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Private Sector and Agricultural Development in Burundi

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EXECUTIVE SUMMARY

Exports: The Route to Overcome Stagnation

Burundi has a small, very poor economy caught in a vicious circle of low-level stagnation. The agricultural sector is too poor and backward to provide a market stimulus for the development of the industrial and commercial sector. In turn, the urban industrial and commercial sector is too small to stimulate the rural sector through a strong demand for the its products

How can Burundi break out of that vicious circle? The endogenous, harmonious, parallel growth of both sectors needs to be encouraged Increased agricultural productivity through fertilizers, improved seeds, and so on, and liberalized conditions for domestic trade will lead to a gradual upward movement of the equilibrium That movement will be very slow because it starts so low and no new "frontier" of abundant and cheap resources or technological breakthrough is there to speed it up In the meantime, the population is growing Will the endogenous growth outrun the population growth? Will it even catch up with it?

Our conclusion is that the way out of the vicious circle is through exports, above all agricultural exports Agricultural exports, coming on top of endogenous growth, can inject a stream of money revenues into the rural sector and start a powerful multiplier process of effective demand and a rapid expansion of the monetized (as opposed to subsistence) economy

What products and what markets offer the most long-term, continuing opportunity? Exotic fruits, vegetables and flowers for off-season European and Middle Eastern markets, spices, essential oils, and medicinal plants are often recommended. Undoubtedly, there is merit in them, and Burundi can boast of some pioneering ventures in flowers and passion fruit It is to be hoped that many more ventures will be started, and they should be encouraged strongly Practically every tropical country has these items on its growth agenda, however, and there is a limit to what the target markets can absorb, especially from latecomers

Knowledgeable observers consider the real market to be in the countries of the region, above all the largest one, Zaire The products for the regional markets are food staples, fish, and possibly some processed foods A later section mentions some interesting examples of transactions in that field

An advantage of exports of staples is that, in contrast to most of the sophisticated perishable products, a significant part of the value added goes directly to the peasant producer Thus, the monetization of the rural sector occurs faster Finally, the multiplier effect on the demand for agricultural inputs and for rural artisanal products is likely to be strong

The Government of Burundi can help the private sector to diversify and expand exports and to intensify operations in the domestic market through a sustained action on two principal fronts·

- First, by implementing a policy program of the elimination of constraints in the legal, fiscal, procedural and employment matters, which shackle private business initiatives, both in export and in domestic operations
- In the second place, by a policy program of positive actions to improve conditions for businesses, through market information, promotion, facilitation of contacts with potential buyers, communications, etc

Policy Program for Removal of Constraints That Impede Exports

Several of the principal constraints can be removed by appropriate changes in regulations and procedures.

Export Licensing

The present system of export licensing by the Bank of the Republic of Burundi (BRB) was designed with the principal objective of controlling the flows of foreign exchange. Its effects on the expansion and diversification of exports can be most damaging (That, ironically, even as import regulations have been liberalized.)

The exporter must be registered in Burundi as a trader The request to the Bank of the Republic of Burundi (BRB) for an export permit cannot be made directly, but only through one of the commercial banks That bank will be responsible for the return to BRB of the foreign exchange received in the transaction The form which has to be filled out before the license is granted requires the name of the buyer and the sale price This requirement makes it impossible to execute many types of transactions a foreigner coming to Burundi (from say, Zaire) to buy a load of staples or a Burundian who wishes to ship a load of produce to be sold at a market in a neighboring country may not know in advance who the specific buyers will be and what price the commodity will fetch

In all probability, other types of transactions are inhibited by the present rigid regulations The removal of these regulations, or at least a significant loosening, is needed

Delay in Export Promotion Regulations

The decree on export promotion was published on April 15, 1988. That decree offers very generous advantages to qualified exporters:

- Exemption from exit taxes and customs duties
- Restitution of import duties paid previously on imported inputs, packaging, and so forth
- Abatement of 50 percent of the income tax attributable to the exported goods and more liberal business-cost deductions than those for domestic operations

- Facilities for acquiring foreign exchange needed for business operations and for transfer of profits to foreign partners to be offered by BRB

The decree specifies that an ordinance will indicate <u>exceptions</u> among goods that will benefit from the decree The application of the decree to specific cases and, above all, the indication of exceptions which do not benefit from the decree still await the ordinance The uncertainty does not encourage business activity and tends to weaken the psychological impact of the decree as a signal of encouragement for aspiring exporters.

Constraints That Impede Domestic Agribusiness

On the level of commune and town administrations, there are several constraints:

- Toll barriers on highways
- Limitation of the number of market days in a week
- Suppression of the useful informal-sector commerce of street vendors
- Rigidities in the labor market which inhibit hiring by private employers (see companion report on the growth of employment)

On the level of the national economic structure, there has been a virtual elimination of private traders from some of the most important activities Two most harmful instances of that state of things are in the coffee and fertilizer trades:

- Private coffee traders have been eliminated in the important coffee region of Kirimiro, by a policy which forces peasants to sell to state-owned, money-losing coffee washing stations To prevent peasants from continuing on-farm decortication, the state-owned decorticating machines have been removed
- No private trader can compete in fertilizers with Regional Development Companies (RDCs) and other state institutions, which do not pay customs duties (23 percent)

or transaction tax (12 percent). RDCs sell fertilizers at a price that barely covers the CIF cost at Bujumbura, without any mark-up for overhead, direct costs of distribution, waste, losses, and so on. The operation is heavily subsidized by the government.

The elimination of the constraints mentioned above is proposed as the subject of a dialogue with the Government of Burundi This report assumes that there will be a principle of conditionality implied in arrangements for economic assistance from USAID to the government Thus, a mutually agreed-upon program of policy reform which would gradually relax some (or all) constraints would be related to consecutive disbursements

Policy Program for Improvement of Basic Conditions for Entrepreneurship

The report proposes a set of measures designed to create conditions in which the private sector can use and improve its spirit of entrepreneurship, identify and evaluate opportunities, and initiate actual operations At present, a prospective exporter of a non-traditional product lacks the support of a coherent system of commercial facilities, without which the export business is hardly practicable

The principal weaknesses of access to export markets are these:

1 Lack of information on the current status of the market targets: current prices, arrivals, price trends, etc.

2. Lack of basic information on that market: is it customary to sell outright or leave in consignment? what is the usual method of payment? What are the standards for sizing and grading? Is there a preferred packaging?

3. Lack of assistance in promotion of product, identification of, and introduction to, reputable buyers, etc

4. Prompt communications by a least-cost medium (of special importance to a fledgling, money-short operation)

5. Impartial services for resolution of business conflicts, through the use of sworn inspectors, arbitrators, etc

To these weaknesses could be added the lack of facilities which would more actively encourage and support new export initiatives. These facilities, (to be considered in later stages of the program, if progress justifies additional, more ambitious moves), could be conceived as

- Equivalent to export management companies (EMCs), as they are known in the United States These companies undertake to handle exports for smaller U S manufacturers who wish to export but lack the know-how themselves (The Secretary General of the Burundi Chamber of Commerce suggested a similar undertaking he calls "Maison de Commerce.")

- The most active form of export promotion would be a venture-capital (*capital de risque*) operation taking equity in promising but unproven export operations

This report suggests that USAID recommend a remedial policy program to overcome these weaknesses and create a positive environment of encouragement for export operations Two alternative institutions are suggested to take the lead in the execution·

- The Chamber of Commerce, which has already been selected by the World Bank for the key role in the APEX loan fund project

- The Ministry of Agriculture

It is suggested that in either case, there be a collaboration with three other organizations

- PTA Bank (Eastern and Southern Africa Trade and Development Bank), an institution owned by the governments of the nations in the Preferred Trade Area (PTA = ZEP), with headquarters in Bujumbura and having the promotion of trade within the region as its main objective

- COLEACP, one of the EEC organizations with special interest in the promotion of Third World exports of flowers and fresh produce to Europe. That organization will be funded by the European Development Fund

- Possibly, Institut Supérieur de Gestion des Entreprises, a continuing education institute for active managers. (The Institute reports to the Ministry of Plan)

One additional activity, to be assured by the Ministry of Agriculture, will initiate the development of a basic information structure (to be expanded in the future) for the domestic market· regular radio bulletin on prices of important agricultural commodities in Bujumbura and some important provincial commercial centers in the country. That information should stimulate commercial activity to profit from price differential The result will be a more competitive economy with a greater share of monetized transactions and less drastic regional differences among prices

Execution of the overall program would be supervised by a committee in which USAID would collaborate with Burundi agencies and representatives of the private business

The relationship of conditionality between the execution of the program and disbursement of USAID assistance to the Government of Burundi would be assured by a mutually agreed a series of milestones specific achievements that would activate disbursements

The team reviewed the present situation with regard to the funding and capability for feasibility studies for new projects. Under the World Bank's APEX project, the matter will be handled by the Chamber of Commerce and the Centre de Promotion Industrielle (CPI) No recommendation is made for a USAID intervention in that matter in the near future. In the more distant future, intervention may be considered, if the number of deserving projects and the capability to perform studies warrant it.

I. FOOD EXPORTS IN BURUNDI'S DEVELOPMENT

Burundi's basic problem is its size· its domestic market is too tiny to support almost any kind of major industry Only those sectors able to produce for the external as well as the domestic market have prospects of survival The important question is whether manufactured or agricultural products offer the more favorable prospects for export in the future

Poor Prospects for Manufactured Exports

In the past, Burundi looked to industry to generate non-farm employment, given the intense pressure on the land This policy was misguided The industries were in general excessively capital intensive, with too great a capacity for the market, and relied on protective tariffs, market power, and state subsidies

Prospects for the future of the industrial sector are not much brighter Most of the earlier efforts were made by the government itself, or by private investors with substantial government involvement Imported goods are in general much cheaper than those produced locally, despite high transport costs. Many of the protective measures that these industries enjoyed have been dismantled in the past couple of years as part of the Structural Adjustment Program adopted by the government in cooperation with the World Bank and the IMF: high import duties, import licensing, foreign exchange controls, and tax breaks.

The consequences of reducing or lifting protection measures are already evident in the industrial sector Most enterprises are operating at a lower fraction of their capacity than before Many are incurring losses, and some have failed. Others will surely follow Employment in the manufacturing sector has declined or at best, stagnated. Few industries offer positive prospects. The commercial viability of most industrial enterprises is in serious doubt.

Some industries will surely survive· Beer brewing and soft drinks are competitive with imports because of their high water content. Foam mattresses are also viable because of their bulkiness Industries with an export market offer the best prospects of competitiveness with imports Some coffee processing is surely viable, although perhaps not as much as is done The viability of the textile industry and tea processing and export are being studied as part of the overall analysis of the Structural Adjustment Program (Given the popularity of Korean polyester fabrics in Burundi's countryside, the outcome for textiles is not obvious)

Import substitution enterprises are the most at risk from the Structural Adjustment Program, especially since imports have been greatly liberalized Lovinco Company, the largest private employer and manufacturer of blankets, is having difficulties Bata Shoes has ceased operations Many state-owned companies would go bankrupt if the government were not covering their deficits

Our unavoidable conclusion is that, in the immediate future, Burundi cannot place much hope in its industrial sector becoming the locomotive pulling the rest of the economy along Only those enterprises able to produce for the domestic and the external market have prospects of survival and growth.

Lead Role of Agricultural Sector

What Burundi does have is a rich and diverse farm sector The country is one of the few in Africa that could truly be considered self-sufficient in food production, while most of its neighbors run high food import bills

Burundi has some important advantages. Climate, for instance. The combination of 3 to 5 degrees south latitude, and altitude between 1,000 and 2,000 meters makes for an almost perfect climate year-round with ample rainfall. Between its lowlands at 800 meters along the coast of Lake Tanganika and the higher highlands lie a multiplicity of microclimates that allow an enviable diversity of agricultural production Few places in Africa can match Burundi's variety in production

Burundi has other advantages Its people are hard working A strong sense of social organization and discipline is evident in towns, but especially in the countryside. Its public administration system is among the most able and honest in sub-Saharan Africa Burundi's farmers use intensive agricultural practices rarely seen elsewhere in Africa, including intercropping, mulching, composting, and anti-erosion contours A strong sense of organization pervades the entire economy

Agricultural exports already generate 85 percent of foreign exchange earnings Coffee is the main export crop While farmers get less than half of the export price of coffee, the price is so attractive that they produce more than Burundi's export quota under the International Coffee Agreement and expect to increase production 30 percent over the next five years

Coffee revenues are distributed widely through the countryside Ninety-three percent of farms have small coffee plots, carefully tended through the year, but coffee occupies only 8 percent of cultivated land Thousands of farmers earn most of their cash income from the sale of coffee In this sense, coffee is a very egalitarian distributor of income There are few large coffee farms Coffee revenues thus provide most of the purchasing power in the countryside. This income is used mostly to purchase beer and other foods, but also for household items not produced on the farm and simple manufactured consumer goods Coffee and home-brewed beer provide the purchasing power for peasant households to buy from local artisans and local industry

Beans are the next most important food crop in terms of value and in generation of cash income for farmers. Not only are beans a major component and source of protein of the diet, their high value makes them an attractive trading commodity among farmers and among regions

Most of the calories in the Burundi diet come from bananas (both cooked and green), cassava, and sweet potatoes Cassava and bananas are the most conspicuous in terms of area planted. Since they produce throughout the year, these two crops constitute the safest form of food security a family can hope for Nearly all farming households grow cassava and bananas These two crops are also widely traded locally, in many cases being both bought and sold by the same household at different times of the year

The distinction between cash crops and food crops is rather artificial in Burundi. Perhaps, it hinders rather than helps understanding of Burundi's agriculture Food crops are cash crops They can be eaten; they can be sold and bought Farmers themselves do not exhibit any hesitation in selling cassava or bananas, the main food crops Some observers conclude that farmers are reluctant to sell food crops because they eat most of their production, but the conclusion is unwarranted If farmers were to produce first to eat and then to sell, they would not produce coffee in the first place Their alleged reluctance to produce for the market reflects the weakness of food demand or shortcomings in the marketing system, not a cultural aversion to selling food crops

Growth Potential in Agriculture

There is still an untapped potential for increased production in Burundi's farms. Modest applications of chemical fertilizers, for example, have been shown to almost double yields of beans, maize, peas, peanuts, rice, and potatoes There is little doubt that farmers themselves recognize the benefits of fertilizer use In the last few years, thanks to international aid financing, several regional development companies and state organizations have imported modest amounts of fertilizers to distribute to farmers at subsidized prices The response has been predictable; farmers cannot get enough of it.

