

**PRIVATE SECTOR ASSESSMENT  
UPPER VOLTA**

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**Ronco Consulting Corporation  
1629 K St. N.W.  
Suite 401  
Washington, D.C. 20006**

**September 1983**

PRIVATE SECTOR ASSESSMENT

UPPER VOLTA

Prepared by:

Ronco Consulting Corporation:

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David P. Harmon, Jr., Team Leader,  
Macro-Economy  
Aboudou K. Adjibade, Business Law  
Andrew D. Cao, Money and Banking  
Robert L. Garland, Business Law  
R. Axel Magnuson, Marketing  
Maurice Samaan, Management

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Pragma Corporation:

Christopher A. Mock, Agri-Business

## LIST OF ACRONYMS

|                 |   |
|-----------------|---|
| ADS             | Agricultural Development Support Project                        |
| AID             | Agency for International Development                            |
| ARCOMA          | Atelier Regional de Construction de<br>Materiel Agricole        |
| RATA            | (Shoes)   |
| BEI             | Banque Europeene d'Investissement                               |
| BND             | Banque Nationale de Developpement                               |
| BRAVOLTA        | Brasserie de Haute Volta  |
| CARVOLT         | Cartoucherie Voltaique  |
| CCCE            | Caisse Centrale de Cooperation Economique                       |
| CDI             | Centre pour le Developpement Industriel                         |
| CEAO            | Communaute Economique de l'Afrique de<br>l'Ouest                |
| CILSS           | Comite Interetat pour la Lutte Contre la<br>Secheresse Au Sahel |
| CITEC (SH. SHV) | Societe des Huiles et Savons de Haute<br>Volta                  |
| CNCA            | Caisse Nationale de Credit Agricole                             |
| CNPAR           | Centre National de Perfectionnement des<br>Artisans Ruraux      |
| CSPPA           | Caisse de Stabilisation des Prix des<br>Produits Agricoles      |
| DAAF            | Direction des Affaires Administratives<br>et Financieres        |
| DCG             | Direction du Controle de Gestion                                |
| FAC             | Fonds d'Aide et Cooperation                                     |
| FAO             | Food and Agriculture Organization                               |
| FDR             | Fonds de Developpement Rural                                    |
| FED (CCE)       | Fonds Europeen de Developpement                                 |
| GMV             | Grands Moulins Voltaiques                                       |
| GOUV            | Government of Upper Volta                                       |
| IFC             | International Finance Corporation                               |
| ITT             | International Telephone and Telegraph<br>Corporation            |
| IVOLCY          | Industrie Voltaique du Cycle et<br>Cyclomoteur                  |
| MAVOCI          | Manufacture Voltaique de Cigarettes                             |
| MRD             | Ministry of Rural Development                                   |

|          |  |
|----------|--|
| OFNACER  | Office National des Cereales   |
| ONAC     | Office National de Commerce Exterieur                                    |
| ONERA    | Office National de l'Exploitation des<br>Ressources Animales             |
| OPEV     | Office de Promotion de l'Entreprise<br>Voltaique                         |
| ORD      | Organisme Regional de Developpement                                      |
| PFP      | Partnership for Productivity   |
| RAN      | Regie Abidjan - Niger  |
| SAP      | Societe Africaine de Pneumatique   |
| SAVANA   | (Societe de Transformation des Fruits et<br>Legumes)                     |
| SERAGRI  | Societe d'Etudes et de Realisations<br>Agricoles                         |
| S.I.B.B. | Societe Industrielle de Biscuits et<br>Bonbons                           |
| SOBA     | Societe Barro  |
| SOFITEX  | Societe Voltaique des Fibres & Textiles                                  |
| SOREMI   | Societe de Recherche et d'Exploitation<br>Miniere                        |
| SOSUHV   | Societe Sucriere de Haute Volta  |
| SOVICA   | Societe Voltaique d'Intervention et de<br>Cooperation avec l'Agriculture |
| SOVOBRA  | Societe Voltaique de Brasserie   |
| SOVOLCOM | Societe Voltaique de Commercialisation                                   |
| SWID     | Strengthening Women's Role in Development                                |
| SVTR     | Societe Voltaique de Transports Routiers                                 |
| TCA      | Tax sur le chiffre d'affaire   |
| TWIS     | Training Women in the Sahel  |
| UNIDO    | United Nations Industrial Development<br>Organization                    |
| URCOMAYA | Union Regionale pour le Commercialisation<br>Maraichere de Yatenga       |
| UV       | Upper Volta  |
| UVOCAM   | Union Voltaique des Cooperatives<br>Agricoles et Maraicheres             |
| VOLTELEC | Societe Voltaique d'Electricite  |
| VOLTEX   | Societe Voltaique de Textiles  |

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## I. EXECUTIVE SUMMARY

This assessment of Upper Volta's private sector had five objectives: (1) to evaluate the current business climate, (2) to identify the constraints facing the private sector, (3) to make recommendations for alleviating the constraints, (4) to recommend a course of action for AID to use in discussing policy changes and improvements with the GOUV; and (5) to suggest courses of action by the GOUV and AID to promote private sector development.

In its assessment, the team found that despite existing constraints Upper Volta's private sector is fairly resilient, and in some sectors even vibrant. For a country touted as one of the world's poorest, Upper Volta's private sector demonstrates that it has potential to grow if the constraints are removed.

The assessment team found three principal areas which constrain the development of the private sector:

- The business community suffers from a near total unfamiliarity with modern marketing, both in concept and in techniques. The unfamiliarity spans the gamut of market research to product promotion and consumer feedback. The GOUV, for its part, does not fully appreciate the driving force of markets as well as their importance to the success of business and concomitantly to the economy.

- The lack of access to credit for the small and medium sized businessman. A multitude of administrative obstacles and a perceived adversarial climate between potential borrowers and the banks has resulted in a banking system which is not particularly responsive to small and medium sized borrowers' needs and problems.

- Government policies, especially in the areas of price and profit margin controls. These controls stifle businesses' ability to seize market opportunities, to compete with one another via prices, to expand, and to develop new products and processes.

The assessment team has made a series of recommendations to alleviate the constraints, to assist USAID in a policy dialogue with the GOUV, and to assist both USAID and the GOUV in the selection of courses of action which will help promote the development of the private sector.

- The establishment of advanced training programs in marketing, management and other business functions. The institution of direct business assistance programs for Voltan companies via U.S. industry associations and "sister" company relationships.

- The provision of training to the Voltan banks to strengthen their managerial and administrative cadres. The establishment of an independent development fund designed specifically for the smaller entrepreneur.

- The Revision of the Investment Code so that it promotes healthy competition while at the same time providing more revenue earlier for the government. The gradual easing of price and margin controls and import duties.

A private sector policy dialogue between USAID and the GOUV should include the current marketing, credit and policy constraints. The assessment team has recommended that USAID start with the question of markets and marketing. Because this question is essentially neutral (not politically sensitive) it is the most favorable point of entry for policy discussions. GOUV understanding of the importance of the domestic and neighboring country markets to the Voltan economy then sets the stage for the more sensitive issues of resolving the credit situation and easing the price and margin controls.

Finally, the assessment team addressed the question of what productive courses of action should be followed to enhance the development of the private sector. Where feasible, the recommendations were linked to proposed activities in the Agricultural Development Support Program.

- Develop a private sector growth strategy from the perspective of the entire "foodchain," on the grounds that many more opportunities will become evident and that scarce resources can be more effectively put to use.

- Emphasize growing internal urban and neighboring country markets - especially that of the Ivory Coast.

- Rely on the private sector (Voltan and U.S.) to help implement the nutrition/food technology component of the Agricultural Development Support Program.

- Complementary to the strengthening of the Ministry of Rural Development planning and programming ability, develop managerial skills within the Voltan private sector through in-country training programs, training in the U.S., and through the establishment of management information and control systems in key enterprises.

- Strengthen the Chamber of Commerce in its business communications function and make it the catalyst for change in the business climate.

If the assessment team recommendations are carried out, and if the appropriate private sector development strategies are adopted, the Voltan private sector can capitalize on the "business infrastructure" that is already in place and on the markets that do and will exist. An improved business climate can only be conducive to the success of the private sector itself and to the contribution it will make to the Voltan economy.

## II. INTRODUCTION

### A. Background for the Assessment

The Upper Volta private sector assessment is in response to the GOJV's desire to promote economic growth through increasing involvement of the Voltan private sector. The assessment coincides with AID's interest in assisting African countries to create conditions conducive to effective operations of the indigenous private sector.

This assessment links up with AID's Upper Volta Agricultural Development Support (ADS) project, directly and indirectly. It ties in directly to the technical and managerial skills training, as well as to elements of the effort vis-a-vis the Ministry of Rural Development's Food and Food Technology Service. In both areas, and especially in that of nutrition and food technology, private sector activities can be primary in insuring early success of these ADS activities.

Indirectly, this assessment should help the Ministry of Rural Development in its policy, planning and programming activities in connection with infrastructure development, input marketing, exports of agricultural and food products and the extensions of technological packages. The linkages are described in detail in Section VII, Recommendations to Promote Private Enterprise Development.

B. Objective of the Assessment

The assessment of Upper Volta's private sector has several objectives. The first is to provide a detailed profile of the country's private economic activities and its overall business climate. This assessment also addresses the principal constraints to the private sector's effective functioning and elaborates on the private sector's growth potential. To the extent possible, this assessment makes recommendations both to alleviate constraints on the private sector and to promote the development of private enterprise. Finally, the assessment seeks to assist both USAID and the GOUV in the conduct of policy discussions on courses of action/strategies intended to enhance the development of Upper Volta's private sector.

### III. METHODOLOGY

#### A. Planning and Orientation

Exposure to the private sector assessment began in January 1983 with AID/W and USAID/Ouagadougou officials in Washington. In early April, a second meeting was held with AID/W officials to further define the scope of the assessment. Two weeks prior to the team's departure from Washington, three team members had orientation and data gathering meetings with AID/W\*, State Department and World Bank officials. In addition, discussions were held with the African American Labor Center in Washington on Voltan labor conditions.

The Ronco assessment team met in the firm's Washington office to review the required scope of work and reporting schedule, discuss the methodological framework established by USAID/Ouagadougou, and develop a work schedule therefrom.

Three days after arrival in Ouagadougou (a weekend, local holiday and demonstrations intervened), the team met with the USAID Mission Director, officials of the Ouagadougou Chamber of Commerce and the Voltan counterparts. In this session, the objectives of the assessment and means of attaining them were discussed, as well as the division of the entire Voltan-American team into mini-teams according to area of expertise, e.g., marketing, management, etc. The mini-teams were constituted in order to work effectively over the six week period of the assessment.

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\*Recommendations were made to AID/W to help focus the scope of work on key areas of interest to both USAID and the GOUV. The recommendations were in line with the suggestions for U.S. assistance voiced by the Minister of Foreign Affairs of Upper Volta during his mid-May 1983 visit to Washington.

## B. Data Collection

Three methods of data collection were used.

- examination of documents
- personal interviews with appropriate GOUV and donor officials, businessmen and associations of businessmen
- on site observation of business activities, i.e., plant visits, field visits (agricultural activities)

Throughout the work period, documents were provided by USAID, The American Embassy, by the four cooperating ministries, the various banks and by other donor agencies.

Semi-formal interviews and meetings were held with individual entrepreneurs and business managers as well as with various associations of businessmen. The interviews and meetings were structured to the extent that they gave the individuals and associations the rationale and objectives of the assessment, but allowed for frank discussion of all problems they face and latitude for exploration of possible solutions.

The bulk of the business interviews/meetings were held in Bobo Dioulasso and Banfora because the important industries of Upper Volta are concentrated in these two areas. A side trip to Orodara was taken since Orodara is the center for much of the country's fruit production (mangoes, papaya and citrus). The problems encountered by the growers and merchants of

Orodara are symptomatic of those encountered throughout the country - e.g., inadequate infrastructure, lack of market communications, no clear understanding of size and potential of domestic and foreign markets, and the usual expressed problem of timely credit availability.

On-site observation of particular business operations were conducted, e.g., BRAVOLTA, Grands Moulins Voltaïques, SOSUHV, SAP, CITEC and others. Additional visits were paid to businessmen in Ouagadougou throughout the latter three weeks of the assessment. At the same time information was gathered from various ministries, parastatals, and donors. For trips to Voltan towns, other than Ouagadougou, trip reports by each American team member are attached to this report.

### C. Synthesis and Write-Up

Data, impressions, tentative conclusions, and potential recommendations were discussed with each mini-team and within the Voltan-American team as a whole. These discussions were held in order to achieve a consensus, to increase the reliability of each mini-team's evaluation and analysis, and to avoid gross error. The overall evaluation took place within the context of the assessment team's scope of work.

The overall assessment draws heavily upon the findings and recommendations of the mini-teams. Descriptive material on substantive subject areas and detail on constraints, potentials, field research and recommendations may be found in the individual reports.

Each American team member took primary responsibility for drafting his own report according to his scope of work, speciality, and field work carried out. Each team member reviewed and commented on the work of the others. These individual reports will appear as annexes to the final report.

Midway through the assessment, the team met with the Mission Director, and other USAID officials concerned with the project, to brief them on initial findings and progress to date on the assessment. Meetings were also held with the Charge d'Affaires and the Economic Officer of the American Embassy to inform them of findings and progress.

One week before the conclusion of the assessment a first phase draft report was given to the Mission. On June 30, a draft final report, incorporating recommendations for the conduct of a policy dialogue and for courses of action to promote the development of the private sector was given to the Mission.

At the end of the work period, an exit conference was held with the Mission Deputy Director and other USAID officials at which time a final draft report was presented. An oral presentation of findings and recommendations was made and Mission comments were solicited and received. These comments have been incorporated in the final report. The final report was completed in Washington after review by individual team members, by AID/W officials, and USAID/Ouagadougou officials, was translated into French, and was submitted to AID/W for appropriate distribution.

#### IV. THE PRIVATE SECTOR

##### A. Introduction

Upper Volta's private sector, in its broadest definition, has three distinct segments. First, rural families/individuals who farm and herd, and who make up the bulk of the private sector both in absolute numbers and in contribution to Upper Volta's gross domestic product.

The second segment is comprised of 200,000 small, individual entrepreneurs who constitute the so-called traditional or informal sector. They are principally located in the urban and rural town areas, and little economic/business data for them are available. They are, however, an important segment of the private sector, not only because they are in large part responsible for much of the commercialization of the products of the formal industrial sector, but also because they represent a "crucible" for potential larger entrepreneurship. Messrs. Kanazoe and Barro are the country's two prime examples of large entrepreneurs born in that crucible. This segment of the private sector certainly deserves study in order to determine its dimensions, wherein its vitality lies, and how best its potential can be tapped.

The third segment is the formal industrial sector, made up in large part of food and agriculture related companies, both private and parastatal. This segment was the primary object of study of the private sector assessment team. It is the key segment of the private sector because its products and

business requirements fuel the informal part of the private sector and because it represents an important lever for the continued development of the agricultural sector. It is also key because it represents the most rapid and vital means of developing markets, both internal and external. It can give Upper Volta the most rapid access to increased exports, to technology, to increased moneyed employment (both directly and secondarily in the other segments of the private sector), and can be an important well-spring of human capital.

The formal part of the private sector was examined for the constraints blocking its development and for the resolution of the constraints. It was also examined for its potential and how best to actualize this potential.

The following parts of Section IV examine the aforementioned areas and conclude with policy, strategic and specific recommendations.

#### B. The Macro-Economic Policy Setting.

##### Findings

Based on pertinent World Bank and USAID studies, discussions with GOUV officials, top management of Upper Volta's Chamber of Commerce and leading Voltan and expatriate businessmen, our conclusion is that Upper Volta's macro-economic policies have not been a severe hindrance to growth or to the private sector. This conclusion is borne out by the following:

- relative to many other sub-Saharan countries, and considering the climatological and technical constraints she faces, Upper Volta has had a fairly respectable economic growth rate over the past decade.
- Upper Volta has largely achieved her objectives of self-sufficiency in food grain production (for most years) and food security to cover years of poor production.
- the GOUV has had a very limited role in the domestic marketing of coarse grains. In fact, her intervention to purchase sparingly in surplus areas has had the effect of maintaining producer prices without cutting into private trading activities. Domestically, prices of most agricultural products are determined by supply and demand.
- For both agricultural and animal production, prices paid rose faster than inflation.
- Price controls are imposed on a very few key consumer items, e.g., sugar, flour, cooking oil. Price and profit margin controls are imposed only on those companies which avail themselves of the protection of the National Investment Code.
- The State is little involved in the agriculture of the country save for sugar, shea nuts, cotton and tobacco. Thus, most GOUV support to the agricultural sector directly or indirectly benefits the private sector (broadly defined).

