the balance of payments. Towards the end of the decade it became obvious that, since external resource flows were neither sufficient nor sustainable to compensate for losses in the external sector, measures were required to correct imbalances and control inflationary pressures through sound fiscal and monetary policies. Therefore, in 1990 the country found it necessary to adopt a stabilisation program, which had positive effects on internal and external balance...

Liberalisation of domestic trade, like exchange-rate liberalisation, has a contradictory effect in the short-term: it helps small basic-grains producers, who are among the poorest groups in the country, but it has negative impacts on poor consumers in urban centres. On the other hand, the production and productivity of basic grains did not seem to respond to the price-liberalisation stimulus, because they also depend on other factors, such as access by small producers to factors of production and the real appreciation of the lempira....

Appendix 1: Country Notes

Trade liberalisation has had a generally positive effect on poverty, through its contribution to the expansion of exports, many of which are labour-intensive and the drop in the price of imports, which has stimulated internal competition with favourable effects on the productivity and prices of domestic production. Although some workers have lost their jobs as a consequence of external competition, the number of people affected is small' (pp. 30-32).

Under *Accelerating Equitable and Sustainable Economic Growth*: 'Honduras has many under-utilised resources in areas such as tourism and eco-tourism, forest resources, mining, agro-industry and maquila industry; as well as opportunities offered by an unsatisfied demand for infrastructure services and the potential demand created by faster economic growth' (p. 60).

Under *Macroeconomic framework for Poverty Reduction and Growth* items were pulled from the PRGF: Short-term Guidelines: 'Improve the external-sector balance by reducing the impact of changes in the international environment.

- Assure a competitive exchange rate system, as a key factor for medium-term sustainability of the balance of payments;
- Deepen the liberalisation of foreign trade which tends to increase the efficiency of national producers and strengthen the trade balance' (pp. 61-62).

Medium-term guidelines: 'The medium-term macroeconomic framework of the PRS focuses in continuing to consolidate the process of financial stabilisation, deepen structural reforms to promote economic growth, strengthening the external position of the economy and securing substantial and prompt external debt relief and additional financing in adequate amounts under concessional conditions. These actions are all directed at achieving growth rates consistent with the poverty-reduction target. Therefore the medium-term macroeconomic framework emphasises the following objectives and policy measures:

- 2) strengthen fiscal revenues, for which it will be necessary to...improve the customs valuation system...
- 4) Create conditions that promote competitiveness, based on greater investment efficiency and productivity, through mechanisms such as:...avoiding real exchange rate appreciation that discourages production and exports' (pp. 62-63).

'The work of the Ministry of Industry and Trade in defining and implementing foreign-trade policies will be strengthened, as well as its interaction with an advisory body composed of public and private sector representatives. The objectives will be focused on technical improvement of the negotiating teams and improvement in the Ministry's capacity to define trade policies and competitive-market access policies, that are in the country's best interests' (p. 67).

Under *Development of Sectors with High Production and Employment Potential*: 'Stimulate the development of the tourism cluster by promoting the following measures:

- simplify incentives and eliminate legal obstacles to tourism investments in coastal areas;
- support the development of infrastructure services in tourist areas;
- improve the marketing of tourism, through qualified international operators, in order to position Honduras as a specialised tourist destination;
- promote the development of handicrafts and of other micro and small enterprises, in various activities linked to the sector;
- establish mechanisms of environmental certification for tourism enterprises, strengthening the position of Honduras as an eco-tourism destination' (p. 68).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP? No

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document? No

- risk	No
- access to basic services	No
- voice	No
DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY?	No
Is there an understanding of how they might differ from sector to sector?	No
Is there an understanding of how they might differ in their impact on vulnerable groups?	No
Is there an explicit discussion of trade and gender linkages?	No
Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments?	No
DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE?	Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing? Yes

Infrastructure: 'Nevertheless, Honduras is in a better situation than other countries in the region regarding other key elements of competitiveness, with advantages such as better strategic position in relation to the most important markets; an extraordinary ecological diversity; and a substantial agricultural and forestry potential. Furthermore, it should be stressed that the country has a considerably lower cost of shipping to the United States market than the rest of the Central American countries, with the exception of Costa Rica, due fundamentally to a shorter distance and to its competitive port infrastructure' (p. 24).

'...A Public Administration Program (PRAP) is under way, which seeks in the short and medium-term to make significant improvements in the efficiency of State operations through the following programs: Privatisation and concessions of the public services especially telecommunications, energy and airports' (p. 49).

Marketing: 'Inequality in the rural sector is also related to the persistence of problems affecting the development of agricultural, forest and non-agricultural production systems, notably inadequate access to support services for production and marketing, such as infrastructure (roads, telecommunications, electric power), credit, technical assistance, irrigation, training and access to markets, among others' (p. 35).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?

Yes, a reference is made to regional trade agreements.

Under *Improving Competitive Access to International Markets:*

'1) Strengthen Honduran participation in the Central American Integration Scheme, with the objective of promoting the mutual improvement of the regional economies and increasing their capacity for joint negotiations with other countries and groups, through the following:

- comply with commitments regarding harmonizing of tariffs and policies;
- simplify customs processes and eliminate non-tariff barriers to regional trade, in order to increase trade with Central America;
- complete actions necessary to establish the Customs Unification with Guatemala, El Salvador and Nicaragua and its possible extension to Costa Rica;
- promote the Central American Logistic Corridor, as a means to achieve a freer and competitive flow of products and inputs.

2) Enlarge and improve Honduran trade relations, with a view toward effective inclusion in the Free Trade Agreement of the Americas, through:

- implementing the Free Trade Agreement with Mexico;

- Achieving prompt approval of the Free Trade Agreement with the Dominican Republic;
- Completing negotiations for free trade with Panama, Canada and Chile' (p. 66).

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised?

Yes, some positive discussion made of low shipping costs to the US market, compared to Central American partners (see above – p. 24).

Are ongoing discussions in the WTO referred to and analysed?

Yes, but limited:

Under *Improving Competitive Access to International Markets*: 'Create conditions that allow Honduras to participate more fully and competitively in new export markets through...

- assuring the implementation of commitments in the framework of the WTO...(p. 66).

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?

No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes, but a broad description of how consultations for the PRSP as a whole were carried out.

Under *Consultation Modalities and Participants* 'The organisation of the participatory process in the PRSP framework was coordinated by the Social Cabinet, which established a National Technical Team to support the preparation of the document. Representatives from the institutions integrating the Social Cabinet (Ministry of Presidency, Ministry of Health, Ministry of Labour and Social Security, Ministry of Agriculture and Livestock, Ministry of Culture, Arts and Sports, Ministry of Technical Affairs and International Cooperation, National Agrarian Institute and Honduran Social Investment Fund) and other centralised and decentralised institutions related to the Strategy's basic areas formed this team (Ministry of Finance, Central Bank of Honduras, Ministry of Natural Resources and the Environment, Family Allowance Program, Honduran Institute for Children and Families, National Women's Institute and the Housing Unit of the Ministry of Public Works, Transportation and Housing). The technical team undertook a highly collaborative effort with the various Government institutions, being active in each stage of preparing the strategy, as well as in the joint definition of priorities, intersectoral coordination activities and preparation of cost estimates for programs and projects, among other tasks. Consultation with civil society was jointly defined in each phase by the Social Cabinet and the Commission for Civil Society Participation in National Reconstruction and Transformation. This Commission includes representatives of the National Convergence Forum, Espacio Interforos, the Association of Honduras and the Chambers of Commerce and Industry' (p. 3).

'A total of 3500 people participated in the direct consultation process through civil society organisations. This figure includes representatives of various types of organisations at the local, regional and national level, such as: small farmers, blue-collar workers, market and ambulatory salespeople, teachers, media representatives, businessmen and women, farmers and ranchers, ethnic groups and women's organisations. Also participating were representatives of professional and employers associations, community organisations, service clubs, cooperatives, churches, NGOs and universities...This progress also reached political representatives of Honduras society through presentations at plenary sessions of the National Congress...It should be noted that the international community as a group demonstrated great interest in the development of actions leading to poverty reduction in the country; it also played an important role in the participatory development of the Strategy. Representatives of the international community were present at all technical meetings to discuss the document and in most consultation meetings at the national and regional levels. These representatives, from both multilateral agencies and donor countries, acted as observers of the process and also had opportunities to exchange experiences and to hear suggestions and opinions about its development. Moreover, the international community participated in the sectoral working groups monitoring the progress of the national reconstruction and transformation process, and provided comments and suggestions for consideration by the Government's Technical Team in charge of preparing the document' (p. 4).

If so, who participated in, or was consulted, in drafting the text?

See above.

Who was responsible for the final draft text?

The Government's 'Technical Team' (p. 4).

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRGF (Letter of Intent): Yes.

'The external current account deficit declined slightly to 4% of GDP, owing to slower-than-expected growth in non-oil imports, while remittances from abroad remained strong. As a result, gross international reserves amounted to \$1285 million by end-2000' (p. 2).

'The government's policies are designed to minimise the effects of the decline this year in the terms of trade and achieve real economic growth of 3.5-4% in 2001. Growth is then expected to rise to 4-4.5% in 2002 and to 5-5.5% a year in. Reducing inflation over the medium term is another principal objective of the government's program. Lower inflation contributes to a more stable exchange rate, and facilitates business and investment decisions, which enhances growth potential. Moreover, price stability directly benefits the poor, who suffer disproportionately from the inflation tax. Policies will limit inflation to 10% in 2001 and then reduce inflation to 8% in 2002 and 6% in 2003. The external current account deficit is expected to widen to over 5% of GDP in 2001-03, as reconstruction spending remains strong in 2001, and then to decline slightly in subsequent years. Continued inflows of foreign investment and official assistance would help boost net international reserves by \$25 million in 2001 and by \$ 60 million in 2002 to keep the reserve cushion at about 4 months of imports of goods and services' (P. 3).

'To improve the collection of import taxes, a key objective in 2001 will be to strengthen customs administration. In particular, the DEI plans to 1) improve the detection of under-invoicing of imports; 2) connect all customs offices electronically; and 3) improve cross-checking with third-party sources of information on tax receipts and returns' (p. 4).

'A competitive exchange rate is critical for medium term sustainability of the balance of payments. Competitiveness depends on exchange rate policy, as well as many other factors, such as productivity, structural reforms, and prudent income policies' (p. 9).

Malawi

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE? Yes. Trade policy is discussed under *Domestic and External Trade* e.g. 'Both domestic and external trade continue to play a major role in the growth and development of the economy. Trade has facilitated the development of both economic and social sectors, particularly agriculture, manufacturing and tourism. There are a number of constraints to growth of domestic and international trade and these include lack of access to credit, lack of appropriate skills, weak linkage to markets, inadequate quality assurance and standards and poor packaging. The objectives to address the development and promotion of domestic and international trade include the provision of supportive infrastructure, expansion of domestic market share, expansion of export market share and negotiation of preferential agreements.

1. Provide Supportive Infrastructure: Physical infrastructure will be improved... and support to MSMEs and agro-processing. In general the private sector will be encouraged to play a greater role in infrastructural development, through innovative financing arrangements. In addition, trade administrative infrastructure will be established, including the creation of sustainable export credit refinancing.

2. Expand domestic market share: Local manufacturers and producers will be encouraged to increase their share of the domestic market. This will also help in the expansion of the domestic market for Malawian products and reduce the current preference for imported goods. The main emphasis will be placed on instilling a sense of loyalty and national pride among domestic consumers to purchase local goods. Other measures will include giving recognition to manufacturing companies that will have achieved high standards and quality in the production of goods.

Specific measures will be instituted to enforce more transparent preferential treatment of local entrepreneurs. Other measures will include the encouragement of bulk purchases, joint advertisements and promotions, joint ventures and buy-outs. Formal and informal networking among the traders will be supported through collation and sharing of market information and consumer behaviour. Private sector trade associations are expected to play a more effective role than in the past. Steps will be taken to protect consumers by enforcing the competition law, ensuring that consumers are protected from unethical and unfair trade practices, misleading advertisements, unsatisfactory services and other unethical marketing practices.

3. Expand Export Market Share: The promotion and development of exports will be further strengthened. Malawi Export Promotion Council will re-orient its activities to be business like to ensure full co-ordination and consolidation of export promotional activities. Trade promotion centres will be established whilst rationalising existing trade representatives.

Negotiate Preferential Arrangements: Government will ensure compatibility of trade agreements and ensure reciprocity in the implementation of regional and bilateral agreements. The multiplicity of trade agreements offers a challenge in terms of compatibility and implementation. Continuous efforts will be made to expand the market shares within the existing as well as new market and non-traditional markets. Regional trade and cross-border investment will be expanded through SADC, COMESA and bilateral agreements' (p. 46).

Trade policy is also discussed elsewhere in the document.

Under *Overview of Structural Adjustment Policies* 'Major industry and trade reforms were implemented in 1988 through the Industrial and Trade Policy Adjustment Programme. The programme eliminated quantitative restrictions and rationalised trade taxes. Malawi's tariff bands were reduced to four. The foreign exchange market was also liberalised to ensure efficiency in foreign exchange allocation...The rationalisation of trade taxes ensured that only import duties were used as instruments of protection, while domestic taxes emphasised taxing consumption rather than production' (p. 12).

Under *Economic Performance during Adjustment*: 'Starting from 1979, Malawi suffered from a series of exogenous shocks, including high import costs due to oil price shocks, disruptions in trade routes...' (p. 13).

Under *Provide Support for Development of MSMEs*: 'There will also be a focus on exporting specific products where Malawi has a comparative advantage through the establishment of export villages, the

organisation of international fairs and the provision of information to MSMEs on export procedures' (p. 33).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP? No

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document? No

- risk No

- access to basic services No

- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY? Yes

Is there an understanding of how they might differ from sector to sector? Yes

Agriculture: 'The Malawi economy has largely relied on tobacco for income and employment. Since the repeal of the Special Crops Act, there has been a tremendous increase in the production of burley tobacco. However, with the increasing international antismoking lobby, the future of tobacco as the main foreign exchange earner is not certain. As a result, Government has pursued a policy of encouraging diversification of crop production away from tobacco to non-traditional crops. However, these efforts have not been properly effective, particularly as a result of the reliable market for tobacco compared to other crops. As a result, tobacco remains the main cash crop for most Malawian farmers, despite falling prices' (p. 26)

'Other traditional export crops, such as tea, coffee and sugar, which are produced largely on estates, will continue to be major foreign exchange earners and employment generators for the foreseeable future. As such, Government and the estate sector will continue to work together to ensure the competitiveness of Malawian produce and to maximise the impact on poverty reduction. Government, in collaboration with the private sector, will take action to diversify and encourage the establishment of viable production units of selected key export crops which will have a direct market link with industry to facilitate agro-processing for more value adding. Key crops, apart from tobacco, such as cotton, cassava and soya beans have been selected on the basis of their high productivity by smallholder farmers and that the crops could easily be processed into a number of products. These crops also have high export marketing prospects. It is envisaged that crop specific associations of these crops will be formed in areas with high comparative production advantage' (p. 26).

Manufacturing and Agro-Processing: 'Malawi's industrial growth will be greatly influenced by the success in raising agricultural output and incomes. The bulk of manufacturing activities are highly dependent on agriculture and natural resources as sources of raw materials and provider of foreign exchange for the importation of inputs and components. In addition, increased agricultural incomes will stimulate greater demand for manufactured products. At present, the industrial sector is relatively small, with manufacturing activities concentrated in a few agro-processing activities. However research suggests that Malawi's current comparative advantage in these agro-processing industries will not last into the long term unless deliberate efforts are made to increase efficiency and introduce up-to-date technologies. The major constraints in the manufacturing sector are limited linkages with MSMEs, use of obsolete technologies, inadequate standards and quality assurance and limited international marketing capabilities. In addition, most local firms cite the need for collaboration with foreign firms as a necessary condition for their growth and survival, because of their capacities, capital and access to markets. Further, utility interruptions, inadequate raw materials and limited engineering and marketing skills constrain the development of the manufacturing sector. In order to facilitate the development of the manufacturing sector, efforts will be made to broaden the industrial base, develop new cluster-based industries, integrate MSMEs in industrial development and establish a credible institutional framework.

Broaden the Industrial Base: MIPA will spearhead the identification of new sources of growth and promote them so as to strengthen and diversify the industrial base. Research, investment promotion and

training programmes will be focussed on the development of export-orientated, high value-added, high technology industries with greater assistance and support from domestic research and development. These will ensure that labour intensive, capital intensive and technologically advanced industries have the capability to produce quality and competitive products that are integrated with the regional and international markets.

Develop New Cluster-Based Industries: Emphasis will be placed upon development of competitive industry clusters through integration of key industries, suppliers, supporting industries, critical supporting business services, requisite infrastructure and institutions. Value chains with significant backward and forward linkages, domestic spin-offs and value added will be developed with more emphasis on domestic MSMEs. The following industry cluster groups are earmarked for active development, promotion and support: textiles and apparel; agro-based and food products (cassava, soya, fish and fish products, livestock and livestock products, floriculture, fruits and vegetables); resource-based industries (wood and wood products, gemstones, handicrafts); chemical products (pharmaceuticals, fine chemicals), engineering industries (automobile consumables and components) and consumer manufactures. Investment promotion will focus on these clusters, with an emphasis on increased collaboration with foreign firms.

Accelerate Regional Development: In order to accelerate regional development and reduce transport costs, Government will continue to promote spatial development initiatives. In particular it will focus on Nacala and Mtwara development corridors and the ZMM (Zambia, Malawi and Mozambique) growth triangle. For each initiative, the approach will be to identify the resources in the area, and then involve all stakeholders and promote infrastructural investments.

Improve Product Standards and Quality: Standards and quality control systems will play an increasingly vital role in enhancing exports as more and more value-added products are produced. Manufacturers will be encouraged to institute in-house quality control measures in order to produce products that are consistent in quality and competitive in price. The public sector through the Malawi Bureau of Standards (MBS) will work with the private sector to strengthen quality and standards' (p. 33).

Tourism: 'The tourism sector has potential for income and employment generation, particularly in rural areas. However, most tourism developments have been led by foreign investors with limited participation of local communities. Tourism is currently hampered by poor product development, lack of clear standards and guidelines, lack of innovation in marketing and inadequate supporting infrastructure.

In order to facilitate poverty reduction through tourism, the MPRS will promote development and investment in diverse tourism products, develop and adopt updated and professional approaches to tourism and marketing, and establish an appropriate regulatory framework to improve the standards and quality of tourism product. These interventions will be implemented in partnership with the private sector on the basis of the Tourism Strategic Plan.

1. Promote Development and Investment in Diverse Tourism Products: New tourism products will be developed in their original and traditional settings. Government will work with the private sector to involve rural communities in tourism development, from construction of new facilities such as eco-tourism lodges to running and maintaining them, and through tourist villages, curio markets and cultural events. Training and basic infrastructure will be provided to communities. Investment promotion will be intensified by designating tourism growth areas and formulating investment and concession agreements...

2. Develop and adopt an updated approach to tourism promotion and marketing: The primary strategy will be the creation of a distinct and unique image of Malawi's natural heritage and cultural resources. Strengthening Malawi's identity as the 'Warm Heart of Africa' will be an important component of tourism development. Further effort will be made to intensify marketing in both old and new markets at domestic, regional and international level, utilising developments in information and communication technology.

3. Regulate Tourism on the Basis of Defined Standards: Standards, classification guidelines and licensing will form the key components in ensuring highest possible standards of accommodation, catering establishments, incoming tourism agencies, travel agencies, destination management companies and other tourism service providers....' (p. 35).

Small-Scale Mining: ‘The key objectives in promoting small-scale mining are to disseminate information on mineral availability, identify mineral resources suitable for small scale mining, encourage the development of small-scale mineral based industries, provide technical and financial support, ensure appropriate mining legislation, improve understanding of value adding methods and promote marketing’ (p. 36).

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages? No

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments? No

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE? Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing? Yes

Information: ‘There has been a general lack of understanding of domestic, regional and international markets among Malawian farmers and small agro-enterprises such that they have not taken advantage of the market opportunities created by bilateral and multilateral trade agreements. Most stakeholders have very limited access to information on local and international markets especially smallholders and small scale traders, leading to lack of knowledge of the quality, quantity and type of products to be produced and targeted to specific markets’ (p. 24).

Infrastructure: ‘The competitive position of agricultural products in Malawi is relatively weak due to high transport costs and low on-farm and agro-industrial productivity’ (p. 24).

‘...Telecommunications can benefit rural firms and people by giving them information about markets, suppliers and technology and government regulations. Such networks can also make it less expensive and more efficient for firms to locate in rural places, and can enable small towns to import services like healthcare through telemedicine technology and education through distance learning facilities’ (p. 41).

Marketing: ‘Extension agents focus on production rather than marketing information and do not provide marketing support to farmers. The strategic actions towards addressing these problems will include developing an efficient and effective Market Information System (MIS). This will be achieved through creating a better marketing network, which will link farmers to markets...International linkages will be strengthened, for example, through trade fairs and other buyer/seller meetings, internet access, marketing bulletins and membership of local and international commodity trade associations’ (p. 24).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?

Yes, some discussion of made of regional agreements such as SADC and COMESA (p. 46 - see above) and Lomé, GSP, EBA and AGOA e.g.

‘Government will also focus on maintaining and strengthening preferential non-reciprocal agreements with developed countries such as the Lomé Convention and the Generalised System of Preferences, the EU’s Everything But Arms initiative and the US Africa Growth and Opportunity Act. Government recognises that least developing countries, including Malawi, can make use of the special clauses of the Uruguay Round providing differential and more favourable treatment and implement and benefit from the commitments undertaken. Meanwhile, Government will continue to negotiate with its HIPC and LDC partners for preferential agreements and the removal of barriers and subsidies in developed countries’ (p. 47).

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised? No

Are ongoing discussions in the WTO referred to and analysed? No

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO? No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes, but trade policy discussions were split across various groups e.g. industry thematic working group, infrastructure thematic working group, macroeconomic stability working group, and agriculture working group.

If so, who participated in, or was consulted, in drafting the text?

Agriculture:

Ministry of Agriculture
Action Aid
ADMARC
Bunda College of Agriculture
DFID
Malawi Agriculture Sector Investment Programme
Malawi Rural Finance Company
National Smallholders Association of Malawi
SCFT
Tobacco Association of Malawi
World Bank
EU Delegation
Freedom Gardens

Industry:

Ministry of Commerce and Industry
Ministry of Natural Resources and Environmental Affairs
National Economic Council
Malawi Investment Promotion Agency

Infrastructure:

Christian Service Commission
Department of Energy
EC Delegation
Electricity Supply Company of Malawi
JICA
Malawi Social Action Fund
Ministry of Agriculture
Ministry of Local Government
Ministry of Transport
Ministry of Water
Ministry of Transport and Public Works
MRTTP
National Roads Authority
Parliament

Macroeconomic Stability:

Commercial Bank of Malawi
DFID
Law Commission
Malawi Institute for Democracy and Economic Affairs
Ministry of Finance
Malawi Revenue Authority
National Statistical Office
Reserve Bank of Malawi
University of Malawi
World Bank

Who was responsible for the final draft text?