Another source of potential increase in farm productivity is the additional labor per hectare that becomes available as population grows There is no such a thing as a maximum amount of labor that can be used on the land Agricultural food crop production so far has managed to keep pace with population growth Given the variety of crops produced on each farm, additional labor will probably be absorbed through adjustments in cropping patterns and more intensive agriculture This has happened already and will surely continue The farm sector is and will remain in the foreseeable future the main source of new employment for the growing population

Vicious Circle of Stagnation

What keeps Burundi's agricultural potential from becoming a reality? Simply put, the lack of a market The farm sector, like the industrial sector, needs a market to sell its products The urban areas provide the internal market for the farm sector, but even Bujumbura is so small that it offers the barest minimum of a market. Unless farmers have an outlet for their additional production, they just do not produce more So long as the market remains limited to Bujumbura, Burundi's economy will remain stagnant at the same low-level equilibrium. Foreign aid injects some extra purchasing capacity, but the same equilibrium would return if the aid were withdrawn Without new markets for its production, Burundi will remain just above the subsistence level, able to maintain only the urban demand that the foreign revenues from coffee exports can generate

Part of Burundi's economic isolation is due to its remoteness, part to its neighbors' policies But a great part has also been self-inflicted We cannot do much about the first two factors, but Burundi can help itself by examining its own agricultural trade policies. The Structural Adjustment Program has helped in identifying and correcting some of the more glaring obstacles to open up Burundi's economy to the international market, particularly the overvalued currency and import restrictions The government of the Third Republic, in office for just one year, has launched a major and continuing diplomatic offensive to improve relations with its immediate neighbors: Rwanda, Zaire, Tanzania, and the P.T.A. countries One of the aims of the effort is to negotiate and implement liberalized agricultural trade agreements

Breaking out of the existing economic isolation was the principal rationale for the government to undertake the Structural Adjustment Program begun in 1986 The government realized that Burundi's past development strategy of self-contained industrialization was going nowhere Several drastic measures have been adopted to redress the distortions created by past policies The adjustments have been painful for some sectors, but the overall economy now gives signs of finding its bearings

The devaluation of the Burundi franc has been the most significant of these measures The devaluation alone reduced demand for imports by raising their costs and made Burundi's exports more competitive But what can Burundi export? Its coffee quota is full already Its industry can barely survive competition with imports, much less compete in export markets (Some modest but notable success have taken place, however, with cotton fabrics, beer, and bottles) But the reality is that exports are more likely to be found in the agricultural sector than in the industrial sector Unfortunately, most current efforts at export marketing by, say, the Chamber of Commerce are still oriented toward manufactured goods and hardly any toward raw farm products

Another major reform from the Structural Adjustment Program has been the liberalization of imports, by making the awarding of import licenses nearly automatic, with the exception of a few protected commodities Foreign exchange for imports is also made more available, but at the new devalued rate of exchange that is adjusted frequently. Import tariffs have been standardized and reduced overall

It is ironic that while imports have been liberalized, exports have been kept under the old controls. A new decree aimed at promoting exports has been signed, but its actual implementation awaits the definition of specific ordinances by the Ministries of Commerce and Industry and the Ministry of Finance. Until these ordinances are published, exporters are obstructed by a multiplicity of economic disincentives and administrative barriers

Among the economic disincentives are export tariffs and taxes Almost all agricultural products are levied a 15 percent export tariff. Moreover, exporters need to pay the usual transaction tax of 12 percent over all sales, whether they are for local consumption or for export. Profits from exports are also taxed as commercial income at 45 percent

The most discouraging factors working against exports are administrative regulations -- specifically, the requirement that every product exported must be covered by an export license It sounds innocent enough, but in practice it represents a labyrinth of barriers, the details of which are given in Chapter II

The objective of all these administrative requirements is not to discourage exports, but to ensure that the foreign exchange generated by any Burundi product leaving the country will be turned over to the Central Bank The impact is to suffocate the very exports that generate the exchange The rules literally kill the goose with the golden eggs.

Target Markets

Who is going to buy Burundi's expanded agricultural exports? The first reaction is to look toward Europe, the traditional buyer of Burundi's and other African countries' exports Additional exports of coffee are curtailed by the International Coffee Agreement quota Tea exports offer some promise Fresh tropical fruits and vegetables are the objects of scrutiny for export potential Passion fruit has succeeded in establishing a beachhead in the European market Cut flower exports have also made a major entry and are expected to double next year Other products will probably follow Their high value compensates for their small volumes. The European Development Fund is sponsoring an important project to promote the exports of tropical products to the EEC. Similar exports of high value fruits and vegetables can be contemplated to the Middle East and, perhaps, Kinshasa

The real targets are closer to home. In our view, the greater potential for agricultural exports is just across the border in neighboring countries Most neighbors suffer from chronic food shortages, some of their own making Food imports are a major item in Zaire, Zambia, Tanzania, Uganda, Kenya, and less so in Rwanda. For many of these deficit areas, Burundi is better placed than the traditional international suppliers. The large copperbelt of southern Zaire, for example, is closer to Bujumbura than to Durban Burundi also produces in abundance many products that are highly appreciated and scarce in the diets of many of its neighbors.

Zaire is the principal potential customer A vast country of potentially great wealth, Zaire is currently hamstrung by the breakdown of its internal transport system The potential is evident, however, in the continuing flows of selected food products from the Kivu region to Kinshasa, Lubumbashi, and the rest of the country, often by air freight Some regions of Zaire, the southern copper mining areas of Shaba, for example, may be more accessible from Burundi than from Kivu. The relative convertibility of the Zairian currency is a point in favor of targeting that market The market for high value fresh fruits and vegetables in Kinshasa, a city of 3 million people with a large expatriate community and a wealthy elite market, needs exploring At present, many of the food supplies for that market are coming from South Africa

Rwanda is so similar in geography and economy to Burundi that it would not normally appear to be a natural trading partner. On the other hand, neighbors are usually the best customers for each other's products There are already exchanges of agricultural products between the two countries, but they are illegal movements along the long and rugged border As long as Rwanda persists in maintaining an excessively overvalued currency, food imports from Burundi will look more and more attractive that their own domestic production.

Zambia is another potential target market for Burundi products, especially because it has a large mining sector and a weak agricultural sector. Recent expansion and improvements in the Bujumbura port and the existence of a high volume trade from Zambia to Burundi make the prospects more likely now than some years ago The introduction of new ships has lend additional importance to shipping along Lake Tanganika It already provides the main channel for imports of low-value heavy goods like cement, sugar, iron rods, and construction materials

The market for Burundi products in Uganda, Kenya, and Tanzania needs to be examined more closely, but at first sight these countries do not seem very promising· Uganda because of its continued unrest, Tanzania, because its centers are so far away and difficult to access, and Kenya. because its own highlands would compete at an advantage for the Nairobi market

Potential Food Crop Exports

What kinds of products offer the most promise for exporting to neighboring countries? The more likely prospects are beans, rice, fish, onions, cassava, and potatoes Beans are specially valued in the diet of many nearby countries Their high value and sturdiness facilitates their transport over long distances Beans from the Kivu region in Zaire are sold from Kinshasa to Lubumbashi. Rice is a luxury product among consumers in this part of Africa Rice exports have already been made from Burundi to Zaire, by a government-owned regional development company Dry cassava and cassava flour are regular items of long distance trade in Zaire and other African countries They are usually blended with maize flour to prepare many local dishes.

Fresh potatoes are highly valued by consumers, especially those located far away from the highlands and the cool climate required to grow potatoes Fish is another product that is already traded over long distances in both fresh and processed form (smoked, salted, dried) Burundi's improvement in its fishing industry offers good prospects for sale outside the country Onions are another high value vegetable common in African dishes that has a good production potential in the Burundi highlands

Evidence of Export Potential

There are several indications that if Burundi were to liberalize its export regulations, its food products could find markets in nearby countries·

- In 1986 the Government of Burundi reportedly stationed military patrols on the border with Rwanda, in the Kirundo province, to prevent farmers from smuggling sacks of beans, at a time when prices in Rwanda were much higher than in Burundi

- Alcovit, an animal feed manufacturer, negotiated two large orders at the Lusaka fair last July, one from a private importer in Bukavu, Zaire, and another one from Tanzania. After two months, Alcovit still awaits the official sale contract from the prospective buyers, without which it cannot begin the application for export license The prices are right, but on both sides the administrative procedures to carry out the exports are too cumbersome, and the consequent delays may kill the deal

- The Kivu region in eastern Zaire has traditionally exported many temperate-climate agricultural products to the rest of Zaire Products include fruits, vegetables, dairy products, coffee, beans, potatoes, and meats The principal markets include both Kinshasa and Lubumbashi Much of that trade has declined over the years with the continued deterioration of Zaire's internal transport system Both Kinshasa and Lubumbashi now get many of the same products from South Africa by surface and ship transport It costs more than $100 per ton to truck merchandise from South Africa to Lubumbashi

- An active trade persists in high-value dry goods -- beans -- from Kivu to Lubumbashi using the Zairian railway system (SNCZ), which requires numerous transfers from boat to truck to boat to train along the way Despite a lag of up to three months in transit, prices in southern Zaire are sufficiently attractive to justify the long trip (A Middle Eastern trader who was engaged in that trade some years ago was interviewed in Bukavu by one of the team members) Bean prices in Bukavu (US$0 43/kg) on October 1988 are comparable to those in

Bujumbura, hence the possibility of exporting from Burundi to southern Zaire seems viable

- Cassava flour was a standard staple of the diet in the south Shaba region in Zaire until a few years ago. The advent of the mealy bug epidemic virtually wiped out cassava cultivation in southern Zaire and northern Zambia, the usual sources of supply Cassava flour is now rare to find and demands a high price (two to three times the price of maize flour). Dry cassava is being shipped to Lubumbashi from the Zaire interior, Bandundu region -- thousands of kilometers and several weeks away by railroad.

- Zambia is a chronically deficit country in food stuffs, because of its high mining and urban population and unwise economic policies. Two years ago, Zambia tried to buy 1,000 tons of maize, its staple food, from Burundi The sale did not take place for lack of an internal system to collect such large amounts of maize on time

- Some minor cross-border trade already exists along the unguarded frontiers between Burundi and neighboring countries None of these flows are reflected in official statistics Seasonal flows and counterflows of farm products across the border from Rwanda are common now and have been in the past Zairian farmers reportedly cross the Rusizi river regularly to sell produce along the RN5 highway, since the road on the Zaire side has deteriorated badly

- Indirect evidence of the competitiveness of Burundi's food crops with its neighbors' is the current self-sufficiency in food stuffs Years of overvalued exchange rates in Burundi did not result in major food imports, as has happened in many other African countries The impact of the devaluations in the past few months should make Burundi's production more competitive and exports more likely.

- There is already an established boat transport system along Lake Tanganika all the way to Mpulungu, Zambia Transport capacity has been expanded by the recent addition of a 1,200-ton ship The port of Bujumbura has been improved and is being expanded At present the traffic is only one way, bringing cement, construction materials, sugar, and barley into Burundi Potential exports could take advantage of discount return rates on the empty boats going south Batralac, a private shipping company servicing this route, has offered to help sponsor the development of a southern counter-trade of goods by offering cut-rate freight.

Opposition to Exporting Food Staples

There is no consensus among government officials about the desirability of exporting agricultural products to neighboring countries. While there is unanimous enthusiasm for exporting industrial products to neighbors and exporting exotic fruits, flowers, and vegetables to Europe by air freight, some objections are raised to exporting farm products

Some officials in the Ministry of Agriculture and outside worry about the availability of these products for domestic consumers if exports were permitted They do not see the surplus of food products as so obvious that they can allow part of the national production to be exported The impact could therefore be less food for the local population, especially for the urban population in Bujumbura Higher prices and food shortages are the expected outcomes of permitting exports, according to these officials Beans, for example, are a basic staple in the diet Some think that the government cannot risk allowing exports when there are hungry people in the country, at the time of soudure, for example A surplus might appear, but only at harvest time when production exceeds the physical capacity of people to eat; after the harvest is finished, scarcity is the norm. They fear that this scarcity would worsen if exports were allowed.

This view is not shared widely within the government, or even within the Ministry of Agriculture Undoubtedly, in the short run exports diminish domestic supplies, and of course exports increase the price to consumers In the long run, the effect is dampened by increases in supply. The question is what the magnitude of these effects is. When the production of beans is 300,000 tons per year, the export of 1,000 tons will barely be noticed in the market. Even assuming a rather inelastic demand of 0 3, the increase in price will be at most 1 percent. The increase in price will affect consumers, but it will also benefit producers who now get more for their production

The Chamber of Commerce is also unenthusiastic about promoting exports of farm commodities. Their preference is to place priority on the promotion of manufactured products, in nice packages, with high standards, trademarks, and high values. Unfortunately, most of Burundi's existing industry, created for import substitution, is fighting for its survival against the competition of cheaper imports It seems unwise to place much hope in the exporting potential of its manufacturing sector Farm products lack the glamour of exports of finished manufactured products. They do not lend themselves to being exhibited in international trade fairs. None were taken for display at the recent Lusaka fair, for example.

We have therefore an ironic situation: The products in which Burundi has a likely comparative advantage over neighboring African countries are those basic food crops already produced abundantly and efficiently by its farmers. But the likelihood of these farm products being exported is arrested by the complicated export procedures, foreign exchange controls in Burundi itself, fears of shortages by the agricultural authorities, and a lack of enthusiasm from the Chamber of Commerce To this list must be added high export taxes, transaction taxes, transport difficulties, import restrictions in importing countries, and foreign exchange controls in the neighboring countries

The battle to open the Burundi economy to trade with some of its neighbors and to make its agricultural sector a driving force in its development seems an uphill one, even on the home front.

II. LEGAL AND ADMINISTRATIVE CONSTRAINTS ON NONTRADITIONAL EXPORTS

The previous chapter contends that an increase in exports, above all agricultural exports, is essential to take Burundi out of its current low-level stagnation and into a more rapid development. Legal and administrative constraints, however, prevent an increase in exports

Many of the more harmful constraints on exports, such as an overvalued currency, have already been eliminated or are being discussed within the framework of Burundi's Structural Adjustment Program In this section, we would like to indicate those constraints that still remain or the status of which remains unclear

Removal of certain regulatory and fiscal constraints could greatly enhance Burundi's export opportunities. The main constraint is the regulation for obtaining export permits As the following analysis shows, these procedures amount to a virtual prohibition of an important class of exports which could contribute greatly to the realization of Burundi's professed strategy of export for economic growth.

Export-License Procedures

Current export procedures in Burundi are highly structured and discouraging to potential exporters of farm products The procedures are designed for the textbook type of export transaction, with a seller in one country, a buyer in another, each dealing with a corresponding bank through letters of credit. Trade in agricultural commodities among African countries does not conform to the formal structures envisaged in these regulations

Interregional trade in farm products in Africa is usually carried out by large numbers of small traders, each dealing with fairly limited volumes. The same product is likely to come in a great diversity of colors, sizes, and quality grades. Such heterogeneity requires personal negotiation at every stage of the marketing chain Traders therefore usually travel with their merchandise from the market of acquisition to the market of sale. Trade in farm commodities across national frontiers follows basically the same patterns, with the additional complication of arranging for foreign currency exchanges Money traders in frontier towns usually fulfill this function Banks are seldom involved in financing currency exchange

This pattern is at great variance with the stylized export transactions that the export authorities have in mind and visualize when they set procedures and design forms to be filled by traders Most of these expectations are codified in the regulations to obtain an export license (*Reglement d'Exportations*, published by the Banque de la Republique de Burundi) Several features make these regulations inimical to the interest and practices of traditional traders:

1. To begin with, an export license is needed to export any merchandise. It is issued by the BRB in Bujumbura It cannot be obtained at the border or at the port of exit Thus, a fishmonger trying to export fish legally from Burundi to Bukavu, Zaire, must first get a license in Bujumbura

2. An exporter cannot request a license directly Only a commercial bank can request it on his behalf The commercial bank in turn becomes responsible to the BRB for accounting for the foreign exchange earned from the export. Payment has to be made through the commercial bank.

3. Only residents of Burundi -- individuals or companies -- are granted export licenses This would prevent a Tanzanian trader, for example, from buying potatoes in Burundi to take back to Tanzania Of course, he could easily fulfill this requirement by using a national "prete-nom" as the nominal exporter But this would cost money and involve finding a person he could trust

4. The exporter must be registered as a "commercant" in the "Commerce Register" and must specify the identification number of his registration He must also specify the code number for the type of activities to which the registration applies The complications these two numbers might entail are discussed below.

5. To register as a trader the exporter must have a regular place of business and a registration number with the Tax Department, pay dues to the Chamber of Commerce, contribute to the compulsory savings scheme of CADEBU, and meet other minor requirements Each requirement is likely to have prerequisites

6 The license must specify the name of a foreign buyer This is clearly no problem for a standard export to say, Europe, where an importer will be expecting the merchandise The fishmonger taking his fish to Bukavu to sell at the Mama Mobutu Market, however, cannot know in advance the names of the buyers of his fish He could truthfully say that he himself was the importer, but the BRB staff examining export license applications would not accept this One cannot sell to oneself across the border

7. A selling price must be declared in foreign currency The license may be denied if the BRB estimates that the quoted price is below what it considers the international price for that product The BRB regularly receives the International Trade Center list quoting prices in the principal international markets for commodities exported from Africa

   The price must be given in one of the foreign currencies acceptable to the BRB Once again, the informal exporter, the typical small trader accompanying his merchandise, will find it difficult -- if not impossible -- to satisfy this requirement Zaires, Rwandan francs, kwachas, or Tanzanian shillings are not acceptable currencies Nor are Burundi francs A Zairian buyer taking home a shipment of potatoes bought in Burundi must quote the price in US dollars, Belgian francs, or another hard currency The BRB will then determine the amount of Burundi francs that the trader will receive; he is not allowed to keep the proceeds in foreign currency The exporter is required to surrender all foreign currency proceeds to the Central Bank of Burundi through his commercial bank

8. Barter is not allowed If a Zairian trader brought cement to sell in Burundi, he could not use the proceeds

to buy potatoes to take back. Exports are separate transactions from imports, and each export requires the trader to surrender foreign currency to the Central Bank.