- Parastatals were created to undertake certain economic/social tasks for which it was felt there was insufficient private interest/capital in the beginning. These organizations, with initial funding by the GOUV, were to be magnets for private capital and donor assistance. The GOUV foresaw that in time its role (and participation) would diminish or would be eliminated as these activities became successful.
- GOUV policy in the food grain area appears to be moving toward increased private sector activities with its support of Village pre-cooperatives to help solve the lack of access to credit and the support of the privately-owned cereal banks.
- With respect to its Balance of Payments in the short term, the GOUV has little choice but to concentrate on the export side of its Balance of Payments equation to remedy the imbalance. The import side of the equation in the short term is effectively limited on the top side by foreign aid and worker foreign remittance flows. Decreases in foreign assistance, which may happen, will automatically decrease the upper limit of imports. It is unlikely that the GOUV wants to decrease the amount of foreign assistance it receives. Short term policies which would reduce foreign remittances would concomitantly reduce investment and economic growth - an obviously unwise choice. Petroleum

product imports are cited as one area in which reduction would have a significant, positive impact on the Balance of Payments. Restricting the flow of petroleum products, however, is not consonant with measures necessary to get the economy moving. It is only in the long term, that the import side of the equation can be affected through actions which lead to import substitution. Thus, the GOUV support of the export sector is the only choice available, one which has positive Balance of Payments effects, positive employment effects, potential positive fiscal effects, and, most importantly, one which draws the private sector fully into the development process.

There are certain facets of the macro-economic policy setting, that are not encouraging. These aspects of the setting will require certain policy changes and will force the GOUV to rely more on the private sector if economic development is to proceed. The weaknesses in the macro-economic policy setting are:

- The deficit in the national budget and the losses borne by the parastatals\* have risen to the point that corrective measures must be taken in order that these losses not spill over into other sectors of the economy.

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\* The debt service of all parastatals as a group equalled 53% of all public debt service in 1981.

- It is generally accepted that the GOUV's foreign assistance objective has been to maximize, rather than optimize, and that its planning and financial management of public investment must be improved. The worsening and more stringent climate for foreign aid in general will require that the GOUV do better planning for allocation of, and controlling of a lower amount of donor-financed public investment. Thus, the private sector will perforce be called upon to take up the slack to avoid an increasingly strained financial situation in the future.
- Increasing recurrent costs of foreign assistance and little prior attention paid to priorities and absorptive capacity means the GOUV must evaluate all future assistance with great care, and must consider how the private sector can fit into developmental undertakings, totally or partially. The private sector can relieve the public sector of much of the burden of recurrent costs, because those costs will become the normal costs of doing business for the private sector.
- The present fiscal revenue base is small and currently any expansion possibilities are limited. A growing private sector, however, will present the opportunity to enlarge the base.

- Because defense and educational services account for an increasing proportion of budgetary resources, rural development becomes increasingly hampered - thus justifying a greater participation of the private sector.
- As yet, the GOUV has not formally proposed a definite plan to integrate the private sector into the development process.
- Upper Volta, because of its small size, its small domestic economy, and inherent economic weakness, cannot influence the structure of prices of imported goods nor of its few export products.

From the foregoing it is evident that the GOUV must develop a comprehensive, consistent plan of development which integrates national, regional and sectoral policies and actions. It must also decide what role the private sector is to play in the country's development, and take the necessary steps to enlist the private sector in that development. Because Upper Volta is not burdened by serious, irreversible policy errors, it can, if it chooses, follow a directed, more effective strategy of development.

#### The Business Climate.

Potentially, the business climate in Upper Volta could be extremely favorable. First, the GOUV's overall policy has been one of non-intervention in what are inherently private sector activities. There are a few exceptions, viz: certain

export traded goods, a small amount of domestic coarse grains, and to an extent, the marketing of some agricultural inputs. Specific policies such as adherence to price and margin controls for companies availing themselves of "privileged regimes" has perhaps caused more actual intervention than has the overall GOUV policy.

Second, the country has a relatively good business infrastructure with the notable exception of marketing expertise and market/producer communications. The road system is improving; there is truck, rail and air transportation; there are moderately well developed flows of product from farmer's field to transformation processes to the ultimate consumer. Gaps in these flows of product do exist and they are one of the topics of this report.

Third, with economic development there are growing domestic and foreign markets for Voltan products and services. The Ivory Coast, with a gross domestic product per capita five to six times that of Upper Volta, represents a powerful economic force which, if properly researched, planned and exploited, can have significant positive effects on the Voltan economy.

Fourth, her geographic location coupled with her improving road network puts her astride the routes to the Ivory Coast and Togo for Malian and Nigerien business. Development of the southwestern corner of Upper Volta could draw business from the northern tier of the Ivory Coast and more business from Bamako.

Finally, Voltans exhibit entrepreneurial qualities. This is an intangible, but extremely important asset for the country and for securing and maintaining a favorable business climate.

Unfortunately, much business activity has been and is stagnant. Also there is a malaise felt by the business community, brought on in part by the poor world economic conditions of the recent past, and in part by the frequent changes in the Voltan government.

Following are the principal reported general effects of the current business stagnation:

- Little expansion of activities by business
- No growth in export receipts
- Decrease in general purchasing power
- Increase in number of business bankruptcies and bank foreclosures
- General decrease in sales
- Returns on investments becoming negative
- Increasing cash flow problems

Specific effects\* of this stagnation are:

- 75% of industrial concerns reporting are operating at less than 60% of design capacity.

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\*"Memoire sur la Situation des Entreprises Voltaïques," Chambre de Commerce de l'Industrie et de l'Artisanat de Haute Volta, Avril, 1983

- Many small and medium sized business have "temporarily" ceased production.
- Accounts payable of some public service companies have now stretched out to 1-2 years.
- Many businesses report having to extend increasing amounts and easier terms of credit to customers just to keep operating. Receivables therefore are increasing, further aggravating already severe cash flow problems.

The problem is that businessmen, by their very nature, are not well equipped to deal with prolonged periods of uncertainty. The Voltan businessmen as well as the expatriate manager have adopted a "wait and see" attitude with the usual negative effects on expansion, diversification and market development.

Unfortunately, the Voltan businessman does not have a good appreciation of the macro-economic policy setting or of its many positive points. What he sees, or feels, are "policies" which from his standpoint are far from optimal. In fact, what he understands to be policies, he views as a hindrance to the conduct of day-to-day business and as an obstacle to undertaking new activities. In fact, he often wonders whether he is taken into consideration as an economic actor, and factor, in the establishment of what he understands to be policy.

He feels the squeeze of import duties, price and profit margin controls. He feels that the application of the National Investment Code often results in inequities, and nowhere is the smaller businessman's concern more evident and his complaints more vociferous than in the question of access to credit - or - better - lack of access to credit. A thicket of administrative obstacles, potential penalties and lack of assistance (due largely to lack of in-bank expertise) greet him when he contemplates taking out a loan. Moreover, he is very aware and resentful of the fact that enterprises with a large share of government ownership get priority for the available supply of credit.

The Voltan businessman indirectly takes a measure of the blame for the current situation. He readily cites the lack of spirit of cooperation among businessmen and therefrom a lack of structure in the overall business community. He realizes that if the business community is to get relief from the constraints it faces and is to get its wishes heard by the government, it has to organize itself. He also is aware of the role that the private sector can play in the development of his country.

While it is true in an economic sense that policy reform will really pay off only in the longer run, in a business sense reform will bear fruit much earlier as the psychology of "wait and see" and "our hands are tied" changes. Businessmen tend to respond quickly to changes that affect them

advantageously. Of course, the psychology is also, in large part, created by the overall business climate.

The future business climate of Upper Volta will be partly conditioned by the business upturn that should take place in Europe (France) after the U.S. economy becomes healthy. Typically, Europe lags the U.S. in general business conditions. This assumes, of course, that the current upturn in U.S. business conditions continues. Other factors, however, will be more pertinent to a business climate that is conducive to effective operation of the Voltan private sector. The first of these is changes in certain policies and actions to be taken to relieve the many constraints which slow down the effective operation of the private sector. The second is the development and accomplishment of a strategy (or mix of strategies) which capitalize on existing Voltan "assets," on domestic and neighboring markets, and on the entrepreneurial qualities of the Voltan.\* The constraints and potential are discussed in Sections IV C and D of this report. Recommendations to alleviate constraints and to capitalize on potentials are addressed in Sections IV F and H.

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\*See Pauline H. Baker, Obstacles to Private Sector Activities in Africa, Battelle Memorial Institute, Washington, D.C., January, 1983, P. 40 for an excellent description of Voltan entrepreneurial qualities.

C. The Relative Importance of the Private and Public Sectors

The purpose of this section is to show the relative importance of Upper Volta's private sector by broad industrial categories. The principal constraint is that little accurate, up-to-date information exists, and that which does come from what is defined as the modern or industrialized sector. This sector includes some entirely state-owned and run companies, e.g., ONERA, and some companies in which the state is majority owner, e.g., SOFITEX. Thus, the information constraint has the added definitional problem of "what is the private sector?" The definition is further complicated when one understands that a parastatal such as SOVOLCOM (97% state-owned) is run in a strictly businesslike manner on sound business principles and practices, and is in one activity (trading and retailing) that classically belongs to the private sector. A factor which may ease the definitional problem is that the GOUV's stated long term objective in the establishment of many of its parastatals was to eventually see them operating as private entities.

Thus, Table 1, because of the form in which the information is available and the impossibility (and perhaps undesirability) of segregating the information by strict private sector, public sector division, shows the contribution of the modern sector to Upper Volta's gross domestic product.

TABLE 1  
CONTRIBUTION OF THE MODERN  
SECTOR TO GROSS DOMESTIC PRODUCT - 1981

| <u>Activity</u>                           | <u>Gross Domestic Product</u><br><u>(Value added millions CFAF)</u> | <u>Of Which Modern Sector</u><br><u>(Millions CFAF - %)</u> |            |
|---|---|---|------------|
| Agriculture, forestry<br>fishing, hunting | 121,300   | 3508  | 2.9        |
| Manufacturing, mining                     | 34,800  | 14508   | 41.7       |
| Electricity, Gas, Water                   | 3,000   | 2906  | 96.9       |
| Construction                              | 10,300  | 6464  | 62.8       |
| Commerce                                  | 49,500  | 14030   | 28.3       |
| Transportation                            | 20,700  | 1964  | 9.5        |
| Banking                                   | 10,600  | 8322  | 78.5       |
| Other Services                            | 4,200   | 404   | 9.6        |
| Public Administration                     | <u>40,000</u>   | <u>--</u>   | <u>0.0</u> |
| TOTAL                                     | 294,400   | 52106   | 17.7       |

From Table 1, it is evident that the modern sector does not yet play a large role in the country's agriculture. The private sector, broadly defined to include all farmers, of course, plays an almost total role. The manufacturing and commerce activities are the two in which the modern sector has the most significant share.

Also, one can get a sense of the importance of the traditional sectors in the case of agriculture, construction, commerce and transportation by subtracting the contribution of the modern sector from Gross Domestic Product. These activities are typically the province of the individual entrepreneur. Also, subtracting the modern sector of manufacturing from total manufacturing will give a rough estimate of traditional sector manufacturing, because most public manufacturing operations would fall under the aegis of the modern sector.

Table II addresses the questions of employment, income and distribution of investment shares from the standpoint of the modern or industrial sector. Only in the case of the Mechanical and Metals Industry was an adjustment made. Voltelec, the 100% state-owned electric utility, was excluded from the ownership portion of the table, because its inclusion would have skewed the percentages of ownership very heavily in favor of the government. This, it was felt, would have portrayed a false picture of the ownership shares of this industry.

TABLE II  
BREAKDOWN OF OWNERSHIP PATTERNS, EMPLOYMENT  
AND INCOME BY INDUSTRY

| <u>Industry</u>                  | <u>Volcan</u><br><u>Private</u> | <u>Ownership (%)</u>             |  | <u>State</u> | <u>Employment @</u> | <u>Income @</u><br><u>(millions CFAF)</u> |
|----------------------------------|---------------------------------|----------------------------------|--|--------------|---------------------|---|
|                                  |                                 | <u>Foreign</u><br><u>Private</u> |  |              |                     |   |
| Food, Beverage and<br>Tobacco    | 17.2                            | 43.0                             |  | 39.8         | 4001                | 19,279                                    |
| Textile, Leather and<br>Footwear | 8.6                             | 35.5                             |  | 55.9         | 2430                | 15,987                                    |
| Mechanical and<br>Metals         | 44.4                            | 38.3                             |  | 17.3*        | 1461                | 9,782                                     |
| Chemical and<br>Electrical       | 50.4                            | 37.5                             |  | 12.1         | 1011                | 4,572                                     |
| Diverse                          | 77.4                            | 2.4                              |  | 20.2         | 612                 | 1,251                                     |

\* excludes Voltelec. Because of its size, the inclusion of Voltelec would heavily skew the ownership share of this industry toward the State.

@ Most comprehensive employment and income data available from 57 enterprises surveyed in 1979.

Ownership data from Chamber of Commerce 1981 survey (published 1982).

Table II shows that the Food, Beverage and Tobacco industry is the most important industry in terms of income generation and employment. It also shows the effects of the large government percentage of ownership in SOSOHV. The textile, leather and footwear industry ownership is skewed toward the State only because of the inclusion of SOFITEX and VOLTEX, in which the GOUV is a majority shareholder. With the exception of this industry, private ownership predominates, and in the case of the Chemical and Electrical and the Diverse industries, Voltan private ownership predominates. In terms of employment, the industrial sector accounts for approximately 9,500 salaried employees or 18.3% of the country's total (public and private) salaried employees. It is estimated that non-public (private and parastatal) salaried employment amounts to 25,000 people, of which the industrial sector would account for 38%.

It is estimated that the traditional sector (exclusive of agriculture) accounts for some 200,000 individual entrepreneurs and workers. And ownership shares in this sector would be almost totally Voltan private. From this, one gets a picture of industrial, commercial and service sectors which are, in fact, highly private. What is key, however, is to mobilize those lagging elements of the modern industrial sector, because so much of the traditional sector, including agriculture, is dependent on the modern sector's efficient operation for its own success.

D. The Principal Constraints Which Limit Private Enterprise Development

This section addresses the main constraints which inhibit the development of the private sector. Not all of the constraints reside in the public sector. Some of the most restrictive ones are in the domain of the private sector itself, for example, the general lack of effective marketing, market research, product development and product promotion.

In general, the constraints severely hinder the development of the small and medium sized entrepreneur. These businessmen are interested in starting, or expanding, a wide variety of activities, ranging from livestock fattening schemes to mobile cinemas. The team was exposed to many ideas in the numerous interviews with businessmen, both individually and in groups. Their ideas (usually in the form of proposals) were well thought out in concept, from the production side, and were fairly well documented in terms of basics, i.e., photographs, land surveys, plant equipment and capital requirements. Striking was the number of novel ideas which filled existing voids - the "niche" concept. Absent was market data, both current and projected, although they knew (and in most cases were quite correct) that there are markets for their proposed goods and services. They were also extremely aware of the constraints facing them.

The large companies are also affected by these constraints, but because of their size (financial) and/or political importance (with a high level of government participation

in them), they are not as severely hindered as the small firms. Their size gives them easier access to credit and also gives them better in-house capabilities to deal with regulations and other government administrative requirements. Their political (national) importance gives them easier access to government granted concessions and exemptions. The constraints however, do pose serious obstacles to expansion plans and entry into new activities.

The constraints (detailed below) which face the Voltan business community are addressed again in Section IV F, Recommendations for Change/Reform.

1. Legal

The business law and regulations system of Upper Volta is not biased against investment. The system, however, does have distortions in it, and it is applied unevenly. Both these factors help to foster an uncertain business climate and thus cause entrepreneurs to shy away from undertaking activities, and existing businessmen to delay and/or shelve expansion plans and new activities.