The drafting team:
National Economic Council
Ministry of Finance

Reserve Bank of Malawi
CONGOMA
Konrad Adenauer Foundation
Ministry of Agriculture
Malawi Economic Justice Network
Malawi Investment Promotion Agency

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRGF (Letter of Intent):

No. Food import subsidies are not mentioned in the PRSP. Individual trade tax measures are also not discussed under the PRSP.

‘With regard to the food shortages expected for later this year, pledges of humanitarian aid broadly cover the estimated food aid requirements and the government will undertake commercial food imports through the National Food Reserve Agency (NFRA) to ensure that sufficient quantities of food are available in Malawi. Moreover the government will provide a subsidy estimated at 1.1% of GDP, mostly benefiting the segment of the population that is expected to be outside the target group for food aid but has insufficient income to fully satisfy the minimum caloric requirement at import parity prices’ (p. 3).

‘To ensure a decisive turnaround, the government will also implement tax measures. We intend to:...introduce a 20% export tax on raw, unprocessed tobacco to counter tax evasion on tobacco circumventing the auction floors; curtail drastically discretionary duty exemptions other than on donations of imports by diplomatic missions, NGOs and international organisations to counteract the recent increase in non-dutiable imports with the budget; and build up capacity in the Malawi Revenue Authority (MRA) to strengthen tax administration including by carrying out effective and well-targeted audit programs to strengthen enforcement’ (p. 4).

‘The government’s trade strategy will focus on meeting commitments to liberalise trade by 2008 with other Southern African Development Community (SADC) members under the free trade area launched in September 2000, in order to complete the process of removing all duties with its trading partners in the Common Market for Eastern and Southern Africa (COMESA) and to consolidate its commitments under the Regional Integration Facilitation Forum (RIFF). The government will makes efforts to ensure that there is consistency between its various regional commitments and removing recently recently imposed import license requirements on cement and sugar and import bans on dairy products, vegetable cooking oil and dry cells by July 2002’ (p. 8).

Mozambique

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

Yes, under *International Trade and Export Promotion*: 'Main objectives: Create conditions for export sector to be an instrument for sustaining rapid and broad growth. This requires maintaining a competitive exchange rate, eliminating trade barriers, and providing more effective export promotion services, for both traditional and non-traditional exports. Principle measures to be taken: Manage monetary policy to guarantee not only a stable inflation rate but also the maintenance of a competitive exchange rate. This will require strong management of foreign exchange reserves. A real depreciation of the metical is critical as an incentive for exports and import substitution, and for increasing national competitiveness in a globalised world. Develop procedures for rapid customs clearance (for exports and imports) and VAT refunds for registered and regular exporters. These procedures should be backed by a computerized system in both Customs and Taxes to allow rigorous control of taxpayers who benefit from the fast-track procedures.

Other key measures include: 1) pursue implementation of the SADC Trade Protocol; 2) implement options for establishing an export credit system, in particular for priority exports; and 3) promote exports to the USA and the European Union under the AGOA and ACP accords, respectively' (p. 80).

Under *Macroeconomic and Financial Policies*: '...the external imbalance manifests itself in the enormous gap between the cost of imports and the revenue derived from exports. These dangerous and unsustainable imbalances must be gradually eliminated...To reduce the external imbalance, the following are necessary: 1) expand and diversify export revenues; 2) promote efficient import substitution; 3) attract higher levels of foreign direct investment; and 4) provide incentives to prevent capital flight' (p. 76).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP? Yes

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document? Yes

- risk Yes
'Besides suffering from acute material poverty, the poor in Mozambique also suffer from a high degree of vulnerability to natural disasters and economic shocks. This was made clear by...the deprivations caused in recent years by low prices in the international markets for the country's main agricultural products' (p. 2).

- access to basic services No

- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY? Yes

Is there an understanding of how they might differ from sector to sector?

Agriculture:

Under *Strategic Vision for Poverty Reduction in Mozambique*: 'More than 70% of the population is concentrated in rural areas, and an even higher proportion depends on agriculture for survival. Agriculture contributes around 30% of GDP, with most production coming from the family sector, which covers more than 3 million families. For this reason, agriculture and rural development is a priority in the strategy for poverty reduction and broad based growth. The principal objective of rural development is to increase income-generating opportunities, especially for the family sector. The generation of income depends on agronomic advances to raise productivity, but also, and fundamentally, on access to markets' (p. 4).

Under *Agriculture and Land Ownership*: 'Maize and cassava are the most common crops for both the poor and non-poor, while cash crops are of relatively marginal importance: the non-poor tend to cultivate more cotton and cashews, but nevertheless only low percentages of the non-poor do so. This is reflected in the low levels of marketed output with, in general, less than 10% of households in each category (poor and non-poor) selling surpluses of maize, cassava or cotton' (p. 16).

Under *Agriculture and Rural Development*: ‘There is a great potential for the agricultural sector to contribute to rising incomes, and achieve an average annual sectoral growth rate of around 8%, to meet projected domestic demand as well as the growth in exports. This expansion of the agricultural sector must be on an inclusive basis, resting fundamentally on ‘family sector’ production, but also drawing on the ‘commercial sector’ (p. 62).

Mining:

‘the mining sector offers vast potential in contributing to rapid economic growth given the high value-added coefficient for this kind of activity. In addition, the sector is traditionally linked to exports. It is a sector, which, through a well-managed process of expansion, can contribute significantly to reducing the grave resource constraints that the country is facing, allowing an effective exit from dependence on grants’ (p. 86).

Fisheries:

‘Fisheries are an important sector in the struggle against poverty, and the promotion of economic growth, particularly given the large involvement of small-scale producers. The sector has great potential to expand in both the domestic and foreign markets, with the participation of both the small and large-scale sub-sectors’ (p. 88).

Tourism:

‘The growth in demand for locally produced goods and services is an important factor in raising incomes of local producers, as well as for the expansion and improved efficiency of their productive activities. The tourism sector has the potential to contribute to this increase in demand, covering also small producers and communities. The sector therefore contributes to wider employment opportunities. International tourism has received most attention, probably because it earns foreign exchange. However, it should be underscored that domestic tourism is equally important and also plays a role in expanding the demand for local goods and services. While domestic tourists as individuals have low incomes, their expenditure taken as a whole and their potentially high numbers may come to surpass that of foreign tourists. At the same time, in the short to medium term, domestic tourists may be less demanding in terms of infrastructure requirements, and are likely to demand a larger range of locally produced goods and services’ (p. 90).

Manufacturing:

‘The manufacturing industry is an important sector in the strategy. From the point of view of priorities, the most important activities are in agro-industry and labour-intensive export industries. The promotion of agro-industry is an enabling factor for agriculture and rural development and the growth of employment. It is a key element in the following ways: it expands the market for agricultural products, contributing to the expansion of agricultural investment and employment; it is a nascent sector, as a result of structural changes due to technological developments and rising productivity in agriculture, which can soak up surplus labour from agriculture; agro-industries, in themselves, can create many rural and urban jobs. Manufacturing industries geared to export markets are also levers for job creation, through their exploitation of foreign markets using labour-intensive technologies’ (p. 92).

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages? No

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments? No

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE? Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?

Infrastructure:

‘A fundamental role of the State in stimulating a market economy and expanding opportunities for the poor lies in the development of basic infrastructure. Improvements in the road network will permit better access to markets and a reduction in costs, and will facilitate communication and mobility, especially for those who live in rural areas and depend on agriculture. In parallel, the provision of water

and energy is fundamental to the development of human capital and the expansion of national output. Priority in the rehabilitation and construction of basic infrastructure will be given to those areas of the country with the largest populations and highest levels of poverty' (p. 4).

'The availability of infrastructure in particular, roads, energy and water) is another basic factor to facilitate the initiatives and actions of citizens and their institutions. Amongst other considerations, infrastructure contributes to the availability and mobility of factors of production, makes possible the process of work, innovation and structural change needed in the medium and long-term and ensures the functioning and expansion of markets' (p. 40).

'...infrastructure is an essential factor for the development of the private sector as an engine of growth depends on the availability of basic infrastructure...Besides water and energy (which are essential for agro-industrial activities), transport and communications infrastructure and services, including roads, railways and ports, coastal shipping, postal services and telecommunications, are vital for the agricultural sector. Infrastructure as a whole, is vital for increasing productivity, reducing costs and expanding markets, to make economic activities more viable and improve welfare (p. 56).

Under *Transport and Communications*: 'The transport and communications sectors provide essential infrastructures and activities contributing to poverty reduction and economic growth. The efficient and timely circulation of information and goods and services is a factor, which favours expansion and increasing dynamism of markets. This circulation and expansion affects both the domestic market (between rural and urban areas, intra and inter-regional) and the international market' (p. 92).

Information:

'Improvements in post-harvest management and access to markets to ensure that the increased production contributes to an increase in monetary income and reduction of food security. Key activities include: encourage farmer associations to become involved in marketing of produce; disseminate information on markets...' (p. 67).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?

Yes, references are made to the SADC Trade Protocol and AGOA and ACP accords (see p. 80).

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised?

No

Are ongoing discussions in the WTO referred to and analysed?

No

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?

No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes, broadly defined for the PRSP as a whole.

If so, who participated in, or was consulted, in drafting the text?

'The consultation process for the ARPA has four main components:

- Consultations at the sectoral level on strategic plans, priorities, constraints, resources and actions planned as well as their effective implementation; these consultations are part of the regular consultation process for the key sectors.
- Consultations and dissemination (at the central and provincial level) of analytical documents and strategies for economic and social poverty.
- Meetings on general and specific issues during the more advanced phase of review of prior documents.
- Long-term consultations.

'...The sectors have carried out consultations at the various levels and involve technicians from the respective sectors, donors, and civil society in general, with a view to creating a consensus on objectives, priorities, specific targets and sectoral strategies to combat poverty...' (p. 98).

Who was responsible for the final draft text? NA

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

‘The Mozambican economy has recovered strongly from the devastating 2000 floods, which limited growth to under 2%. Aided by the first full year of production of the MOZAL aluminium smelter and buoyant agricultural production and construction activity, growth is estimated to have reached 13.9% in 2001. The current account of the balance of payments narrowed from 11.8% of GDP in 2000 (excluding grants and large projects) to 10.7% of GDP in 2001, and gross international reserves of the Bank of Mozambique (BM) increased to \$727 million, or the equivalent of six months of goods and services. However, price developments were less favourable; after declining early in 2001, the 12 month rate of inflation increased very sharply in the last quarter of the year, reaching 22% in December’ (p. 2).

‘The government will adhere to its intention to reduce the top tariff rate from 30% to 25%. The rate reduction will now become effective in January 2003 as part of Mozambique’s participation in the Southern African Development Community (SADC) Trade Protocol, at which point the government will apply the reduction in the top tariff rate to all of Mozambique’s trading partners’ (p. 9).

‘The sugar sector has attracted sizeable foreign direct investment in recent years and the rehabilitation of four sugar mills is expected to be completed by 2005, when annual production is projected to reach 400,000 tons. In the interim, while production is running well below the capacity of the mills and costs are correspondingly high, the import surcharge on sugar imports imposed in 1999 will remain in place. This policy will continue to be subject to annual reviews, taking into account developments in the domestic and highly distorted international sugar markets. To alleviate pressure from imports of sugar from Zimbabwe that evade the import surcharge, in April 2002 the government granted a temporary VAT exemption for sugar. The sector is benefiting from limited preferential access to regional markets under the SADC Trade Protocol, to the United States, and, since 2001, to the European Union’ (p. 9).

Nicaragua

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

No, although references to trade policy are made throughout the document.

‘The first pillar, broad-based economic growth and structural reform, will require rapid GDP growth over the next five years in an environment of price stability. Unfortunately, the country’s adverse terms of trade, electoral uncertainty and declining external assistance lead to a realistic average annual growth projection of only 4.2% (1.6% per capita) for 2001-2005, although growth thereafter should accelerate. Urban services, light industry and export zones should grow rapidly in the future...’ The poverty strategy however, will emphasise agricultural expansion, an expansion that will directly address rural poverty. This will require major efforts to improve the productivity of rural workers, as well as generate off-farm employment in small towns and rural areas. A series of actions will support overall growth. These include continued prudent and coherent fiscal and monetary policies, privatisation of electricity, telephone, water and port services...’ (p. xii).

Under *Background on Policies and Strategies and their Impact on Poverty*: ‘During 1960-77, prudent macroeconomic policies produced extraordinary growth performance. Fiscal discipline, monetary stability, stable exchange rates, congruent monetary and credit policies, a modern and well-administered financial system and relatively low levels of indebtedness forged a framework of economic discipline that fostered a stable environment and encouraged both domestic and foreign investment. This framework was strengthened by favourable international conditions and buoyant markets favouring growth in coffee and cotton production. As a result, the economy grew at an average annual rate of 6.4 percent. Per capita GDP grew at 3.1 percent per year, domestic inflation rates were close to international levels, balance of payments deficits were moderate and exports rose in response to growing industrial, agricultural and livestock output levels and strong foreign demand. By contrast, the major disruption associated with civil war in the 1980s complicated macroeconomic management and resulted in a major misallocation of resources. This, coupled with political instability, led to a collapse in output and one of the worse episodes of hyperinflation in Latin America. During 1984-1989, GDP fell by a yearly average of 3.6 percent and the rate of inflation reached a peak of 33000 percent in 1988, while per capita income fell to 1960s levels. This collapse is the most important cause of Nicaragua’s current high poverty levels...Despite the introduction of preferential exchange and interest rates, excessive public expenditures (50 percent of GDP in 1986) and credit levels (54.1 percent of GDP in 1987), real aggregate demand dropped dramatically in the 1980s. Ad hoc and hasty transfers of productive land – with the resulting uncertainty, clouded ownership and legal chaos it produced – led to disinvestments and major drops in agricultural production. At the same time, the foreign debt grew to unprecedented levels, reaching \$8.5 billion in 1988, almost seven times greater than the country’s GSP and the level of the foreign debt at the end of 1978. By 1990, the foreign debt reached \$10.7 billion. Due to the collapse of economic activity, poverty levels increased sharply. During 1990-2000, Nicaragua’s macroeconomic performance improved substantially. Backed with IMF support a strong structural reform program was launched which brought inflation under control and renewed economic growth. With the help of appropriate monetary, fiscal and exchange rate policies, inflationary pressures quickly abated. Nonetheless, in spite of liberalisation, higher government savings, programmed reductions in import tariffs and a 50 percent reduction in external debt, the fragile economy was slow to react. This was partly due to unresolved property disputes. However, positive economic growth re-emerged in 1994 and thereafter the economy has grown at an average annual rate of 4.8 percent’ (pp. 13-14).

Under *Strategies and policies in the 1990s* ‘The tax system was revised with a view to broadening the taxation base and lowering top tax rates, so as to simplify the system and reduce administrative costs. The 1997 Tax Law dropped a number of low-yielding taxes, reduced the number of exemptions, and eliminated (often abused) export bonuses as an incentive for non-traditional exports, replacing them with a 1.5 percent drawback on exports’ (p. 15).

Under *Strategies and policies in the 1990s*: Trade and price reforms: Liberalisation of foreign trade was one reform with a substantial impact on the Nicaraguan economy. The abolition of government-owned export trading monopolies encouraged private production for export. The extensive and perverse price control mechanisms set up during the 1980s were also abolished, and many state firms with monopolies were privatised. The government supported these reforms with a more realistic exchange rate and lower import tariffs. The highest nominal import tariff rate was reduced from 60 percent to 10

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percent in 2000. The arithmetic average of the nation's tariffs (excluding Central America) dropped as well, from 19.6 percent in mid-1994 to almost 5 percent by late 2000. A temporary 5 percent tariff surcharge – stemming from the conversion of an NTB in 1997 – has been phased down to less than 1 percent, and a proposal to legally abolish it will be presented to the Assembly soon' (p. 16).

Under *First Pillar: Broad-Based Economic Growth and Structural Reform*: 'Labour-intensive, broad-based economic growth, is perhaps the most important pillar of the SGPRS. This pillar rests on the implementation of a macroeconomic program of continued stabilisation and structural reform, including privatisation of government-owned utilities, actions aimed at modernising the rural economy, fostering small and medium businesses, the development of the Atlantic Coast and the promotion of strategic productive clusters...Like that of most countries, Nicaragua's future economic expansion will likely be led by some vibrant urban services – tourism, banking, commerce and communications. A stable political and economic environment has already led to the construction of a half-dozen new, major hotels in Managua. The banking and commercial systems still have a lot of potential for growth and development, as does the nation's tourist capacity...Much of the SGPRS will assist this expansion: macroeconomic stability, better infrastructure, improved education and health services, more transparent governance and strengthened legislation and institutions will all encourage a private, market-driven response. Nevertheless, the country's poverty level will require a special effort to ensure that the rural economy, where Nicaragua's poorest are concentrated, expands as well' (p. 27).

'The government has already reduced protection on industrial goods, eliminated tariffs on imports of inputs and capital goods used in agriculture, and instituted a 1.5 percent tax refund on the value of exports. Notwithstanding these actions, an anti-export bias still persists; a bias that weighs down much of Nicaragua's agriculture and many services. This will be further reduced as the free trade agreements of Mexico, Canada, Panama and the Dominican Republic are implemented, and a lower Central America common external tariff takes effect once negotiations are completed' (p. 28).

'In recent years the Ministry of Development, Industry and Trade (MIFIC) and the National Institute for Small and Medium Enterprises (INPYME) have jointly developed a strategy to foster small businesses' competitiveness, employment and exports. The government will also implement the Central American president's agreed plan to improve competitiveness. Supported by the business community, it will promote growth in four strategic clusters with high growth potential: tourism, coffee, textiles and clothing and forestry products. These will have a major impact on rural activity' (p. 29).

Under *Macroeconomic framework*: 'The fall in coffee prices, increase in oil prices, the financial crisis following the failure of several banks, and the adverse effects on agriculture of El Nino and La Nina led to a slowdown of real output growth, from 7.4 percent in 1999 to 4.3 percent in 2000. GDP growth is expected to decelerate to 3 percent in 2001...It is estimated that economic growth will begin to accelerate by the year 2002, and will reach 5 percent by the years 2004-2005. Inflation is expected to drop from a rate of 10 percent in 2000 to 4 percent in 2005. The main sources of this economic growth would be a renewed drive to increase exports and more dynamic investment. To this end, the government aims to revitalise the agricultural sector and to foster private investments by completing its privatisation program and increasing availability of long-term resources coming from the private pension funds. The primary sector will grow at an average annual rate of 6 percent, industry at 4 percent and the construction sector at 7.5 percent annually. These are the sectors that will determine the growth of the economy during the upcoming 2002-2005 period. The projections also show that the deficit in the current account of the balance of payments will be reduced from a third of GDP in 2000 to below one fifth of GDP in 2005 as a result of an increase in exports and a drop of imports to sustainable pre-Hurricane Mitch levels. Furthermore, the reduction in the external debt related with the HIPC initiative will contribute significantly to a betterment of the balance of payments' (p. 39).

Under *Programs by Strategic Components and Sectors*: 'This will be complemented by a \$107.2 million program for the recovery of the productive infrastructure in rural areas, executed by the Ministry of Transport and Infrastructure, the National Commission of Energy and the Rural Development Institute, an institution focusing on poorer rural areas. In addition, a program of \$32.8 million is contemplated for enhancing the competitiveness of small and medium-size farms producing staple grains and other agricultural goods by supporting 1) training, management and technology transfers; 2) a more rational use of resources; 3) greater access to product and input markets by small

and medium size producers and 4) an improvement in production processes and the quality of final products...’ (p. 49).

Annex II under *Trade and Pricing Policies*: ‘1991-92 eliminated state exporting and importing monopolies

1991-93 Eliminated price controls on all products except public utility tariffs, selected petroleum products, basic medicines and milk

Nov 1997 Eliminated use of negotiable tax certificates (CBTs) to promote non-traditional exports

1991-Jul 1999 Reduced the import tariff ceiling from over 60 percent in 1990 to 10 percent

May 2000 National Assembly approved a new Law on Foreign Investment’ (p. 100).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP? Yes

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document?

Yes, but reference is only made to risk.

- risk

‘Nicaragua’s poor are also extremely vulnerable. Nicaragua is frequently affected by major natural disasters – hurricanes, earthquakes, volcanic eruptions, droughts, fires and floods. Its narrow and fragile export base makes it vulnerable to terms of trade shocks’ (p. 8).

- access to basic services No

- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY? Yes

Is there an understanding of how they might differ from sector to sector? No

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages? No

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments?

Yes. Some emphasis is placed on rural development.

‘The SGPRS thus places strong emphasis on the development of rural areas, not only because of their higher incidence of poverty but because of their continued potential for growth with their abundant, if underemployed, factor endowments. Moreover, agricultural and small and medium businesses have great potential for reducing unemployment and underemployment because they are labour-intensive. The strategy will seek to improve the incentives for rural development through the elimination of price and cost distortions faced by farmers, improvement in the operation of rural factor markets, increased investments in rural infrastructure, the implementation of demand-driven programs aimed at small and medium-sized producers with growth potential, and the promotion of improved production technologies. The last will be crucial. Once at the vanguard of agricultural productivity in Central America, Nicaragua has lost its competitive edge in many export and food crops. Moreover, its land frontier is fast closing. Future agricultural (and export) growth must come from productivity gains; a key focus of the SGPRS effort’ (p. 28).

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE? Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?

Under *Technological Aspects* :’ At present, the agricultural, livestock and even industrial sectors face serious problems of low productivity and a lack of adequate quality control. Traditional agriculture is dominated by often illiterate farmers using centuries-old, environmentally unsustainable practices. Poor transport and other infrastructure retard productivity. Moreover, the poor quality and lack of quality

control of Nicaraguan products makes it difficult for domestic producers to compete in other raw commodity markets. A major improvement in technology is needed, as well as job training programs, if productivity levels are to increase to make the economy sufficiently competitive in international markets' (p. 18).

Under *Infrastructure Problems*: 'Lack of investment and poor physical infrastructure maintenance during the 1980s, deterioration due to war, and the effects of natural disasters made Nicaragua's infrastructure one of the most deficient in Latin America. Since then, many primary roads and bridges have been rebuilt, as have many schools, clinics and urban infrastructure, although much remains to be done. Moreover, substantial amounts of private capital are needed to rehabilitate electricity generation, telecommunications infrastructure and ports. These deficiencies translate into higher production costs for the private sector. The privatisation of public utilities is in progress, but the expected capacity expansions will most likely occur only in the medium term' (p. 19).

Under *Vulnerability and Shocks*: 'Because of its geographical and geological nature location Nicaragua has historically been vulnerable to natural disasters that have caused substantial damage to the ecology and seriously affected agricultural production (hurricanes, droughts, fires, diseases and floods). They have also resulted in major destruction of housing, infrastructure and manufacturing facilities (earthquakes). In addition, the Nicaraguan economy has been affected by other exogenous factors such as wide and frequent movements in its terms of trade, especially drops in the price of its main exports such as coffee and cotton and hikes in oil prices. This occurred again in 2000/2001. This affects investment levels and growth, while seriously disrupting production and stable macroeconomic management, thus highlighting the need for more diversification of the economy.'

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?

Yes, some discussion is made of regional and preferential trade agreements.