9. Transport insurance is compulsory; according to the law it must be arranged with SOCABU, the Societe d'Assurance du Burundi. The cost of the insurance must be billed to the buyer and paid in foreign currency

10. Only three methods of payment for an export license are allowed. Payment can be received before the merchandise is shipped, if payment is made after shipment, it can be done through either a bank transfer or a letter of credit; if payment follows shipment, all export documentation must be made in the name of the commercial bank representing the exporter Payment must be made within three months after shipment Other kinds of payment might be allowed by the BRB, provided that suitable guarantees are offered that the foreign exchange will be delivered

11. The request for an export license must be accompanied by a copy of the invoice or sale contract with the foreign buyer Consignment shipment must be accompanied by the appropriate contract and whatever guarantees the BRB requires The typical African trader in farm products will find it daunting to produce a sale contract with a foreign buyer before he takes a product out of Burundi

12. An export license is issued for a specific product in a specific amount, to be exported within a maximum of six months One export license can cover several shipments of the same product to the same buyer over the six months, in which case the corresponding annotations will be made on the original of the license, to ensure that the volume exported does not exceed the amount authorized in the license. Each separate shipment must be accompanied by an "Export Declaration" citing the number and expiration date of the export license

13. Coffee exports are subject to some special treatment. The exporter (BCB) is not required to specify the sale price in foreign currency in the export license All documentation concerning shipments is made in the name of the commercial bank representing the exporter As sales are made and buyers make payment, the BRB must receive notification and payment from the commercial bank in charge

From all these points it is evident that the procedures used for export in Burundi pose an insurmountable barrier to small traders who otherwise might engage in exports of Burundi farm products to neighboring countries The documentation requirements are practically impossible for an exporter who accompanies the merchandise for sale outside Burundi to satisfy

Agricultural products in African markets are just not sold or traded in the standard import/export framework developed for exports to Europe Unless the procedures are adjusted to accomodate the normal trading practices found in the region, they will effectively block Burundi's hopes to use trade in agricultural products as an engine to push its overall development

Export License and Foreign Exchange Controls

The basic problem emanates from the desire of the government to establish control over the foreign exchange generated by exports The export licensing procedures are a way to guarantee that foreign currency proceeds are surrendered to the Central Bank of Burundi. In fact, the export license itself is clearly named "License d'Exportation et Declaration d'Encaissement de Change· Modèle E" (Export License and Declaration of Exchange Deposit) The foreign currency regulations cause the complications that block national and foreign exporters from trading in Burundi products

To compare, in the United States no export license is needed to sell overseas -- except for items of military security -- because there are no foreign exchange controls An "Export Declaration" specifying the product, quantity, and declared value is required to accompany each shipment This has purely statistical purposes; it costs nothing An exporter is assigned an identification number, also for statistical purposes.

Burundi has greatly liberalized imports in the last couple of years, as part of the Structural Adjustment Program Import licenses are granted fairly automatically, and foreign exchange can be bought at the BRB's exchange rate with few complications Exports, however, which generate foreign exchange, are kept under stringent control. These controls are actually arresting the generation of the very foreign currency that the government wants so much

The big fear of some Burundi economists is that unless controls on export proceeds are retained, some of the resident foreigners might use exports to remit capital abroad Burundians themselves could use exports to bypass capital flight controls, to invest their money overseas instead of in their own country Foreign capital is not likely to be invested in Burundi, however, unless sufficient guarantees are given that it can be taken back Burundians also are more likely to invest in their own country in a healthy open economy than in a closed economy in which markets and trading options are so limited

Trade Restrictions Outside Burundi

The problem of currency exchange is not limited to the Burundi side alone On the contrary, the process might now be easier in Burundi, after two years of the Structural Adjustment Program, than in the potential importing countries Every neighboring country has its own system of exchange controls and regulations on the physical import and export of goods Zaire imposes very few restrictions on the importation of foodstuffs, especially those coming from the south to feed Lubumbashi It gladly and continually allows the entry of subsidized maize flour from Zambia to supply its mining centers in the southern Shaba region The zaire is a fairly convertible currency relative to those of neighboring countries It is not a crime, for example to exchange kwachas for zaires in Zairian towns along the border.

Zambia, in sharp contrast to Burundi, offers an array of encouragements to exporters, but the restrictions on imports are very stringent Among the incentives offered, Zambia allows exporters to retain half of the currency proceeds from exports in foreign currency accounts, to be used to import, to remit overseas, or to sell in a parallel auction market The other half is given to the exporter in kwachas at the official rate of exchange, which is about one-fifth that in the auction market. Many nontraditional exports have thus flourished in Zambia by taking advantage of these incentives Exporting strawberries to Europe by air, for example, has become a great new item, even though at official rates the exporter is technically making a commercial loss

Export Promotion Decree

The decree of April 15, 1988, on export promotion promises considerable advantages to exporters of industrial and artisanal products and raw products, the latter with <u>exceptions</u> to be indicated in an "ordonnance" These advantages include

- Exemption from exit taxes and customs duties
- Restitution of import duties and taxes paid on inputs used to produce exported articles
- Restitution of similar charges on inputs used for packing materials and other accessories
- More liberal business-cost deductions than for usual domestic operations
- Abatement of 50 percent of the income tax attributable to the exported goods
- Facilities for acquiring foreign exchange needed for business operations and for transfer of profits due to foreign partners
- Credit facilities at preferential interest rates for export operations

The foreign-exchange and credit facilities indicated in the last two items will be accorded within limits to be fixed by the Bank of the Republic of Burundi. Most provisions of the decree require specific definitions and interpretations to determine the extent and modalities of its applications This is the function of regulations on the decree's application

Until the list of products excepted from the advantages accorded by the decree is published, there is uncertainty about which products will benefit and which will not Unfortunately, there has been a considerable delay in issuing the regulations. In October 1988, nearly half of the year after the decree was signed, we have been informed that the regulations will be published soon.

That decree has a special importance not only because of the great advantages which it confers on pioneering exporters, but also as a signal from the government to the private sector, indicating the government's desire to give a strong support to activities in that field. The delay in the publication of regulations risks weakening the desired impact The delay could be due to the paucity of qualified personnel at the Ministry of Commerce and Industry, the Ministry of Finance, or the Central Bank, which are charged with execution of the decree In a country in which most economic activities are regulated, delays in the clarification and execution of regulations are a paralyzing impediment to economic activity and growth.

III. CONSTRAINTS ON INFORMATION AND SUPPORT SERVICES IN ACCESSING EXPORT MARKETS

This chapter deals with nontraditional agricultural export products The traditional export commodities, like coffee and tea, or those more recent exports for which marketing channels already exist are not prime subjects of our discussion Indirectly, of course, all export commodities will share in the benefits of facilitating foreign marketing

Principal Constraints and the Resulting Weaknesses in Market Access

A prospective exporter of a nontraditional export product from Burundi, (a manufactured non-food product, processed food, unprocessed staple food, fresh fruit or vegetable item), lacks the support of a coherent system of commercial facilities, physical as well as informational and procedural The exporter needs these facilities:

- To determine whether a transaction is possible and likely to be profitable
- to execute all the necessary physical and procedural steps once a decision to undertake the transaction has been made

The most important elements of such a support system, the lack of which impedes latent export initiatives, are these:

- Current market information
- Basic market information

- Promotion and client identification
- Fast and inexpensive communications
- Shipping and forwarding information
- Impartial services for resolution of business conflicts and litigation
- Official procedures and documentation

Current Market Information

Under this heading belongs information on prices, volumes traded, price tendencies, and events which may affect prices. Although the degree of precision, accuracy, and timeliness required varies depending on the kind of product and the specific market to which the exports are targeted, a minimum of that information is necessary if the trade is to take place at all.

Thus, the prices of any kind of fresh fruit or vegetables on the European market must be presented with considerable accuracy, according to standard sizes and grades These prices may be very volatile, but the price information must be as up-to-date as possible because when transport costs can be USS 1 per kilogram, a sudden price drop can easily wipe out profit margins and cause a loss Similarly, information on possible Middle-East markets for fresh produce will require a great deal of precision and timeliness Heavy rains in a major production area will limit the supply of produce harvested; transportation strikes constitute a major event influencing price tendencies; similar occurrences are important information for the exporter

Staple dry food products, which are much less perishable, should be exported within the Preferential Trade Area (ZEP) or to Zaire (a member country of CEPGL). The timeliness of the price information, while still of fundamental importance, leaves a larger margin for delay. Also, specifications require less detail. Nevertheless, that information is absolutely vital, because the cost of transport and other costs occasioned by the slowness of transport, typical for the region, can eat deeply into an expected profit

Basic Market Information

Under this heading belongs all the information needed for the exporter to know how business is done in the specific market (be it Paris and Rotterdam or Ndola and Lusaka), to which the product will be shipped and the information needed to avoid costly mistakes A complete knowledge of any market takes years to acquire; there are, however, certain key items of information without which no exporter can begin operations

- Is the commodity sold directly to an importer-wholesaler; traded through a broker, left in consignment or traded in some other manner?
- What is the customary method of payment upon delivery, 30-day delay?
- What are sanitary or quarantine regulations for entry into the target country?
- What are the sizing and grading standards?
- What is the customary or preferred packaging for various products?

There are many other crucial questions, and knowledge or ignorance of the right answers makes the difference between a profit and a loss.

Once again, the European (and Middle-East) fresh-produce markets may require more accuracy than the regional PTA or CPGL markets for less perishable staples Still, a great deal of information is needed for successful trading. To give just one simple example in shipping an item such as dry beans, the size of the bag and the material of which it is made (plastic, jute, sisal) can make selling easier or more difficult, because small country-sellers who will retail the product have preferences that depend on how they transport the bags, what they do with the used bags, and so on

Promotion and Client Identification

The next constraint, that must be removed in order to achieve an effective support system for Burundi exports, is the lack of active promotion and identification of immediate trade opportunities Of course, the resources of the country do not allow for a corps of commercial attaches in every capital or a network of agricultural attaches of the Foreign Agricultural Service of USDA. A thorough study should be conducted of the methods of trade promotion of these organizations, as well as of similar organizations in other countries that successfully promote exports It is possible to design a coherent system of export promotion, responsive to the particular needs of potential Burundi exporters and tailored to the country's resources Designing such a system will help remove one more constraint on access to foreign markets

Fast and Inexpensive Communications

The volume of communications with foreign countries that is needed to establish and maintain an effective export support system is costly That cost may become a serious constraint in the early stages of a pioneering operation A solution to consider is an effort to convince major trading partners (in PTA countries and Europe) to join in maintaining a mutually supported computer-conferencing system These systems are reputed to be much less expensive than the conventional telex links and can offer additional low-cost features, such as sending copies of the principal message to a combination of other system members and maintaining a "bulletin board" open to all members. One such system in Washington, DC, CARINET, joins a number of PVOs and consulting companies in the United States with the National Technical Information Service (of the US Department of Commerce), national offices of the Inter-American Institute of Cooperation in Agriculture (IICA) in 20 South and Central American countries, and a number of members in South Asian countries

We have no technical competence for a positive recommendation to join in or install a communication system of the kind in question. We recommend, however, that the matter be investigated, which can be done at a reasonable cost

Shipping and Forwarding Information

This very important type of information for prospective exporters seems to be available from a number of specialized firms ("transitaires") in Bujumbura, as well as from airline offices and companies engaged in transport on Lake Tanganyika A number of these firms which we contacted impressed us as reasonably competent with regard to imports to Burundi on principal "corridors" of transport (North, "Up-Central," Central, and South Corridors) It seems probable that they would handle exports through these corridors with similar competency and that if there is a need to investigate other directions of exports than those through these corridors (for example, to Zaire), they will offer an adequate service

Impartial Services for Resolution of Business Conflicts and Litigations

These services, best performed on the basis of mutual agreement with corresponding ("homologue") organizations in other countries (Chambers of Commerce, for example) are needed to establish procedures for impartial inspection of products and for arbitration in cases of conflicts regarding the quality, conditions of delivery, payments, and so forth

Official Procedures and Documentation

In Burundi Principal items of this class are export-permit and foreign-exchange procedures, customs procedures, and procedures related to the export-incentive regulations An exporter has to deal with a whole complex of procedures, both in Burundi and in the country to which he exports (Some procedures are also needed with regard to the countries through which the product may pass on the way to the final destination) The exporter is facing very considerable constraints in this area A systematic program of action is needed to overcome them.

Two glaring examples of the situation in Burundi are, first, the fact that, in October 1988, decree no 1/012 on export promotion, which was passed nearly six months ago, still remained inoperative in the absence of regulations on its execution The second example is the procedure needed to obtain an export permit from the Bank of the Republic of Burundi (BRB), the central bank. That procedure was probably designed with a limited class of exports in mind and with the unique objective of controlling the flow of foreign exchange The effect of the measure is that, rather than encouraging exports, it is an obstacle to them Unless modified, this measure can make impracticable a number of potential export transactions, especially in the agricultural trade within the region

In Other Countries The customs and foreign-exchange procedures in countries of the region to which exports from Burundi could be directed are of varying complexity and severity Zambia seems to pose the greatest difficulties in its foreign-exchange regulations Unless the regulations in that country are relaxed, the only way of overcoming them might be a sort of barter arrangement The subject was discussed with some private-sector businessmen with considerable experience in foreign trade (a Greek lake-shipping company executive, a Burundi importer with long experience in the customs office). They were baffled by the difficulties of dealing with the Zambian regulations, but characteristically, they declared themselves willing to experiment and try to find solutions, if they can find active support (and maybe insurance against losses if the experiment fails) from an authoritative public policy program.

Further Objectives to Consider, if the Program Performs Well

Active Participation Unit for Foreign Trade

During our team's conversations at the Chamber of Commerce, Industry, Agriculture and Artisanship, the suggestion was made repeatedly for a "Maison de Commerce," a private sector, for-profit enterprise which would be established by the Chamber to engage in exports Apparently, the Chamber has already submitted a proposal to the government and awaits an answer While the discussion did not go into detail, enough was said to understand that the Chamber would prefer that enterprise to act on commission as a broker-facilitator of deals, rather than take possession of goods and trade on its own account

There are precedents for this and similar kinds of operations In the United States so-called "export-management companies" (EMCs) perform that function for small manufacturers who lack resources and sufficient knowledge of foreign trade practices to engage on their own in promoting and selling their products abroad EMCs act as their sales agents and, by representing a number of companies, can spread their overhead costs over a large volume and offer a competent and knowledgeable service (The Roth-Heinz Act passed in the late 1970s strengthened the concept by allowing commercial banks to become partners in, or create their own, EMCs)

It is too early to consider that concept as one possible action in eliminating the constraints on the expansion of Burundi exports, especially agricultural products. However, if other measures recommended in this report are executed in a diligent and competent manner and their results are encouraging, a version of an EMC ("Maison de Commerce") might become a next step in the policy of encouragement and facilitation of agro-industrial (and other) exports in Burundi

Venture Capital for Export Operation

Another bold initiative that could be taken at a later stage, once sufficient proof is accumulated of the effectiveness of the steps undertaken by the Chamber and other Burundi agencies in the execution of the export promotion program, would be the participation of venture capital in trail-blazing export operations The PTA Bank, a regional institution of the governments of the Preferential Trade Agreement (ZEP), which is described below and suggested as a cooperating organization in the proposed program of export policies, seems likely to be interested in eventually becoming the lead firm in that kind of venture

One formula for the use of venture capital could consist of the identification of young, enterprising individuals with interesting proposals of specific export deals, willing to undertake the hardships of prospecting unconventional opportunities These entrepreneurs would then be sponsored financially by the PTA Bank, either directly or in the form of guaranties

A Program to Improve Access to Export Markets

Choice of a Lead Agency for the Planning and Execution of the Policy Program

Two institutions can be considered for designing the detailed measures and activities and the execution of the policy under discussion· the Chamber of Commerce, Industry, Agriculture, and Artisanship (CCI) and the Ministry of Agriculture and Livestock (MOAL) with the technical support of the Service National des Etudes et Statistiques (SNES).