The National Investment Code, in its structure and in its application, appears to be the most serious legal constraint to long term development of the private sector. While taxation is covered in detail under Fiscal Policy later in this section, both business taxes and tariffs have Investment Code implications in choice of "privileged regime" treatment by business. Following are the major constraints posed by the legal system.

- The National Investment Code is too liberal in its use, especially in terms of length of tax holidays granted, with resultant loss of tax revenues for the government. This liberality creates not only unfair competitive conditions, but also a counterproductive business attitude in the sense of becoming dependent on the protection offered by the Code. The majority of investors try to invest only under the privileged regimes. Unfair competition often arises from unequal application of privileged regimes for companies in the same line of business.

- The National Investment Code does not clearly establish priorities to give advantages to businesses which will use indigenous resources. The often cited example is a brewery using virtually all imported raw materials enjoying the same advantages as a food producer using only local raw materials.

- The failure of the government to respect the exclusivity of tax and supply advantages it grants to certain business activities - a severe deterrent to any potential investor.

- The National Investment Commission is unwieldy in size, its individual members lack relevant business expertise, and as a result, there are excessively long delays in acting on investment applications.

- The possibility of nationalization as expressed by the Ordinance of October 30, 1975 may, in the eyes of a foreign

investor, reflect a fundamental government policy of intervention in business activities for which no advance precautions are adequate.

## 2. Monetary and Credit Allocation Policies

Constraints in the Money and Banking area fall into two broad categories: those which are structural and hinder long term development and those which are more operational in nature and affect the smaller businessman most. The constraints are many and since money is the life blood of business, entrepreneurs view the banking system as their primary adversary and creator of problems.

It is not a hopeless situation, however. The constraints can be addressed by a combination of policy changes, innovative actions and training. The constraints are presented below in three categories: monetary, credit allocation and other banking problems.

### (a) Monetary

- Preferential interest rates for preferred development sectors and the two-tiered discount rate of the BCEAO system hinder the mobilization of domestic private capital for longer term development purposes.\* Commercial banks concentrate on bankable projects in the "preferred" sectors. The remainder of the demand for preferred sector credit falls to the development banks, e.g., BND, which are weak in management ex-

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\*See "Assisting Small Business in Francophone Africa: The Entente Fund African Enterprises Program," AID Project Impact Evaluation No. 40, Pp. D-2, D-4, D-5. December, 1982.

expertise, physical facilities and number of qualified personnel. The overall effect is to inhibit expansion of credit for higher risk and potentially higher reward areas of the economy.

- The government does not specify priorities to be given (via comparative interest rate spreads or sectoral lending coefficients) to those sectors, businesses and business-related areas that should be developed. Nor does the government state where, when, how and in what amounts credit will be allocated. This ties in with the lack of coordination of public investment which is almost entirely donor-financed.

- There is no systematic ability to raise Voltan capital; the Fonds Voltaïques de Capital des Entreprises exists, but has no infrastructure.

- Businesses must adhere to existing Francophone financial and banking regulations which substantially complicate and raise the cost of procuring commodities from sources outside the franc zone. Also, foreign exchange risk associated with non-Francophone zone credit adds to effective borrowing costs.

- Banks are reluctant to finance import/export activities because of their underdeveloped correspondent relationships within the international banking system, and their own underdeveloped import/export expertise.

- There is no competition among banks for their product (money) - interest rates are fixed. Banks pay less interest for time deposits than they do for passbook savings deposits.

In addition, there is insufficient competition for deposits coupled with lack of communications to potential depositors re yields on savings and time deposits.

(b) Credit Allocation

- Access to credit is the principal problem for the smaller enterprise. Larger enterprises, especially those with large state ownership, tend to get the lion's share of available credit, e.g., as of March, 1981, SOSUHV accounted for 36% of outstanding business credit.

- There is a general lack of long term credit allocation for all sectors, and an increase in short term credit to finance working capital in industrial, service and construction sectors. Banks prefer short term, lower risk lending.

- Government banks have little incentive to allocate credit by using market criteria since profitability is of secondary importance. This is certainly the case in rural credit where low real interest rates are resulting in bank decapitalization.

- No provision is currently made for promotion of labor intensive enterprises, firms producing necessary goods, or for firms producing goods from local raw materials.

- Unreasonable deposits on the value of imports are required (up to 25%) by servicing banks for issuance of letters of credit. Thus, many importers try to bypass the banks by dealing directly with exporters.

- Banks have the following operational problems:
  - little information on credit availability, terms and interest rates is disseminated to potential borrowers
  - inadequate understanding of clients' businesses by bank personnel
  - incorrect criterion (expected sales) on which to base loans.
  - highly unrealistic (excessive) collateral requirements for the smaller borrower
  - long delays in processing loan applications
  - inadequate loan follow-up
  - lack of workout procedures, including technical and managerial assistance, which leads to an increasing rate of loan default and consequent foreclosures
  - banks are often viewed by borrowers as demanding excessive, early repayment - before the borrower has had a chance to generate enough revenue to start repayment.

(c) Other Banking Problems

- There is the general adversarial attitude of entrepreneurs that the government is not doing enough for them and that it is the government and the banks that are responsible for everything that goes wrong in their businesses. Few entrepreneurs have confidence in the banks, especially the BND.

- Smaller firms' accounting is incomplete/imprecise or non-existent because of entrepreneurs' lack of expertise in

accounting methods and/or illiteracy. Thus, loan officers are unable to assess risks of loans and therefore demand excessive collateral to protect themselves.

- The inability of banks to reach remote rural areas due to lack of personnel and high unit operating costs in these areas, and the lack of familiarity of rural people with modern banking requirements/regulations/procedures, and their consequent fear of same.

- Banks audit borrowing enterprises, rather than a disinterested third party. i.e., a CPA firm.

- The difficulty to assess demand for capital because of lack of data on capital formation.

### 3. Administrative

The principal administrative constraints are of two types: policy-derived, and the time and detail involved in obtaining government approval for certain business activities - those entailing privileged regimes, those where prices and margins are controlled and those involving imports and exports.

- Profit margin controls on certain products make it difficult for firms to respond to both market opportunities and competition. Pricing strategies are thus made difficult.

- Profit margin controls coupled with high import tariffs and materials' cost increases have made it impossible for many firms to diversify, integrate or expand at appropriate times.

- Firms are unable to develop business and product plans with any degree of specificity because of the length of time

the government takes to fix profit margins and ex-factory prices after initial pro-forma costs are submitted. In the interim prices rise and profit margins allowed firms effectively diminish, leaving those firms with complex cost structures very vulnerable to a cost/fixed price squeeze. Such is the case of SAP with over 50 imported raw material and semi-finished inputs.

- Price control via profit margin limitations at each point from factory through middlemen to retailers which shrink producer profit margins to the point where creative accounting techniques are required to achieve even close to a reasonable profit. The result is that local manufactured goods using local raw materials end up on the market at prices higher than imported goods subject to customs duties and higher transportation costs. Price and margin controls thus tend to be self defeating and injurious to Voltan business. In addition, price controls are undermined by transborder trading of many consumer products, the quality of which is often better than that of the comparable Voltan product.

- If a firm benefits from a tax convention (regime), its individual products are subject to profit controls. Government price determination is a tedious process with the government, in many cases, sitting on price increase requests as long as possible.

- Moving from relatively simple manufacturing or assembly operations to complex manufacturing is rendered very

difficult, not only because of slow government price determination, but also because for many firms, cost accounting data is of marginal value, as now collected. For example, the prospect of IVOLCY (an assembler of mobylettes) moving into the manufacture of mobylettes (entailing approximately 2,000 parts and 25 separate manufacturing operations) would be ludicrous because of the analyses, paperwork, inaccurate data, and delays that would ensue. The more value-added the final product represents, the more difficult it is for firms to accurately specify costs in Upper Volta. The contradiction in the situation is that it appears that the higher the local value added the less willing the government is to permit higher gross profit margins for individual companies. Cost reduction is hence penalized because margins are also reduced. The foregoing, of course, has a negative impact on new product development, development of new outlets and on product promotion.

- The slow administrative process in securing government approval for new ventures and enterprises hinders the development of the private sector. Government review of proposed private sector activities can take up to two years. Because of these delays, projects are not undertaken because costs increase, market conditions become unfavorable and sources of capital dry up.

- Authorizations for import licenses and permits are often difficult, and sometimes impossible, to obtain particularly if payment for the imported goods is to be made with foreign exchange. Such delays cause disruption of production. There is a "silver lining," however, for some companies. The

more a company can reduce its dependence on numerous imported inputs, the less time and cost are expended in complying with government regulations.

- Excessive delays of the National Investment Commission to act on applications. Some firms end up foregoing reinvestment and expansion because applications take months to be approved.

- Increased animal and meat export activities are hampered by recent increases in Voltan export taxes on sheep and goats, and by the existence of administrative obstacles (police checkpoints, necessity of paying "fees") in the Ivory Coast.

#### 4. Fiscal Policy

The constraints in this area are largely structural. They hurt Upper Volta's ability to generate revenue by acting as a disincentive to business expansion and by encouraging transborder trading of goods. The taxation system also forces the investor (Voltan and foreign) to look to the privileged regimes approved by the National Investment Code. The constraints of the Investment Code are covered earlier in this section, but the taxation system and investment framework are definitely linked, and in a way that is often unfavorable for Voltan development. Following are the principal fiscal constraints:

- Overly liberal (long) tax holidays granted by the National Investment Code, which curtail the limited revenue generating power of the government.

- A complicated tax system inherited from France, which in its totality is a disincentive to business, i.e.,

- Import duties averaging 70% on raw materials
- Tax on net income - 40%
- Tax on gross receipts\* - 18%
- High rate of tax on gross receipts causes high incidence of tax avoidance through non-filing of returns.
- Tax on gross wages - 4% (8% on foreigners)
- Minimum tax on industrial and commercial activities - 1% of gross revenues or 200,000 CFA whichever is higher
- Fixed tax per class of business based on the value of the premises of the business

- The schedule of customs duties is inconsistent with some of the basic principles of economic development. For example, there are cases of imported raw materials being taxed at a higher rate than a finished product made of the same material. One principle of economic development is to keep as much of the value stream of a product in country.

- Overly high rates of import duties which, in conjunction with increasing prices of raw materials, and increased social charges, etc., serve to reduce reasonable profit margins to the point of causing losses. As well, the

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\*after deduction of materials, goods, fuel and utilities used in production.

high rates encourage transborder trading of goods into Upper Volta, which compete unfairly with locally produced goods.

- Application of the Investment Code and current import duty policies can actually encourage capital intensive industries based on imported raw materials. These industries can involve transformation activities for which Upper Volta has no comparative advantage, e.g., batteries. The government then reduces the vigor of the type of business activity by regulation and taxation which produce price distortions, low profit margins, and consequent low product quality which, in turn, promotes imports of better quality products.

#### 5. Management

The constraints in this area apply mainly to the medium and large size firms, as well as to many parastatals. The constraints fall into three broad categories - first, those of formal management structure with effective planning, control and monitoring procedures; second, those of employee performance and training; and third, the absence of rigorous market study and marketing strategies.

- Most firms were found to lack a system of delegation of responsibility, with top management only making most decisions. Below top management levels, management "thinness," both in numbers and quality of personnel, starts to appear.

- Some firms exhibit poor production and financial management.

- Accurate cost (management) accounting systems/data rarely exist. One often finds that operational and financial controls and procedures are less than adequate - the smaller the firm or the more complex the operation. Planning, control and monitoring thus become difficult.

- Very few firms have well-defined lines of authority and job descriptions for both salaried and wage employees.

- Incentive programs to enhance employee performance are poor, although incentives are far greater than those in the public sector.

- Labor laws, "inherited" from the French, which do not allow employers to easily terminate unqualified/poor calibre employees.

- The government sponsored training programs that are offered are not sufficiently tailored to the needs of private enterprises.

- There are very few in-house training programs to develop advanced vocational skills among workers, and there are insufficient funds to execute the required training programs and support services.

- There is a lack of qualified instructors and trainers capable of transferring technology.

- Lack of understanding of need for market studies on the part of management with consequent superficial marketing strategies, research and policies.

Finally, there is the general constraint imposed in large part by the French educational process - that of "vertical

thinking." Vertical thinking views each activity, or a collection of activities (such as agricultural/food production), separately and to its most minute detail, with little regard for the many other activities which may impinge on it, and on which, conversely, it may impinge. It also tends to disregard the necessity for a collection of related activities to be treated as a system of activities. The result is inefficiency of operations, misallocation and placement of resources, and a high opportunity cost to the economy.

#### 6. Marketing

In the domain of the private sector itself, the absence of marketing expertise and a "market mentality" - across the spectrum of basic marketing research to customer service and follow-up - is perhaps the most important constraint of all. It is important because it hinders effective business operation from planning to point-of-sale. The absence of expertise and a market-oriented philosophy of doing business makes it difficult for companies to respond rapidly to opportunities that arise.

Furthermore, marketing today in Upper Volta is largely done in a cottage-industry way - in a highly fragmented product distribution system. Fortunately, relieving this constraint is not an insuperable task. First, the constraint resides principally in the private sector, with government price and margin control policies as accessories. Second, cottage-industry and "let's-produce-because-we-have-it"

mentalities are soon changed by profits. Third, the lifting of this constraint is tied directly to management training.

Following are the various facets of this constraint:

- The failure of small and medium sized, and some larger sized businesses to comprehend that marketing starts long before the product leaves the factory. There is little in-country and in-house market research capability, and consequently products are often not well suited to the ultimate consumer.

- Basic product identification is weak with firms adopting a market-follower strategy producing products for import substitution - the policy sanctioned by the government in the early 1970s. Locally produced and processed food products (SAVANA, UVOCAM) demonstrate this weakness.

- The entire distribution system from producer to consumer (transport, title to goods, financial, promotional and informational) is extremely fragmented with abrupt breaks all along the producer to consumer chain. It too suffers from a cottage-industry mentality. In general\*, the producer does not sell to, communicate with or exchange title to goods with anyone other than a wholesaler. Often the producer sells only ex-factory. Bank credit is used only between producer and wholesaler and even there infrequently. Producers prefer to give small amounts of credit or to deal in cash. As a consequence, stocks are kept at uneconomically low levels, orders

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\*The evident exceptions are BATA and SOVOLCOM.

are placed in uneconomically small batches with the consequences that prices are higher than they should be.

• Two way communication between consumer and producer is in many cases lacking. Producers have few mechanisms to carry out product promotion work and can't sense changes in consumer tastes. The producer has no control over the activities at the point of sale to the ultimate consumer. For example:

- IVOLCY sells to two wholesalers who do some direct sales and provide some after sales-service. The two wholesalers resell the bulk of the mobylettes indiscriminately to smaller wholesalers (demi-grossistes) who, in turn, resell to retailers who cannot necessarily provide warranty service, parts, etc. As a result, IVOLCY can't guarantee a final sales price that will allow them to compete with their Voltan competitor (SAVIC) or with imports.
- SAVANA sells to wholesalers including SOVOLCOM. After sale SAVANA has nothing to do with the product physically, financially, legally or promotionally. They have no mechanism to gain consumer feedback re price, taste, packaging, appearance of product, etc.
- ONERA's largest market for fresh meat is Abidjan. On order it ships fresh meat

to wholesalers in Abidjan and washes its hands of the entire process at the point of shipment. No market information is gleaned re retail prices, types of outlets, growth in demand nor of the price of competing Brazilian and Argentinian meat products. Voltan exports are stagnant despite the fact that the Ivory Coast imports a growing fraction of its red meat needs each year (1982 - 50%).

- There is a general lack of information on foreign (U.S. especially) sources of supply for raw materials, plant and equipment, technology, service, etc.

#### 7. Infrastructure

For a country so often held up as one of the world's poorest and weakest, Upper Volta has a surprising amount of infrastructure already in place. Needed most are good market communications and rational movement-of-goods systems - so that the country can capitalize on its already existing infrastructure and that of its wealthier coastal neighbors.

Here we use the term infrastructure in a broader sense than normal. An addition to roads, utilities, and transport, it includes "systems" that a businessman would consider to be part of a business infrastructure. We have left out the banking, legal and purely marketing infrastructures because they are covered earlier in this section. The additional parts of

business infrastructure addressed are market communications as a system; effective, efficient systems of moving products to factories and markets; and operating systems to service the customer with repair, spare parts, and service facilities.