Under *Trade and Price Reforms*: 'Accompanying this general tariff reduction was a determined effort to free trade with the country's major trading partners. Trade within Central America is now almost free (5 sensitive products are excluded) and Nicaragua has the most liberal trade regime as it continues negotiations to create a Central American Customs Union, hopefully by 2002. A free trade agreement with Mexico was ratified in 1997, and much bilateral trade is now free. The remaining restrictions will be phased out by 2008. Free trade agreements with Chile and the Dominican Republic were negotiated in 2000 and will likely be ratified this year. Another is under negotiation with Canada, and Central America is negotiating as a unit a similar agreement with Panama this year. Finally, Nicaragua has taken full advantage of the recent decision by the United States to expand clothing imports allowed under the Caribbean Basin Initiative' (p. 16).

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised?

No

Are ongoing discussions in the WTO referred to and analysed?

No

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?

No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes, although limited to a broad description of the PRSP process as a whole.

If so, who participated in, or was consulted, in drafting the text?

'The European Union, UNDP, FAO, BCIE and bilateral aid agencies, particularly those of Austria, Germany, Sweden, Norway, Switzerland and the United States also provided comments on the PRSP. The boards of the World Bank and the IMF provided some very useful advice, as did their staff' (p. v).

Under *Development of the SGPRS process*: '...the government created the National Council for Social and Economic Planning (CONPES) in 1999...The Council has a mandate to advise the president of Nicaragua on the formulation and evaluation of social and economic programs and policies, oversee these programs, make recommendations on the composition of the annual public budget and facilitate

consultations of national interest. In addition CONPES leads most inherent dialogues and follows up both the commitments of Consultative Group meetings, the poverty strategy and other public policy issues such as the national budget. The social and economic ministries led the effort to prepare and adjust a coherent and comprehensive poverty program, with the technical assistance of the Technical Secretariat of the Presidency (SETEC), the Central Bank of Nicaragua (BCN), the Ministry of Finance (MHCP), and the Ministry of Foreign Affairs (MINREX). CONPES and its Institutional Development and Social Commissions, coordinate civil society participation, with technical and financial assistance from the United Nations Development Program (UNDP), the Interamerican Development Bank (IDB), and the United Kingdom's Department for International Development (DFID). Also, there have been many other presentations, provision of documents, meetings, workshops and seminars related to the SGPRS and the participatory process, which have shed additional light on the problem from the perspective of the general public, the business community and the poor' (p. 8).

'While the I-PRSP was developed with intensive national and sectoral consultations, and was based on detailed studies of the poor as well as their attitudes, it was clear to all – the Government, CONPES, many NGOs and donors – that there was a crucial need to deepen the consultation process by including local communities and representatives of the target groups more directly in the process' (p. 3).

'Many other comments were received on the I-PRSP. CONPES commissions and plenary sessions commented; so did many NGOs and other groups. The World Bank and IMF Staff and Boards made a wealth of suggestions, as did the European Union, UNDP, FAO, BCIE and many bilateral aid agencies, particularly those of Switzerland, Austria, Germany, Sweden, Norway and the US' (p. 4).

Who was responsible for the final draft text?

CONPES (pp. 74-76)

CONPES consists of (pp. 71-72) members from the private sector, labour unions, NGOs, community-based organisations, academia, municipalities and government.

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRGF (Letter of Intent):

'The external current account deficit narrowed substantially despite a deterioration of the terms of trade of about 13% in 2000, mainly due to significant increases in coffee export volume and a nearly equivalent decrease in the volume of imports from high post-Mitch levels. In the period through April this year, exports suffered a strong decline due to a halving in coffee prices and lower volumes. During the same period, imports continued to decline, led by capital goods. The resulting outturn was a slight increase in the trade deficit to the same period in 2000' (p. 3).

Rwanda

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

No, but trade policy is mentioned throughout the text e.g. 'While Rwanda's economy has experienced high population growth, economic transformation has lagged behind. Both external factors and national policies have contributed to this...the country suffered massive terms of trade shock when international coffee prices fell. As a result, per capita income fell sharply during the 1980s and 1990s. The country now faces the following microeconomic structural problems:...high transport costs, on account of Rwanda's landlocked position, which have been aggravated by the imposition of axle weight limits in neighbouring countries' (p. 6).

'The failure to address these microeconomic problems has contributed to an economy characterised by:

- A very weak export base of \$16 per capita compared to an average of \$100 in Sub-Saharan Africa, with a heavy dependence on the export of agricultural products, particularly tea and coffee.
- Vulnerability to external price shocks. Earnings from coffee exports fell from \$45 million in 1997 to \$26 million in 1999 because the price dropped to less than half, even though volume increased....' (p. 7).

'As incomes rise, we need to develop other engines of growth and to transform our economy. We therefore need to increase competitiveness in services and industry. Key sectors identified are the re-establishment of Rwanda as a regional trade and service centre, by strengthening our use of information and communications technology (ICT) and by encouraging the development of tourism. In the manufacturing sector there are opportunities to expand production of mass consumer goods, in particular of garments' (p. 9).

'Over time, we urgently need to diversify our exports away from primary commodities and find new engines of growth. Six areas are particularly promising:

- Agro-processing: it is essential to add value to agricultural products before exporting them. For instance, Rwanda already has some enterprises producing fruit juice.
- Garment exports: Rwanda already imports cotton from neighbouring countries and processes it. This should shift towards export markets, particularly with the new opportunities in the American market offered by the Africa Growth and Opportunities Act (AGOA).
- Commercial and ICT services: we can build on the use of both French and English in the country and on our regional position. In the past, Rwanda was an important centre for re-exports in the region and we need to regain this position.
- Tourism: there is considerable potential, both in the parks and elsewhere in Rwanda.
- Mining: this is often a small-scale activity with a direct impact on poverty. While last year's price boom in tantalite is now over, the development of this sector will be encouraged, as even with the current low price, it is still a viable high value export.
- Exports of skill within the region: Currently Rwanda imports skilled labour from neighbouring countries, even for such basic activities as mechanics. We need to invest in the resource of our population so that we can complete more effectively within the regional labour market' (p. 30).

'Opening up the economy also requires the removal of taxes on the imported inputs that go into export products. Such taxes undermine the re-export sector and make some processing activities unprofitable. There are three possible ways of doing this: (a) by creating free trade or export processing zones; (b) by removing all taxes on trade so that imports would be liable to VAT and excises, but not to import duty; (c) creating a functioning duty-drawback scheme, so that exporters can claim back the taxes they pay on imported inputs. The disadvantages of an export-processing zone, however, are the substantial investments needed to establish them and the weak linkages between enterprises inside the zone and those outside it. However, such linkages are central to the development strategy of Rwanda. A properly functioning duty-drawback scheme would, therefore, have the same advantages as an export-processing zone, but without its disadvantages. In the case of re-exports a bonded warehouse approach can be undertaken, where goods imported for re-export are kept in bonded warehouses while inside the country...High inflows of aid and public expenditure on local goods can reduce the incentive to export. However, if the extra spending supports the country's export capacity by increasing agricultural productivity and reducing transport costs, the benefits should outweigh the disincentives to exporters. The evolution of incentives will be monitored closely following the movements of the real exchange rate. In accordance with best practice, the central bank will intervene in the market to smooth out short-

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term fluctuations while allowing the exchange rate to adjust to fluctuations such as export price movements' (p. 74).

'Exports are expected to increase between 2002 and 2004, because of an increase in coffee exports due to the implementation of the Action Plan, and an increase in tea exports in 2003 and 2004 because of the impact of privatisation. The international prices of coffee and tea are projected to fall in 2002 and rebound thereafter. There should be some increase in the export of commodities such as potatoes, traded within the region, although accurate measurement of cross-border trade for these commodities is difficult. Imports are projected to rise' (p. 76).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP? No

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document? No

- risk No

- access to basic services No

- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY? Yes

Is there an understanding of how they might differ from sector to sector?

Yes, some limited analysis.

Coffee and Tea: 'OCIR-The and OCIR-Café will be re-organised as industry based organisations with representatives from the public sector, private sector, the processors and marketers and the farmers...OCIR-Café will support users in selected districts with the acquisition of improved seedlings, pesticides, fertilisers, pruning shears and drying tables. These inputs will be provided on a credit system with *some subsidy element* in some cases' (p. 39).

Mining: 'Before 1985, the mining sector represented between 10% and 38% of export receipts. Public sector activities in prospecting have not yet located any deposits suitable for large-scale commercial exploitation, but small-scale, low capital investment mining is significant. Price fluctuations have led to the closure of some mines, but there has recently been an important boom in the market for tantalite that has generated exports and re-exports from Rwanda' (p. 67).

Tourism: 'Tourism was a major export before 1994. The parks, scenery and climate are major assets. However, relatively high prices and weak infrastructure are a constraint. The Government has a promotional role and responsibility for some public goods in this area. Increased competition in air travel is important' (p. 68).

Technology: '...Rwanda's economic growth will depend on technological transformation. We need to use available and emerging technologies in an imaginative way to suit our circumstances. This is particularly true in agriculture, where our strategy is based on the use of improved modern inputs and in information and communications technology, where we aim to establish a comparative advantage...The emerging information revolution offers Rwanda a window of opportunity to leap-frog the stage of industrialisation and transform her subsistence economy into a service-sector driven, high value-added information and knowledge based economy that can compete on the global market' (p. 69).

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages? No

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments? No

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE? Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?

Yes, some discussion for infrastructure and marketing.

Infrastructure: ‘The country has three routes to international ports. Improving these links is critical for increasing the country’s integration into international markets’ (p. 27).

‘Rwanda faces two major problems with transport infrastructure: its weak international links, which impose high transport costs on traded goods, and the poor state of the rural transport network, which contributes to the high margins on internal trade’ (p. 55).

‘the main objectives in the infrastructure sector are the following:

- to maintain and rehabilitate the rural road network so as to promote trade
- to encourage greater competition in air transport
- to investigate the feasibility of an international rail link’ (p. 54).

‘International links will be strengthened by the further development of Kanombe airport in Kigali. Greater competition in air transport and more frequent flights are needed. If Kanombe airport can become a regional hub, the prospects for high value-added agricultural exports and tourism will be enhanced’ (p. 55).

Marketing: ‘Marketing will be undertaken mainly by the private sector. However, there are several important public sector roles here. First, MINAGRI will undertake studies of regional markets to ensure that the crops which are expanding fast can find a market’ (p. 39).

‘Market studies for potato and maize in the region are being conducted. Government will use these to improve their advice to farmers’ (p. 40).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?

Yes, a reference is made to AGOA (p. 30 - see above) and COMESA.

‘In the last few years, the economy has been liberalised through the reduction of tariffs in line with the objectives of the Cross Border Initiatives of COMESA. The coffee export tax has been removed, tea prices have increased to reflect world prices more closely, and foreign exchange has been liberalised including the introduction of foreign-currency deposits and a weekly auction. Rwanda is a member of COMESA and will progressively remove the taxes on trade within the COMESA region by the end of 2004’ (p. 74).

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised?

No

Are ongoing discussions in the WTO referred to and analysed?

Yes

Under *The Impact of International Trade Agreements:* ‘The Uruguay Round of the WTO has set a timetable for the liberalisation of markets in developed countries. After a transitional period, quotas on the most important commodities will be eliminated, preferences will be phased out and tariffs will be reduced. While these changes help developing countries in general, the impact on African countries is uncertain as the agreement also involves removing preferences that were of benefit to them. During the transitional period, the USA and the EU have taken some specific actions to support African exports. The most significant of these Africa Growth and Opportunities Act (AGOA). This opens US markets to African commodities, particularly garments, on preferential tariff terms. The preferences will last until 2008 for countries that use their own raw materials, but only until 2004 for those that import it. Entry to COMESA will expose Rwandese businesses to competition from other African countries, in addition to offering them new opportunities for export within the region. It is therefore all the more important to make the Rwandese enterprises internationally competitive, especially by reducing the cost of energy’ (p. 74).

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?

No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes but limited and general for the PRSP as a whole.

If so, who participated in, or was consulted, in drafting the text?

'The PRSP aims to present an integrated programme, ensuring that different sectoral strategies are coherent and are well designed to reduce poverty. To this end, discussions have been held within Government, coordinated by the National Programme for Poverty Reduction. Most ministries and Government agencies have contributed directly to the document through written submissions, corrections and comments. The zero draft was also considered in October 2001 by a national validation workshop to which representatives of all stakeholders were invited...Wide national and international circulation of the initial outline and drafts of the document for comment and feed back have also greatly enriched the final document. Ministries were also consulted regarding the policy matrix which details policy proposals for all sectors' (p. 12).

Who was responsible for the final draft text?

NA

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Broadly consistent but advocates possible use of subsidies for coffee inputs (p. 39).

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRGF (Letter of Intent): Yes but possible imposition of NTBs is not mentioned in the PRSP.

'The external current account deficit (excluding official transfers), at 16.4% of GDP in 2001, was roughly unchanged from the 2000 level largely as increased private sector saving was offset by an expansion in public investment. In the first quarter of 2002, preliminary information indicates that mining receipts have contracted following a collapse in the prices of coltan in mid-2001, while export earnings from coffee and tea prices continue to be limited by historically low international market prices' (p. 4).

'...in line with the strategy of strong regional economic relations, import tariff rates will be aligned with the preliminary proposal for COMESA common external tariff, with rates of 0, 5, 15 and 30 percent' (p. 12).

'Additional steps required to achieve revenue objectives, including a possible further increase in the VAT rate or equivalent non-tariff measures will be implemented beginning in 2004' (p. 12).

'The external current account deficit (excluding official transfers) is expected to deteriorate slightly, reaching about 17% of GDP in 2002. This deterioration is for the most part the result of a sharp reduction in mining receipts and the continued depressed levels of coffee and tea prices in international markets. Over the medium term the current account deficit is expected to decline to about 13.5% of GDP by 2004, as a result of fiscal consolidation, improved domestic productivity, and greater export capacity. Reflecting the changing market incentives that will accompany the likely gradual reduction in aid dependence and support the improvement in the current account balance, real exchange rate adjustments are anticipated. Over the medium term, import growth will moderate, reflecting some domestic substitution and exports will diversify as a result of the regional trade strategy. Rwanda reduced its import tariffs on COMESA products by 80 percent in January 2002, and will enter the COMESA free trade area by end of 2004. Trade diversification will be essential for attaining a lasting reduction in external imbalances, Exports are expected to benefit from the gradual recovery of prices but, more importantly, from new policy initiatives. The new strategy for coffee, currently under preparation, envisages the gradual substitution of subsistence production with a market-based system. Coffee quality will be improved through the construction of washing stations, higher yielding varieties will be planted, and fertiliser use expanded, in conjunction with training for farmers. Tea production will benefit from the privatisation of tea factories. With coltan exports, largely dependent on world market developments, subdued, the development of horticulture including flowers, bananas, pulses and tubers will contribute to the expansion. With the return of peace to the region, tourism could also prove an important source of foreign exchange' (p. 14).

Tajikistan

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

Yes, under *Foreign Exchange Policy and Trade*:

‘Tajikistan has a fairly open economy, with an export to GDP ratio in 2001 of 63%. The foreign trade regime remains quite free, in spite of an increase in import duties in early 1999 following Tajikistan’s entry into the Customs Union. Heavy specialization on cotton and aluminium production, which accounts for two thirds of exports, makes the Republic dependent on world prices for these two export items, causing fluctuations in foreign currency flows. Significant fluctuations of world prices for cotton-fibre and aluminium occurred in 2001, create huge problems for producers and the Government. Under the current price for cotton, which has dropped up to a critical level, production is becoming unprofitable. This could slow down economic growth’ (pp. 16-17).

Other references to trade policy (mostly export promotion) appear throughout the text e.g.

Under *Poverty Incidence and Determining Factors*: ‘After 1991, GDP sharply declined through 1996 as a result of the transition of a command economy to a market-based system, changes in relevant prices, the collapse of economic ties with the republics of the former USSR, the end of the budget allocations from Moscow, which financed 40% of the country’s budget, and a lengthy civil war. This has caused a massive release of labour, mostly hidden. A high rate of inflation reduced real incomes, contributed to growing inequality and undermined the investment climate. The lack of domestic production led to increased imports, a deficit in the balance of payments and devaluation of the national currency. Under these conditions, external debt had rapidly grown and the cost of servicing the debt is currently threatening fiscal stability’ (p. 10).

Under *Objectives and Strategy for Reducing Poverty*: ‘The Government has identified four main elements that together constitute its strategy towards reducing poverty. They are:

- 1) Encouragement of an accelerated, socially fair and labour-intensive economic growth and emphasis on export....’ (p. 12).

Under *Macroeconomic Management and Growth*: ‘Within the context set by the globalization process, the Government will encourage export-orientated growth to help solve the problems of external debt and benefit from the country’s comparative advantages’ (p. 13).

‘Macroeconomic stability and implementation of a wide range of structural reforms will support growth, especially in agriculture, taking into account comparative advantages of Tajikistan in the agricultural sector and the low cost of labour. The latter factor will also support industrial output with the substantial potential to improve productivity. Growth potential exists in other sectors as well, such as hydro power, mining and metallurgy, construction and infrastructure’ (p. 35).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP? No

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document?

No, although non-income aspects of trade policy are considered e.g. ‘Poverty determined by the level of income and consumption, access to education, health care, water supply, various energy resources, transport, mass media....Poverty incidence is particularly evident in rural areas’ (p. 4) they do not inform the trade section of the document.

- risk No
- access to basic services No
- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY?

Yes, for different sectors.

Is there an understanding of how they might differ from sector to sector?

Yes.

Agriculture:

‘Because of its importance in the national economy in terms of its contribution to GDP, employment and exports, and considering that three quarters of the population live in rural areas, the agriculture sector will play a crucial role in poverty alleviation. While arable land is scarce, experience in recent years, based on the ongoing restructuring of the large state owned and cooperative farms, has shown that the transition to private farms can substantially raise yields. The Government is committed to continue this process and is intended to use other means as well in order to increase agricultural output and thereby exports, create jobs, provide inputs for the processing industry, and ensure national food security’ (p. 14).

Tourism:

Under *Environmental Protection and Tourism*: ‘While currently few tourists visit Tajikistan, potential for development of particular kinds of tourism exist and offer opportunities for income and job creation. Developing activities and services in this sector will have to rely on private initiative. The Government’s role will be mainly to remove obstacles of an administrative nature and to help create a positive image of the country abroad’ (p. 16).

‘Despite significant growth potential the sector is ill-developed because of insufficient public awareness of the actual situation, inadequate infrastructure and a lack of competition. The existing tourism infrastructure and part of sanatorium and resort establishments do not meet required standards, since over 80% of facilities need renovation and modernization. There are no modern tourist facilities in the country that meet international standards. The Ministry of Economy and Trade, which is responsible for tourism, has recently made recommendations to develop the sector. Currently, only a few companies have been licensed to conduct tourism related business. The existing laws and regulations hinder development of the sector and limit competition. Tourism is not financed from the State budget and the limited funds raised from tourism-related business are generally spent to cover current expenditures of companies and advertisements at international exhibitions. Irregular power and water supply, poor telecommunications, lack of competition in air transport, lack of information on flights according to international information systems, limited direct flights to major tourist markets, lack of a booking and reservation system are problems that keep tourists away’ (p. 34).

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages? No

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments? No

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE? Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?

Yes. ‘Key sectors from a poverty alleviation perspective include education; health; social protection; agriculture; privatization; labour and private sector development; infrastructure and telecommunications; and environmental protection and tourism’ (p. 12).

Infrastructure:

‘Effective and reliable infrastructure services are essential to economic growth and contribute much to an improvement in living conditions. Such services directly affect the poor by increasing access to goods and services, jobs and information; enhancing the freedom of movements; and improving access to health care and education...While in urban areas the focus will be on improving reliability of the infrastructure, in rural areas the priority will be to provide access to services, which currently are not available in many outlying areas’ (p. 15).

‘The road network was built in a period, when there were no national borders and no difficulties in crossing territories of neighbouring nations. The situation is different now, with restricted transit through the territory of neighbouring countries’ (p. 30).

'Rail transport is of strategic importance to the economy as it carries about 90% of external cargo shipments' (p. 31).

'The unsatisfactory status of the existing transport infrastructure affects development of industry, agriculture, energy and tourism. Rural population faces difficulties related to delivery of agricultural products to markets, purchasing of essential goods and access to social services. All these problems have a negative impact on people's welfare and reduce living standards' (p. 31).

'Telecommunication services are necessary to take part in the process of globalization and obtain access to world markets. At present they are underdeveloped' (p. 31).

Information:

Under *Agriculture*: 'The decline in the trade and procurement system has caused marketing problems for agricultural output. Poor infrastructure, failure to coordinate actions with CIS countries, lack of information and poor communication facilities are complicating access of agricultural producers to regional and world markets' (p. 26).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets? No

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised?
Yes, for agriculture (see p. 26 – above).

Are ongoing discussions in the WTO referred to and analysed? No

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO? No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes, but the discussion concerns the formulation of the PRSP as a whole.

If so, who participated in, or was consulted, in drafting the text?

Under *Participatory Process* 'A Presidential Working Group (PWG) to develop a Poverty Reduction Strategy Paper was established by decree of the resident dated 24 March 2000. It consisted of leading scientists and government officials and was led by the State Adviser of President on economic policy. The Working Group prepared an i-PRSP in October 2000 that served as a basis for the development and preparation of the full-fledged PRSP...To ensure broad participation, nine sector working groups were established consisting of representatives of the Parliament and Government, local authorities, institutes and universities, private sector, NGOs and other groups, covering the following areas: macroeconomics; private administration reform; social protection; education; health care; agriculture; privatization; labour and private sector development; infrastructure and communication; tourism; recreation and environmental protection. A Coordination Unit was established to coordinate activities of the Presidential Working Group...International Organisations (IMF, WB, ADB, UNDP) also took part in the preparation of the PRSP. Consultants of these organizations commented on the sector notes' (p. 9).

Who was responsible for the final draft text?

Presidential Working Group

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRGF (Letter of Intent): Yes.

‘In 2001, real GDP grew 10% and during the first eight months of this year increased by 8%. The leading sectors continue to be agriculture (cotton and wheat) and aluminium. Inflation performance improved last year and in early 2002, but subsequently it weakened. During the first nine months of 2002, cumulative inflation was 10.2% and it will likely be higher than we anticipated at the end of the year. Both spillover effects of strong regional demand and another lapse in monetary policy account for this development. The recent expansion of reserve money also contributed to a depreciation of the somoni in the past curb market, after remaining relatively stable through most of the past 18 months’ (p. 4).

‘The current account deficit widened in 2001 because of a deterioration in the terms of trade and a sharp decline in exports. While we received sufficient inflows to finance our balance of payments deficit last year, future financing may be problematic because of concerns about our heavy debt burden. The current account deficit is projected to decline to 4.2% of GDP this year because of an increase in the volume of exports. At the end of 2001, gross international reserves were equivalent to 1.9 months of import cover and are projected to rise to 2.25 months by the end of this year’ (p. 4).

‘Recently we created a Ministry of State Revenues and Duties (MSRD) to improve tax and customs administration. We have also simplified the income tax and rate structure and broadened the tax base, and increased the rates on excise taxes (for example, alcohol and tobacco). By the end of the year we will, however, unify the excise tax on domestic and imported alcohol’ (p. 7).