The Chamber: Pros and Cons

The recommendation of the Chamber as a candidate is made with the full recognition of the weakness of the Chamber's organizational, technical, and financial resources. The Chamber's tasks under the World Bank's APEX loan program will put a very heavy demand on the time and energies of top management, even as the funds provided by the World Bank (about $800,000) help to expand the technical and administrative staff The planning for a judicious and prudent use of the subsidy will absorb much of the effort of the top management

The arguments for the choice of the Chamber are these:

- Among the organizations with which the team has been able to get acquainted (superficially at best), the Chamber seems to present most characteristics needed for gradual development of a positive, private-sector oriented approach

- By being chosen by the World Bank for the leading role in the execution of the APEX loan program, the Chamber has already been placed in the center of private sector activities and endowed with high prestige That prestige, unless dissipated by imprudent moves, will be helpful in advocacy of measures requested by the government, as well as in the dialogue with the Chamber's membership, i e, industrialists, merchants, and others

- The Chamber has among its objectives the development of a system of commercial information on both national and foreign subjects of interest to potential investors, businessmen in existing enterprises, and actual and potential exporters It enjoys the technical assistance provided by the International Trade Center of UNCTAD/GATT The Secretary General of the Chamber expressed his and his organization's commitment to the establishment of a system which will provide the benefits for export trade suggested in this report

The Ministry of Agriculture and SNES: Pros and Cons

The argument in favor of the Ministry of Agriculture is straightforward and powerful: most of the functions of support for agribusiness can be handled by a ministry of agriculture, <u>on the condition</u> that that ministry has the capability to handle such matters. In fact, in the United States, the Agricultural Marketing Service and the Foreign Agricultural Service of the U.S. Department of Agriculture handle between themselves a considerable number of the tasks that have been set as objectives in Burundi Whether the

Ministry of Agriculture of Burundi has "a capability to develop the capability" we are positing as a necessary condition is a question that requires investigation.

There is also a strong argument against the Ministry of Agriculture, at least at the earlier stages of the program: as a regular part of the Administration, the Ministry may lack the aggressiveness and identification with the private sector that would be more likely in the case of the Chamber Much, if not most, of the suggested program requires the exercise of a steady pressure on the Administration A government ministry would have to act with a divided heart in that predicament

It should also be asked whether the SNES, an organization oriented towards research and analysis, could adapt itself to the needs of rapid development of commercial information and business promotion.

Execution of the Policy Program

Conditionality of Assistance upon Performance

It is assumed that there will be a relationship of conditionality between the implementation of the proposed policy of eliminating constraints and the financial assistance provided by USAID to GRB Such conditionality can be established by determining, with mutual consent, a series of milestones; when a milestone is reached, an agreed-upon amount of financial assistance would be released.

Determination and Monitoring of the Milestones

The detailed definition of particular milestones will be the task of an executive committee postulated in the section on organizational and structural arrangements The executive committee will be composed of the representative of USAID and of representatives of Burundi institutions

Some of these milestones can be easy to define and to monitor Others may cause considerable difficulty, and their monitoring will require mutual confidence and delicate management of relationships within the executive committee. The following examples illustrate the problem

- Objectives that are easy to determine and monitor· such objectives as an improvement in export permit procedures which eliminates obstacles to exports; setting up a service of information on prices of staples in a neighbor country, and so forth
- Objectives for which milestones may be difficult to define and monitor objectives which depend not only on actors in Burundi, but also on agencies or persons in other countries (Rwanda, Zaire, Tanzania, Zambia, and possibly others, such as Uganda and Kenya) The most important and difficult example is that of reaching a mutual agreement with customs and foreign-exchange authorities of Zambia to liberalize and simplify procedures for goods shipped from Burundi in lake shipping It might be possible to enlist the PTA Bank, which has declared its desire to see all trade restrictions gradually removed

In these situations, where so much depends on third parties (like Zambian authorities), the mutual trust within the executive committee must to a large extent replace clearly defined and measurable milestones

Proposed Cooperating Organizations

Subject to a positive outcome of an evaluation of their record and future prospects, two organizations may be considered as future cooperators in the proposed program· Eastern and Southern Trade and Development Bank (further referred to as "PTA Bank" and Comite de Liaison Europe-Afrique, Caraibes, Pacifique pour la Promotion des Fruits Tropicaux, Legumes de Contre-saison, Fleurs, Plantes Ornamentales et Epices (further referred to as COLEACP) A third institution, Institut Superieur de Gestion des Entreprises, a continuing education unit for managers, can be considered as a resource for the Chamber of Commerce The Institute is operating under the administrative umbrella of the Ministry of Planning

PTA Bank

PTA Bank (PTA stands for Preferential Trade Area, ZEP in French) was created in 1985 by agreement among the 15 member governments of the ZEP organization. Eleven countries are already signatories of the PTA Bank charter. The remaining four countries (Lesotho, Mauritius, Swaziland, and Tanzania), are also expected to join in the near future.

Reportedly, Burundi was very active in the efforts to establish the Bank The Bank's headquarters is located in Bujumbura, which should greatly facilitate its cooperation in matters related to Burundi The objectives of the Bank are to promote economic and social development of the member states Among the objectives are these·

- To promote the development of trade among the Member States by financing activities related to such trade
- To supplement the activities of national development agencies of the member states by financing and by the use of such agencies as channels for financing specific projects

A Trade Financing Fund will be established to finance these activities The fund will amount to between 15 and 25 percent of the ordinary capital of the Bank The authorized ordinary capital is UAPTA 400 million. One UAPTA (Unit of Account of the Preferential Trade Area) is defined as equal to one SDR (Special Drawing Right of the IMF), or at the current rate to about US$ 1.30. Thus the authorized capital of the PTA Bank amounts to somewhat over US$ 500 million. As of the end of 1987, only slightly over UAPTA 11 million was paid up

During a meeting with the Bank's director of operations and other senior officers, the director expressed great interest in cooperating in activities to facilitate exports and called our team's attention to the objectives of the Bank and to the provisions for the Trade Financing Fund. The Bank intends to use the Fund to guarantee credits to exporters/importers, to refinance through discounting and rediscounting trade bills, to co-finance, and so forth

With regard to the constraints on trade within the region, the Bank considers import licensing a serious impediment and is already engaged in a dialogue with member countries to facilitate these permits One of the Bank's functions is to act as a clearinghouse for national currencies among the members of the Preferential Trade Area, and it holds as its ultimate objective a complete transferability of currencies, at least among the member countries

COLEACP

COLEACP, an outgrowth of the European Economic Community development programs and Lome agreements, recently completed a study on the promotion of exports of various fruit and vegetable products from Burundi to European markets The researchers evaluated positively the progress of a local enterprise, FRUITO Company; it had had European technical assistance in starting a passion fruit juice operation for the local market, as well as regular exporting of fresh passion fruit to France Another operation, La Legumiere, which occasionally ships green beans and peppers to Switzerland and other markets, attracted the researchers' interest, as did some other firms which are still in the planning stages for export operations.

The resulting preliminary report of August 1988 is cautiously optimistic about the possibility of modest exports of certain fresh and/or processed products, namely passion fruit, mangos, papayas, pineapples, and avocados (the last one for oil).

The report concludes by suggesting the establishment of a market information system for prospective exporters of the products in question to European markets. Also, technical assistance is proposed to establish and assure, for an introductory period, a liaison with these markets The professional quality of the report is impressive, and the suggestions appear sound There is no doubt that talents and skills could be found to establish such a system. It would become a very valuable component of the general market information system proposed in this report Its degree of sophistication and precision would, of course, exceed that of the other components of the system, namely those involved in regional and national market information.

COLEACP also offers technical assistance in the methods of promotion for Burundi produce, such as product identification through logos and distinctive packaging, participation in European trade fairs, and so on The Chamber of Commerce is acquainted with the COLEACP report and welcomes its conclusions.

At the moment, COLEACP is preparing a definitive version of its report which will be submitted to the European Development Fund (FED) of the European Economic Community (EEC) for financing The team was informed that the Fund is looking very positively on the project and its financing seems certain (The contact at the EEC office in Burundi is Mr Philip Mikos, rural development counselor)

Organizational and Structural Arrangements

In very broad lines, the following arrangements would be appropriate for designing the details of the export policy program, its execution, and its monitoring and evaluation of performance:

- A unit specifically assigned the responsibility for the program in USAID, either the Chamber of Commerce or the Ministry of Agriculture (or both), the Ministry of Plan and, possibly, the Ministry of Foreign Affairs (as the GRB agency formally in charge of foreign aid)

- An Executive Committee composed of representatives of these units, with the power of establishing tasks to be performed, monitoring the execution, evaluating the performance and recommending continuation or suspension of the program (Obviously, USAID should have the power of final decision on continuation or suspension)

- An Advisory Council composed of businessmen, farmers and other private-sector firms and individuals who have an interest (actual or potential) in the development of private sector agribusiness. It will be of utmost importance for the success of the program to assure that council is not a honorific body with only perfunctory activities, but an active group. It ought to, in the first place, be a source of ideas and an instrument for the "acid test" of practical knowledge to be applied to proposals for improvements In the second place it ought to exercise pressure for speedy actior to remedy the most urgent problems and grievances and act as a watchdog to prevent slackening of effort and self-congratulatory mood of the Executive Committee

  These are, of course, very heavy demands on a group of persons who may not have the background necessary Nevertheless, at least an ideal picture of the role of the Advisory Council ought to be conveyed to its members, to give the maximum stimulation possible in the given conditions

- Additional organizational arrangements will concern the cooperation with COLEACP and eventually with the PTA Bank, depending on the decision of USAID regarding the desirability and form of that cooperation

IV. ENTREPRENEURSHIP IN BURUNDI'S AGRIBUSINESS

Present Structure of Agribusiness in Burundi

Agribusiness is used in the sense of its original definition any kind of enterprise engaged in production, processing, and marketing of materials originating in agriculture, as well as in production, processing, and marketing of inputs used in these processes The definition applies to all activities, irrespective of size or ownership Thus, a Burundi smallholder peasant is no less engaged in agribusiness than is a Regional Development Company with its fertilizer and coffee operations, or a large international corporation

At the present stage of Burundi's economic development, the country's agribusiness in the private sector includes agriculture (traditional and modern), processing and marketing, and input processing, importing, and marketing Domestic processing and marketing is mainly traditional (manioc fermenting, drying, and milling) with some very limited modern products (Fruito passion fruit drink). Burundi exports are both traditional (coffee, tea, cotton) and new (fresh passion fruit to France, Alcovit cattle feed to Tanzania and Zaire, requests for maize from Zambia, Adel flowers to Netherlands) Input processing, importing and marketing covers fertilizers, other chemicals, veterinary products, containers, packaging, and various services

The public sector is still engaged in many of the activities mentioned above under the heading of the private sector The Governmental interventions are through the following institutions: government ministries, projects with legal autonomy, Societes Regionales de Developpement - SRDs (Regional Development Companies - RDCs), and parastatal enterprises

Latent Entrepreneurship is Waking Up

A widely accepted belief would have it that there is a serious deficiency of entrepreneurial spirit among Burundians. It is undoubtedly true that the private sector beyond the peasantry is still very narrow and lacks skills and experience; however, the situation is much better than is usually assumed There are some encouraging signs of the emergence of new progressive private farming leadership and of entrepreneurship in new processing, commercial, and input enterprises. As in many other countries, entrepreneurial imagination and desire which was suppressed by the expansion of statist business and denigrated by ideological opponents only waits to come up from the underground and bloom All it needs is business opportunities and support in getting started

A relatively new phenomenon has been observed Many of the country's 114 communes invite to their communal advisory councils city dwellers whose family roots are in these communes and who, thanks to their education and activities, have achieved prominence in public service or similar occupations Since practically all Burundians involved in the modern urban sector are at most only one generation away from their farming origins, there is no lack of people involved in that phenomenon

The reasons why the communal councils co-opt their urban relatives is to profit from their education and experience (and perhaps also from their clout in the capital) For the city people, besides the satisfaction of helping communities to which they are tied by origin, there are also the opportunities to acquire some good land for farming and/or establish a basis for processing or commercial ventures

The intensification of interest in farming and related ventures is not limited to the highly educated and affluent. Jean-Pierre Pabanel made the following observations in 1987 at the conference "Semaine de l'Universite - Creer une Entreprise au Burundi" (proceedings, pp. 133 ff):

> A recent survey . . carried out in five communes found that a third of "pilot" or model farmers are former salary earners. either retired military officers after completing their tours or duty, or ex-functionaries of the Ministry of Rural Development or the Ministry of Agriculture

That group of people, acquainted with the discipline and practices of modern sector and, as the above quotation indicates, often trained in agriculture, if properly supported, can constitute a spearhead in the development of a more productive market agriculture

Professor Pabanel points out that that new interest in agriculture possibly results in an inflow of capital into the modernization of farming and related operations.

> It seems that in the last few years, a significant portion of savings is being directed towards other sectors in rural areas These flows favor the modernization policies for the rural sector

And even more positively he says·

> The frequent absence of structures for the transformation of agricultural products (cassava, sorgho, rice,.) has led to the evolution of private structures to fill this void.

That growing interest in farming, livestock, processing of agricultural products and other agribusines is evidenced in the credit requests that the Chamber of Commerce received from various individuals and firms, in anticipation of the availability of funds from the World Bank's APEX credit program. Mr. Prime Nyamoya, Secretary General of the Chamber, kindly made available for us a preliminary (and partial) tabulation of these requests The results are revealing and very encouraging with regard to the interest of business people in agribusiness Out of 28 requests, the distribution of the proposed projects was as follows.

Milling of rice, processing of manioc	6 projects
Farming (beans, bananas, sorghum)	1 "

Livestock (ruminants and poultry)	6	"
Food commerce (number uncertain)	1	"
Bakery, confectionery	4	"
Total	18 projects	

Of the projects proposed, 64 percent are in the field of agribusiness. The remaining 10 projects are concerned with small manufacturing (4), tourism (3), and "general" commerce (3) It is possible that the last category includes staples, food, or other articles falling under the heading of agribusiness These findings indicate an awakening of interest in agribusiness among the advanced, urbanized classes of civil servants, professionals, and business people We feel that a growing interest in monetized, market-oriented agriculture may be present also among the smallholders

The current conventional wisdom aboutBurundi's economic structure assumes a great attachment on the part of the rural masses to an idyllic state of subsistence and lack of interest in production for the market, once their basic needs for monetary purchases of necessities such as salt, sugar, tea, kerosene are satisfied In other words, the supply of farm products is inelastic beyond a certain point. We suspect that this supposed unwillingness to increase the supply in response to market signals is not due to a lack of desire to consume more goods bought for money, but to structural and functional imperfections of the market which make difficult all transactions beyond the low level of equilibrium.

Even the assumed ratio of production for subsistence to production for the market, vaguely placed at about 9:1, seems to be exaggerated in favor of subsistence. The World Bank's October 1987 study, Etude des Echanges Regionaux - Communes de Gitega, Ngozi, Ruhororo, shows a proportion of about 4:1 That is, only 80 percent rather than 90 percent of the production was used in subsistence and 20 percent found its way to the market The market pull of Bujumbura itself must influence a large part of the country

Constraints on Agribusiness and Selective Remedial Policy Program

Current Status of Efforts to Overcome Constraints

The serious and multifaceted constraints that shackle Burundi's agricultural economy are being attacked by programs that the Government of Burundi has agreed upon with the World Bank The Bank facilitates these programs through a Structural Adjustment Loan, as well as through other project-oriented financing Other donors provide additional substantial assistance under a multiplicity of programs and specific projects

The chapter on institutional constraints of lomestic agribusiness mentions several constraints that impede marketing activities on the community level toll barriers on highways, limitation of market days, and suppression of street vendors These constraints ought to be continuing subjects of the multilateral dialogue between the government and all the donors. The team does not feelthat USAID could usefully make them a subject of a separate dialogue of its own

Our consultation with the World Bank has indicated that one major component of the structural adjustment process has not been sufficiently covered USAID could play an effective role by making it a subject of its dialogue with the government That component is the complex of constraints in the domestic trade in fertilizers and, to an extent, other agricultural inputs.