- A road network that is in need of expansion and improvement to be able to link effectively urban-urban areas and rural-urban areas. For example:

- The entire Seguenega region could be opened up, and served at lower costs than are experienced currently, by improving and maintaining the national highway from Ouahigouya to Seguenega (about 50 KM) and by building a road from the southwestern end of the Africare project (Seguenega Integrated Rural Development Project) road to Yako.
- The upgrading and paving of the road from Kodjari to Kantchari in the Eastern Region is required if the proposed fertilizer blending plant is to be supplied with phosphate from the mine at Kodjari.

- Truck transportation in general is expensive partly because it is artisanal in nature and partly because there is no rational rate setting procedure such as so much per ton/km. Currently, many rates are based on the transporters perceived value of the cargo and an estimate of what the goods will sell

for in the market of destination. In addition, the transport infrastructure can be described as a semi-anarchy because of the many intermediate steps through which a product, especially an agricultural one, must pass before it reaches the market place.

- Communications from market to producer and vice-versa are in many cases virtually non-existent. There is little concrete information or knowledge of where to obtain such information.

- The merchant community of Orodara informed us that they often load up to 30 trucks with mangoes and other produce for shipment to Niamey - with no orders in hand. They hope there will be buyers when the trucks arrive in Niamey.

- There is a lack of timely, rational produce (vegetables and fruits) gathering and collection systems, a lack of adequate, timely transport to markets and railheads, insufficient cold storage and packaging facilities, and a lack of formal produce grading standards.

- Movement of livestock and meats by rail suffers from inadequate railroad loading and unloading facilities, and an inadequate system of moving sufficient animals to slaughter and thence to refrigerated railroad cars. Reportedly, it can take up to 10 days to load one car.

- Certain organizations are not integrated in normal business functions back to the producer or through to the

consumer. They depend on other organizations for transport, marketing and other functions. URCABO, for example, depends on UVOGAM (its parent) for trucks which are often unavailable. As a result, URCABO, with insufficient funds to buy its own trucks, must rent transportation at considerable expense.

- There are weak to non-existent, national machinery (agricultural, food processing, automotive), spare parts and service networks from producers to users. This will become increasingly critical as more agricultural implements, animal traction, diesel powered mills, pumps etc., surface in the rural areas. Currently, gasoline and diesel motors requiring rebuilding must be sent to Abidjan for work.

- The reportedly poor condition of key secondary road systems imposes a heavy repair burden on truckers, raises freight rates, and is causing an increasing reluctance to service areas/villages along these roads.

- Coupled with the above constraint, the automotive repair network is underdeveloped.

## 8. Agriculture/Agribusiness

Approximately 90% of Upper Volta's population is engaged in agriculture and the country's potential largely lies in the exploitation of agriculture (including livestock\*) for the

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\*The importance of the livestock sector becomes apparent when one considers that the sale of animals is a growing fraction of agricultural revenue, that animals are economic security in times of poor crops, that animals are an important factor in slowing rural migration to urban and foreign areas, that the Ivory Coast is a sufficiently large market to draw the attention of the Brazilians and Argentinians, and that meat becomes more important in one's diet as development proceeds.

foreseeable future. The phrase "exploitation of agriculture" is used in the broadest sense, i.e., the entire length of the food chain, and the entire breadth of the food chain with all of its horizontal linkages - e.g., the bran of imported wheat as animal feed, the potential of mango concentrate for the yet unexplored, untapped Middle Eastern market.

Because agriculture is so important this part of Section IV C deals principally with those constraints pertinent to the farmer.

- The rainfed agriculture sector is undercapitalized and the input supply networks (physical, informational, financial) are inadequate to reach the small farmer. What private marketing "networks" there are only reach out passively to the small farmer, i.e., to the local marketplace, where he can come and buy if he wishes.

- There is a lack of equipment and an inability to finance same in order to clear and develop land.

- Farmers, in many areas, are unable to get timely inputs and services - even if they have cash - because certain of the ORDs are in such precarious financial states that they are unable to obtain inputs, deliver inputs, offer extension services, and to offer seasonal credit.

- There is a general lack of appropriate technical input packages tailored to different crops under different growing conditions.

- The growers of fruits and vegetables, one of the areas of national potential, use little fertilizer, pesticides and

receive little extension information regarding inputs and improved practices.

- Small farmers are atomistic in a market sense and thus individually are not "attractive" as customers to the private sector. Thus, there is a need for organizations such as the groupements villageoises to agglomerate effective demand.

- The use of traditional agricultural practices (e.g., handhoeing) coupled with land tenure-caused fragmentation of holdings limits many farm sizes to one to three hectares. Only 27% of the country's cultivable land is farmed, there is low usage of modern inputs, and only 11% of Voltan farmers use animal traction.

- There are farm labor shortages at key times during the growing season - because of migration of young men off the farm to work in the Ivory Coast.

- The ORDs which are not donor funded are not able to carry farmers on credit over the season (nine months) because the CNCA requires repayment of its loans to the ORDs after three months. Thus, these ORDs cannot offer seasonal credit.

- The extension agent network is understaffed, not highly motivated, and largely overworked on tasks which should not fall in the purview of an extension agent, i.e., ordering of inputs, evaluation of credit applications, delivery of inputs, and follow-up on credit repayment.

- Funding of extension activities is inadequate, which translates into logistics problems, namely, insufficient

vehicles and fuel allowances to make farmer contacts. In addition, extension agents tend to lack motivation because of low salaries, high workload, placement in remote areas, and extension is not considered to be a highly respected profession.

- The absence of linkage between research, extension, and the farmer with the resultant of lack of knowledge of farmers' problems, analysis of those problems, and the development and framing of information and solutions in a form that farmers will understand and be able to use. The same could be said to apply to physical input packages including implements.

- Sufficient numbers of capable personnel who can design communications materials which will effectively reach the illiterate farmers are lacking.

- In the livestock sector, there is not enough emphasis placed on animal production (numbers, carcass weight, breeding), animal husbandry techniques, animals as part of a farming system, and preventive veterinary medicine.

- The lack of available private capital, the limited access to credit for agricultural and agro-industrial activities, and the poor performance of various parastatals have stymied the government's objective of gradually shifting parastatal functions to the private sector.

- Many parastatals tend to suffer from the following:
  - lack of the profit motive which means that efficiency and effectiveness are not stressed.

- knowledge that the government will tolerate and eventually absorb financial losses.
- lack of performance based incentive and reward systems for employees and manager.
- overstaffing and unnecessary use of expatriates which result in high salary burdens; placement of government employees with insufficient expertise as managers.
- all of the foregoing serve as disincentives for hard work and creativity, and usually result in a "why bother" mentality.

- There is a general lack of sufficient, appropriate (size, horsepower, capabilities) tractors and tractor services.

- There is an attitude among many in the donor community that Upper Volta\* must perforce work within its relatively low potential agricultural environment. This attitude surfaces in much of the assistance given, e.g., seed/input packages designed for infertile soils. By contrast, many of the agricultural successes in Asia and Latin America, not to mention the United States come about from a different mentality, i.e.,

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\*In fact, this attitude is fairly widespread in sub-Saharan Africa.

change the physical environment (read, e.g., make the infertile soils fertile) so that it will be receptive to the many agricultural advances available. It is well to remember that, with the exception of three places (the Ukraine, the U.S. corn belt, and parts of Argentina), man everywhere started with poor infertile soils and he bettered these soils.

#### IV. E The Potential for Private Enterprise Development

The potential for private enterprise development certainly exists in many areas of business activity. It also is a potential that will develop rapidly, once the business climate is felt to be conducive to success, and once the necessary infrastructure, expertise and the modalities for the efficient conduct of business are more fully developed.

Full realization of the potential is largely predicated on a government which actively promotes and supports the development of the private sector. This will entail policy modifications and consequent changes in the way of "doing business." One has only to look at the Ivory Coast and Togo to see the results of years of stability and enlightened leadership - at least insofar as the growth of the private sector is concerned. For example, over 100 U.S. companies have local and regional offices in Abidjan covering a broad spectrum of needs of that country - construction equipment, agri-business equipment, consumer products, various services (accounting, banking, legal, etc.). Togo maintains an open door to foreign investment through a liberal foreign investment code and the establishment of a free port area in Lome and industrial zones

in Lome and Lama-Kara. While Togo's small size (as a market - 2.6 million people) currently precludes large scale American investment interest, it nonetheless is a serviceable market from the standpoint of smaller foreign firms as well as indigenous companies.

Part of the potential and opportunities for Upper Volta's private sector development lie in capitalizing on the surrounding markets, particularly that of the Ivory Coast, as well as in capitalizing on those areas in which Upper Volta has, and is likely to continue to have, comparative advantage. This means concentrating on those areas/activities which Upper Volta does best. It also entails a shift in business mentality from one of "let's produce because we've got it, and then try to sell it" (let's move mangoes because reportedly thousands of tons rot per year) to one of being market oriented. If the markets for mangoes do not exist, a rational business decision is to let them rot; an even more rational decision is to replace them with some other agricultural product for which there are markets. After all, in the final analysis, all private sectors/enterprises are driven by the marketplace. No market (either actual or which can be created) - no business.

Examination of Upper Volta's present private sector (parastatals included), its low cost labor, its developing infrastructure and the entrepreneurial bent of its people demonstrates that there is potential for the development of the private sector. In fact, there is sufficient potential that,

in time and with the appropriate policies and actions, the private sector can take an increasing share of activities (e.g., the marketing and distribution of agricultural inputs) currently carried out by the government.

Following are three areas in which a high degree of potential exists as well as a description of Upper Volta's key private and public enterprises.

1. High Potential Private Sector Areas

Looking at the totality of Upper Volta's private sector, one is struck by the "chains" of product flow that already exist, as well as by the gaps in those chains. If one were to adopt a strategy of capitalizing on what Upper Volta already has (i.e., in a broad sense, its business and economic assets) and on what its near-term, high potential markets are (internal and neighboring countries; selected European markets which already exist), and for the long term, on careful exploration of other foreign markets, then the following selected opportunities present themselves along with the key private and public enterprises. Additional high potential areas are covered in Section VII.

a. The Livestock - Feed - Meat Chain

As countries develop, tastes and diets change - away from foodgrains and toward meat and meat products. The Ivory Coast with a per capita income 5-6 times greater than that of Upper Volta and unable to supply half its red meat needs sits waiting. The Brazilians and Argentinians are in the process

of exploiting the Abidjan market (close to 1.8 million inhabitants) with frozen meats. As Upper Volta develops, its diet too will change.

Livestock and the handling of same is nothing new to the Voltan. What is lacking is certain infrastructure - good roads linking the North with the major internal markets, market-producer communications, sufficient trucks to move animals in quantity south, a rational collection system to obviate the many middlemen in the producer to market chain, i.e., the fragmented market distribution system which characterizes Upper Volta, and a common freight rate structure. The key actor here is ONERA - and it seems, the key constraint. Apparently, the organization has little sense of the current and future markets for meat and meat products, ships on order when it can get sufficient meat together, and assumes its function is complete when the meat passes to the wholesaler. It has three refrigerated trucks which stand idle much of the time, and when they do make the trip to the Ivory Coast, they backhaul empty.

This chain also incorporates the question of feed-stuffs. Demand is growing (by how much, no one is sure) as farmers/herders increasingly recognize the benefits of livestock fattening programs. GMV recognizes that demand is growing, but can't satisfy the demand with its wheat bran; CITEC recognizes that demand is growing and has a feed production operation for cattle based on cotton seed cake on the drawing boards - planned for start up in late 1984 or early 1985. Of

course, the assumption is that CITEC will be able to get enough cotton seed to make it feasible.

It is interesting to note that the sources of indigenous feed supply are principally in the Southwest, that corner of the country which abuts the Ivory Coast. It raises the possibility of increased feeding of cattle\* in that area to bring them up to market weight prior to shipment. The principal problem is that the Southwest is within the northern range of the tse-tse fly. It also raises the possibility of fattening N'Dama cattle which are trypan-resistant. In the long term, because of the genetic advances that are coming in the area of livestock and, in particular, animal health, it may happen that genetic resistance to trypanosomiasis will become a reality.

Sheep pose less of a problem. A breakthrough in increasing carcass weight of local sheep came with Africare's successful crossbreeding program in the Seguenega area. Bali-Bali sheep, a desert race larger than local sheep, and adaptive to the region south to Ouagadougou\*\* have been and are currently being crossbred with local sheep. The offspring, when mature, have a carcass weight 20-30% greater than that of local sheep, and for those farmer/herders engaged in the program, it is a money maker. Africare has just started (April

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\*ONERA already has a feed lot in Banfora which handles 600 cattle. Reportedly it could be expanded to handle 3000 cattle.

\*\*i.e., no special actions necessary to prevent respiratory diseases due to greater humidity.

1983) a Bali-Bali reproduction operation at its Seguenega livestock center with the objective of increasing the regional supply of Bali-Bali rams as well as no longer having to truck Bali-Bali sheep from Dori, Gorom-Gorom and neighboring villages to Seguenega (a long, expensive trip).

The problem of respiratory diseases encountered by the Bali-Bali when introduced into more humid climates may have been solved by an entrepreneur in Bobo Dioulasso. According to him the solution is to (1) cut water rations by one-half, (2) not allow the Bali-Bali to feed on local grasses and (3) keep the sheep on prepared feeds - all for a period of one year while the sheep become acclimatized to the southern environment of Upper Volta. It may or may not be this simple, however, it should be looked into. Moreover, there are the questions of timely, ample feed supplies, veterinary services, and appropriate extension activities.

In any event, the internal and neighboring external markets for lamb exist, and are growing. It behooves the GOUV to undertake serious market studies and to make possible the necessary infrastructure (defined very broadly) so that this activity can prosper.

In addition, there is the possibility of corn production - the organization SAMOCO reportedly has 5,000 hectares planned to go into corn production. What is particularly interesting from a market standpoint, is that the feed and vegetable producers and the areas in which corn and soy beans

would probably do best are all in the southwest portion of Upper Volta - which portion adjoins the Ivory Coast.

b. The Fruit and Vegetable Chain

Without going into great detail (the detail already exists), the principal markets (internal, neighboring country and Europe) are recognized. Their size, tastes, niches which may exist, special product opportunities, are still relatively unresearched by Upper Volta. Other markets, e.g., the United States, are still a mystery - but perhaps offer longer term possibilities.

What we have identified earlier as the fragmented distribution system operates here. The prime example of this is the merchants of Orodara loading 30 trucks with mangoes for shipment to Niamey with no firm orders - just hope.

The key potential enterprises are UVOCAM and SAVANA. SAVANA is favorably situated (Bobo Dioulasso) within 80 kilometers of the Orodara growing region (citrus, mangoes, other fruits), and has modern processing equipment. SAVANA's principal problem is its lack of management ability and under capitalization. It operates (when it does) as just a production facility - not as a business. Market research is virtually unknown to SAVANA. It has little knowledge and expertise of how to gain information and approach markets.

An example of this is SAVANA's report that Air Afrique approached them to see if they could package jams in individual portions. Without really examining the market that Air

Afrique (and other possible institutional buyers) would represent, their focus has been on how to raise enough money to buy a packaging machine.

A recent marketing study carried out for SAVANA\* showed a growth market in Europe, and especially Germany, for the juices of tropical fruits. Voltan mango concentrate, at a concentration\*\* higher than any of its competitors (Costa Rica, California and India) rated equal or better in taste and color, and was second in odor. The same report states that the Middle Eastern market for tropical fruit juices is 10 times the size of the European market.

UVOCAM has processing facilities in Ouagadougou to make fruit juices and tomato paste. It exports principally green beans and mangoes to France. It also receives, and distributes/markets vegetables and fruits received from local cooperatives - e.g., URCOMAYA in Ouahigouya for potatoes and other vegetables. Its principal problems are its inability to assure a steady flow of produce onto markets, inability to assure itself of a steady supply of fruit and vegetables for processing, and a quality control problem insofar as the tomato paste operation is concerned.

Thus, it appears that markets do exist, although their magnitudes are unknown at this moment. It also appears that

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\*Le Centre de Mangues, Le Marche en Europe de l'Ouest, ivo, Development Research Institute, Universite de Tilburg, juillet 1982.