‘We are committed to maintaining a liberalised trade and investment regime. We do not impose any non-tariff barriers to trade and we further reduced average import tariffs as of May 1, 2002. We recently reduced the number of tariff-exempt goods but continue to exempt humanitarian aid and goods imported by international organisations, from tariffs. We have also applied for accession to the World Trade Organisation and we are receiving technical assistance to facilitate our membership’ (p. 9).

Tanzania

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE? No

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP?

Yes. Under *Income Poverty*: 'The Government will put increased emphasis on reforms aimed at promoting export-orientated expansion and diversification of the pro-poor sectors with a view to share increasingly in the benefits of globalisation' (p. 15).

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document? No

- risk No

- access to basic services No

- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY? Yes

Is there an understanding of how they might differ from sector to sector?

Yes but only a brief discussion for agriculture.

Agriculture:

Under *Rural Sector Development and Export Growth*: 'For its part the Government will confine its own interventions mainly to the elaboration of sound policies, and also support the rural sector through...supporting labour-intensive, agro-processing (notably of cashew nuts, cotton, coffee and other crops); rationalizing physical borders that constrain crop movements within the country and across international borders...' (p. 17).

'A forward-looking dimension of the poverty reduction strategy will include concerted efforts to increase traditional and new export products and, to the extent possible, non-agricultural products of small- and medium-scale enterprises. The above-noted efforts to raise the quantity and quality of marketed agricultural products will be key. Additionally, the Government will, where appropriate, provide extension, training, 'best practices' workshops, and other forms of support to entrepreneurs seeking to produce or export new products' (p. 17).

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages? No

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments? No

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE? Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing? Yes

'Various causes of income poverty, especially in the agricultural sector, were identified, namely:

- Poor working tools and technology;
- Non-availability of farm inputs;
- Poor roads;
- Limited access to markets;
- Non-availability of credit' (p. 11).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets? No

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised? No

Are ongoing discussions in the WTO referred to and analysed? No

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO? No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes, but broadly defined for the PRSP as a whole.

If so, who participated in, or was consulted, in drafting the text?

Under *The Participatory Process for the PRSP*: 'In October 1999, a Committee of twelve Ministers and the Governor of the Bank of Tanzania was formed to steer the process of preparing the PRS. The Committee was supported by a Technical Committee comprising officials from the Vice President's Office, Prime Minister's Office, Planning Commission, Ministry of Finance, Education, Health, Works, Community Development, Local Government, Agriculture, Water, Energy and Minerals, Labour and Youth Development and the Bank of Tanzania and was coordinated by the Ministry of Finance. The process of preparing the PRSP was coordinated by the Vice President's Office. The Technical Committee was specifically asked to prepare the interim and final PRSP and organize the Zonal PRSP and National Workshops. The interim PRSP was prepared by the Technical Committee in early January 2000; discussed at a consultative technical meeting, including Government representatives and stakeholders from the donor community and civil society; and reviewed and approved by the Cabinet in early February 2000...The Zonal Workshops, which were mainly aimed at soliciting views from the grassroots stakeholders, were conducted concurrently during May 11-12, 2000 in seven zones covering all regions in Mainland Tanzania...Each district was represented by 4 villagers, one district councillor, one town councillor and one district executive officer. For every zonal workshop, civil society was represented by five NGOs' (p. 38).'

'The Government convened a consultative meeting with the donor community on June 30, 2000 to seek comments of the donor community on the PRSP process and draft PRSP. A joint World Bank/IMF Mission also attended the meeting' (p. 39).

Who was responsible for the final draft text?

'The initial draft of the RSP was prepared by a team of experts from key ministries using the results of the consultations with the stakeholders and background papers such as Tanzania Development Vision 2025 (1998); Tanzania Assistance Strategy (TAS), National Poverty Eradication Strategy (1997); National External Debt Strategy (1998) and Public Expenditure Review' (p. 39).

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRGF (Letter of Intent):

No, there is much more sector coverage in the PRGF than in the PRSP. The PRSP also neglects any discussion of SADC and EAC and unification of the tariff structure.

'Recent macroeconomic developments remained broadly in line with the program objectives and targets. Real GDP growth, at 4.9%, was slightly lower than expected for 2000 (5.2%), while the 12-month rate of inflation declined as projected to 5.1% by June 2001. Gross official reserves amounted to \$983 million at end-June 2001, equivalent to five months of imports of goods and non-factor services' (p. 1).

'The deficit on the current account of the balance of payments declined to 9.1% of GDP in 2000, well below the program expectation of 15.9%, and also below the 12.1% realised in 1999. Traditional

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exports, expressed in dollar terms, were about 3% lower than in 1999, mainly on account of lower international commodity prices. Non-traditional exports, however, increased by more than 40%, mainly reflecting the coming on stream of new gold mines and a resumption of fish exports to European Union countries. Imports were slightly lower in 1999 because of sharp declines in capital goods and fish imports – after the completion of major investment projects in the mining sector and recovery from drought, respectively. The deficit on the services account declined because of lower imports and travel payments. Official transfers were larger than in 1999, but not by as much as expected. As a result of these developments, the overall balance of payments showed significant improvement over 1999 and the program for 2000. During the first six months of 2001, the external sector performance continued to improve, with the combined goods and services account recording a further reduction in the deficit compared with the corresponding period in 2000. The good performance of exports is largely explained by an increase in non-traditional exports of almost 50%, led by mineral exports, particularly gold' (p. 2).

'The budget for 2001/02 included a consolidation and reduction in import tariffs, involving a reduction in the number of non-zero bands from four to three. At the same time, all split import duty rates have been eliminated. Effective November 2001, we will start implementing a program of tariff reduction in the context of the Southern African Development Community (SADC) whereby import tariffs on 11% of our total trade with the member countries will be eliminated. Also negotiations leading to an East African Community (EAC) customs union are under way. Meanwhile we are applying an 80% tariff discount on imports from EAC member countries. We expect to gradually reduce the top import tariff rate beginning with next year's budget, in harmony with our partners in the region. To address suspected dumping, we introduced earlier this year a registration requirement for importers of sugar and imposed suspended duties on selected commodities, in line with the regulations of the World Trade Organisation. The justification for suspended duties on sensitive import items will be kept under review' (p. 6).

Uganda

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

No, but trade policy is mentioned throughout the text e.g.

‘A major factor in the reduction of poverty was the benefit gained from the increase in coffee prices, reflecting the combined effect of the boom in world coffee prices and the liberalisation policy, which passed the price increase on to farmers’ (p. 8).

‘A very recent study at the World Bank takes a larger cross section to explain why growth rates vary across countries, and focuses more on institutional determinants. It identifies a number of factors which constrain growth, and assesses how much economic growth could be raised if Uganda could close the gap in these factors compared with average values for developing countries (controlling for income levels). Some factors (such as trade openness and macroeconomic stability) are already better than average, and cannot yield higher future growth’ (p. 13).

‘The second key element (to growth) is setting appropriate macroeconomic incentives. This involves economic openness, which encourages exports and labour-intensive investments. The future for Ugandan industry is not reliance on a wall of high tariff protection – which encourages capital-intensive investment which does little for employment – but open competition in a market which is being expanded by rising incomes from agricultural modernisation’ (p. 14).

Under *Macroeconomic Stability* chapter: ‘The trade deficit is projected to widen in 2000/01 because of the impact of the external terms of trade shock, which will depress export earnings. However the increase in the trade deficit will be largely offset by the projected rise in official and private transfers. As a percentage of GDP, the current account deficit (including transfers and FDI) will rise from the outturn of 4.1% in 1998/99 to a projected 4.6% of GDP in 2000/01, before declining to 3.8% and 3.6% of GDP in the following two years’ (p. 19).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP? No

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document? No

- risk No

- access to basic services No

- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY? No

Is there an understanding of how they might differ from sector to sector? No

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages? No

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments? No

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE? Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing? Yes

Infrastructure: ‘...in order to promote economic transformation, the constraints on private sector competitiveness need to be removed. Surveys of business people in Uganda have shown that they face

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severe constraints on their operations. Infrastructure is a major constraint; firms' experience of power cuts significantly reduces their investment, and the development of internal markets is impeded by the limitations of the road network' (p. 14).

Market access, credit and education: 'Most Ugandans are self-employed, mainly in agriculture. This gives the Plan for the Modernisation of Agriculture a central role in poverty-eradication. Despite the constraints of limited technology and market access, the potential of raising agricultural incomes is considerable. The POMA identifies six core areas for public action in agriculture: research and technology, advisory services, education for agriculture, access to rural finance, access to markets, and sustainable natural resource utilisation and management' (p. 16).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets? No

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised? No

Are ongoing discussions in the WTO referred to and analysed? No

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO? No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes but limited and general for the PRSP as a whole.

If so, who participated in, or was consulted, in drafting the text?

'...consultations at the central government level as well as with local governments, with donors with Parliamentarians and with civil society' (p. 6).

Who was responsible for the final draft text? NA

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRS-C: Yes, although as with the PRSP, trade discussion is limited.

'Uganda's pace of economic growth moderated to 5% in 1990/00 due to a sharp decline in the terms of trade, as a result of sharply decreased international coffee prices. The economy has picked up since then, with GDP growth registering 5.6% in 2000/01 and 5.7% in 2001/02. While still relatively high, the growth has been lower than Uganda's target growth rate of 7%. Coffee export receipts fell by 73% between 1998/99 and 2001/02 despite a significant increase in non-coffee exports, value of total exports, but not the volume, declined. The exports are estimated to have grown by about 9.4% in 2001/02. The annual average consumer price inflation remained in control at 4.6% in 2000/01 and is estimated to have declined to -1.8 in 2001/02. The macroeconomic program is broadly on track and GDP growth is expected to increase to 6.7% in 2002/03' (p. 2).

Under *Diversification of Production and Exports:* 'Decreased international coffee prices have exposed the vulnerability of the Ugandan economy to commodity price shocks and the need for continued diversification of the country's export base. The share of coffee in the country's export earnings has been steadily declining since mid-1990s from 53.4% in 1996/97 to 24.8% in 2000/01, partly due to decreased international coffee prices, but also owing to steady increases in non-coffee exports. Coffee is still, however, the single most important export commodity for Uganda. Further diversification of production and exports is critical for sustained high economic growth and represents a major challenge to public policy. The Government recognises this and, in addition to its Medium Term Competitiveness Strategy (MTCS) for private sector development and the Plan for Modernisation of Agriculture (PMA) to promote rural development, has recently developed a strategy for increasing Uganda's production,

processing and marketing of a number of crops, livestock and fish. The goal of the strategy is to increase private investment and exports through diversification and differentiation of export products. Private investment as a share of GDP is currently 14.6%. Based on Uganda's production potential and world market prospects, the Government has identified seven commodities (coffee, tea, livestock, fish, cotton, horticulture and Irish potatoes) for particular attention. The objective of this strategy is to stimulate investment in the production, processing and marketing of these seven commodities and remove bottlenecks that currently impede private sector trade. In the past months, commodity specific analysis has been carried out to identify the way forward' (p. 4).

Letter of Development Policy: Yes.

Under *Strategic Exports*: 'Macroeconomic policy will be accompanied by a deepening of current institutional reforms in the public sector and in other key areas such as public utilities, transport infrastructure, the commercial justice system and the banking and financial system, which are aimed at removing key constraints to private sector growth. These reforms are set out in the Government's Medium Term Competitive Strategy for the Private Sector (2000-2005). Government is committed to removing specific bottlenecks that impede the ability of the private sector to take advantage of the African Growth Opportunities Act (AGOA) in the USA, the 'Everything But Arms' initiative in the European Union and other trade opportunities. To this end Government has decided to focus on a few strategic export commodities as part of its efforts

to remove bottlenecks that impede the growth and development of exports. To increase total export earnings, Government is implementing a strategy that seeks to strengthen activities encouraging strategic exports. This is an important area for Uganda and Government has initiated a dialogue that is expected to identify priority activities that will strengthen strategic exports. Commodities that Government has identified as strategic for export based on Uganda's production potential and world market prospects, include coffee, tea, livestock, fish, cotton, horticulture and Irish potatoes. In addition, in the service sector, Information and Communications Technology has been identified as another potential export area. Government is working closely with the donor community to identify suitable interventions and the timing of the necessary activities. Some of the Government interventions during 2001/02 that are aimed at achieving the above export objectives are: 1) the support of skills development in textiles and garment manufacture; export products development; and knowledge and application of international trade rules and regulations; 2) support for farmer groups and export associations through training and skills development and the acquisition of appropriate tools and equipment; 3) accelerated production of planting and stocking materials including fish fry; and 4) fast track formulation and/or amendment of laws and regulations that govern strategic exports. As these interventions are in their infancy and early signs are encouraging, it is too early to draw concrete conclusions regarding their effectiveness regarding increases in future exports' (p. 5).

PRGF (Letter of Intent): No, trade is covered much more thoroughly in the PRGF. EAC, AGOA and EBA are not mentioned in the PRSP.

'External sector performance in 2001/02 was adversely affected by the continued decline in commodity process. In particular, the price of robusta coffee, Uganda's principal export, fell to a 40 year low. Total export receipts increased by 3.3% over the 2000/01 value, as a 23% decline in coffee exports revenue nearly offset a marked increase in receipts from non-coffee exports. This small overall gain marked the first rise in total export earnings in three years. In volume terms, both coffee and non-coffee exports expanded (by 6.7% and 11.5% respectively) suggesting that Uganda has remained internationally competitive. After declining in the previous year, imports increased by 11.4%, owing partly to the removal of import duties on raw materials and initial stock building for the construction of the Bujagali project. The corresponding widening of the trade deficit was mitigated somewhat by a 40% rise in private transfers. Reflecting the above, the external current account deficit (excluding official grants) increased modestly to 14.9% of GDP. The capital account surplus increased considerably in 2001/02 as Uganda continued to benefit from generous support from its development partners. Net donor inflows increased to 11.7% of GDP from 11.1% in 2000/01. Consequently, net international reserves of the BOU increased by nearly \$175 million with the import coverage standing at a healthy 6 months at end-June 2002. After appreciating against the US dollar during the first half of the year, the Uganda shilling ended 2001/02 with a 4.2% nominal depreciation. On an annual basis, the real effective exchange rate appreciated by 9.7% in 2001/02' (p. 5).

'The external current account deficit is projected to narrow to 14.7% of GDP, as exports expand, supported by the government's strategic export promotion initiative and full implementation of the Program for Modernisation of Agriculture (PMA), a key element for enhancing rural productivity.

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Donor-aided programs to develop trade associations and open new markets for Ugandan products should also help to boost exports. Furthermore, integration into the East African Community (EAC) is expected to create new export markets for Uganda's food crops, while the US's Africa Growth and Opportunity Act (AGOA) and the EU's 'Everything But Arms' programs offer access to additional export markets. The gradual reduction in the fiscal deficit would ease appreciation pressures on the Uganda shilling, and improvement in export production would help to narrow the trade gap. Foreign direct investment is expected to continue to be an important source of external financing and technology' (p. 8).

'Although export earnings grew in 2001/02, the sharp decline in receipts over the past few years, following the precipitous decline in coffee prices, highlights Uganda's vulnerability to external shocks. To counter this situation, the government has developed a strategic export promotion initiative, which not only seeks to bolster a recovery in coffee exports, but also builds upon the success of several non-coffee export products in recent years. The strategy proposes a range of government supply-side interventions to promote exports in seven agricultural sub-sectors, plus that of information and communication technology services. Successful implementation of the strategy will contribute to an expansion and diversification of the export base, increase the rate of economic growth, and assist in furthering Uganda's poverty alleviation objective. The government consulted its development partners and other stakeholders on the design and implementation of the strategy, in the context of a conference on competitiveness held in February 2002. Engagement of donors has already attracted additional financing for the strategy, which is reflected in the 2002/03 budget. Moreover, donor-supported private sector initiatives are fulfilling a much-needed role in developing new markets for, and increasing the value added of, Ugandan exports. These programs offer strong promise for a substantial recovery in the export sector. Based on planting programs in recent years and forecasts of improving coffee prices, coffee export receipts are projected to stage a rebound. Non-coffee export receipts are projected to grow by 12% a year over the medium term driven mainly by increased export volumes. For this reason, the external current account deficit, excluding grants, is projected to narrow to about 11.5% of GDP in five years' (p. 13).

'The government remains committed to further trade liberalization in the context of the framework of the Common Market for Eastern and Southern Africa (COMESA) and the EAC. Negotiations leading to an EAC Customs Union are under way and a trade protocol is expected to be concluded by end 2002. Pending agreement on the protocol, imports from two perspective EAC members are already receiving an 80% tariff discount. It is expected that, when agreed, the EAC Common External Tariff (CET) structure would also be a three-rate structure to that in Uganda. However, Uganda has the lowest maximum tariff rate among the prospective members of the EAC; hence the CET agreed to under the EAC framework could possibly lead to an increase in the maximum tariff rate for Uganda' (p. 14).

Vietnam

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

Yes there are a number of sections which deal with trade policy explicitly.

Under *The Impact of Macroeconomic Policies and Reform Policies (Trade Liberalisation) on Poverty*:

‘High and stable economic growth in the past period has been one of the major contributors to poverty reduction, allowing Vietnam to record an impressively broad and diverse range of achievements in poverty reduction. However, the process of development and opening of the economy has impacted the poor negatively in certain areas. *Inappropriate investment structure*: the proportion of investment in agriculture and rural areas remains low with a major focus on irrigation. Most of the investments concentrate on key industrial axis, which supersedes import and attracts much capital; but pay unequally attention to labour-intensive industries. Small and medium enterprises have not been encouraged in a timely manner, many mistargeted subsidy policies (credit, interest rates, price and charge subsidy) lead to an unhealthy market foundation in rural, isolated and remote areas (p. 25).....The policy to reform the economy, create a healthy environment for competition and liberalise trade has made the economy more dynamic and provided good incentives for enterprises and individuals. However, certain labour-intensive industries have not been attached proper importance, and small- and medium-sized enterprises that can create many jobs have not been paid attention and provided with opportunities to develop. Lack of information, obsolete production equipment, low level of competitiveness and limited production capacity have been important factors that have caused a considerable number of small- and medium-sized enterprises to go bankrupt and to lay off their workers, who are then forced to join the ranks of the poor. While *economic growth* contributes to poverty reduction on a broad base, our ability to improve the status of the poor (in terms of income level, access to development resources) depends on the type of economic growth that takes place. In other words, the distribution of the benefits of growth among different population groups including income groups depends on the character of growth. An analysis of changes in the income level of different population groups shows that rich people have benefited more from economic growth and this has widen the gap between rich and poor’ (p. 26).

‘The process of opening up the economy and integrating with the global economy creates many difficulties and challenges for Vietnam. The economy of Vietnam must deal with fierce competition in international markets while its development is of low quality and efficiency, and its ability to compete is weak. Moreover, the volatile price of agricultural products is unstable and these price seem to have downward trend’ (p. 31).

‘Redundant labour is numerous. The proportion of trained workers in the labour force is low. The continued high rate of population and labour force growth, while Vietnam’s ability to create new jobs and increase labour productivity remains limited, intensifies pressure to solve the employment problem. The number of unemployed and underemployed people in the country remains large. The underemployment rate in rural areas is high, about 26 percent (the rate of working time utilisation is low, just a little above 74%). In urban areas, there appears to be a trend rise in the unemployment rate, especially in big cities (about 6.4%) due to the adverse impacts of migration, loss of land for production purposes and urbanisation. Continuation and intensification of the process of reforming the economy and state-owned enterprises and trade liberalisation in a larger and larger scale, is expected to unleash new sources of economic dynamism that should generate additional resources for poverty reduction. However, if the poor are not given opportunities or are unable to participate in this process, unemployment will increase and so will poverty. The renovation and reorganisation of state-owned enterprises in the 2001-2010 period will lead to the shedding of tens of thousands of workers who will then need new jobs’ (p. 33).

Under *Trade Policy*: ‘Continue the open-door policy and actively integrate into the international economy for development. Ensure the consistency between the open and trade liberalisation policy and the sectoral reform policy; implement policies to protect important products within a time frame that is in accordance with the integration process.

Lay the foundations for successful negotiations for WTO accession; actively implement commitments under bilateral and multilateral trade agreements and cooperation mechanisms that our country is involved in, with special attention given to commitments under the ASEAN framework (such as AFTA, AICO, AIA), APEC, ASEM, the Vietnam – US bilateral trade agreement, and commitments made with international financial institutions. Enterprises from different economic sectors are given freedom to engage in the business of foreign trade, including export, import and various services,

excepting activities not permitted by law. Implement the management mechanism on exported and imported goods in the period 20901-2005 issued as an attachment to the Prime Minister's Decision 46/2001/QD-TTg dated April 4, 2001. Continue to remove non-tariff barriers, and complete the removal of all imported goods from the temporary exclusion list in the AFTA commitment to the inclusion list by 2003; abolish non-tariff restrictions on goods in the temporary exclusion list when the import tax level applied to goods, which imported from ASEAN countries, has been reduced lower or equal to 20 percent. Continue to abolish restrictions applied to rice exporting and fertiliser importing enterprises. Gradually expand the use of auctions to renew garment export quotas in order to improve market access to exporters (including those from the private sector). Apply a target-based, conditional and time-bound protection policy that is in line with the country's integration process. Strengthen the capacity of institutions and the nation to establish criteria for measurement and to carry out quality inspection of goods. Implement a relevant roadmap for reduction of the import tax levied on goods that serve as major inputs for agricultural products to help decrease input costs for the poor. Access the application of the Commercial Law with a view to revising and amending new terms, promulgate soon the Law on Competition, Most-Favoured Nation Law and Law on National Treatment; complete the commercial policy system; prepare and promulgate commercial policies in accordance with WTO regulations on certain imported goods with respect to customs quotas, tax on environmental costs, anti-dumping tariffs, tariff to penalise subsidies and so on. Government should encourage export activities, especially in key products that have comparative advantage, through operations of the Export Credit Support Fund, the Export Credit Guarantee Fund and prepare for the establishment of the Export and Import Bank in the near future. Provide information and support to enterprises, especially those run under women's leadership, in developing a business strategy that fits with the integration process, to help increase their competitiveness in domestic and international markets, increase their market share in traditional markets and find new markets. The Government shall have various methods to help exporters and importers access information, and participate in trade exhibitions and trade fairs. Simplify administrative procedures, especially customs procedures; reduce transaction costs for export activities and costs of other export services (e.g. transportation, warehousing etc.). Establish a system to insure export goods, especially for agricultural products, and an export bonus mechanism based on the value added of exported goods. *Study the impacts of trade policies and adopt effective measures to minimise adverse impacts caused by the integration and trade liberalisation for the poor.* Improve market access for the poor, especially those living in rural, upland and remote areas; stimulate consumption; develop markets or centres to trade and exchange goods in poor areas to help integrate the poor with other groups; and make the market more accessible for them by exchanging goods and production experience. Actively implement measures to fight against smuggling and trade fraud. Take the initiative in responding to price fluctuations in international market, especially with respect to price of agricultural products and crude oil' (pp. 60-62).

Other references to trade policy are spread throughout the document.

