



FINAL REPORT

1989-1993

Written by
Donald Hart, Ph.D.

for

LABAT-ANDERSON, Inc.

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FINAL REPORT

I. INTRODUCTION

During the four years of his work with USAID/Burundi, the LABAT-ANDERSON contractor has produced extensive documentation on every aspect of his work. These archives comprise monthly reports on file at LABAT-ANDERSON, Inc., and memoranda, cables, telefaxes, newsletters, speech notes, published articles, reports, and commentaries which can be found in the files of the Office of Agriculture and Private Enterprise Development of USAID in Bujumbura. Of the 41 monthly reports sent from Burundi to LABAT-ANDERSON, Inc., many contain as attachments copies of documents the consultant produced during the course of his work. It is this documentation which tells the story of the consultant's work and which evidences his contribution to the USAID program in Burundi. The present Final Report constitutes a brief summary of this contribution and is meant to be no more than a concise historical record of work that touched upon nearly every broad area of policy affecting private initiative in Burundi.

II. THE DEVELOPMENT OF THE PROJECT

The LABAT-ANDERSON consultant first came to Burundi in August, 1989 under a short-term contract to assist in the writing of the Program Assistance Identification Paper (PAIP) for USAID/Burundi's non-project assistance work under the Africa Economic Policy Reform Program (AEPRP). Following completion of the PAIP, the consultant returned to the U.S. and came back to Burundi on October 26, 1989 under a two-year contract. The contract was funded through a Mission buy-in to the Africa Private Enterprise Fund (APEF). The consultant was designated by the AID Representative as the Private Enterprise Officer (PEO), a title which will be used henceforth in this report.

The PEO's first task was to work closely with a team from REDSO/ESA in developing the Program Assistance Approval Document (PAAD) for the AEPRP. This document also served as the Project Paper and created the four-year, \$36

million Burundi Enterprise promotion Program (BEPP) and its companion \$7.5 million technical assistance Burundi Enterprise Support and Training (BEST) Project. The PEO was identified in the PAAD/PP as the Mission's Project Manager for BEST.

The PEO established the Private Enterprise Office (PRE), a functional division of what would become the Office of Agriculture and Private Enterprise Development (APED). PRE, under the direction of the PEO, had a mandate to implement BEST, develop with the Government of Burundi (GRB) the annual policy reform agenda under BEPP, and manage all technical assistance for private sector development.

PRE set for itself a mission to raise in Burundi public awareness of the need for private sector growth and to make USAID the leader among donors in private sector policy issues. This broad goal would allow USAID a front-line seat at the highest level of policy debate in the country. It would permit counterparts with the authority to enact decisions made under the BEST Project, and it would generate the public prominence needed to transform policy into general practice. Thus PRE also established a philosophy of operation that is evasive in non-project assistance: a determination to guide assistance towards results that are useful for and intelligible to all beneficiaries, who range from illiterate peddlars to foreign corporate investors.

The goal of PRE was to create in Burundi an administrative and regulatory environment for private investment based on those common denominators considered essential to free enterprise by scholars and practitioners of the subject. The method was to be fully collaborative with private business leaders and with the GRB. The means was consistent, top-quality foreign technical assistance and continual internal policy debate with Burundian authorities, business people, and intellectuals.

III. IMPLEMENTATION OF BEPP/BEST

BEPP/BEST were signed by the GRB in April, 1990. During the months that preceded the signing, as well as during the six months that followed, a great deal of work was done in learning about and describing the private sector in Burundi and in establishing working relationships with the relevant government

agencies and support institutions. By the time of publication of USAID's report on the survey of the formal sector, USAID was the only donor with a coherent picture of the private sector in this country. Nearly one year before the arrival of the BEST Technical Team from Chemonics, Inc., the Mission had completed or was engaged in studies on agricultural and rural markets, labor and employment, small and medium enterprises, the informal sector, the financial sector, decentralization of customs, trade with Zaire, rural and urban household expenditures and income, formal enterprise in Bujumbura and three interior towns, export promotion, the environment for an export processing zone, and financial and policy constraints to exporting. This research constituted a formidable body of knowledge from which to articulate policy recommendations.

In addition to the research and to broad familiarization and networking, the Mission, under the leadership of PRE, undertook two activities which were to prove crucial to the success of BEPP and BEST. The first of these was close coordination with the Mission's training program, BUHRD. In effect, the private sector initiative harnessed the invaluable resources of BUHRD and gave that project direction it lacked in the past. The second undertaking was the establishment of a BEST Technical Committee in January, 1991. This committee provided a formal venue for a group of persons who had been meeting with increasing frequency during the early phase of BEST, and it secured the offices of the Permanent Secretary for Structural Adjustment as the headquarters of BEST. The original committee comprised senior civil servants from all relevant ministries as well as the directors of the Chamber of Commerce and the Export Promotion Agency (APEE). The highly collaborative nature of this committee, whose principal objective has been the design of the annual reform agenda for BEPP, and the unusual dynamism of its members have been the most important factors in the success of the program.

The three person Chemonics technical (T/A) team arrived between July and November, 1991. By May of 1992, BEST was reaching full speed. The PEO was gradually able to second responsibilities to the T/A team, and the 1992 reform agenda proved to be the most far-reaching, ambitious annual policy conditionality ever written for an AEPRP. It is high tribute to all members of the BEST Team, and all members of the Technical Committee, that with a single exception the conditionality was met fully in letter and in spirit. The BEST Team comprised the Mission's ADO, the LABAT-ANDERSON PEO, the PRE Program Assistant, the Chemonics T/A Team, and the Burundian Project Director.

At the time of writing this Final Report, the third tranche of \$9.5 million has been released and the reform agenda for the fourth tranche and final year of BEPP has been approved and signed. BEST enters into its final year with four principal objectives: the realization of legislative reform already agreed upon with the GRB, the belated establishment of monitoring and evaluation, enactment of third-country training, and effective transition to the BAPES program, which will place far greater emphasis on agribusiness, microenterprise, and the rural populations.