\*\*At high concentrations, color, odor and taste can deteriorate because of the degree of heating required. Voltan mango concentrate did not.

much of the business infrastructure is present. What is not yet present is the ability to understand the business requirements in their entirety and the need to operate the businesses rationally and as systems.

c. The Cottonseed - Cooking Oil Chain

CITEC, the principal producer of vegetable oil, reports that its plant is only running at 50% of capacity, and thus is only able to meet about 50% of the measurable urban market demand. This is because of SOFITEX's inability to supply CITEC with sufficient cottonseed, a by-product of SOFITEX's ginning operation. SOFITEX reportedly could double yields on existing land, planted to cotton if sufficient tractors or tractor services, harvesting equipment and more pesticides were available on a timely basis to growers to enable them to take better advantage of the rainy season. In fact, SOFITEX states that increased use of pesticides alone could increase yields by as much as 20%.

CITEC estimates, that if it could operate at close to its design capacity, it could cover the entire cooking oil needs of the urban areas today, and with some plant expansion could cover future needs. CITEC also states that its plant can process soybeans.

CITEC also is tied into the Livestock-Feed-Meat Chain as stated above.

These three examples of high potential business areas are symptomatic of the potential (and the problems) which exist in many quarters of Upper Volta's private sector.

The objective should be to discern what it will take to capitalize on this potential and then for the GOUV, in concert with the private sector and the donor community, to take the appropriate steps.

## 2. Selected Key Enterprises

Following is a table of 37 Voltan enterprises felt to be key for the development of the private sector. These enterprises are key for a variety of reasons - many positive, a few negative. The table was developed to give the reader an idea of the size (as measured by annual revenues) of the enterprises, the division of ownership between private and public holdings, and why these 37 enterprises are considered key.

The enterprises range in size (as measured by annual revenue\*) from a high of \$48.2 million (SOFITEX) to a low of \$303,000 (SAVANA). The importance of the food/agriculture chain is evident in the absolute number (29 of 37) of these key enterprises which are involved, directly or indirectly, in agricultural production, product transformation, or in intermediate operations along the farm to consumer chain.

Examination of ownership patterns of 31\*\* of the enterprises reveal some interesting facets:

- 10 enterprises are totally privately owned.

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\*assumes exchange rate of 300 CFAF/\$U.S.

\*\*OFNACER, OPEV, ONAC, CSPPA and the Chamber of Commerce have specialized roles and have been excluded from the ownership analysis. POINTAIR can only be considered as tangential to Voltan industry and thus is excluded.

- 15 enterprises have greater than 50% private ownership.
- 23 enterprises are in part or totally privately owned.
- 7 enterprises have greater than 50% Voltan private ownership.
- 15 enterprises have greater than 10% Voltan private ownership.
- 16 enterprises have 50% or more government ownership.

Looking at those enterprises for which annual revenue data are available, one finds that the first three in rank order are majority state owned - by reason that these are felt to be essential to the well being of the country. The next five enterprises are either totally or have a majority of private ownership. Those enterprises marked with an asterisk the GOUV considers essential for the country and have more than 50% ownership. Five enterprises have minority government ownership positions and five are completely in private hands.

| <u>NAME</u>          | <u>REVENUE</u><br>(millions CFAF) | <u>OWNERSHIP (%)</u> |           |          |
|----------------------|-----------------------------------|----------------------|-----------|----------|
|                      |                                   | <u>VP</u>            | <u>FP</u> | <u>S</u> |
| SOFITEX*             | 14,452                            | 1                    | 36        | 63       |
| SOSUHV*              | 6,800                             | 0.1                  | 26.1      | 73.8     |
| VOLTELEC*            | 5,197                             | -                    | -         | 100      |
| SOVOBRA              | 4,909                             | 51                   | 49        | -        |
| BRAVOLTA             | 4,300                             | 5                    | 95        | -        |
| Monastere de Kouabri | 4,217                             | -100-                | -         | -        |
| CITEC                | 3,648                             | 17                   | 67        | 16       |
| IVOLCY               | 2,500                             | 4                    | 65        | 31       |
| VOLTEX*              | 2,436                             | 19                   | 25        | 56       |
| SAP                  | 1,886                             | 84                   | 16        | -        |
| MAVOCI               | 1,150                             | 15                   | 85        | -        |
| BATA                 | 679                               | 12                   | 65        | 23       |
| GMV                  | 619                               | 18                   | 57        | 25       |
| CARVOLT*             | 371                               | 30                   | -         | 70       |
| SAVANA               | 91                                | 49                   | -         | 51       |

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\*government expropriation (with compensation) of foreign ownership.

Government ownership shares have changed in the cases of certain enterprises, viz:

|         | <u>1979</u> | <u>1983</u> |                      |
|---------|-------------|-------------|----------------------|
| GMV     | 35.5        | 25          | to the benefit of FP |
| SAVANA  | 89          | 51          | to the benefit of VP |
| SOFITEX | 1           | 63          | at the expense of FP |
| SOVICA  | 37          | 19          | to the benefit of VP |
| VOLTEX  | 62          | 56          | to the benefit of VP |
| CARVOLT | 0           | 70*         | at the expense of FP |

Voltan private ownership shares have changed:

|         | <u>1979</u> | <u>1983</u> |                            |
|---------|-------------|-------------|----------------------------|
| CITEC   | 5           | 17          | at the expense of FP       |
| GMV     | 24.5        | 18          | to the benefit of FP       |
| SAVANA  | 11          | 49          | at the expense of S        |
| VOLTEX  | 2           | 19          | at the expense of FP and S |
| SOFITEX | 0           | 1           | at the expense of FP       |
| SOVICA  | 63          | 81          | at the expense of S        |
| CARVOLT | 100         | 30*         | to the benefit of S        |

The brief look at the key enterprises bears out the fact that the modern private sector plays a large role in the industry of the country. It is only in a certain few areas that the GOUV exercises a majority role. Excluding CARVOLT (a special case) and SOFITEX, government ownership has declined in four enterprises. Voltan private ownership has increased in five enterprises.

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\*government expropriation (with compensation) of foreign ownership.

VP = Voltan private ownership  
 FP = Foreign private ownership  
 S = State ownership

SELECTED KEY ENTERPRISES

| NAME                | PRINCIPAL<br>PRODUCT                           | VP      | OWNERSHIP |      | 1981                        | WHY KEY  |
|---------------------|--|---------|-----------|------|-----------------------------|--|
|                     |  |         | FP        | S    | REVENUE*<br>(millions CFAF) |  |
| SOSU-HV             | Sugar  | 0.1     | 26.1      | 73.8 | 6,800                       | Essential industry; large employer (2500-3000 -- many seasonal); potential source of livestock food supplements.   |
| SOVOBRA             | Beer; bottled soft drinks; ice cream           | 51      | 49        | --   | 4,909                       | Large company with majority Voltan private ownership. Industry helps keep estimated 20,000 bar men and street vendors employed.  |
| BRAVOLTA            | Beer; bottled soft drinks                      | 5       | 95        | --   | 4,300                       | Recent labor union difficulties carry serious, precedent-setting implications for private sector. Indirectly helps keep estimated 20,000 bar men and street vendors employed.  |
| MONASTERE DE KOUBRI | Milk, yogurt                                   | - 100 - |           | --   | 4,217                       | Producer of nutritionally important (complete protein) products.   |
| CITEC               | Vegetable oils; shea nut products              | 17      | 67        | 6    | 3,648                       | Important import substitution; could be important supplier of animal feed stuffs. Constrained by lack of sufficient inputs from SOFITEX to run vegetable oil refinery at capacity; constrained by lack of efficient collection system and CSPPA regulations to become greater exporter of shea nut products. |
| GMV                 | Wheat flour; wheat bran; corn and sorghum meal | 18      | 57        | 25   | 619 (80)                    | Sole importer of wheat; wheat bran important by-product of milling for animal feed. Could fortify wheat flour - require nutritional profiles of population segments.   |
| SAVANA              | Fruit juices; fruit bases; jams                | 49      | -         | 51   | 91 (82)                     | Good example of a company which has technical skills, much of the necessary plant and equipment, but little of the necessary backward and  |

SELECTED KEY ENTERPRISES

| NAME           | PRINCIPAL<br>PRODUCT                   | VP  | OWNERSHIP |     | 1981                        | WHY KEY   |
|----------------|--|-----|-----------|-----|-----------------------------|---|
|                |  |     | FP        | S   | REVENUE*<br>(millions CFAF) |   |
| SAVANA (cont.) |  |     |           |     |                             | forward market linkages, as well as the requisite managerial skills. With the linkages, skills and markets, SAVANA could be an important producer and exporter of high quality products. Voltan private ownership increasing (1979, 11% VP and 89% S).  |
| UVOCAM         | Exports of fresh vegetables and fruits | 100 | -         | -   | N/A                         | Private union of cooperatives. Largest exporter of fresh vegetables (principally green beans) and fruit (principally mangoes). Stores (cold storage) and markets large percentage of potato crop - thus lengthening market availability of potatoes. Imports and distributes input for vegetable farming. Backward and forward linkages need strengthening. Suffers from lack of communications with primary markets. |
| ONERA          | Fresh meat                             | -   | -         | 100 | N/A                         | The only organization equipped to buy and process livestock for exporters as fresh meat. Suffers from lack of backward and forward (supply and markets) integration. Has feed lot at Banfora capable of handling 600 head of cattle. Could be expanded to handle 3000. Developing local feed based formulations for cattle.   |
| OFNACER        | Grain storage                          | -   | -         | 100 | N/A                         | Stocks country's emergency food grain supply; plays price stabilization role via rotation of security stocks of food grains; selectively purchases food grains at remunerative prices to encourage producers to increase production in certain high potential areas.  |

SELECTED KEY ENTERPRISES

| NAME    | PRINCIPAL<br>PRODUCT                    | VP | OWNERSHIP |     | 1981                        | WHY KEY   |
|---------|---|----|-----------|-----|-----------------------------|---|
|         |   |    | FP        | S   | REVENUE*<br>(millions CFAF) |   |
| SOFITEX | Cotton; cotton<br>fiber; cotton<br>seed | 1  | 36        | 63  | 14,452                      | Largest in revenues; produces country's principal export product, has relatively effective input supply network to farmers; with more inputs including tractors could possibly double production - additional cotton seed would allow CITEC to operate at capacity. In 1979 was 99% foreign owned and 1% state owned. |
| VOLTEX  | Textiles                                | 19 | 25        | 56  | 2,436 (80)                  | Country's principal textile manufacturer; having severe management problems; operating at well below capacity.  |
| MAVOCI  | Cigarettes                              | 15 | 85        | -   | 1,150 (82)                  | Has relatively efficient physical and informational input supply system to farmers; buys tobacco on contract from farmers.  |
| SOVICA  | Agricultural<br>implements              | 81 | -         | 19  | 292 (79)                    | Voltan private ownership grew from 63% in 1982 to 81% in 1983. Is a price-follower of ARCOMA.   |
| ARCOMA  | Agricultural<br>implements              | -  | -         | 100 | N/A                         | Principal producer of agricultural implements. Severe operating/management problems with attendant high costs.  |
| APICOMA | Agricultural<br>implements              | -  | -         | 100 | N/A                         | Reportedly able to produce agricultural implements at 40% less cost than ARCOMA.  |
| CNPAR   | Agricultural<br>implements              | -  | -         | 100 | N/A                         | Mainly a training school for rural and urban artisans, and with limited donor support, and little equipment is producing plows at one-half the cost of ARCOMA.  |
| RAN     | Rail transport                          | -  | -         | 50* | N/A                         | *Owned jointly with Ivory Coast; important transportation link to burgeoning market; losing money since 1977.   |

SELECTED KEY ENTERPRISES

| NAME        | PRINCIPAL<br>PRODUCT           | VP | OWNERSHIP |       | 1981                        | WHY KEY  |
|-------------|--------------------------------|----|-----------|-------|-----------------------------|--|
|             |                                |    | FP        | S     | REVENUE*<br>(millions CFAF) |  |
| AIR AFRIQUE | Air transport                  | -  | 27        | 7.5** | N/A                         | **Owned jointly by 10 African states and SODETRAF (50% Air France and 50% UTA); has virtual air freight monopoly.  |
| POINT AIR   | Air transport                  | -  | 100       | -     | N/A                         | Competitor of Air Afrique for certain portion of passenger market.   |
| OPEV        | Training; business development | -  | -         | 100   | N/A                         | Designed to promote and provide technical assistance to small and medium sized Voltan enterprises. Little concentration on market questions - heavy emphasis on production.  |
| ONAC        | Export promotion               | -  | -         | 100   | N/A                         | Supposed to identify exportable products and help Voltan firms develop products/export markets.  |
| BATA        | Shoes, footwear                | 12 | 65        | 23    | 679 (79)                    | Has a network of franchised direct retail sales outlets (unique in Upper Volta). Good identification of consumer tastes, and operative system of consumer information feedback.  |
| SOVOLCOM    | Trading company retailer       | 3  |           | 97    | N/A                         | Largest single importer of basic necessities, largest single network of commercial outlets for many consumer goods; price leader for many basic products; reportedly, the only parastatal run on sound business principles and practices; has sales reporting and ordering system, and is in close touch with its markets. |
| SAP         | Bicycle tires                  | 84 | 16        | -     | 1,886 (79)                  | Has a complete, sound management structure. Could be model for other companies/parastatals. Majority Voltan private ownership.   |

SELECTED KEY ENTERPRISES

| NAME         | PRINCIPAL<br>PRODUCT           | VP  | OWNERSHIP |     | 1981                        | WHY KEY   |
|--------------|--------------------------------|-----|-----------|-----|-----------------------------|---|
|              |                                |     | FP        | S   | REVENUE*<br>(millions CFAF) |   |
| SOBA         | Transporta-<br>tion commerce   | 100 | -         | -   | N/A                         | Owned and operated by innovative entrepreneur; other businesses include foam rubber products, and proposed vegetable oil refinery.  |
| ETS. KANAZOE | Construction,<br>transport     | 100 | -         | -   | N/A                         | Largest single employer in the private sector. Employes 3,000+ people or 6% of the entire salaried work force in Upper Volta. Direct ownership tie-in with SERAGRI.   |
| SERAGRI      | Agribusiness/<br>Food projects | 100 | -         | -   | N/A                         | Owned and operated by highly innovative entrepreneurs. Proposed ethyl alcohol, soy milk and goose liver projects tie in directly to Upper Volta's economic needs: better nutrition, employment, export revenues and petroleum substitution. |
| IVOLCY       | Bicycles,<br>mobylettes        | 4   | 65        | 31  | 2,500 (82)                  | Good example of a company hamstrung by the fragmented market distribution system.   |
| CARVOLT      | Munitions                      | 30  | -         | 70  | 371 (79)                    | GOUV expropriation of 70% ownership, even with compensation to former foreign private owners possibly set dangerous precedent in eyes of potential foreign investors.   |
| SVTR         | Transportation                 | -9  | 3-        | 7   | N/A                         | Transports petroleum products into and through-out country. Only member of transportation industry whose freight rates are regulated.   |
| VOLTELEC     | Electricity                    | -   | -         | 100 | 5,197                       | Completely dependent on donors; operating at a loss and severely constrained from expanding the country's power grid and doing necessary maintenance/repair work.   |

SELECTED KEY ENTERPRISES

| NAME                   | PRINCIPAL<br>PRODUCT                            | VP | OWNERSHIP |     | 1981                        | WHY KEY  |
|------------------------|---|----|-----------|-----|-----------------------------|--|
|                        |   |    | FP        | S   | REVENUE*<br>(millions CFAF) |  |
| VOLTA PHOSPHATE        | Rock phosphate                                  | -  | -         | 100 | N/A                         | For country of Upper Volta's size, has significant phosphate deposits; could be basis for fertilizer blending operations; has significant donor support. |
| CSPPA                  | Price<br>stabilization                          | -  | -         | 100 | N/A                         | Stablizes prices of basic commodities; major exporter of shea nuts.  |
| CNCA                   | Credit  | -  | 46        | 54  | N/A                         | Principal agricultural credit organization. Has usual outreach problems vis-a-vis small farmers.   |
| BND                    | Credit  | -  | 45-       | 55  | N/A                         | In theory is the source of finance for new business; having severe financial problems.   |
| CHAMBER OF<br>COMMERCE | Services to<br>community;<br>bonded warehousing | -  | -         | 100 | N/A                         | With expansion, could be key actor in revitalizing the private sector.   |

## F. Donors' Efforts in the Private Sector

Insofar as the private sector is concerned, donor assistance in the main has had indirect, or spin-off, effects. A good example of indirect effect is the "Canadian" road (basically a public sector, infrastructure project) from Barsalogo to Lanfiera in the north. This road opens up that region generally for the movement of goods and services and specifically for the livestock trade, both locally and into Ouagadougou.