Remove Constraints on Domestic Trade in Fertilizers

A selective remedial policy would be to remove constraints on the domestic trade in fertilizers and other agricultural inputs. The subject of constraints in the fertilizer trade is so important that a separate chapter is devoted to a detailed analysis A bare outline will suffice here

In the trade in fertilizers, the private merchant has to compete with Regional Development Societies (RDCs), which import fertilizers on their own account and do not pay either import duties or the transaction tax on sales, and whose cost of distribution are subsidized The fertilizer trade is a key activity, not only because of its obvious importance to the agricultural economy, but also because of the role that a healthy fertilizer trade plays in the development of the whole input supply system In addition, the development of that trade without artificial distortions and subsidies may in due time lead to correct economic decisions regarding the advisability of the establishment of fertilizer blending plants

A healthy private trade in fertilizers and other inputs can be established only if RDCs and other state enterprises (including the state-run cooperatives), are put in the same position as the private firm, that is, they have to pay the same customs duties and taxes and do not enjoy subsidies on their costs of distribution

Our recommendation is that USAID make the privatization of the trade in fertilizers and other agricultural inputs a subject of its dialogue with the government This is a subject which lends itself to the principle of conditionality of economic assistance upon the performance of clearly defined measures The rectification of the situation in the fertilizer trade should help in the evaluation of the proposals for the exploitation of the phosphate deposits in Burundi.

The ongoing studies of the effectiveness of fertilizers, which constitute an important item of the World Bank's Agricultural Services project, will remain sterile if the results are evaluated in an artificial economic environment of subsidies, without paying attention to a full calculation of costs and benefits

Initiation of a Domestic Radio Information System

Our recommendation under this heading is to establish a radio bulletin of prices of principal crops in Bujumbura and several commercially important centers in the country. With the very large discrepancies in prices between various locations, such a program would be an incentive for enterprising people to seek profits in interregional commerce, with the resulting advantages for both the farmer and the consumer This would be one more step in the direction of a national market and more monetized economy The subject was discussed with the Director General of agricultural planning at the Ministry of Agriculture, Mr Salvator Sahinguvu, who expressed himself in favor of it, as well as of other steps that could be taken to promote agricultural marketing by the private sector in Burundi The team was pleased to note that P Barris and J Zaslawski, authors of the June 1986 UNDP study, Le Secteur Vivrier au Burundi, also spoke in favor of a wide distribution of current market information (Tome 1, Synthese, p 17)

Considerations for a More Distant Future

Possibility of Support of Feasibility Studies

One point ought to be strongly emphasized here· The private sector does not need ideas and concepts to be invented or found for it by paternalistic authorities The private sector is full of ideas which it would be happy to explore, if it was possible without excessive difficulties and costs that an individual or a fledgling enterprise could not afford.

What the private sector needs (besides, of course, investment capital), is support in the form of (1) information on markets, prices, equipment, and supplies, (2) temporary access to skills that are necessary to develop a project and to test its alternatives, and (3) financing explorations and feasibility studies A rather impressive example is that of a businessman, presently an importer of cement, sugar, and other bulk products, who shared with the team his plans for establishment of a manufacturing plant to produce certain kinds of hardware for the local market and even for imports to Zaire That man was enthusiastic about the possibilities of his concept. At the same time, he was frustrated by his inability to obtain sufficient information and complete a feasibility study while attending to his present business and operating without sufficient monetary resource He characterized his situation by saying, "J'ai besoin d'être encadré C'est trop difficile d'être tout seul" That is exactly the "encadrement," a framework of support, that can liberate the ideas and energy of the private sector; however, it must be designed with care so it does not become a sterile, bureaucratic system

Under the World Bank's APEX project, the Chamber of Commerce, which will administer the loan fund, may direct the firms or individuals which make requests for loans to the Centre de Promotion Industrielle (CPI) for the preparation of feasibility studies CPI is an autonomous research organization reporting to the Minister of Commerce and Industry and enjoying some technical assistance of UNIDO

That proposed structure can be strengthened and to a considerable extent privatized The director of CPI informed us that he has considered the possibility of creating an association of Burundi consultants of which CPI would be a member Most other members of the proposed association would be private individuals or firms If professional standards can be established in an enforceable manner, and if the bidding for orders is fully competitive, the new organization could become a valuable addition to the private sector capability to develop business enterprises

It seems that, at present, there is sufficient research capability for the preparation of feasibility studies and similar work Accordingly, we do not make any recommendation for the immediate future regarding the subject If in the future, experience shows that the existing research facilities perform in a remarkably competent manner and some additional financing is needed for the facilitation of projects of significant merit but of limited funds, USAID could consider sponsoring a support system for the encouragement of such new projects. The support could be in a form similar to that used by the Overseas Private Investment Corporation (OPIC), the Private Enterprise Bureau (AID/PRE), and some foreign organizations

Under the OPIC formula, that organization finances 50 percent of the cost of explorations and feasibility study for a previously agreed-upon project. The businessperson interested in the project contributes the other 50 percent If the results of the study are negative, no more action is taken. If the results are positive and the promotor of the project goes ahead with the investment, the 50 percent advanced by OPIC becomes a debt of the promoter (Usually, OPIC lends to the promoter for a part of the project's cost and the amount due for the advance on the feasibility study is added to the amount of debt) If the promoter does not go ahead with the project, the feasibility study becomes the property of OPIC and that organization has a right to offer that study to other parties

In the conditions in Burundi, the ratio of the advance made to the promoter to the amount that the promoter would have to provide could possibly be made somewhat more liberal Such ratios as 45 percent 55 percent, 40 percent 60 percent, or even 33 3 percent 66 7 percent, in favor of the promoter, could be envisaged

These, however, are considerations for the future First, the experience would have to show that there are projects of high merit, that other funding for exploratory and feasibility work is not available, and that there is sufficient capability for competent work demanded by the projects

V. INSTITUTIONAL CONSTRAINTS OF DOMESTIC AGRIBUSINESS

Many constraints (probably the most harmful ones) under this heading have already been eliminated or are subjects of the dialogue related to the World Bank's Structural Adjustment Loan In this report, we should like to indicate those which still remain, or the status of which remains not quite clear.

It is uncertain to what extent the dialogue between USAID and relevant Burundi government agencies may revolve around all of the constraintsdiscussed in this section It is also uncertain to what extent the principle of conditionality, (the *quid pro quo* relation between the performance and the assistance) can be applied in all of the cases discussed below What is certain, is that at least one regulatory and fiscal constraint is very severe and its removal would greatly benefit Burundi's export opportunities. That constraint is genereated by the regulations for obtaining export permits. We start our review with that question

Unequal Treatment of Private Firms Compared with State Enterprises

A separate section treats the issue of privatization of the trade in fertilizers and other modern technology agricultural inputs In this section only one harmful aspect of the matter will be mentioned A private enterprise that imports fertilizers, or any other agricultural input which is also imported and distributed by a Regional Development Company (RDC), will pay a normal customs duty of 28 percent and, when a product is sold to a customer, a transaction tax of 12 percent The RDCs are exempt from these charges, which makes it extremely difficult for private traders to remain in business

The plans for the forthcoming reform of RDCs foresee new arrangements for fertilizer distribution It is important to assure that these new arrangements redress that inequality in the competitive position of the private importer and distributor of fertilizers

Toll Barriers: An Impediment that Could Be Eliminated

The toll barriers that the communes institute on highways create a great nuisance for small traders and peasants and a great loss of time which could be used fruitfully by these people It is reported that a single trip may involve as many as 10 stops at barriers According to some knowledgeable observers, that nuisance could be removed without causing a fiscal loss to communes by instituting an appropriate system of taxing the product about to leave a commune at the exit from that commune's market, where the produce begins its journey to other locations, rather than at the commune border

The team preparing this report lacked enough knowledge of the situation to pronounce an opinion about this proposal, however, the matter merits much attention and interest If indeed the nuisance of the barriers could be eliminated, one more constraint of the internal trade in agricultural goods would be removed.

Limitation of Market Days

Until recently, there were strict limitations on the number of market days during a week in a given community It seems that the number of days allowed under these regulations was not sufficient, causing un unnecessary impediment to trade. Reportedly, recent changes in regulations allow for more market days per week in a number of localities; however, the question arises of why any limitations should be imposed on traders and customers coming to a market. Certainly, such limitations will not encourage or facilitate trade.

The Useful but Unappreciated Role of Street Vendors

Still another regulatory constraint, of a different kind but undoubtedly harmful, are the measures (of uncertain degree of formality) to discourage street vendors. In many developing countries that hard-working part of the informal sector plays a very important role in the retail distribution of many products, among others such food items as snacks, sweets, and biscuits, of great economic importance in low-income economies That trade provides an important outlet for primary foodstuffs and creates considerable employment for poor unemployed persons for whom finding other employment would be virtually impossible.

Rationalizations for these regulations have been related to public safety and crime prevention They were reportedly supported by the established merchants' desire to eliminate competition to their business. These reasons do not seem sufficiently convincing to negate a legitimate and useful economic activity, especially in a community as poor as Burundi Serious thought should be given to the desirability of modifying the present restrictions and to changing the policing philosophy to control the real crime, rather than apply regulations to people who may be potential criminals This would be in line with the general emphasis of the new Government of Burundi on human rights and private initiative.

The useful role of street vendors, an integral part of the informal sector, seems to be gaining recognition, at least in the academic circles The December 1984 study published by CURDES, *Etude sur la Petite et Moyenne Industrie et l'Artisanat - Synthèse*, by P Rutake and B. Taillefer, states:

> Street vendors constitute an important factor in the viability of the bakery and the flour milling industries. These vendors help bakeries in the transport and distribution of bread to consumers, either by delivering at home or by establishing stalls at certain strategic points From the perspective of the milling industry, their interest is to increase flour consumption. This can happen only if bakeries have a dynamic distribution network able to deliver the bulk of their production.

> Official agencies also have an interest in protecting the informal activities of street vendors, to the extent that they provide gainful employment to a large number of people who have no place in the rural environment. (pp 8, 9).

The conclusions of this penetrating analysis of the usefulness of the street vendors for the flour-milling and baking industries are, of course, applicable to other food and allied trades.

Internal Marketing Constraints

The basic problem that Burundi farmers face is lack of a commercial outlet for their production Our preliminary observations indicate that this is due primarily to the weakness of demand for foodstuffs rather than to major deficiencies in the functioning of the marketing system for food crops Beyond Bujumbura and Gitega, the demand for farm products is mainly that needed for trade within the locality The needs of Bujumbura for fresh produce, for example, are estimated at some 50 tons per day, including the supplies from the farming population in the hillsides around the city A few traders using a few trucks and pick-ups suffice to assure the supply and transport of that volume of produce for the city

We find few obvious constraints on the interregional movement of foodstuffs Modest flows between regions are observed because each region has a high degree of self-sufficiency in food The transport infrastructure is modest but relatively well maintained. A few paved roads provide the main links across the country and are fed with a network of secondary and feeder roads. Sufficient numbers of passenger vehicles and small and large trucks are observed at market places to surmise that lack of vehicles is not a serious constraint Rates for transporting merchandise have been deregulated recently.

More worrisome is the absence of private traders engaged in the marketing of agricultural inputs, such as fertilizers, seeds, and agro-chemicals

To a great extent, their absence reflects the inability of the private sector to compete with state agencies already engaged in farm input distribution These state agencies enjoy advantages over private traders which allow them to sell to farmers at highly subsidized prices. A separate case study is attached to illustrate the situation in fertilizers

Several serious constraints remaining in the internal marketing system can be corrected; they have been discussed earlier A large part of the team's recommendations with regard to the domestic market in agricultural commodities is based on the penetrating analysis of Dr Lucie C Phillips Dr Phillips' memorandum (see following section) contains additional background information for the team's recommedations, and a concise exposition of the reasons underlying the recommendations.

STIMULATING MARKETS IN RURAL AREAS

Dr. Lucie C. Phillips

The interior markets of Burundi have died a slow death since independence, disrupted initially by occasional political turmoil in the region, but hampered even during long periods of peace by currency and border controls that cut off trade from neighboring countries Overregulation has been a factor also in the decline of domestic trade Until the advent of the Third Republic in September 1987, public markets were allowed to be held only on assigned days (Sundays or Wednesdays) except in four towns that have daily markets Of 191 trading centers (*centres de négoce*) existing at the end of the colonial period, only 20 are left today Former administrations believed that the time peasants spent at the markets was idle time and might lead to the neglect of their farms Small itinerant traders were prohibited, because they were considered to be crime-prone riffraff

Until recently, transport prices were fixed at FBu 22 per 100 kilograms per kilometer. These prices were too high for regular long-distance runs, so most businesses developed their own transportation capability; but they were too low to attract transporters for movements of small quantities over short distances The transportation sector is further complicated by the custom of toll barriers on communal borders A rope or wooden bar across the road, about every 10-20 kilometers, stops commercial passenger and freight vehicles for tax inspection. Vehicles have to pay a tax only if they have taken on goods or passengers in the commune they are leaving; however, the time lost and the opportunity for harassment are an impediment to the flow of goods and people Another inconvenient regulation prohibits passenger vehicles from carrying luggage on overhead racks If a small farmer or trader wants to travel with his merchandise, he has to send it by a separate vehicle, which increases his cost and adds the risk of theft

There is a lack of information about markets and prices in different regions of the country and, therefore, little integration of market networks Prices of basic produce and consumer goods fluctuate substantially from one area of the country to another and from season to season. Goods and information flow in a wheel-spoke pattern between the capital and interior points. In terms of economic geography, this flow is the simplest kind of transportation-communications network The links between interior towns not lying on the same spoke are minimal

The fundamental problem is the limited amount of cash in circulation, particularly in rural areas The average annual farm income for a family of five was FBu 67,500 in 1986 (US$ 562), and perhaps FBu 75,000 the following year Of this, 65-85 percent represented home consumption of farm produce and only about US$ 140 per year was cash, most of which also went for food and drink Studies show that much of the cash circulates in the neighborhood for the purchase of beers (banana and sorghum) Meanwhile, the typical rural diet has no animal protein and few high-protein vegetables, especially those suitable as weaning foods Most of the protein comes from beans and peas High-quality vegetables and fruits grow easily, but their development is hindered by market constraints There is a great need for small food processing enterprises in rural areas to make high-quality foods more commercially viable

Deregulation

In the last year, the government of the Third Republic has eliminated the market tax for farmers selling their own produce to other farmers (but not for traders buying by the truckload), has cut the tax on home-brewed banana and sorghum beer in half, and has decontrolled transport prices. It has allowed markets to be held on Wednesdays and Sundays and sometimes even three times a week, according to local decision. The first two measures have already had a noticeable effect in stimulating trade; however, it should be remembered that market taxes were -- and still are -- the primary source of income for communal governments.

When transport prices were decontrolled, no implementing ordinances were passed to clarify how a free transport market should work. The transporters continue to refer to the FBu 22 price, which in effect has become a floor price.

Elsewhere in Africa, where market days are determined by local custom, a market cycle develops in each small geographic area, providing a market on each day of the cycle within roughly a two-hour travel radius (on foot or donkey). There are three- to seven-day cycles, depending on local market and travel conditions Such a cycle allows the development of a stable informal rural sector, where small traders and artisans can move from part- to full-time employment It also allows farmers to obtain provisions if they miss their regular market because of sickness or other circumstances and to sell left-over produce.

New Measures to Stimulate Markets

First, better communication of current price information is the most important measure that can be taken to stimulate domestic trade and even out disequilibria Every commune already has one or more agents collecting taxes in the market every day The Ministry of Commerce and Industry could issue a list of basic trade goods (for example, 10 agricultural commodities and 5 consumer items) and ask the market agents in each provincial capital to report their prices each week for broadcast on the radio and publication in the daily paper. Second, the advantages of a weekly market cycle need to be discussed with the government, and modalities of implementation must be explored Third, transport decontrol needs implementing ordinances that will prohibit collusive price-fixing and facilitate the entry of small entrepreneurs into the transport sector. In place of the current ban on overhead luggage imposed as a safety measure, the government might consider whether the requirement could be satisfied by limiting each passenger's load to 50 kilograms

The government is now viewing itinerant traders and other informal sector activities more favorably. This should be encouraged. The employment generation study gives some good examples of the fine line between informal and formal sector status, and suggests how the transition from one status to the other can be simplified for artisans and traders

Use of A.I.D. Funds

A.I.D. could provide technical assistance, if necessary, to set up a market information/publication system This should have negligible recurrent costs if the government is persuaded of its value The institutional capability exists, it merely needs to be coordinated One person with a microcomputer should be able to put together a market bulletin in a single day The only funding needed would be for the computer and software and for short-term technical assistance to set up the format and train an operator and a couple of backup personnel

Another constraint in the private sector is the availability of credit There are abundant funds in the banks, and many people seek credit for small enterprise But the two do not meet, because most of those who wish to borrow do not have adequate collateral (banks usually require a property title) There should be ways other than a property title to demonstrate creditworthiness The most obvious method is a history of reliable repayment Budding entrepreneurs with a history of regular repayment could move progressively from small loans to larger ones.

