YD-ABA-035-A

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: ____ — DOCUMENT CODE: 3

2. COUNTRY/ENTITY: BURUNDI

3. PROJECT NUMBER: 695-0124

4. BUREAU/OFFICE: AFR 06

5. PROJECT TITLE (maximum 40 characters): BURUNDI ENTERPRISE SUPPORT & TRAINING

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 94

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4): A. Initial FY 90 — B. Quarter 2 — C. Final FY 92

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 1990 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	2,000		2,000	5,000		5,000
(Grant)	(2,000)	( )	(2,000)	(5,000)	( )	(5,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country		46	46		1,667	1,667
Other Donor(s)						
TOTALS	2,000	46	2,046	5,000	1,667	6,667

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) SS	730	140				2,000		5,000	
(2)									
(3)									
(4)									
TOTALS						2,000		5,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 140, 990

11. SECONDARY PURPOSE CODE:

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BR	BL	EQTY	TRG			
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To foster the growth of private enterprise in Burundi, especially among small and medium enterprises, exporters, and in secondary towns.

14. SCHEDULED EVALUATIONS: Interim MM 01 YY 92; MM __ YY __; Final MM 05 YY 93

15. SOURCE/ORIGIN OF GOODS AND SERVICES: ☐ 000 ☐ 941 ☐ Local ☒ Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

CLEARANCE:RFMC:AHulliung ____ DATE 2/16/90

17. APPROVED BY

Signature: [signature]

Title: AID Representative

Date Signed: MM 02 DD 15 YY 90

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

DRAFT PROJECT AUTHORIZATION

Name of Country:

BURUNDI

Name of Project:

Burundi Enterprise Support and Training (BEST)

Project Number: 695-0124

1. Pursuant to Title II of the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1990 (Sub-Saharan Africa, Development Assistance) of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Burundi Enterprise Support and Training Project for the Republic of Burundi involving planned obligations not to exceed five million United States Dollars ($5,000,000) in grant funds over a four and one-half year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/Allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the Project is four years and seven months from the date of initial obligation.

2. The Project consists of assistance in support of the Burundi Enterprise Promotion Program (BEPP, 695-0125), the purpose of which is to foster the growth of private enterprise in Burundi, especially among SME's, exporters, and in secondary towns. The Project will finance, among other things, technical assistance, training, studies and analyses, and commodity procurement to support the analysis for and undertaking of policy reform initiatives by the Republic of Burundi.

3. The Project Agreement which may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

> "Prior to the first disbursement under this Project grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement shall be made, the GRB will, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., documentation confirming that:
>
> a. The GRB has designated a Coordination Committee to oversee all BEST Project activities, and has assigned that Committee appropriate membership and responsibilities.
>
> b. The GRB has assigned a high-level official to be the Project Manager for BEST with appropriate authorities, and has provided to A.I.D. specimen signatures for that individual.

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4. <u>Source and Origin of Commodities, Nationality of Services.</u>

Except as A.I.D. may otherwise agree in writing:

(a) Commodities financed by A.I.D. under the Project shall have their source and origin in countries included in A.I.D. Geographic Code 935.

(b) Except for ocean shipping, the suppliers of commodities or services financed by A.I.D. under the Project shall have countries included in A.I.D. Geographic Code 935 as their place of nationality.

(c) Ocean shipping financed by A.I.D. under the Project shall be financed only on flag vessels of the countries included in A.I.D. Geographic Code 935, subject to 50/50 shipping requirements under the Cargo Preference Act and the regulations promulgated thereunder.

All reasonable efforts will be used to maximize U.S. procurement whenever practicable. Air travel and transportation to and from the U.S. shall be upon certified U.S. flag carriers.

____
Acting Assistant Administrator

____
Date

Burundi Enterprise Promotion Program
Burundi Enterprise Support and Training Project
(BEPP, 695-0125/BEST, 695-0124)
PAAD/PP

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Annexes:

EXECUTIVE SUMMARY

Landlocked Burundi is one of the least developed countries in the world. It has the second highest population density in Africa. Moreover, that population will increase to about seven million by the year 2000. This will severely strain the already fragile resource base, and will increase unemployment and underemployment in rural and urban areas.

Accordingly, Burundi's most serious development problem is to increase employment and net income in the face of increasing population pressures. To do this, the Government of the Republic of Burundi (GRB) is reorienting its development strategy toward promotion of a private sector-led, market economy. This reorientation, however, is hampered by the rules, regulations, and practices under which firms operate. For this new structure to provide the growth needed to create sufficient job opportunities, Burundi will have to make numerous policy changes. The Burundi Enterprise Promotion Program (BEPP, 695-0125) and its accompanying project activity, the Burundi Enterprise Support and Training Project (BEST, 695-0124), will assist the GRB in identifying and implementing the changes required.

The mainstay of Burundi's economy has been and will continue to be agriculture, which provides direct employment for 85 percent of the economically active population and indirect employment for most of the rest. Even if agricultural productivity continues to increase, the arable land available and potentially available for use cannot continue to provide employment and income opportunities for a population growing at 3.3 percent without augmenting the contribution of the industrial and commercial sectors to the economy.

Soon after independence, Burundi attempted to promote the growth of these sectors by adopting an import substitution strategy in which public enterprises played a prominent role. Burundi's strategy, however, failed to achieve the results anticipated. Manufacturing's share of the GDP increased only slightly. The modern sector's share of the economically active population is below five percent. Few parastatal enterprises operate profitably. While direct subsidies to the parastatals have, due to IBRD pressure, decreased considerably during the last few years, indirect subsidies remain relatively large. As a consequence, they continue to absorb a great deal of the GRB's resources without providing commensurate employment and output.

By the early 1980's there was broad recognition that the import substitution strategy had failed. In its Fourth Development Plan (1983 - 1987) the GRB acknowledged the need to promote private enterprise as another alternative, but little was done in practice. The private sector gained a certain prominence from formulation of an IBRD/IMF Structural Adjustment Program in the middle of the decade with improved management and/or privatization of the parastatals being a major component of the reform agenda. However, it was not until the new Buyoya government came to power that a real effort was made, through promulgation of the GRB's Fifth Development Plan (1988 - 1992) and other means, to give operational significance to development of the private sector.

In August 1988, clashes broke out between Hutu and Tutsi in northeastern Burundi. The GRB responded to these events by creating a National Commission for Reconciliation and charging it with developing new methods for achieving national unity. The Commission's report concluded that Burundi would only be able to achieve ethnic and political stability with a strengthened economy that provided opportunities to all on an equal basis. Particular emphasis was placed on promoting small and medium-sized enterprises in rural areas.

Through its structural adjustment program, the IBRD/IMF Group has either addressed, or is dealing with, many of the constraints that adversely affect the development of a private sector at the macroeconomic level. Other donors have also begun to respond. No other donor, however, has contemplated focusing a comprehensive, sustained program of policy-based assistance on the attitudinal, procedural, administrative, and legal obstacles that impede development of the private sector.

Since early 1989 USAID has worked with the GRB to identify the areas in which there are significant policy constraints to private sector growth. This collaboration has isolated a variety of policies which BEPP has been designed to address. The analyses found that the policy constraints to private sector development are divided into three areas. These are:

I. Barriers to entry to the formal sector;
II. Constraints to doing business; and
III. Barriers to international trade and promotion of exports.

Constraints to entry to the formal sector include a registration system that requires lengthy trips to both the courts and the Ministry of Commerce and Industry, complex registration procedures for SME incorporation, the GRB's right to revoke any business permits for whatever reason, and the requirement that businesses maintain a fixed premises from which to operate.

Constraints to doing business include the lack of access to credit, relatively high rates of taxation capriciously administered, a dearth of available information concerning the characteristics of the marketplace, a complex and protective labor code, and the lack of definition and enforcement of fair business practices.

International trade, especially for exports, is made more difficult by centralization in Bujumbura. Regardless of their origin or destination, all goods must pass through Bujumbura for customs formalities, licenses and permits, financing, and the payment of mandatory insurance. There is a subset of constraints associated with business travel, including the retention of passports by the police at the border. International travel must thus commence with retrieval of the passport, and continue with application to the Central Bank for the foreign exchange needed to finance the trip. Other constraints include the fact that payment can only be made for imports after receipt of an original invoice.

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BEPP will support the GRB's efforts to address these constraints by providing an initial four years of policy-based assistance totalling $35 million. A first tranche of $13.0 million will be provided in FY 1990. Additionally, BEST will provide technical assistance and training at a life-of-project cost of $5.0 million to help refine, implement, and monitor the effects of the policy reforms supported by BEPP. $2.0 million will be obligated for BEST in FY 1990.

The goal of BEPP/BEST is to increase employment and net income for Burundi's poor. As recommended by an A.I.D./W team in 1989, this goal now forms the central theme of the USAID/Burundi portfolio, all elements of which have been or are being redesigned to support it.

The purpose of BEPP/BEST is to foster the growth of private enterprise in Burundi, especially among small and medium enterprises (SMEs), exporters, and in secondary towns. BEPP and BEST will do this by encouraging and assisting the GRB to implement a phased series of policy reforms. The substance of the policy reform agenda is presented below.

For FY 1990 the reforms have already been agreed to by the GRB and will be included as Conditions Precedent to disbursement in the Program Grant Agreement. (During the course of negotiations, however, it is anticipated that there could be non-substantive changes in the language of these conditions.) The reforms planned for FYs 1991 through 1993 are necessarily less firm. Thus, the policy agenda for these years will be provided for in subsequent year agreements in the form of annual PAAD Amendments that describe the timing and precise nature of the reforms for that year.

1. FY 1990.

a. Decentralization of Customs Clearance Procedures at Kayanza.

The GRB will open a full-service customs post at Kayanza, a major border town on the main truck route from Kigali, Rwanda to Bujumbura.

b. Decentralization of Related Import and Export Operations.

The GRB will authorize 1) provincial commercial banks to issue import and export licenses below FBu 10.0 million; 2) Central Bank (BRB) branches to issue import and export licenses for larger amounts; and 3) commercial banks and BRB branch offices to issue these licenses upon receipt of faxed copies of original invoices.

c. Easier Access to Foreign Exchange for Business Travel.

The GRB will establish standard guidelines on allocation of foreign exchange to business travelers that will increase to 21 days (from the present 15) the standard period for which convertible currency will be made available for each business trip, with additional foreign exchange available for longer trips if and as required.

d. Research and Monitoring Activities.

The GRB will agree in writing to the scopes of work developed jointly by the GRB and USAID for baseline surveys of the informal and formal sector and for a study of domestic constraints to export expansion.

2. FY 1991 THROUGH FY 1993.

The major themes of the policy reform agenda for FY's 1991-1993 are:

a. Decentralization of customs clearance procedures at selected other locations.

b. Simplification of clearance procedures at all customs posts.

c. Simplification of business registration procedures.

d. Increased availability of information on market prices.

e. Establishing legal protection for itinerant traders.

f. Development of an Export Promotion Plan.

g. Reform of the Labor Code.

h. Establishing a strategy for improving the flow of credit to small and medium enterprises (SMEs).

In some cases, USAID and the GRB have agreed on both the area in which policy reforms will be developed and the specific reforms that will be made. These are labelled "Category A" reforms. In other cases, they have agreed on the area in which constraints exist, but not on the specific policy changes required to address them. These are labelled "Category B" reforms. The GRB and USAID will carry out a series of studies under BEST to help define the reforms to be adopted, thereby enabling the two parties to adjust the reform agenda as their understanding of the economy grows and specific constraints come to the forefront.

In addition to this policy-oriented research, BEST contains three other components. The first is long-term technical assistance. Three specialists with expertise in policy analysis, small business operation, and export promotion will work to make Burundi's public and private sectors aware of the need to develop policies and procedures leading to private sector growth. This team will also assist the GRB in developing operational plans to implement these reforms, and will organize and oversee the research, training, and monitoring activities funded by BEST.

Second, BEST contains a training component that will help provide Burundians with the capacity to implement the reform agenda of BEPP. Training will provide knowledge and skills needed for carrying out BEPP reforms, or will be more broadly related to increasing awareness of the role that the reforms have in furthering economic development.

Third, BEST contains a monitoring, evaluation, and audit component consistent with the rigorous DFA requirements for measurement of program accomplishment. USAID has completed a household income and expenditure survey that will contribute to measurement of program impact at the goal level. Two additional surveys, one of the informal sector and the other of the formal SME sector, are scheduled this year to permit measurement of achievement at the purpose level. These surveys will be updated annually. In addition, midterm and final evaluations will be performed. A non-federal audit is also scheduled for the third year of the project.

By 1993, the BEPP-sponsored policy reforms, in conjunction with those of other donors, will begin to produce rules, regulations, and practices and ultimately an environment in which business confidentiality is assured; governmental decisions are based on clear, fair, and equitable rules of law; increased credit is available to SMEs; the cost and time required to incorporate a business is reasonable; and domestic and international trade occurs with few, in any, impediments. Thus, USAID expects to see, as early as 1994, discernible positive changes in GDP, real per capita income, and employment growth rates.

Within the private sector, employment in small and medium enterprises is expected to begin to grow at a faster pace both in Bujumbura and the small urban centers of the interior. The new investment in the SME sector will be stimulated by reduced business operating costs, new domestic trade opportunities, and especially by international trade opportunities for both traditional and non-traditional goods. The amount of value-added by SME's will be significantly greater than would otherwise have occurred.

The changes that will begin in 1990 will, within ten years after the end of the program in 1993, have an impact that should be readily apparent. Specific, quantified, objectively verifiable indicators of the Program's impact can be found in Annex I, "Logical Framework."

Analyses conducted by USAID during preparation of this PAAD indicate that BEPP and BEST can be implemented as designed. With technical assistance from BEST, the GRB institutions charged with major implementation responsibilities should be able to carry out their roles. Some degree of political opposition within the GRB may be anticipated as lower-level officials relinquish powers they are accustomed to exercising and as the reform package begins to touch on potentially controversial subject such as transport and insurance monopolies. Sector dollar grant assistance from BEPP, however, is expected to reinforce the commitment to reform already demonstrated by the highest levels of the government. The social soundness analysis included in this PAAD concludes that the main benefits of BEPP will flow both to the rural, agricultural population and to the educated, salaried Burundians who are increasingly moving into the formal private sector. Analysis of the economic benefits and costs indicates that the program has a net present value on the order of $100 million. The results are robust with respect to changes in the underlying assumptions.

I. The Development Problem.

A. Introduction.

Landlocked Burundi is one of the least developed countries in the world. It has the second highest population density in Africa, with over five million people crowded into an isolated, mountainous region the size of Maryland. Moreover, that population is growing at a rate of 3.3% per year. Even if the growth is moderated, the population will increase to about seven million by the year 2000. This will severely strain the already fragile resource base, and will increase unemployment and underemployment in rural and urban areas. Nearly 90,000 people enter the labor force each year, while the economy creates only 5,000 new non-farm jobs annually.

Accordingly, Burundi's most serious long-term development problem is that of increasing employment and net income on a limited resource base in the face of increasing population pressures. To meet this challenge, the Government of the Republic of Burundi (GRB) is reorienting its development strategy toward promotion of a market economy in which the private sector will play the leading role. This reorientation, however, is severely hampered by the existing set of rules, regulations, and practices that form the environment within which firms operate. For the transition to a market-driven economy to be successful, and for this new structure to provide the level of growth needed to create sufficient job opportunities for those entering the labor force, Burundi will have to make numerous policy changes affecting domestic and international trade and the everyday operations of businesses. The Burundi Enterprise Promotion Program (BEPP, 695-0125) and its accompanying project activity, the Burundi Enterprise Support and Training Project (BEST, 695-0124), will assist the GRB in identifying and implementing the policy changes required.

Studies funded in 1989 by USAID/Burundi and other donors have already identified a long series of policy constraints that need to be alleviated. Some are minor and noncontroversial, while others represent major, politically sensitive changes. Taken individually, many may have only a small economic impact. When considered as a group, however, they will create a new positive attitude and environment for the private sector. This new environment will have economic consequences beyond those of the individual policy reforms, and will be an important factor in attracting new investment and in increasing domestic and international trade.

Section I of this Program Assistance Approval Document summarizes the evolution of the GRB's policies and outlines the major constraints that still hamper the private sector. Section II lists the reforms that policy-based assistance from BEPP will support, and Section III describes how project assistance from BEST will help the GRB in refining and implementing those reforms. Section IV then discusses the expected consequences of the reform agenda, and Section V describes the system to be put in place for monitoring and evaluating those consequences. Section VI details how dollar funds provided by BEPP and local currency counterpart funds provided by the GRB will be used, while Section VII analyzes the social, institutional, political, and economic feasibility of the planned reform agenda.

B. Recent Historical Background: The Public Enterprise Development Period.

1. Adoption of the Public Enterprise Strategy.

The mainstay of Burundi's economy has been and for the immediate future will continue to be agriculture. The sector provides direct employment for 85 percent of the population and indirect employment for most of the rest. Even with increased efficiency in the agricultural sector, however, the arable land available and potentially available to the country will not be able to provide employment and income indefinitely to a growing population. In light of this, the GRB and international donors have recognized the need to increase the contribution of the industrial, manufacturing, and commercial sectors to the economy while taking steps to deal with the population problem.

Beginning in the second half of the 1970's, Burundi attempted to promote the growth of these sectors by adopting a development strategy in which public enterprises were to play the leading role. As part of this strategy, the GRB coordinated policies and organized specific sectors to ensure continued state control of strategic industrial and commercial activities such as water, electricity, telecommunications, and transportation. It also intervened in some sectors (e.g. the production of coffee, tea, sugar, bottles, and textiles) to give itself control over the country's major productive industries and main sources of foreign exchange. These actions were predictable for a developing country that was chronically short of hard currency, lacked the sophisticated administrative apparatus needed to collect taxes effectively, and did not have a well-developed private sector.

2. The Burdens Placed on the Economy.

This public enterprise strategy worked no better in Burundi than in many parts of the world that have experimented with a similar approach. Like other countries in the region, Burundi has come to recognize the untenable drain its parastatals exert on its economy.(1) For example, the public enterprise period left the GRB with ownership or control of 58 nonfinancial enterprises and 14 financial institutions. It also held shares in several private enterprises. These businesses continue to absorb a great deal of the country's resources without providing commensurate employment or output. Although direct subsidies to these enterprises have steadily decreased over the past few years and are now negligible, indirect subsidies remain quite large. The GRB services most of the public enterprises' debt, exempts most of them from import taxes, and undertakes a large part of their investments through the investment budget and through extra-budgetary projects financed by grants and loans.

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In brief, public enterprises have absorbed almost 45 percent of the credit available to the private sector during the 1983-87 period; employed about one-half of all formal employees, and accounted for over 40 percent of capital investment in the formal sector during the 1983-86 period. Yet they have contributed only about 12 percent to the commercial or monetized part of GDP. By any standard, the GRB's returns on its investment in public enterprises have been highly inadequate. Though the situation is improving, the legacy of the parastatal strategy continues to burden the economy.

C. The Shift to a Private Sector Strategy.

1. First Steps.

By the early 1980's, these and other problems had caused the GRB to recognize that a development strategy led only by public enterprises could not result in sustained economic growth. In its Fourth Development Plan, the GRB acknowledged the need to promote private enterprise as well. The GRB also began to recognize the importance of supporting decentralized urban growth to promote employment and stimulate the monetization of the rural economy. As early as April 1984, former President Bagaza appealed for Burundians "to concentrate on economically productive activities, start their own businesses, and rely on their own capacities to be economically successful." (2) Subsequently, recognition of the problem deepened and, as the economy worsened, the GRB requested assistance from the World Bank and the IMF at the end of 1984 to help prepare and implement a structural adjustment program. Design of the program began in mid-1985, and the GRB implemented the first measures in July 1986. (3)

2. The Third Republic.

The shift to an emphasis on the private sector accelerated with the advent to power of President Pierre Buyoya on September 3, 1987. The bloodless overthrow of the previous regime aimed at correcting social injustices, reversing isolationist policies, cultivating Western nations, and searching for new ways to promote economic growth.

These emphases have continued to gain momentum over the life of the Third Republic, and the GRB is now in the midst of a major effort to reform its economy. The focus on reform stems from two major factors. The first is Burundi's participation in the World Bank/IMF Structural Adjustment Program. Among other achievements, this program led to a major devaluation of Burundi's currency and to greatly liberalized import procedures. Yet its most important contribution may prove to be the increased level of sophistication with which the GRB views its economy.

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The second major factor driving the reform process has been the new government's desire to establish its credibility and popularity. When President Buyoya took office, Burundi had already launched a structural adjustment program that emphasized reform of the parastatal sector. The interest of the government, however, slowly extended to encompass the need for concerted development of a private sector-led, market economy.

The search for new means of promoting economic growth took on added urgency in August 1988, when ethnically motivated clashes between Hutu and Tutsi in the northeastern part of the country dramatically demonstrated how fragile was Burundi's political equilibrium. In response to these events, the Government created a National Reconciliation Commission and charged it with investigating the tragedy and seeking ways to develop cohesion. It thereby thrust into an open forum (for the first time in Burundi's history) the long-standing ethnic issues that were undermining stability and prospects for economic growth.

The Commission concluded that Burundi cannot achieve ethnic and political harmony without a greatly strengthened economy. To reach this objective, it declared, the country had to face two basic challenges. First, it was to overcome the chronic balance of payments deficit that has persisted since 1978; by 1988, export earnings covered only 60 percent of the cost of Burundi's imports. Second, Burundi was to address the lack of employment opportunities for its rapidly expanding, but basically rural, population. To address this situation, the Commission highlighted the linkage between employment and social stability and recommended that:

> "...policies must be drawn up and designed to make maximum use of human resources through creation of non-agricultural jobs, particularly by promoting small and medium-sized integrated enterprises in the rural areas."

The GRB realized that it would have to build the commitment and trust of its population to achieve these objectives. It also recognized that Burundi had very little experience with the private sector. It therefore launched a major effort to compensate for this lack of experience while searching for effective ways to move the private sector to the forefront of the economy. As part of this effort, the GRB has sponsored a series of seminars and conferences during the past two years on issues affecting the private sector. In this search for new solutions to its economic problems, the GRB continues to invite a variety of consultants (including several provided by USAID) to probe these subjects with both the public and private sectors.

Beyond the dialogue conducted in these seminars, issues openly discussed and reported on in the Burundi press include:

-- The need for the private sector, within a marketing framework, to become the engine of development.

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-- The importance of reducing Burundi's reliance on coffee as its predominant export commodity, of diversifying exports, and of increasing the private sector's role in exporting.

-- The search for ways to assist the informal sector as a means of combatting unemployment.

-- The possible need to rewrite Burundi's labor codes, which many view as antiquated.

-- The arbitrariness of the administration of, and the limited public knowledge about, Burundi's tax code.

-- The wisdom of continuing subsidies to state enterprises that continue to escape paying taxes to the national treasury.

3. Next Steps: The Potential Role of A.I.D.

As the above discussion illustrates, Burundi has learned through painful experience that development led by the public sector cannot generate the employment and income opportunities needed to keep pace with its growing population. It has responded to this lesson by committing itself to the development of a market-oriented economy. Yet the country faces many constraints that impede its progress in this direction. There continue to be influential dissenters within the GRB who believe that development of the market economy will lead to speculation and profiteering by a small group of businessmen. Within the private sector itself, Burundi has little experience in the areas in which it hopes to build its economy. Formal private firms are often little more than expanded family enterprises with little knowledge of modern business practices. Domestic marketing, while extensive, operates at low volumes and only with simple commodities.

These factors have combined to leave Burundi with laws, procedures, and practices that are archaic, often arbitrary, and generally not known or understood by the public. Thus, the private sector is still hindered by the lack of an adequate set of regulations that are fairly and impartially applied in a manner that facilitates trade and provides a positive atmosphere for business. If the private sector is to assume its envisioned leading role as the source of increased employment and income for Burundi's poor, the country will have to reform these practices.

Through their Structural Adjustment Program, the World Bank and the IMF have dealt or are in the process of dealing with many of the macroeconomic constraints that prevent a market-based economy from functioning smoothly. Measures that have begun to establish the needed structure include:

-- Elimination of price controls (except on a few items related to national security or public welfare).

-- Liberalization of interest rates.

-- Establishment of a flexible foreign exchange rate policy including a procedure for automatic devaluations.

-- Lifting of import restrictions, lowering of tariffs, and relaxing of restrictions on many products.

-- Promulgation of an export promotion decree with numerous incentives, including duty restitution.

-- Diminution of the monopoly power of public enterprises.

As detailed in Annex V, "Activities of Other Donors," the GRB is now midway through implementation of the second phase of the structural adjustment effort. The Bank and Fund expect to disburse in February 1990 a second tranche of $30 million from the $90 million SAL II program, which aims at consolidating progress made under the first phase of structural adjustment while addressing a number of additional subjects such as export development and the liberalization of financial markets. Moreover, design of a third phase is underway. The GRB, with assistance from the IBRD and the IMF, recently completed a third medium-term Policy Framework Paper detailing its objectives through 1991. Reforms during this period are to include relaxation of remaining non-tariff barriers to imports, improvements in public sector management, and elimination of the existing requirement for mandatory savings with the Caisse d'Epargne du Burundi (CADEBU), the largest parastatal credit institution.

Nonetheless, the IBRD/IMF reforms have not focused, nor are they intended to focus, on the procedural, administrative, and legal practices which, even when all the necessary macroeconomic policies are in place, could still impede development of the private sector. The Bank's emphasis on the macroeconomy leaves a clear gap in the impact of the reform process.

To fill this gap, Burundi will require substantial donor assistance in identifying, assessing, and choosing from among the policy options available to it. No donor is providing this type of aid in a comprehensive, sustained manner. Thus, policy-based assistance from A.I.D., if aimed at the development of reforms in laws and procedures that will promote private sector growth, could supplement the reform process begun by the Bank and the IMF by deepening and enriching that process at the sectoral level chosen.

To respond to Burundi's need for policy reform at the sectoral level, USAID has since early 1989 worked extensively with the GRB to identify the areas in which significant policy constraints to private sector development exist. This process has involved carrying out a series of studies and short-term consultancies. The following section of this PAAD describes the constraints identified by these studies and subsequent analyses conducted during the design of this program.

Notes:

(1) See International Bank for Reconstruction and Development (IBRD), Burundi Economic Memorandum, Report No. P-4770-BU, 1985, p. 14.