Where donor assistance is aimed directly at the private sector, some of the assistance is for very specific activities, such as the construction of the Silmande hotel, support to ONERA's Banfora feed lot, and the Dutch assistance to SAVANA and UVOCAM.

A small proportion of assistance has broader private sector effects built into its rationale, e.g., AID's Partnership for Productivity program (Development Project for Small Economic Activities) at Fada N'Gourma and Diapaga, the construction of the Kossodo (Ouagadougou) industrial zone and the future World Bank fertilizer program.

The USAID/Upper Volta ADS project embodies, to a degree, a private sector development rationale. One of the purposes of this private sector assessment is to make clear the potential of the Voltan private sector, and more importantly, the private sector opportunities that do and could exist for accelerating the achievement of the ADS's objectives.

1. Dutch, German and Canadian Assistance

Of the three the Dutch have moved most aggressively in terms of supporting commercial activities. The Germans have supported a feedlot operation in Banfora which they are reluctant to turn over to ONERA and are passively involved in the Bank's attempt to remove fertilizer subsidies and hence encourage private fertilizer sales. The Canadians are the least directly involved in private sector promotion and see their role primarily as government to government. They have, however, tried to set up a commodity import program to supply local firms with Canadian products and they have a small projects fund of C\$4 million that will fund village associations for small projects using local services and materials. The Canadian involvement is greatest in infrastructure: roads, hydroelectric projects, communications.

a. Dutch Assistance

The Dutch have assisted ONERA heavily with capital and technical assistance. ONERA is in debt and wants more help but the Dutch are insisting on a reorganization. The Ministries of Rural Development, Commerce and Finance are involved.

SAVANA was also heavily assisted and its management now wants more assistance which the Dutch are not inclined to provide. UVOCAM was also given money and technical assistance but present activities are small.

OPEV is viewed by the Dutch as too problem ridden to justify continued support. They have played a large part in the construction of the new Ouagadougou industrial zone and want a private governing board to operate it.

Finally, they have given credits and a KLM technical assistance (not management) contract to Air Volta. As with ONERA, SAVANA and UVOCAM, the Dutch have had a difficult time in getting the government to comply with its financial requirements and to manage the company rationally to keep it solvent.

b. German Assistance

The Germans have supported ONERA, OPEV, a forest project (woodlot) and the phosphate project. Their two year budget for 1983-84 will be approximately \$45 million. They support a feedlot operation for ONERA in Banfora with a capacity of 600 animals using local feed, but they hesitate to turn it over to ONERA. They also own 9% of BND. With respect to OPEV, they terminated their program for the same reasons as the Dutch.

The phosphate operation will be tied to the World Bank's new fertilizer program, and the Germans are in agreement with the subsidy changes that should make it easier for the private sector to operate. They cited continued cross-financing and non-payment between the ORDs and the phosphate project as a real problem. In addition, they are working on the Kaya-Dori road which will open the area up for livestock

transport. Finally, the German embassy tried to establish a Lufthansa cargo link here for export of fruit but the Ministry of Rural Development did not respond.

c. Canadian Assistance

The Canadians are concentrating on roads, having recently completed long stretches in the north from Barsalogo to Lanfiera, which cuts across the livestock zone from east to west. They are now operating in the south. They supported the Bank's first RAN improvement project with C\$40 million, but have bowed out of the proposed new project because the Government has not reimbursed its counterpart fund for that portion of the C\$40 million that was a loan. Instead, the GOUV has asked for assistance in wiping out the \$10.5 million RAN deficit for which Upper Volta is responsible.

The Canadians financed part of the study for the Kompienque Hydroelectric Project with the condition that Canadian components would be used in the generating station. Instead, the French won the \$20 million subcontract (of a total of \$300 million) and the Canadians are reconsidering any further involvement. There will be a donor meeting in Paris in July to discuss how to divide the subcontracts. Finally, they have given some 94 scholarships, ten of which have been in management.

2. French Assistance

French aid to the private sector falls principally under the aegis of the Caisse Centrale de Cooperation Economique

(CCCE). In principle, the CCCE gives priority to the "productive" sectors. In fact, about one-half of its activities are in the area of rural development - because this sector was given priority by the GOUV.

The CCCE is mainly concerned with helping to finance import substituting industries, e.g., sugar, textiles, mining, where there is substantial state participation. They shy away from purely private activities on the grounds of insufficient local financing ability, the thinness of the market for products produced by totally private firms, and their feeling that the GOUV has not yet seen fit to create an economic environment conducive to the success of business. In fact, they see their place as totally in the para-public sector - especially since the question of price and profit margin controls are threatening the survival of entities such as SOSUHV.

The CCCE also helps finance infrastructure projects such as the electrification of urban areas, hotels, the telephone system, transportation, etc. It also finances operations which repair and rehabilitate heavy equipment, as well as the purchase of spare parts.

CCCE has an affiliated organization, PROPARCO, which promotes medium sized business enterprises. Specifically, it acts as intermediary between the Voltan entrepreneur and the foreign (French) investor. It takes a small percentage ownership in each enterprise brought to fruition. For example, it

helped S.I.B.B. (a Voltan biscuit manufacturer) find a French partner to assist financially in a plant expansion. In effect, PROPARCO's role is to side-step the ever present lack of access to credit problems which plague the smaller Voltan businessman, and help that same businessman through the difficult start-up period.

The CCCE sees its future role as one of helping the informal sector, and promoting the assumption of recurrent costs by the beneficiaries themselves. It feels that industrialization in Upper Volta has been a failure.

### 3. UNIDO

Formally, assistance passes from UNIDO to the GOUV. In fact, however, it has a significant impact (or should have) on the private sector. For example, it gives technical assistance to OPEV. It also played a major role in the creation of the Kossodo (Ouagadougou) industrial zone. Unfortunately, this project was not well thought out in advance as is seen from the fact that most of the companies located in the zone are not doing well. The three principal reported factors in the failure of Kossodo are:

- Poor initial market research and studies
- Lack of skilled labor
- Lack of management talent

UNIDO's plans for future assistance activities are in six areas:

- (a) Those institutions which help promote industrial development.

- (b) Pre-feasibility and feasibility studies; promotion of village-level entrepreneurs; and technical assistance to specific companies at the request of the GOUV.
- (c) Pilot business projects.
- (d) Training centers and organization of seminars.
- (e) Investment promotion for Voltan industrial projects.
- (f) Regional projects.

#### 4. FAO

Deals directly with the GOUV in giving technical assistance in those areas requested by the government. It takes no direct role with the private sector, but obviously its activities have a positive spin-off effect on the private sector. For example, its research was instrumental in finding the appropriate variety of sugar cane, which in turn gave rise to the creation of SOSUHV, attendant employment, and secondary effect throughout the wholesaler/retailer network.

In the future, the FAO plans on assisting agricultural projects calling for the use of fertilizers. Obviously, this will have an indirect effect on the private sector.

#### 5. FAC

Only finances public sector projects. Certain of its projects have an indirect impact on the private sector - such as financial assistance to OPEV and the financing of training staff for SOREMI.

6. FED (CCE)

It's principal activities are to assist the public sector, e.g., road construction, small village projects (dams, wells, etc.). Of course, there are indirect effects on the private sector from these activities.

Much of CCE's activities are in the area of rural development. However, two affiliated organizations, the BEI (Banque Europeenne d'Investissement) and the CDI (Centre pour le Developpement Industriel) operate under the aegis of the Second ACP-CEE Convention of Lome. The CDI helps the private sector directly via work with ONAC at international trade shows/fairs to promote Voltan products abroad. In the past, Voltan participation in these endeavors was more political/tourism promotion oriented than business oriented.

On a regional (CEAO member states) basis, CDI has ten projects underway:

- (a) Analysis of problems encountered by trading enterprises.
- (b) Training for management personnel.
- (c) Evaluation of firms' capacities to export.
- (d) Creation of a regional organization which will offer export-management services.
- (e) Export pre-financing and loan insurance.
- (f) Product quality assurance.
- (g) Sending member state trade missions within the CEAO area.

- (h) Publication of a "year book" of all products available within CEAO for potential foreign importers.
- (i) Import contract negotiation.
- (j) Technical assistance to CEAO.

In particular in Upper Volta, CDI collaborates with OPEV in certain Voltaian industrial projects. CDI also brings Voltaian entrepreneurs in contact with foreign investors.

In the future, the CCE states that it is looking toward the informal sector because of the many, seemingly insurmountable problems facing the formal industrial sector. It reports that its future private sector activities will be geared toward:

- small artisanal activities which have a national market.
- substantial assistance to local entrepreneurs.
- concentration on what local entrepreneurs do best.

## 7. World Bank

Reportedly, the Bank makes no conscious distinction between the public and private sectors in its activities.

Its main role is in agricultural and livestock production, with indirect effects on the private sector. Since 1972, the Bank has funded the FDR (Fonds de Developpement Rural) - mills, cereal banks, rice hullers, etc. with indirect credit effect for associated, small private sector businesses.

It also finances well, soil erosion and animal traction projects. Apparently, there are no IFC activities, except for possible future participation in the SERAGRI sorghum/ethanol project.

The Bank expects to try to privatize its "group" ranches because of high recurrent costs. The proposed fertilizer project, with the insistence of gradual removal of subsidies, should have an important indirect effect on the private sector as this input distribution area opens up to wholesalers and retailers.

#### 8. CILSS

The private sector doesn't even figure indirectly into their calculations. They see themselves only as an operation to develop food self-sufficiency.

#### 9. AID

As is true of many other donors, the majority of AID projects are not directly aimed at the private sector, however, many do have indirect, or spill-over, effects on the private sector. The rural roads project in the Eastern ORD, for example, opens up areas to commerce, and allows easier farm to market movement. The strengthening of OFNACER through the Grain Marketing Development project has private sector ramifications as this organization assumes more monitoring and analytical functions and has less of a role in market interventions. The Village Wells project is an incentive for vegetable raising, enhances growth of livestock operations, and makes possible such ancilliary activities as private well construc-

tion and repair teams. The Forestry Resources Management Project entails in part, the development of marketable, improved woodstoves.

The Seguenega Integrated Rural Development project through its road, livestock fattening and cross breeding, village wells and some of its credit programs, has had positive effects for private sector activities. The Bali-Bali sheep fattening (for resale) and cross breeding program has been successful enough with various project area villages that Africare has established a reproduction center at Seguenega. The village wells activity has caused private well repair teams to come into existence. The Women's revolving credit fund has been used to purchase small mills which are then used to mill grain for fees. The first of these, at Konde Tangaye, was so successful in its first two months of operation that the women's group used the net income to set up its own revolving credit fund for emergencies.

Certain projects were/are aimed more or less directly at private sector activities, e.g., the Development Project for Small Economic Activities (PFP) which is designed to promote small private enterprise in the Fada N'Gourma and Diapaga areas. Both the Strengthening Women's Role in Development (SWID) and the Training Women in the Sahel (TWIS) programs promoted private enterprise activities.

Finally, the Agricultural Development Support project demonstrates a shift in strategy in that it embodies widespread private sector considerations. In the training, Food

and Food Technology Service and farming systems research areas, there are direct, early links to the private sector explicitly stated. These entail managerial training with direct assistance from the Chamber of Commerce, the intervention of the private sector in enhancing the level of nutrition well-being via appropriate food processing technologies and equipment, and the growth of privately supplied agricultural inputs as a result of farmers adopting a farming systems approach to growing food/raising animals.

#### V. RECOMMENDATIONS FOR CHANGE OR REFORM

The recommendations made in this section are proposed within the framework of the suggested overall policy dialogue, and the recommended courses of action the GOUV and USAID could take. The recommendations address what the team believes to be the major constraints impeding the development of the private sector.

#### A. The Legal Framework

The recommendations made below are suggested in the spirit of making investment, both indigenous and foreign, more compatible with Upper Volta's economic development goals. At the same time, the changes suggested seek to make the Investment Code and the taxation system serve the dual function of providing adequate incentives for investors and more revenue for the government.

- Modify the National Investment Code in order to:
  - establish investment categories based on the priority of economic sectors and industries, consistent with

Upper Volta's economic development goals. For example, a high priority industry such as food processing would be accorded much more privilege than would a lower priority industry, such as one which manufactures luxury goods, e.g., alcoholic beverages.

- reduce the duration of tax holidays and extent of tax exemptions granted. If a firm can't turn a profit in five to seven years, it probably shouldn't be in business.

- Consider modifying (lowering) the rate of taxation on business revenues (TCA) in order to lessen the demand for privileged regimes under the Investment Code.

- Consider means whereby the entire taxation system can be simplified, paperwork and compliance burdens reduced, and at the same time increase incentive for free enterprise. This includes import duties and the anomalies therein.

#### B. Monetary and Credit Allocation Policies

As noted earlier, the constraints in this area are of two general types: structural/policy derived and operational in nature. The policy derived constraints are, of course, the subject of policy dialogue with the GOUV. They are sensitive, involve other countries and will most likely require side-stepping, innovative moves. The operational constraints largely call for policy changes at the bank level, training assistance, possibly some commodities and definitely some public relations assistance.

- To sidestep the problems posed by the preferential interest rate and two tiered discount rate vis-a-vis longer

term development in the business sector, consider establishing an autonomous Development Fund managed by an independent U.S. financial institution supported by a high calibre U.S. technical assistance team and guided, in terms of priorities of lending, by the GOUV and USAID. (For details, see Business Administration and Management Annex - Recommendation).

The proposed development fund, in collaboration with the Chambers of Commerce, could be the principal informational conduits and possibly, act as brokers, in the matter of raising Voltan capital for new enterprises as well as for the expansion of existing businesses. These two organizations could become the nucleus (albeit embryonic) of a formal capital market.

- The government should clearly specify its priorities vis-a-vis which business activities are more important than others, and what credit amounts and modalities are planned. Priorities might take the form of preference given to firms producing necessary goods, firms with a high degree of value added, firms which are labor intensive, and firms which produce goods from local raw materials.

- Explore the feasibility of Voltan banks pooling their excess reserves to form an adequate size loanable fund for large scale private enterprise projects/activities. This is a "cocktail loan" arrangement whereunder risk and maturities are spread and the availability of longer term credit is increased.

- Analyze how the banking system could be made more responsive to borrowers' needs and problems. Solution of the

administrative constraints will require bank policy changes, e.g., changed loan criteria and collateral requirements, as well as assistance in the way of training for loan officers for both increased comprehension of their clients' businesses and for necessary loan follow-up activities.

- The flow of information to potential borrowers re credit availability, terms, etc. much be increased. At the same time, an informational/educational/public relations effort could be mounted by the GOUV and the banks to alter the current adversarial climate which prevails between the business community and the banks.

- Institute collaboration between banks and local accounting firms to provide usable, simplified, understandable accounting systems for small and medium sized entrepreneurs. This could entail some U.S. technical/training assistance. Use accounting firms for objective, third party (i.e., arms length) auditing of company(ies') operations. This, in conjunction with making the banks generally more responsive to borrower needs, would help resolve the lack of trust/confidence felt by the businessman vis-a-vis the banks.

### C. Administrative Regulations and Procedures

Recommendations made here are of two types - one which is part of the policy dialogue which must be undertaken and the other that of streamlining a cumbersome system.

- The counterproductivity of the current price and profit margin controls and equally the economic and revenue

benefits for the country which would be gained by easing the controls must be demonstrated to the GOUV.

- The gradual adjustment and easing off of the controls should be a subject of early study. Early, because these controls are stifling businesses' ability to take advantage of market opportunities, to expand, to diversify, even to do much rational planning. Hopefully, provision would be made for increases in both prices and profit margins in steps on those products presently controlled. This is one of the principal actions which can be taken in order that business can operate more effectively. This action will afford firms the flexibility to respond to market conditions, constraints and opportunities with changes in pricing strategies and with the development of new products and processes. Easing of the profit and price structures will also provide incentive for competition which in the long run will have the effect of lowering market (consumer) prices and thus obviate the need for price controls.