It is important to remember that work which has fallen under the responsibility of the PEO preceded BEST and always embraced activities either not financed with BEST funds or outside of the scope of the Chemonics T/A team. Through FY1990 the PEO and most of the research and technical assistance was financed through APEF funds, subsequently the contract with LABAT-ANDERSON was funded out of the BEST Project.

Two important activities which did not relate directly to the formulation of BEPP policy were the Export Promotion Consultancies and work on privatization. The former preceded BEST, neither was conducted in direct collaboration with the T/A team, and both benefited from consultants recruited by LABAT-ANDERSON.

The Export Promotion Consultancies were conducted in three phases, the first two under sub-contract to AMEX Intl, the third under sub-contract with the IESC. Their objective was to stimulate non-traditional exports. During the three phases, the consultancies identified broad areas of potential, identified a specific sector and then specific firms to work with, and finally brought expert technical assistance to work with small garment manufacturers.

Privatization was an activity into which the Mission was drawn after much hesitation and careful planning. In 1991 LABAT-ANDERSON provided a highly qualified consultant to work with the PEO in designing a strategy of limited assistance to the sluggish privatization program in Burundi, led largely by the World Bank. Through a buy-in to the centrally funded Privatization and Development Project (PRE/EM), the Mission subsequently worked with a team from Price Waterhouse to bring the local pharmaceutical industry to point of sale.

IV ACHIEVEMENTS

There have been a great many successful activities in the Mission's private sector program. Such activities may have contributed to one firm or one entrepreneur's growth, they may have enhanced the standing of USAID in Burundi, they may have set an example of standards or process, they may have contributed knowledge and understanding. A very partial, but representative list of activities includes

- baseline studies creating the first—and to this day only—comprehensive picture of the private sector in Burundi,
- a computerized database—the only one in Burundi—of all literature available locally which is directly relevant to private sector development,
- a widely distributed newsletter—*PRE NOTES*—concerning activities under the general supervision of PRE,
- close cooperation with BUHRD in the selection of private sector candidates for training and in the design of training programs to support policy reform,
- a distinctly collaborative approach to policy reform and conditionality,
- a strategy towards privatization considered a model for lucidity and pragmatism,
- research of high standards culminating in reports that are intelligible, directed towards clear follow-up, and thoroughly marketed

These and many other activities have been greatly appreciated by the Burundians. The studies have been seen as pertinent to real problems, and their quality has often been praised. The collaborative way of working has received much commentary and to some degree has engendered a different, more favorable view towards development assistance than that commonly held. The training has been viewed as eminently useful and is certainly the only training in Burundi organized and designed to achieve clear results. The work in privatization provided a model of excellence, of standards, and of neutrality. While these activities reflect a way of working rather than quantifiable outputs, they must be

valued for what they have in fact produced good will, knowledge, and standards—in themselves valuable achievements

Policy reform, technical assistance, and institution-building through daily presence have also generated specific, though often sporadic, results. Moreover, sometimes these effects are couched in negative terms—a cost-saving rather than a profit-making. No matter. Rationalization of resources should form a part of any development program and certainly has in USAID/Burundi's private sector initiative. We cite but a few examples of clear-cut cases in which our work has caused positive results

- establishment of a private manpower recruitment company as a direct consequence of policy reform,
- freedom of all citizens in good standing to retain their passports,
- dissuasion of the GRB from engaging in a costly project to establish a classic export processing zone, thanks to first-rate analysis provided by the Mission through The Services Group,
- dissuasion of the Mission from embarking upon an urban microenterprise support project, for which there was considerable external pressure, and which our analyses showed to be unwarranted at the time,
- creation of two decentralized customs posts with positive and growing receipts—a direct result of first-year conditionality based upon a study in 1989,
- elimination of duties on textiles which are re-exported as finished garments, as a result of ministerial meetings with the IESC consultants,
- promulgation of a modern law governing peddling, with unambiguous reports of increased informal trade and a virtual suppression of routine harassment of peddlars

It would be possible to cite many more such cases. These are not simply "outputs" they are the palpable results of outputs. The challenge in a NPA program such as BEPP is to associate policy change with quantifiable results. The

challenge is the same for all structural adjustment programs, and it has long been the argument of the PEO that evaluation of a short-term policy reform program should not be predicated on measurable economic growth

BEPP, it is true, stated its objectives in terms of real growth. The present writer has always believed this to be a mistake. It is the PEO's position that BEPP was called upon to establish for Burundi as many of the common denominators for enhancing private investment as could be reasonably expected from the resources and time available. These common denominators are no mystery. They embrace contract rights, property rights, transparency and equity of process, labor market fluidity, simplicity and rapidity of business matriculation, access to capital, and certain basic aspects of fiscal, monetary, and foreign exchange policies.

The Mission, through BEST, APEF, and other means has gone further than anticipated in the project paper in identifying and alleviating constraints to investment, which is the simplest way to refer to private sector, or free market, development. Attached to this paper is a list of the research and a list of the policy reforms that have been met or, in the case of the 1993 agenda, agreed upon. The legal and regulatory waiting room is now reasonably dressed with contemporary furnishings for domestic and foreign investors. This is an essential step in the Pert Chart of private sector development. It is beyond the range of BEPP, and beyond the competency of most foreign assistance, to ensure that the offices beyond the waiting room, those that control obedience to the rules of the house, that control its international image and its very stability, are fully in order. And that is where investors will look first.

From the point of view of the PEO, the major achievements of the private sector program can be divided into those that established the primacy of the U S Mission and those that left a legacy for the economy of Burundi. In the first category is the general recognition, among Burundians and other donors, that USAID assumed clear and merited leadership in private sector matters in this country. As has been said before, this achievement gave the Mission a high hand of cards to play at a table often reserved for the multinational agencies. The U S Mission was able to use this strategic edge for the promotion of liberal market principles on which our country is founded and for the transmission of which the AEPRP programs were created.