Under *Introduction*: 'The Comprehensive Poverty Reduction and Growth Strategy (CPRGS) makes concrete the following major objectives:

...continue with trade liberalisation, honouring international commitments made under the framework of AFTA, make good preparations for the country's accession to the WTO, realise bilateral trade agreements and so on, so as to raise the efficiency and competitiveness of the economy and meet the requirements for rapid growth and sustainable development' (p. 3).

Under *Part I: Socio-Economic Setting, Current Poverty Situation, Achievements and Challenges*: 'During the 1990s, Vietnam continued accelerating its process of institutional and legal reforms, and transformation of economic structure, and sped up its opening of the economy and integration into the world and regional economies. As a result, the country succeeded in quelling hyperinflation, maintaining macroeconomic stability and achieving a high economic growth rate of 7.5% per annum on average, while halving the poverty rate. Reforms in agriculture and rural areas helped to increase rapidly agricultural output. Per capita food production was boosted from 303kg in 1990 to 444 kg in 2000, and revenues from agricultural exports were more than quadrupled from \$1 billion in 1990 to \$4.3 billion in 2000...Despite these important achievements, poverty remains widespread, especially in rural, mountainous, remote and isolated areas. The income of a large segment of the population lies just above the poverty line and is highly vulnerable to negative shocks such as natural disasters, job loss, sickness and volatile agricultural prices' (p. 5).

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Under *Part III: Create Environment for Rapid and Sustainable Growth, and for Poverty Reduction*: ‘Appropriate and pro-poor exchange rate and interest rate policies will be developed. Continue the open-door trade policy, gradually remove non-tariff barriers and implement our commitments under the ASEAN framework, the Vietnam-US bilateral trade agreement and commitments made with international financial institutions. Improve the consistency of policies and link the trade, industrial; and exchange rate policies together, and at the same time, consolidate the policy coordination between concerned ministries and agencies’ (p. 7).

Under *Socio-Economic Setting, Current Poverty Situation, Achievements and Challenges*: ‘Trade liberalisation and the expansion of export markets have resulted in the rapid growth of both exports and imports. The speed of the opening of the Vietnamese economy is seen in the dramatic rise in the trade to output ratio (defined as external trade turnover on GDP ratio) from 58.2% in 1998 to 111% by the year 2000. From 1991 to 2000, exports of goods and services increased by 3.6 times, while imports of goods and services rose by 3.2 times. Trade liberalisation policy has encouraged a significant rise in the number of domestic enterprises from all economic sectors involved in export and import activities’ (p. 13).

Under *Socio-Economic Setting, Current Poverty Situation, Achievements and Challenges*: ‘Nevertheless despite significant gains of the past decade, Vietnam’s economic growth path is not yet on a securely sustainable footing. Since 1997, the regional economic crisis has hurt the Vietnamese economy, and contributed to a slowing of output growth. Although a revival of economic growth is anticipated, with GDP reversing the previous declining trend by growing at approximately 6.8% in 2001, it may not be possible to repeat the high economic growth rates of the mid-1990s. The Vietnamese economy still faces great difficulties due to adverse external impacts, and consecutive years of natural calamities. The quality of development is still low; economic efficiency is not high and many sectors and products are not competitive. In agriculture, advanced cultivation methods have been introduced in rural areas at too slow a pace and their introduction has not been widespread; high unemployment and low vocational training labours have still existed; aggregate labour productivity is low and the manufacturing sector’s record of creating new jobs has been disappointing; product distribution has been difficult; environment has been degraded, natural resources have been overexploited and become exhausted. In industry, production has been unstable with low efficiency. A number of industrial branches have encountered difficulties in production and product distribution; the low level of technology, obsolete machinery and equipment, and the slow rate of upgrading have lead to high production costs. The pace of reorganisation of production and reform and equitization of enterprises has been slow. The development of services industries has also been slow. Moreover, trading networks and markets in rural, mountainous, remote and isolated areas are underdeveloped’ (p. 14).

Under *Objectives and Tasks of Socio-Economic Development and Poverty Reduction for the Period up to 2005 and 2010*: ‘Specific Tasks of Socio-Economic Development: Continue to transform more strongly the structure of the economy and the production structure along the line of bringing into full play the country’s comparative advantage, especially in agricultural, fishery and industry production and in services sector; strongly push up exports; meet the demand for domestic production and consumption based on guaranteed quality and high competitiveness’ (p. 35).

p. 35 *Rapidly increase and improve the efficiency of capital for socio-economic development investment*: Mobilise maximum domestic resources for investment development, especially from the population. Encourage investment from the population, stimulate sensible spending and mobilise to the maximum level possible the domestic savings for development investment. Continue to implement the demand stimulation policy with regard to investment and consumption. Achieve a basic step in the improvement of the infrastructure system. Develop in a harmonious and sustainable manner the national transport network and establish a correct-grade transport infrastructure system to support the country’s industrialisation and modernisation and international economic integration. Make adequate investment in focal economic areas and provide more investment to disadvantaged areas.’

p. 35 *Broaden and increase the efficiency of external economic relations*: Firm up the existing markets and expand into new markets. Take necessary measures in harmonious manner to rapidly increase total exports. Create stable markets for competitive agricultural and industrial products. Speed up searching new markets for new export products; improve quality and prestige of export products.’

Under *Promotion of Foreign Investment that is Considered as a Long-Term Component of the National Economy*: ‘Implementation of Government Resolution No. 09/2001/NQ-CP on attracting and improving the efficiency of foreign direct investment to Vietnam during the 2001-2005 period with special attention given to such pressing measures as: diversifying the forms of attracting foreign direct investment, implementing policy to allow foreign investors to establish shareholding companies and transforming a number of foreign invested enterprises that are in operation into shareholding companies; review on a regular basis legal writings issued by central ministries and provinces related to foreign investment and business certification and other certifying documents. Furthering with the infrastructure upgrade (roads, bridges, seaports, airports, telecommunications systems, power stations etc.) to facilitate FDI attraction...Opening ,more sectors to foreign investment; encouraging FDI to go into export-orientated industries, primary product industries, high technology, new materials and electronic industries and labour intensive industries or industries where Vietnam has a comparative advantage’ (p. 52).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP?

Yes, but only brief descriptions of possible linkages with income and employment.

Under *Develop solutions to support the poor and the vulnerable to improve their conditions to participate in labour markets*: ‘Improve the access of poor workers and disadvantaged groups to the labour market, and especially their access to training. Resolve well the problem of labour redundancy...Increase the number and quality of jobs created, especially in the non-state sector. Complete the Labour Law to promote the development of the labour market. Ensure job security. Oppose arbitrary dismissals; ensure stable work with rising income and comfortable working conditions especially female workers...’ (p. 95).

Under *Appendix 3: Policy Matrix, Measures and Timetable for Implementation*: ‘Trade Policy: Protect the poor from the negative impact of trade liberalisation (objective), undertake a research to examine the impact of trade policy reforms on the poor (policies and measures to be taken 2003-2005)’ (p. 132).

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document? No

- risk No

- access to basic services No

- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY? Yes

Is there an understanding of how they might differ from sector to sector?

Yes agriculture, industry and aquaculture are discussed in detail.

1) Agriculture:

Under *Part IV: Major Policies and Measures for the Development of Sectors and Industries to Ensure Sustainable Growth and Poverty Reduction*: ‘Agriculture and rural development: ensure food security, diversify agricultural production, attach importance to market research and ensure timely provision of information, increase investments in agriculture, link the production of high value crops to developing storage and processing facilities, promote research and efficient use of natural resources, expand agricultural, forestry, fishery activities and extension activities in a manner that is suitable to production conditions in different areas and is driven by the poor’s demand, develop fisheries and diversify aquaculture, develop a disaster prevention strategy to minimise losses and stabilise livelihoods and production in disaster-prone areas’ (p. 7).

Under *Socio-Economic Setting, Current Poverty Situation, Achievements and Challenges*: ‘Agriculture – the foundation for Vietnam’s socio-economic stability – maintained a relatively high growth rate and had a decisive impact on the nation’s poverty reduction through ensuring food security, generating employment and income for rural population. The growth of agricultural production was relatively high and broad based at 5.6 percent per annum during the 1991-2000 period. Per capita food production increased from 303kg in 1990 to 444 kg in 2000. Vietnam became self-sufficient in food with

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satisfactory food reserves, and now exports three million tons of food each year. Revenues from agricultural exports nearly quadrupled from around \$1 billion in 1990 to over \$4.3 billion in 2000. The structure of agricultural production in many regions has transformed along the direction of increasing efficiency per unit area used: the rapid growth of fishery and aquaculture is especially noteworthy. The rural economy is more diversified. Many large-scale agricultural production areas with close links to agro-processing have been established; the tradition of craft villages has been restored, and farm-based production has seen rapid expansion' (pp. 11-12).

Under *Achievements and Challenges*: 'High and stable economic growth has been one of the major factors in reducing the incidence of poverty of which development of agricultural production and aquaculture and rural economy play an especially important role. It is estimated that during the mid 1980s, seven out of ten Vietnamese lived in poverty. After 15 years of renovation and transformation, the economy of Vietnam has seen fundamental changes in social and economic relationships that have led to an unprecedented stage of economic development and poverty reduction after more than four decades of war and difficulties in economic development. In this regard, Vietnam is seen to be an excellent example of a successful transition from a centrally planned to a market-orientated economy. The new economic mechanism has unleashed the inherent dynamism the economy with impressive results. The economy grew by an annual average rate of about 7.5% during the 1991-2000 period. Export turnover has grown rapidly; inflation has been gradually brought under control and the price level has stabilised' (p. 26).

Under *Major Policies and Measures to Develop Sectors and Industries to Promote Sustainable Growth and Poverty Reduction*: 'Develop agriculture and the rural economy to achieve fast poverty reduction: 77% of population and 90% of the poor currently live in rural areas. 70% of income of rural dwellers comes from agricultural activities. Therefore agricultural and rural development is a crucial component of the Comprehensive Poverty Reduction and Growth Strategy.

As area of cultivation land is limited and the traditional agricultural product market is thin, to achieve high growth and achieve fast poverty reduction, it would be necessary to simultaneously implement the following measures: 1) developing science and technology; 2) facilitating the structural change in the rural economy; 3) building up new institutions that involve active participation of farmers; 4) increasing investments in agriculture and particularly in rural infrastructures; 5) developing human resources; 6) reforming policies on land, business environment, finance, investment and credit in order to make investments more pro-poor; 7) implementing administration reforms; 8) strengthening international cooperation. These measures aim to achieve a number of objectives including increasing productivity and reducing production costs, increasing competitiveness of agricultural products in the domestic and international markets, diversifying agricultural, forestry and fishery production, improving processing capability in order to raise product quality and better meet domestic and export demand, creating more jobs and raising rural incomes by developing rural industry, services and other off-farm activities. 1. Raising efficiency and diversifying agricultural production: Conduct market studies and study of comparative advantage that will be used for adjusting the structure of agriculture and the rural economy. Readjust land planning and put focus on intensive agricultural production for productivity improvements, and ensure that production is consistent with market demand. Develop specialised commodity production areas for rice and corn with focus on intensive production of high quality varieties to meet domestic and export demand. Implement measures to raise value and efficiency of rice export. *Implement policies to protect the interest of food producers. Ensure food security under any circumstances.* Develop specialised commodity production areas for industrial crops and fruit trees such as coffee, rubber, tea, pepper, coconut, mulberry, cotton, sugar cane, groundnut, soybean, tobacco etc. Develop specialised areas for high quality and high value vegetable, fruits and industrial crops in association with the development of processing industry, storage facilities, marketing and export promotion activities. Increase technical assistance and provide new seeds to farmers and improve their access to credit to enable them to expand production and raise their incomes, diversify income sources in response to market price fluctuations and risks....Strengthen production and processing of animal feed, improve veterinary services, meet a growing demand for high quality for high quality livestock products, expand hygienic and epidemic prevention program, develop diseases monitoring and reporting system, improve food safety. Exempt the poor and ethnic minority households living in disadvantaged areas from various types of production and trade related taxes' (pp. 67-69).

Under *Continue rapid implementation of the Government's Resolution No. 09/2000/NQ-CP and No. 05/2001/NQ-CP regarding initiatives and policies aimed at changing the structure of the economy*:

‘Continue to support export activities and the expansion of export markets for agricultural and forestry products. Study and promulgate, within Vietnam’s trade related commitments, policies to support production and marketing of a number of agricultural, forestry and fishery products that have high economic value and have potential to become competitive, that have potential in export and/or import substitution markets such as: rice, coffee, tea, raw materials for processing (wood, cane, cotton, mulberry), shrimp, fish’ (p. 71).

2) *Industry:*

‘Industry and Urban Development: Develop our comparative advantages in labour-intensive industries and industries that utilise domestically produced agricultural, fishery and raw materials. Push up the development of the agricultural engineering sector to take advantage of the large domestic market and the markets in neighbouring countries. Develop mechanisms to encourage spearhead and labour-intensive industries’ (p. 7).

‘Industry – continues to grow at a rapid rate, contributing importantly to socio-economic stability and poverty reduction. Production capacity of many industrial products has risen considerably; this not only ensures that domestic demand for food, clothing, housing, means of transportation, learning and many other essential goods is met, but it also provides for a gradual expansion of export capacity. The considerably transformed structure of a number of industries has led to the development of certain key products; and some industrial and export processing zones with many production establishments using modern technologies have been established. Along with the development of large-scale industrial establishments, the Government attaches great importance to the development of small and medium-sized enterprises, and of craft villages with a view to creating more employment and raising producers’ incomes’ (p. 12).

Under Industry and Urban Development in Order to Create More Jobs and Improve the Living Standards of the Poor: ‘The development of industry make a significant contribution to economic growth, job creation, income increase for workers, including the poor living in urban and rural areas. Ensure fast and efficient development of industry, its competitiveness and market demand responsiveness. Put focus on investments for upgrading technology and make steps towards modernising industries. Achieve a good combination of industries with comparative advantage, high-tech industries and strategic industries with processing industries, labour-intensive and local material intensive industries. Develop and modernise industries that support agriculture and the rural sector (e.g. chemicals, fertiliser, packaging etc.). Continue to diversify and modernise mechanical engineering industry to meet demand from agricultural production such as small tractors, processing machines, post-harvest technologies, modern insecticides spraying machine and water pumps....provide support to SMEs to become direct exporters and to develop stable long-term relationships with foreign trading partners. Establish trade promotion centres and centres to support small and medium enterprises at central and local levels...provide guidance and implement regulations on policies to encourage industries to move to rural areas and to set up rural industry centres. The incentives include land provision, support in inputs, investment, credit, tax and fees, market information, science, technology and environment and labour training’ (pp. 74-75).

3) *Aquaculture*

Under Major Policies and Measures to Develop Sectors and Industries to Promote Sustainable Growth and Poverty Reduction: ‘1.3 There is still; significant growth potential in aquaculture and off-shore seafood exploitation. The Government will introduce policies to encourage intensive aquaculture, and develop the offshore fishing given constraints in capacity, investment and technical facilities in different regions. Intensive aquaculture and fishing is considered as playing an important role in accelerating economic growth and poverty reduction. The Government supports the planning and construction of dykes, water inlet sluices and channels; provides a set of public goods such as extension services, quarantine, quality control for breed and feed in order to help farmers to increase production efficiency and achieve sustainability. Make investments in support of fishery infrastructure, power transmission lines, roads etc. in aquaculture areas that are either newly established or converted from rice or salt production. In the immediate future, build and complete six national breeding centres, and environment alert centers in specialised aquaculture areas in the North, the Center and Mekong River Delta. By 2005, ensure that area of aquaculture production is about 1.2 million hectares increase about 300 thousand hectare with total production volume of approximately 2.6 million tons, of which shrimp

production amounts to about 300 thousand tons. Ensure the sustainability of the growth of aquaculture production. Improve access of poor fishery households to production inputs, information, extension services, finance and market. Improve capacity in recovery, management and risk prevention in aquatic production including both aquaculture and fishing. Diversify aquaculture; rapidly expand specialised shrimp and fish areas, or integrated shrimp-rice and fish-rice areas by making full use of ponds, lakes, surface water, rivers and streams to raise shrimp and fish to improve living standards. Implement policies on subsidised investment, training, technology transfer and breeds for poor households that are engaged in aquaculture' (p. 69).

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages?

Yes, there is a brief discussion. Under *Trade Policy* : ' Provide information and support to enterprises, especially those run under women's leadership, in developing a business strategy that fits with the integration process, to help increase their competitiveness in domestic and international markets, increase their market share in traditional markets and find new markets' (p. 61).

Under *Realise gender equality for the advancement of women and the benefit of children*: 'Organise to implement well the National Strategy for the Advancement of Women in Vietnam to 2010 (Decision No. 19/2002/QD-TTg dated on January 21, 2002). Improve the material and spiritual life of women; raise and bring into play their capacity, ability and role to ensure that women can carry out their responsibilities and participate fully on an equal basis in all activities, especially in political, economic, cultural and social activities in the industrialisation and modernisation process in order to attain the goal of 'prosperous people, strong country, and egalitarian, democratic and civilised society'. Ensure all women having rights and equal access in the total social workforce by providing sufficiently cultivated land and identifying targets of female labour for new jobs created. Complete regulations and strengthen the monitoring system for implementing policies on female labours in order to ensure the equality in vocational training, social insurance, labour safety and retirement policies. Mainstream gender issues into National Targeted Programs. Develop system of database with gender breakdowns on labour market and vocational training. Develop vocational training and employment service centres for women. Enhance the ability of women to access the credit system and poverty reduction resources to ensure that the most favourable conditions can be created for women to be coached with effective utilisation and to obtain credit directly....Review all policies on female worker and staff in order to ensure the equal beneficiary from those policies...' (pp. 92-94).

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments?

Yes, there is some discussion of narrowing the income gap between rural and urban areas.

Under *Trade Policy*: ' Improve market access for the poor, especially those living in rural, upland and remote areas; stimulate consumption; develop markets or centres to trade and exchange goods in poor areas to help integrate the poor with other groups; and make the market more accessible for them by exchanging goods and production experience' (p. 61).

Under *Narrow the Gap between different regions, realize gender equality and the advancement of women*: 'Besides the implementation of the National Targeted Program Programs for poverty reduction and job creation, it is necessary to implement the following measures to create more opportunities and resources for poverty reduction: Increase investment in underdeveloped areas in order to narrow the development gap between regions, and between urban and rural areas. Encourage big enterprises to invest in poor areas and to create employment, to support the development of small and medium enterprises (SMEs) in order to create more jobs and to increase income. State budget expenditure should focus more on infrastructure development, especially roads and irrigation, and create more non-agricultural jobs in rural areas. Renovate infrastructure development mechanisms in poor areas. Continue to improve the allocation of public expenditures to agriculture and rural development (e.g. agricultural extension, national targeted programs) to provinces, based on the differences in socio-economic development, poverty rate, and the province's own budget resources. Mobilising the poor to build basic infrastructure, as a job opportunity for them, thus increasing their income. Pay attention to attracting women and men to planning, building and monitoring infrastructure, with priority given to women's needs. Attach special importance to the development of rural roads in poor areas. Develop special priority policies to expand rural roads as well as upgrade the quality of this network...Expand the supply of grid-transmitted electricity; organise, manage and operate electricity

distribution system, especially in those remote and isolated areas that are characterised by complicated terrain and low sense of self-discipline of consumers. For border and island areas, areas that are far from the national power grid, and especially disadvantaged households that are eligible for policy-based support, the Government will finance part of the investment required for the construction of low-voltage primary line and sub-lines transmitting power to the homes of the people. Develop rural markets...Improve the investment and business environment, job security for the non-state sector...Promote the service market and market for agricultural and rural products. Build small district industrial zones, craft villages to create jobs for idle agricultural labour and increase income for farmers' (p. 90).

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE? Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?

Infrastructure: under Infrastructure Development: 'based on the poor's needs, develop policies and programs to provide electricity, small irrigation works, clean water, sanitation facilities, and develop and rehabilitate transport system, especially in poor regions and areas. Focus investments on developing transportation in the Northern mountainous region and irrigation in the Central Highlands, Central region. Resolve effectively the problems related to housing for the poor, focusing on the vulnerable groups in the society' (p. 8).

Under Socio-Economic Setting, Current Poverty Situation, Achievements and Challenges: 'The services sector managed to perform well under difficult conditions and the quality of services has improved, meeting the demand of economic growth and the needs of the people. The domestic market has become more open with the participation of many economic sectors. From 1991 to 2000, the value of financial services increased by 3.2 times, education and training services rose by 2.2 times and health and related social services increased by 1.7 times. Despite its initial dilapidated condition, the transportation services sector has responded relatively well to the nation's economic growth requirements. The output value of the transport, storage and communications sector increased by 1.8 times. The physical infrastructure of the transport industry has improved considerably and many modern bridges have been built replacing old, weak ones; many ferry landings and wharves have been upgraded, expanded for transportation demand in the last few years. Post and telecommunications services have expanded rapidly and the domestic telecommunications network has been modernised. Many modern modes of communication that meet international standards have been established to meet growing domestic demand for information and trading services. Markets for insurance services have been established with the participation of enterprises from various domestic and foreign economic sectors. Important renovations have been made in financial and banking services. Other high value-added services that should grow quickly over time such as legal, scientific and technological consulting services and so on have begun to develop' (p. 12).

Under Infrastructure development to create opportunities for poor areas, poor communes and poor people to access public services: 'Continue the development of infrastructure (transportation, post, electricity) to create better capacity for socio-economic development. Concentrate on developing trade and marketing infrastructures such as ports, warehouses, loading and discharging berths, market places etc. and on providing market information in order to reduce costs and to increase the competitiveness of agricultural products' (p. 77).

Under On developing road transport: 'In order to achieve the identified goals and targets of developing transportation infrastructure, it is necessary to continue broad implementation of the 'State and people working together' mechanism to construct and upgrade the current transportation system, including new concrete bridges instead of bamboo-made bridges in order to improve the people's quality of life and production conditions. Ensure that all commune centers and commune-group centers will be reached by car-accessible roads...With respect to communes in remote and isolated areas that have rural industrial zones, the State will adopt special policies to build roads connecting to the main highways and to upgrade roads that have deteriorated...Rehabilitate and upgrade the existing train system and construct some other essential train lines. Upgrade the domestic waterway system, especially in the Red River delta, and Mekong river delta...' (p. 78).

Information, Training and Credit:

Under *Giving enterprises support relating to land use, production and business activities and development of small- and medium-size enterprises, farms and various types of enterprises in the private sector*: ‘Small and medium enterprises (SMEs) play an important role in the nation’s economic growth, in creating employment and reducing poverty. The State encourages and provides support for the development of SMEs, especially those in remote and isolated areas as well as in rural areas.

It is a need to make a rapid implementation of Government Decree No. 90/2001/ND-CP on the development of small- and medium-sized enterprises. Formation of SMEs Bureau, development of the SME promotion and support organisation system at central and local levels, development of the legal framework and specific policies to encourage and support SMEs, SMEs should have easy access to Government support programmes on various areas including investment and credit, land use, market information, technical consultancy, training services, human resources development and many other services’ (p. 50).