(2) IBRD, Burundi Structural Adjustment and Development Issues: Background Papers. Report No. 6754-BU, January 20, 1988, p. 61.

(3) Ibid., p. 5.

D. THE SMALL AND MEDIUM ENTERPRISE SECTOR

1. The private sector in Burundi.

a. Overview.

The reforms described in Section I.B are part of a package that has succeeded in stimulating private sector growth, albeit in an uneven fashion. The most recent (1986) census counts 556 registered firms doing business in Burundi. (1) Of these, approximately 70 percent are in commerce and 20 percent in manufacturing, with the remainder in services. The number of registered private importers has grown steadily from 1986 to nearly 400 by the end of 1989, but -- despite legislative incentives offered -- accredited exporters numbered only 65 at the end of the same year. (2)

Private investment has increased from 2.4 percent of GDP in 1983 to 3.6 percent in 1988, and IMF projections put it at 5.6 percent by 1992. (3) The manufacturing sector, including both public and private enterprises, grew from only 40 firms in the mid-1970s to 123 in 1986. Whereas private investment in the manufacturing sector was only 20 percent of the total from 1978-81, by 1986 it had reached 60 percent of the total. While this represents an impressive sectoral gain, manufacturing in Burundi still accounts for less than 5 percent of GDP. (4)

At the end of 1986, the Ministry of Labor calculated the active labor force of the country to be 2.9 million, of which 14,000 were employed by parastatals, 28,000 in the formal private sector, and 175,000 derived their principal income from informal sector activity. (The remaining employment is absorbed by on-farm work.) (5)

For the purposes of the BEPP program, USAID will define small, medium, and microenterprises in accordance with criteria to which the Ministry of Commerce and Industry (MCI) has provisionally subscribed. Under these criteria, the term "small and medium enterprise" refers to all non- farm, privately owned, for-profit businesses with less than US$300,000 in equity and fewer than 50 employees. This definition encompasses agricultural processing enterprises. The following table illustrates the MCI's criteria:

Characteristics	Medium Enterprises	Small Enterprises	Microenterprises
Capitalization (in US$000)	$125-300	$30-125	Less than 30
Employment	15-50	5-15	Less than 5

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b. The SME's.

Using these classifications, about 95 percent of all businesses in Burundi are small, medium, or micro enterprises. These firms, also the predominant modern sector employers, will be the main beneficiaries of the reform agenda the Burundi Enterprise Promotion Program (BEPP) will support. The other major focus of BEPP will be export promotion. These emphases are mutually supportive. First, new entries into the export sector will come largely from medium-size businesses; second, evolution of small business in Burundi may be significantly helped if the export promotion campaign being launched by the GRB succeeds. (6)

The potential correlation between the growth of SMEs and the export campaign derives from the weakness of purchasing power in the Burundian economy, especially among the rural poor, whose participation in the monetized economy is low. (7) With purchasing power in decline and demographic growth far exceeding new on-farm employment, exports offer a potentially vital avenue of economic growth. Small business growth, given the proper environment, should accompany wealth generated through foreign trade. (8)

The following analysis of significant policy constraints to private sector growth will center on three priority areas in the regulatory framework identified by USAID and the GRB during the past year:

I. Barriers to entry to and within the formal sector.
II. Constraints to doing business
III. Constraints to international trade and exports.

A fourth section (page 16) identifies constraints still imperfectly understood and requiring further research.

2. Barriers to entry.

a. Sole proprietorships.

To register a sole proprietorship in Burundi is neither excessively time-consuming nor financially onerous. (9) The problem lies in the requirement for registration with both the business court and the Ministry of Commerce and Industry. The Ministry retains the right to deny and to revoke business licences, and the entrepreneur has no effective recourse to the judiciary. The system creates the potential for arbitrary treatment. Where there is an obvious possibility for revocation of business rights, business confidence is diminished, and any undermining of confidence presents a subtle disincentive to investment.

b. Corporations.

To establish the simplest form of incorporated business -- a limited partnership -- the process grows more complex. Registration procedures involve several agencies, presentation of an investment plan, and multiple review of bylaws. The bylaws are published in the Official Bulletin of Burundi and cost approximately US$350 per ten pages. Since corporations, as legal persons, offer the shelter from individual liability that all investors desire, the excessive complexity and costliness of incorporation discourage both investment and expansion.

c. Itinerant merchants.

The legal status of itinerant merchants is in limbo. "Circulation permits," though still in force, have fallen into disuse. Because one of the prerequisites for obtaining a commercial license (carte de commercant) is proof of rental or ownership of property in which to conduct the business, the itinerant merchants have been unable to secure legal status. These ambulant traders, highly visible in the capital, play an indispensable role in the marketing and distribution of primary agricultural products throughout rural Burundi (10); repression of their function under previous governments has significantly harmed the economy. (11) The Ministry of Commerce and Industry has recognized the inconsistency of current laws and is drafting legislation to change them.

3. Obstacles to doing business.

a. Credit.

Lack of access to credit is commonly cited by Burundian entrepreneurs as a significant obstacle to establishing business. Despite a World Bank fund that has allocated $7.2 million for small business financing, various donor lines of credit for SMEs, and the existence of a National Guarantee Fund, credit remains beyond the reach of most small entrepreneurs. While the blame is often attributed to the excessive conservatism of the commercial banks, societal and administrative issues frustrate the system.

The problem centers on collateral. Property rights are commonly held by tradition rather than by title, which makes them unacceptable as guarantees for loans. Collateral is therefore scarce. Moreover, Burundi law gives a priority lien on collateral to the government. Thus, commercial bank collateral requirements increase.

At present no form of equity lending or of lease-purchasing exists in Burundi. (12) There is interest in both. Equity lending poses no legal problem. Lease-purchasing, on the other hand, is a concept for which a legal framework would have to be developed with the GRB. Either concept could provide an alternative to the bottleneck in lending caused by the difficulty of providing adequate collateral.

b. Tax policy and administration.

In collaboration with the IMF, the GRB has revised tax policy several times during this decade. Nonetheless, the cumulative effect of reforms and amendments has done little to encourage investors or to diminish tax evasion. The two main issues discussed among the business community are excessive tax burdens and the arbitrariness of collection.

Corporate profit taxes in Burundi are set at 45 percent. Expense deductions are limited, tax evasion is common, and those (proportionally few) companies that maintain accurate ledgers pay a premium for their compliance. (13) If a business shows a loss, it is still assessed a minimum one percent tax on its annual turnover. Businessmen argue that such taxation is illogical and risks condemning them to bankruptcy.

At the urging of the World Bank a 15 percent transaction tax went into effect in early 1989. This tax constitutes a 3 percent increase over the former level. It is imposed at the source, i.e., the taxes are collected either at the factory or at customs prior to further sale of goods. The consequence for business is a depletion of working capital. The measure was imposed upon the business community without advance notice, aggravating a perception that the fiscal services of the GRB use unfair and arbitrary tactics.

At the local level, municipal and other taxes are levied on informal businesses, including microenterprises. The methods of assessment are not clearly defined, although there is some indication that taxes increase in proportion to numbers of employees in any given trade. Both the ambiguity involved and the absence of effective recourse to appeal create disincentives to employment. (14)

Complicating the entire tax scenario is the absence of uniform accounting standards and of professional bookkeeping services available to small businesses. While it is essential for the entire fiscal process to establish uniform standards, tax assessment will remain flawed until affordable accounting services are available to small businesses.

c. Labor legislation.

Burundians are very concerned about maintaining equal employment opportunity, and have enacted a series of measures designed to protect workers from injustices, reprisals, or undesirable working conditions. This has led to requirements for comprehensive, obligatory benefit packages, which include a minimum wage, family and transportation allowances, and medical reimbursements.

The cost of the wage package adds 30 to 50 percent to the employee's base salary. But with a minimum wage that has declined over 30 percent in real levels since 1982, the salary and benefits themselves still represent low costs, and the financial burden should not be considered a disincentive to investment. (15)

The complexity of labor legislation, and certain of the protective measures, however, do affect investment in employment and business productivity. Other than the ponderous Labor Code, no version of labor laws exists in an abridged, simplified form. The result is a general ignorance of rights and obligations among both workers and employers. Any labor contract exceeding three months duration must be approved by a government placement office. As with the legislation, no simple, standardized contract has ever been drafted. Uncertainties lead to alleged breach of rights or obligations and occasionally to litigation. At the same time, it should be recognized that these same uncertainties provide a certain flexibility in business practices.

Firing employees is fraught with potential complications for employers, even when there is just cause. Protracted and costly litigation is common. The costs associated with discharging an unproductive worker represent a serious deterrent to increased levels of employment and induce employers to hire temporary workers. (16) This trend deprives society of the long-term benefits of on-the-job apprenticeship. As unemployment in Burundi can be expected to grow in both rural and urban areas, a Labor Code that dampens hiring or that constrains the mobility of the labor force is problematic. (17)

d. Information.

Poor dissemination of business information, and a lack of clarity in the information that is available, can discourage entrepreneurial initiative and divert attention from productive activity to the cultivation of useful contacts in the administration. Failure to explain the changes in collection of the transaction tax, for example, significantly affected the business community and stoked private sector resentment towards the administration.

In a time of policy change such as the present, some degree of confusion and contradiction may be expected. But effective dialogue between the private sector and the government is now on the rise, and some organizations are beginning to have a voice in decision-making. Most notable among these -- and founded by the government for this purpose -- is the Burundi Chamber of Commerce and Industry.

With a restructuring and a new mandate to support the private sector, the Chamber is something of a fledgling organization with a competent but tiny staff. Too much is expected of it: training, market research, orientation of entrepreneurs, trade fairs, and so on. The Chamber needs institutional support both to implement and to design its role -- as much to defend it from excessive petitions as to enable it to respond effectively in appropriate areas. One of its major responsibilities should be to clarify and communicate information -- needs, perceptions, responsibilities -- between the private and public sectors.

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e. The absence of a definition of unfair trade practices.

Price liberalization, initiated under the World Bank/IMF Structural Adjustment Program, has not brought untainted benefits to Burundi. Collusion, hoarding, and speculation have occurred and could threaten to provoke a reversal of the policy. This situation is exacerbated by the absence of adequate legislation governing fair trade practice. Laws do not exist, for example, prohibiting price-fixing or mandating free contract bidding; there is, in fact, no agreement on what constitutes unfair competition, sometimes viewed as simply selling below former fixed prices. (18)

One measure the GRB has undertaken to encourage fair price competition is to publish in the daily newspaper the prices of select items sold in stores in Bujumbura. The daily newspaper, however, reaches far too limited an audience to be of much use, especially outside Bujumbura. Small merchants and consumers in rural areas and in the smaller urban centers, however, still lack regular access to price information about basic agricultural and imported commodities.

4. Constraints to foreign trade.

The import-export sector is cramped by various administrative and procedural constraints involving registration, licenses, customs, and business travel.

a. Registration.

Commercial importers must register with the GRB; exporters are not required to register if they are willing to forego the incentives of the Export Promotion Law. If a company is in good standing, registration is a fairly uncomplicated process and does not in itself obstruct business, save that conducted by foreigners, who must be residents of Burundi and must deposit approximately FBu 10 million (approximately US $58,000) with the Central Bank to show their good faith.

There may not be sufficient reason for continuing the registration requirement for nationals. Foreign exchange is controlled by the requirement for import and export licenses; the good standing of the merchant is established in his business registration; statistics can easily be obtained through other means. Removal of this control would likely help to increase business confidence.

b. Licenses.

Licenses are required whenever an import or export transaction requires payment in or receipt of foreign exchange. The most serious obstacle to expeditious processing of an import or export license is the requirement of original invoices from suppliers for importers, or an original signed contract from the purchaser for exporters. Depending upon the business relationship and the country involved, acquiring these originals can take days or weeks. There is broad recognition of the need to approve use of faxed invoices, and the Central Bank occasionally permits them on an emergency basis. Commercial banks, however, need special permission, and customs officials have been reluctant to accept faxed documents even when the Central Bank has authorized their use.

The wisdom of continuing to require licenses for all import/export transactions is a potential issue in Burundi. Resolution of this issue, however, goes beyond the scope of the sectoral reform program that BEPP will support. It will ultimately be addressed by the GRB in consultation with the IBRD and the IMF. Simplification of the process, however, would help enhance the competitiveness of Burundian exporters in foreign markets. (19)

c. Customs centralization and complexity.

Other than on an exceptional basis, all goods imported to or exported from Burundi must clear customs in Bujumbura. This centralization is a legacy of colonial administration adopted by subsequent governments. It is inconsistent with the GRB's objective of rehabilitating secondary commercial centers in the interior.

Since official policy encourages the decentralized development of small-scale enterprise as well as the participation of SMEs in the export market, it would be logical for the GRB to decentralize the customs function by empowering regional customs posts to clear goods without requiring that those goods pass through Bujumbura. Traders from interior provinces should not be required to come to the capital in order to expedite or to receive goods, nor should freight be hauled unnecessary distances only because customs clearance is available solely in Bujumbura. Since the process of customs decentralization has begun on an ad-hoc, specially authorized basis, the removal of this constraint poses relatively little difficulty at the policy level. (20) Furthermore, as new customs stations are installed, simplified procedures can be inaugurated. The present complexity of customs processing, involving as many as seven stops for verifications and payment of duties, is highly inefficient.

d. Business travel.

Problems involving business travel abroad mainly affect importers and exporters and are of two types: formalities for leaving the country and availability of foreign exchange. These categories apply to regional as well as to overseas travel.

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1) Formalities for leaving the country.

Both nationals and residents in Burundi must surrender their passports to the Air and Border Police after each trip abroad. Recovering the documents is sufficiently time-consuming that it is impossible to make an excursion out of the country without at least a week's notice. This inconvenience handicaps development of a modern, dynamic export-import sector. Thus, removal of this traditional requirement is important, and is under active consideration by the GRB.

2) Availability of foreign exchange.

Foreign exchange in Burundi is carefully controlled to reduce capital flight and to ensure adequate reserves. After submitting a request to the central bank for hard currency, it normally takes a businessman several days to receive those funds. Then he is limited to a fixed amount, which in practice seldom exceeds U.S.$100 per day for up to 15 days. This amount is rarely conceded more frequently than twice a year. (21) In effect, this foreign exchange represents a per diem allowance decided upon by the central bank. There is currently discussion within the GRB about the need to increase the daily rate and to impose standard criteria in place of what appear to be arbitrary procedures.

e. Obstacles to exporting.

One of the GRB's major economic objectives it to increase exports significantly. Burundi is handicapped in its efforts to do this, however, by the lack of a coherent export policy. To correct this situation, an export promotion service has been proposed and is expected to become operational during 1990. It is expected that this organization will address each of the issues described above, and the export promotion service will become, inter alia, a lobbying agent with individual ministries and with interministerial planning commissions.

Preliminary studies funded by A.I.D. have made it clear that there is much to do to if exports are to increase. Further constraints include Burundi's lack of experience in international trade; the lack of quality control procedures, the absence of economies of scale, and the lack of access to credit. These studies also disagree about the potential size and location of the market for Burundian exports. Clearly, Burundi requires donor assistance both to identify domestic policy obstacles to exporting and to assess where the best opportunities exist for the sale of Burundian products.

5. Other areas for research.

In many of the areas discussed above, USAID and the GRB have agreed both on the presence of a government policy constraining private sector development and on an appropriate way of correcting that policy. These agreed-on reforms constitute the bulk of the policy agenda that BEPP will support from FY 1990 through FY 1992. In the following section of this PAAD, these are labelled "Category A" reforms. In many other areas, however, there is agreement only on the presence of a constraining policy; there is no consensus on the relative importance of these constraints or on the appropriate means of addressing them. These are labelled "Category B" reforms, meaning that while the need for a policy change is clear, the nature of the change required is not. In still other areas, moreover, there is no consensus that any policy change is required.

To help the GRB and USAID gain a better understanding of these Category B areas, BEPP's companion project activity, the Burundi Enterprise Support and Training Project (BEST), will support in-depth research on such topics as:

- -- Domestic policy constraints to export expansion.
- -- The effects of the Labor Code on employment.
- -- Access to credit and related support services.
- -- Assessment and administration of taxes.
- -- The development of simplified, uniform accounting procedures.
- -- Regulatory policies and practices that affect the private sector, with a particular focus on business registration procedures.
- -- Regional export marketing opportunities.
- -- Regional transport constraints, including the high cost of transport for imports and exports.
- -- The definition and punishment of unfair trade practices.
- -- Possible tax benefits for new small businesses.
- -- Possible updates of and amendments to the Investment Code.

As USAID and the GRB expand their understanding of the private sector, other research topics will be added to this list. One additional study, for example, might examine why wholesaling is not clearly defined in law or practice in Burundi. As described in Section III of this document, the BEST Project reserves funds for several such yet-to-be defined studies.

All BEST research will be conducted with an eye toward developing policy options to be supported by BEPP or by possible follow-on sector grant assistance from USAID. Annual amendments to this PAAD will define and refine the BEPP reform agenda for that year's program in light of the findings and recommendations of these studies.

Notes.

1. James Berezin, "Policy Environment for Small and Medium Enterprises," International Science & Technology Institute (for USAID), July, 1989, p.5.

2. Registration is not mandatory for exporters as it is for importers (see section 5.a. of this chapter), and many more than 25 businesses are actually involved in some export activity. The number is revealing of the disproportion that exists between export and import activity and of the little appeal the export promotion law has held to date for traders.

3. IMF Policy Framework Paper, June 2, 1989.

4. World Bank report 6754-BU, 1988, p. 10.

5. Berezin, p.7. Berezin's source, listed in Annex E of his report, is 1986 data from the Ministry of Labor.

6. The GRB has also joined these two priorities quite clearly in the following statement of industrial policy: "la creation de petites et moyennes entreprises susceptibles a la fois de generer des emplois et d'etre competitives sur les marches d'exportation," Ve Plan, IV,3.1...

7. Ariza-Nino and Grasberg, "Private Sector and Agricultural Development in Burundi," Robert Nathan Associates (for USAID), Washington, DC, 1988, pp. 5-6.

See also Michael Brown, "Rural Markets and Marketing Behavior in Burundi," Deloitte, Haskins & Sells (for USAID), Washington, DC, 1989, p.7.

8. Cf. Mori Diane, Export Enhancement Program: Republic of Burundi, Labat-Anderson, Inc. (for USAID) Arlington, VA, 1989, pp.1-3.

9. Although some consultants, e.g., Berezin and Phillips, disagree, USAID, through examination of the evidence and listening to numerous anecdotal experiences, has arrived at the conclusion as stated.

10. Brown, "Rural Markets," pp. 16-19.

11. See Zenon Nicayenzi, "La Dette Publique au Burundi," Bujumbura, 1989.

12. By "equity lending" we refer to credit extended by a financial institution in exchange for ownership of shares or capital of the business being financed; by "lease-purchasing" we refer to credit extended through provision of capital equipment, paid for in regular installments to the creditor, who remains the proprietor of the equipment until such time as principal and interest have been fully amortized.

13. Lucy Phillips, "Doing Business in Burundi: Laws, Regulations, and Practices," World Bank, Bujumbura, 1989, p. 46.

14. Salvator Nzigamasabo, "La Nature et la Structure des Taxes Municipales," World Bank, Bujumbura, August, 1988, pp. 1,15,20.

15. Phillips, pp. 51-52.

16. Silvie Chantal, "Policies, Procedures, and Institutions Affecting Employment in Burundi," Robert Nathan Associates (for USAID), October, 1988, p.20.

17. Deo Hakizimana, "Population et Demographie au Burundi," Cahiers du CURDES, Bujumbura, June, 1989.

18. Phillips, pp. 26-27.

19. Lest there be any doubts about the interdependency of exports and imports, it is worthwhile to note that manufacturing enterprises import about 50 percent of their inputs. World Bank Report no. 6754-BU, p.10.

20. For a full analysis of customs decentralization see Zenon Nicayenzi, "Impact Financier de la Decentralisation des Service des Douanes du Burundi," USAID, Sept., 1989.

21. Exporters receive more generous allocations.

II. The Proposed Program.

The Burundi Enterprise Promotion Program (BEPP, 695-0125) will support several of the Government of Burundi's (GRB's) first, essential steps in addressing the constraints to private sector development described in Section I.D above. It will do so by providing an initial four years of policy-based assistance. This assistance will run from FY 1990 through FY 1993 at an estimated Life-of-Program cost of $35.0 million. USAID proposes to furnish a first tranche of $13.0 million to the GRB under BEPP in FY 1990 via a sector grant from the African Economic Policy Reform Program ($10.0 million) and from USAID Burundi's OYB ($3.0 million). Additionally, technical assistance, research, and training funded under a complementary $5.0 million project activity, the Burundi Enterprise Support and Training Project (BEST, 695-0124), will help the GRB and USAID refine and then implement the policy reform agenda described below for FY's 1991-1993. BEST-funded research will also provide the analytical basis needed to design subsequent program assistance in FY 1994 and beyond.

A. Program Goal and Purpose.

BEPP's goal is to increase employment and net income for Burundi's poor. As recommended by a February 1989 AID/Washington assessment team, this objective now forms the central, unifying theme of the entire USAID/Burundi portfolio, all elements of which have been or are being redesigned to support its achievement.

To move toward this goal, BEPP's purpose is to foster the growth of private enterprise in Burundi, especially among small and medium enterprises (SME's), exporters, and in secondary towns. BEPP and its companion project, BEST, will do this by encouraging and assisting the GRB to implement a phased series of policy reforms in the following three areas:

I. Removal of barriers to entry to the formal sector;
II. Alleviation of constraints to doing business; and
III. Facilitation of international trade and promotion of exports.

As in any development program, even if the GRB successfully implements all planned reforms, these alone will not be <u>sufficient</u> to reach the goal-level objectives of increasing employment and income. Each reform, however, constitutes an important step toward creating the policy environment <u>necessary</u> for the private sector to flourish, and thus for employment and income to expand. By removing constraints to private sector growth, BEPP will remove critical obstacles that must be overcome before Burundi can reach these goals. Annex I, "Logical Framework", lists a series of assumptions about economic and political phenomena beyond the control of this program. If these assumptions hold true, implementation of the policy reforms described below should lead to increased employment and income for Burundi's poor.

B. Policy Reform Agenda.

This section describes the specific reforms that BEPP will support and summarizes the status of negotiations with the GRB on these reforms. (1) It presents the reforms in the order in which the GRB now expects to implement them. This order represents the consensus view of USAID and the GRB on the relative priority of these reforms and on Burundi's political, administrative, and analytical capacity to define and subsequently carry out the necessary policy changes.

The reforms scheduled for Fiscal Year 1990 will be set forth in the Program Grant Agreement for BEPP. By signing this agreement, the GRB will commit itself to carrying out these reforms this year. Some of the reforms planned for FY's 1991-1993, however, are necessarily less firmly developed. The policy agenda for these years will not be included in the text of the initial Program Grant Agreement itself, and the GRB is not yet formally committed to implementing that agenda. Some changes in the sequence presented in this PAAD for FY's 1991-1993 will inevitably be made as circumstances evolve over the life of this program. Subsequent annual PAAD Supplements early in each Fiscal Year of the program will (and should) adjust the timing and nature of the planned reforms to take account of the changing environment in which BEPP will occur.

Nonetheless, all the reforms described below for FY 1991-93 have been discussed in detail with the GRB, which has agreed to work with USAID/Burundi to find solutions to the constraints identified in all these areas. In some cases, A.I.D. and the GRB have already agreed on both the area in which action is to be taken and on the substantive nature of the reform that will be made. These are classified below as "Category A" reforms. In these areas, USAID does not presently anticipate significant changes in either the timing or the nature of the policy reforms described in this PAAD, although some fine tuning may be required in responding to a dynamic policy environment. In other cases, A.I.D. and the GRB have to date agreed only on the area in which they will work together to develop policy changes. The specific actions that will be taken have not yet been determined. This PAAD suggests several possible steps that may ultimately be agreed upon. These are classified as "Category B" reforms; in these cases, there could be changes in either or both the timing and the substance of the reforms described below. As circumstances evolve and understanding of the actions needed to promote private sector development expands, reforms now in "Category B" will be moved to "Category A" in subsequent annual PAAD Supplements.

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(1) See Annex I, "Logical Framework," for a summary presentation of the reform agenda.

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1. FY 1990.

Prior to releasing the $13 million sector grant provided for under the Fiscal Year 1990 Program Agreement, the GRB will document, in form and substance satisfactory to A.I.D., that it has implemented reforms and related actions discussed below in "Category A" for 199o. The steps the GRB must take may be detailed in a Program Implementation Letter (PIL) to be issued by USAID as soon as possible following signature of the Program Grant Agreement. The substance of these Conditions Precedent are set forth below subject to non-substantive changes in language as required by negotiations.

CATEGORY A REFORMS,FY 1990:

a. Decentralization of Customs Clearance Procedures at Kayanza.

Condition: "The GRB will provide documentation to A.I.D., in form and substance satisfactory to A.I.D., confirming the implementation of new, decentralized, full-service customs clearance procedures at Kayanza. At a minimum, implementation shall require that (a) the customs post at Kayanza is authorized to carry out all actions necessary to allow goods to enter and exit the country; and (b) that it is no longer necessary for merchants clearing their goods at Kayanza to travel to Bujumbura to complete customs formalities."

Rationale: Establishment of a full-service customs post at Kayanza, the first major point of overland entry to Burundi for goods shipped from Mombasa and other points north, will make it possible for importers and exporters to complete all customs formalities there without travelling to Bujumbura.

b. Decentralization of Related Import and Export Operations.

Condition: "The GRB will provide documentation to A.I.D., in form and substance satisfactory to A.I.D., that:

a) Commercial bank branches in the interior of Burundi have been authorized by the GRB to issue import and export licenses for individual transactions not exceeding FBu 10.0 million (U.S. $58,000).

b) Bank of the Republic of Burundi (BRB) branch offices in the interior of Burundi have been authorized by the GRB to issue import and export licenses for all transactions exceeding FBu 10.0 million (U.S. $58,000).

c) The commercial bank and BRB branch offices have been authorized by the GRB to issue import and export licenses as described above upon receipt of faxed copies of original invoices."