In the second category are the achievements in privatization, in labor reform, in export promotion, and in legal reform. The ground for establishing the case in the area of privatization is not firm. We have already mentioned the achievement in setting standards and in strengthening institutions through the Mission's intervention in privatization. The transaction in case has been brought to point of sale, and we retain guarded optimism about a final divestiture. If the company is successfully sold and management entrusted to a competent technical partner, there are substantial economic and social gains in the waiting for Burundi.

USAID has been active since the earliest preparatory stages for the AEPRP in promoting labor reform. Through continual dialogue and through conditionality the Mission has greatly abetted the revision of the labor code. The facilities for hiring and firing, for engaging competent expatriates, for direct negotiations have now permitted a rational flow of labor capital within the country.

BEST's greatest achievement in export promotion was the establishment of the most attractive free trade regime on the continent. Although the very existence of this regime is now menaced by certain uninformed actions taken by the new government, the success of the measure was clear in an immediate response of investors to the incentives.

It is in legal reform that BEST has reached perhaps the pinnacle of its contribution to private investment. Among the several important activities under this rubric, the overhaul of the corporate law stands as a *tour de force* in donor-assisted modernization of legal codes. From a patchwork code dating largely from turn-of-the-century Belgian law to a fully contemporary code embracing many aspects of American corporate law took five months of work with a team comprising a lawyer from France, a practicing attorney from the U.S., and a professor of law at the University of Burundi. Promulgation of this law is expected in early 1994 and will greatly facilitate the establishment, financing, administration, transfer, and dissolution of limited liability companies.

BEST can indeed boast many achievements in promoting a friendly, transparent environment for investment to take place and business to occur. The project has left palpable contributions and is often cited as having had a great impact on the way of thinking of Burundian authorities towards business. It can

perhaps claim to have stimulated investment, but this writer believes that BEST, as a policy reform program, should be judged on the quality and consistency of the policies it has promoted, not on the investment which has occurred in consequence

V. PROJECT WEAKNESSES

The private enterprise initiative of USAID/Burundi can boast a significant impact on the mentality of Burundian authorities in Bujumbura, and it continues to create a legacy of indispensable regulatory, administrative, and legal reforms. In global terms, the initiative cannot be associated with significant economic or even sectoral growth, for Burundi has enjoyed no real economic growth during the period of this program. While this does not reflect an internal or conceptual weakness of the Mission's intervention, it has suggested that development monies might be more usefully applied.

Internally, the BEST Project has suffered weaknesses of staffing. The original Chief of Party was asked to leave owing to inadequacy of language and management skills. One team member has been obliged to do the work of two, sometimes three persons. Owing to the strength of this individual, the project itself has suffered little.

There have been some disappointments in a few of the research efforts, but some degree of failure is probably inevitable in a long-term project with as many planned activities as BEST has admitted into its agenda.

The single largest weakness has been in monitoring and evaluation. Of these two distinct elements, it is now monitoring which suffers the greatest disregard, since a mid-term evaluation was completed in June, 1993. This weakness is owing to gaps in project design, to inexperience among team personnel, to lack of real conviction from the PRE Office and the Mission in general, and to the almost frantic pace of activities embraced by the project team. Very little was ever done to ascertain that reforms translated into real benefits for the client population, or even that they were effectively disseminated. Despite the hiring of a full-time specialist for the remaining year of the project, it is unlikely that project monitoring ever attain its full objectives in the life of BEST.

Highlights and Examples of Activities

Introductory note. the activities presented in this section are excerpts from monthly reports submitted to LABAT-ANDERSON, Inc. since January, 1990. The activities are excerpted from reports in chronological order, but not every month is represented. This section is intended to give an idea of the breadth and extensiveness of the activities of the PEO during his tenure in Burundi. The reader will note changes in style of presentation as well as significantly fewer selections from 1993. The 1993 reports no longer conveyed details of activities but rather broad lines of work. Furthermore, 1993 is covered amply in the PEO's Annual Report for that year.

- 1990 -

- Brief Aindre Miller on UNDP consultation on private sector
- 1/5 Meet with Directeur d'Etudes at Ministry of Labor to discuss terms of reference for informal study
- 1/8 Meet director of University research facility, meet w/ UNDP economist to discuss export promotion
- 1/10 Interview World Bank economist for informal study
- 1/12 Interview local expertise for informal study
- 1/15 PAAD review
- 1/16 Meet with agents from Min of Commerce (MCI) to discuss USAID assistance in export promotion, meet with Director of Interior Commerce
- 1/17 Meet w/ Director of Industry to discuss training needs
- 1/19 Cabinet advisor at MCI to discuss draft legislation for peddler's license
- 1/20 PAAD review
- 1/22 Director of SMEs at MCI to discuss constraints
- 1/24 Meeting at Min Labor to prepare for informal sector study
- 1/25 Seminar at Min Rural Dev on tradesman's village
- 1/31 Meet w/ director of CPF (public and private sector training institute) to discuss possible collaboration

- 2/2 cables/letters to MDI, GRB, and de Jaeger on EPZ study
- 2/5 Dir of Industry to discuss quality control plans
- 2/6 Dir of World Bank project APEX to discuss USAID strategy
- 2/7 Min Rural Dev meeting on trade village, meeting with owner of Fishes of Burundi, S A to discuss exports to U S A
- 2/8 Meeting w/ Dir of Burundi Tobacco Co
- 2/12 Contract for Informal study begins, briefing of team, presentations at Min of Labor
- 2/13 Discuss w/ advisor to Dept Industry the Ministries needs for computers
- 2/19 Meeting at Min Labor with research team
- 2/20 Evaluation of Chamber of Commerce training
- 2/21 Meet at Min of Labor to discuss future study of labor legislation in Burundi, consultation at UNDP for up-coming seminar on private sector
- 2/26 Meet w/ UNDP private sector consultant, Jean-Pierre Diehl
- 2/28 Reception at home for Burundi exporters