- Consideration should be given to reorganizing the National Investment Commission via (a) reduction in the absolute number of members and (b) establishment of a membership which has expertise in the various areas.

- Streamline the process of granting import authorization permits and licenses. The rationale behind the licensing system should be closely examined because it adds to the fragmentation of the entire marketing system, raises prices and inhibits the creation of direct distribution channels, and

thus the ability of the producer to enlarge the market for his product(s). Streamline the Ministerial level approval process for pricing changes.

D. Fiscal Policies

This is a particularly fragile area because Upper Volta's base, subject to taxation of all sorts, is so small. 55% of her revenues come from import duties. This base is kept small by the exemptions offered by the National Investment Code, and by the stifling effect on business the taxation system as a whole has. The following recommendations are offered in the spirit of stimulating business and generating higher revenues.

- Analyze the tax system to determine ways in which it can be simplified; how it can serve more as a stimulus than as a deterrent to business; how competitive is Upper Volta's tax system vis-a-vis those of other West African countries; how can it be improved so as to generate more revenues and at the same time increase compliance?

- Examine how the import tariff schedule can be revised, in many cases downwards and in steps, to make it consistent with Upper Volta's economic development goals, to make smuggling unprofitable, and in the overall, through increased development, generate more revenue for the country than is currently generated.

- With respect to the tax effects of the application of the National Investment Code:

- Limit the duration of tax exemptions. Eliminate the current exemption from the corporate net income tax. If a

firm makes a profit during its first year of operation, it should be subject to this tax.

- "Step down" tax exemptions over the duration of the exemption period according to a fair, reasonable schedule with appropriate criteria.

#### E. Management

The lack of formal management structure with effective planning and control abilities and the widespread lack of appropriate managerial and vocational training are addressed here. The absence of rigorous market study and marketing strategies is dealt with in the next part of this section.

• Consider using the organizational structure, personnel policies and procedures of Societe Africaine de Pneumatique (SAP) as a baseline for organizational structure. It could also be adapted for enterprises derived from seriously ailing parastatals. (For details, see Business Administration and Management Annex)

• Explore diagnostic, technical and managerial business assistance programs for selected companies. Companies could be selected on the basis of the private enterprise development criteria established by AID/W. Assistance could be given in two forms: (1) directly provided by U.S. industry associations with technical assistance programs; (2) indirectly through the same industry associations finding "sister company" relationships, i.e., a similar U.S. company working with the Voltan company. The Japanese did this quite successfully in Algeria in the mid-1970s. Likely candidates include UVOCAM,

SAVANA and ONERA. UVOCAM and SAVANA could be matched up with a U.S. company such as California Cannery and Growers. Such assistance would help resolve the lack of formal organizational structure from which many companies suffer, help them overcome technical problems and instill marketing expertise.

- Initiate in-country, third Country and in-U.S. advanced training programs in management, marketing, production and finance. In-country programs could be carried out under the aegis of the Chamber of Commerce; third country training in agricultural and agri-business areas could take place at an institution such as INAV Hassan II in Rabat, Morocco and U.S. training could take place at any number of institutions which would be willing to tailor programs according to Voltan needs.

#### F. Marketing

As noted in Section IV C, "Principal Constraints," the most serious, non-governmental constraint facing the private sector is its near total unfamiliarity with basic, modern marketing - from research to customer service. Recommendations for possible assistance have been made in Section IV D. With the exception of the first general recommendation, the remainder deal with regulatory/policy obstacles to effective marketing.

- The institution of market research and development as a vital component of any business - both as concepts and as analytic techniques. These will be crucial if business is to

take advantage of the opportunities that the future improvement of regional infrastructures will bring.

- Consider changing policies which hamper the more effective marketing of goods, such as the licensing system.

- Review and consider revising the cumbersome profit margin and price regulations which are stifling new product development, which make seizing market opportunities very difficult, and which make it almost impossible for a manufacturer to have a viable sales organization.

- Consider the establishment of marketing expertise and training in OPEV on the grounds that its program still has the broadest sectoral and geographic distribution.

- Review the National Investment Code to determine its points of uneven incentive applications which result in price distortion which in turn hinder individual company market development strategies.

- Correct that part of the import duty schedule which penalizes the import of raw materials to the point where locally produced goods cost more than similar imported goods.

#### G. Other Areas

- Close examination of the entire agricultural credit question - lack of short term seasonal credit and medium term credit for agricultural capital equipment other than animal traction - with a view to streamlining the agricultural credit structure.

- Strengthen the CNCA so that the agricultural credit network expands and effectively reaches the farmer.

- Reduce the role of the ORDs in credit administration.
- Create cooperative-type organizations pulling together neighboring village pre-cooperatives. Such organizations would be better able to deal with an expanded CNCA. Conversely, the CNCA would have fewer organizations with which to deal (than all of the individual pre-cooperatives) and concomitantly less need for personnel, plant and equipment, training, etc. Also, such larger organizations with greater financial strength would be less risky borrowers. In addition, cooperative-type organizations would be more powerful, effective purchasers and distributors of inputs, and sellers of agricultural outputs. This would help create stronger and shorter input supply and output distribution networks.

- Explore the possibility of using the proposed Development Fund (Section V B) or establishing a branch/department in the strongest existing bank, to deal with agro-industrial credit demand.

- In the selection of roads to be built or improved, markets should receive greater emphasis as a priority. For example, if market research demonstrates that there is ample and growing demand for the product of the Orodara region, there the Bobo Dioulasso-Orodara road and its four bridges are candidates for upgrading and replacing respectively.

The Seguenega region with its market of 120,000 people certainly is a candidate for a road from the southwestern corner of the Africare project area to Yako.

- Strengthening input supply networks should receive priority in road selection. For example, the Kodjari-Kantchari road must be improved if the phosphate deposits of Kodjari are to be effectively exploited. Improving this stretch of road would open up this region to trade with Niger and Benin, and from Benin, Nigeria.

- Markets and input supply networks should figure heavily in the selection of areas for future electrification and telephone service.

- Consider setting aside the proposed road-use taxes for paving existing key secondary roads. If the taxes are fair in level and in distribution across size/weight of vehicle, if there is full public presentation of the purpose of the tax, and if there are concrete guarantees that it will be used for paving, such a tax should have the support of the trucking industry.

## VI. RECOMMENDATION FOR A POLICY DIALOGUE

### A. General

Given the current uncertain political situation, and the fact that the government must be absolutely certain of the importance of the private sector for development in order to take the necessary, difficult policy actions and to offer the necessary incentives for comprehensive development of the private sector, the approach to the GOUV must be one of proving to it that the best interests of Upper Volta's economic development will be served by support of the private sector. Changes must be forthcoming for both the indigenous and the industrial segments of the private sector to progress. Furthermore, assistance to the industrial side assists the indigenous side because it is this side which largely transports, sells, trades, builds, fabricates and services. In the end it is the GOUV that must convince itself that the private sector deserves support and that that support will entail necessary policy changes.

Based on the foregoing, it would appear that a dual approach would be the most fruitful. The first part would consist of continuing, informal contacts with GOUV representatives, and the use of the good offices of the Chamber of Commerce to unofficially elicit the support of the business community and those government officials with whom the Chamber collaborates (e.g., Ministry of Commerce) through exposure to USAID's commitment to private enterprise.

The Chamber of Commerce is most important in this first step. It is, on one hand, closely linked to the GOUV through certain of its functions and, on the other hand, it represents the one, structured organization which can make the business community's views known to the GOUV. It has capable, concerned (for the private sector) people in top management positions. It represents the bulk of the formal business community in Upper Volta and the majority of those companies which could carry out agribusiness, food processing, distribution, marketing and export activities on meaningful scales. Furthermore, the Chamber of Commerce (and the Lion's Club) has links to the outside business world, which the GOUV does not. At the very least, it can be effective in making known problems and complaints. With assistance, its potential is far greater. It can help bring about the necessary changes for a business environment conducive to success and can be an effective developer and conduit of managerial/technical expertises and business communication and information.

Under the aegis of the Chamber of Commerce, a useful vehicle to draw attention to the potential of the private sector would be a well-conceived presentation - to groups of leading businessmen and government officials, both in Ouagadougou and Bobo Dioulasso. The presentation would be so constructed as to present the key effects of the current economic/business stagnation (hard data), the present principal areas of potential economic endeavor which currently are not being realized because of various impediments/counterproductive

policies, what it would take to release the potential, and once released, what that potential would mean to the country. A presentation of this type, with adaptation, would lend itself to television.

The second part would entail direct contact with those few, key GOUV officials who have the power to make, or at least initiate, changes. This second part is required because it is necessary to implement change fairly rapidly: first, to turn the current negative business climate around, and second, to capitalize on internal and neighboring country market opportunities. Needless to say, neither the Ivory Coast nor Togo are standing idly by waiting to exploit their own and neighboring markets.

These direct contacts would be supported by hard data on the positive effects which a dynamic private sector would bring about, and the policy changes as well as the changes in the ways of doing business that would be required of the government and of the banks. This, of course, would be a delicate, time consuming business. It would entail the selection of no more than three or four key issues (constraints/opportunities) and possible solutions/benefits.

#### B. Specific Areas to be Addressed

There are three important areas to be addressed in the policy dialogue. These areas are chosen because they are the keys to the development of the private sector. They are presented in ascending order of sensitivity.

## 1. Markets

The first of these, markets and marketing research, is the least sensitive, but probably the most important from the standpoint of early credibility (i.e., hard data can be generated fairly quickly) for the proposition that a climate conducive to success of the private sector must be forthcoming. Discussion of markets can help prove to the GOUV that the private sector is the engine of growth we say it is. It can also set the stage for the more sensitive areas of discussion.

The starting point could be that of livestock and markets for fresh and frozen meat. As expressed earlier in the report, Upper Volta has a significant advantage insofar as livestock production is concerned. It has a distribution system which is in need of streamlining and an organization (ONERA) which needs help in understanding its markets and how to reach them. There is an element of synergism ( $2+2=5$ ) present in the present livestock/meat situation. Rationalizing the collection system of animals for slaughter and the meat distribution/marketing process would not only directly affect Upper Volta's exports, but also as a ripple effect would cause more livestock to be forthcoming (there is already clear evidence of the desire of farmers to become increasingly engaged in livestock operations) thus lowering meat prices domestically and thereby affording more meat in the domestic diet. The switch from vegetable to animal protein, of course, is a given of economic development. Also, there would be positive secondary effects

on agriculture, agri-business and livestock-related activities - such as the increased need for feedgrains, feed supplements including minerals and salt, veterinarian products and services, farm equipment, credit, trucks (and associated spare parts/maintenance/repair facilities), and a gamut of other products for more formalized livestock feeding programs, i.e., fencing, buildings, equipment, feedstuffs, and, of course, labor. A future tertiary effect could be the formalization of a dairy industry.

## 2. Credit

The second area is that of access to credit for the small and medium sized enterprise. Here, the level of "noise" (read, complaint) from the private sector is so high, and the problem so much studied and written about that it should be fairly easy to broach. A dual approach could be considered. First, technical (training) assistance to strengthen the managerial (loan evaluation, processing and follow-up) abilities of the banks. Second, the suggestion made earlier in this report to establish a development fund, independent of government support and Voltan banking regulations. This would take some of the higher risk lending pressure off the banks, provide the necessary access to credit for the smaller entrepreneur, allow time for the technical assistance to the banks to have effect, and permit time for needed policy changes to be discussed and implemented.

### 3. Prices, Margins, etc.

The third and most sensitive area is the entire question of prices, margins, subsidies, import duties and the Investment Code. Probably the best place to start would be the Investment Code. The counterproductive (for the government) nature of the Code can be easily demonstrated. Furthermore, the changes recommended are palatable in that they mean more revenue, earlier, for the government. On the other hand, it will be more difficult to gain agreement on change in the areas of price and margin controls, subsidies and import duties, because it will represent a stark departure from the economic training and ideology of many members of the GOUV, not to mention vested interest (job and otherwise) in some cases. Thus, the need for change will have to be demonstrated over and over by the positive financial and employment effects that will be generated by easing of price and margin controls, subsidies and import duties. The examples will have to be very persuasive, in fact, unassailable.

## VII. RECOMMENDATIONS TO PROMOTE PRIVATE ENTERPRISE DEVELOPMENT - THE NEXT PHASE

This section concludes the Private Sector Assessment Report with a general recommendation that the development of the private sector, insofar as agricultural/food production is concerned, be viewed from the standpoint of the entire food chain - farm to table. It then suggests a possible three pronged strategy which the GOUV might consider, and finally examines the possible links between the private sector and USAID/UV's Agricultural Development Support Program.

## A. The Food Chain

This is a useful construct because food entails more than just the agricultural sector. It involves the entire farm to table food chain. It permits one to see where more interventions (than in the case of agricultural production alone), both in terms of food quantity and quality, can be made. This chain includes all of the activities from the farmer to the consumer - on and off farm storage, transportation, processing, packaging, market communications, wholesaling, retailing, other marketing arrangements (e.g., agents, franchising, etc.) and ultimate consumption - including changing consumer preferences.

From the farm perspective of the food chain, the essential elements are the networks which supply farmers with production inputs, financial resources, and consumer goods which make increased agricultural production for sale possible and worthwhile for the farm family. Consumer goods are necessary for the family to have things to buy - which availability in turn will cause them to produce more.

The use of this construct increases the chances to place scarce resources where they will have the greatest possibility of success and helps discover infrastructural gaps which can be filled - in order to capitalize on the infrastructure

already in place.\* Examples abound of where high-potential interventions can be made - and these all represent on-the-shelf technologies and state-of-the-art practices. Post-harvest food losses can be reduced via better marketing arrangements, timely transport from farm storage or field to processing point, establishment of cold-chains (refrigerated storage, transport and holding for sale), and better packaging (ranging from canning to aseptic packaging).

It also permits greater use of technology to "side-step" seemingly intractable situations caused by institutional and/or physical bottlenecks.\*\* It focuses on the developing country's need to keep as much of the value stream of products in-country as possible, and finally, it permits a government in some cases as a monopsonist, to increase quantities and qualities of food produced. For example, if the government represents the institutional market for the country, e.g., armed

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\*For example, upgrading and maintenance of the "national highway" from Ouahigouya to Seguenega (50km), coupled with a road link (15km) from the southwestern end of the Seguenega project road to Yako would link the entire Seguenega region to both Ouahigouya and Ouagadougou. It would permit effective use of the modern cold storage facilities existing in Ouahigouya, and would be a stimulus to increased vegetable and livestock production and marketing for the Seguenega and Ouahigouya regions.

\*\*It is often the case that certain macro- and micro-nutrients are absent in the diets of much of a country's population. The classical remedy could call for increasing agricultural production of certain crops two or threefold - often a physical impossibility. Technology offers a solution in the means to side-step the impossibility. For example, all wheat consumed in Upper Volta is imported. It is milled in one facility in Banfora for shipment around the country. The centralization of milling operations permits the fortification of flour, a low-cost, administratively simple, effective means of correcting some nutritional deficiencies. It is an entry point that is feasible, economic and helpful.

services, educational institutions, governmental organizations, etc., it can put its food requirements out on tender - requiring delivery of certain quantities and qualities on a timely basis. This act can, in effect, raise standards of quality for the entire competing private sector.\*

#### B. Strategy

Given that Upper Volta has certain assets, i.e., its low cost labor supply, a seemingly inherent entrepreneurial bent in its people, various infrastructures and supply networks (however rudimentary and inefficient) already in place, various neighboring, expanding markets with higher standards of living, being at the hub of certain Sahelian and Coastal Countries and with apparent comparative advantages lying principally within the food chain, a three-pronged strategy to promote private enterprise development comes to mind.

The first facet of the strategy is the domestic market. The first step is the research of current and potential Voltan markets based on the premise that development will proceed and that the constraints on the effective operation of the private sector will be eased. Using food as an example, the research of these markets (urban and rural town) presumably starts with the ultimate consumer and answers the following questions for both the immediate and the future.

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\*The Indian government introduced modern bread in 1968 - fortified with vitamins, minerals and lysine (one of the key eight missing amino acids in vegetable protein sources). It was so successful a product that private bakery firms had to fortify their bread in order to compete.