Rationale: Establishment of a full-service customs post at Kayanza (reform "a" above) will make it possible for importers and exporters to complete all customs formalities there without travelling to Bujumbura. However, unless the procedures for obtaining import and export licenses are also decentralized, these merchants will often still need to go to Bujumbura to obtain those licenses from their commercial bank or from the Banque de la Republique du Burundi (BRB, the country's central bank). Obviously, this would significantly lessen the positive economic impact of decentralization of customs procedures. Simultaneous decentralization and facilitation of the issuance of import and export licenses will make it possible for merchants to complete all required actions at Kayanza without travelling to the capital.

c. Provision of easier access to foreign exchange for business travel.

Condition: "The GRB will provide documentation to A.I.D., in form and substance satisfactory to A.I.D., confirming the establishment of standard guidelines that the BRB will follow in allocating foreign exchange to business travellers. These guidelines, at a minimum, shall (a) establish minimum and maximum amounts for such allocations; (b) fix 21 days as the standard period for which hard currency will be made available for each business trip; and (c) allow the BRB to make foreign exchange available for longer periods, if and as required."

Rationale: These actions will make it easier for importers and exporters to obtain cash needed to travel abroad for business purposes.

RESEARCH ACTIVITIES, FY 1990.

d. Informal Sector Survey.

Condition: "The GRB shall agree in writing on a Scope of Work jointly developed by the parties for a survey of Burundi's informal sector to be carried out by USAID and the Ministry of Labor between approximately February and August 1990."

Discussion: As funds from the BEST Project will not be available by February, USAID plans to finance the survey's costs with Program Development and Support (PD&S) funds. A description of the planned scope and purpose of this survey is provided in Section III below, "The BEST Project."

e. Baseline Data Survey of the SME Sector.

Condition: "The GRB shall agree in writing on a Scope of Work jointly developed by the parties for a baseline data survey of Burundi's small and medium enterprise sector, to be financed under the Burundi Enterprise Support and Training (BEST) Project."

Discussion: A description of the planned scope and purpose of this survey is provided in Section V below, "Monitoring, Evaluation, and Audit."

f. Study of Domestic Constraints to Export Promotion.

Condition: "The GRB shall agree in writing on a Scope of Work jointly developed by the parties for a study aimed at identifying and recommending measures to correct domestic policy constraints to export promotion to be financed under the BEST Project."

Discussion: As described below, USAID and the GRB anticipate that the recommendations of this study will lead to the development of new policy reform measures that will later be supported with program assistance from A.I.D., either under the auspices of BEPP or a similar, follow-on program.

2. FY 1991.

CATEGORY A REFORMS, FY 1991:

Before A.I.D. releases the sector grant planned at U.S. $4.5 million for FY 1991, the GRB will document, in form and substance satisfactory to A.I.D., implementation of the following "Category A" policy reforms and related actions. These policy reforms will serve as the Conditions Precedent to disbursement of funds to be contained in the planned FY 1991 Program Grant Agreement, subject to non-substantive changes in language as required by negotiation.

a. Decentralization of Customs Clearance Procedures at Gitega.

The GRB will demonstrate that it has established a full-service customs facility in the centrally-located market town of Gitega. The documentation required by A.I.D. for fulfillment of this condition will be substantively the same as for the facility in Kayanza.

b. Simplification of Clearance Procedures at All Customs Posts.

The GRB will implement a system at all its customs posts that will allow traders to clear their goods in one day and by making only one stop. This will relieve delays caused by current customs clearance procedures, which require that importers and exporters make as many as seven different stops over a period of (on average) two to four days.

c. Simplification of Initial Business Registration Procedures.

The GRB will authorize the civil courts to issue the Carte de Commercant (the basic permit that authorizes one to do business in Burundi) at the time businesses register with the courts, and will no longer require businesses to apply to the Ministry of Commerce and Industry (MCI) to obtain this card. USAID and the GRB envision that, over the life of BEPP, the GRB will make a series of changes in the way businesses of all types -- individuals, limited partnerships, corporations, etc. -- are registered.

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d. Increased Availability of Information on Market Prices.

The GRB will authorize the MCI's Directorate of Interior Commerce to publish the prices of selected agricultural commodities from the Gitega and Bujumbura markets once a week in the country's daily newspaper, Renouveau, and to broadcast these prices regularly. The commodities selected shall include, but shall not be limited to, those identified in a low-income market basket that USAID and the MCI will develop jointly.

e. Establishment of Legal Protection for Seasonal and Itinerant traders.

The GRB will authorize a new category of Cartes de Commercant for those merchants without a permanent business address. The GRB shall not require recipients of this card to become members of the Chamber of Commerce and Industry (CCIB), and the cost of the card shall be low or nil. Under current law, these merchants are unable to obtain the Carte de Commercant, and thus unable to benefit from the protections conferred by legal status, because access to the card is limited to those with a fixed place of business. This reform will provide them with the protection they need without constraining their activities.

CATEGORY B REFORMS, FY 1991:

USAID and the GRB have agreed to work together to develop a supplemental policy reform agenda for FY 1991 in the following "Category B" areas. Although USAID and the GRB have agreed on the areas in which they will develop reforms, the reforms outlined below for these areas are only indicative of the types of actions that could be taken to address the constraints identified. USAID and the GRB will develop a PAAD Supplement in early FY 1991 to specify the reform agenda that will serve as the Conditions Precedent to disbursement for FY 1991.

f. Improvement in the Flow of Credit to Small and Medium Enterprises (SME's).

The GRB and USAID agree that a strategy must be developed to improve the flow of credit to SME's. As one possible step in this direction, USAID and the GRB are discussing enacting a new law governing lease-purchase banking and clarifying the tax status of property made available to borrowers under lease-purchase arrangements. This new law should make lease-purchase banking a more attractive alternative for both commercial banks and their clients in the SME sector.

g. Facilitate Access to Passports for Business Travel.

The GRB recognizes that the difficulty of obtaining one's passport hinders the ability of importers and exporters to respond promptly to business opportunities that require travel abroad. One solution might be to allow registered importers and exporters to retain their passports upon return to Burundi rather than requiring that they be handed over on entry; other potential steps will be considered.

RESEARCH ACTIVITIES, FY 1991.

In addition to development and implementation of the policy reform agenda described above, the GRB will agree to investigate jointly with USAID the following research topics in FY 1991. This research will be financed by the companion BEST Project:

h. The effects of the Burundi labor code on SME's, with particular attention to the employment impact of present restrictions on hiring and firing.

i. Recommendations for further measures the GRB might take to improve the access of SME'S to credit and related support services.

j. A review and synthesis of prior research on the assessment and administration of taxes. This review will be carried out in coordination with the IMF'S ongoing work in this field. It should devote particular attention to how the tax code is applied to small, medium, and microenterprises (SME's) and to making recommendations for changes in tax administration and assessment.

3. FY 1992.

CATEGORY A REFORMS, FY 1992:

Before A.I.D. releases the sector grant planned at U.S. $7.5 million for FY 1992, the GRB will document, in form and substance satisfactory to A.I.D., implementation of the following "Category A" policy reforms and related actions. These policy reforms will serve as the Conditions Precedent to disbursement of funds to be contained in the planned FY 1992 Program Grant Agreement, subject to non-substantive changes in language as required by negotiation.

a. Simplification of Business Registration Procedures.

The GRB shall:

1) Establish new, reduced fees for the publication of major legal announcements (i.e., bylaws for proposed new businesses and changes in the bylaws of existing businesses) in the Official Bulletin of Burundi (BOB). These new fees shall be based upon the cost of publication. A.I.D. shall issues PIL's to further define the major legal announcements subject to this Condition Precedent.

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2) Devote the fees generated under the immediately preceding Condition Precedent exclusively to the cost of publishing the BOB.

3) Authorize production of the BOB through desktop publishing.

4) Authorize publication of minor legal announcements in the daily paper rather than in the BOB. A.I.D. shall issue PIL's to further define the minor legal announcements subject to this Condition Precedent.

These innovations will significantly reduce the costs of publishing legal announcements, and will thereby significantly reduce the costs of entry to and movement within the formal sector. The BEST Project reserves funds for short-term technical assistance to assist the GRB in designing and implementing these new procedures.

b. Increased Availability of Information on Market Prices.

The GRB shall collect data on the prices of selected agricultural commodities from several rural markets, and will publish those prices once a week in the daily newspaper and broadcast them regularly over Radio Burundi. The BEST Project reserves funds for short-term technical assistance to help the GRB devise an appropriate data gathering system for this purpose.

CATEGORY B REFORMS, FY 1992:

USAID and the GRB have agreed to work together to develop a supplemental policy reform agenda for FY 1992 in the following "Category B" areas. Although USAID and the GRB have agreed on the areas in which they will develop reforms, the reforms outlined below for FY 1992 are only indicative of the types of actions that could be taken to address the constraints identified. USAID and the GRB will develop a PAAD Supplement in early FY 1992 to specify the reform agenda that will serve as the Conditions Precedent to disbursement for FY 1992.

c. Establishment of a Third Regional Customs Clearance Post.

The GRB will establish a third full-service customs facility at an appropriate site in the south of the country. The actual location of this facility will be determined by the GRB, in consultation with USAID, upon analysis of existing and projected traffic flows. One possible site is the lakeside town of Rumonge, where the GRB plans to upgrade existing port facilities. The documentation required by A.I.D. for fulfillment of this condition will be substantively the same as for the facility in Kayanza.

d. Development of an Export Promotion Plan.

The GRB will produce an industry- and/or product-specific plan satisfactory to USAID for expanding exports by eliminating domestic policy constraints to their growth. This plan should be based upon the recommendations of the BEST-financed study on this subject that the GRB and USAID will conduct in FY 1990, and should either implement these recommendations or justify a GRB decision not to implement these recommendations.

e. Development of a Plan for Further Improvement in the Flow of Credit to Small and Medium Enterprises.

The GRB will develop a plan satisfactory to USAID for expanding the access of SME's to credit and related support services. This plan should be based upon the recommendations of the USAID-financed study on this subject that the GRB and USAID will conduct in FY 1991, and should either implement these recommendations or justify a GRB decision not to implement these recommendations.

RESEARCH ACTIVITIES, FY 1992.

In addition to development and implementation of the policy reform agenda described above, the GRB will agree to investigate jointly with USAID the following research efforts in FY 1992. This research will be financed by the companion BEST Project:

f. A consultancy to draw up a plan for training in Burundi in the use of simplified, uniform accounting procedures for all sectors of the Burundian economy. USAID and the GRB anticipate that, following development of this plan, the A.I.D.-supported Burundi Human Resources Development Project (BUHRD, 695-0121) will fund in-country training for public and private sector employees in these simplified procedures beginning no later that FY 1993.

g. A study of all regulatory policies and practices that affect the private sector. This research shall focus on, but not be limited to, developing recommendations for further changes in business registration procedures.

h. A survey of regional export marketing opportunities.

i. A study of regional transport costs and constraints. This work shall be conducted in close coordination with the World Bank's efforts in this sector. BEST-funded research shall focus, among other topics, on the following possibilities:

1) Eliminating the requirement that all private importers and exporters use Burundian transporters.
2) Applying uniform road tolls graduated according to weight to vehicles of all countries.
3) Channeling these road tolls to a special GRB account designated exclusively for road maintenance.
4) Eliminating all internal toll barriers.

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5) Eliminating the near monopoly that two parastatal insurance companies, SOCABU and UCAR, have on insuring imports and exports.
6) Making transportation insurance on imports and exports optional.
7) Allow new private insurance companies to form.
8) Requiring existing insurance companies to charge competitive international rates.

4. FY 1993.

CATEGORY B REFORMS, FY 1993:

USAID and the GRB have agreed to work together to develop a policy reform agenda for FY 1993 in the following "Category B" areas. Although USAID and the GRB have agreed on the areas in which they will develop reforms, the reforms outlined below for FY 1993 are only indicative of the types of actions that could be taken to address the constraints identified. USAID and the GRB will develop a PAAD Supplement in early FY 1993 to specify the reform agenda that will serve as the Conditions Precedent to disbursement for FY 1993 (in effect, converting the reforms set forth below from "Category B" to "Category A"). The GRB will then document, in form and substance satisfactory to A.I.D., implementation of the agreed-on reforms.

a. Development of a Plan for Further Simplification of Business Incorporation Procedures.

The GRB will develop a plan satisfactory to USAID for making further reforms in business incorporation procedures. The plan will be based upon the recommendations of the BEST-funded study of regulatory constraints that will be carried out in FY 1992, and should either implement these recommendations or justify a GRB decision not to implement these recommendations.

b. Changes in Eligibility Requirements for Importers and Exporters.

The GRB recognizes that it is now unduly difficult for businesspeople to become engaged in international trade. Under the auspices of BEPP, the GRB will review, among other possible actions:

1) Elimination of the requirement that importers and exporters register with the GRB.

2) Elimination of the requirement that non-national importers and exporters pay a FBu 10.0 million ($58,000) deposit before beginning operations.

3) Allowing nonresident foreigners to import and export to and from Burundi.

c. Development of a Plan for Reform of Labor Laws.

In response to the findings of the FY 1991 BEST-funded study on the effects of the Burundi labor code on SME's, the GRB will by FY 1993 prepare a draft law or laws satisfactory to USAID revising that that code.

d. Reduction in Transport Costs for Imports and Exports.

The GRB will develop a plan satisfactory to USAID for reforms that will reduce the cost of transporting imports and exports. These reforms should be based upon the recommendations of the transport sector study the BEST Project will fund in FY 1992, and should either implement these recommendations or justify a GRB decision not to implement these recommendations.

RESEARCH ACTIVITIES, FY 1993.

The GRB will agree to carry out jointly with USAID the following research activities in FY 1993, funding for which will be provided by the companion BEST Project:

e. A study to propose new fair trade legislation that would define "unfair trade practices" and specify legal penalties for those engaged in such practices.

f. A study to design possible tax benefits for new small businesses. These may include a graduated system of tax forgiveness. Like all BEST-funded work pertaining to taxes, this study should be carried out in close coordination with the IMF's ongoing work in this field.

g. A study to consider updates of and amendments to Burundi'S Investment Code.

C. Other Conditions Precedent, Covenants, and Special Provisions.

1. Other Conditions Precedent.

"The GRB shall document, in form and substance satisfactory to A.I.D., that it has:

a. Established an interest-bearing dollar account in a commercial bank in the United States into which the FY 1990 sector dollar grant provided from BEPP will be deposited.

b. Established a special, non-commingled account in the Bank of the Republic of Burundi (BRB) into which it shall deposit, immediately upon receipt of each sector dollar grant from BEPP, local currency equivalent in value to the amount of each sector dollar grant received, at the highest exchange rate not unlawful in Burundi available to any person for any purpose in Burundi on the date of A.I.D.'s disbursement of the sector dollar grant. These funds shall be used to support (a), A.I.D.'s local administrative and operational expenses of the A.I.D. assistance program to Burundi; (b), mutually agreed-upon local costs of joint GRB-USAID projects in the small and medium enterprise sector; and (c), mutually agreed-upon support of specific line items of interest to A.I.D. in both the GRB's Ordinary and Extraordinary and Investment Budgets"

2. Covenants.

The FY 1990 Program Grant Agreement for BEPP shall contain the following two covenants:

a. "In view of the desire of both parties to move as soon as possible toward agreement on the GRB's policy reform agendas for FY's 1991, 1992, and 1993, the GRB agrees to initiate a process of consultation with A.I.D., beginning no later than 30 days from the execution of the FY 1990 Program Grant Agreement for BEPP, on the reform agendas for the anticipated FY 1991, 1992, and 1993 programs. These consultations shall be based on a PIL to be issued by A.I.D. immediately after execution of this Agreement setting forth (a) the areas in which it is understood that there is substantive agreement between A.I.D. and the GRB on future year reforms; and (b) the areas requiring further study and consultation between A.I.D. and the GRB."

b. "The GRB hereby covenants and agrees to maintain in full force and effect the policy reforms implemented through compliance with the Conditions Precedent to this Agreement."

Covenant Number 2 is designed to assure that the GRB continues to maintain compliance with the Conditions Precedent after the FY 1990 sector dollar grant is released. Prior to obligation of subsequent sector dollar grants under BEPP in FY 1991 and years thereafter, A.I.D. shall evaluate whether the GRB continues to be in substantive compliance with the Conditions Precedent included in all prior year Program Grant Agreements for BEPP. If there is a failure of compliance, further sums may not be obligated.

3. Special Provisions.

The FY 1990 Program Grant Agreement for BEPP shall contain the following three Special Provisions:

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a. "The GRB shall, immediately upon receipt of each sector dollar grant, deposit into the special, non-commingled account established pursuant to Section _______ of this Agreement, local currency equivalent to U.S. Dollars thirteen million (U.S. $13,000,000) at the highest exchange rate not unlawful in Burundi available to any person for any purpose in Burundi on the date of A.I.D.'s disbursement of the sector dollar grant.

b. "The GRB shall execute, in form and substance satisfactory to A.I.D., a Trust Account Agreement for provision of local currency by the GRB in trust to USAID/Burundi to be used as needed for A.I.D.'s local currency administrative and operational expenses, as needed, of the A.I.D. assistance program in Burundi.

c. "Within 30 days of A.I.D.'s disbursement of the FY 1990 sector dollar grant from BEPP, the GRB shall transfer from the account established pursuant to Section _______ of this Agreement, to the above-mentioned Trust Account, the local currency equivalent of $900,000 for A.I.D.'s local currency administrative and operational expenses of the A.I.D. assistance program in Burundi, to be calculated at the highest exchange rate not unlawful in Burundi available to any person for any purpose in Burundi on the day of A.I.D.'s disbursement of the FY 1990 sector dollar grant."

See Section VI.D. of this PAAD, "Local Currency Plan," for a description of the operation and purpose of the Trust Account.

D. Status of Negotiations.

An earlier version of the above policy reform agenda (different only in minor detail, not in substance, from that presented in this PAAD) was submitted officially to the GRB on January 8, 1990. Following an interministerial review, the Ministry of Foreign Affairs and Cooperation (MFAC) notified USAID on January 17 that the GRB is prepared to implement immediately all reforms planned for FY 1990 and to proceed as soon as possible with signature of the Program Grant Agreement. The MFAC's letter, which is attached as Annex III to this PAAD, requested A.I.D. financial and technical assistance for an initial period of four years (1990-1993) and stressed the GRB's willingness to work with USAID to define further the policy reforms planned for FY 1991 and beyond in light of "the evolving situation in our country."

E. Implementation Plan.

Following are the approximate dates by which USAID and the GRB expect to complete certain critical implementation actions:

Action:	Action Agents:	Expected By:
FY 1990		
PAAD Submitted	USAID, REDSO	02/90
PAAD Approved	AID/W	03/90
Program Grant Agreement Signed	USAID, GRB, REDSO	03/90
Conditions Precedent Fulfilled	GRB	06/90
Sector Grant Released	USAID, RFMC, AID/W	06/90
FY 1991		
PAAD Supplement Prepared	USAID, REDSO	11/90
Revised Conditions Approved	AID/W	12/90
Grant Agreement Signed	USAID, GRB, REDSO	02/91
Conditions Precedent Fulfilled	GRB	05/91
Sector Grant Released	USAID, RFMC, REDSO	05/91
FY 1992		
PAAD Supplement Prepared	USAID, REDSO	11/91
Revised Conditions Approved	AID/W	12/91
Mid-Term Implementation Review	USAID, REDSO, GRB	01/92
Grant Agreement Signed	USAID, GRB, REDSO	02/92
Conditions Precedent Fulfilled	GRB	05/92
Sector Grant Released	USAID, RFMC, REDSO	05/92
FY 1993		
PAAD Supplement Prepared	USAID, REDSO	11/92
Revised Conditions Approved	AID/W	12/92
Grant Agreement Signed	USAID, GRB, REDSO	02/93
Conditions Precedent Fulfilled	GRB	05/93
Sector Grant Released	USAID, RFMC, REDSO	05/93
Final Evaluation	USAID, REDSO, GRB	05/93

III. The Burundi Enterprise Support and Training Project (BEST, 695-0124)

A. Introduction.

The Burundi Enterprise Support and Training Project (BEST, 695-0124) will provide technical assistance and training to help refine, implement, and monitor the effects of the policy reforms supported by the Burundi Enterprise Promotion Program (BEPP). BEST and BEPP will share the same goal and purpose. USAID and the Government of the Republic of Burundi (GRB) will execute the Project Grant Agreement for BEST simultaneously with the Program Grant Agreement for BEPP. To help Burundi continue to implement the reforms supported by BEPP, the BEST Project will continue through the end of Fiscal Year 1994; i.e., one year after policy-based program assistance from BEPP is expected to be completed. The Project Assistance Completion Date (PACD) for BEST is September 30, 1994. Its estimated total life-of-project cost is $6.67 million, of which A.I.D. plans to contribute $5.0 million and the GRB $1.667 million. USAID plans to obligate $2.0 million to BEST in FY 1990.

B. Project Rationale and Description.

1. Project Goal and Purpose.

The goal of BEST and BEPP is to increase employment and net income for Burundi's poor; their purpose is to foster the growth of private enterprise in Burundi, especially among small and medium enterprises, exporters, and in secondary towns. BEPP and BEST will do this by encouraging and assisting the GRB to implement a phased series of policy reforms in the following areas:

I. Removal of barriers to entry to the formal sector;
II. Alleviation of constraints to doing business; and
III. Promotion of international trade and exports.

The BEPP Program will support a phased series of actions needed to help create conditions that will allow Burundi's private sector to flourish, and thus help employment and income to expand. However, the policy environment in Burundi today is extremely fluid. Policy-based program assistance alone will not be sufficient to enable the GRB and USAID/Burundi to examine, understand, and make adjustments in the reform agenda as the economy grows and new constraints come to prominence. To meet these needs, complementary project assistance from BEST is required. BEST will help broaden local understanding of the market economy, and will sensitize Burundians in both the public and private sectors to the need for further economic reform. As the changes supported by BEPP are enacted, BEST will assist the GRB as necessary in developing operational plans for implementing those changes.

2. Project Management.

The GRB's Ministry of Plan (MOP) will assume overall responsibility for coordinating both BEPP and BEST. To carry out this responsibility, the MOP intends to charge a "Comite de Suivi" (Coordinating Committee) with the task of coordinating the reform program supported by BEPP. This Committee will consist of permanent representatives from key Ministries and agencies of the GRB. It will meet as frequently as required. The chairman of the Coordinating Committee will serve as the GRB Project Manager for BEPP and BEST. To assist the Committee, local currency counterpart funds generated by BEPP will be used to finance the services of a two-person staff (one program assistant and one secretary).

Within USAID, the Office of Agriculture and Private Enterprise will be responsible for BEPP and BEST. Under the direction of USAID's Agricultural Development Officer, who will be the Project Officer for these activities, USAID's Private Enterprise Specialist will oversee implementation and monitoring of BEST and BEPP. Upon completion of this individual's contract in FY 1991, he will be replaced in this capacity by a BEST-funded Personal Services Contractor.

Day-to-day implementation of BEST will be the responsibility of a three-person long-term technical assistance team. The Chief of Party of this team will be headquartered in the Ministry of Plan, and will serve as counterpart to the GRB Project Manager. The planned composition of the that team is set forth in Section 3.a below.

3. Project Description.

The BEST Project will have four principal components:

-- Long-term technical assistance in policy analysis, small business development, and trade promotion.
-- Policy-oriented research.
-- Training.
-- Monitoring, evaluation, and audit.

The following sections describe these components in more detail.

a. Long-term Technical Assistance.

Long-term technical assistance will be the core activity of the BEST project. A team of three specialists will play a key role making Burundi's public and private sectors aware of the need to develop policies, procedures, and practices that will lead to sustained private sector growth. This team will also assist the GRB in developing, as necessary, operational plans to implement these reforms, and will organize and oversee the research, training, and monitoring activities that BEST will fund.

Following is a brief illustrative description the planned responsibilities of each of the three long-term specialists. Annex VIII to this PAAD sets forth detailed illustrative job descriptions.

1) Policy Analyst/Chief of Party:

This expert will work in the Ministry of Plan, and will serve as Chief of Party for the BEST technical assistance team and counterpart to the GRB Project Manager. He or she will assist the MOP in coordinating implementation of the BEPP reform program, monitoring its progress, and further defining and deepening the policy reform agenda. The Policy Analyst will work with the GRB and the other members of the long-term TA team to develop scopes of work for all short-term technical assistance funded by BEST and to coordinate and manage all project-funded research. In this capacity, the Policy Analyst will help the GRB analyze the findings of the studies and to transform these findings into reform proposals. The Policy Analyst will also be responsible for managing all training supported by BEST, and for overseeing the Project's Monitoring, Evaluation, and Audit component.

The Policy Analyst should have an extensive professional and academic background in international business and policy analysis. He or she must be fluent in French.

2) Small Business Specialist:

This expert will work in Burundi's Chamber of Commerce and Industry (CCIB), which has existed since Burundi's independence. In the past few years, the CCIB has been reorganized and made the predominant advocate for Burundi's private sector. It is a quasi-independent organization principally financed by dues from formal sector enterprises. The GRB, however, appoints its leadership, and the CCIB maintains close working relationships with GRB ministries. The Chamber shares responsibility for implementing USAID's current training project (BUHRD), and also implements the World Bank's small enterprise loan project.

The Small Business Specialist funded by BEST will be responsible for working with the Chamber to analyze the broad spectrum of constraints faced by formal and informal enterprises in Burundi. He or she will help the CCIB examine these constraints from the perspective of the private business person. These analyses should focus on developing additional policy reform measures for support under BEPP, particularly in those areas classified as "Category B" in Section II of this PAAD. The Small Business Specialist will also assist the Chief of Party in monitoring the effects of the BEPP reform program on small and medium-sized enterprises.

This expert should have extensive experience in the development and promotion of small-scale enterprises in the developing world. He or she must be fluent in French.

3) International Trade Specialist:

The BEST Project will fund the services of an International Trade Specialist to work with Burundi's planned Export Promotion Service, a new entity being organized by MCI. While created by the Ministry, the Export Promotion Service is to maintain a quasi-private status, allowing it to work with and to represent existing and potential exporters. The Service will provide assistance and advice to potential private exporters, and will be the primary representative of exporters in developing ideas for reforms to help them to be competitive. The GRB has planned extensively for the Service, and USAID has provided short-term technical assistance to help the GRB in organizing it.

The International Trade Specialist will help provide the Export Promotion Service with the ability to analyze constraints to export enhancement and diversification. He or she will work with the GRB to produce industry- and/or product-specific plans for expanding exports by eliminating domestic constraints to their growth. The Specialist will also monitor the effects of reforms enacted by the GRB under BEPP to determine their impact on Burundi's exports, and will help the GRB assess what additional reforms need to be made.