I have completed or am writing terms of reference for the following positions/consultancies

- 1 Private Sector Program Assistant, a Burundian national who will work as my direct assistant,
- 2 Documentalist, a local consultant who will spend four weeks in researching documentation for the Private Sector Office,
- 3 Domestic Constraints to Export, one of the studies to be performed during the current year under the BEST (Burundi Enterprise and Training Project) project,
- 4 Export consultancies, the assistance proposed by Mori Diané in his report on Burundi's export program. Once this T O R is completed, it will be sent to Labat-Anderson, along with the PIO/T for increasing USAID's buy-in. We anticipate beginning these consultancies in June

I have held single or multiple meeting with the following organizations and individuals

UNDP, World Bank, Belgian Cooperation, EEC, the World Bank "APEX" Project (credit to SMEs), UNIDO, the Chamber of Commerce of Burundi, the IFC, the Ministry of Labor

Secretary of State for Plan

I was invited by the Secretary of State to discuss, in a one-on-one visit, the possibilities of establishing a joint venture consulting business in Bujumbura with an American firm. I told him I had communicated with my home office but had as yet received no indication that Labat-Anderson was interested.

informal sector survey

The first draft of this report is due August 1, the consultants' contracts terminate August 10. All tables are complete and have been reviewed, and the preliminary economic analysis has been done. I will have much more to say about this report in coming months, as it should generate future work.

private sector assistant

I have advertised and developed detailed selection criteria for an assistant for my office. The closing date for applicants is August 8.

SME Baseline Survey

I have advertised for both a Survey Director and an Assistant, both of whom will be hired under PSCs. We will get an economist through a REDSO IQC, and I completed the scope of work for this position.

Export Development Consultancies

I sent a direct relay cable to LAI July 26 asking that recruitment proceed apace for the consultants for this activity, if the contracting process is complete in Washington. During this month I met twice with the Director of Operations and the Director General of the Export Promotion Agency, and they emphasized their eagerness to begin the work of these consultancies.

direct investment

Having received a cable from AFR/MDI regarding the interest of a US businessman in raising crocodiles in Burundi or Malawi, I communicated with the Chamber of Commerce and asked them to make the information public. I have met with one potential partner and will meet with another this week. I have emphasized to the Burundians, as well as within USAID, that one effort of our private initiative program will be to facilitate direct commerce with the US.

diverse meetings

I held meetings with the World Bank, the Chamber of Commerce, the Ministry of Labor, the Director General of the Burundi Labor Union, the Permanent Secretary for the Structural Adjustment Committee, an ILO project director, and other individuals

international marketing seminar

I attended in Bujumbura from 10/15-17 a seminar sponsored by UNDP and the Ministère de la Fonction Publique. The leader of the seminar, Mr. Michel Librowicz, is a professor at the Univ. of Quebec at Montreal. It was an excellent seminar, and I made professional contact with Mr. Librowicz, who is president of a trade brokering company and partner in a trade consulting firm.

free zone conference in Mauritius

I departed 10/21 and returned 10/30 to participate in the conference. I was the group leader for the three-person delegation from Burundi. By all accounts, the conference was an outstanding success, and The Services Group did a magnificent job in the planning for and organization of the event.

- 1991 -

thesis advisory work

For months I have served as co-director of a thesis on the informal sector for two economics students at the Military Academy. Recently I participated in the judgment panel of their oral defense. I enclose a copy of the cover sheet of their thesis.

private sector assistant

After long deliberation and careful recruitment, I hired an assistant just before my annual leave. He is a Zairois with many years of both government and private sector experience in Bujumbura. He is quickly learning the program and has already proved to be a valuable addition to the Mission in general and to the private sector program specifically.

Oren Whyche TDY

I met Whyche in Mauritius and obtained her agreement, and that of Weinstein, for a TDY in Burundi. Prior to my annual leave I had written a T O R for her visit. Her 8-working day stay in February was of great usefulness to the Mission, as she helped us see clearly the issues surrounding a proposed new line of equity credit. I accompanied Oren on 10 of her 15 visits to GRB personnel and private managers and bankers.

USAID/Burundi 1991 reform program

My work and reflections have been central to the Mission's evolving policy reform program. Several of my memos written to elucidate the issues are annexed to this report. An effective reform program here is particularly difficult because

- in such a small market and poor economy, there is little one can do to create a real multiplier effect,
- A I D /W demands justifications in the name of objectives which amount to little more than good intentions and wishful thinking,
- The GRB has really made remarkable progress in the broad lines of policy reform, and the details that remain promise very little in the way of measurable benefits, at least in the near-term.

I am giving a presentation to our mixed policy reform planning committee later this week.

training

I have of necessity become more involved in the planning of training than I would have liked. But it became imperative to harness the BUHRD resources, to say nothing of the intelligence and energies of our training officer, to support the private sector program. I have held various meetings since my return with the departments of domestic and of foreign trade, with the goal of discerning real needs in human resource development.

I also participated on a Chamber of Commerce selection committee for candidates for short-term training under BUHRD and will join a similar committee next week for long-term candidates. I annex a memo I wrote recently on public sector training.

studies and reports

There were lamentable and avoidable delays in reaching a final format on the Informal Sector Report. It is now done but not yet translated. The Free Zone Report is translated but not yet completely typed. The Nieder/Hendrixson report on Domestic Constraints to Export is first-rate. I have created a format for writing abstracts of all reports for quick review.

evaluation of customs decentralization

My assistant and I made a two-day trip to the interior, visiting customs posts, banks, and local businesses to evaluate the effects of customs decentralization on the provincial economy. A copy of my trip report is attached.