- market size - geographic and number of people
- how segmented
  - age groups
  - sex
  - special requirements, e.g., nursing mothers, infants at risk, elderly
- nutritional needs/deficiencies
- food preferences/tastes
- purchasing power
- purchasing habits
  - who buys what
  - fractions spent on what foods/food groups
- likely substitute products
- likely new product introductions

These questions should be answered in terms of growing urbanization and increasing incomes with the full knowledge that diets change with economic development.

This fact has direct business implications for the livestock industry - from the retail outlet all the way back to the producer of feed concentrate, feed grains and the farmer/herder himself. It also has implications for vegetable and fruit production because typically consumption of these products also increase with economic development.

This fact of dietary change will indicate possible new areas to explore:

- To what other uses can the vegetables, fruit and meat products be put?
  - baby foods for post-weaning (urban area consumers tend to be more "evolved").
  - juices, juice mixes, juice concentrates
- Can millet and/or sorghum be used as a base for a highly nutritious, nutrient-dense food targeted to groups "at risk" nutritionally, e.g., young school children?
- Is there the possibility of producing and getting accepted a highly nutritious grain-based drink such as Vitasoy - which has had so much success in the Far East?
- How can the urban areas be used to introduce new, nutritious food products? New ideas/values/lifestyles tend to be picked up first in the cities and then spread out.

The second step is to specify exactly what must be done to release the potential of the private sector so that it can do what it does best, and so that it can assume some of the burden currently shouldered by the public sector. At the same time, it must be determined what changing role the public sector adopts vis-a-vis the private sector as economic development takes place (i.e., development is a dynamic process in which a country's comparative advantages change and in which public/private sector roles change), where the public sector can facilitate the effective operation of the private

sector, and where it can avoid those areas that are the natural domain of the private sector.\*

Assuming that the political situation stabilizes and that the major constraints on the private sector are lifted, i.e., that the business climate becomes conducive to success, the element of foreign investment becomes a distinct possibility. Foreign investment can entail the multinational corporation, the most effective, rapid transferor of technology, management expertise and the knowledge of business functions. Fernando Monckeberg, the noted Chilean nutritionist put it this way:

"Since there is such a rich flow of technology across borders, the enlightened developing country will design its trade and investment policies so as to exploit this flow rather than keep it out or duplicate it at high cost. These are opportunities that are not to be missed because they may not come again."\*\*

The second facet of the strategy is the outward look - to current and future neighboring country markets. Both the Ivory Coast and Togo, as growing markets but especially the Ivory Coast, because of its size and relative wealth, should be exploited.\*\*\* Livestock, meat products, fruits and

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\*e.g., distribution, marketing, transfer of technology after the farmgate, production of goods and services, and management skills.

\*\*Fernando Monckeberg, Checkmate to Underdevelopment, (Washington, D.C. Embassy of Chile, 1976).

\*\*\*Mali, Niger and Benin should also be targets. For the longer term, Nigeria, because of her sheer potential market size, and Ghana, because of her earlier demonstrated economic success, must be considered. Nigeria and Ghana are, of course, highly speculative until they get their economic and political houses in order.

vegetables (both raw and processed), and light agricultural equipment are products, which in the short term, deserve serious consideration. Of course, serious market research must be done, to determine not only what today's markets are, but also what tomorrow's will be. The Ivory Coast, with a GNP/capita five to six times that of Upper Volta's and which is growing, can help "pull up" Upper Volta. In the long run, assuming continuing economic growth for Upper Volta, the level of trade and range of products traded should grow. Research must be carried out on neighboring countries, not only to discover the size of existing viable markets, but also to find other potential markets for Voltan products and services. At the same time as the key neighboring countries are being considered, so too must Europe, the Middle East and the Far East for certain products.

The third facet of the strategy is that of finding "niches"\* - in many cases, labor intensive niches. Labor-intensive because Upper Volta now has a comparative advantage in its labor - its low cost and its availability (both domestically and in the Ivory Coast). A good example of a niche is SERAGRI's project to produce large quantities of goose liver for export to Europe. This is a highly labor intensive activity which, because of low Voltan labor costs, is very attractive both from the standpoints of generating jobs and profits.

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\*Opportunities that savvy businessmen find - that others have overlooked, may not have had the courage to undertake, or which have to be created. This is the stuff that success is made of.

SERAGRI is also in the process of organizing a 5,000 hectare sweet sorghum production project to produce ethanol which reportedly will substitute for up to 20% of an automobiles gasoline requirements. The project has as by products, sorghum grain for human consumption and the residue from the principal product as animal feed.

C. Relationship to USAID's Agricultural Development Support Program and Possibilities of Assistance

The courses of action which the GOUV and USAID can take to promote private sector development intersect at several points with USAID's current Agricultural Development Support Program. The principal points of intersection are in technical/managerial skills training which includes the MRD's policy, planning and programming activities, and in elements of the Food and Food Technology Service effort.

1. Management Expertise

A common thread running through the analysis of most organizations is the lack of managerial expertise - especially at the level of middle management. This missing expertise is the ability to plan, to evaluate alternatives, to control, monitor and evaluate activities, and to anticipate problems before they arise. Also, there is almost a total void in the area of marketing - from basic research to product promotion.

There are three basic types of assistance which could be given. First, that of in-country, U.S. and third country educational training for higher level Voltan managers in business administration, notably managerial accounting, principles

of management and marketing, marketing research and corporation finance,\* as well as production, plant management and business strategy.

The second type of assistance that might be considered is that of an exchange of appropriate personnel between "sister companies" for training in hands-on operational approaches to business areas/problems/development which are common to the particular industry - as millers, vegetable oil producers, food processors, etc. For example, GMV might send selected candidates to a milling concern in the U.S. (e.g., Pillsbury), France or the Ivory Coast. Assuming the U.S. case, after the exposure and training in the U.S., the Voltans would return, followed by Pillsbury counterparts, who, in collaboration with the Voltans, could develop on-site training programs. These programs would be directed at upgrading capabilities, resolving operational problems and instilling planning capacities within a practical framework which addresses the particular activities of a given industry.

The third type of assistance is the installation of a management information and control system within individual organizations. It would also be very appropriate for the pro-

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\*Corporation Finance covers cash management; management of receivables and payables; inventory management; evaluation of alternative investments ranging from the purchase of an individual piece of equipment to complex expansion activities and including the time value of money, risk analysis and sensitivity analysis; and the financial structuring of businesses.

posed USAID/UV strengthening of the MRD's central services and management. Properly conceived, such a system would go a long way toward increasing the ability to plan, coordinate and sequence activities, monitor, control and evaluate business activities. It has the added advantage that it is a system and thus is "neutral," i.e., it is not necessarily American and thus not imposed from "on high." As the system operates, however, it enforces compliance all along the activity chains - be they production, marketing or financial. It is probably one of the fastest ways to change mentalities that exists, especially when one is part of its successful operation; and it is subtle in so doing. Following this section is an annex describing how such a system improves the management of complex operations.

## 2. Food and Food Technology Service Effort

This is an area in which the private sector is admirably suited to assist. Both foreign and Voltan enterprises engaged in the various aspects of food production, food technology and nutrition offer opportunities which could be far ranging in effect:

- (i) Market research into food tastes, preferences, buying patterns and various other socio-business indicators by market segments. Development of new foods using local ingredients, and the initial test marketing of these foods. This endeavor could be undertaken under the auspices of the Trade and

Development Program using a U.S. company to provide the above services. This is an area in which the U.S. private sector excels.

- (ii) The fortification of a "common carrier" food such as wheat flour. Once nutritional profiles for various population segments are available and nutritional deficiencies have come to light, the necessary equipment could be added to GMV's processing facilities. This equipment would add those missing micro and macronutrients which bread flour can "carry" without degradation in the baking process. The one key requirement for fortification to be effective in reaching a large fraction of the population is that wheat milling facilities be centralized - this certainly is the case in Upper Volta. Moreover, rising consumption of wheat products is a concomitant of economic development. The key U.S. firm is Continental Baking Company, the largest industrial baker in the world and subsidiary of ITT, a multinational with the ability to transfer technology rapidly on a worldwide basis. Moreover, ITT/Continental Baking has in-depth experience of developing nutritious foods using local ingredients from their joint Government of Chile/ITT funded and operated Foundation Chile.
- (iii) Low cost, high nutrition baby food production is possible with a machine called the "Brady Cooker."

Research, experiments and field tests were conducted by the Colorado State University and proved successful. Currently, the Brady Cooker is in production in numerous countries of East Africa and Asia. It utilizes a converted animal feed processor to transform locally produced grains and soy beans (under heat and pressure) into nutritious wafers that can be pulverized into powder. In Sri Lanka, for example, the wafers are marketed in packages similar to potato chips or in powder form for baby foods. The method of preparation is very simple; powder is added to boiled milk or water to produce an infant porridge. Mashed fruits may be added to enhance taste and nutrition.

Ingredients may be any locally grown cereals such as maize, wheat, rice fortified by soybean and selected vitamins.

This type of production falls into the small business category (costing approximately U.S. \$10,000 per small processing machine) that can be implemented successfully in the rural areas of Upper Volta.

#### D. Other Areas of Assistance

Two other areas of assistance which will be key in the development of Upper Volta's private sector are presented below. The first is the development of the Chamber of

Commerce and the second is the strengthening of overseas trade and business promotional efforts.

- The Chamber of Commerce

Consideration should be given to supporting the Chamber of Commerce in its private sector activities. It is a viable organization with affiliated various associations of businessmen, and as such could become the focal point for the organization of the business community. The organization of the business community is key in getting its voice heard, articulately, in government circles. Assistance could take the following forms:

- Strengthening of the Chamber's middle and operational management levels.
- Technical assistance in the training area to assume the managerial level training that OPEV is supposed to carry out.
- Help in structuring the organization so as to weld together the various private sector interests it represents.
- Help in establishing links, both communication and assistance, with the U.S. Chamber of Commerce. Such links might prove to be the fastest, most effective way of letting the outside business world know that Upper Volta exists.
- Establishing a market information office from which basic information, domestic and foreign, i.e., source of supply, modalities of doing business, and markets would be disseminated.

- Within the framework of a strengthened Chamber of Commerce, create a mini-institute for marketing, industrial technology, and professional skills tailored to the needs of Upper Volta, its industry and general business community.

- Public Relations/Promotional Efforts

An area of potential assistance which might be explored is that of country promotion efforts overseas. Assuming that the GOUV revises the investment code to create a more attractive business investment climate, promotional efforts become a vital tool in attracting foreign capital. Trade and development offices in selected, key foreign capitals such as Abidjan, Lome and Paris would be an initial important step. The existing Chamber of Commerce freight forwarding storage and customs offices in Abidjan and Lome would be good starting points. A concomitant action is the hiring of a public relations firm to do promotional/advertising work in target countries. The Ivory Coast, Togo and Gabon have done this relatively successfully in the United States.

Specifically, informative data/statistics on the availability and costs of labor, construction, office space, logistical support and services, housing, roads, transportation, utilities, taxes, applicable laws and regulations, as well as domestic and neighboring markets should be made available through various media. These media are the trade and development offices' personnel, literature, and contact work; trade

shows, fairs and missions, and advertising\* in key publications (those that businessmen/investors read).

A second, later step (and dependent on the success of the first step) in such outreach activities would be the establishment of trade and development offices in other key European capitals, Washington, Tokyo, and Rio de Janiero. These offices would be a natural adjunct to the Voltan embassies in these capitals.

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\*Cameroon Airlines had a 7" x 10" display advertisement in the June 16, 1983 edition of the International Herald Tribune. The purpose of the advertisement was to promote the Cameroon - primarily for tourism, but secondarily for business purposes.

## Conclusion

To help establish a long term climate conducive to the success of the private sector, the ADS program should have the additional, clearly stated objective of helping the public sector do what it does best in the early stages of development, i.e., institution building, infrastructure development, research-education-extension linkages, communications linkages and to a degree input distribution and credit linkages. Assistance in this area should be predicated on the government's willingness to carry out the above with more than just an eye to the private sector. Government/donor efforts should be so tailored as to meet a dual objective - the classic one of building public institutions, and the novel one of creating not only a climate, but also the means which are conducive to private sector success. Once the private sector "engine" is running, it normally needs little priming to keep it going and expanding.

## ANNEX - MANAGEMENT AND PLANNING ASSISTANCE

Sound design and management of business operations have been identified as major problems in Upper Volta. It is proposed therefore that management be given special consideration. Management and Planning Assistance would help selected cooperating, public and private, entities in developing and employing suitable management information and control systems to manage their own operations better. In each case the system would be designed to achieve the following:

1. Review complementary and competing activities to identify conflicts and areas of interaction where scheduling of inputs and outputs must be effectively coordinated.
2. Draw on specialized knowledge of various responsible professional people to identify and define with precision each activity, sub-activity and minor elements and the temporal, spatial, quantitative and qualitative relationships essential for success. Appropriate primary and supporting roles and inputs would be identified.
3. Design implementation plans which provide needed detail at each level to permit clear understandings of what is to be done, when, by whom, and the relationship to other elements.
4. Establish management techniques to ensure that progress can be monitored at each supervisory level, delays and faulty performance identified early, need for immediate

action identified, action planned, responsibility assigned and follow on monitoring of that action assured. This would permit senior administrators to identify problems in major elements and trace them through other sub-elements to basic causes where desired.

A principal constraint which runs through many developing country government departments and parastatals is the lack of sound management practices. This shows up as:

- A lack of understanding of management principles.
- A predilection for "thinking vertically," i.e., only of their own department and of its activities only in the context of that particular department, instead of "thinking horizontally," i.e., how their activities are interrelated with and bear on the activities of other departments/parastatals/the private sector, and vice-versa.
- An absence of planning ability. While they recognize many of the constraints they face, they don't know how to deal with the constraints in a planned, rational manner. For example, a serious constraint to the development of rainfed agriculture is the insufficient supply of inputs to farmers on a timely basis. Following are the principal questions that the supplier(s), whether parastatal or private, should be able to answer fully, but currently can only answer in part.

What are and will be the desired outputs and the necessary inputs:

- Quality
- Quantity
- Timeliness of availability
- Scheduling -- sequences of activities
- Demands on the current production and distribution system and secondary effects, e.g., demand on the national transportation system.
- Demands for future production and distribution.
- All of the above in the contexts of current and likely future government policies regarding the agricultural sector, grain imports, the rainfed sector, and the position of the private sector.
- A lack of understanding that "needs drive the system."

Management and planning assistance and training in areas where there appears to be a readiness/willingness to use it should be considered. The first locus of management and planning assistance should be in a governmental organization where there is a large "commonality" of management and planning needs across departments. Other loci are key parastatals, banks, and large industrial firms.

We would envisage a standardized management information and control system, with emphasis on planning and implementation, put in place -- employing a small group of American management specialists working with Voltan counterparts in the

DAAF and DCG initially, and then extending to other MRD departments and key parastatals. Such a management information system could be designed to:

- Identify needs
- Define how to meet the needs -- step-by-step
- Monitor progress -- both substantive and financial
- As a by-product of monitoring, anticipate problems before they occur, i.e., an early warning system.
- Offer flexibility to meet changing requirements/situations.

The advantages of a standardized system are that:

- Everyone is forced to plan and to allocate his time.
- Everyone knows what he and others are responsible for and supposed to be doing.
- It allows the management hierarchy to follow activities, identify problems early on, and decide where action is needed and of what type.
- It permits management to anticipate and act, rather than merely react to problems and change.
- It would force a "horizontal" approach to planning and implementing programs.
- It permits the use of managerial accounting, an effective management control tool and aid in decision-making.
- It would give the ability to see how inputs might be provided and better used, part of which would be how to bring private sector resources to bear on needs.

A well designed management information and control system will "force" linkages to come into being, for example, to and from the farmer -- which presently are absent in rainfed agriculture. The design and operation of such a system will require linkages between departments, as well as between MRD and

its parastatals, other ministries, and the private sector, and in turn these linkages will foster "horizontal thinking" and recognition of the interrelated and dynamic nature of agricultural development activities. It will also highlight areas of organizational and management weakness and point toward desirable changes to be made. Perhaps the greatest advantage of instituting such a system in MRD is that the system itself, from within the ministry, will "dictate" changes that have to be made. In this way one avoids the heavy handed approach of imposing change(s) from the outside, while allowing a "neutral," rational "agent of change" to operate and help the organization to achieve its objectives.