This Specialist should have extensive international business experience, preferably with a firm engaged in import and export operations in Africa. He or she must be fluent in French.

b. Policy-oriented Research.

The BEPP Program sets forth a two-tiered private sector reform program that the GRB will pursue over the next four years. This PAAD classifies one group of reforms as "Category A": here, A.I.D. and the GRB have already agreed on both the area in which the GRB will take action and on the substantive nature of the action it will take, although some fine tuning may be required in responding to a dynamic policy environment. In the other group of reforms, "Category B," A.I.D. and the GRB have to date agreed only on the area in which they will work together to develop policy changes. They have not yet determined the specific actions the GRB will take.

Before A.I.D. releases the sector grant from BEPP planned for each Fiscal Year, USAID and the GRB will work together to develop annual Supplements to this PAAD. They will then develop and sign annual Program Grant Agreement Amendments based on these PAAD Supplements. Each PAAD Supplement and Program Grant Agreement Amendment will set forth the specific reforms that the GRB will enact under that year's program. In other words, these documents will move selected reforms now in "Category B" to "Category A." These changes will be based upon an expanded understanding of the dynamics of Burundi's private sector and the policy constraints to its growth.

Policy-oriented research funded by the BEST Project will be a principal means of developing this expanded understanding. This research will provide A.I.D. and the GRB with the data needed to be sure that they have selected the best policy alternatives and have examined all linkages with, and effects on, other sectors of the economy. The following table presents the planned research agenda in the order in which USAID and the GRB now expect to carry it out. USAID and the GRB will regularly review the research topics defined below to ensure that they continue to have a high priority.

Table III-1: Planned Research Agenda, FY 1990 - FY 1993
Burundi Enterprise Support and Training Project 695-0124

FY 1990
- Informal sector survey.
- Baseline data survey of the SME sector.
- Domestic constraints to export expansion.

FY 1991
- Effects of Burundi's labor code on SME's, with particular attention to the employment impact of present restrictions on hiring and firing.
- Access to credit and related support services.
- Review and synthesis of prior research on the assessment and administration of taxes.

FY 1992
- Development of a plan for training in the use of simplified uniform accounting procedures.
- Regulatory policies and practices that affect the private sector, with particular emphasis on possible further changes in business registration procedures.
- Regional export marketing opportunities.
- Regional transport constraints, including analysis of the possibilities of eliminating requirements for exclusive use of Burundian transporters, applying of uniform road tolls to vehicles of all nations, creating accounts for road maintenance, and removing internal toll barriers

FY 1993
- Development of fair-trade legislation defining unfair practices and establishing legal sanctions on such practices.
- Design of possible tax benefits for new small businesses.
- Possible updates of and amendments to the Investment Code.

Additionally, the project contains funds for unspecified analyses that inevitably will arise as USAID continues its dialogue with the GRB and as the GRB and USAID broaden their understanding of the private sector. BEST also reserves funds for necessary short-term technical assistance linked to these research topics (e.g., legal assistance, statistical analysis, procurement assistance, development of training materials and curricula, etc.).

An institutional contract for technical assistance under BEST is scheduled to be awarded by October 1990. The long-term technical assistance team provided under that contract should therefore arrive in Burundi by January 1991. Following that date, USAID and the GRB will obtain all short-term technical assistance needed to carry out the research outlined in Table III-1 under the auspices of that contract. This will help assure a steady institutional commitment to and involvement in the reform process, as the technical assistance contractor should provide a long-term perspective on that process while lending a unifying theme to the various research efforts.

Nonetheless, both USAID and the GRB, in wishing to take advantage of the period between approval of the PAAD and the arrival of the BEST long-term specialists, have decided to launch the three studies planned for FY 1990 during this interim period. The results of this initial research will give USAID and the GRB the baseline data that will be needed later to assess the impact of the reform program, and will also help them refine the FY 1991 policy reform agenda in a more timely manner. These three studies are described below.

1) Informal Sector Study:

USAID will carry out this research in collaboration with Burundi's Ministry of Labor and its Chamber of Commerce and Industry between February and August, 1990. The United Nations Development Program (UNDP) has sponsored a survey of the informal productive sector in Bujumbura, analysis of which is in process. The USAID-funded study will concentrate on the informal service sector both in Bujumbura and in selected secondary population centers. The study will be Burundi's first attempt to look deeply at the informal sector to determine its economic and social contribution to the economy, and to examine the barriers that prevent enterprising informal sector entrepreneurs from entering the formal sector.

2) Baseline Study of the SME Sector:

This study will take advantage of data assembled under a USAID-sponsored Household Income Survey conducted between May and December 1989. It will compile baseline data on the formal SME sector as a whole. In combination with the informal sector study described above, this will give USAID and the GRB a basis for measuring change in that sector. Section V of this PAAD, "Monitoring, Evaluation, and Audit," provides further information on the baseline data gathering effort.

3) Study of Domestic Policy Constraints to Export Expansion:

The GRB places major emphasis on expanding and diversifying Burundi's export base beyond the traditional export commodities of coffee, cotton, tea, and hides, and wishes to encourage private sector involvement in both traditional and non-traditional exports. As part of this process, the reform agenda supported by BEPP will begin to address several initial domestic policy constraints to exporting.

For example, reforms supported by BEPP will expand access to customs facilities, simplify customs procedures, and promote increased availability of foreign exchange for business travel. Additionally, through consultancies provided by AFR/MDI's Africa Enterprise Development Fund Project, A.I.D is already helping the GRB devise an operational plan that will promote increased and diversified exports.

These efforts have made it clear that there remains much to do to increase exports significantly over the next several years. Further constraints include Burundi's lack of experience in international trade; the lack of quality control procedures; the absence of economies of scale; and access to credit. Accordingly, BEST-funded research in FY 1990 will begin to address these obstacles by analyzing these constraints and providing recommendations for policy changes to alleviate them. As part of the BEPP reform agenda, USAID will ask the GRB to respond to this study by preparing by FY 1992 an industry- and/or product-specific plan for expanding exports by removing domestic policy constraints to their growth.

c. Training.

The objective of the training component of BEST is to provide Burundians with the capacity to implement the reform agenda of BEPP. This training will either be directly related to providing the knowledge and skills needed to carry out BEPP reforms, or will be more broadly related to increasing Burundian awareness and acceptance of the role that the reforms have in furthering the contribution of the private sector to economic development.

To complete successfully the series of policy reforms proposed in BEPP, Burundians in key institutions will often need to acquire knowledge and skills in specific areas related to the reforms. For example, the process of decentralizing customs clearance procedures and related import and export operations will be made easier if importers and exporters involved in the process have, through their participation in discussion groups or seminars, become familiar with the new regulations. Similarly, financial institutions may need to provide their staff with training in the analysis of credit proposals before the flow of credit to SME's improves significantly. Other possible training topics include methods for eliminating bureaucratic restraints on starting new business or on moving from the informal to the formal sector, determining employer/employee duties and responsibilities under existing or modified labor codes, producing agricultural products for export, and providing fair and efficient tax administration policies.

Training under BEST will also help support implementation of BEPP reforms by sensitizing Burundians to the need for change, thus helping them internalize the economic principles underlying the policy reforms. This "Information, Education, and Communication" (IEC)-type training will deal with such reform-related matters as:

- The legitimate role and function of business and businesspeople in a modernizing society
- What the A.I.D. and broader structural adjustment programs are trying to achieve, and why
- The winners and losers from the reforms
- The role of the informal sector

This process of sensitization will require the participation of Burundians in both the public and private sectors. For present and future decision makers, BEST-funded training will put them in contact with their counterparts in other countries who have already gone through the early phases of private sector development. These contacts will provide a foundation for reflection on the nature and types of reforms needed. For the rural entrepreneur and those in the informal sector, training will provide both information and the opportunity for discussion and debate.

BEST will provide the training discussed above in Burundi and in other developing and middle-income countries with similar prospects and constraints. The institutional contractor providing long-term technical assistance to the project will manage the training component. This contractor will place its three long-term specialists in three institutions specifically targeted for BEPP reform actions: the Ministry of Plan, the Chamber of Commerce and Industry, and the Export Promotion Service. Through day-to-day participation in the development and implementation of the reform agenda, these experts will be well-suited to recommend specific training programs to help ensure that the GRB carries out the reforms in a timely, comprehensive manner. The contractor will also work closely with USAID in formulating and implementing all aspects of the training component.

BEST training will include group-study visits to other developing and middle-income countries, individual visits to other developing countries, in-country technical training, and short-term in-country seminars and workshops. The following describes these activities in detail.

1) Group study-visits to other developing and middle-income countries:

These visits will allow Burundians to view how other developing countries have dealt with problems related to free enterprise and the expansion of the business sector. Five groups of five participants, from both the public and private sectors, will visit countries with successful private sector programs such as Mauritius, Tunisia, Ivory Coast, Zimbabwe, Cameroon, Morocco, and Thailand. The project will carefully choose participants for each study visit to include representatives from industries similar to those in the the country visited and/or from sectors with possible markets in that country.

2) Individual visits to other developing countries for attendance at trade fairs and other activities (especially within the ZEP region):

These visits will provide individual Burundians with the opportunity to research specific markets in neighboring countries, establish networks of business contacts, and thereby overcome obstacles to regional trade. Twenty individuals selected from the public and private sectors will participate in short-term visits of up to ten days in countries such as Kenya, Zambia, Ethiopia, and Zaire. The project will select participants in consultation with the CCIB and the Export Promotion Service.

3) In-country technical training:

This component will provide short, intensive training in specific skills identified as essential to the implementation of the reform program. The project will conduct two two-week workshops to improve the skills of staffs of BEST-supported institutions such as the CCIB and the Export Promotion Service. Each workshop will involve approximately 15 participants. To support measures to simplify business registration procedures and to increase availability of information on market prices, one workshop will offer training in computer skills, including the use of desktop publishing software. This will improve efficiency and increase the flow of information among the institutions involved in implementing these reforms. Because of the technical nature of workshops, local or U.S. experts recruited specially for this purpose will lead them.

4) Short in-country seminars and workshops:

This training will provide knowledge and skills related to BEPP reforms and will increase public awareness of the role of private enterprise in Burundi. The project will hold twelve 3-day seminars or workshops in coordination with the enactment of major reforms by the government or following the completion of major studies financed by the BEST project. In most cases, Burundians and/or local experts (such as the BEST technical assistance staff) will chair the seminars, but the project will make provisions for outside consultants for at least three of the twelve seminars. There will be approximately 35 participants at each seminar.

Table III-2 on the following page illustrates the types of training BEST will offer and sets forth a preliminary implementation schedule for that training.

Gb

Table III-2: BEST TRAINING CALENDAR (new training starts)

TYPE	FY91	FY92	FY93	FY94	TOTAL LOP
GROUP VISITS		3	2		5
INDIV. VISITS	3	7	5	5	20
TECHNICAL TRAINING		1	1		2
SEMINARS	2	4	4	2	12

The Burundi Human Resources Development Project (discussed later in this section) will also provide training in support of A.I.D. private sector activities in Burundi. While BEST will focus directly on implementation of the reform agenda, BUHRD targets more broadly on those technical and general areas supportive of market and private enterprise development. The training received under BUHRD can be applied to the reform agenda, but is intended to develop a broader group or critical mass of people skilled in the requirements of an expanding private sector.

Under BUHRD, private and public sector individuals receive U.S. degree training in agricultural planning and policy, agricultural research, business administration, economics, finance and agribusiness. Short-term training, primarily in the United States, enables Burundians to gain expertise in fields including export promotion, training of trainers for business skills, agricultural credit analysis and the management of small- and medium-sized enterprises. In addition, BUHRD will give direct support to BEPP by providing group training in the use of simplified accounting procedures to be developed during FY 1992 as part of the BEPP reform agenda.

d. Monitoring, Evaluation, and Audit.

Effective monitoring and evaluation of the reforms supported by BEPP will be critically important to the program's success. The fourth component of the BEST Project will perform these functions. Given the ambitious nature of the monitoring and evaluation (M&E) plan, this PAAD reserves Section V for its description. In brief, the M&E component of BEST will track the implementation and effects of the BEPP reforms at the input, output, purpose, and goal levels by carrying out a baseline survey of the private sector and then updating that survey annually. This component will also fund annual updates of the household income survey conducted by USAID in 1989. Using the data thereby generated, USAID will conduct a mid-term review of implementation progress in the second quarter of FY 1992, and will carry out a full-scale evaluation of BEPP and BEST in the third quarter of FY 1993.

C. Conditions Precedent.

Prior to the first disbursement under this Project grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement shall be made, the GRB will, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., documentation confirming that:

1. The GRB has designated a Coordination Committee to oversee all BEST Project activities, and has assigned that Committee appropriate membership and responsibilities.

2. The GRB has assigned a high-level official to be the Project Manager for BEST with appropriate authorities, and has provided to A.I.D. specimen signatures for that individual.

D. Implementation Plan.

1. Procurement of Technical Assistance.

USAID will implement the BEST project through an A.I.D. direct institutional contract that it plans to procure through full and open competition. The contract scope of work will include long-term and short-term technical assistance (except that required during planned FY 1990 research) and in-country and third-country training funded under the project. Consideration was given to the Small Business Administration 8(a) set-aside procedure for disadvantaged and minority firms. USAID determined, however, that such firms would not be best suited to providing the type of long-term experts needed and the institutional support and direction necessary to assist the GRB in making the policy reforms to be supported by BEPP. The contract scope of work will also call for significant inputs of technical short-term consultancies in a variety of private sector-oriented disciplines, and for short-term consultancies to organize and carry out technical training activities. This will require the successful contractor to have ready access to a network of such consultants and to provide substantive home office coordination of these diverse inputs.

Given the complex nature of its several components, BEST is well suited for an innovative, management-intensive firm or institution obtained through full and open conditions. For example, a private sector-oriented firm could assume the lead role, with institutional or other specialized firms and/or organizations providing requisite input through subcontracts. It is important to note that this will help assure a steady institutional commitment to and involvement in the reform process. The technical assistance contractor will provide the continuity of a long-term perspective on that process while lending a unifying structure to the various research efforts.

Gray Amendment entities will be encouraged to participate in the competition for this contract. In any case, pending finalization of revised Gray Amendment contracting procedures, the RFP will contain a provision requiring at least 10% subcontracting to Gray Amendment firms.

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As noted above, USAID's Private Enterprise Specialist will oversee implementation and monitoring of BEST and BEPP through the completion of this individual's contract at the end of FY 1991. After that date, he will be replaced in this capacity by a BEST-funded Personal Services Contractor. The services of this PSC will be procured through full and open competition.

2. Procurement of Commodities.

USAID/Burundi will procure all major commodities funded by the project. Annex VII, "Commodity Procurement Plan," details how USAID will carry out this responsibility. In brief, USAID will order vehicles through the Central Procurement Office of the U.S. Embassy in Japan; will order household furniture, appliances, and generators for the long-term TA team either from USAID/Somalia or through the REDSO/ESA IQC; and will order office furniture, computers, and fax machines through the REDSO/ESA IQC. Following is a summary of the commodities that USAID will procure and the purposes for which the project will use them:

a. Vehicles.

The project will fund the purchase of three sedans and two all-terrain utility vehicles. A Project Support Office (see below) will dispatch and monitor all of these to support the long-term technical assistance experts, short-term consultants, training activities, and the implementing organizations of the GRB.

b. Computers.

The Project will fund the purchase of personal computers for the following organizations and entities:

- Bank of the Republic of Burundi
- Chamber of Commerce and Industry
- Export Promotion Service
- Ministry of Justice (Official Bulletin of Burundi)
- Project Support Office
- Ministry of Plan (Coordinating Committee)
- Ministry of Commerce and Industry (2)

Development of the technical specifications for these computers will be coordinated with AID/W/IRM.

c. Fax Machines.

The project will fund the purchase of four fax machines for the following organizations and entities:

- Bank of the Republic of Burundi
- Chamber of Commerce and Industry
- Export Promotion Service
- Project Support Office

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In addition to the items USAID will procure, the institutional contractor will be responsible for local procurement of office supplies, POL, and other operational needs. The contract will include funds for this purpose.

3. Administrative and Logistical Arrangements.

The GRB will assign the members of the BEST long-term technical assistance team office space in the Ministry of Plan, the Chamber of Commerce and Industry, and the Export Promotion Service. The technical assistance contractor will maintain a joint Project Support Office in Bujumbura with the USAID's Small Farming Systems Research Project (SFSR, 695-0106). The BEST Project will share the cost of Support Office rental, utilities and building guards. It will hire a full-time local administrative/logistical support assistant, a training assistant, and a secretary.

The contractor will be responsible for renting houses for the TA team, utilities, official transportation, vehicle and house maintenance, office supplies and services, travel arrangements and per diem, all logistical arrangements relative to training carried out under the technical assistance contract, and all administrative support of the technical assistance team. The contractor will also be responsible for all administrative and logistical support of short-term contractors supplied by the project. The institutional contractor will arrange office space for short-term consultants either with the host Burundian agency or at the Project Support Office. Shared costs will be segregated and monitored appropriately.

4. Implementation Schedule.

a. Project Implementation and Support Activities:

Activity	Date	Action Agents
Project Agreement signed	2Q FY 90	GRB, USAID
PIL No. 1 on CP's issued	2Q FY 90	USAID
GRB meets CP's	3Q FY 90	GRB
PIO/C issued for household commodities	3Q FY 90	USAID
PIO/T issued for institutional contract	3Q FY 90	USAID
PIO/C's issued for two sedans and two utility vehicles	3Q FY 90	USAID
PIO/C issued for computers	3Q FY 90	USAID
PIL issued concerning control and expenditure of counterpart funds	4Q FY 90	USAID
Joint SFSR/BEST project support office established	1Q FY 91	USAID
PIO/C issued for 1 sedan	1Q FY 91	USAID
Houses leased for TA team	1Q FY 91	USAID
Long-term TA team arrives	2Q FY 91	BEST TA

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Activity	Date	Action Agents
b. Research, Monitoring, and Evaluation Activities:		
Informal sector survey begins	2Q FY 90	USAID, GRB
PIO/T issued for SME baseline study	3Q FY 90	REDSO, USAID
PIO/T issued for domestic constraints to exports study	3Q FY 90	USAID
PIO/T issued for design of household survey update	3Q FY 90	USAID
SME baseline study begins	3Q FY 90	USAID, GRB
Domestic constraints to exports study begins	4Q FY 90	USAID, GRB
FY 1991 PAAD Supplement developed	1Q FY 91	USAID, GRB, REDSO
Household survey updated	1Q FY 91	USAID
Long-term TA team arrives	2Q FY 91	BEST TA
Labor Code study begins	2Q FY 91	BEST TA
Credit study begins	3Q FY 91	BEST TA
SME baseline updated	3Q FY 91	BEST TA
Tax administration study begins	4Q FY 91	BEST TA
FY 1992 PAAD Supplement developed	1Q FY 92	USAID, GRB, REDSO
Household survey updated	1Q FY 92	BEST TA
Accounting systems study begins	1Q FY 92	BEST TA
Regulatory policies study begins	2Q FY 92	BEST TA
Mid-Term Implementation Review	2Q FY 92	USAID, GRB, REDSO
Regional export study begins	3Q FY 92	BEST TA
SME baseline updated	3Q FY 92	BEST TA
Regional transport study begins	4Q FY 92	BEST TA
FY 1993 PAAD Supplement developed	1Q FY 93	USAID, GRB, REDSO
Household survey updated	1Q FY 93	USAID
Tax benefits study begins	2Q FY 93	BEST TA
SME Baseline Updated	3Q FY 93	BEST TA
Investment code study begins	3Q FY 93	BEST TA
Final Evaluation	3Q FY 93	USAID, GRB, REDSO
Household survey updated	1Q FY 94	BEST TA
SME baseline updated	4Q FY 94	BEST TA
BEST PACD	4Q FY 94	

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c. Training Activities:

Activity	Date	Action Agent
Seminar	3Q FY 91	BEST TA
3 individual study visits	3Q FY 91	"
Seminar	4Q FY 91	"
Seminar	1Q FY 92	"
Seminar	2Q FY 92	"
2 Group Study Visits	3Q FY 92	"
4 individual study visits	3Q FY 92	"
Seminar	3Q FY 92	"
Seminar	4Q FY 92	"
1 Group Study Visit	4Q FY 92	"
3 Individual study visits	4Q FY 92	"
1 Short-course (2 weeks)	4Q FY 92	"
Seminar	1Q FY 93	"
1 Group Study Visit	1Q FY 93	"
Seminar	1Q FY 93	"
Seminar	2Q FY 93	"
1 Group Study Visit	2Q FY 93	"
3 Individual Study Visits	2Q FY 93	"
Seminar	3Q FY 93	"
1 Group Study Visit	3Q FY 93	"
2 Individual Study Visits	3Q FY 93	"
1 Short-course (two weeks)	4Q FY 93	"
Seminar	4Q FY 93	"
3 Individual Study Visits	1Q FY 94	"
Seminar	2Q FY 94	"
2 Individual Study Visits	3Q FY 94	"
Seminar	4Q FY 94	"

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E. Summary Budget Estimate and Expenditure Projections

$ US or Equivalent

1. A.I.D. Contribution

Budget Items	FY [illegible]	FY [illegible]	FY [illegible]	FY [illegible]	FY [illegible]	TOTAL
1. Institutional Contract						
A. Long-Term Technicians						
1. Salaries	0	97,500	147,000	154,350	162,068	560,918
2. Fringe Benefits	0	19,500	29,400	30,870	32,414	112,184
3. Travel & Transport	0	48,750	73,500	77,175	81,034	280,459
4. Allowances						
a. COLA	0	2,250	3,000	3,000	3,000	11,250
b. 20% Post Differential	0	19,500	29,400	30,870	32,414	112,184
Sub-Total, Long-Term TA:	0	187,500	282,300	296,265	[illegible]	1,076,[illegible]
B. Short-Term Technicians @ $15,000 person month						
1. Labor Code Study	0	60,000	0	0	[illegible]	60,000
2. Credit Study	0	30,000	0	0	[illegible]	[illegible]
3. Taxation Study	0	30,000	[illegible]	0	[illegible]	30,[illegible]
4. Accountancy Study	0	0	60,000	[illegible]	[illegible]	60,[illegible]
5. Regulatory Study	0	[illegible]	60,000	[illegible]	[illegible]	[illegible]
6. Regional Export Study	0	[illegible]	60,000	[illegible]	[illegible]	[illegible]
7. Regional Transport Study	0	0	60,000	0	[illegible]	[illegible]
8. Fair Trade Study	[illegible]	0	0	60,000	[illegible]	60,000
9. Tax Benefit Study	0	[illegible]	[illegible]	45,000	[illegible]	45,[illegible]
10. Investment Code Study	[illegible]	[illegible]	0	45,000	0	45,[illegible]
11. Annual SME Baseline Updates	[illegible]	30,000	30,000	30,000	[illegible]	[illegible]
12. Annual HH Survey Updates	0	0	30,000	30,000	[illegible]	[illegible]
13. Asst. re Desktop Publishing	0	[illegible]	30,000	[illegible]	[illegible]	[illegible]
14. Asst. re Price Data	0	[illegible]	30,000	[illegible]	0	[illegible]
15. Other Short-Term TA	0	30,000	30,000	30,000	[illegible]	[illegible]
Sub-Total, Short-Term TA:	0	210,000	390,000	240,000	[illegible]	[illegible]
C. Training						
1. Group Study Visits	0	60,000	40,000	0	0	[illegible]
2. Individual Study Visits	0	12,750	25,750	21,250	[illegible]	55,[illegible]
3. Technical Training	0	55,000	55,000	0	[illegible]	110,000
4. Seminars/Workshops	0	6,000	12,000	12,000	6,000	36,000
Sub-Total, Training:	0	133,750	136,750	33,250	[illegible]	[illegible]
D. Other Direct Costs	0	19,500	29,400	30,870	32,414	112,184
E. Overhead	0	117,[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sub-Total, Inst. Contract:	0	667,[illegible]	1,029,640	767,235	[illegible]	[illegible]

Best Available Document

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[illegible] Contractor cont.