PAAD amendment

I have spent considerable time this month preparing for the weekly meetings of the BEST technical committee, in which we are developing a reform program for 1991-92. I have also worked on the core document for the PAAD amendment and include my latest draft as an attachment to this report.

SME Baseline study

The final report is due May 30. I have been working closely with the contract economist.

export promotion

I have held a long meeting with the director of the TPO and agreed to assist him in developing a reasonable one-year plan (I convinced him not to proceed with a five-year plan).

donor meetings

I have met this month with representatives from the CCCE, the CCE, UNDP, the ITC, and the World Bank to discuss private sector issues and to explain the USAID program.

15

report distribution

I created a master list for distribution of USAID studies and reports and added in the Rector of the university and the President's economic commission. There has been a very positive response to this effort, especially in light of the recent extended distribution of the free zone report (Services Group), the first-rate study done by Frank Nieder of SRI, and our informal sector study.

PRENOTES

This is the newsletter I have created for our office, it is a response to continual inquiries regarding our activities, plans, and personnel. It is also the first desktop publishing done within USAID/Burundi. Copy attached.

Nairobi trip

Leong and I defended the 1991 reform program at REDSO/ESA. USAID/Burundi was congratulated on the quality, breadth, and thoughtfulness of the document.

consultants

I worked closely with Hartland-Peel during the privatization consultancy. Subsequently, I received Veronique Praz, Chemonics' first arrival for BEST. Finally, I have received and worked closely with Ed Tarpinian of IESC.

Chemonics

I spent considerable time with Bill Slocum and Lyrae Johnson of Chemonics to ensure a good start and good continuing support for their team. It is a good sign that Chemonics took the pains to send out a point person, then both Slocum and Johnson to get the team set up properly.

round table

I have been active in meeting with the Director of French Cooperation to ensure sound USAID input into the round table.

World Bank SAL III Mission

From 11/4-11/16 much of my time was taken with attendance at various commissions organized by the Bank. My principal contacts at the Bank are Mamadou Diop, Iradj Alikhani, and Jackie Damon.

The BEST Team

I have also spent considerable time meeting individually and as a group with the Chemonics team. It has been much more difficult than I expected to convey to them the philosophy of non-project assistance.

REDSO/ESA Visit

Hartland-Peel, now with REDSO, lost his entire first week during the war days, but was joined by Bruce Odell, deputy, from 12/2-12/6 I spent much time with both of them, thinking through both privatization and other aspects of our upcoming 1992 reform program

- 1992 -

Chemonics ran a 2-day team-building retreat for their T/A team. Their home office has now sent three staff members for a total of 26 person days in support of their team. Not including thorough home-office orientation for each team member prior to departure. I gave a prepared presentation for the retreat.

BEST Training Plan

At my request the Mission Training Officer assisted me in devising an entire, detailed training plan for the BEST Project. We finished in 12 hours what Chemonics' subcontractor had proposed to do in 8 man-weeks. I have, incidentally, recommended on various occasions that the HRDA Office at LAI take a look at Lorraine Denakpo, who is a PSC. You would be unlikely to find anyone better at management of training programs.

Meetings with BEST Team and counterparts

I have met on several occasions to discuss and revise the terms of reference as well as to participate in candidate selection for the preparation of a free zone legislation and for the revision of the commercial code.

Selection Committee at Chamber of Commerce

I continue to serve on the quarterly meetings of the CCIB to select private sector candidates for USAID-financed short-term training.

Trip to interior

I traveled with my assistant to Gitega to evaluate the impact of certain reforms on commerce in the second urban center of Burundi.

Privatization

I am in steady contact with AID/PRE and Price Waterhouse, as well as with local authorities, regarding the imminent start-up of our direct assistance in privatization. I have been chiefly responsible for the development of this initiative.

Household Income and Expenditure Survey

I spent considerable time rewriting a T O R for the subject survey, in order to ensure clarity of objectives and roles as well as to set an example for the BEST Project subcontractors of the standards we expect and the quality we insist on in preparation for technical assistance.

USAID/Burundi a full Mission

AID/W's approval of our upgrade has caused great internal satisfaction and, surprisingly, no little pleasure on the part of Burundians. I have been kindly invited to participate with the direct hire staff in private celebrations, which I take to be a recognition of my contribution to our status.

1992 reform agenda

I am leading the BEST Team in an effort to put together a very strong, far-reaching policy reform agenda for our 1992 cash transfer.

privatization

I have been in regular touch with Price and PRE regarding the upcoming assistance, which is being delayed by the OYB transfer.

AFR/ONI/PSD and USAID/Burundi collaboration

Both LAI and ONI should have received the same terms of reference for a credit study. These were sent by fax last week, and I am including them with this report.

other

I have participated in meetings with the export promotion agency, planning an assistance strategy for the next 12 months. I have met twice with the new secretary general of the chamber of commerce. I have worked to put into final form various terms of reference: household survey update, free zones, monitoring and evaluation consultancy. I have also been working up a USAID/Peace Corps collaborative program for the training and placement of four volunteers in a small enterprise program.

- 1 development and presentation of 1992 reform program
- 2 extensive meetings with all parties directly concerned with the reform agenda
- 3 participation in Belgian Cooperation's day of reflection for macroeconomic planners
- 4 meeting with new PCVs in small business program
- 5 meetings with Felipe Tejeda, here w/ AMEX to do the BEST Project amendment

development and presentation of the 1992 reform agenda

This agenda, of which I sent to LAI a semi-final version on 7/12, has demanded an enormous amount of time, given its breadth and complexity. It is still undergoing final touches.

writing of the 1992 PAAD Amendment

Glenn Slocum gave me a week of closed doors, during which I was able to complete 90 percent of this document, which must be in Washington by 8/31. David Leong (PDO) and I will complete it next week.

collaboration on drafting the Program Grant Agreement

Leong and I (for the third year) have worked together on this document which permits obligation of \$10 million for the third tranche of our BEPP Program.

privatization consultancy

I spent considerable time preparing for what turned out to be a highly successful start to USAID's privatization initiative in Burundi. I have been almost exclusively responsible for the design of our entry into privatization. USAID's approach--direct and practical--has had a nearly earth-shaking effect in Burundi: very positive for the Burundians, worrisome for the donors, especially the European bilaterals. USAID is now being seen as the leader in privatization in Burundi.