Under *Maintenance of the Macrostability: 1. Improve the Fiscal Policy, Implement Reforms in the Taxation System, and Expand the Tax Base to Ensure a Healthy State Budget Balance* : ‘Adopt a mechanism of direct and indirect support from the state budget for all enterprises without making a distinction between different economic sectors in order to develop human resources, provide information, promote trade, develop new markets, and provide extension and advisory services on applying modern business management tools’ (p. 56).

Customs:

Under *To successfully achieve the objectives, the following tasks need to be performed*: ‘...Simplify and make public administration and business registration procedures more transparent; reduce transaction costs for import-export activities, and reform the delivery of public services to make it more convenient and less time-consuming for people’ (p. 53).

Under *Trade Policy*: ‘The Government shall have various methods to help exporters and importers access information, and participate in trade exhibitions and trade fairs. Simplify administrative procedures, especially customs procedures; reduce transaction costs for export activities and costs of other export services (e.g. transportation, warehousing etc.). Establish a system to insure export goods, especially for agricultural products, and an export bonus mechanism based on the value added of exported goods’ (p. 61).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets? No

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised?

Yes, some discussion is made of regional trade agreements (ASEAN, APEC, ASEM, Vietnam – US bilateral) (see below).

Are ongoing discussions in the WTO referred to and analysed?

Yes. Under *Maintenance of the Macrostability: 1. Improve the Fiscal Policy, Implement Reforms in the Taxation System, and Expand the Tax Base to Ensure a Healthy State Budget Balance*: ‘Complete the system of indirect taxes along the lines of gradually reducing import taxes in accordance with international agreements, ensuring that requests for trade protection are appropriate’ (p. 55).

Under *Trade Policy* section ‘Lay the foundations for successful negotiations for WTO accession; actively implement commitments under bilateral and multilateral trade agreements and cooperation mechanisms that our country is involved in, with special attention given to commitments under the ASEAN framework (such as AFTA, AICO, AIA), APEC, ASEM, the Vietnam – US bilateral trade agreement, and commitments made with international financial institutions’ (p. 60).

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO? No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes, but broadly defined for the formulation of the whole PRSP.

If so, who participated in, or was consulted, in drafting the text?

‘The preparation of the CPRGS started in June 2001 based on the Interim Poverty Reduction and Growth Strategy Paper that was approved by the Prime Minister in 2001. The Ministry of Planning and Investment takes the lead in this undertaking in collaboration with concerned ministries and agencies (52 members from 16 Government ministries and line agencies. Besides, Ministry of Agriculture and Rural Development, Ministry of Health, Ministry of Science, Technology and Environment etc. also established their Sectoral Poverty Task Forces to contribute to the preparation and implementation of the CPRGS. The donors, international organisations and NGOs also took part in the Strategy preparation) and is supported by a group of national and international consultants and broad consultation from concerned ministries and agencies, representatives of the donor community and other parties, such as the Poverty Working Group (composed of donors, government agencies and non-governmental organisations). The Comprehensive Poverty Reduction and Growth Strategy has received comments from concerned ministries and agencies, scientists, mass organisations, non-governmental organisations and the donor community at various workshops organised at both central and regional levels in order to get the comments of 61 provinces and cities, and also comments at six commune and village consultations’ (p. 4).

Who was responsible for the final draft text?

NA

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Broadly consistent but antidumping tariffs mentioned.

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRS-C:

Yes, although the PSIA referred to in the PRSP is actually elaborated on in the PRS-C.

‘Vietnam’s program, supported by the PRSC, would promote faster growth and poverty reduction by:...integrating with the world economy to expand labour-intensive exports: a) removing quantitative restrictions on all tariff lines of another 6 product groups; b) reducing tariffs on ASEAN imports in line with the annual AFTA roadmap; c) expanding private participation in exports by raising the share of garment export-quotas that is auctioned and by liberalising rice exports further’ (p. 3).

Under *On Improving the Climate for International Trade and Investment*: ‘Restrictions on enterprises to trade have been eased (for exporters in mid-1998, for importers in early 1999 and for foreign-invested firms in mid-2000). Rice export quotas have been removed, quantitative restrictions on eight groups of imports have been eliminated (leaving QRs on 11 groups) and auctions for garment export quotas have been introduced. A US-Vietnam bilateral trade agreement (USBTA) has been signed, laying down a comprehensive series of actions over the coming seven years, and marking an important step on the path to WTO accession’ (p. 11).

Under *Integration into the World Economy Through Trade Reform*: ‘Vietnam has laid out its plans and timetable for integration in great detail. Two way trade already amounts to almost \$25 billion per year (equivalent to over 80% of GDP), and the role of the private sector in trade is already 50%. For the coming years Vietnam has committed – under AFTA, USBTA and the PRSC – to liberalise its trade and investment rules, abolish quantitative restrictions on all but five items, lower tariffs in accord with AFTA obligations and gradually develop the kind of transparent, rules-based trading and investment system that would be required for entry into the WTO in the second half of the decade. This gradual but firm policy shift will be supported under the PRSC’ (p. 13).

Under *Trade Reform*: ‘Trade reform is an integral component of the Government’s strategy to expand exports, access technology and promote competitive domestic output. Trade policies have been liberalised throughout the 1990s and Vietnam remains strongly committed to continuing liberalisation of trade and integration with the rest of the world. All domestic firms are now able to import and export freely without requiring a license. Exports, with a few exceptions, face no quantitative controls and imports, though considerably liberalised, have quotas and quantitative restrictions (QRs) on another 11 items (4 digit HS codes). Vietnam has committed under AFTA and the USBTA to continue liberalising goods trade, foreign investment and foreign entry into the service sector, over the next three to seven

years. The Government has sought support over the next three years for the following measures under its trade liberalisation program: a) QRs will be removed multilaterally from clinker and paper by early 2002 and from cement, remaining types of steel, construction glass, vegetable oil, ceramic and granite tiles by early 2003; b) the share of garment-export quotas to be auctioned will be raised each year from 20% in 2000; c) rice exports will be further liberalised to allow exporters to buy and export rice more freely; and d) tariffs will be reduced to 20% on AFTA-imports for most of the tariff lines by early 2003. The import liberalisation vis-à-vis ASEAN will be a major source of competitive pressure on the manufacturing SOEs. The trade reform benchmarks to be monitored under the PRSC program will be: a) removal of QRs multilaterally; b) annual reductions in tariff rates on ASEAN imports; c) annual increases in the share of garment export quotas that are auctioned and changes in the share of private enterprises in garment exports; d) changes in the share of private sector in rice exports; and e) changes in the domestic price of rice and other key consumption items for the poorest quintile' (p. 26).

Under *Impact of the Program on the Poor*: 'There is strong evidence from international experience, and from Vietnam's earlier performance, that faster growth has a powerful role to play in reducing poverty. There is also evidence to suggest that the pattern of growth and the initial distribution of human and physical capital are important factors in determining how income and consumption generated by a particular rate of growth are distributed across the population. The distributional equity of human and physical assets in Vietnam has improved over the previous decade, and the higher growth arising from this program is thus expected to have a particularly powerful impact on reducing poverty. There will be some transitional losses of employment due to reforms. But these are addressed through an expanded social safety net under the program. The impact of the reform program on the poor households is likely to come from three sources: 1) raising household income of the poor through expanding employment opportunities and rising rates of return on various activities, including agriculture; 2) increasing consumption through lower prices of goods and services that poor households consume...' (p. 28).

Under *Impact on Employment Through Higher Investment and Exports*: 'Real GDP growth will rise from around 5% in 2001 to 6% and 7% in the subsequent two years, as highlighted in the medium-term macroeconomic framework of the I-PRSP. This will be driven by investment and exports, with domestic private investment rising to around 11% of GDP and exports rising to around 50 percent of GDP. Private investment is expected to rise and move into labour intensive manufacturing and processed agricultural exports, the latter rendered more profitable by the measures under the program. Recent expansion of private SMEs in response to several new measures (more than 14000 new registrations of SMEs in 2000 alone, compared to 3000 a year in the last three years) have already raised private investment and employment. Also, the resulting labour-reallocation to off-farm activities and higher agricultural prices will raise productivity and average incomes for the rural poor, more generally' (p. 29).

Under *Price Impact on Consumption of Poor*: 'There will be no significant impact on the consumption of the poor. Though rice export quotas are being removed under the program, the domestic retail price of rice is unlikely to rise given the continuing and projected decline in the world price of rice. In fact, the domestic retail price of rice has fallen by more than 17% between 1998 and 2000. The AFTA tariff reductions are likely to reduce the prices of other food products, as well as of clothing and footwear and so should be favorable for the poor households consumption' (p. 30).

Under *Mitigating Social Costs of Reform*: 'SOE and trade reform will increase efficiency and employment in the medium term, but it will also lead to significant job losses in the short term. It is therefore important to have social safety-nets for the poor and the vulnerable. Trade reform will reduce output and employment in many protected enterprises just as it will raise output and employment in others e.g. exports. Evidence from many countries suggest that there is very little net change in employment following trade reform' (p. 31).

Letter of Development Policy:

Yes. Under *Integrating with the Region and the World*: 'We will continue our development dramatically towards integrating with the region and the world because we believe that such integration will expand our access to export markets and technology as well as promote greater competitiveness of our producers in Vietnam. Over the next three years, such integration will be carried out mainly through implementation of our commitments under the ASEAN Free Trade Agreement (AFTA) and

the United States Bilateral Trade Agreement (USBTA). Measures to expand private participation in non-oil exports will also be important' (p. 3).

'Over the last decade, Vietnam has covered a long way in liberalizing its trade and foreign exchange regime. In particular, over the last two years, we liberalized trading rights for all domestic firms and expanded trading rights for foreign invested enterprises, thereby promoting substantially increased participation of domestic firms in export activities. In addition, the coverage of QRs on 8 groups of import were eliminated (e.g. liquid soda, ceramic and glass consumer goods, plastic packing, plasticizer DOP, ceramic sanitary ware, electric fans, bicycles and fertilizer) and export quotas on rice were removed in early 2001. Nearly a fifth of garment export quotas were auctioned to enhance access for new and small private firms. Tariff rates were lowered to 12 and the maximum tariff rate reduced to 50% (except for groups of products subject to tariffication)' (p.4).

'We plan to reduce quantitative restrictions and tariffs further on imports over the next three years as follows: 1) remove QRs and carry out tariffication accordingly in phases on a multilateral basis, by early 2003 at the latest, for six product groups (cement and clinker, remaining kinds of steel, construction glass, vegetable oil, paper and ceramic and granite tiles). Thus, by early 2003, the Ministry of Trade will only grant license on five products (motor-cars, motorcycles, sugar, petroleum products and alcohol) and on products transferred to licensing regime from the list of banned imports issued under the Regulations on long-term import-export management for 2001-2005 period; 2) adopt targets by mid-March, 2001 for QR-removal in the first year of the program (completion by early 2002); and 3) reduce AFTA tariffs on majority of the tariff lines for products under AFTA road-map to at most 20% for early 2003 and further to 0-5% by early 2006, with the pace of tariff reductions in the first year consistent with the target for early 2003. The USBTA is expected to become effective sometime in the middle of 2001. We will reduce restrictions on foreign entry into numerous service sectors like banking, tourism, telecommunications and others according to agreed road-map stipulated in the signed Vietnam-US Bilateral Agreement. Also, the current progress of licensing of investment will be replaced gradually by a more automatic process of registration for foreign investments within 7 years. We also plan to facilitate greater private participation in exports. Recent liberalization of trading rights has already increased participation of the domestic private sector in non-oil exports quite significantly. Further liberalization of importing rights are planned for both domestic firms and foreign-invested enterprises. The rice export market will be opened up too, making it easier for private exporters to buy rice from farmers and export. A rising share of the quotas on garment exports to Europe will be auctioned, in order to give the small and newly-established private firms better access to these governmental quotas. Moreover, we have applied automatic licensing mechanism for some of garment-exported categories. Studies are underway to improve the auctioning process' (p. 4).

PRGF (Letter of Intent):

Yes. 'While not immune to the global downturn, Vietnam's economy performed relatively well in 2001. In line with program assumptions, real GDP growth moderated owing to a significant weakening in the external environment. Growth was supported by cautiously accommodative fiscal and monetary policies and a renewal of private investment, which buoyed domestic demand. At the same time, inflation was kept low at only 1%. Reflecting the progressive slowing of export growth (to 4% at end year compared with 25% in 2000), gross reserves grew by less than programmed to \$3.4 billion, or nine weeks of prospective imports' (p. 3).

'Under the 2002 program, real GDP growth is projected to benefit from a slight recovery in external demand and continued strength in domestic demand. Despite a sharp weakening in the first quarter, export performance is expected to improve, owing to the recent upturn in oil prices and given signals of a global rebound. In addition, policies will be geared to improving competitiveness. Inflation is targeted at 3-4% and the external current account is expected to be in a deficit of 2% of GDP, with gross reserves increasing to \$3.8 billion (9 weeks of imports)' (p. 5).

'We are resolved to advance our trade agenda, giving top priority to successful implementation of the bilateral trade agreement with the United States (USBTA) and active participation for earliest possible accession to the WTO. In line with this policy, we have adopted a timetable to establish the proper legal framework to implement the USBTA. Preparations for bilateral negotiations for WTO accession have also begun. With respect to trade in goods, QRs on three out of five remaining items will be removed by end-December 2002 (cement, motorcycles, and passenger vehicles up to nine seats). We also intend to effect tariff reductions already announced under the AFTA roadmap. In addition, timely

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implementation of commitments under the USBTA regarding services and intellectual property rights will be important, since many of these meet WTO norms and can be applied on a multilateral basis. To facilitate this process, we will assess the potential impact of global integration on the most vulnerable sectors, drawing on donor technical assistance' (p. 7).

Yemen

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

Yes, there is a brief section named *External Sector Policies* which sets out future trade policy e.g.

“ - Continue with trade liberalisation policies and floating of the exchange rate to support economic stabilisation, to encourage exports and to increase foreign investments so as to help in increasing job opportunities, in general, and for the poor in particular, considering that the growth of exports, initially rests on commodities that are labour intensive and require minor skills, which can be found with the poor. The foreign investment inflow also helps to set up projects, create job opportunities and lead to technology transfer, absorption of skills and improvement of real wages.

- Seek to set up the Greater Arab Free Trade Area and economic integration with the Arab Gulf Cooperation Council (GCC) and complete the procedures for joining the World Trade Organisation’ (p. 61).

However, most trade policy content is subsumed elsewhere in the document.

Under *Economic Developments and the Reform Program* ‘Similarly, the Balance of Payments recorded a large deficit, reaching \$709.7 million in 1994, despite the increase in oil exports in 1993 and 1994. This situation reflects the weak export base, with oil exports constituting more than 90% of total exports and the heavy reliance on imports, especially food imports and the continuous decline in workers’ remittances to Yemen’ (p. 21).

Under *The Economic and Administrative Reform Program* The GoY started implementation of EFARP in 1995...Other numerous measures were also adopted and taken along this direction, which included trade liberalisation...’ (p. 24).

Under *Outcomes of the EFARP* ‘As a start, it should be made clear that the high GDP growth rates, which were realised during the period from 1995-97 are attributed, primarily, to the increase in the proceeds of oil exports due to the use of a free exchange rate for the Rial’ (p. 25).

‘While admitting that trade liberalisation has led to relative revitalisation of foreign and domestic trade, the implementation of foreign trade liberalisation measures so quickly, and comprehensively, led to the impairment of some of the productive capacity, given the poor competitiveness of domestic products’ (p. 26).

Under *Poverty and Economic Growth* ‘The problem of poverty became very closely tied to poor economic performance and the domestic and external shocks, to which the Yemen economy was subjected, especially during the first half of the 1990s. This was generally reflected in a set of economic difficulties such as the fiscal deficit, the Balance of Payments deficit, the inflationary pressures, the deterioration of the foreign currency reserves and of the exchange rate of the national currency, besides the administrative and organisational deficiencies’ (p. 33).

Under *Achieving Economic Growth* ‘Attention is also focused on remedying the frailty of the economy vis-à-vis the fluctuations in world oil prices by diversifying the base of the economy and its revenue sources, with emphasis on growth in the promising sectors and those associated with the livelihood and activities of the poor. This requires the maintenance of a low inflation rate and the stability of the exchange rate of the national currency, in addition to the creation of a suitable environment for encouraging investment, especially so because investment is the driving force for economic growth, accelerated human resource development and improved efficiency of the economy’ (p. 60).

Under *Monetary Policy*: ‘Continue with the policy of a floating exchange rate, which will ensure a real competitive exchange rate to promote exports’ (p. 61).

Under *Restructuring the Economy*: ‘As for exports, the projections indicate a decline in international oil prices, which will reduce oil revenues by an annual average of 3.2%. In contrast, the PRSP expects that the non-oil exports and exports of services will rise to achieve annual average growth rates of 17.1% and 10% respectively over the period by rejuvenating tourism and activating the Free Zone in Aden, and this will lead to a decline in exports of goods and services from 35.5% of GDP in 2003 to 22.9% in 2005. Nevertheless, the imports will continue to rise by lower rates not exceeding 1.5% per annum, which will turn surplus in the Trade Balance projected for 2002 to a growing deficit, reaching a

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maximum of 8.1% of GDP in 2005. The position of the trade balance over the same period will lead to an increase in the deficit of the Current Account until it amounts to 2.7% of GDP by 2005' (p. 64).

Under *Industry* 'The industrial sector is a major source of economic growth over the forthcoming years, whereby it is expected that manufacturing will grow by an annual average of 6.2% over the period 2003-2005 and the construction and building industry will grow by an annual average of about 5.7%. Overall, manufacturing, including oil refining, which is the major part of the industry, is characterised by the industrial and geographical concentration and low value added. Although the industrial sector seeks to occupy a suitable place among different economic sectors, its contribution will only increase to only 10.3% of GDP in 2005. The Yemeni economy could benefit from the excess labour in many manufacturing activities such as textiles, clothing, handicrafts and other medium and small industries. The sector is also considered a source and vehicle for increasing non-oil exports.

Policies:

- expansion of training and provision of incentives for the development of the industrial sector, such as the reduction of customs for investment commodities and raw materials
- removal of the remaining regulatory constraints; continuation of trade liberalisation; completion of the infrastructure
- support the expansion of food manufacturing, textiles and clothing so as to enable them to enter foreign markets
- attention to specifications and quality and also to marketing issues' (p. 68).

Under *Services and Tourism* 'Tourism is one of the potential resources for the Yemen economy, based on natural components, topographical and climate diversity and cultural and historical heritage. Despite this, however, tourism and the associated activities were only able to contribute about 2% of GDP, which reflects the potential untapped capacity of the sector. However, and despite the recent events and the ensuing weakening of tourism in the area as a whole, the sector is projected to grow over the next three years, and the number of tourists will grow due to increased visits by businessmen in response to an improvement in economic conditions...' (p. 70).

Under *Policy measures matrix*: Remove remaining trade barriers, encourage labour-intensive export activities, continue integration with GCC countries and accession to WTO, simplify the duty drawback system' (p. 105).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP? No

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document? No

- risk No

- access to basic services No

- voice No

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY? No

Is there an understanding of how they might differ from sector to sector? No

Is there an understanding of how they might differ in their impact on vulnerable groups? No

Is there an explicit discussion of trade and gender linkages? No

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments? No

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE? Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?

Infrastructure: 'With the topography of Yemen having rugged features, this leads to difficulties for engaging in agricultural activities in many parts of the country, and to higher costs of agricultural production and marketing in other parts. The area of rocky terrain and deserts amounts to about 30 million hectares. Tied to the amplitude of the country, the nature of its topography and the dispersion of the population is the poor and limited existing basic infrastructure, such as roads, electricity, water and sanitary drainage' (p. 34).

Under *Improvement of Infrastructure* '- increase production of water for domestic use...

- raising electricity coverage from the national grid...
- adding 3300km of asphalt roads and 2950km of gravel roads, besides the reinforcement and maintenance of about 3194km of asphalt roads, so as to achieve interconnection and to reinforce the transport traffic and facilitate the flow of commodities and services and movement of people, aside from maintaining the existing roads to ensure the safety of their use and their sustainability' (p. 55).

'Port Cities Development: Enhancing the competitive edge of port cities, starting with Aden, Hodeidah and Al-Mukalla by rehabilitating and improving their basic services, supporting the administrative and technical capabilities of the local authorities, to keep them at least parallel with the systems that are found in the ports of neighbouring states, besides supporting partnership between the local authority and the private sector and facilitating the procedures and processing' (p. 65).

Customs: 'Continue the reforms of the tax and customs systems and their administration, with a view towards improving revenue collection, suspension of exemptions outside the Investment Law, application of the GST from the last quarter of 2002' (p. 61).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?

Yes, establishment of the Greater Arab Free Trade Area and economic integration with the Arab Gulf Cooperation Council (p. 61).

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised?

No

Are ongoing discussions in the WTO referred to and analysed?

Yes, some discussion is made under *Priority Programs and Projects* e.g., 'Supporting Yemen's Accession to the WTO: The project intends to help Yemen in accession to the WTO by providing technical and institutional support to the Government and relevant authorities to prepare for the negotiations for membership, especially the Contact and Coordination Unit, as well as preparation of the Foreign Trade Memorandum, preparation of a medium-term strategy on the trade policy for Yemen, preparation of a study on the basis and analytical criteria for the bilateral negotiations for the agriculture agreement and the assessment of the customs procedures and reforms, support institutional capacity of the General Authority for Standards and Measures (GASM), creation of a follow-up unit on commercial technical barriers and a follow-up unit for the implementation of the commitments related to health and botanical health, within the framework of the Agriculture Agreement, reinforcing the institutional capacities of the authorities and institutions concerned with the copyright and patent rights and support the legislative reform programs to make them consistent with the requirements of the WTO' (p. 62).

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?

No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes, but broadly defined for the PRSP as a whole.

If so, who participated in, or was consulted, in drafting the text?

'Several meetings were held and communications were exchanged, between the Ministers of Finance and Planning and Development and the relevant representatives of the IMF, World Bank and government officials in the first quarter of 2000 to discuss the orientations, work program and

requirements for the preparation of the PRSP...The Government began to prepare the I-PRSP through a Ministerial Committee and a team of national experts, which completed the draft I-PRSP in March 2000. This was presented to the Council of Ministers in April 2000, which approved the initial draft of the I-PRSP and designated both the MoPD and MoF to continue contacting the IMF and World Bank and the international donor agencies and organisations to reach agreement on the final version of the I-PRSP document' (p. 3).

'Accordingly the I-PRSP was presented at workshops and seminars...which were held at the regional level during June-October 2000, and were attended by government officials, leaders from civil society, labour federations and NGOs, women's and professional associations, academicians and representatives of political parties, the media and the private sector' (p. 4).

Who was responsible for the final draft text?

NA

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRGF (Letter of Intent):

'Meanwhile with the assistance of the IMF's Fiscal Affairs Department, we will conduct a broad review of the indirect tax system with a view to developing a more integrated approach to tax reform that takes more explicitly into consideration the tax losses caused by widespread smuggling. The results of this review will help map out a reform program for indirect taxation, which will include the strengthening of the GST Law. With imports exceeding 30% of GDP, an efficient customs administration is central to revenue collection. Considerable progress has been made in modernising the customs administration, as witnessed by the implementation of the first phase of the ASYCUDA project at Sana's airport. In 2002, we plan to fully introduce the ASYCUDA system in Hodeida and Haradh, as well as to begin its introduction in Aden. We will also begin to develop a valuation database for a sample of 20 goods' (pp. 4-5).