Budget Item	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	TOTALS
II. Other Technical Assistance						
A. SME Baseline Data Survey	180,000	0	0	0	0	180,000
B. Com. Constraints to Exports	45,000	0	0	0	0	45,000
C. Design of SME Updates	30,000	0	0	0	0	30,000
D. Update SME Survey	0	30,000	0	0	0	30,000
E. PSD Program Project Manager	0	0	120,000	120,000	120,000	360,000
Sub-Total, Other TA:	255,000	30,000	120,000	120,000	120,000	645,000
III. Commodities						
A. 2 4WD Vehicles	60,000	0	0	0	0	60,000
B. [illegible] Sedans	55,000	0	0	0	0	55,000
C. [illegible] sets furniture, appliances, generators	155,000	0	0	0	0	155,000
D. Office Furniture	20,000	0	0	0	0	20,000
E. [illegible] computers	100,000	0	0	0	0	100,000
F. 4 Fax Machines	10,000	0	0	0	0	10,000
Sub-Total, Commodities:	400,000	0	0	0	0	400,000
IV. Other Costs						
A. Non-Federal Audit	0	0	0	100,000	0	100,000
B. Mid-Term Internal Review	0	0	30,000	0	0	30,000
C. Final Evaluation	0	0	0	60,000	0	60,000
Sub-Total, Other Costs:	0	0	30,000	160,000	0	190,000
SUB-TOTAL ALL COSTS:	655,000	697,925	1,179,640	1,047,225	720,384	4,[illegible]
Contingency @ approx. 5%:	13,906	34,891	58,982	52,362	36,[illegible]	196,310
Inflation at 5% per year:	0	36,[illegible]	126,959	173,324	163,668	[illegible]
GRAND TOTAL:	668,906	769,352	1,365,581	1,272,920	920,24[illegible]	5,000,000

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C. [illegible] Counterpart Fund Contribution ([illegible])

BUDGET ITEM	FY [illegible]	FY [illegible]	FY [illegible]	FY [illegible]	FY [illegible]	TOTALS
I. Technical Assistance						
A. Rent for Proj. Supp. Office	0	6,750	5,000	5,000	5,000	[illegible]
B. Utilities for PSC	0	1,800	2,400	2,400	2,400	[illegible]
C. Guard Services for PSC	0	4,500	6,000	6,000	6,000	22,500
D. Housing for TA Team	0	40,500	54,000	54,000	54,000	202,500
E. Utilities for TA Team	0	10,800	14,400	14,400	14,400	54,000
F. Guard Services for TA Team	0	27,000	36,000	36,000	36,000	135,000
G. In-Country Travel for TA Team	0	12,852	17,136	17,136	17,136	64,260
H. Training Assistant	0	4,500	6,000	6,000	6,000	22,500
I. Administrative Assistant	0	4,500	6,000	6,000	6,000	22,500
J. Secretary	0	2,250	3,000	3,000	3,000	11,250
K. Drivers	0	11,250	15,000	15,000	15,000	56,250
L. Benefits for Local Staff	0	22,500	30,000	30,000	30,000	112,500
M. Office Supplies	0	12,000	12,000	12,000	12,000	48,000
N. Communications	0	4,500	6,000	6,000	6,000	22,500
O. Vehicle Insurance, Spare Parts	0	7,500	10,000	10,000	10,000	37,500
P. Vehicle Operations	0	18,750	25,000	25,000	25,000	[illegible]
Q. PSC Program Project Manager	0	0	40,000	40,000	40,000	120,000
Sub-Total, Technical Asst.	0	191,952	291,936	291,936	291,936	1,067,76[illegible]
II. In-Country Training						
A. Per Diem, Lodging, Transport	0	10,000	20,000	20,000	[illegible]	60,000
B. Honoraria for Local Experts	0	1,800	3,200	[illegible]	[illegible]	[illegible]
C. Training Materials	0	2,000	4,000	4,000	2,000	12,000
D. Accounting Systems Training	0	0	0	20,000	20,000	40,000
Sub-Total, Training:	0	13,800	27,200	47,200	33,800	121,[illegible]
III. Coordinating Committee						
A. Program Assistant	1,500	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B. Secretary	750	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
C. Benefits for Local Staff	2,250	[illegible]	[illegible]	9,000	[illegible]	[illegible]
D. Office Supplies	3,000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
E. Communications	1,200	2,400	2,400	2,400	2,400	[illegible]
F. Travel and Per Diem	5,850	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sub-Total, Coordinating Committee	14,550	35,100	35,100	35,100	35,100	[illegible]
IV. Research Assistance						
A. EMS Baseline Survey Team	28,800	[illegible]	[illegible]	[illegible]	0	28,800
B. EMS Baseline Updates	0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
C. [illegible] Updates	0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sub-Total, Research Assistance:	28,800	6,400	6,400	6,400	6,400	54,400
SUB-TOTAL, ALL COSTS:	43,35[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Contingency & [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GRAND TOTAL:	[illegible]	[illegible]	[illegible]	[illegible]	468,441	[illegible]

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F. 611 (a) Assessment.

Based upon the A.I.D. Representative's review of the BEST Project and the complementary BEPP Program documentation, as well as his consultations with GRB, A.I.D., and external experts, it is his assessment that the financial and other plans necessary to carry out the planned assistance, as well as a reasonably firm estimate of the costs to the U.S. Government of providing this assistance, have been completed.

Based upon the A.I.D. Representative's review of the BEST Project and the complementary BEPP Program documentation, the political commitment of the GRB to the reform agenda, and consultations with senior GRB officials, it is his assessment that upon execution of the Program and Project Grant Agreements, legislative action necessary to meet the policy reform agenda may reasonably be anticipated to be completed in time to permit the orderly accomplishment of the purposes of this Program and Project (See Annex IV).

G. The Relationship of BEPP, BEST, and Other A.I.D. Activities in Burundi.

The BEST Project will interact directly with USAID/Burundi's other ongoing project activities. The unifying goal of the entire USAID portfolio is to increase employment and net income for Burundi's poor. Coordination within the portfolio will be relatively easy, as USAID is only involved in five projects other than BEST and BEPP. Over the past nine months, two of these other bilateral projects have been redesigned to make them directly supportive of the program's unifying theme.

BEST will focus directly on developing a policy framework that will allow Burundi's private sector to function normally and expand. Once policy and procedural reforms remove intangible constraints to private sector growth, the availability of financial, physical, and human resources will then come to prominence as principal constraints to development of the sector. USAID/Burundi will be able to address some of these constraints in its ongoing projects in agriculture and human resource development.

The following section describes other A.I.D. activities in Burundi and discusses their relationship with the BEST Project. While BEST-funded specialists will not be directly involved in implementing these projects, they will be an integral part of the overall USAID team and will have considerable influence over how these project resources are directed or redirected as USAID deepens its involvement in private sector reform. The projects are listed in relative order to their importance to the BEST Project.

1. Small Farming Systems Research Project (SFSR, 695-0106).

USAID/Burundi has only one agricultural project. While a basic objective of both BEPP and BEST is to promote non-farm employment, much of this employment will depend directly on Burundi's predominant farming sector for its basic inputs and its markets. The Small Farming Systems Research Project provides important support in developing technologies and in examining GRB agricultural policy options that will make the agricultural sector more productive.

Implementation of SFSR began in late 1986. Its objective was to introduce and institutionalize the concept of farming systems research within Burundi's national agricultural research institution, ISABU. In a three-year period, the project succeeded in doing this, and also prompted a total reorganization of ISABU. This reorganization refocusses ISABU's efforts on resolving critical problems as expressed by farmers and provides for working relationships with the agricultural extension system. Over the past year, USAID/Burundi has worked with ISABU to redesign the SFSR project to better correspond with the reorganized structure of ISABU, as well as to focus its efforts directly on USAID's central objective of increasing employment and net income for Burundi's poor. Implementation of the redesigned project is expected to begin in April 1990. The twofold purpose of the redesigned project is:

-- To build the capacity of ISABU to develop technological innovations and policy recommendations that will improve agricultural production and marketing, and

-- To make available to small farmers in Burundi innovations in production technology, including seeds, and increased access to competitive markets for agricultural products.

The revised Project has three components. The first and principal component is support to Farming Systems Research. During the initial years of the Project, USAID assisted ISABU in developing the concept of "In-country Regional Research Workshops". This is now the central organizational theme for all of ISABU's research. These Regional Workshops work directly with farmers and extension agents in defining constraints to production and in finding solutions. In addition, this component will improve ISABU's ability to collect and analyze data and to transform these data into policy recommendations.

The second Project component is Marketing Support. This component will enhance ISABU's ability to contribute to national policy dialogue and formulation on issues such as marketing systems reform, food and input pricing, and rural infrastructure policies. This component will provide the services of a marketing economist to conduct micro-level marketing studies on agricultural inputs and products and to develop a series of analytical papers on agricultural marketing constraints and on institutional and policy reforms. In addition, short-term consultancies will focus on national level issues of policy and market system reform and international trade.

The third Project component is Seed Production. Improved seeds are a key input of Burundian agriculture. Given Burundi's isolated location and the high cost of imported inputs, research is oriented to developing crop varieties that excel with little or no fertilizer or other modern inputs, and to varieties that resist or are tolerant of pests and plant diseases. The revised SFSR Project provides technical assistance and training to assist Burundi in implementing its recently adopted National Seed Plan. A key SFSR objective is to increase the participation of private seed producers and sellers in Burundi's seed sector.

2. The Burundi Human Resources Development Project (BUHRD, 695-0121).

The BUHRD Project is USAID's bilateral training project. Like SFSR, BUHRD was recently restructured to be a resource for, and to be directly supportive of, initiatives being taken under BEPP and BEST. Its relationship to BEPP and BEST is discussed in Section B.3.c above.

3. USAID/Burundi Buy-in to the Africa Regional Africa Private Enterprise Fund Project (698-0438).

The Africa Private Enterprise Fund Project funds the services of USAID/Burundi's Private Enterprise Specialist. This expert is responsible for developing and administering USAID's private sector portfolio. Under the supervision of USAID's Agricultural Development Officer, he will oversee both BEST and BEPP through the end of his contract in FY 1991.

In addition, USAID/Burundi is receiving short-term technical assistance through the Africa Private Enterprise Fund. The emphasis of these consultancies is on domestic and international marketing and export promotion. Thus far, the Project has provided one consultant to work with the GRB's Ministry of Commerce and Industry (MCI). This individual assisted the GRB in developing an overall approach to export promotion, in analyzing the organization of the Export Promotion Service the GRB is establishing, and in developing an agenda, a schedule, and scopes of work for specialized follow-on short-term consultancies.

4. Burundi Population Project (695-0123).

Burundi is the second most densely populated country in Africa. Its population is growing at 3.3% per year. The number of people who enter Burundi's labor force each year, currently estimated at about 90,000, far exceeds the number of new employment opportunities created. In addition, very little agricultural land remains to absorb those unable to find non-farm employment. The A.I.D. program in Burundi cannot achieve its goal of increasing employment and net income for Burundi's poor if population growth continues to exceed the growth in employment opportunities.

Burundi has been more sensitive to the population issue than many other African countries. The objective of the Burundi Population Project is to expand the availability and use of family planning information and services to reduce the rate of population growth. The Project will strengthen and expand Burundi's national family planning program through training, IEC, contraceptive supply and logistics, and institutional support to Burundi's Ministry of Health and others.

Through local cost support from the Population Project and a buy-in to the regional Family Health Initiatives II Project, A.I.D. is supporting Burundi's 1990 National Census. Demographic information from the census will provide important baseline data in developing sectoral policies related to private sector development.

IV. Expected Program Accomplishments.

A. Impact of the Policy Reforms at the Firm and Sector Level.

The benefits accruing to the economy are a result of direct and indirect benefits of the individual policy reform measures and the additional combined effect of all the policy changes that create a positive business climate for investors.

1. Direct Effects.

The principal direct effects of the policy reforms under BEPP will result in the reduction of business operating costs associated with trade and every day business operations, increased mobilization of private capital for new investment, and increased regional and international trade resulting from lower business costs. The simplification of business registration and customs clearances, for example, will reduce the costs of business operations, especially for inexperienced SMEs. The decentralization of the customs functions will reduce transport costs as well. Likewise, the reduction in administrative inefficiency in the parastatal insurance company will lead to reduced transport insurance premiums and lower business costs. Finally, the easing of the eligibility requirements for exporters and importers, through such reforms as allowing nonresident foreigners to import and export and reducing or eliminating the payment non-nationals must make prior to beginning a business venture, has the potential for increasing production of non-traditional goods and increasing the demand for domestic agricultural production.

2. Indirect Effects

In addition to the more direct effects of the policy reforms, the elimination of many of the bottlenecks associated with doing business should increase business efficiency as businesses no longer will take time-consuming actions trying to avoid the rent seeking activities that are often associated with bureaucratic bottlenecks. Also, in addition to the savings to the private sector that will result from the policy reforms, there could be budget savings for the GRB as the number of government employees is reduced as a consequence of the streamlining of the various business registration procedures performed by the government agencies. Finally, the improved business climate, resulting from the combined effect of the individual policy changes, will have its own separate impact and produce a greater rate of domestic and foreign investment, and a higher number of entrepreneurs and businesses, than otherwise would occur, as a result of a lowered "risk premium" required by private investors in Burundi.

3. Economic Changes Anticipated as a Result of the Policy Changes.

The policy changes that reduce the time spent conducting many of the daily business tasks and that reduce the costs of exports and imports will lead, not surprisingly, to reduced operating costs for the firms affected. These lower operating costs should produce increased output at lower prices. Similarly, as noted above, the policies that increase the opportunities for export and that lower barriers to investment will increase the demand for agricultural production and processed agricultural goods.

The increased demand for these agricultural goods and the reduced costs of other goods as a result of the other policy changes will translate into increased incomes in the rural agricultural sector. These increased incomes should lead to increased demand for goods in the smaller towns and cities. This in turn should contribute to the urbanization and specialization in the heavily rural areas that Burundi requires if it is to begin to move from a subsistence rural economy in which almost 50 percent of GDP is not traded, to a dynamic, growing monetized economy.

The extra profits earned by the producers as a result of reduced operating costs, and the increased sales of agricultural goods as a result of the "export" promoting policies, should ultimately be translated into greater overall investment and higher GDP and employment growth rates, not just in the agricultural sector, but throughout the economy as well, than otherwise would occur. Some of the existing firms will expand as a result of the increased profits and increased demand. Where competition exists, over time new firms will enter. Within the private sector, one would therefore expect to see an increase in the number of micro enterprises and SMEs, as well as some increase in the number of large firms. There should also be increased movement from the informal to the formal sector as a result of the reduced costs of entry. The number of newly created small and medium enterprises is expected to begin to grow at a faster rate. Most of the new jobs should be created in the modern or formal sector, with the remainder opening up in the informal sector. This will occur both in Bujumbura and the various small urban centers in the interior.

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4. Policy Environment by 1993.

By 1993, the USAID-sponsored policy reform effort, in conjunction with that of other donors, will begin to produce a set of rules, regulations, and practices that will provide the private sector with a working environment in which, among other things, business confidentiality is assured; governmental decisions are based on clear, fair, and equitable rules of law; increased credit is available to SMEs; the cost and time required to incorporate a business is reasonable; nationality does not hinder investment in Burundi; and domestic and international trade occurs with few, if any, impediments. Thus, with the successful implementation of the program's various policy reforms, USAID expects to see, as early as 1994, measurable change in business costs and increases in SME investment and the overall efficiency of investment. A modest, but positive increase in real per capita income may also be observed by that date.

The economic impact of the changes are expected to continue into the next century. Thus, within ten years after the end of the program, their impact should be readily apparent. The following sections discuss the effects of the policy reform program that should be measurable both in the first post-program year (FY 1994) and in the tenth year post-program year (FY 2003).

B. Impact of the Multi-Year Policy Program at the Purpose and Goal Levels Measured in Terms of Changes in Value Added to SMEs, GDP, and Employment.

Although the principal focus of BEPP will be on the private sector, the various policy reforms in the program will affect virtually all sectors of the economy. The analysis appropriate for estimating the changes resulting from such a large number of institutional and procedural reforms is carried out at a fairly aggregate level.

1. Method Used to Measure Impact.

To measure the changes in GDP and employment due to BEPP, a base case was established that represents what is estimated would occur without the program. The base case follows, with minor adjustments, the projections developed by the GRB's macroeconomic planning unit and the IMF.

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Certain basic assumptions form the basis of both the macroeconomic analysis of this section and the benefit-cost analysis described elsewhere in this document. First, it is assumed that the benefits of policy reform take two forms (1) cost savings which (at least initially) increase enterprise profits, some portion of which is reinvested, and (2) improvements in the efficiency of investment which result from "leveling the playing field" between large and small enterprises and which, in economic terms, takes the form of a reduction in the incremental capital-output ratio. In addition, the resource transfer in the program itself (the sector grant) makes possible additional domestic absorption. The initial form in which this is available to the economy is as additional fiscal financing available to the public sector. The proportion of these resources which do not finance additional public sector spending are available to finance additional private sector investment. Finally, a relationship is established between the GDP growth rate and employment creation in order to measure the change in employment over time as a result of the program.

Although it is certain that the policy changes supported by BEPP will lead to some amount of increased investment from abroad, some of which will represent reverse capital flight, no attempt was made to estimate new investment that might enter the economy as a result of the improved, pro-private sector climate. To the extent that this occurs, the results of the model are underestimated.

Sensitivity analysis involving the cost saving policies indicates that a good estimate for the average annual value in constant dollars of the two groups of savings would be approximately $6 million. While it is not possible to judge precisely how businesses, especially SMEs, will use their cost savings, it is certain that some portion of it will be reinvested, and in the very businesses that benefit from the savings. A range of 35, 45, and 55 percent of savings used for investment was selected, with 45 percent assumed to be the more likely result. Further sensitivity analysis indicates that an ICOR that falls from the base case of 4.7 to 4.4, for a 7 percent change, is reasonable. A full discussion of the analysis is found in Annex X. The following paragraphs summarize the results.

2. Projected Changes in GDP and Employment as a Result of the Program.

a. Anticipated Growth Rate Changes in GDP and Employment.

If the reforms supported by BEPP are implemented, by 1994 GDP should be growing at a rate slightly greater than 4.82 percent. Compared to the base case estimate of 4.5 percent, this implies an increase in the rate of GDP growth of approximately 7 percent for 1993-94. At 5.21 and 5.0 percent, the GDP growth figures expected by 2003 are slightly higher for both the program (with BEPP) and base (without BEPP) cases, though by 2003 the difference between the two cases is somewhat smaller. For the 1993-1994 period, the analysis indicates that employment will grow by about 2.5%, as compared to the 2.3% estimate for the base case. These differences imply an increase in the growth of employment by 1994 as a result of the program in the range of 7%. The expected employment growth rates for the 1993-2003 period for both the program and base cases are expected to be lower than those for 1993-94 because of the averaging that occurs under the remaining nine years to 2003.

b. Anticipated Changes in Employment.

The employment growth rates expected under the BEPP program should produce about 2,800 to 2,900 more jobs between 1993 and 1994, and 23,000 to 24,000 between 1993 and 2003, than otherwise would occur. This translates into a range of 1,900 to 3,000 new jobs annually as a result of the program. The program will therefore cover approximately 3% of the 90,000 new potential job entrants expected annually over the next several years.

As the detail in Annex X indicates, if capital investment became even more efficient, with the ICOR falling to 4.2, or falling by 11 percent, as many as 40,000 new jobs could be created by 2003. At the other extreme, if capital efficiency does not improve during the period, new employment could be as low as 2,000 to 2,600 by 2003. This latter possibility, however, appears quite remote.

c. The Change in Value Added in the SME Sector as a Result of the Program.

The annual aggregate employment figure range of 2,300-2,400 derived in the earlier aggregate analysis, combined with knowledge of employment by sector and with estimates of the changing composition of employment at the margin as a result of the program, were used to arrive at an estimate of the new jobs that will be created in the SME sector.

With the emphasis of the BEPP-supported reforms on relieving constraints impeding the growth of the private sector, especially SMEs, it is believed that the composition of the new job openings resulting from the program will be significantly different than the existing averages. Currently, 71% of those employed are employed in traditional agriculture, 17% in the informal sector, and 12% in the modern sector. Once the collective impact of the various policies begins to wield its effect, it is expected that, of the annual extra 2,300 to 2,400 new jobs to be created as a result of BEPP, approximately 40% will be in the modern sector, 30% in the informal sector, and 30% in the traditional agricultural sector.

Assuming that 70 percent of the new additional jobs resulting from the program are in the SME sector, it is expected that the program will lead to the creation of about 1,700 new jobs annually in the sector, defined to include both the modern and informal sectors. The remaining job openings, approximately 700, are assumed to be created in the traditional agricultural sector.

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If 1,700 of the additional jobs created annually as a result of the program provide an average annual salary or wage of $720, about three times per capita income, and if the wage represents about 70 percent the value added by a firm, the total change in value added in the SME sector as a result of the program can be estimated to approach $2.0 million annually.

d. An Estimate of the Change in the Number of SMEs Expected Under the Program.

The previous analysis concentrated on aggregate gain in employment and then change by broad sector categories, rather than the number of new firm start-ups and the employment that results. In the end, it is the amount of increased employment created in the SME sector that is important rather than the number of firms. With that disclaimer, it still is of interest to attempt to estimate the order of magnitude of the change that one might reasonably expect to occur in the number of SMEs as a result of the policy program. The following paragraphs describe in rough quantitative terms what might be expected as a result of the policy reform program.

As noted elsewhere, the combination of the various reforms is expected to create an atmosphere conducive to business growth in the SME sector in particular. The growth will include the expansion of existing firms and the creation of new ones.

There are currently some 5,000 firms. About 600 of them are registered firms in the modern sector employing 35 people on average. Over the past 10-15 years, the data indicate that there have been 20-30 annual new firm start-ups in this "600" modern category. In the modern sector there are also some 3400 small family businesses employing 1-3 people. Finally, there are approximately 1000 unregistered firms in the informal sector, with the average firm employing about 5-10 employees.

Using an annual average of 2,300 - 2,400 additional new jobs expected to be created by the program (the range derived from the analysis conducted at the aggregate level) as the base for this SME sector analysis, estimates were developed of the increase in employment in existing firms and the average number of firm start-ups that seem reasonable to expect. This analysis indicates that there will be approximately 8-12 additional, new successful firm start-ups in the "600" category of the modern sector annually as a result of BEPP reforms, for a new annual total of between 28-42 new starts per year. Although this would add 40% to the past trend, the pro-business nature of the BEPP reforms appears to justify such optimism. In the informal sector, it is anticipated that the economy will spawn some 50 new firms annually, a 5% annual increase over the current stock of 1000. The expansion of the small family businesses is expected to reach 100 new starts annually.

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Assuming that the changes discussed above begin to occur by 1993 (as opposed to 1994 as assumed in the previous analysis), there should be 308 to 462 more firms in the modern sector by the end of 2003, as opposed to only 220-330 expected without the program. Thus, the creation of 88-132 new firms could reasonably be attributed to the impact of the BEPP Program. In the informal sector, there should be approximately 400 new firms.

C. Summary

Each of the policy reforms will have its own individual effects as discussed above. However, over the long-run, the major impact of the policy reform program will likely be the effect the policy changes have as a whole, as they, together, produce an economic/business environment that is attractive to investors, both domestic and foreign. This positive environment, in and of itself, should lead to more rapid GDP growth and hence employment than would be created by the policy reforms individually. In summary, by the turn of the century, there should be a growing, vibrant SME sector in Bujumbura and in the growing urban centers in the interior, more rapidly developing small urban centers in the interior that are providing alternative job opportunities for those in the traditional agricultural sector, expanding domestic and international trade, and a more rapid increase in GDP, employment, and per capita income as a result of the policy reform program.

V. Monitoring, Evaluation, and Audit.

The monitoring, evaluation, and audit component of the Burundi Enterprise Support and Training Project (BEST, 695-0124) is designed to meet three objectives. The first and narrowest is to generate information to be used to assess the impact of the policy reforms sponsored by the Burundi Enterprise Promotion Program (BEPP, 695-0125). The second is to carry out a series of empirical research activities that will keep USAID/Burundi in close touch with currents of socioeconomic change in the country as the nation's structural adjustment program moves forward. The third and broadest is to establish within appropriate Burundian institutions the capacity to generate and analyze an appropriate range of empirical information to strengthen national policy making and development planning.

This monitoring and evaluation plan encompasses four levels of program implementation and progress: inputs, outputs, purpose-level indicators, and goal-level indicators. The first step is monitoring the disposition of inputs associated with the reform program and the complementary project activity. The second step (and the first step in measuring impact) is to establish whether the resources provided as inputs have accomplished anything; in particular, whether reform program conditions have been met. These are output-level indicators. The next step is to establish whether intermediate objectives have been met (e.g. on-the-ground implementation of agreed policy adjustments, together with first-order responses on the part of small and medium enterprises). These are purpose-level indicators. The last step is to establish the effect that these intermediate outcomes may have had on people's lives, which entails an assessment of goal-level indicators. As with all monitoring and evaluation activities, this will require (a) a long term perspective, (b) good baseline data, (c) a comprehensive monitoring system embedded in the implementation process, and (d) willingness to accept that many causal linkages might be difficult or impossible to prove. The indicators chosen and the means for monitoring them are discussed below. A final section outlines the program evaluation strategy.

A. Input Monitoring.

The program and project will provide these principal inputs:

- -- A $13 million sector dollar grant that A.I.D. plans to follow with other sector dollar grants;
- -- 135 person-months of long-term technical assistance;
- -- Approximately 80 person-months of short-term technical assistance;
- -- Approximately 100 person months of training, both in-country and elsewhere; and
- -- $400,000 worth of commodities, including vehicles, personal computers, and fax machines.

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USAID's Private Enterprise Advisor (and, following the end of this individual's contract, a Project-funded PSC Project Manager) will be responsible for monitoring and reporting on the disposition of program and project inputs, which will be documented through the normal correspondence associated with program and project implementation. This includes Program and Project Implementation Letters (PIL's); Program and Project Implementation Orders (PIO's) for commodities, technical assistance, and training; financial reports, and Program/Project Implementation Reports. Input monitoring as laid out here appears routine. Yet it is an essential element in the overall monitoring plan since it will provide an answer to this question: what specific resources has A.I.D. provided that might conceivably influence the trajectory of development in Burundi?

B. Output Monitoring.

The program anticipates the following outputs during FY 1990:

- -- The establishment by the Government of the Republic of Burundi (GRB) of a customs facility at Kayanza with full authority to clear goods entering and leaving Burundi;
- -- Authorization by the GRB for the issuance of import and export licenses by provincial offices of the the Bank of the Republic of Burundi (BRB) and commercial bank branches in the interior of the country;
- -- Provision by the GRB of easier access to foreign exchange for business travel; and
- -- Surveys of the SME sector, the informal sector, and of domestic constraints to export opportunities that will be undertaken jointly with the GRB to identify the next generation of policy adjustment objectives in trade and the small and medium enterprise sector.

The USAID Project Manager will be responsible for monitoring and reporting on the achievement of these program outputs. Decentralization of customs operations will be documented through an exchange of letters with the appropriate government agency and through official publications, as will the revision of regulations governing access to foreign exchange and business deduction allowances. The baseline and reform-oriented studies will be documented sequentially through (a) joint preparation of terms of reference, (b) joint selection of the study teams, (c) successful completion of the studies themselves, and (d) preparation of a joint GRB/USAID memorandum or exchange of correspondence commenting on the acceptance and rejection of study recommendations and outlining the steps required for following through on study results. Additionally, USAID will charge its Project Manager with making periodic visits to the new customs facilities and to BRB and commercial bank branches in the interior of the country to assure that the reforms agreed upon have in fact been put into practice.

In the second and subsequent years, the program will have additional, similar outputs (that is, second-generation policy reform objectives and follow-on analyses). Annex I to this PAAD, "Logical Framework," illustrates what these out-year outputs may be; they can be effectively monitored through an extension of the process outlined above.

Output monitoring as described here will emerge within the context of USAID involvement in discussing and guiding the process of policy change envisioned in this program. It will answer this key question: what specific, concrete changes or activities have occurred as a consequence of A.I.D.'s decision to provide resources in support of policy change in Burundi?