In order to enforce such a system, an autonomous credit bureau could be established, possibly by a private entrepreneur with A.I.D funding The Bureau would obtain the records of loan applications from all financial institutions and assign applicants credit ratings uninfluenced by personal contacts in the banks

From the point of view of social equity as well as economic feasibility, small loans to small entrepreneurs should be an important component of any credit system. In the past, those farmers and small traders who borrowed obtained the funds from CADEBU, which has had serious management problems and has suffered a decline in confidence. Farmers and rural traders are finding the COOPECs increasingly attractive as savings and loan institutions As part of the second World Bank structural adjustment loan agreement, COOPECs are to be given legal standing. This will allow them to join the Guarantee Fund and to provide discounted loans to eligible entrepreneurs They may prove the most suitable channels for potential AID credit assistance to small agricultural and food processing businesses

There is also a need for an agency to provide simplified accounting and management advice, as well as advertising and marketing help The agency should be located in the market or center of each town

CASE STUDY A. FERTILIZER MARKETING

How Current System Inhibits Private Business

There is no private commercial marketing system for fertilizers in Burundi It is practically impossible for a private individual to obtain fertilizer in Bujumbura or in Gitega Even an agricultural development project, such as the International Potato Center, is having difficulty procuring a ton of fertilizer it needs for its experiments A farmer gets fertilizer through the regional development company operating in the region The amounts distributed to each farmer are small and generally oriented to use in coffee or other cash crops RDC Kirimiro, however, distributes mainly for food crops Since the amounts purchased by the government for distribution by the RDCs are limited, administrative allocation systems are needed The price charged to farmers is subsidized since it does not fully cover the costs of procurement, distribution, storage, and financing incurred by the RDC or the government

Absence of Private Dealers

Private trade has not developed for several reasons, but the principal one is the pre-empting of the market by the subsidized state-owned regional development companies. Since the state sells to farmers at subsidized prices, the bulk of the market goes to the RDCs; the residual demand for fertilizers does not warrant the establishment of a commercial distribution system that would have to pay full costs

Development of a private market for fertilizers is also inhibited by the lack of commercial opportunities for food crops Most fertilizer is used on crops that can be sold for cash Farmers pay for fertilizers from these sales

Since food crops have limited marketing opportunities, however, farmers cannot generate the cash to buy fertilizers.

Fertilizer Importers

There are five principal importers of fertilizer: Burundi Tea Company (OTB), RDC-Buyenzi (coffee), RDC-Kirimiro (coffee), RDC-Imbo (rice), and COGERCO (cotton). Until 1985, only the first two were in the business Since then, changed import regulations and greater availability of foreign exchange have enabled the other three to procure fertilizer in the international market through a bidding system

In addition to these five importers, the Agronomy Division of the Ministry of Agriculture and Livestock imports small quantities of fertilizer made available to other users The Agronomy Division also is in charge of distributing donations of fertilizers from FED, Japan, and the FAO/UNDP program This outlet accounts for only 13 percent of the total fertilizer in Burundi The bulk is clearly distributed by the five principal importers (See *FAO Report on Input Marketing in Burundi*, by J Blas, February 1988)

All five are government agencies with a special mission to promote the production of particular cash crops for export· coffee, tea, cotton, and rice The fertilizers imported for these crops are rather specific For tea, OTB almost exclusively uses 25-5-6-5S fertilizer ISABU recommends only urea for coffee. A wider selection of fertilizers, including DAP, TSP, KCL, and urea, is required for cotton The selection for food crops is rather limited since most fertilizers are imported for export crops There are differences of opinion among knowledgeable observers as to whether farmers apply fertilizer in the prescribed doses and how much is used for food crops Since last year, for example, RDC Kirimiro has discontinued recommending urea for coffee after years of disappointing yield response Most fertilizers sold by RDC Kirimiro go for food crops (See Annex on Kirimiro RDC)

Foreign Financing of Imports

A good part of the fertilizer imports is financed with foreign assistance The FED, World Bank, and bilateral aid agencies are among the main sponsors of the regional development companies. There is a question, therefore, regarding how much of the current imports of fertilizer reflect actual farmers demand Total use of fertilizers almost doubled between 1982 and 1985, from 2,491 tons to 4,696 tons (FAO Report), and has probably increased further since. Very likely, imports of fertilizer reflect the availability of foreign aid rather than commercial requirements Real potential demand for fertilizer in Burundi is difficult to gauge

Domination of fertilizer distribution by government agencies has led to the discouragement of a private commercial distribution network The bidding process, the exemption from tariffs and taxes, and the relief from financing, storage and distribution costs that these agencies enjoy place commercial importers and distributors at a great disadvantage relative to the government distribution channels

International Bidding

The bidding process has an adverse effect on the established commercial sector. One of the requirements of foreign aid projects is the acquisition of commodities through an open bidding process Both USAID and the World Bank insist on this Given the size of these projects and the easy access to foreign exchange they offer, tenders are normally for large volumes and are opened to international bidding Each bid is a separate deal, discouraging long-term relations with suppliers What matters is to obtain the commodity at the lowest possible price A government agency is able to achieve this more easily than a commercial importer Local distributors of established agro-chemical companies are often outbid by wholesalers able to obtain the same product at a larger discount Sometimes the lowest prices are offered by Eastern European state-owned companies

Exemption from Duties for State Agencies

Imports by state organizations in Burundi enjoy many advantages not available to a private importer The principal one is the exemption from import duties, which also commonly applies to goods imported under foreign assistance projects. The tariff on fertilizers is 23 percent of FOB value, which the private dealer must pay on a price already higher than that obtained by the official importer

Private fertilizer dealers have yet another disadvantage relative to official distributors, namely, the transaction tax This is a 12 percent sales tax paid by the final user of a product Farmers must pay it when buying from an established private outlet, however, RDCs do not ordinarily charge it Thus, the private trader's price is at least 37 percent higher than the RDC's, since the transaction tax is based on the sale price not the import cost

Hidden Costs to RDCs

Regional Development Companies do not fully account for the cost of distribution and stocking in their fertilizer prices Private traders would need to cover not only transport to points of sale, but also the overhead costs of your round storage facilities

A private fertilizer delivery system would require a network of people not merely to sell fertilizers but also to advise farmers on their use These functions are performed for RDCs by the extension service agents, financed under separate funding Part of the salary of the extension agent should legitimately be charged to the price of fertilizers This, of course, is not done, which represents another nail in the coffin of the private sector distributor

"Depannage" Private Imports

Only a few small imports of fertilizer are made by private concerns As with the private tobacco company and Hoechst, they are usually made jointly and consolidated into a larger shipment to save on the sizable overhead costs involved in placing an order Hoechst hopes to sell its small stock (40 tons) to a few buyers needing fertilizer on an emergency basis These are private buyers (Adel Flowers) or small projects which, for timing or allocation reasons, are not able to get fertilizer directly from the Ministry or the RDCs and are willing to pay the higher price that Hoechst must charge to cover its cost But they are not a regular clientele on which Hoechst could count

The unavoidable conclusion is that the current system of fertilizer distribution through the Regional Development Companies precludes the emergence of a parallel commercial distribution system

What possible measures could be introduced to remedy this?

Transferring Distribution to Cooperatives

One possibility for private sector involvement is to encourage a network of rural distributors to whom the RDCs could transfer fertilizer distribution Such a transfer is contemplated in the World Bank's forthcoming agricultural services support project, which envisages fertilizer marketing by cooperatives The RDCs could still take care of the importing procedures, but actual retailing could be left to the cooperatives and private traders.

Unfortunately, farmers' cooperatives, like many other social organizations, are often creations of the government and heavily subsidized Transferring fertilizer distribution to them might not constitute a true privatization of the fertilizer trade The expected gains in efficiency will not be significant if cooperatives receive the same kind of subsidies as the RDCs do today The World Bank's agricultural services support project, currently under negotiation, aims at making cooperatives independent from the government and better managed.

At the moment, the RDCs distribute fertilizers soon after arrival to their own distribution centers, to the cooperatives, or to development projects Traders in theory can purchase from the RDCs, but in practice there are no stocks left to sell to them. There is also some reluctance to have the RDCs provide officially imported fertilizers for distribution by private traders

Set-Aside Stock for Sale to Dealers

One recommendation is for the RDCs to set aside a certain portion of their stocks for sale to private traders at the same prices and on the same conditions offered to cooperatives The objective is to place private traders on the same footing as the RDCs and cooperatives in competing for farmers' requests Until now, priority for allocations had been given to the cooperatives, and as a result private purchasers have had no accessibility to stocks

Having access to fertilizers gives no guarantee that private traders will indeed participate in their distribution, however. The initial costs of setting up business might be too high for an individual trader Other reforms need to be introduced to ensure that prices charged by state organizations reflect costs more realistically, so that traders can compete

Privatization through Extension Agents

Gradual privatization of marketing could also be accomplished by allowing existing extension cadres to continue the distribution of fertilizers and other farm inputs, but as a side business activity Little disruption of the existing distribution network would be involved Extension agents could buy the fertilizer from the RDCs and distribute it to farmers at a higher price The selling price must be sufficient to cover costs and provide incentives to sell as much as possible

Experiments of this kind have been tried elsewhere with positive results. In Mali, livestock agents are provided free vaccines but are allowed to search for herds to vaccinate and to negotiate fees with herd owners. Herd coverage has increased as a result; cattlemen are willing to pay since they do not have to walk their herds so long; and agents supplement their meager salaries USAID even provides loans to agents for purchasing mobilettes to increase their mobility (Since extension agents might be transferred from the RDCs to the Ministry of Agriculture, with a probable loss of salary, the income supplement might be welcomed by all)

Legal and ethical questions arise from such an arrangement There is an obvious conflict of interest in having the agent as a source of technical advice to farmers and as a provider of inputs (In fact, this is already being done, but again agents are making no money so no objection is raised) The law prohibits government employees from engaging in business related to their functions. Agents might neglect their extension activities and concentrate on increasing their commercial input delivery services. These are serious concerns. Workable solutions can be found to allay them For example, the Ministry might contract with agents for services rendered, instead of hiring them as employees Further discussion of these issue with the government could uncover other alternatives We only suggest that this option be examined with them.

Duty-Free Import of Fertilizers

In order to place private importers on an equal footing with state agencies, either the exemptions granted to state enterprises would have to be removed, or private importers should also be exempted from import duties and taxes when handling the same products as the state organizations

It would seem easier to agree on dropping all import duties on, say, fertilizers and agricultural chemicals That would remove the major inequity for private importers. But there are two major objections to this option

First, it is one of the principles of the structural adjustment program to standardize as much as possible the import levies for all products, replacing the hodgepodge of rates for different products that prevailed before. Exempting fertilizers and other products would violate that worthwhile principle. Second, it leaves the other levies -- transaction tax and income taxes -- still acting against the private sector.

Exempting private companies from charging transaction tax for certain products but not for others is out of the question It would introduce accounting and administrative nightmares that even the private companies would rather avoid Similarly, it would be difficult to make exceptions in calculating income taxes, for revenues or profits derived from the sale of, say, fertilizers or other agricultural inputs (As an aside, the export promotion decree envisages halving of income tax on profits derived from exports. The difficulties in allocating profits from exports as opposed to domestic operations need to be examined)

Removal of Exemptions for State Agencies

Rather than dropping import duties on fertilizers, the team recommends the removal of all exemptions that state enterprises enjoy We realize the difficulties of such a recommendation and the objections that might be raised against it We believe, however, that the existence of separate systems of levies for state and private companies will perpetuate and worsen the distortions in the economy to the detriment of the private sector

One objection against removal of exemptions for parastatals is that it would increase the cost of these enterprises to the government This is fallacious, since the parastatals would be paying taxes to the same government Since they are part of the government and receive their budgets from central funds, any taxes paid can just be recycled It is purely an accounting operation. The government could increase the budget for each parastatal in proportion to the import duties and taxes that it pays A real benefit, however, would be that the government would at least know how much each parastatal is costing. This would remove the distortion of prices and the damage to the private sector. Unfortunately, the current accounting system used by the government is unlikely to be able to cope with the complexity introduced by the removal of exemptions. Technical and equipment assistance might be required.

Conflicting Aid Objectives

A more serious objection to removal of exemptions for state agencies could come from the international donor community. Almost all of the fertilizer being imported into Burundi at the moment is financed by international aid funds. Without foreign financing, it is doubtful whether the RDCs would be in a position to import fertilizer A standard clause on foreign aid projects is that no duties will be paid on products or equipment to be imported. Fertilizers are duty free not merely because the RDCs are parastatals But there is still no reason why parastatals using their own funds cannot pay duties on commodities financed by foreign aid. They could in turn either charge farmers more or get reimbursements from the government.

Two objectives of international assistance appear to be in conflict when it comes to fertilizers. On the one hand, payment of duties on goods financed by aid reduces the amount available for actual work. On the other, the exemption from duties harms the private sector and favors its displacement by state enterprises Whether a workable solution can be found to this apparent dilemma is a matter that merits much more careful analysis.

The SCEP (Service in Charge of Public Enterprises), a recently created unit under the structural adjustment program, is charged with studying issues related to the reorganization of parastatal enterprises The exemption issue has already been raised in this context but is not being pursued strongly Possible removal of exemptions is not part of the reforms introduced under the Agricultural Services Support Project. It would need to include not only the RDCs but also the Ministry of Agriculture and the cooperatives, all likely importers of fertilizers.

CASE STUDY B. FERTILIZER MARKETING BY KIRIMIRO RDC

Sole Source of Fertilizers

RDC Kirimiro has been given responsibility by the Ministry of Agriculture for promoting agricultural development in the region and improving the welfare of rural communities Beginning in 1988, the RDC under its new Phase II mandate covers one-sixth of the national area and 22 percent of the total population (1 124 million people) This is one of the most densely populated regions (250 people per square kilometer) and also one of the more productive in terms of agricultural output During Phase I, the RDC Kirimiro covered only one-third of its present territory

All the fertilizer currently distributed in the RDC Kirimiro zone comes from the RDC Each year the RDC management decides on the quantity to be imported and makes the appropriate arrangements for international bids For 1988, the RDC has already in progress a request for tenders to provide 2,500 tons of fertilizer This is a considerable increase over previous years During the last year, a total of 837 tons were distributed The threefold jump reflects the increased area covered under the Phase II plans

Types of Fertilizer

A breakdown of fertilizer distribution by season is given in Table 1 It is striking, first of all, how little urea has been distributed. Most of the initial emphasis was on increasing coffee yields by the application of urea according to the recommendation of ISABU After several years of experience, however, RDC Kirimiro has discontinued recommending urea applications for coffee. The response obtained in the area has reportedly been disappointing

Most of the chemical fertilizers currently being distributed by RDC Kirimiro are compound NPK fertilizers for food crops, not for coffee Beans are the principal crop benefiting from fertilizer applications, followed by maize and soya. Urea is used in maize, bas-fond rice, and coffee Most farmers apply fertilizers at an estimated rate of 120 kilograms per hectare for compound fertilizers and 50 kilograms per hectare for urea No fertilizer is reported used for cassava, bananas, sweet potatoes, or other crops

Table 1 Fertilizer Distribution by RDC, Kirimiro 1987

Type of fertilizer	Quantity (tons)	Area (ha)
14-37-12	631.3	5,261
18-46-0	194.9	1,624
Urea	3.3	67
Total 1987	829 5	6,952

Source RDC Kirimiro, *Rapport Annuel* 1987.

Table 2. Fertilizer Distribution, RDC, Kirimiro 1982-1987

Year	Quantity (tons)	Farmers affected (thousands)
1982	36.4	3.0
1983	205 1	20 4
1984	575 2	30 5
1985[a]	437 7	35 9
1986	577.1	39 3
1987	829 5	90 0
1988[b]	2,500 0	

a Insufficient fertilizer available
b Request for bids, Phase II
Source RDC Kirimiro

Demand and Price

There is no problem in demand for fertilizers as far as RDC Kirimiro is concerned Farmers are quite anxious to take all that is offered They pay cash for it to the local commune or the Center for Rural Development No credit is offered or demanded Farmers apparently use revenues from coffee or other sources to pay for fertilizer for food crops Since the coffee season ends in August and the next planting season does not start till October, farmers are likely to start receiving payment from coffee at the right time to purchase fertilizer for their main food crops. Right now the RDC has no fertilizer in stock.