Peace Corps collaboration

Given the absence of ADO Newberg during the past eight weeks, I have had to cover without assistance our collaboration with PC in their small enterprise program, which USAID is supporting through a PASA and with counterpart funds.

IMF

I enclose a fax largely of my drafting to the IMF. It was my initiative to contact the Fund, because our reform program was clearly moving into areas they normally consider reserved for their teams. The fax apparently provoked a stir in Washington. Glenn, Estimé, and I met with the team here last week in what turned out to be a ground-breaking event. The Fund is now asking how they can help further our efforts.

COMMENTARY

For two years USAID has been regarded as the unquestioned leader among donors in private sector development in Burundi. The American approach is admired and broadly commented on. Thanks to careful, planned strategy, USAID is now considered the leader in privatization as well. The World Bank and even the Caisse Centrale have both come to our offices to express surprise and admiration for our bold and incontrovertible approach. Now the IMF

has virtually welcomed our collaboration in prudent interventions in the areas of currency control and foreign exchange policy

While it is not the objective of the Private Enterprise Office to put USAID at a competitive advantage over other donors, it is nonetheless a *tour de force* to work with sufficient effectiveness in macroeconomic policy reform to be able to exert positive influence on the programs of the Bank and the Fund. For at the risk of being accused of disingenuousness, we insist that we have no macroeconomic program, no program for monetary or exchange policy, no program even for privatization. What we have is an inflexibly pragmatic approach to the promotion and diversification of private investment.

BEST Work

With Estime still absent, I have had to cover a broad range of activities to ensure good project operations. Among these is preparation of revised scopes of work for the team members, revisions of various terms of reference, and participation in selection committees for consultants.

Uganda trip

For months I have been putting together a training trip for bankers and finance personnel to Uganda to study the foreign exchange liberalization measures taken by Kampala. The group left on 9/26 for one week. We are going to push hard with our Burundian colleagues for substantive changes that will ensure that Burundi remain at least competitive--better in the vanguard--with its neighbors in attracting remittances.

CPSP preparation

Privatization

We have had an unusual experience. The four-person, two part team from Price Waterhouse that came out in July produced separate reports. The financial one is very sound, the "environment" report is unacceptable and unredeemable. The Mission agreed with my critiques and my position that we had to be honest with the GRB and explain to them that we could not release a document of this quality. The result was immense appreciation from the side of the GRB.

Meanwhile, the excellent finance and investment team has been back for three weeks and is doing a first-class job. We are looking at divestiture of the state (100 %) pharmaceutical industry and a virtual restructuring of the entire manufacturing and distribution system for drugs in the country, with various policy implications.

If successful, this work will generate reverberations for the entire privatization program in Burundi--and lessons for privatization that extend beyond Africa. I am saying it now for the first time, but I hope we will bring it up again in early 1993. If this and one more transaction go well, we will bring Burundi, USAID, and LABAT-ANDERSON Incorporated into the international theater in London next summer.

privatization

I have worked with Price Waterhouse and SCEP to ensure that a tender for ONAPHA will go out in early January, and we are making decisions regarding a second transaction

Christopher Hartland-Peel has contacted the Adam Smith Institute in London regarding this transaction and USAID/Burundi's approach. They are very interested in our making a presentation at the June, 1993 annual privatization conference. This is something that interests me, if approved here, Christopher and I would jointly prepare the presentation. Would LABAT-ANDERSON Inc be interested in promoting its name in some fashion at this conference--which is, by the way, very widely attended. I was there in June, 1991

BEST Project

I have finalized our documents conveying instruction on fulfillment of conditionality for the third tranche of BEPP (\$10 MM). I have coordinated with all members of the BEST Team to discuss strategy for 1993. I have also provided counsel on effecting the transition to certain changes of personnel in the Chemonics Team

I have reviewed three documents prepared by BEST consultants, on leasing and on commercial credit. In this regard, I would like to pass on to the International Office the names of two persons who did very good work. Mr de Munnick, a very experienced, recently retired banker with extensive knowledge of Africa, provided an excellent study on commercial credit in Burundi, Mr Pierre Gianni, a French citizen married to an American USDH with AID provided new leasing law for Burundi. Mr Gianni is an attorney with a great deal of experience in West Africa. I expect that both individuals will be in touch with Peter. Should you desire further information on them, please let me know. They are both very competent, solidly professional, and fluent in French and English.

- 1993 -

1993 is a year of change for us, hence for my activities. The Mission will in January welcome a new PDO and a new Program Officer. The controller is leaving in a few months. The Director may be here only for the first semester. The C O P of BEST is being replaced.

According to Mission personnel, in A I D "private sector" is out, earmarks are in. Hence health, basic agriculture. Free Zones raise broad red flags, and export promotion assistance is becoming a mine-field. I'm glad it's my last year.

Furthermore, elections are expected in Burundi for March/April. Politics enlists local energies, and the threat of instability is a concern for all. 1993 is a time for consolidation and for curbing ambitions and new activities.

drafting extensive amendment to the USAID contract with Chemonics Intl. for execution of the BEST Project

accompanying issues of privatization

representing USAID at three-day seminar on revision of the General Provisions to the commercial code

drafting final terms of reference for informal sector survey

presentation to USAID and selected guests of my experience at Columbia University's executive seminar

There are no special problems or issues. Apparently my fax to AID/W was sufficiently persuasive to have raised Burundi's rating from a shaky 6 on the Africa Bureau's scale of economic performance to an 8, and thus to ensure that we remain a focus country. Needless to say, Glenn was pleased with this.