C. Purpose-Level Monitoring.

The overall program purpose is "to foster the growth of private enterprise in Burundi, especially among SME's, exporters, and in secondary towns." Achievement of this purpose will be associated with the following empirical indicators of change:

-- An increase in the number of medium, small, and informal sector enterprises involved in export trade;

-- An increase in the numbers of people employed in medium, small, and informal sector enterprises;

-- An increase in the annual amount of value added by SME's as measured by GRB statistics or, if necessary, by a special survey;

-- An increase in the real value of non-traditional exports as measured by GRB statistics or, if necessary, by a special survey.

Section IV of this PAAD, "Expected Program Achievements," sets forth USAID's best estimates of the expected magnitude of the changes that will occur in these indicators at the end of the first post-program year (FY 1994) and at the end of the tenth post-program year (FY 2003). The expected changes as of these dates are also summarized in the Logical Framework.

Unlike the monitoring arrangements for inputs and outputs, it is not feasible to expect this purpose-level monitoring to be done exclusively by the USAID Project Manager within the context of routine project implementation actions. A special effort will be required to perform effective purpose-level monitoring. During the initial four months of program/project implementation, short-term TA resources will be used to:

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1. Examine the official statistics and records maintained by relevant government agencies to determine how useful they are in measuring change in the numbers of businesses, the numbers of people employed in businesses, and the volume and value of trade and commerce. It is not necessary that these formal records be completely accurate and up-to-date, but it is necessary that they be collected consistently across regions and across years.

2. Create a baseline report on numbers of enterprises, employment levels, and volume and value added in trade and commerce. If official reporting is roughly adequate, this baseline report can be grounded on official statistics. If not, the report will need to be preceded and augmented by sample surveys of businesses in two or three major trading centers around the country.

Annually thereafter the project will update this baseline data (using short-term TA), a process which should be guided by the BEST-funded long-term technical assistance team in close collaboration with relevant government agencies. It will be difficult, and may turn out to be impossible, to impute the effects of BEPP's particular interventions on empirical measures of change, but this is not a flaw in the monitoring system proposed here. This system is designed to collect information on key indicators which will shed useful light on the performance of the SME sector and provide a basis for adjusting the course of program/project implementation in accordance with empirical circumstances. This will also provide a basis for making careful judgments about the progress of the program/project at the purpose level; no amount of data or research will reduce the need, ultimately, for knowledgeable individuals to make informed judgments of this sort. The USAID Project Manager will be responsible for incorporating the results of the baseline survey and annual updates into appropriate program/project implementation reports.

The monitoring plan outlined above will shed light primarily on the formal, urban-based SME sector; it will create little or no knowledge about what if any effect BEPP may be having on informal trade and commerce in urban or rural areas. Unlike the SME sector, there are few data presently available that can be used as a base for beginning to understand the informal sector economy. This is a significant gap for several reasons. First, the informal sector undoubtedly provides employment and income for many more people than the formal sector. Second, many of the proposed policy changes will influence the informal sector, particularly in 1991 and 1992. Third, it is only through a general, broad-based contribution to the growth of small-scale enterprise that BEPP will have an effect on anything other than a small minority of formal sector business owners and employees.

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For these reasons it makes sense for A.I.D. to make a specific effort to build improved understanding of the dynamics and constraints to growth of small-scale, informal sector enterprises in rural and urban areas. This will entail a concerted enterprise survey, research, and analysis effort, which should be designed and implemented with the help of project-funded short-term advisors during the first year of program activity, and which should be updated at annual intervals thereafter.

This implies a considerable amount of work to be done in liaising with appropriate government agencies and in designing the survey/research program itself. The program should be designed and implemented in close concert with the relevant agencies, so that the information generated makes a full contribution to policy decision-making, and so that the survey work itself becomes institutionalized, thus strengthening the capacity of the government effectively to manage the Burundi economy.

D. Goal-Level Monitoring.

The goal of this program/project is to "increase employment and net income for Burundi's poor." It must be anticipated at the outset that efforts to monitor the achievement of this goal will be complex and inconclusive to a degree. However, USAID/Burundi has made a solid start toward an effective monitoring approach by undertaking a rapid, low-cost national household survey in conjunction with PAIP/PAAD preparation. The household survey has established the following key indicators of employment and income among the rural and urban poor:

- -- Sources and levels of farm and non-farm income;
- -- Purposes and levels of household expenditure;
- -- Levels of involvement in farming, rural non-farm employment, and urban salaried and informal employment;
- -- Levels of involvement in small-scale commerce and trade, e.g. in food processing, artisanry, and retail trade; and

The most significant of these data can be disaggregated by geographical region, by socioeconomic categories, and by gender.

These data provide a sound baseline for measuring changes in employment patterns and income that might take place during the course of program/project implementation. To build on and take advantage of this sound beginning, the following steps will be taken. During the initial four months of program/project implementation, short-term TA resources will be used to prepare a plan for updating the household survey on an annual basis. These updates will focus on a handful of key indicators in a handful of locations around the country, and will not require a full-scale survey effort. They should be done in close coordination with appropriate government agencies, and the results of the updates should be examined jointly by A.I.D. the GRB, and other donors. Short-term TA resources will also be used to:

-- Conduct the updates on an annual basis as the program progresses;

-- Prepare short reports synthesizing the main changes in employment and income revealed through comparison of the baseline survey and the updates; and

-- Make a judgement about the extent to which the changes recorded can be associated with the specific policy and institutional changes encouraged by A.I.D.

As with purpose-level monitoring, the results of these annual updates will be inconclusive to a degree and subject to debate. This is an inevitable outcome which no conceivable expenditure on data and research would alter. This monitoring plan is not designed to resolve all foreseeable issues associated with implementation of the BEPP policy reform activity; rather, it is designed to keep A.I.D. management in close touch with the evolution of key indicators of social and economic change in the country at large. This is the most important reason for undertaking the monitoring effort. Inevitably, knowledgeable individuals will make informed judgments about the extent to which the changes observed can be attributed to A.I.D.'s involvement.

E. Evaluation and Audit.

A comprehensive monitoring plan of the sort outlined above reduces but does not eliminate the need for program/project evaluations. Accordingly, it is anticipated that two evaluations will take place during the life of the program/project. One evaluation will take place approximately 21 months after implementation begins. It will be designed to (a) test the assumptions underlying the design of this activity, (b) summarize implementation progress at the input level, and (c) summarize the empirical results of the program by reviewing progress at the output, purpose, and goal levels to the extent this information is available. A second evaluation will take place in FY 1993 to provide a comprehensive assessment of results which will feed into the design of follow-on or second-generation policy adjustment efforts. Finally, the BEST Project makes provision for a non-Federal audit during the third year of the program to ensure that funds have been appropriately utilized.

F. Budget.

See the Summary Budget Estimate and Expenditure Projections appearing in Section III.E of this PAAD for a breakdown of expenditures for the activities discussed in this section.

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VI. Cost Estimate and Financial Plan.

A. Budget Estimates and Expenditure Projections.

1. BEPP.

A.I.D. plans to provide Burundi with sector dollar grant assistance under the Burundi Enterprise Promotion Program (BEPP) through four annual sector dollar grants that will total $35.0 million. The GRB will make local currency counterdeposits equivalent to the amount of each sector grant. Section VI.D below, "Local Currency Plan," describes the purposes for which USAID and the GRB will use these local currency counterpart funds (CPF).

2. BEST.

A.I.D. plans to contribute $5.0 million in project assistance from the Development Fund for Africa through the Burundi Enterprise Support and Training Project (BEST), which will run from FY 1990 through the end of FY 1994. The GRB will contribute the local currency equivalent of $1.667 million (25% of total planned life-of-project costs) to BEST.

Table VI-1 on the following page summarizes planned A.I.D. and GRB expenditures under both BEPP and BEST by Fiscal Year and budget category. Section III.E of this PAAD provides details supporting these budget estimates.

B. Financial Plan.

1. Obligation Schedule.

a. BEPP.

USAID/Burundi plans to obligate $13.0 million in sector grant assistance from the African Economic Policy Reform Program (AEPRP, $10.0 million) and from USAID's regular OYB budget ($3.0 million) to BEPP in the second quarter of FY 1990. In FY 1991, USAID anticipates a $4.5 million obligation from its OYB. Planned obligations of $7.5 million in FY 1992 and $10.0 million in FY 1993 will also come from USAID's OYB.

b. BEST.

USAID/Burundi plans to obligate $2.0 million from its OYB to BEST in the second quarter of FY 1990. USAID also plans to make additional obligations of $500,000 in FY 1991 and $2.5 million in FY 1992 from its OYB.

2. Financial Management Procedures.

Implementation of both the BEPP Program and the BEST Project will adhere to the A.I.D. Payment Verification Policy Guidance dated December 30, 1983. As recommended in that guidance, USAID will to the maximum feasible extent use direct reimbursement procedures to

[illegible]

Category:	FY 1990 AID	FY 1990 GHE	[illegible] AID	[illegible] GHE	[illegible] AID	[illegible] GHE	[illegible] AID	[illegible] GHE	[illegible] AID	[illegible] GHE	[illegible] AID	[illegible] GHE
Sector Grant	1,[illegible]	0	4,[illegible]	[illegible]	7,[illegible]	[illegible]	1[illegible],000	0	[illegible]	0	[illegible]	
Technical Assistance	255	0	564	152	1,01[illegible]	292	[illegible]	352	[illegible]	[illegible]	[illegible]	[illegible]
Commodities	400	0	[illegible]	[illegible]	[illegible]	0	0	0	[illegible]	[illegible]	4[illegible]	[illegible]
Training	0	0	134	14	137	27	33	47	27	34	331	[illegible]
Other Costs	0	43	0	42	30	42	160	42	[illegible]	4	150	[illegible]
Sub Total, Program Assistance:	[illegible]3,000	0	4,500	0	7,500	[illegible]	10,000	0	[illegible]		[illegible]	
Sub Total, Project Assistance:	655	43	695	247	1,160	361	1,047	381	[illegible]	[illegible]	[illegible]	1,[illegible]
Contingency @ approx. 5%:	14	3	35	12	55	18	52	19	[illegible]	[illegible]	194	[illegible]
Inflation at 5% per year:	0	0	37	13	127	[illegible]	[illegible]	[illegible]	154	[illegible]	[illegible]	198
Total Project Assistance:	[illegible]	46	769	272	1,366	417	1,273	453	[illegible]	[illegible]	[illegible]	1,667
Combined AID/GHE Project Costs:	715	.	1,042		1,783		1,736		1,[illegible]		6,667	
AID Sector Grant:	[illegible]		4,500		7,500		10,000		[illegible]		[illegible]	
GRAND TOTALS, ALL PROGRAM COSTS:	13,715		5,542		9,283		11,736		1,[illegible]		41,[illegible]	

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pay long-term institutional and short-term direct A.I.D. contractors under BEST. This method is not now being used in the other bilateral project's in USAID's portfolio. It has, however, proved effective in similar A.I.D. programs elsewhere in Africa for implementing Agency cash management policies on minimizing vulnerability, promoting accountability, and deferring payments until work is completed.

The only anticipated exception to this approach will be the procurement of certain commodities (computers, software, fax machines, and possibly household furniture, appliances, and generators) via REDSO/ESA's Indefinite Quantity Contract with a Procurement Services Agent. Under that arrangement, which is in place and has been used successfully for other programs in the region, A.I.D. will pay for commodities through a Bank Letter of Commitment. A.I.D. will pay the PSA's fee, however, through a Direct Letter of Commitment. See Annex VII, "Commodity Procurement Plan," for a more detailed description of these procedures.

With the addition of a full-time USDH Controller to USAID's staff in FY 1991, the Mission expects to be able to implement these procedures successfully. A.I.D.'s Regional Financial Management Center (RFMC) will provide interim support as required.

Table VI-2 below summarizes the methods of implementation and financing that BEPP and BEST will follow.

TABLE VI-2: Methods of Implementation and Financing.

Method of Implementation:	Method of Financing:	Approximate Amount: (U.S. $000)
Long-Term TA and Training - Direct A.I.D. Contract	Direct L/Com	3,068
Short-Term T.A. - IQC's	Direct Payment	285
A.I.D. Project Manager - PSC	Direct Payment	360
Commodity Procurement		
- Vehicles - Direct USAID	Direct Payment	115
- HH Furniture, Appliances,	Bank L/Com (goods)	145
and Generators - PSA *	Direct L/Com (fee)	10
- Computers, software, office	Bank L/Com (goods)	120
furniture, fax machines	Direct L/Com (fee)	10
Evaluation - IQC	Direct Payment	90
Audit - Direct A.I.D. Contract	Direct L/Com	100
Contingency		196
Inflation (5% per year):		501

BEST Project Total:		5,000

* May be obtained from excess property owned by USAID/Somalia.

C. Dollar Use and Tracking Plan.

Unless further guidelines are made available from AID/W before execution of the FY 1990 Program Grant Agreement for BEPP, dollar utilization and tracking will be undertaken in accordance with 87 State 325792 (ESF Cash Transfer Assistance - Amplified Policy Guidance). It is planned that the GRB will use U.S. dollars made available to it under BEPP to pay a portion of its outstanding multilateral and bilateral debts, with priority given to U.S. debts. As Table VI-3 on the following page illustrates, loan repayments from the GRB to just four multilateral organizations -- the World Bank's International Development Association (IDA), the African Development Bank (BAD), the African Development Fund (FAD), and the European Economic Community's European Investment Bank (BEI) -- will total $29.18 million between June 1990 and July 1991. The GRB's overall debt service burden for 1990 to multilateral and bilateral lenders will be approximately $49 million. These figures far exceed the amount of the planned FY 1990 sector grant of $13 million. Thus, if A.I.D. is able to release that grant by June 1990, the GRB could disburse the full amount as early as January 1991, even it uses these funds only to pay multilateral debts. For the remainder of the decade, annual debt service to multilateral and bilateral lenders together will rise to approximately $52 million. This large debt schedule assures that the GRB will be able to use in a timely fashion the $35.0 million in sector grant funds that A.I.D. plans to provide.

The Program Grant Agreement for BEPP will require the GRB to deposit each sector dollar grant into an interest-bearing account at a commercial bank in the United States. The GRB will select the bank and notify USAID. Following signature of the Grant Agreement, USAID will issue a Program Implementation Letter (PIL) to the GRB specifying the precise debts to which the GRB may apply these funds once disbursed. This PIL will outline the reporting requirements to which the GRB will have to adhere. USAID does not anticipate that this PIL will require the GRB to request A.I.D.'s prior approval before it uses BEPP funds for each drawdown. The mission will, however, require the GRB to submit periodic reports, supported by bank statements, on the disposition of the money. These GRB reports will be USAID's principal means of tracking the use of dollar funds under the program. This PIL will also specify that the GRB will use interest earned from the account for debt repayment.

D. Local Currency Plan.

1. Uses of local currency.

The Program Grant Agreement for BEPP will require the GRB to deposit local currency equivalent to the amount of each sector dollar grant received from BEPP immediately upon receipt of each such dollar grant. The amount of local currency to be deposited shall be calculated at the highest lawful exchange rate in Burundi for any person for any purpose in Burundi on the date of the sector dollar grant disbursement by A.I.D. These funds will be used to cover the following three types of expenses.

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TABLE VI-3: Monthly Debt Service Payments
Commitments to the
Multilateral Donors

(June 1990 to July 1991)

1990-91	Millions FBU	Millions $US	Cum.Total $US	Cum.Total $US
June	309.15	1.78	1.78	
July	1019.36	5.87	7.65	
August	168.98	0.97	8.63	0.97
Sept	29.08	0.17	8.79	1.14
Oct	143.48	0.83	9.62	1.97
Nov	208.55	1.20	10.82	3.17
Dec	234.82	1.35	12.17	4.52
Jan	1038.3	5.98	18.15	10.50
Feb	180.42	1.04	19.19	11.54
March	29.82	0.17	19.36	11.71
April	147.85	0.85	20.22	12.56
May	205.11	1.18	21.40	13.75
June	306.87	1.77	23.17	15.51
July	1044.53	6.02	29.18	21.53
Totals:	2113.42	12.17	(6/90-12/90)	
Totals:	5066.32	29.18	(6/90-07/91)	

Exchange Rate (01/25/90):

FBU 1 = $0.00576

Multilateral Donors

World Bank (IDA)
African Development Fund (FAD)
African Development Bank (BAD)
European Investment Bank of
the EEC (BEI)

Source: Ministry of Finance. Gestion Nationale De La Dette. Projection Du Service de la Dette (01/01/1990-31/12/1991). Criteres de Presentation 25/01/1990.

Note: Debt service includes both amortization and interest payments.
Note: The last cumulative total column assumes that obligation of the dollar funds do not occur until July.

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a. A.I.D.'s local administrative costs of A.I.D.'s assistance program in Burundi (O.E. Trust Account).

Over the life of BEPP, the GRB will provide local currency in trust to A.I.D. in amounts sufficient to support A.I.D.'s local operating and administrative expenses of A.I.D.'s economic assistance program in Burundi. These amounts will vary from year to year. To cover USAID's local operating and administrative expenses, as needed, the GRB will, upon receipt of the FY 1990 sector grant from BEPP, provide the equivalent of $900,000 in trust to A.I.D. for these purposes. A.I.D. will negotiate with the GRB the amounts to be provided in FY 1991, FY 1992, and FY 1993, and will include in the Program Grant Agreements for each of those years an appropriate Special Provision setting forth this amount, before releasing the BEPP sector dollar grants planned for those years.

The terms of a generic Trust Account Agreement have been informally negotiated with the GRB and found agreeable. Establishment of this trust account and agreement to funding levels shall be a Condition Precedent to disbursement of the first sector dollar grant from BEPP.

b. The local costs of joint GRB-USAID project activities in the SME sector.

The GRB will provide the equivalent of approximately $3,992,000 over the life of BEPP to defray those local costs it does not otherwise provide for the two USAID-supported projects in the SME sector, Small Farming Systems Research (SFSR, 695-0106) and Burundi Enterprise Support and Training (BEST, 695-0124). USAID will monitor the use of these additive contributions as part of its normal project management and oversight responsibilities.

Table VI-4 below summarizes the estimated local currency counterpart fund needs over the life of BEPP for the two projects.

TABLE VI-4: Estimated Project CPF Needs, FY 1990 - 1993
($ 000 equivalent)

Activity:	FY 1990	FY 1991	FY 1992	FY 1993	Totals:
SFSR, 695-0106	576	735	766	718	2,795
BEST, 695-0124	46	272	417	462	1,197
TOTALS:	622	1,007	1,183	1,180	3,992

c. Specific line items in both the GRB's Ordinary Budget and its Extraordinary and Investment Budget.

The remainder of the local currency generated by BEPP cash transfers (the equivalent of approximately $11.478 million in FY 1990) will be allocated to support specific line items of interest to A.I.D. in both the GRB's ordinary and investment budgets in the fields of agriculture, rural development, small enterprise development, marketing, and export development. Within these budgets, there are a significant number of activities in support of the private sector that have clear positive linkages to the goal and purpose of BEPP. USAID and the GRB will negotiate and agree upon the line items to which counterpart funds will be allocated as soon as possible. These allocations will then be confirmed by issuance of a PIL following signature of the Program Grant Agreement.

Annex IX to this PAAD provides an illustrative listing of the line items in the GRB's CY 1990 Ordinary Budget related to the private sector. That annex demonstrates the availability of appropriate uses in the Ordinary Budget alone for much of BEPP-generated CPF in supporting Burundian government activities in the fields mentioned above. USAID expects that the GRB's CY 1990 Extraordinary and Investment Budget, which was not available as of this writing, will reserve an even larger amount for these purposes. In the event that USAID is unable to identify line items supportive of the private sector sufficient to absorb local currency equivalent to the total amount of all sector grants from BEPP, USAID may propose to allocate funds to line items in support of economic development activities outside of private sector support but nonetheless consistent with the general thrust of the A.I.D. program in Burundi.

2. Local Currency Management Procedures.

The Program Grant Agreement for BEPP will specify that upon receipt of each sector dollar grant, the GRB will deposit into a separate, special account that it will establish for this purpose within the Banque de la Republique du Burundi (BRB, the country's central bank) local currency counterpart funds equivalent to the entire amount of that sector grant. The Program Grant Agreement will also specify that the GRB will submit periodic financial reports (including bank statements) documenting the disposition of funds from this account, and that USAID will have the right to audit the account.

From this special account, the GRB will transfer funds to (a) the A.I.D. Trust Account; (b) the two separate project accounts (one for SFSR and one for BEST) that will be established; and (c) the specific line items in its budget as agreed upon with USAID. The procedures involved in transferring these funds will be as follows:

a. <u>For the A.I.D. O.E. Trust Account</u>.

Within not more than 30 days of receipt of the FY 1990 sector dollar grant, the GRB will transfer from its special counterpart fund account with the BRB the equivalent of $900,000 to a Trust Account established by USAID/Burundi. These funds will be used for A.I.D.'s anticipated local administrative and operating expenses of the USAID assistance program to Burundi. A.I.D. will negotiate with the GRB the amounts to be provided in FY 1991, FY 1992, and FY 1993 before releasing the BEPP sector grants planned for those years, which amounts shall then become Special Provisions of the relevant year's Program Grant Agreement.

b. <u>For the Small Farming Systems Research Project (SFSR)</u>.

The Burundi Institute of Agricultural Sciences (ISABU), the implementing agent for SFSR, will set up a separate, non-commingled account for local currency provided to the SFSR Project. The Country Use Counterpart Fund Agreement for the Burundi activities of the A.I.D.-funded CIP/PRAPAC Potato Research Network Project will serve as a model for this account. A Project Paper Supplement that USAID and the GRB are preparing for SFSR will provide a more detailed discussion of how ISABU will manage SFSR counterpart funds, including an assessment of ISABU's financial management systems. That PP Supplement will specify that USAID will prepare a Project Implementation Letter outlining how and when ISABU will request disbursement of counterpart funds (CPF) from the central CPF account in the BRB to the SFSR Project CPF account.

c. <u>For the Burundi Enterprise Support and Training Project (BEST)</u>.

In FY 1990, CPF for the BEST Project will be managed by the Ministry of Plan, which will establish a separate, non-commingled account for this purpose. In FY 1991 and beyond, the U.S. institution awarded the contract for long-term technical assistance to BEST will manage the local currency counterpart funds provided to this project. A.I.D. will require that this contractor set up a separate, non-commingled account for these funds. As with SFSR, USAID will prepare a Project Implementation Letter outlining how and when counterpart funds (CPF) from the central CPF account in the BRB will be disbursed to the BEST Project CPF account.

d. <u>For Allocation to GRB Budget Line Items</u>.

The GRB will provide documentation verifying that it has transferred funds from the special local currency counterpart fund account with the BRB to support agreed-upon line items in its budget. These funds will be disbursed from the central CPF account in the BRB to the various budget line items in accordance with the GRB's requirements.

VII. Feasibility Analyses.

A. Social Soundness Analysis.

1. Introduction.

The Burundi Enterprise Promotion Program (BEPP, 695-0125) has the following main objectives at the purpose level:

-- to foster the growth of private enterprise in Burundi, especially among small- and medium-scale enterprises;

-- to increase export trade, especially among small-scale entrepreneurs; and

-- to stimulate the growth of small-scale businesses in secondary towns away from Bujumbura.

All this is expected to happen as a consequence of policy and institutional changes supported by BEPP. The result, as articulated in the program goal statement, is expected to be increased employment and net income for Burundi's poor. The purpose of this social analysis is to make a judgment about whether and how these employment and income benefits will arise. But before proceeding some preliminary points must be established.

It is clear that the program goals will not be met by concentrating resources only on the formal sector. The formal enterprise sector in Burundi is very small, and is oriented largely toward meeting the needs of a relatively well-to-do urban population. Even if it were to be dramatically successful, a program focused on this sector would have little if any positive influence on employment and income among the population at large and among poor people in particular.

By concentrating resources on the informal sector as well as the formal sector, however, BEPP may be able to meet its goal. Informal sector commerce and trade is reasonably well established in Burundi, at least with respect to primary agricultural commodities and consumer goods (Brown et al. 1989). However, the sector seems stunted and lacking in dynamism in comparison to neighboring countries. Many of the policy and institutional interventions contemplated in BEPP are expected to correct the economic, financial, and administrative constraints thought to be responsible for this weak development. If BEPP is successful in this respect, the result could be increased employment and income in the country as a whole. However, much depends on how Burundi's rural population is incorporated into local and regional patterns of trade and commerce. If the bulk of the population is isolated from the commercial economy, then enterprise development will have little effect on employment and income. But if a substantial proportion of the rural population participates in trade and commerce (other than as consumers), then A.I.D.'s efforts to foster a supportive environment for enterprise development will have a beneficial effect on the lives of many.

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This makes it clear that one cannot understand the potential social impact of the BEPP program without some knowledge of the structure of the rural economy in Burundi. From a social perspective the following questions arise:

- -- What are the main patterns of participation in commerce and trade in rural Burundi?
- -- What proportion of the people would stand to benefit from increased vitality in small-scale and informal commerce and trade?
- -- To what extent will participation and benefits be influenced by considerations such as gender, income level, regional location, ethnic identity?

This analysis provides partial answers to these questions, drawing mainly upon the preliminary results of a rapid, low-cost national household survey sponsored by A.I.D. in Burundi during 1989 (Adelski 1989). Only the results of the rural component (339 households, representing each of Burundi's six major agro-ecological zones) are considered here.

2. Some Aspects of Burundi Rural Households.

In most of the ways that matter, rural households in Burundi are not much different from rural households elsewhere in East Africa, although average educational levels are dramatically lower. This is illustrated in Table VIIA-1.

Table VIIA-1. Some Aspects of Burundi Rural Households.

Region	Mean Household Size	Households Reporting Absentees (Percent)	Households Reporting Visitors (Percent)	Mean Adult Education (Years) M	F	Households Headed by Women (Percent)
Central Plateau	5.3	27	8	3.5	2.9	18
Bututsi	5.9	47	3	3.4	1.5	25
Transitional Zone	5.6	15	12	3.5	2.6	15
Lake Zone	5.3	15	5	2.6	1.5	10
Eastern Depression	6.0	25	15	2.9	1.8	24
Bugesera	5.6	23	8	2.9	2.0	25
Weighted Total	5.5	25	9	3.4	2.6	18

Mean household size varies little around the country. Bututsi, in the southern part of the country, is an economically depressed region and has long served as a center of recruitment for the army and police, a history which is reflected in the relatively large number of households with absentee members (mostly men) and a high proportion of women-headed households. The Transitional and Lake Zones. by contrast, benefit from proximity to Bujumbura and lake-based trade, so fewer men are absent and fewer households are headed by women. The Eastern Depression is a frontier area on the border with Tanzania, now being settled by people from the densely-populated central areas of the country. Households undertake this kind of migration gradually, often putting a wife in place for several years to establish a farm before completing the move. This is reflected in the relatively large number of women-headed households there as well as in the large number of households reporting visitors from elsewhere (almost all visitors are women). There is an unexpectedly high number of women-headed households in Bugesera, the scene of widespread ethnic violence in 1988. Like similar places in northern Uganda and southern Sudan, this probably reflects the lingering effects of the 1988 conflict, in which many rural men were killed and many others left their homes.