One reason why RDC Kirimiro has no difficulty in unloading fertilizer is the price International suppliers winning the bids for the contract last year charged FBu 55-58 per kilogram, CIF Gitega This is equivalent to US$ 390 per metric ton, or $ 39 per kilogram A farmer buys the same fertilizer at his nearby RDC distribution point for exactly FBu 60 ($ 40) per kilogram' (It is the same price even for 1 kilogram) Alternatively, RDC Kirimiro sells fertilizer to local cooperatives at FBu 58 so they can also sell to farmers at FBu 60. Since RDC Kirimiro is a state organization, its management feels it has to sell to farmers at the same price it pays After the devaluation, the price of fertilizer will surely increase, but since existing stocks were bought before the devaluation, they will still be sold at FBu 60

Costs and Subsidies

From the point of view of RDC Kirimiro no subsidy is involved in the sale of fertilizer, since the farmer pays the same price RDC paid the international supplier The margin of FBu 2 per kilogram is supposedly justified to cover the distribution cost from the Gitega deposits to the field centers throughout the project area Needless to say, these centers are built and maintained by the RDC, and the fertilizer is transported in RDC trucks The agents selling the fertilizer are RDC employees These costs are not covered by the FBu 2 margin, but the management feels they should be considered part of the RDC's social function

RDC Kirimiro does not have any contact with private distributors The issue of possible sales to dealers for resale does not arise The RDC distributes its stock among its centers and affiliated cooperatives as soon as it arrives There is none left for sale to traders Farmers will not buy from a dealer at a higher price if they can buy from the RDC center at wholesale importer cost

Profitability of Fertilizer Use

There is apparently an unsatisfied demand for fertilizer at the current price paid by farmers Farmers recognize the yield difference when fertilizer is applied The FAO fertilizer program has done experiments on fertilizer use in Burundi since 1972 For beans, for example, FAO did almost 2,000 tests over a 10-year period Its results show yield increases from 715 kilogram per hectare to 1,224 kilogram per hectare from the application of NPK 17-56-0, and from 715 to 1,389 kilogram/hectare from the application of NPK 17-56-

30. Table 3 shows how many kilograms of NPK were applied per hectare, but not actual kilograms of fertilizer Assuming that FAO used a recommended dose of 250 kilogram/hectare, the ratios of yield increase to fertilizer will be 1·2.0 and 1·2.7, respectively Since the price of beans received by farmers is also about FBu 60 per kilo, and farmers apply less fertilizer than the recommended doses, we surmise that farmers might be getting benefit/cost ratios of 3:1 or higher. At the time of the tests (1972-1982) a UNDP report estimates the benefit/cost ratio for most crops at 3·1, but since no prices for fertilizer or farm products are provided in the report, we are not able to confirm the validity of those estimates in today's conditions (PNUD *Le Secteur Vivrier au Burundi Situation Actuelle et Perspectives* 1986)

Rapid Growth in Fertilizer Use

The rapid increase in fertilizer use in the Kirimiro area during the last few years is evidence of the high demand for fertilizers among farmers Table 2 shows the tonnage of fertilizer distributed by RDC Kirimiro Fertilizer use grew from 36 tons in 1982 to 830 tons in 1987, and the increase gives no signs of abating Unfortunately, it is not possible to tell to what extent this rising demand is the result of the extremely low subsidized price paid by farmers.

Unnecessarily High Subsidies

Why isn't the price of fertilizer increased by the RDC Kirimiro? Several justifications are advanced by the RDC management. The RDC is a government agency with a social function and therefore cannot be viewed as a profit-making concern. Farmers are too poor to pay more Farmers are not sufficiently commercially minded to realize it makes sense to purchase fertilizers Farmers view their farming purely for subsistence purposes, not for revenue generation Since they are using fertilizers to increase food crop production rather than cash crops, they will be unwilling to spend cash on a non-cash crop Farmers who sell food crops might not have enough left to feed their families

Few of these arguments stand close examination. RDCs have social functions, no doubt, but that does not require them to incur losses on every operation All farmers are already paying cash for their fertilizers. Lack of money does not seem to be a problem Beans are a cash crop already· they are bought and sold by farm households on a regular basis So are maize, cassava, and plantains The fact that farmers eat most of their beans does not mean that they do not sell them Farmers do not seem to mind spending money earned from other sources to buy fertilizer for beans and maize To be sure, farmers are very poor, but they also realize that they are better off when they buy and use fertilizers

Fertilizer Response by Several Crops in Burundi, 1972-82

Crop	Type of Fertilizer (NPK, kg/ha)	Trials	Yield without (kg/ha)	Yield with (kg/ha)	B/C ratio[a]
Beans[b]	17 - 56 - 00	951	715	1,224	3 0
Beans	17 - 56 - 30	951	715	1,389	2 8
Peas	17 - 56 - 00	52	621	1,317	7 7
Peas	17 - 56 - 30	52	621	1,545	7 1
Peanuts[b]	17 - 56 - 30	74	834	1,569	6 7
Maize	40 - 60 - 00	243	1,536	2,682	2 8
Sorgho	60 - 40 - 30	125	902	2,793	3 1
Irr. Rice	20 - 45 - 40	22	1,939	2,777	2.8
Potatoes	20 - 40 - 60	33	4,181	11,522	26 9

a. Benefit cost ratio for current yield response No residual effects taken into account

b Most trials were carried out on hillsides during the long rainy season

c Mainly in the Central Plateau

Source· PNUD *Le Secteur Vivrier au Burundi Situation Actuelle et Perspectives* June 1986

The current levels of subsidization on fertilizer distributed by the RDCs seem needlessly high. They were probably justified in the first few years when its use was not common These subsidies could be phased out now that farmers recognize the benefits of fertilization

CASE STUDY C. FRUITO: EXPORTING PASSION FRUIT

Private Initiative and Market Opportunities

This is a new company with barely a couple of years of operation. It has become one of the success stories of how Burundi can develop its export potential as a result of the measures introduced by the structural adjustment program

The company has two principal lines of activity, namely, the production of bottled maracuja (passion fruit) juice for the local market, and the export of fresh maracuja to Europe by air For the local market Fruito produces about 600 bottles of 33 cl per day, sold mainly in hotels and supermarkets in Bujumbura Fruito sells the pasteurized juice in the same bottles that the bottle factory manufactures for the Amstel brewery The market for bottled maracuja juice is fairly selective and limited to Bujumbura Supermarkets also sell non-pasteurized juice, produced by artisanal plants in Bujumbura, at lower prices than Fruito's Most households purchase the fresh fruit in the market and prepare the juice at home Only middle and upper income families are likely to purchase bottled juice Bars, hotels, and restaurants perhaps represent the principal clientele

A complete description of the operations of Fruito is presented in the COLEACP report on the potential for tropical fruit and vegetable exports to Europe FED has targeted this area as one where the European Community can provide some technical, marketing, and financial support A copy of the relevant pages of the report are annexed to this section

The other major line of activity for Fruito is the export of fresh passion fruit to France and Belgium. The best fruit received is selected, washed, dried, and packaged in cartons of 17 kilograms for shipment by air to Brussels or Paris. Discount freight rates are negotiated with Sabena and Air France While the regular rate for merchandise is 100 Belgian Francs per kilo, Fruito pays only 30 F.Belg, a 70 percent discount. The rate is so much lower because the airlines have a substantial volume of cargo to bring into Burundi but little to take back. Rather than returning with empty cargo containers, they offer bargain rates. At the moment, Fruito has one large buyer that resells to ice cream plants and other food processors A second prospective large buyer might come forward later in the year

One interesting feature of the Fruito business strategy is the source of supply. Unlike similar enterprises seeking to export to Europe, Fruito did not attempt to start by planting its own fields of passion fruit Instead, it opted for buying its supplies, for both export and domestic processing, from the same sources as the local market It has three regular suppliers who assemble maracuja from peasant families in the highlands, and then sell to Fruito at a negotiated price A small pick-up truck makes weekly collections of about 1 ton. The agents can sell any fruit remaining in the Bujumbura market Fruito made no investment in production and thus avoided the risk that such an investment might entail It is confident that the additional demand generated by the 20-40 tons of fruit it expects to export this year, and the regular demand for its plant, will induce an appropriate increase in supplies from farmers in the highlands. Several regional development companies and agricultural projects are promoting planting of passion fruit vines independently of Fruito

Fruito's success in exporting passion fruit illustrates well the general principle that an export market must be complemented by an existing and viable domestic market Consumption of passion fruit in Bujumbura and in the countryside is already large The domestic market was already developed The export market was an appendix, which has grown in importance much beyond the original local market The founders of Fruito began as a familykitchen enterprise whose initial inspiration was to produce a pasteurized bottled juice for the domestic market But while prospecting for the equipment they became aware of the oversea_ market for fresh fruit

Although its stability is based on the local market, the immediate future of the company seems to be more promising on the export than the domestic side While exports of fruit are expected to double during the coming year, the local demand for bottled juice seems to have reached a plateau Fruito complains of the unfair competition posed by "pirate" producers of juice -- family enterprises similar to the one that got Fruito started Fruito's price to the consumer is about FBu 100 a bottle, or US$ 0 66, which few local families can afford Even well-off consumers complain that the cost is too high it is the same as a large bottle of Primus beer (72 cl) and three times the price of a Fanta soft drink There is little that Fruito can do to reduce the cost of the bottle alone The cost of the juice itself is minimal, less than FBu 7, or 10 percent of the wholesale price of FBu 65 But the bottle costs FBu 29, or 47 percent of the total price The label alone costs FBu 3, almost half as much as the juice Since the cost of the raw materials (juice, water, and sugar) is so low, middle and low income families can easily purchase the fresh fruit in the market and prepare the juice at home for less than one-tenth the cost of a bottle of Fruito

Fruito itself considers its domestic juice production commercially viable There is some question, however, as to how profitable it is Fruito estimates that it makes a gross margin of FBu 9 per bottle, or 18 percent over the FBu 49 it costs to produce. It then sells at FBu 58 plus 12 percent transaction tax, or FBu 65 per bottle Over a year, with a total production of 600 bottles per day, Fruito would make a gross margin of FBu 1 7 million. However, the total original investment in the building, equipment, and vehicles is reported at FBu 17 4 million This would imply that, at 10 percent, Fruito would need to generate FBu 1 7 million just to cover the interest on the investment This is exactly what its gross margin is It does not seem to cover amortization of the loan or depreciation for the equipment These simple computations are very preliminary, and were not discussed with Fruito's management. They illustrate, however, how even companies that are rather successful can have difficulties being commercially viable in a market as small as Bujumbura. They also illustrate the need for any local industry to have an export outlet if it is to become truly viable.

There is no question, however, of the profitability of exporting fresh passion fruit to Europe. Unlike the production of juice, there is no need for extracting, straining, mixing, pasteurization, bottle washing, bottling, capping, labeling, and recovering the bottles afterwards. The only new equipment needed for exporting is the telex machine It would seem, therefore, that the investment required for exporting is rather small The margin between the selling price in Europe and the purchasing price for top quality fruit in the local market can be more easily calculated and maintained. Fruito runs the risk of competition from enterprising imitators not merely in the domestic but especially in the export market.

In exporting to Europe, Fruito has benefited from some of the new measures the government plans to adopt as part of the decree to promote non-traditional exports. Although the new ordinances are not yet known or published, Fruito received some special concessions from the government The principal ones are the exemption from export tariffs, transaction tax on exports, and airport maintenance charges, and a 50 percent reduction in tax on revenues Equipment and materials imported by Fruito are also exempted from import duties These measures are contemplated for general adoption in the ordinances implementing the export promotion decree

Fruito also has benefited from substantial technical assistance in the design and evaluation of the plant from at least two French technical institutions. This assistance included the custom design of a pasteurizing plant especially suited for the small volume needed in Bujumbura On the financial side, Fruito received loans from BNDE for the equipment, mortgaging their house as guarantee The Banque Commercial financed the cost of the installations. The Fonds de Guarantee was not used to provide either collateral or financing

The owners of Fruito are a remarkable wife-husband team. She is a trained nurse with obvious talent with laboratory equipment; he is a lawyer with experience in administration. Both were well-placed to obtain the benefits of programs available to promote artisanal industries. Their experience is a shining example of small-enterprise success, even though their backgrounds are atypical of most artisans.

One surprising aspect of Fruito is the small number of employees involved -- a total of 11 workers The equipment was clearly designed to minimize automation and moving parts But even with the labor-intensive technology, the demand on manpower is small The main activities requiring labor are cutting and scooping out the fruit. The ratio of capital investment to labor amounts to FBu 1 5 million per worker, about US$ 10,000 at the October 1988 rate Of course, this counts only the employees at the plant The business also generates employment among the peasant families producing the fruit, the agents and assemblers marketing it, and the distributors marketing the bottled product The integration of the Fruito initiative with the existing system of production and marketing is one of its most commendable features.

CASE STUDY D. RDC KIRIMIRO AND PRIVATE COFFEE TRADE

(Inhibiting Private Commercial Activity)

One of the better illustrations of how the introduction of a government Regional Development Company can destroy an existing private commercial system is the case of the Kirimiro RDC and the marketing of coffee.

One of the principal missions of the Kirimiro RDC when it was created was to increase the production and improve the quality of coffee from the Kirimiro Province It undertook a series of programs to renew plantation of coffee trees, replacing older trees, increasing density of plantings, encouraging mulching of fields, and promoting fertilization with both organic and chemical fertilizers. The coffee fields in the region clearly indicate that the RDC has succeeded to an admirable extent in improving production practices among the thousands of small coffee producers in the area under its influence.

In order to improve the quality of coffee produced for export and to obtain better prices for Burundi coffee, RDC Kirimiro designed and carried out a massive program of introducing coffee-washing stations, replacing the artisanal methods using the farmers' own labor Thanks to the generous financing of a World Bank IDA loan and the support of the Burundi government, RDC Kirimiro has succeeded in carrying out this conversion in a surprising period of four years. In the process, it also wiped out the system of coffee trade that formerly assembled the coffee from producers for the OCIBU buying centers

Under the old artisanal system, coffee farmers would take their coffee berries to a manual depulping station, normally located in a near bas-fond with easy access to water. OCIBU had placed hand-cranked depulpers all over the region for the free use of farmers. In 1984, there were 157 of these manual depulping sites spread over the Kirimiro region By 1987, only 10 were left After depulping, each farmer would take the small quantity of coffee, soak it in water for a day or two, and manually clean the beans until they were washed parched coffee. This is a labor-intensive process requiring great care After drying the beans in the sun for a couple of days, the farmer would sell the beans to itinerant traders, who bought them at FBu 160 per kilogram, a price established by OCIBU

RDC introduced large-scale depulping and washing factories, which are common in many coffee-producing countries, but generally not in countries like Burundi where production is carried out by thousands of small farms Each plant is designed to depulp and process up to 100 tons in one day The system of large-scale processing is quite convenient for farmers All they need to do is to bring the berries to these large plants RDC Kirimiro employees weigh the berries and issue a receipt. The farmer goes back to the farm, and RDC takes care of the rest The farmer actually is paid more than before -- FBu 33.5 per kilogram of berries It takes 5 kilograms of berries to make 1 kilogram of parched coffee, the equivalent of FBu 178 per kilogram of parched coffee instead of the FBu 160 that the private coffee trader paid before. And the farmer does not have to spend all those hours doing the messy work and drying the beans Needless to say, there are no traders left

The only inconvenience most farmers might suffer is having to carry their berries 6 to 8 kilometers, instead of the 2 or 3 kilometers to the manual depulpers Just in case farmers might prefer otherwise, RDC Kirimiro has removed all manual depulpers within a radius of 10 kilometers of its new stations Farmers now have no choice but to surrender their berries to the RDC.

How does RDC Kirimiro do it? With mirrors and government help Each new depulping-washing-drying station is a sight to behold They are located near streams and accessible by road to RDC trucks. When in operation they employ 60 people for the four months that the harvest season lasts They are built on a hill to take advantage of gravity during the washing process They consist of a set of large pools filled with water pumped from a deep well below, a large depulping machine driven by a diesel engine, a whole series of connected tanks to hold the depulped coffee, and a sliding corridor for gradual washing. The process is identical to the manual one, but done in massive tanks built of reinforced concrete, instead of in plastic buckets or wooden pans, as on the farm. Each factory is of course equipped with a large warehouse, an office, an electric station, and miscellaneous facilities for the workers The initial investment in each factory is estimated to be between US$ 500,000 and US$ 1 million

RDC Kirimiro sells the parched coffee to OCIBU Until recently it received FBu 174 per kilo, the same as private traders but FBu 4 less than it paid to farmers for the berries! After some pleading, OCIBU now pays it FBu 183.5 But RDC still incurs operational losses on the coffee it handles. In 1987, RDC Kirimiro estimates a shortfall of FBu 14 million on the 2,500 tons of parched coffee it handled. We believe the losses to be much higher.