Zambia

IS THERE AN IDENTIFIABLE SECTION IN THE PRSP RELATING TO TRADE?

Yes, there is a brief section on *Trade Policy and Export Promotion*. 'Trade policy and export promotion are key to the expansion of markets for domestically manufactured goods and ensuring international competitiveness in local production. The key issues here include the establishment of a fair domestic and foreign trade regime that facilitates trading to take place on a common set of agreed rules as opposed to discretion, and one that does not stifle domestic production and employment. The government will deal with matters of asymmetric access to markets, dumping, or export subsidies from major trading partners. In order to further encourage exports, bilateral, regional and multilateral trade regimes will be used to ensure that reciprocity is observed in levelling the playing field. Diversification of exports, especially manufactured tradables, will be encouraged and modern commercial trading methods will be applied where feasible. The following measures will be taken to boost exports of manufactures during the PRSP implementation period:

- 1) Train trade attachés and other staff involved in trade matters in market identification techniques and trade negotiation skills to ensure that Zambia extracts the optimum benefits from trade agreements and protocols;
- 2) Identify export opportunities in markets that give Zambia preferential treatment for its exports such as the European Union under the Cotonou Agreement and the USA market through the African Growth and Opportunity Act (AGOA). Export opportunities under COMESA, SADC and similar regional bodies will also be pursued with added vigour;
- 3) Establish export processing zones;
- 4) Establish modern testing and calibration facilities at the Zambia Bureau of Standards. The use of other private sector testing facilities that meet the required legal and technical standards will also be encouraged;
- 5) Encourage establishment of private sector testing and calibration facilities;
- 6) Create an enabling environment for quality assurance for goods meant for both domestic and export markets' (p. 64).

However, the main substance of Zambian trade policy is spread throughout the remainder of the text:

'Zambia plans to shift emphasis towards producing goods for export because the limited domestic market is a barrier to growth. The list of known agricultural products where Zambia has both comparative and competitive advantage includes coffee, cotton, groundnuts, flowers, paprika and many others', p. 13.

'At independence in 1964, Zambia inherited a strong mining-based economy. It deteriorated in the mid-1970s following a sharp decline in copper prices, compounded by the oil shock. The country's failure to make positive policy changes in response to the declining economic environment further worsened the situation. Instead, foreign borrowing was increased to minimalise the decline in living standards. Zambia recognised during these early years the need to diversify her economy and reduce over-dependency on mining exports. The preferred strategy was import substitution industrialisation that was import-dependent. This encouraged firms to produce for the domestic market but did little to build the requisite capacity to export. With little foreign exchange being earned amidst the entry during the 1990s of highly competitive consumer imports, the industrialisation strategy failed, leading to increasing unemployment' (p. 17).

'The most serious structural challenge has been in the mining sector where a massive drop in output has complemented the negative impact of occasional price declines. Currently, copper output is only a third of the highest level ever attained. The contraction in mining drags the rest of the economy down as aggregate demand collapses. In 2000, the government privatised its largest asset, the Zambia Consolidated Copper Mines. The step raised economic confidence due to the sector's expected catalytic role in reviving the general economy. However, the planned pull-out of Anglo American Corporation, the major private shareholder in the largest mining company in the country (citing lack of viability due to low copper prices), brings with it great uncertainty. At present, it is expected that a major pull out would result in severe economic disruption of an already under-performing economy. Nevertheless it is now imperative that economic diversification must quickly succeed if Zambia has to avoid getting deeper into economic adversity, generally, and worsening poverty, in particular' (p. 19).

Appendix 1: Country Notes

‘Over the past decade, external sector developments in Zambia continued to be weak, characterised by falling metal exports due to declining production and occasional steep price declines. Sharp rises in the price of petroleum oil and occasional maize imports due to drought in some years have made the situation more difficult. To Zambia’s credit, however, non-metal exports have risen sharply during the past ten years, mainly from agriculture and agro-processing. There has been extensive reform of the trade regime in Zambia in the past decade and this has included lowering trade taxes, narrowing their dispersion and collapsing the trade tax bands to three. Furthermore, most non-tariff barriers have been removed and import licenses abolished’ (p. 19).

‘...the PRSP primarily, though not exclusively, targets agricultural development as the engine of income expansion for the poor and is thus perceived to possess the best opportunities of enhancing the poor’s livelihood. In this regard, to the extent that income poverty has been singled out through the PRSP process as one of the major constraints to improved social welfare, particular effort will be directed towards agricultural growth stimulation that is sensitive to equity in resource access and use. Other economic sectors that complement this effort either directly or indirectly through the inter-linkages are tourism, manufacturing, mining, and energy’ (p. 38).

‘Worldwide experience indicates that success in economic expansion in small countries hinges on export growth. Export not only create a vent for domestic surplus but also expand domestic incomes and, therefore, enhance purchasing power, leading to expanded markets for domestic produce. This is also true for Zambia with a small population with insufficient purchasing power to absorb expanded domestic output. The implication is that in agriculture, tourism, mining and manufacturing, production for exports will receive greater emphasis. Under the PRSP, the relevant sector ministries and trade promotion institutions will be given appropriate support. In future, these limitations will be more focused on the key elements in their operations. For example, the Export Board of Zambia will primarily focus on a few export commodities that enjoy comparative advantage in external markets. Similarly, the Zambia Investment Centre will as much as possible focus on attracting investors in areas known to have the best potential for Zambia. As export expansion is a fundamental assumption behind the planned economic growth under the PRSP, the government will give high priority to these efforts. Complementary efforts in this regard will include:

- 1) the re-orientation of the Zambian diplomatic service in a way that enables it to assume a greater role in identifying and negotiating market preference for Zambia;
- 2) the improvement of national capacity for expeditiously handling cases of unfair trading disadvantage against local businesses;
- 3) the elimination of barriers to trade and fair competition; and
- 4) the resisting of discretionary tariff/duty concessions.

The introduction of external trade liberalisation with little consideration of the speed and degree to which the country’s main regional trading partners are doing the same calls for some further reflection. Many producers in the country today complain that they are being unduly exposed to an ‘unlevelled playing field’ in their intra-regional trade interaction, particularly with South Africa and Zimbabwe that have not yet opened up their trade regimes to the same degree’ (p. 45).

‘There is little disagreement within Zambia that the policy of liberalisation is correct for revitalising agriculture. There is consensus that the government’s pricing and marketing policies in the agricultural sector during the pre-reforms period failed to provide sufficient incentives for increased output by farmers, and also discouraged private sector-led agricultural development especially in the input and output markets. Moreover, because of the policy bias in favour of maize, infrastructure and service support to the agricultural sector discriminated against other equally rewarding activities in this sector targeted at both the domestic and external markets. Consequently, a badly distorted and lop-sided agricultural sector emerged that was dominated by a single crop, maize, which was encouraged even in areas that were not suited for its production. Increasingly from 1983, the government decided to eliminate subsidies on maize and fertiliser, partly for the purpose of fiscal consolidation and partly to remove the distortions caused by the maize sub-sector. By 1994, all consumer subsidies on maize and maize products were completely eliminated and the prices were totally freed. Exports of all agricultural commodities, as long as they adhered to health regulations, became free and permissible and in order to expose Zambia to the competitive external market, imports of agricultural commodities and inputs (e.g. fertiliser and seed) were allowed and opened up to the private sector as well. At the same time tariffs were cut’ (p. 54).

DOES ANY TRADE DISCUSSION RELATE BACK TO, AND BE INFORMED BY, THE DESCRIPTION AND ANALYSIS OF POVERTY COVERED AT THE BEGINNING OF THE PRSP?

Yes, concerning manufacturing: ‘The current policy thrust in the manufacturing sector is outlined in the 1994 Industrial, Commercial and trade Policy document. *The policy, however, lacks programmes targeted at poverty reduction and does not give concrete indications as to how to involve the poor and the disadvantaged in manufacturing activities aimed at stimulating growth and reducing poverty.* The policy also lacks strategies for encouraging new investments, establishing competitiveness in industry and economic diversification. Efforts to establish strategic export niches also need strengthening. Cross-cutting issues of gender, the youth, HIV/AIDS, environment and energy will form a critical pillar to attaining industrial development’ (p. 62).

‘...the specific objectives for manufacturing development are as follows:

- Promote investments in both urban and rural areas that primarily utilise local raw materials;
- Encourage output and employment expansion in the sector by promoting growth in manufactured exports especially in areas where Zambia has comparative advantage;
- Promote growth in small and medium scale enterprises;
- Promote an enabling environment and even the playing field with respect to competing imports, efficient utilities in energy, transport and telecommunications, skills training, science and technology development, and legal and regulatory framework that is conducive to the growth of manufacturing.

It is expected that by the end of the visionary period, Zambia will have developed a sustainable export-led manufacturing sector. This will lead to an increase in job opportunities, sustainable export earnings and the growth of manufacturing, GDP and employment. Manufacturing exports are also expected to increase. In devising an industrial strategy for economic growth and poverty reduction, Zambia will primarily support ‘winners’ of those industries that have the best chance of success. Ever since local manufacturing faced foreign competition, firms using locally available raw materials have fared better than those that were over-dependent on imported inputs. Firms using locally available farm output will, therefore, receive priority. Within this, export processing for items like cotton, coffee, cashew nuts, ground nuts, paprika, sugar and fruits will receive special attention in addition to manufacturing linked to mining. The intention here is to create a link between primary extraction and industrialisation through addition of value to primary goods especially those for export. Exports of both primary and processed primary goods will contribute towards raising purchasing power in Zambia for manufactured goods intended for the domestic market. However, this also requires that proven cases of unfair advantage for imported competing goods be dealt with effectively’ (p. 62).

In particular, where the poverty analysis section of the PRSP discusses non-income aspects of poverty, does this inform the trade section of the document? No

- risk No

- access to basic services No

- voice

DOES THE PRSP DISCUSS TRADE POLICY OPTIONS EXPLICITLY?

Yes but only with respect to exports.

Is there an understanding of how they might differ from sector to sector?

Mining, agriculture, industry and tourism polices are all considered, each with its own chapter.

Tourism: ‘For tourism the plan envisages two broad interventions – national and zonal, both of which are expected to encourage investment in the sector. National interventions include rehabilitation of roads in tourist areas, rehabilitation of museums, tourist marketing and human resource development. Zonal development refers to intense development work in identified tourist areas to make them attractive to tourist investment. It includes building or rehabilitating access roads, tourist roads and airports where appropriate and power (rural electrification). Significantly, it also includes finding world-class investors in the respective development zone, who will be the key engine in the area. Smaller lodges can feed off them. Within this framework, formulas have been designed regarding how the local people can participate in and benefit from the tourism expansion’ (p. 13).

'The government's long-term vision for the tourism sector is 'to ensure that Zambia becomes a major tourist destination of choice with unique features, which contributes to sustainable economic growth and poverty reduction'. For tourism to contribute effectively to the national GDP, foreign exchange earnings and poverty reduction, there is need to have a conducive environment for private sector participation, environmentally sustainable growth and good governance. This will require policy improvements, institutional and legal framework adjustments and cross-cutting issues to be addressed. The tourism sector plays a vital role in economic growth and government policy is aimed at promoting tourism sector performance in economic growth, which is the main thrust of the PRSP. This can be achieved through employment creation, rural and infrastructure development, community development, community development, increased foreign exchange earnings and entrepreneurial development. The tourism industry is a labour intensive industry and provides jobs for local people in urban and rural areas where most of the poor people live. In addition, it stimulates entrepreneurship and creates opportunities. The benefits of these additional resources can be channelled towards improved nutrition and food security, housing, health and education and, consequently, improve the communities' standard of living.

Given that much of the tourism resources are in rural areas, the sector plays an important role in rural development. Large-scale investments have economic linkages, which stimulate and strengthen the creation of small- and medium-scale enterprises....Similarly as tourism expands, it encourages the development of infrastructure such as airports, accommodation facilities, roads and telecommunications. This in the long run would attract investment in other sectors of the economy. In addition, increased tourism activity encourages entrepreneurial skills development aimed at supplying goods and services to the investment areas. Above all, through increased revenues as a result of the growth of the tourism sector, government revenue is enhanced' (p. 67).

'The rapid growth of tourism in Zambia has been constrained by several factors. These include the following:

- Inadequate infrastructure: The underdeveloped road and rail network, airports/airstrips, telecommunications facilities and transportation, both land and air, as well as other inadequate tourist facilities have hampered the rapid growth of tourism in Zambia. The lack of all-weather roads continues to hinder year round access to Zambia's major tourist areas.
- Inadequate marketing of Zambia as a major tourist destination: The marketing of Zambia as a tourism destination has been inadequate due to limited resources.
- Poor programme implementation due to lack of funds and local participation/ownership: effective implementation of programmes requires the involvement of the community in project identification, planning and implementation. This participation would encourage sustainable management and use of resources that would in turn ensure poverty reduction.
- Lack of affordable financing for long-term development: There is a major problem with the ability of local investors to assess medium- and long-term financing in Zambia. Where such facilities are available, conditions provided by the banks/donors are prohibitive to potential local investors.
- Human resources and low levels of skills: There is a lack of professionally trained workers at all levels in the tourism sector. This affects the hospitality industry adversely as client expectations are not met.
- Inadequate product development: Zambia needs to diversify its tourism portfolio in order to exploit the niche markets. In order to derive maximum benefits from tourism, there is need for the country to develop a wide product base. This will increase the number of tourist arrivals and the length of stay, thereby increasing the occupancy rates and foreign exchange earnings of the country. In this regard, there is need to develop skills and capacity, and increase the allocation of resources to product development in order to increase the variety of tourism activities.
- Lack of institutional incentives: The private sector is often faced with several cumbersome procedures such as bureaucratic delays in obtaining licenses, uncoordinated procedures on the part of the authorities, and the excessive number of licenses required to run business. There is need for a one-stop shop.
- High cost destination: Zambia has a reputation of being a high cost destination. This is due to limited international seat capacity and domestic flight connections. A deliberate policy should be put in place to strengthen local participation in the airline industry.
- Lack of good health facilities: The lack of international standard health facilities, drugs, and a system to inform tourists of health requirements before their arrival in Zambia has a negative impact.

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- Land tenure: The process of acquiring land for infrastructure development is slow, thus, inhibiting investment in the sector.

The current tourism policy framework has three key elements. Firstly, the emphasis is private sector-driven development. The private sector will take the lead in the development of tourism initiatives and the implementation of investment plans with the assistance of the Ministry of Tourism, Environment and Natural Resources and the Zambia Investment Centre. Secondly, the sector encourages environmentally sustainable growth. The development of the sector will be undertaken in a manner which protects natural resources to ensure long-term sustainability of key tourist attractions (e.g. wild life, forests, water falls) that are required to attract tourists to Zambia. Lastly, the government's policy in the tourism sector is to create an enabling environment for private sector participation; provide adequate infrastructure and legislation for the growth of the sector; and encourage balanced community involvement aimed at poverty reduction in rural areas.

Within the existing tourism policy framework, government's focus on poverty reduction is the enhancement of the role of rural Zambians and their participation and ability to benefit from growth in the tourism sector....Apart from the revenues that are ploughed back, the communities also derive benefits from employment as scouts and also working in the safaris' (p. 68).

'The government's role in the growth of the tourism sector is to facilitate private sector involvement through investment promotion, marketing and the provision of infrastructure and supportive legislation. In facilitating the development of the tourism sector, resources will be directed towards high growth areas. These areas have been prioritised into development zones and national programmes.

Development Zones

High growth areas that contribute to national income expansion will receive priority during the implementation of the PRSP. These are areas that will assist to create resources for other areas to be developed over time. Zambia will rehabilitate and maintain basic infrastructure, especially access roads, in all tourist areas. In the first cycle of the PRSP, five zones have been identified through a consultative process...

National Programmes

These are programmes that have a national characteristic as opposed to zonal development ones. They will run concurrently with zonal programmes. These include the following, in their order of priority:

- Investment promotion: Efforts will be made to attract big investors in all the designated zones with good international marketing skills. Local investors will be encouraged to make partnerships with foreign investors to ensure that the local people have a stake in the development of the tourism industry. A policy will be put in place to ensure that local people have a minimum of 40% shareholding in incoming investment in the tourism sector.
- Marketing and promotion: A strategy for marketing of Zambia, both locally and abroad will be in partnership with the private sector. Zambian embassies abroad will serve as window for the sector.
- Tourism database: Setting up a tourism satellite accounting system to monitor the performance and contribution of the tourism industry to the economy.
- Tourism development credit facility: This programme aims at promoting indigenous and local entrepreneurs' participation in the tourism industry.
- Private sector capacity building: This will strengthen private sector capacity through the Tourism Council of Zambia
- Routine maintenance of all infrastructure: Infrastructure in all tourist areas will be regularly maintained and upgraded.
- Human resource development: Human resources in the tourism industry will be developed in all relevant fields
- Natural resource conservation: This programme targets the broader aim of maintaining Zambia's rich biodiversity and enhancing economic development of the wildlife sub-sector. In this area, eco-tourism projects will be encouraged.
- Rehabilitation of museums and heritage sites: These are located throughout the country and the programme to rehabilitate and improve the museums and heritage sites will be effected as an integral part of the diversification of tourism products' (p. 69).

'Tourism is, together with agriculture, planned to play a major role in diversifying Zambia's economy. They key interventions, given the limited resources, will be to rehabilitate and to develop infrastructure needed for expanded tourism investment. The focus will primarily be in established areas where improved infrastructure will lead to higher investment and increased visitors. On top of this, the

government will undertake a consultative process with traditional leaders to allow for release of traditional land for investment in agriculture and tourism. Areas with highest poverty incidence but with tourist potential will be targeted for this initiative so as to encourage investment flows in those areas...Tourism tends to be labour-intensive and, therefore, enhances livelihood. Beyond labour provision, money has also been set aside for tourist development credit, which will be accessible to local investors, especially in areas where they can ride on the success of major tourist investors with international marketing connections' (p. 128).

Industry: 'Regarding industry, the strategy focuses on choosing winners or industries that have the best chances of export success after considering comparative advantage and existing trade agreements. These are likely to be processors of primary goods, such as agricultural and forest products. It is planned that some of the agricultural goods suggested for production above should have value added before being exported. Another area is manufactured items required by the mining industry. While exports increase the domestic market for local goods, unfair trade practices from abroad and smuggling reduce the opportunities for local industries.' (p. 14).

'The manufacturing sector in Zambia grew rapidly following independence. This initial rapid growth was in part due to the setting up of new manufacturing plants and greater capacity utilisation and an unrestricted flow of raw material supplies. Political considerations such as the unilateral declaration of independence in Rhodesia brought about the urgency to develop the local manufacturing industry under an import substitution industrialisation strategy. This was made possible by the high copper prices and high foreign exchange earnings that enabled the importation of raw materials. Most of the growth was in food, beverages and tobacco, textiles and leather and wood and wood products sub-sectors. One feature of this industrial expansion was the high dependence on copper export earnings to provide money for importing raw materials. The decline in the mining industry, combined with liberalisation of the economy leading to freer entry of imports, exposed the inherent weaknesses in the Zambian manufacturing sector. Many firms were unable to withstand the competition from imports that threatened their domestic markets and were unable to export mostly because of high input costs and low output quality. Firm closures and other downsizing operations have contributed to rising poverty as many household heads have lost their jobs especially in urban areas. In absolute terms, out of 55700 jobs in the sector in 1995, 7900 had by 2000 been lost due to firm closures and reduced capacity utilisation. The sector's contribution to formal sector employment has, however, been recovering. The lack of competitiveness and slackened productivity in manufacturing is due to a number of constraints. These include a narrow export base, unfair competition arising from smuggling and export subsidies in some trading partner countries. Other constraints are a lack of effective long-term capital, high cost of utilities like fuel and electricity, low levels of industrial skills of artisans, and inadequate infrastructure including serviced industrial land. Importantly, also, depressed demand and limited access to sub-regional, regional and international markets have contributed to the decline in manufacturing. In particular, a prosperous mining industry provided jobs to manufacturers producing mining components and to industries producing goods consumed by the mining workers. Demand for such products has decreased with a smaller mining industry.

Export-based manufacturing has performed better. In addition, the sub-sectors of food, beverages, and tobacco, accounting for over 60% of total output in manufacturing have also done well. Other key sub-sectors are textile and leather products, wood and wood products and chemicals, rubber and plastics. On average, these sub-sectors account for over 90 percent of output in the manufacturing sector. The slow growth has also diminished business opportunities for urban and rural micro, small and medium size enterprises and the informal sector to generate income and create employment. The potential for linkages between formal and informal sectors of the economy, through either direct or indirect demand-supply relationships, have equally been affected negatively' (p. 61).

Agriculture: 'The real growth rate in the agricultural sector has fluctuated significantly, mainly due to the sector's high dependence on seasonal rainfall, reduced investments and the failure to strategically position the sector according to its comparative advantage...Non-traditional, mainly agriculture-based exports increased from \$46.5 million in 1995 to \$133.9 million in 1999, thus demonstrating the enormous export potential the sector possesses. The contribution of agriculture to non-traditional exports did increase from 23% in 1990 to 47% in 1999. However, this growth is seriously threatened by the lowered competitiveness of the sector due to high production costs arising from the high prices of inputs, especially energy and fertiliser. Trends over the years indicate that the agricultural sector has somewhat accelerated its diversification mainly due to the increasing number of outgrower schemes in the country. The value and variety of export commodities have also increased, thanks to improving

stakeholder consultations and partnerships. However, the ability of the sector to tap the resource endowment to improve the livelihoods of the poor has been constrained by both micro and macro factors. Private sector activities have been limited to a few areas, thus exposing the long-standing duality of agriculture. High interest rates, escalating inflation, decreasing purchasing power, volatile exchange rates, liquidity constraints and limited credit facilities have combined to limit the impact of the liberalisation policies. The most significant recent developments that have constrained growth in agriculture include unfair trade practices with the country's regional neighbours; low competitiveness; and an overall reduction in investment flows to the sector. In particular, the signing of the COMESA FTA implies that products entering Zambia from other member states will not attract customs duty, thus making such products cheaper on the domestic markets and heightening competition from cheap imports' (p. 56).

'A major objective in agriculture will be to build its capacity to expand production, productivity and competitiveness in the agricultural sector to meet both the challenges of local and international demands. This requires the mitigation of constraints that currently play to directly or indirectly inhibit agricultural sector players to meet their full productive potential. This will be achieved through interventions such as the identification and promotion of products with competitive advantage, provision of affordable credit, development of export infrastructure and identification of viable markets. In addition, lowering costs of production that constrain agricultural expansion will do this. Zambia will need to build on her recent successes in agricultural exports by investing more resources to build extra capacity and incentives among all the categories of farmers and increase exports more. The expanded export base will earn more foreign exchange, which will further expand the economy, create jobs and subsequently reduce poverty' (p. 58).