3. Gender Roles.

As elsewhere in East Africa, there is in Burundi a broad tendency for women's work to revolve around home food production, while men concentrate on wage labor, commercial agriculture, and livestock. But there are some interesting variations as well. Men and women in the survey households were asked to identify their principal economic activity, and the results are presented in Table VIIA-2 below.

Table VIIA-2. Principal Economic Activities and Gender

Activity	Adults	Of Whom are:	Women	Men
Agriculture	65%		54%	46%
Livestock	1%		50%	50%
Wage Labor	9%		33%	67%
Commerce	2%		89%	11%
Artisanry	2%		47%	53%
Unemployed	5%		49%	51%
Other	16%			
Total	100%			

About two-thirds of all rural adults (defined here as people aged 15 years and above) identify agriculture as their principal economic activity, and most of these are women. But women are also very active in commerce. Processing and selling of agricultural products is mainly women's work, and many women engage in small scale retail trade as well. Others are employed as casual laborers in agriculture and small towns, and many others earn money through handicrafts and other kinds of artisan activity. All this suggests that women are as active as men in the informal sector economy, or even more so. Women may benefit from efforts to promote enterprise development, provided that institutional and administrative arrangements are made with an eye to women's participation. Although relatively few adults of either gender identify non-agricultural pursuits as their principal economic activity, most households derive income from a diverse array of sources.

4. Household Income Generation Strategies.

Although most rural households continue to grow their own food for domestic consumption, it would be a mistake to characterize the Burundi rural economy as a "subsistence" economy. Table VIIA-3 shows the numbers of households reporting income from various sources.

Table VIIA-3. Sources of Household Income

Percent of Households Reporting Various Income Sources, by Region

Sources	Central Plateau	Bututsi	Trans. Zone	Lake Zone	Eastern Depression	Bugesera	Burundi
A. Land Sale/Rent:	2%	3%	5%	8%	3%	3%	3%
B. Farm Produce:	68%	60%	82%	93%	71%	67%	73%
C. Processed Products:	55%	78%	58%	83%	68%	77%	62%
D. Farm Labor:	45%	60%	55%	33%	49%	35%	45%
E. Livestock, Poultry:	23%	38%	37%	28%	25%	23%	28%
F. Animal Products:	10%	10%	8%	20%	14%	7%	11%
G. Artisanry, Trades:	27%	22%	22%	15%	29%	23%	19%
H. Commerce, Business:	7%	5%	15%	13%	10%	20%	10%
I. Wage Employment:	27%	12%	22%	3%	14%	13%	21%

Many Burundi households have diversified their sources of income and are no longer entirely dependent on farm production. Most households earn some income from sales of processed agricultural commodities (chiefly but not exclusively beer), and many others earn money through artisanry, commerce, and casual or wage employment. There is substantial participation in the commercial economy throughout Burundi, a pattern which is most firmly established in the Transitional Zone, and least widespread in Bututsi. Indeed, about 80% of all households pursue multiple income generation strategies, as illustrated below.

Table VIIA-4. Income Streams per Household in Burundi

Number of Income Streams Reported	Percent of Households
0	4%
1	16%
2	28%
3	29%
4	13%
5	4%
6	5%
7	1%

This pattern is a familiar one elsewhere in East Africa, where rapid population increase and a stagnant agricultural economy have forced households to broaden their income generation strategies to include a large number of agricultural and non-agricultural options. The reappearance of this pattern in Burundi is emphasized here because there is a prevailing misperception among many observers that Burundi is somehow different than the rest of East Africa, that it has remained a predominantly subsistence economy. But it seems clear that the rural economy in Burundi is structurally indistinguishable from the patterns observed in all other East African countries. One element of this pattern requires further comment: the relatively large number of households everywhere in Burundi who report earning income through agricultural labor, a circumstance which implies significant inequalities in rural landholdings.

5. Access to Land.

It is a mistake to think of rural Burundi as an undifferentiated mass of smallholder farmers. Chart 1 on the following page shows the distribution of farm fields among rural households, distinguishing hill fields from the more valuable valley bottom fields. About 10% of the survey households report no landholdings at all. The bottom 20% of households control about 2% of all plots, while the top 20% control about 46%. These figures indicate there are substantial variations in access to land; as the chart shows, this is most pronounced with respect to well-watered valley bottom fields. A parallel analysis of per-capita plot holdings showed even greater imbalance. Studies from elsewhere in East Africa have shown that simple counts of farm plots usually understate the degree of differentiation, since households with large numbers of plots usually have larger and more fertile plots as well. Women-headed households have fewer farm plots than households headed by men (an average of 4.2 plots as against 5.7), but women-headed households are also smaller (an average of 4.5 members as against 5.7).

The proportion of landless and degree of differentiation among land-holding households is not much different from what has been observed in other densely-populated parts of East Africa, and the implications for social change and economic development are the same: there are increasing numbers of rural people in Burundi who can no longer expect to make a living on the land, and there is a corresponding need for rapid expansion of non-farm employment opportunities. Slow employment growth in Burundi has the potential to undermine what is in any case a fragile social and political consensus. It is worth noting that among the few concrete recommendations made by the National Commission charged with investigating the 1988 Bugesera tragedy was the following:

> "On the level of the economy, policies must be drawn up designed to make maximum use of human resources through creation of non-agricultural jobs, particularly by promoting small and medium-sized integrated enterprises in rural areas...."

Unequal access to landholdings is only one dimension of social inequality in Burundi. Given the country's history of ethnic violence, it is important to make some attempt to gauge the potential effects of this policy reform program within the context of ethnic relations.

6. Social Inequality.

Like a number of other countries in East Africa, Burundi has a history of ethnic conflict, political oppression, and social discrimination. In Burundi the conflict, the oppression, and the discrimination have been extraordinarily deep and persistent. With the Buyoya government, Burundi's national leadership has moved toward a style of governance radically different from that of the past. These changes are strongly reflected in the reforms adopted since 1986 within the framework of the structural adjustment program. Virtually every one of these policy changes favors rural over urban dwellers, producers over consumers, and farmers over the salaried and educated classes. This has political implications far more important than the potential economic benefits. Over time, the inevitable consequence should be an increase in the wealth and power of Burundi's historically disadvantaged rural population.

But this hopeful picture must be qualified. As Burundi's National Commission to Study the Question of National Unity has observed, this vision of the future will require a parallel and very difficult evolution in ethnic relations, leading to a reduction in the divisive forces of "regionalism, tribalism and nepotism." Rene Lemarchand, perhaps the world's leading authority on the social and political organization of Burundi, has phrased the issue more pointedly, noting in 1988 Congressional testimony that there is a

> "...gap between the rising expectations of the Hutu masses and their bitter disillusion upon discovering that in spite of official statements to the contrary nothing would alter the harsh realities of Tutsi supremacy."

Obviously there is no guarantee that government pronouncements and government intentions will suffice to counteract the structures of dominance which have emerged and been consolidated in Burundi during the colonial period and thereafter. The question is, will donor assistance -- and A.I.D.'s assistance in particular -- work for or against these structures?

7. Beneficiaries and Consequences.

This program of policy and institutional reform will influence the trajectory of development in Burundi by stimulating employment and incomes, and by contributing to economic growth and social stability.

A.I.D.'s analysis and that of the World Bank confirms that the policy reform agenda outlined here will stimulate enterprise development at all levels, thus providing employment and incomes for the growing numbers of Burundians who cannot find a living on the land. Commercial development can also be expected to stimulate rural-urban linkages and agricultural change, by expanding Burundi's limited domestic market for food and other agricultural commodities, and by expanding access to regional markets as well. Hence the main benefits of BEPP will flow to the rural, agricultural population who, as this analysis shows, are in no sense isolated from the commercial economy. From a distributional point of view this is plainly a desirable result, but there are other matters to be considered.

BEPP will create wealth in the rural reaches of Burundi society by dismantling a tightly-woven network of interlocking regulations and procedures inhibiting the growth and diversification of small rural enterprises. This will have clear social and political implications, since it is administered almost exclusively by the ruling minority, and has the effect of stifling opportunity and advancement among a growing population of rural dwellers facing an increasingly bleak agricultural future. The information presented above makes it clear that there are many men and women in rural Burundi who stand to benefit through any effort to foster the spread and growth of small-scale enterprise. But in the short term, customs decentralization, tax administration reform, and export promotion will clearly work primarily to the advantage of the educated, salaried Burundi professionals who are increasingly moving into the formal private sector.

Hence the distributional effects of this program are complex. The main benefits will accumulate among the rural, agricultural population in the form of employment and income growth, but elite-owned formal enterprises will gain too. Over time, this bipolar strategy should generate broad-based economic growth, while working to undermine one important source of ethnic conflict.

B. Institutional Analysis.

Existing GRB institutions do not appear to require substantial organizational change in order to implement the policy reform agenda set forth under the Burundi Enterprise Promotion Program (BEPP, 695-0125). The basic institutional units required are mostly in place. Rather, the task at hand is to separate management of the policy reform activities identified by BEPP from the ordinary business of the government. This approach implies acceptance of some opportunity costs as a result of assigning lower priority to less critical agencies and activities.

These costs, however, are justified by the urgency of obtaining better policy performance in the private sector. The analysis below focusses on the institutional dimensions of the economic policy process by asking the following questions.

1. What are the key components of policy decision-making?

BEPP contemplates a comprehensive array of reforms extending over at least four years in three broad areas:

a. Creation of an environment that will encourage the establishment of businesses in Burundi, particularly small and medium enterprises;

b. Creation of an environment that will encourage existing business enterprises to continually expand and/or modernize their facilities and improve the quality of their work force; and

c. Establishing conditions that will facilitate increased participation in domestic and international trade.

Implementation of reforms in these areas will require appropriate GRB institutions to undertake, on a sustained basis, activities such as program planning, program implementation, resource management, administration, research and analysis, policy analysis, monitoring and evaluation, and negotiation.

2. Which institutions control critical aspects or phases of the policy reform process?

The private sector reforms that BEPP will support, the most significant of which are the following, cut across a wide variety of GRB institutions.

a. Trade facilitation and export promotion.

1) Customs decentralization.

The Bureau of Customs is located within the Ministry of Finance. Other offices that work closely with Customs are the Central Bank (BRB), which is considered to be a semiautonomous agency operating under the authority of the Ministry of Finance, and the Ministry of the Interior's Air and Border Police.

2) Facilitation of trade and export promotion.

For the reforms to be implemented during FY 1990, the most relevant institutions are the Ministry of Finance's Office of Revenues and the Central Bank's Foreign Exchange Division. In subsequent years, the Ministry of Commerce and Industry's (MCI's) Directorates of Industry, Domestic Commerce and Foreign Commerce, the Ministry of Foreign Affairs and Cooperation, the Ministry of Justice's Bureau of Pending Legislation, and the Ministry of Transport's Office of Transport will also be involved, together with such autonomous entities as the newly created Export Promotion Service and the Chamber of Commerce.

b. Promotion of micro, small and medium-sized private sector enterprises.

At least six ministries have departments or services that handle micro enterprises alone. The most important are the Ministry of Finance's Directorates of Revenues and Taxes, the Ministry of Commerce and Industry (same offices listed above), the Ministry of Rural Development and Handicrafts' Directorate of l'Artisanat, the Ministry of Justice's Bureau of Pending Legislation, and the offices of the various Provincial Governors . These will all be included in the formulation and implementation of reforms in this area.

3. What are the organizational dynamics of the institutions identified above?

a. Coordination.

The task of drafting the individual reforms will be assigned to the appropriate line ministries. Once drafted, the reforms will be reviewed, edited, and approved by working-level interministerial committees convened on an ad hoc basis. The originating Ministry will then send the final version of the decree to the Council of Ministers for a full review and possible further modification at the ministerial level. Once approved, the decree goes to the President for signature. If reasonably complex, specific duties and responsibilities to be carried out in implementing the provisions of the decree may then be spelled out in a Ministerial Ordinance whose publication would either accompany or follow that of the decree.

Overall, coordination between offices of the same ministry is generally satisfactory. BEPP's prospects for success are enhanced by the fact that the Director General of Commerce within the MCI is responsible for both domestic and foreign commerce. Likewise, the Director General of Industry within the same ministry is responsible for overseeing many activities of small and medium-scale enterprises. Also, the Ministry of Finance has administrative responsibilities for the customs service, the Central Bank, the commercial and development banks, and the imposition and collection of most of the taxes levied on private business enterprises.

Coordination among the various ministries, and between the ministries and independent agencies, is another matter. With the exception of a standing interministerial committee that tracks external debt, such coordination is neither regular nor systematic. The IBRD, for example, encountered a genuine vacuum in coordination within the GRB when it began the first structural adjustment loan in mid-1986. It solved the problem by persuading the GRB to establish an office within the Ministry of Plan to coordinate the many and diverse activities of the structural adjustment program. The committee consists of permanent representatives from all of the various affected offices of the Government. It meets at least once every two weeks and more frequently if required. Both the GRB and the IBRD are satisfied with the mechanism.

After in depth discussions with the GRB, it has been agreed that the a similar, and perhaps even the same, committee will oversee the BEPP/BEST Program. The Chairman of the designated committee will also serve as the GRB Project Manager for BEPP and BEST. Local currency counterpart funds generated by sector dollar grants from BEPP will finance a full-time staff of two, an administrative assistant and a secretary, both of whom would also be employees of Plan. Committee members will include representatives from all of the ministries and independent agencies with implementation responsibilities for the Program.

b. Incentives and disincentives.

The organizations that will be asked to undertake policy reforms will have numerous incentives to do so. These include the possibility of developing new markets in regional commercial centers such as Kayanza and Gitega that will be beneficial to farmers and merchants alike. Likewise, government offices will be attracted by the prospect of acquiring the new resources needed to implement the reforms. Many of these new resources, including trained staff and office equipment, will likely remain with the recipient institutions following completion of the reform program. Within the context of the GRB's prolonged austerity program, which since the early 1980's have included hiring freezes and severe spending limitations, the possibility of obtaining additional personnel, equipment, and technical assistance is a powerful incentive. Participation in the program will also provide fresh perspectives that may permit ambitious civil servants to attract additional functions, power, and prestige to their organizations.

Disincentives to participation in the BEPP-sponsored policy reform agenda include the following:

- -- the possibility of losing some control over certain existing functions, including retention of passports, import and export activities, allocation of foreign exchange, enforcement of transport regulations, and the movements of foreigners;

- -- the possibility that domestic transporters may lose some of their present business as a result of customs decentralization;

- -- the prospect of temporary losses in revenue for the GRB due to the reduction and/or elimination of some taxes and fees;

- -- the medium-term loss of some trained civil servants to the private sector;

- -- the loss by some employees of the benefits of their highly protective labor codes.

4. <u>What are the organizational constraints to implementation of the reform agenda</u>?

Constraints to the effective functioning of the key organizations identified are manifold. The importance of the various constraints varies considerably from one administrative unit to another, both within the same ministry and between different ministries and independent agencies. These include, but are by no means limited to, financial constraints, other non-human resource constraints, severe limitations in human resource capabilities and availability, internal factionalism, and sociocultural constraints.

Examples of these constraints are numerous. The Ministry of Commerce and Industry, charged with oversight of the entire parastatal and private sector (with the exception of micro enterprises) and domestic and foreign commerce, receives only two tenths of one percent of the GRB's operating budget and one percent of the investment budget. The entire ministry has only one long-term advisor, who is funded by the UN's International Trade Center. This advisor has the only microcomputer in the Ministry. The Ministry of Rural Development, which is responsible for, among other things, oversight of micro and all informal enterprises, is in a similar, though somewhat stronger position. It receives three tenths of one percent of the operating budget and five percent of the investment budget. There are a number of expatriate French, Swiss, and Italian advisors working with the Ministry, especially with the cooperatives. Finally, the Chamber of Commerce and Industry, (CCIB), which is the officially designated spokesman for the entire private sector, has only three professional employees on its staff. By any standard, the CCIB's resources fall short of those needed to allow it to discharge its responsibilities.

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5. Feasibility assessment.

While the various ministries and independent agencies of the GRB, together with the private sector entities, are in most essential respects willing to be involved in the program proposed herein, their capabilities for carrying out their assigned roles are, overall, quite weak. Their strongest activities are monitoring developments within their purview and administering their own programs and personnel. They are, almost without exception, weak in key areas such as planning, implementation, and research and analysis. One example of such weakness uncovered during development of the PAAD is that of the Central Bank (BRB). The BRB, which is in many respects the strongest of the GRB institutions with which BEPP will deal, does not prepare an annual budget on a systematic basis. For this and similar reasons, USAID judged that a relatively large companion technical assistance and training project will be essential for the achievement of BEPP's long-run objectives.

6. Issues of implementation timing and phasing.

Implementation could be adversely affected by failure to install a new International Coffee Agreement. Burundi's projected foreign exchange earnings may be reduced to the point that importers and exporters will not be able to obtain funds needed for business travel, despite BEPP's requirement that the BRB provide foreign exchange to them in a larger volume and on a more liberalized, open basis. Likewise, taxes levied on coffee exports are a principal source of GRB revenues. A prolonged slump in world prices would thus have diminish the GRB's capacity to provide the resources necessary to implement some of the reforms that BEPP will support.

Given their very nature, the timing and phasing of the policy reforms identified previously as falling into Category B is inherently subject to change and slippage. This is due in part to the capacity of the implementing institutions to develop and carry out the agreed upon economic reforms. The BEST Project must be cognizant of institutional weaknesses in this area. The training plan has tried to anticipate and address them to the maximum extent possible.

7. Sustainability issues.

As the private sector grows and develops, it should be able to relieve the public sector of some of the activities currently receiving substantial public subsidies. For example, many activities now undertaken by parastatals could easily be produced by the private sector. These include the marketing of coffee, pharmaceutical and petroleum products, large-scale commercial fishing, an airline, a trucking company, a sugar refinery, glassware, tobacco products, highway maintenance, and commercial printing operations. Of course, the private sector will continue to require public sector support, licensing, and regulation, including enforcement of fair trade and antitrust codes, and the collection and dissemination of business information. Overall, however, the volume of tax revenues from a growing private sector should more than compensate for the public expenditures needed to carry out these support activities.

8. Recommendations.

While USAID has significantly improved its understanding of a variety of phenomena affecting the private sector in Burundi, much remains to be done. The research identified elsewhere in this PAAD will make a significant contribution to the Mission's appreciation of the relative importance of existing constraints to the sector's growth. The real foundation of USAID's sustained policy dialogue with the GRB, however, will be provided by the advisors brought on board to work with the key implementing organizations. For the stronger GRB organizations such as the Ministry of Finance and the Central Bank, well defined, tightly focussed short-term technical assistance will be adequate. For the weaker institutions with key analytical and implementation responsibilities such as the nascent Export Promotion Service and the Chamber of Commerce, however, technical assistance on a sustained, long-term basis will be absolutely essential.

As became apparent during the development of BEPP, almost any conceivable policy reform in the area of private sector development affects the activities of numerous ministries and independent agencies. As a consequence, the first long-term advisor will be a private sector specialist with strong analytical abilities who will be located in the Ministry of Plan. Given this Ministry's responsibilities for planning and coordinating overall public sector relations with the private sector, USAID and the GRB consider this to be to be the most appropriate place for this advisor, who will also serve as Chief of Party for the technical assistance team. Given that the Minister of Plan is also the Prime Minister, and that the Burundian Program/Project Manager will have direct access to him, BEPP/BEST will have a voice at the highest levels of the GRB.

A second advisor specialized in private sector development will work with the Chamber of Commerce to articulate to all of its constituents, as well as the GRB and public at large, the constraints faced by major subgroups, including importers and exporters, rural merchants and artisans, and small businessmen.

A third advisor with expertise in Export Development and Promotion would be located in the autonomous Agency for the Promotion of Exports for the purpose of training and assisting its personnel to analyze in depth constraints facing businessmen in this area and identifying various alternative strategies for alleviating them.

USAID anticipates that the technical assistance team will be supplemented on a regular basis by an interdisciplinary group of consultants to be called upon as the situation requires. Given the substantial potential impact of BEPP's activities on a variety of economic sectors, it may be necessary to tap experts in areas as diverse as taxation, accounting, business administration, food processing, international marketing, rural sociology, anthropology, demography, statistics, international law, finance, banking, political science, public administration, and IEC (information, education and communication).

C. Political Feasibility

1. Introduction.

The Burundi Enterprise Promotion Program (BEPP, 695-0125) and its companion Burundi Enterprise Support and Training Project (BEST, 695-0124) constitute an ambitious and comprehensive attempt to assist the Government of the Republic of Burundi (GRB) to implement its private-sector oriented development strategy. This program will attempt to do this by improving the GRB's understanding of the functioning of private sector institutions and market processes and the ways in which the government's own attitudes and activities either facilitate their functioning by creating an "enabling environment" for efficient private sector activity, or impede such activity.

The economic reform program of President Pierre Buyoya differs from that of his predecessor in that it explicitly aims to improve the employment and income of the nation's poor majority, and thereby to dissipate the ethnic tensions which have plagued Burundi for decades. It is in this explicit political and social dimension that the Burundi reform effort differs from that being undertaken by most African countries. At the same time, the fact that the reform program is aimed at improving the economic and social position of the majority group has the potential for generating an additional source of opposition to that program.

2. A History of Ethnic Strife.

Since independence, Burundi has experienced sharp ethnic conflicts between the politically dominant Tutsi people, representing 15 percent of the country's population and the numerically dominant Hutu, representing virtually all of the remainder of the population. The worst of these conflicts occurred in 1972, when in the aftermath of a failed attempt by the Hutu elite to seize power, more than 100,000 Hutu were killed. Until very recently, the governments of Burundi have pursued a consistent policy of maintaining the predominant power and status of the Tutsi minority by excluding the Hutu from positions of authority in the government and from virtually any role in the armed forces.

The conflict between Hutu and Tutsi is complex and differs in some important respects from ethnic relations elsewhere in Africa. The Hutu and Tutsi are not "tribes" in the sense that the term is generally used in Africa to denote social groups delineated by barriers of territory, social organization, and language. The Hutu and Tutsi share the same language and mode of social organization. Moreover, they had lived peacefully side by side for generations in the past, sharing the same collective commitment to the monarchy. The conflict between the Hutu and Tutsi in independent Burundi was initially the result of the spillover effects of the Hutu revolution in neighboring Rwanda in the early 1960's, which served as a model for the aspirations of a section of the Hutu elite in Burundi and a corresponding source of fear for many Tutsi. In the aftermath of the revolution in Rwanda, tens of thousands of Tutsi refugees crossed into Burundi, further exacerbating those fears.

The pursuit of continued domination by the Tutsi minority reached its peak with President Bagaza's regime's persecution of the Catholic Church from 1979 to 1987. Hundreds of Catholic missionaries were forced to leave the country and all catechism schools were closed, denying several hundred thousand Hutu school children access to primary education.

3. Efforts at Reconciliation.

President Bagaza was overthrown in September of 1987 by Major Pierre Buyoya, who has brought a very different approach to government on a number of issues, including its relations with the Church, economic policy, and Hutu-Tutsi relations. Immediately upon taking power, President Buyoya allowed the return of some missionaries and the reopening of the Catholic schools, freed a number of Hutu political prisoners, and initiated an anti-corruption campaign that led to the prosecution of several high-ranking Tutsi officials. There was not, however, any fundamental change in the pattern of Tutsi domination of the political leadership, and Buyoya's early calls for "liberalization" had little effect on local Tutsi officials who maintained their exclusionist policies directed against the Hutu.

The replacement of Bagaza by Buyoya did raise the expectations among the Hutu majority about a better future, and these raised expectations were played upon by Tutsi extremists in some northern locations to whip up Tutsi apprehensions. In August of 1988, these tensions broke out in another spasm of violence in which perhaps as many as 10,000 to 20,000 Hutu were massacred in the districts of Ntega and Marangara. The exact details of these events and their causes are not known and may never be known. In the aftermath of the northern massacres, President Buyoya initiated what has been a much more comprehensive effort to promote national unity and defuse the sources of conflict. In October 1988, a National Reconciliation Committee was created, made up of an equal number of Tutsi and Hutu. It was allowed to complete its task in an atmosphere remarkably free from political interference. This was particularly startling given the potentially explosive nature of the problems with which the Commission was dealing.

Shortly after the Commission completed its work, President Buyoya reconstituted his government, appointing a Hutu Prime Minister and doubling the number of Hutu ministers to half of the total cabinet. The former heads of the security services were arrested, Hutu students jailed for writing letters of protest about Ntega and Marangara were set free, and Tutsi squatters who had moved onto land owned by Hutu who had fled to Rwanda were expelled. Subsequently virtually all of the estimated 50,000 Hutus who had fled the country in September and October 1988 returned.

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4. The Political Context of Economic Reform.

Burundi's economic reform endeavors need to be placed in the political context of these initiatives toward national reconciliation. The report of the National Reconciliation Commission stated that "the true problem lies in the elite, which has created within itself a series of rifts for the purpose of defending and protecting its own selfish interests." Central to that process of protecting the dominant position of the elite has been the utilization of an extensive extensive system of economic interventions and controls. This system of controls is an inheritance of the dirigiste policies of the Belgian colonial administration, but it has been used in Burundi since independence to secure the political and economic position of the Tutsi minority.

This long-standing reliance on the part of successive Burundian governments on a system of controls to maintain the effective power of the elite raises understandable doubts about the depth of the Buyoya government's commitment to the success of the reform agenda that BEPP will support. In brief, the key question is the extent to which the GRB has the political will to pursue those reforms once their more difficult elements begin to be felt. Three factors give rise to concern about the GRB's ability to stay the course.