If each plant costs $500,000, interest alone on the investment at 12 percent amounts to $60,000 per year Add another $60,000 for amortization and depreciation, some $30,000 as labor costs for 60 workers over four months, and another $20,000 for equipment operation and maintenance We are up to $170,000 per year. To be sure, make it $200,000 per year The plant that the team visited in Giheta produced 200 tons of parched coffee in 1987 This works out to $1,000 per ton, or $1 per kilogram of parched coffee It therefore costs RDC Kirimiro about FBu 160 to process each kilogram of parched coffee, almost as much as to buy the berries It gains almost nothing since it gets from OCIBU just enough to pay the farmers for the berries.

In 1987, RDC Kirimiro had 26 of these stations in operation and produced 2,500 tons of parched coffee, an average of less than 100 tons of parched coffee per station We hope the other stations are not as large, or as costly, as the one in Giheta

What is the improvement in quality realized from processing the berries in the new factories? For the 200 tons produced in the station in Giheta, 81 percent were A1 quality, and 19 percent were A3 quality The price differential between the two grades is about $40 per kilogram Unfortunately, we do not know the quality breakdown for coffee processed manually We cannot therefore make an evaluation of the gains, if any, from quality improvement We doubt that the gain justifies the present levels of additional costs

The change is now complete Manual depulpers are a thing of the past in Kirimiro province The large-scale washing factories are a reality Coffee traders are wiped out Coffee marketing is now totally under government control from the moment the berries leave the farm Some quality improvement has been achieved, but at seemingly exorbitant cost A new commission is studying how to pay for RDC costs Will farmers prices fall?

ANNEX A

THE VICIOUS CIRCLE OF STAGNATION IN THE BURUNDI ECONOMY AND THE NEED FOR EXPORTS TO BREAK IT

Analysis

Burundi's traditional agricultural and agro-industrial economy, with its related artisanal and commercial rural activities, is the source of income for an overwhelming majority (between percent and 85 percent) of the population and contributes well over half (between 55 and 60 percent) of the gross domestic product It remains at a very low level of per capita productivity, however, and there is no likelihood of a substantial improvement, unless a significant change in the volume and composition of economic activities takes place and certain constraints that impede that change are eliminated A program of policies that aim at eliminating the constraints and facilitating the desired changes is presented in this annex

The fundamental constraint, on the macroeconomic level, is the <u>vicious circle</u> of a very low income level and the resulting lack of purchasing power within the economy Even though the Burundian farmer is highly praised for his efforts and skill in maximizing output within the limitations of his situation that output still remains pitifully low in absolute terms because of

- The small size of the average farm (about 0 7 hectares for a family of five)

- The limited basic capability of soils (prevalent high acidity, aluminum toxicity, low organic-matter content) and their continuing impoverishment through intensive use and increasing erosion

- The minimal use of fertilizers, insecticides, and high-yield seeds (although we have heard reports of the fast-growing acceptance and use of fertilizers for food crops, to the extent that these very poor farmers can afford them)

In these conditions, farmers as a group produce barely enough to feed themselves at the subsistence level and have only a small surplus to trade in the monetized part of the economy represented by the small non-agricultural fraction of the population Most of this non-farm population lives in Bujumbura

The essence of the vicious circle is that farmers must have the means to buy the fertilizers and other high-cost inputs without which a substantial increase of farm output cannot be achieved But in order to obtain these new revenues, they first must increase their output substantially and have a larger surplus to sell in the monetized sector

An additional constraint which makes the vicious circle even more malignant is the smallness of the non-agricultural sector As long as there is no substantial foreign trade (apart from gifts of foreign donors), an inflow of money to farmers can come only from the small and non-affluent urban group and the even less affluent rural artisanal population -- a very limited reservoir of purchasing power indeed The situation would be very difficult even if Burundi's population remained stationary With the population growth rate approaching 3 percent per year, the danger is obvious

The ultimate objective of the policies recommended in this annex is thus to break the vicious circle and start a multiplier process by introducing a continuing stream of new money into the rural economy That new stream of revenues for farmers can originate in the following sources

- Increased purchases of farm output for commercial and processing activities
- Growth of the informal and artisanal rural and small-town sector, and increased purchases by rural artisans (not an abundant source)

- New exports of all kinds -- the agricultural raw and processed products being the most direct way to increase farmers' income, give them the means to buy needed inputs and thus start breaking the vicious circle

We expect that in the Burundian economy, still on the brink of deepest poverty, the multiplier effect of the postulated injection of revenue should be as high as anywhere in the world and that the farmer will respond, both as a supplier of farm products to the monetized sector and as an avid buyer of non-food and higher-value food consumer goods The basic economic constraint of the vicious circle can thus be overcome by creating streams of new revenues, new demand, and new supply

Misunderstanding About Food Security

An argument sometimes heard against exports of agricultural products, especially foodstuffs, from countries like Burundi where food security may soon become an acute problem is that foodstuffs produced in the country fall short, or may soon fall short, of the total required to feed the <u>entire</u> population <u>adequately</u> This assumes that <u>every</u> person in that population will receive the <u>average daily ration</u> of calories, proteins, and vitamins recommended as nutritional norms The argument is based on a fallacious assumption that the presence of foodstuffs in a country guarantees their availability to every member of the population

Take an undersized smallholder peasant household which does not produce enough food to satisfy the recommended subsistence requirements and does not have the money to buy additional food For that household, the existence of large quantities of food produced by their neighbor who possesses more land will be no help that food can be obtained only for money which they lack At the same time, their more fortunate neighbor will have little incentive to increase the production of his land Although he would like to produce more and sell, his poor neighbor has no money to buy his surplus

That point was well expressed by Suzanna Davies, one of the authors of the UNDP study *Le Secteur Vivrier au Burundi* (June 1986), volume 3, *La Securité Alimentaire au Burundi· Situation et Perspectives* She states

> The methods used by the Five-year plan to evaluate food security have the tendency to assume a homogenous rural population This tendency encourages the establishment of strategies and policies that take insufficient account of the great differences existing in terms of resource endowments among farms Farm size, available manpower and family labor, soil fertility, cash revenues, are examples of factors where there are considerable differences (Page 175)
>
> Certainly, poor households (those unable to produce enough food to satisfy their own consumption needs) do not have the purchasing power to buy their remaining food needs (P 180)
>
> other households, with possibilities of disposing of a food surplus have little incentive since the demand for food remains so limited Weakness of effective demand, combined with the low level of urbanization, represents the major constraints to increasing commercial flows of foofstuffs at regional and even local levels (P 177)

(It is worth noting that Davies arrives at the same conclusion as the one expressed above in the argument about the basic constraint of the vicious circle)

Suppose now that the more fortunate larger farmer has the opportunity to sell some produce to an exporter He will extend his production and engage member(s) of the household of his poor neighbor to help him as part-time farm labor Part of the increased production will be sold to the exporter, part to the smallholder neighbor who now has some money to buy more food The export opportunity starts a small new stream of revenue and begins to break the vicious circle

Statistical evidence, although scarce and fragmentary, can be found to support a claim that the structure of Burundi's rural economy, even at a still very limited level of monetization, allows for monetary circulation and, by

(6

implication, for a resulting multiplier effect. D. W. Bergen found that in the province of Kirimiro 59 percent of farms engaged hired labor[1]

The use of hired labor is explained by the unequal sizes of farms In five provinces (Bubanza, Cankuzo, Kayanza, Kirundo, and Muramvia), 28 percent of farms were smaller than 05 hectares, 43 percent were from 05 to 10 hectares, 18 percent from 10 to 20 hectares, and 11 percent over 2.0 hectares[2] A survey of the Buyenzi region indicates that "28 percent des exploitations couvrent moins de 40 area et 12,4 pourcent des exploitations depassent 1 hectare"[3]

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1. ISABU, *Perspectives de la Specialisation Regionale Comme Strategie de Developpement*, Bujumbura, 1986 (information from Dale Hill)
2 CURDES/UNICEF, Etude no 3, *Potentialité economique et pauvreté*, Bujumbura, 1986
3 SNES, *Systemes de Production et Analyse de la Situation Alimentaire et Nutritionnelle Dans la Region de Buyenzi*, Raport de Synthese, Juin 1987

ANNEX B

PROGRESS OF STRUCTURAL READJUSTMENT

Policy Measures Already Taken as of
April 15, 1988
(a summary on the basis of various documents of the World Bank)

Government Strategy

- Promotion of private sector
- Promotion of export diversification to reduce dependence on coffee
- Making the parastatals more efficient and privatizing them where it is possible
- More credit for private sector and flexible interest rates

Parastatals

- Creation of the Service Chargé d'Entreprises Publiques (SCEP), a supervisory body to promote efficiency
- Closure of four enterprises which had no hope of operating without loss
- Objective of self-sufficiency for others

Taxes

- Simplified transaction tax of 12 percent (to avoid the "cascade effect" of prior taxes)
- Broadening the tax base of the transaction tax, now to be charged also on services

Price Control

- Elimination of controls, except on
  - Eight strategic necessities for which ceilings may be imposed for four months at a time
  - Gasoline and cement
- Increase in the prices for coffee and tea paid to growers and premiums for quality

Investment and Credit

- Reactivation of the Guarantee Fund for SME (Fonds de Guarantie)
- Progressive movement towards flexible interest rates
- Granting to COOPECs of a status which will allow them to benefit from the Guarantee Fund
- Elimination from the investment code of a bias which penalized labor-intensive projects

Exports

- Decree on export promotion which eliminates export taxes, transaction tax, 50 percent of income tax and allows for drawback of fiscal charges incurred on inputs

Imports

- Elimination of quantitative restrictions, except for cotton textiles, glass bottles, and pharmaceuticals
- Reduction of the number of classes of goods from 57 to 5
- Narrowing of the range between the lowest and the highest duty to 15 percent (on essential goods and equipment) and 100 percent (on luxuries)

- The deposit of FBu 10 million demanded from foreigners now eliminated if they invest in productive activities

Agriculture

- Strengthening of agricultural services at the Ministry of Agriculture
- Reform of Regional Development Companies (RDCs)
- Plans (still to be executed) for the privatization of RDCs (coffee-washing stations, construction, garages, etc)
- Plans (still to be executed) for the privatization of the fertilizer trade

ANNEX C

HARMONY BETWEEN THE RECOMMENDATIONS OF THE PRESENT REPORT AND THE POSITIONS OF THE GOVERNMENT OF BURUNDI AND THE WORLD BANK

The Government of Burundi

The GRB has stated its adherence to the principle of private sector development of agriculture and its related activities Also, the GRB has indicated the diversification of agricultural exports as one of the important objectives The following quotations indicate fairly clearly the government's philosophy.

From the document of the Ministry of Agriculture, *Politique Sectorielle Agricole* (dated July 26, 1988?)·

> In the future, the agricultural sector will remain the principal source of export earnings, even if its relative importance diminishes as a result of the development of exports of manufactured products
>
> The policy of the Third Republic is to strengthening traditional products in order to increase their production and improve their quality Promotion of new export crops will be equally encouraged by focusing on those with a high value per unit of weight, and with an assured market

From the speech of the President of Burundi, Pierre Buyoya, on August 5, 1988 (as reported in Le Renouveau of August 6, 1988)

> After examining the Sectoral Policy Statement of the Ministry of Agriculture and Livestock, the Government retains the following objectives·

1. Assuring food security and improvement of nutrition for the people of Burundi;

2. Increasing foreign exchange earnings through the expansion of traditional export crops and introduction of new ones

3 Increasing cash revenues for the rural population

And further in the same speech·

> At any rate, we wish to produce sufficient quantities of beans, rice, cassava, meats, etc so that once we have satiated our needs, we are also able to export to neighboring countries in order to earn foreign currency necessary for our economy

In a speech that followed, the Minister of Agriculture and Livestock, Mr. Jumaine Hussein, cited these directions that his ministry ought to follow·

> Maintain the current levels of exportable commodities and produce others in order to generate sufficient foreign exchange to finance our needs in equipment
>
> To raise the level of monetization of the rural sector for it to become a source of products going into the industrial and artisanal sectors

From the May 1988 document issued by the Ministry of Plan, Reunion Préparatoire à la Table Ronde des Partenaires du Développement, Volume 1, "Situation et perspectives de développement à travers le Ve plan (1988-1992)'

> In the context of the opening new external markets, mainly in the framework of regional trade agreements -- ZEP (PTA, Preferential Trade Area), and CEPGL (Economic Community of Great Lake Countries) -- it is desirable to do market potential studies in order to provide potential exporters with relevant information concerning the competitiveness of their production, given production costs and

> prices in different countries. These studies will take into account the new conditions of the regional transport, greatly improved recently by the extension of the road network and larger national trucking capacity.

These statements clearly indicate that the government considers as highly desirable an intensification of agricultural exports (raw and processed), a diversification of export products, and progress in the monetization of the rural sector which will benefit from the export trade

The World Bank

From *Rapport no. 6754-BU, Resumé Analytique*:

p 11, para. 24.

> There are good possibilities of increasing exports of cotton and textile products, of construction materials, and metal products, food products, and furniture, to Zaire or Uganda.

p. 12, para. 25:

> An Export Promotion Office could be created to identify potential export outlets, and to define appropriate projects.

p 13, para. 27-b

> The report supports the founding . of a program to promote the development of enterprise spirit, to identify and assist potential new heads of enterprises

From Report no P-4770-BU, May 11, 1988, *Report and Recommendation of the President of the International Development Association to the Executive Directors on a Proposed Development Credit of SDR 649 Million to the Republic of Burundi for a Structural Adjustment Program*:

p. 17, para. 58:

Fertilizer utilization, limited to one percent of producers, is hindered by insufficient knowledge of fertilizer performance in on-farm conditions, uncertainty about fertilizer demand, and insufficient institutional arrangements for distribution and marketing The government intends to (a) update and extend fertilizer trial programs to crop associations in actual farm conditions, (b) conduct trials on combinations of chemical and organic fertilizers, (c) clarify import and supply policies, and (d) increase the participation of the private sector and producer cooperatives in this activity

p 67 (Annex V, p 15), para 57

Increasing Production of Export and Food Crops The government is fully aware of the critical role of agricultural exports in the balancing of the country's external accounts It will continue to concentrate efforts on increasing production and marketing of traditional exports as well as on diversifying the range of non-traditional agricultural exports Targets for non-traditional products will be set based on a study of Burundi's comparative advantage Products with a high unit value in relation to transportation costs (essential oils, spices, exotic fruits, horticultural and medicinal plants) will also be considered The cost of farm inputs will progressively be transferred to farmers whose production decisions will be adjusted to price signals for various crops.

ANNEX D

WORLD BANK'S AGRICULTURAL SERVICES PROJECT

Highlights of the Aspects of the Project of Special Interest to the Present Report

p. 9 Sector Strategy Agreed Upon With the Government of Burundi·

a) Returning the service activities from Regional Development Companies (RDCs) to the central ministries (of Agriculture and of Rural Development)

b) Relinquishing by RDCs of commercial activities (construction, operation of coffee-washing stations, supply and distribution of inputs, etc) to the private sector and cooperatives

c) To the extent that the private sector would not be able to manage commercial activities, RDCs would retain responsibility but would manage them strictly as a commercial enterprise

p 13 Project Objectives

a) Develop analytical, planning, budgeting capacity of the Ministry of Agriculture

b) National extension system adapted to the farmers' needs and to protection of the environment

c) Reorganization of Buyenzi and Kirimiro RDCs

d) Promotion of input delivery and foodcrop marketing through support to cooperatives, COOPECs and the private sector

p. 16 Support for National Fertilizer Research Program including national policy on fertilizer usage and procurement

p. 24 Support for cooperatives (Ministry of Rural Development; establishment of an independent Cooperative Federation to strengthen management, training and audit

p 25 Support for COOPECs

ANNEX E

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ANNEX F

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