I am also pleased to mention that in the mid-term project evaluation of BEPP/BEST the consulting team said that in their combined 40 years of experience in Africa, we had by far the most successful policy reform program they had seen or heard of. We were all, not the least I, pleased to hear this.

BEPP Reforms, 1990-93

Introductory note. the following list embraces all conditions precedent and most covenants that constitute policy reform measures, it does not include conditions precedent or covenants that relate to administrative or financial requirements

1990

- 1 Decentralization of customs operations to Kayanza
- 2 Decentralization of related import/export operations
- 3 Easier access to foreign exchange for business travel

1991

- 4 Legal protection for itinerant traders
- 5 Decentralization of customs clearance at Gitega
- 6 Linking of fiscal incentives for exporters directly to their level of gross exports
- 7 Authorizing retention of twenty-five percent of earned hard currency by exporters in fully convertible accounts, with no restrictions governing personal or business use of this currency
- 8 simplification in the application process for duty restitution (drawback) and establishment of a mandatory limit of 45 days following presentation of documents for payment to exporter
- 9 Raising the ceiling of importation of equipment and spare parts by SMEs without licence from Fbu 50,000 to Fbu 500,000 (roughly from \$300 to \$3,000)
- 10 Lengthening the period of validity for import licenses from 8 to 12 months
- 11 The elimination of double authorizations for foreign nationals in the workforce, i e , authorizations from the Ministry of Labor both for the worker and

for his employer, each tied to a specific post of employment. A single work permit for the worker will henceforth suffice.

12 Authorization of private placement services along the lines of "Manpower Inc." and similar businesses common in the U.S. and Western Europe.

1992

13 Promulgation of the General Provisions of the Commercial Code before April, 1993. This section includes, inter alia, the status and requirements of traders, the rights and obligations of traders, and the government structure regulating commerce.

14 Promulgation, before April 1, 1993, of the law privatizing or creating legal professions, e.g., notaries, process-servers, surveyors, and the like.

15 Authorization for work on revision of the Company Code (corporate law) to begin before the end of 1992 by consultants selected through the BEST Technical Committee.

16 Publication of an official declaration through which the Government of Burundi makes a formal commitment against nationalization of private enterprises and assuring protection of all private investment in the territory of Burundi, whether domestic or foreign.

17 Authorization for USAID to undertake a study of the Land Code. The objective of this study would be the formulation of recommendations concerning the means of acquiring and transmitting property rights in rural areas, thus creating an appropriate legal context for good land usage and for improved access to credit.

18 Establishment of a mechanism through which the Ministry of Plan (MOP) will regularly inform USAID of decisions taken on the Investment Code Revision Project. This mechanism should ensure that USAID's commentaries and recommendations regarding the Code will be duly analysed by the Ministry of Plan.

19 Authorization for USAID to conduct a study on the possibility of eliminating the discriminatory three percent tax levied on the salaries of foreign workers.

20 Increase of the maximum allowable validity for a temporary work contract to five years.

21 Assurance of right of employers to negotiate or renegotiate salaries freely with their employees, while respecting the platforms established by the SMIG.

25

22 The temporary permit granted to foreigners with special technical competencies will have a period of validity corresponding to the maximum period of validity for temporary residency visa. It will be automatically renewed as often as is necessary as long as there is a lack of Burundian capacity in the technical area under consideration.

23 Commencement of a study on a new health insurance system for private business by December 31, 1992. Furthermore, based on the recommendations of this study, a decision to be taken by April, 1993 on the type of health care system to be adopted.

24 Establishment of a mechanism through which the Conseil National de Travail (CNT) will regularly inform USAID of decisions taken and deliberations made on the Labor Code Revision Project. USAID's final comments will be duly reviewed by the CNT.

25 Promulgation of the Free Trade Regime Law, the related implementation decrees, and the customs regulations relevant to the free trade legislation.

26 Commencement of the Free Trade Regime promotion program nationally and internationally. This program should follow the general guidelines proposed by the BEST-financed consultants.

27 Authorization of a study on pre-shipment inspection services. This authorization will specifically include guarantees that the following information will be made available by the Central Bank to the consultants: (i) a copy of the contract(s) between the GRB and the firm(s) currently providing pre-shipment inspection services to Burundi, (ii) import statistics since 1978, (iii) correspondence between importers and the BRB, (iv) correspondence between the Central Bank and the firm(s) that provide, or have provided, pre-shipment inspection services since 1982, (v) other information determined as indispensable to the proper realization of the study.

28 Authorization of a consultancy to assist the organization of the newly created bureau of norms and standards (Bureau Burundais de Normalisation - BNN).

29 Authorization for the time period for deposit of hard currency earnings from the export sales of non-traditional products to be determined by the commercial bank giving the export declaration. The time period shall be based on the sales contract, the terms of the documentary credit, and other factors that could clearly influence the period of payment.

30 Clarification of the regulations authorizing non-resident foreigners to open convertible accounts in local commercial banks.

31 Completion before April 1, 1993 of a study on the implications of permitting resident foreigners to open convertible accounts in Burundi.