'Zambia's strategy in agriculture is two-pronged. On the one hand, assistance will be provided to small-scale producers. This group constitute one of the most poverty stricken in the country (84% of the poor) and as more of them get uplifted out of poverty the better. Interventions in support of small-scale farmers include assistance towards small-scale irrigation schemes, credit, better extension and enhanced access to markets....On the other hand, Zambia also recognises that commercial agriculture is well below potential. Consequently the second strand of agricultural development will aim at encouraging large-scale production to exploit the untapped potential, especially for the export markets in appropriate products so as to escape the market constraint imposed by the small Zambian market. Large-scale agriculture will increase the demand for labour and hence also provide alternative livelihood for rural dwellers that are not full-time farmers as well as creating other poverty reduction linkages such as jobs in agro-processing' (p. 127).

Mining: 'The mining sector has been a prime mover of economic development in Zambia for over 70 years, with exports of mineral products contributing about 70 percent of total foreign exchange earnings. Over the last two decades, however, copper production has declined largely because of declining copper ores, poor re-investment into new and existing mines and unsupportive management practices. In order to boost and make the mining sector viable, the government decided to implement a comprehensive economic restructuring programme aimed at promoting private sector-led development. The privatisation of the industry was completed in the year 2000. With a private sector-driven mining industry, it is hoped that the sector will be better leveraged to spearhead economic growth and poverty reduction efforts.

Over the years, the national economy has developed a comparative advantage in copper and cobalt mining. Deposits of gold, diamonds, zinc, gemstones, coal and a variety of agro and industrial minerals are also found in Zambia. Large-scale mining is active in copper, cobalt and coal while small-scale mining is active in a variety of gemstones that include emeralds, amethyst, aquamarine, tourmaline, garnets and citrine...However the mining deposits are located in undeveloped and remote parts of the country and their exploitation inevitably leads to the development of access roads, telecommunications and other physical and social infrastructure such as schools and clinics. It is recognised that there are numerous interventions that could be made in the mining sector to make it viable and contribute positively to economic growth and poverty reduction. However, due to limited resources, the first three-year rolling PRSP will mostly focus on targeting resources to the small-scale mining sub-sector. The mining sector is critical in poverty reduction and in the economic development of the Zambian economy. Lately, mining has been generating between 6% and 9% of GDP and contributes about 40000 jobs to total formal sector employment that currently stands at about 470000...Furthermore, mining has the capacity to condition an increase in the stock of needed skills and expertise, an increase in a broad spectrum of service industries, value addition through downstream processing, and

technology transfer to small-scale operators. The orderly development of small-scale mining is also capable of lowering poverty through the creation of development zones or areas in rural mining centres arising from the emergence of mining communities, and the provision of essential agricultural inputs such as lime close to agricultural areas. It may also offer a facilitating environment to support cottage industries that are related to pottery making, brick making and increased demand for skills and essential mining equipment and machinery. These considerations point to the potential significance of mining to the reduction of poverty in Zambia' (p. 72).

'A number of factors influence the performance of the Zambian mining industry, some of which are outside the country's control. To begin with, it is noteworthy that demand for copper is sensitive to the levels of industrial production in the major industrialised consumers and as such, prospects in demand for this mineral depend, to a considerable degree, upon the strength and duration of world recovery...In general terms, production costs worldwide are likely to be significantly lower than they have been in recent years due to technological innovations. Zambia, however, remains amongst the highest cost producers as a result of large indirect and high debt service payments....Trends in world prices for refined copper, apart from production volumes, have accounted significantly for the country's declining revenue...' (p. 72).

'Notwithstanding the above, the mining sector certainly holds promise for sustainable economic development and poverty reduction. If new mines are opened and existing major mining entities re-capitalised, production could be sustained at least at current levels in the short run and assume upward trends in the long run....' (p. 74).

'On the other hand, while the gemstone segment holds great potential for spearheading rural development since most gemstones and other mineral deposits amenable to small-scale mining are located in rural areas, this segment is severely constrained as it lacks appropriate credit facilities and requisite valuation skills, and obtains in areas where infrastructure is least developed. The sub-sector has also been adversely affected by excessive illicit trafficking in gemstones in the absence of a better organised market' (p. 75).

'There are two major programmes in the large-scale mining sub-sector that could be implemented if funds were available. One of them is infrastructure development that entails the rehabilitation of the dilapidated rail and road networks...Export routes to the southern ports also need urgent rehabilitation. The second one is the Lumwana Copper Project...being promoted for private sector involvement represents the largest undeveloped resource outside the Zambian Copperbelt, with significant potential to be increased with further exploration. Development of the mine at Lumwana would have a positive impact on economic growth and social benefits in terms of improvements in infrastructure and employment opportunities in Northwestern Province. There is also good potential to develop commercial agriculture and related downstream processing. The main infrastructure required for the development of the Kumwana copper project includes electric power, a highway upgrade, a rail link and a planned town site' (p. 76).

Is there an understanding of how they might differ in their impact on vulnerable groups?

Yes, with respect to agriculture. 'The PRSP recognises that the initial impact of liberalisation on Zambia's smallholder farmers has been negative due to limited opportunities to access both agricultural inputs and credit. Under such conditions, a major national challenge under the PRSP is to work out how best to help smallholders, particularly those in outlying areas, to benefit from inputs and credit under certain conditions regarding how market forces alone could correct this imbalance in delivery. While the outgrower schemes mentioned above will generally assist, mechanisms going beyond and targeting certain farmers will be required. This is particularly so with respect to the facilitation of rural finance. In this respect, the PRSP will invest effort in understanding how best to bring in the private sector and community-based organisations/associations in the provision of the needed financial services that are so strategic to empowering the poor's productivity' (p. 59).

Is there an explicit discussion of trade and gender linkages?

Yes but limited to targeting women in trade promotion programmes. 'Emphasis will be placed on the recognition of women's needs when promoting income-generating activities. Therefore the following strategies will be adopted:...create non-discriminatory support services, including investment funds, and target poor women in trade promotion programmes' (p. 115).

Does the discussion differentiate between consumers, producers and employees, in both urban and rural environments?

Yes, limited differentiation for export promotion across agriculture, mining and tourism. 'Although agriculture is the priority, Zambia also plans to see growth from other economic sectors. This is because, in fact, the surge in unemployment leading to increased urban poverty in recent years emanated from non-agricultural sectors, especially mining and manufacturing. It follows, therefore, that reviving these sectors can have a powerful impact on reducing urban poverty. For mining, Zambia had great hope that after privatising the industry copper exports would be revived, pulling the rest of the economy with it' (p. 13).

DOES THE PRSP COVER OTHER NATIONAL AND INTERNATIONAL FACTORS AFFECTING TRADE?

Yes

Does any discussion take into account supply-side constraints on trade including infrastructure, education, information, marketing?

Yes but the focus is on infrastructure only. 'To facilitate faster and diversified agricultural activity, the PRSP also places a high premium on infrastructure development, particularly rural roads, and this is well reflected in the resource allocation pattern during the PRSP period. To encourage rural-based agricultural processing and mechanisation, the energy sector is also receiving priority attention' (p. 13).

'Functioning infrastructure like railways, roads, energy and telecommunications is important for reducing poverty. This is true from both the perspective of enhancing economic growth through improved international competitiveness in landlocked Zambia and from the perspective of linking poor rural areas to urban markets and social amenities. Zambia's primary objective for infrastructure is foremost to secure the extensive investment she has made already by making timely rehabilitation and maintenance. This infrastructure includes the trunk roads that link the main urban centres with rural areas, feeder roads, hydroelectric power stations, electric transmission lines and petroleum pipelines and handling facilities' (p. 128).

'For growth to occur in the key sectors identified above, certain basics need to be in place. Functioning rail and road transport are among the key. Being landlocked, Zambia's export competitiveness depends on efficient transportation. Roads, including the rural feeders, will be rehabilitated and maintained regularly. Zambia Railways will be concessioned to private operators. In the petroleum sector, the products should come in at the least possible cost. There will be enhanced private sector participation in procurement and distribution to attain this objective. In addition, plans are under way already, and will continue in the PRSP, to rehabilitate electrical energy infrastructure. Also, private investors will be encouraged to construct a new electrical generation plant on the Kafue River to increase power by 600 megawatts. This is expected to meet the rise in demand from both domestic and the East African markets. Rural electrification will be accelerated. To ensure sustainability, the priority areas for rural electrification will be in farming blocks so as to create a link between energy and production. For the majority of poor Zambians depending on wood fuel, the objective is to develop more efficient wood energy utilisation in order to reduce demand on the forests, which provide this type of fuel' (p. 14).

'While Zambia is said to enjoy comparative advantage in the production and export of various commodities, inherent constraints such as high energy and transport costs, driven by high internal taxes and charges, continue to hinder agricultural producers' competitiveness' (p. 57).

'Transport and communications play a critical role in the growth and development of the Zambian economy. Over the period 1994 and 2002, its contribution to GDP growth has averaged 3.2% in real terms. It facilitates growth in value added of agriculture, trade and commerce, mining, tourism and in the delivery of social services such as education and health. In Zambia, transportation costs account for 60 to 70% of the cost of production of goods and commodities. This proportion is too high in comparison to sub-regional levels, and this has worked against the competitiveness of Zambian exports....As an essential input, lower transport and communication costs literally translate into the competitiveness of all final goods produced in the country and, therefore, has a significant bearing on the welfare of the people. Transport and communication are critical to poverty reduction but if inappropriately designed, transport strategies and programmes result in networks and services that worsen the conditions of the poor, harm the environment, ignore the changing needs of users and exceed the capacity of public finances. Transport is capable of generating growth by facilitating trade both nationally and internationally, and by increasing access to social services like health and

education...Further, Zambia can benefit from its central location by serving as a hub of economic development in the region as a transit route' (p. 103).

'Zambia's air transport industry is currently in transition. With the liquidation of Zambia Airways Corporation Limited in 1994, the air transport industry has been predominantly private sector-driven. Several airlines have been established and some have collapsed. However, none of them has risen to the status of a national airline or flag carrier. This has particularly adversely affected the development of the tourism industry. A number of local tourist destinations have experienced reduced numbers of tourists owing to lack of a national carrier that plies rural tourist destinations. Rural areas that are dependent on tourism have generally experienced higher levels of poverty than before, where no diversification has taken place' (p. 104).

'There is need to develop Zambia's lakes, rivers, ports and harbours to increase alternative use of transport modes and improve trade with neighbouring countries. Development of harbours will lead to increased volume of exports' (p. 104).

Does any discussion cover issues of trade not solely at the international level, but also within local, national and regional markets?

Yes, COMESA and SADC are discussed. 'In October 2000, the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area was launched and Zambia also signed up during the year to the SADC Trade Protocol that provides the country with duty free access to the regional market for specified products. These agreements are expected to expand Zambia's markets as well as expose local producers to competition. There have been complaints about unfair competition from imports, leading in some cases to companies closing or relocating outside Zambia. This has also happened at a time when the local industry faced high domestic interest rates and had little time to acquire competitive production technology. The problem has been compounded by expensive inputs, especially petroleum fuel, when compared to competitor countries' (p. 19).

Does the discussion cover demand side constraints such as market access in other countries, regional and / or industrialised?

No

Are ongoing discussions in the WTO referred to and analysed?

No

Is there any analysis of how domestic formulation of poverty sensitive trade policy may be at odds with ongoing negotiation processes in the WTO?

No

IS THERE ANY DISCUSSION OF HOW THE CONTENT OF ANY TRADE POLICY IN THE PRSP WAS FORMED?

Yes, but broadly defined for the PRSP as a whole.

If so, who participated in, or was consulted, in drafting the text?

'This PRSP has been prepared after extensive consultations involving the Cabinet, the legislature, government bodies, the private sector, academia, NGOs, donors and the provinces. The Ministry of Finance and National Planning was tasked with the responsibility of being overall coordinator of the process of producing this PRSP. Within the Ministry, a PRSP secretariat drawing members from the Ministry itself, the Ministry of Community Development and Social Services and the Bank of Zambia provided day-to-day coordination. Members of this secretariat were later absorbed into the newly established Planning and Economic Management Department which, towards the end, also assumed the overall responsibility of coordinating the completion of the PRSP. The PRSP secretariat worked closely with other government ministries and the latter provided the chairpersons of the sector working groups. This ensured that while overall participation in the PRSP preparation embraced the whole society, the process also became deeply grounded within government. This is crucial for smooth implementation....

The key output from the stakeholders' seminar was to establish eight working groups to work on poverty issues and PRSP. Each group drew members from government, business, academia, church, NGOs, professional associations and donors. Over a period of six months, they devised plans on how to reduce poverty from sectoral perspectives. In parallel, specialised institutions were requested to make presentations to the working groups on important cross-cutting issues such as HIV-AIDS, roads, water etc. They were also requested to initiate draft papers to be included in the PRSP on those topics.

The working groups and specialised agencies produced zero drafts of the PRSP. These basic papers provided discussion material in seminars organised for working group participants and other interested parties to make peer evaluation of the individual papers and to establish cross-sectoral linkages. Such seminars were used for prioritising the various proposed interventions against the estimated resource envelope. Interventions considered less important were dropped out through consensus' (Appendix 1 p. 141.)

'Further consultations for the PRSP came from the review of literature on poverty in Zambia...Moreover participatory research was done with communities regarding their perception of poverty, its causes and what they themselves consider to be the appropriate solutions to combat it' (p. 142).

'An additional method of participation has been to involve rural areas. In each province 10 delegates from districts in that province comprising the administrative district head, a few sector experts in agriculture, health and education, a representative of traditional leaders and NGOs/churches convened at the provincial headquarters in a PRSP consultative conference' (p. 143).

Who was responsible for the final draft text?

Implies Planning and Economic Management Department in the Ministry of Finance (see above)

To what extent does it reflect the content and direction of the World Bank Sourcebook chapter on Trade?

Consistent except for complaints about liberalisation and adjustment costs and establishment of EPZs.

DOES ANY DISCUSSION INFORM THE TRADE POLICY COMPONENT WITHIN PRS-C and PRGF LOAN DOCUMENTS?

PRGF (Letter of Intent):

'Zambia's external current account deficit (excluding grants) is projected to narrow to 18.6% of GDP in 2002, compared with 20.2% of GDP in 2001. The wider deficit compared with the program target of 17.2%, mainly reflects the substantial increase (6.8%) in merchandise imports during the second half of 2002, on account of the higher food imports. Total merchandise export receipts are projected to increase by 6.9%, compared with a small programmed decline, mainly because of the higher-than-expected volume of copper exports so far this year, which has offset the lower-than-expected copper prices. The improved current account deficit is expected to offset the substantially lower net capital inflows and therefore result in a smaller-than-projected overall balance of payments deficit. In July 2002, Zambia held a Consultative Group meeting where cooperating partners renewed and expanded their commitments to provide financial support. Thus, taking into account these commitments, external concessional loans, and interim HIPC debt relief, gross international reserves are projected to increase by \$112 million, broadly in line with the program target.

Between end-December 2001 and end-August 2002, the Kwacha depreciated by 17% in nominal terms against the US dollar and by about 9% in real terms. At the same time, the spread between the BoZ and the underlying bureau exchange rate has narrowed sharply. The major underlying cause for the depreciation has been the uncertainties in the foreign exchange market arising from developments in the mining sector and expectations of increased maize imports. We believe that with the conclusion of the agreement with AA, the uncertainty will be progressively reduced. We also believe that the current level of the real exchange rate is broadly appropriate to maintain Zambia's competitiveness and to encourage diversification. The BoZ is committed to allow the rate to continue to be market-determined with intervention limited to meeting the international reserves target and to smoothing short-term fluctuations. The government continues to be committed to an open trade regime and to strengthening the regional trading agreements. However, on account of the adverse impact of regional developments on Zambia, we have enacted a temporary ban on 14 imports from a neighbouring country. We intend to review this ban and make it consistent with our commitments under the WTO and COMESA' (p. 8).

Appendix 2: Poverty and Social Impact Analysis

The contours for PSIA are still being developed although a first indication of how the WB and IMF are going to proceed with PSIA is available. A number of PSIA studies have been conducted by the UK's Department of International Development (DFID) and the WB which have focused on specific policy actions that are expected to have significant social impacts (see figure 3).

Figure 3: WB and DFID PSIA Pilot Studies⁵

WB Studies		DFID Studies	
Chad	Privatisation of cotton marketing board	Honduras	Privatisation of electrical distribution
Mongolia	Cashmere and energy sectors	Armenia	Privatisation of water supply
Malawi	Privatisation of state marketing board, ADMARC	Rwanda	Size of fiscal deficit
Kyrgyzstan	Electricity sector	Uganda	Coffee and fish exports promotion
Pakistan	Increase in energy tariffs	Mozambique	Increase in fuel tax
Guyana	Reform of sugar sector, privatisation of water and bauxite sector		

Source: Bretton Woods Project (2002b)

It is interesting to note that nearly all of the WB studies while being poverty-, socially- and labour-orientated, do focus mainly on export-tradable sectors (except, arguably, the two power studies). Of the DFID studies, however, only one such type of study has been undertaken (for coffee and fish exports). The IMF has suggested that “the distributional impacts of major macroeconomic or structural reforms should be considered and reported on in PRGF documents together with any countervailing measures to offset the impact of these reforms on the poor” (IMF (2002), p. 39). This would apply to all key sectors, including agriculture, education, energy, forestry, health, mining, social protection, transport and water. Among the structural and sectoral reforms that could be subject to PSIA are those related to international trade. The WB has stated that “over time, it is expected that social and environmental analysis would increasingly be integrated into a systematic review undertaken as part of the upstream preparatory work of the PRSP” (World Bank (2001d), p. 11).

There are seven key aspects to PSIA: what particular reform is being analysed; which welfare indicator is being assessed; which social group is being analysed; what are the impacts on employment and wages, prices, market access, assets, and transfers and taxes; how do institutions affect these outcomes; when do the impacts materialise; and what are the risks of an unexpected outcome. Early PSIA studies have used qualitative and quantitative analysis to inform the decision making process (see Figure 4). The number of possible methods for conducting PSIA are numerous, so much so that many WB and IMF staff will be able to justify that they are already complying with its intentions. Thus it is likely that there will only be a slow uptake of new approaches by WB staff, who face many competing incentives and initiatives (Bosshard (2002)).

⁵ Other planned WB studies include Cambodia and Zambia. A study piloted by DFID is currently being carried out on rice price liberalisation in Indonesia. See www.prpsynthesis.org (DFID) and www.worldbank.org/poverty/psia (WB).

Figure 4: Methodologies for PSIA

Social impact assessment: Assesses how the costs and benefits of reforms are distributed among different stakeholders and over time. Used to analyse the privatisation of state-owned enterprises and the reform of basic services.

Social capital assessment: Measures institutions and networks that determine access to resources of individuals and groups. Surveys are used to identify associations that have facilitated policy reform. Used in Bosnia and Herzegovina in the reform of social welfare systems and public service provision for returning refugees.

Demand/supply analysis: Estimates the likely response of consumers and producers to changes in price of goods or services. Has been used when considering increases in electricity prices in Armenia and market liberalisation in Mexico.

1-2-3 PRSP model: A comprehensive model of an economy that can be combined with household data to simulate the impact of policy changes on poverty and welfare. Has been used in the Philippines to simulate the impact of macroeconomic changes on households' nutritional status.

Simulations of Social Indicators and Poverty (SimSIP): Examines how changes in growth rates will affect poverty and income distribution in particular countries by estimating the likelihood that a particular policy will achieve its objective

Source: World Bank (2002a)

NGOs have argued that PSIA should look at macro-level policy alternatives, not just at the fine-tuning, timing and sequencing of pre-determined policies. The pilot studies being carried out by the WB and DFID for the most part fail to do this. Instead they take single pre-existing reforms and focus on sequencing and mitigation measures. They do not question whether or not this reform is the appropriate or the optimal one for poverty reduction. Consultation of civil society in many studies has also been minimal, raising the question about who is best qualified to arbitrate between any trade-offs.

NGOs and officials including finance ministers from HIPC countries, have argued that the analyses must be conducted independently – not by the WB, which faces conflicts of interest. Finance Ministers from HIPC countries share this view: “It is essential to equip countries with the tools to conduct their own PSIAs rather than developing on outside assistance. These tools should have input from the Bretton Woods Institutions and donors, but be administered and disseminated by independent capacity-building sources, to avoid conflict of interest for partners in the negotiation process of PRGF and PRS-C frameworks” (HIPC Ministerial Declaration (2002), p. 4). DFID has backed these calls cautioning that “the Bank and Fund have an obligation to manage PSIA in a way that reflects PRSP principles, including the promotion of national ownership and a more inclusive policy process” (DFID (2001), p. 3).

Replying, the heads of the IMF and WB stated that they understood “the need for a broader and deeper discussion with all stakeholders of macroeconomic frameworks and policies, including on current policy choices and trade-offs. A concerted international effort will be required to assist the countries in undertaking more systematic PSIAs of major policies. The World Bank and Fund in cooperation with other partners are committed to help provide the necessary technical and financial support” (Koehler and Wolfensohn (2002), p. 2). This raises important questions of who will fund, commission and carry out this work, but implies that the WB and IMF have accepted in principle the need for it to be done independently, not by themselves.

Some authors have argued that although it is important for the WB to refrain from conducting all the analysis and allowing governments to take the lead, there is some concern that the IFIs might try to distance themselves from independently-produced research findings (Oxfam International et al. (2001)). It is proposed that PSIA be carried out by teams involving the WB, IMF, the government and civil society representatives (WWF (2000)).

It is also not clear who will be considered key stakeholders in the PSIA process and whether consultation will occur both at the stage of considering what research to commission and at the stage of agreeing research conclusions and possible policy responses (World Bank and IMF (2002)). Nor is it

Appendix 2: Poverty and Social Impact Analysis

clear whether all such studies will be made public. The IFIs support publication, in general, but accept government arguments that reports should not be published if they contain particularly sensitive information (World Bank (2002d)).

Appendix 3: WB and IMF Approaches to Trade in PRSPs

	IFI preferred policy	IFI non-preferred policy
<i>Broad Measures</i>		
Trade stance	Economy-wide, multilateral trade liberalisation (tariffication of non-tariff barriers in the first instance). Liberalisation supported by: stable macroeconomic environment and competitive exchange rate. Introduction of alternative broad-based and non-discriminatory revenue sources if trade reform likely to adversely affect revenue.	Regional integration agreements: trade diversion and terms of trade loss. Import substitution with export promotion: difficulty with administering EPZs and duty drawback schemes effectively.
Tariff structures	Uniformity to reduce scope for tariff escalation and improve efficiency of customs.	Non-uniformity: increases gains for industries lobbying for higher tariffs and complicates customs procedures.
Safeguards	Temporary, non-discriminatory measures.	Antidumping duties: easily captured by domestic pressure groups.
Export measures		Export taxes: results in lower prices of output.
Trade facilitation measures	Transparent customs procedures, improved access to credit, proportional standards, effective infrastructure, marketing and distribution; efficient trade support services.	Anti-competitive cargo reservation schemes.
Labour markets	Where flexibility is low deregulate.	
Safety nets	Temporary welfare and workfare programs; assistance with diversification.	Subsidies.
<i>Sector-Specific Measures</i>		
Manufacturing	Competition policy: to ensure liberalisation reduces prices for poor consumers.	
Services	Competition and promotion of foreign direct investment especially in transport, education, communications and finance.	
Agriculture	Remove tariffs on input imports and taxes on output exports; encourage diversification.	Use of export and import controls, government parastatals, and marketing boards to control price fluctuations.

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