32 Authorization for Burundians nationals resident abroad to hold foreign exchange accounts in commercial banks in Burundi

33 Authorization given to exporters to retain thirty percent of the hard currency earnings from export sales of non-traditional products in foreign exchange accounts in Burundi Confirmation that access to such deposits of retained earnings shall have no effect on the access of exporters to foreign exchange made available through the Open General Licensing ("OGL") System

34 Authorization for USAID to undertake research and to promote tours abroad to study the operations of foreign exchange bureaus, and to determine whether the foreign exchange regulations in Burundi are dynamic and and competitive for investment as compared with other regimes in the region

35 Promulgation of legislation on leasing of real property, equipment, and other physical assets, and related implementation measures, by April 1, 1993

36 Authorization to undertake a study on credit in Burundi, in order to formulate recommendations regarding legal and regulatory changes to be taken by the Government of Burundi to make credit more accessible to SMEs and to exporting businesses

37 Establishment of a mechanism between USAID and the Ministry of Finance, through which the Ministry of Finance and other agencies of the Government, can regularly inform USAID of decisions taken on the revision of the Tax Code This mechanism should ensure that USAID's commentaries and recommendations regarding the revision of the Tax Code are analyzed by the Ministry of Finance

38 Application to agricultural and livestock inputs (seeds, veterinary, phytosanitary products, fertilizers) as well as to agricultural machines and equipment effectively used for agricultural purposes, of the same tax and duty benefits granted to importers and distributors of chemical fertilizers

39 Promulgation of legislation guaranteeing and promoting private participation in the production, importation, and distribution of seeds The law will include voluntary seed certification available on demand under the auspices of a new National Seed Service It will assure patent protection of new seed varieties

40 Authorization to perform follow-on surveys of the three baseline surveys already completed under BEPP/BEST the Household Income and Expenditure Survey, The Informal Sector Survey, the Formal Sector Survey

41 Authorization to contract, locally or abroad, for services to execute rapid surveys and polls in order to determine the efficacy of any or all reforms proposed under BEPP since 1990

42 Designation of permanent representatives to the BEST Technical Committee from the relevant technical and economic ministries and the Central Bank who shall attend all scheduled meetings of the Committee and who are vested with authority to represent and make policy decisions on behalf of their respective agencies

43 For the purposes of monitoring and evaluation of the BEPP reform program, designation of representatives or offices of the Ministries of Planning, Commerce and Industry, Agriculture, Labor, and Finance, as well as of the Central Bank, who will transmit at least on a bi-monthly basis such statistical information as is regularly compiled in the respective ministries to the BEST Project Manager

1993

44 Grantee has promulgated a law permitting the privatization of the profession of Notary Public. This law must be made public through publishing the information in the national newspaper or otherwise making such information available to the general population

45 Grantee has adopted through the Structural Adjustment Follow-on Committee a draft law or laws permitting privatization of the professions of process-servers and surveyors

46 Grantee has promulgated the new Corporate Law (Code des Sociétés). This law must be made public through publishing the information in the national newspaper or otherwise making such information available to the general population

47 Grantee, acting through the Ministry of Labor, covenants to create a draft law for the provision of health insurance for the formal private sector. This health insurance shall include provisions for pre and post-partum maternity care. The draft law will take into consideration the study completed in June, 1993 for the Ministry of Labor with the assistance of the International Labor Organization

48 Grantee has agreed in writing to revise the law on norms and quality control based on the recommendation of the BEST-funded study on Norms and Standards (Bureau Burundais de Normalisation et de Contrôle de la Qualité, BBN). The Structural Adjustment Follow-on Committee will adopt a draft law based upon this revision

49 Grantee has adopted, through the Ministerial Committee of the Structural Adjustment Program, a draft law on facilitating credit by using as collateral chattel held in bonded warehouses

50 Grantee has created the Joint Tax Review Commission created by Decree No 1/012 of February 23, 1993, which modifies the Income Tax Law of September

28

21, 1963 Non-confidential extracts of decisions made by this Commission will be made available to the public by the Grantee

51 Grantee authorizes the BEST Project to conduct studies, make recommendations, and propose draft legislation where appropriate in the areas of negotiable financial instruments, bankruptcy, the three percent tax levied on foreign workers, the institutional framework to support foreign trade, mechanisms for short and medium-term import and export financing, mandatory pre-shipment inspection, the land code, and constraints to domestic and regional (PTA Zone) trade development

USAID PRIVATE ENTERPRISE OFFICE

STUDIES COMPLETED

- *Agriculture and the Private Sector*
- *Policies, Procedures, and Institutions Affecting Employment*
- *Trade with Zaire*
- *Rapid Appraisal of the Agricultural Marketing System*
- *Policy Environment for Small and Medium Enterprises*
- *Financial Sector Study*
- *Baseline Survey of Household Income*
- *Impact financier de la Decentralisation des Douanes*
- *Burundi's Export Enhancement Program*
- *Informal Service Sector of Bujumbura*
- *Burundi The Free Zone Enabling Environment*
- *Financial and Policy Constraints to non-Traditional Exports*
- *Baseline Survey of the Formal Private Sector of Bujumbura*
- *Burundi Privatization*
- *Projet de Decret-Loi Portant sur la Creation d'un Regime Franche au Burundi*
- *Privatization in Burundi a Preliminary Assessment*
- *Office National Pharmaceutique (ONAPHA) Information Memorandum*
- *Analysis and Recommendations for Commercial Credit in Burundi*
- *Etude de marché sur le crédit-bail (leasing)*
- *Projet de texte de lois sur le crédit-bail (leasing)*

- *Mesures fiscales et bancaires accompagnant les décrets-lois sur le leasing*
- *Rapport sur les dispositions générales du code du commerce*
- *Evaluation of the Pre-Shipment Inspection Program*
- *Rapport sur l'enquête de marché des batiments industriels à Bujumbura*
- *Etude sur la normalisation et les disciplines de la qualite au Burundi*
- *Projet-loi pour la privatisation et la creation de certaines professions juridiques*
- *Rural Burundi Revisited*
- *Mid-Term Evaluation of BEPP/BEST*
- *Etude sur le Warrant et la Tierce Detention en relation avec la creation des magasins geneaux au Burundi*
- *Reforme du droit des societes publiques et privees*