First, while the government appears to have recognized the failure of its former public enterprise-oriented development, its attitude towards the private sector remains somewhat skeptical. There continue to be influential dissenters within the GRB who think of greed, corruption, and monopolistic practices when approaching the private sector and fear that the bulk of the benefits of private sector development will accrue to non-Burundians.

Second, although the reforms that BEPP will support in FY 1990 are relatively noncontroversial (and indeed, have already been approved in principal by the GRB), reforms in subsequent years may prove more contentious, particularly inasmuch as it is the Tutsi-dominated public sector bureaucracy that stands to be the major loser from many of these reforms. The Ministry of Commerce and Industry, for example, will be required to relinquish an important measure of control over the economy by giving up its right to issue the Carte de Commercant, the basic permit that allows one to do business in Burundi. Similarly, the Ministry of Justice will lose much of its voice in determining who is able to incorporate a business once the requirements for publication of notices of incorporation in the Official Bulletin of Burundi are relaxed. As the time for implementation of these reforms draws nearer and the putative losers begin to understand that they will have to give up roles to which they have long been accustomed, a real possibility exists that they may dig in their heels.

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Finally, the GRB's will to do what BEPP is asking of it could erode once the program begins to touch upon such politically sensitive issues as the country's extremely protective labor laws, the near monopoly enjoyed by two parastatal firms in the insurance field, the full monopoly enjoyed by Burundian transporters on the transit of all imports and exports, and the current exclusion of nonresident foreigners from all international trade.

USAID's analyses and long dialogue with key GRB officials, however, suggest that the GRB's stake in BEPP's success, combined with the timing of the reform agenda, will overcome these obstacles. The relative size of the sector dollar grants planned, the importance of this financial support to the GRB in light of the 1988 collapse of the quota system under the International Coffee Agreement, and the fact the more difficult reforms supported by BEPP will not occur until the subsequent years of the program, i.e., once a degree of confidence has been established, should allow the GRB to continue to adhere to the reform agenda despite the risks noted above. Moreover, the policy dialogue and technical assistance efforts that are central components of the BEST Project, will help those elements of the GRB already sympathetic to BEPP broaden the intellectual bases of support for private sector-led development. The highest levels of the GRB understand that the Burundian economy cannot grow appreciably unless and until the constraints on which BEPP reforms will focus are overcome. In the difficult financial context imposed by the drop in coffee revenues, the hard currency support provided by BEPP, as well as the important symbolic commitment of U.S. resources to the Buyoya government that BEPP represents, will help these top policy-makers proceed even in the face of short-term opposition at lower levels.

5. The Response of the Private Sector.

A final variable that could affect BEPP implementation is how the private sector will respond to the new environment resulting from BEPP and associated reforms. Here the question of the government's view of the private sector response will be crucial. If the GRB is not satisfied with the private sector's progress, it might backtrack by reimposing controls or reverting to some other form of a statist approach. The key question is whether there are investment resources and opportunities that will be acted upon in a timely fashion by the private sector in a way that avoids monopolistic and exploitative practices. Will the government's policy changes have enough credibility in the eyes of entrepreneurs to justify risk-taking investments? Will there be low enough barriers to entry to avoid monopolistic practices? Will there be safeguards adequate to protect consumers but not so ponderous that they stifle business activity? These questions are difficult to answer. However, a key goal of the policy dialogue will be to sensitize government officials to the problems that the private sector faces.

6. Conclusion.

In summary, an assessment of the political factors surrounding BEPP leads to a generally optimistic conclusion, especially if one assumes that the GRB leadership will remain in place over the life of the program. President Buyoya and his economic team have already successfully confronted, and must continue to confront in the future, more difficult reform-related issues than those contained in BEPP. These include a burdensome parastatal problem. And while there are a variety of political risks that could undermine implementation of the BEPP policy agenda, they are balanced by several positive elements, including donor conditionality, the government's understanding of the failure of past development strategies, and the commitment by the GRB to expanding economic opportunity to all of the Burundian people based on its understanding that national reconciliation efforts depend on such an outcome. Moreover, the interventions of BEPP and BEST directly address a number of the risks involved, and nothing in BEPP fundamentally threatens the overall authority of the GRB. Quite to the contrary, the success of BEPP and other reform initiatives should allow the broadening of political (and ethnic) legitimacy that is the main priority of the government.

D. Quantifying the Benefits of BEPP and BEST

1. The Character of The Benefits To be Derived From BEPP and BEST.

As described in Section IV, the quantification of the benefits that will flow from BEPP and BEST entails addressing a number of problems. In some cases, the policy constraint being addressed increases business costs. For example, the lengthy and cumbersome procedures for clearing imports through customs, and the many unnecessary steps required to register a business, involve straightforward imposition of additional costs on the enterprise and subsequently on the consumer. The reform, the streamlining of those procedures, produces its benefits simply by reducing these costs and, in principle, the benefits are readily measurable.

In other cases, for example the lack of accounting standards and the arbitrariness of the tax system in determining the firm's income for tax purposes, the constraint involves increases in the riskiness of investment. Here, the benefit takes the form of a reduction in risk premium required before investment is undertaken. This benefit is not readily observable and any attempt to calculate it will involve a wide range of error.

Finally, attempts to quantify the effects of policy reform piecemeal, as will be done in this section, potentially ignores synergistic effects. These are the positive effects of a range of reforms on improving business confidence overall. Despite these estimation problems, it is certainly possible to establish a lower bound to the expected results of the program.

Three important reforms, in particular, do lend themselves to fairly precise quantitative estimation. These are the transportation cost savings expected from decentralization of customs, the reduction in insurance costs expected from eliminating the current monopoly, and a variety of savings in time from the streamlining of a variety of administrative procedures, customs clearances, etc.

2. Discussion of the Variables Included in the Analysis.

a.
Insurance.

Firms involved in imports and exports must insure their goods through the two local insurance companies. Until recently, only one firm, a parastatal, existed. With the addition of a private sector firm with the parent office in Paris, a small amount of competition has been added. Nonetheless, the insurance charges of these two firms are higher than those charged by European insurers and potentially available to local exporters and importers. Discussions with local importers indicate that the Burundian firms may be charging as much as three times what would be available from a European insurer.

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Using just the import FOB value figures, assuming a 2 percent insurance charge by the Burundian firms in contrast to a 1 percent charge by European firms would provide a potential savings on the imports alone of $1.7 million annually. This calculation does not take into account the growth in imports or savings attributable to exports that are transported to Dar Es Salaam and other ports. With estimates of European charges being less than 1 percent on the average, the benefits could possibly be higher.

b. Transport Cost Savings Resulting From Decentralization of Customs.

In its latest 5 Year Development Plan, the GRB established decentralization as an important policy objective. The GRB recognizes that it must begin to establish incentives and an environment in the interior which over the long run will provide the opportunity for this heavily rural economy to evolve from one which depends upon one city for most specialized functions, especially those involving marketing and trade, into one in which there exist a few small towns or cities providing specialized functions for the surrounding rural areas and alternatives to farming.

One way to begin establishing a more attractive social and economic environment in the small cities of the interior is to eliminate the requirement that most traded goods, both imports and exports, must pass through Bujumbura for clearance before they can be distributed throughout the country or exported. The establishment of the decentralized customs facilities as proposed in BEPP will serve that purpose. The major benefit will be the reduced transport costs for those goods that do not need to be taken to Bujumbura.

Actual transport cost savings figures experienced by four transporters over the past year and estimates of potential transport cost savings are calculated to determine the range of benefits in the form of transport cost savings that are likely to accrue as a result of the policy decision to decentralize the customs function.

The analysis includes the imports and exports along the northern route through the border port of entry at Akanyaru in the north to Mombasa and at Koberu to the east to Dar Es Salaam. Analysis of the southern route from Kikoma to Bujumbura indicates that the savings in reduced back haulage for that region would not be significant. It is thus omitted from the quantitative analysis.

Four firms petitioned the Custom's officials in 1989 to have their imports off-loaded directly in Kayanza and Gitega, thereby avoiding the 100 km trip to Bujumbura and return. Partly as a result of USAID's ongoing discussions with the GRB, the requests were granted. To these actual savings on imports are added estimated savings that will accrue to two tea exporting firms who would no longer be required to bring the tea into Bujumbura and retrace their steps past their fields on their way to Kayanza and then the border crossing at Akanyaru. Finally, of the remaining imports coming through Akanyaru and Koberu, it is assumed that 5 to 10 percent would be off-loaded in either Kayanza or Gitega if the decentralization process were in place and people had knowledge of it and had been able to take advantage of it. A nominal Import and export growth rate of 1 percent is assumed.

c. Business Cost Savings.

This category of benefits is used to summarize all the benefits that will accrue to the estimated 5000 business entities in Burundi as a result of the several policy reforms that will reduce the cost of doing business. Conceptually, this category includes such reforms as the accounting, business registration, import facilitation, and business expense deductibility reforms. Using the analysis from the accomplishments section, and rounding up slightly, 200 new firms are assumed to be created each year. The time needed to deal with unnecessary bureaucracy varies greatly from firm to firm. However, values of 100, 200, and 300 hours seem to be a typical experience. If the opportunity cost of the entrepreneur (or his/her facilitators) is $1.00 per hour, this yields a potential cost savings of $100, $200, and $300 per firm, respectively.

d. The Benefits From the Increase in Efficiency of Investment.

Quite apart from the cost savings benefits that are expected as a result of the various policy changes, there is the expectation that output per dollar of new investment will rise. Supporting that expectation is the assumption that the policy reforms of the BEPP program will eliminate the biases against SMEs and thereby ease entry into the sector. If the policy reforms have their intended effect, and SMEs grow at a faster rate than the larger businesses in Burundi, principally large parastatals, investment funds should be more efficiently utilized over time. SMEs typically are more labor intensive and efficient than larger firms, especially parastatals. As this shift occurs and investment is made in more efficient economic activities, the increased efficiency can be said to lead to, as is stated in section 4, a fall in the ICOR or incremental capital output ratio. As discussed in the summary section, the efficiency benefits are quite large relative to the policy benefits, and the value chosen for the program ICOR has a significant impact on the net present value of benefits for the program.

d. Value of Foreign Exchange Received.

In addition to the value of the policy reforms supported by BEPP, the foreign exchange provided under the program has a value in itself. Precisely what that value is depends on the uses to which the incremental foreign exchange is put (which is not necessarily the same as the uses of the dollars disbursed from the special foreign exchange account). If these incremental dollars are used to add to reserves, the benefits from their use are the discounted present value of future interest earnings from those added reserves. The most reasonable assumption is that the incremental foreign exchange is used to finance additional goods and services. What then is the value of those additional goods and services? If there were no tariffs, import licensing, or foreign exchange licensing and if the resulting external accounts were in balance, it would be reasonable to assume that a dollar's worth of additional imports would be worth close to a dollar. In fact, given the constraints in Burundi, marginal imports may be worth more (because of tariff and non-tariff barriers) or less (because of the overvalued exchange rate) than their market price. Overall, the most reasonable assumption seems to be that marginal imports financed by additional foreign exchange are worth their nominal market price.

e. Summary of the Benefits and Costs of the Policy Reform Program.

Converting the benefits and the costs of the program into present value terms provides a clear picture of the absolute and relative contributions of each of the benefits, their relationships to the costs of the program, and the consequent net present values. Table VIID-1 summarizes the results. A 10 percent opportunity cost of capital is used as the discount factor.

The most striking result is the large contribution made by the increased efficiency of the economy. This result is not unexpected, because the primary purpose of the program is to accelerate the creation of new firms in the SME sector, which as noted earlier should use capital investment much more efficiently than has been the experience until now. The figure was obtained by assuming the same base case investment levels for both the 4.7 ICOR of the base case and the 4.4 ICOR of the program. The difference in annual GDP between the two cases is then attributable to the increased efficiency alone. The efficiency benefit is also quite sensitive to the assumed difference between the base case and the program. For example, a base case ICOR of 4.7 and a program ICOR of 4.6 (rather than the 4.4 figure used in the analysis) produces just $35 million in present value terms. This is a substantial drop from the $104.7 million shown in Table VIID-1. Nevertheless, the lower $35 million figure is quite large relative to the other benefits and costs.

The benefits from the transport, insurance, and business cost savings are considerably lower than the efficiency benefit, even at its $35 million level assumption. Given the conservative estimates of these three categories and the exclusion of any export benefits, a net present value for the program in the $120 million range is quite reasonable and robust with respect to the underlying assumptions.

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Table VIID-1

Present Value Analysis of BEPP and BEST

U.S. Dollars

Year	Program Costs	5% Transport Off-Load Assump.	10% Transport Off-Load Assump.	Transport Insurance Savings	Total Various Business Cost Savings	Efficiency Benefits	Program Foreign Exchange Benefits	Total Benefits 5 % Offload	Total Benefits 10 % Offload	Total Costs	Net Benefits 5% Offload	Net Benefits 10% Offload
1990	13,715,000	542,054	542,054				13,000,000	13,542,054	13,542,054	13,715,000	(172,946)	(172,946)
1991	5,541,000	542,054	542,054				4,500,000	5,042,054	5,042,054	5,541,000	(498,946)	(498,946)
1992	9,284,000	748,304	954,554	1,700,000	1,000,000	2,285,714	7,500,000	13,234,018	13,440,268	9,284,000	3,950,018	4,156,268
1993	11,736,000	755,787	964,099	1,700,000	1,040,000	5,142,857	10,000,000	18,638,644	18,846,956	11,736,000	6,902,644	7,110,956
1994	1,391,000	763,345	973,740	1,700,000	1,080,000	8,000,000		11,543,345	11,753,740	1,391,000	10,152,345	10,362,740
1995		770,978	983,478	1,700,000	1,120,000	12,000,000		15,590,978	15,803,478		15,590,978	15,803,478
1996		778,688	993,312	1,700,000	1,160,000	15,428,571		19,067,259	19,281,884		19,067,259	19,281,884
1997		786,475	1,003,246	1,700,000	1,200,000	20,000,000		23,686,475	23,903,246		23,686,475	23,903,246
1998		794,34[illegible]	1,013,278	1,700,000	1,240,000	24,000,000		27,734,340	27,953,278		27,734,340	27,953,278
1999		802,283	1,023,411	1,700,000	1,280,000	28,571,429		32,353,711	32,574,839		32,353,711	32,574,839
2000		810,306	1,033,645	1,700,000	1,320,000	33,142,857		36,973,163	37,196,502		36,973,163	37,196,502
2001		818,409	1,043,981	1,700,000	1,360,000	38,285,714		42,164,123	42,389,696		42,164,123	42,389,696
2002		826,593	1,054,421	1,700,000	1,400,000	43,428,571		47,355,164	47,582,993		47,355,164	47,582,993
2003		834,859	1,064,965	1,700,000	1,440,000	49,142,857		53,117,716	53,347,823		53,117,716	53,347,823
	Present Value, 10%	5,345,088	6,559,025	9,572,955	6,619,620	104,748,237	28,002,186	154,288,086	155,502,023	32,902,275	121,385,812	122,599,749

ANNEX I: LOGICAL FRAMEWORK Burundi Enterprise Promotion Program/Burundi Enterprise Support and Training Project (BEPP, 695-0120/BEST, 695-0124)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS:
Goal: To increase employment and net income for Burundi's poor.	By end FY 1994: I. GDP growing by at least 4.8% per annum (as opposed to 4.5% without BEPP). II. At least 2,300 add'l. new jobs created. III. Increased household non-farm income.* IV. Relative share of GDP accruing to Burundi's poor increases.* By end FY 2003: I. GDP growing by at least 5.2 per annum (as opposed to 5.0% without BEPP). II. At least 23,000 add'l new jobs created. III. Increased household non-farm income.* IV. Relative share of GDP accruing to Burundi's poor increases.*	I. GRB, IBRD, IMF statistics. II. GRB employment statistics; sample survey. III. Updates to HH income survey. IV. Updates to HH income survey. I. GRB, IBRD, IMF statistics. II. GRB employment statistics; sample survey. III. Updates to HH income survey. IV. Updates to HH income survey.	Assumptions for Achieving Goal: I. Real prices for goods produced by private sector do not decline. II. Technologies used by new private enterprises sufficiently labor-intensive to have positive employment impact. III. Recommendations of National Reconciliation Commission on benefitting all Barundi are accepted. IV. Burundi primary producers remain competitive with those in neighboring countries. V. External economic environment remains stable.
Program Purpose: To foster the growth of private enterprise in Burundi, especially among SME's, exporters, and in secondary towns.	By end FY 1994: I. $1.8 million add'l. value added by SME's/yr. II. Real value of non-traditional exports increases from 1988 total of $12.3 million.* III. Number of firms exporting increases from present total of 65.* IV. Greater number of provincial businesses engaged in trade. By end FY 2003: I. $1.8 million add'l. value added by SME's/yr. II. Real value of non-traditional exports increases from 1988 total of $12.3 million.* III. Number of firms exporting increases from present total of 65.* IV. Greater number of provincial businesses engaged in trade.	I. GRB business registration and tax records. II. Customs records; IMF, IBRD statistics. III. GRB business registration records. IV. Updates to SME baseline data survey. I. GRB business registration and tax records. II. Customs records; IMF, IBRD statistics. III. GRB business registration records. IV. Updates to SME baseline data survey.	Assumptions for Achieving Purpose: I. Policy reforms identified by BEPP and adopted by GRB will be uniformly enforced. II. Private firms have the capability and capacity to expand production and sales, particularly for export, once major policy constraints are eliminated. III. Recommendations of National Reconciliation Commission on benefitting all Barundi are adopted. IV. Other policy constraints, while significant, will not prevent improvement in private sector performance.

NOTE:

*Indicates that baseline data and/or quantitative estimates of EOP's will developed by USAID and GRB during conduct of the planned SME and informal sector baseline surveys.

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS:
Outputs:			Assumptions for Achieving Outputs:
FY 1990:			
CATEGORY A REFORMS:			
A. Decentralized customs clearance procedures.	A. Kayanza customs post authorized to clear shipments directly, thereby eliminating need to proceed via Bujumbura.	A. Site survey; issuance by GRB of enabling decree.	A,B. Policy-based assistance (PBA) will harden GRB resolve to implement plans to establish regional full-service customs centers and to decentralize related import & export operations.
B. Related import and export operations decentralized & facilitated.	B. (1) Commercial bank branches in interior of country authorized by GRB to issue import & export licenses up to FBu 10 m. (2) GRB branch offices in interior of country authorized to issue import & export licenses for transactions above FBu 10 m. (3) Use of faxed invoices & catalogue quotes authorized for export & import licenses.	B. Site visits; interviews with traders and bank officials.	
C. Easier access to foreign exchange for business travel.	C. Foreign exchange issued up to a standard maximum amount per day for a standard maximum period of 21 days for business travel abroad.	C. Issuance of GRB decree.	C. External economic pressures will not prevent GRB from increasing amount of foreign exchange made available to travellers.
RESEARCH ACTIVITIES:			
D. Baseline data on informal sector.	D. Completion of informal sector survey.	D. Receipt of survey.	D. USAID and Ministry of Labor will agree on Scope of Work for survey.
E. Baseline data on SME sector.	E. Completion of SME baseline survey.	E. Receipt of survey.	E. USAID and GRB will agree on Scope of Work for survey.
F. Increased knowledge of domestic policy constraints to exports.	F. Completion of study on domestic constraints to export promotion.	F. Receipt of study.	F. USAID and GRB will agree on Scope of Work for survey.
FY 1991:			
CATEGORY A REFORMS:			
A. Customs clearance procedures decentralized.	A. Gitega customs post authorized to clear shipments directly, thereby eliminating need to proceed via Bujumbura.	A. Site survey; issuance by GRB of enabling decree.	A. PBA will harden GRB resolve to implement plans to establish regional full-service customs centers.
B. Customs clearance procedures simplified.	B. Import/export procedures can be completed at one stop in one day at all customs posts.	B. Issuance of decree by Directorate of Customs.	B. PBA will encourage GRB to implement one-stop procedures.

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS:
Outputs: FY 1991 (cont.):			Assumptions for Achieving Outputs:
C. Business registration procedures simplified.	C. Courts authorized to issue Carte de Commercant at time of registration.	C. Issuance of decree changing locus of registration from Ministry of Commerce to civil courts.	C. PBA will persuade GRB to eliminate more cumbersome registration requirements.
D. Increased availability of market price information.	D. Prices of selected agricultural commodities from Gitega & Bujumbura markets published weekly in daily paper.	D. Appearance of 1st price list in Renouveau.	D. GRB able to gather price data and willing to publish it in daily paper.
E. Establishment of legal protections for the informal sector.	E. Issuance of new Carte de Commercant legalizing & protecting seasonal and itinerant traders.	E. Enactment of law creating new category of Carte de Commercant for those with no fixed place of business.	E. Affording seasonal and itinerant traders access to legal status will prove more beneficial than harmful to them.
CATEGORY B REFORMS:			
F. Increased SME access to credit.	F. Adequate legal structure for lease-purchase banking developed and enacted as 1st element in strategy to improve availability of credit.	F. Enactment of new law governing lease-purchase banking and clarifying tax status of lease-purchase property.	F. GRB and BEST TA team will be able to draft required legislation.
G. Business travel abroad facilitated.	G. Barundi merchants able to keep passports in their possession.	G. Issuance of "note de service" by Air and Border police.	G. Political concerns that lead GRB to limit possession of passports can be overcome.
RESEARCH ACTIVITIES:			
H. Increased knowledge of effects of Burundi labor code on SME's.	H. Completion of study on Burundi labor code.	H-J. Receipt of studies.	H-J. USAID and GRB will agree on Scopes of Work for studies.
I. Increased knowlege of possible ways to improve SME access to credit.	I. Completion of study on SME access to credit.		
J. Development of recommendations for improvements in administration and assessment of taxes.	J. Completion of review and synthesis of prior research on tax administration and assessment.		

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS:
Outputs:			Assumptions for Achieving Outputs:
FY 1992:			
CATEGORY A REFORMS:			
A. Simplification of business registration procedures.	A. Requirements for publication of new business by-laws in Official Bulletin of Burundi (BOB) eased and costs of publication in BOB reduced.	A. (1) New fees for publication of by-laws of proposed new businesses in BOB established. (2) Account set up for use of fees. (3) GRB modifies BOB procedures to allow desk-top publishing. (4) Small legal announcements published in daily paper rather than BOB.	A. GRB willing to modify fees and procedures of BOB and to reduce types of announcements that must appear in it.
B. Increased availabity of market price information.	B. Prices of selected agricultural commodities from several rural markets published weekly in daily paper.	B. Appearance of 1st rural market price list in Renouveau.	B. With TA from BEST, GRB will become able to gather price data from rural communes; GRB willing to publish such data.
CATEGORY B REFORMS:			
C. Decentralized customs clearance procedures.	C. Third regional customs post authorized to clear shipments directly, thus eliminating need to proceed via Bujumbura.	C. Site visit; issuance by GRB of enabling decree.	C. PBA will harden GRB resolve to implement plans to establish regional full-service customs centers.
D. Development of a GRB export promotion plan.	D. Completion by GRB of an industry- and/or product-specific export plan incorporating findings of FY 1991 study on domestic constraints.	D. Receipt of plan.	D. With BEST technical assistance, FY 1991 study on domestic constraints to exports will produce series implementable recommendations for relieving constraints.
E. Development of GRB strategy for easing credit availability.	E. Completion of draft strategy including proposals for measures to improve access of SME's to commericial credit.	E. Presentation of draft strategy to USAID for comment.	E. GRB and BEST TA team will be able to draw up proposals to facilitate access of SME's to credit.
RESEARCH ACTIVITIES:			
F. Development of revised simplified, uniform accounting standards.	F. Completion of consultancy to devise revised, simplified, uniform accounting standards.	F-I. Receipt of reports by GRB and USAID.	F-I. USAID and GRB will be able to agree on Scopes of Work for these studies.
G. Increased knowledge of remaining regulatory policies and practices that constrain private sector.	G. Completion of study on regulatory policies and practices.		
H. Increased knowledge of regional opportunities for export.	H. Completion of study on regional export marketing opportunities.		
I. Development of potential solutions to regional transport constraints and of policy options for reducing transport costs of imports and exports.	I. Completion of study on regional transport constraints.		

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS:
Outputs:			Assumptions for Achieving Outputs:
FY 1993:			
CATEGORY B REFORMS:			
A. Development of GRB plan for further simplification of business incorporation procedures.	A. GRB presents comprehensive plan for making further reforms in this area.	A. Receipt of plan.	A. GRB and BEST TA team will be able to draw up comprehensive plan for simplifying business registration procedures.
B. Regulations on eligibility of importers and exporters liberalized.	B. (1) Importers & exporters no longer required to register with GRB. (2) Non-national importers and exporters no longer required to pay FBu 10 million deposit. (3) Non-resident foreigners allowed to import and export.	B. Required decrees enacted.	B. FBA will demonstrate to GRB the advantages of liberalizing eligibility requirements.
C. Development of GRB strategy for easing burden placed on private sector by protective labor laws.	C. New law on labor practices drafted in response to findings of BEST-funded study.	C. Receipt of copy of draft law.	C. BEST-funded study will identify reforms in labor procedures that GRB will find politically acceptable.
D. Development of policy options for alleviating regional transport constraints and reducing transport costs for imports and exports.	D. Submission by GRB of plan for alleviating regional transport constraints and reducing transport costs of imports and exports.	D. Receipt of plan.	D. Interests of existing insurance and transport firms will not prevail over those of consumers.
RESEARCH ACTIVITIES:			
E. Development of policy options for definition and punishment of unfair trade practices.	E. Completion of BEST-funded study to prepare proposed legislation defining and imposing sanctions on unfair trade practices.	E-G. Submission of completed studies to GRB and USAID.	E-G. USAID and GRB will be able to agree on Scopes of Work for these studies.
F. Devlopment of possible tax benefits for new small businesses.	F. Completion of BEST-funded study on possible tax benefits for new small businesses.		
G. Development of policy options for updating and amending Burundi's Investment Code.	G. Completion of study of Investment Code.		

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NARRATIVE SUMMARY	Implementation Targets:
Inputs:	
I. Sector Grants	I. Four sector grants from FY 1990 through FY 1993 totalling $35.0 million.
II. Long-term technical assistance.	II. 135 person-months of long-term TA.
III. Short-Term technical assistance.	III. Approximately 80 person-months of short term TA.
IV. In-country and third country training.	IV. Approximately 100 person months of in-country and third country training.
V. Commodity Procurement.	V. $400,000 worth of commodities, including vehicles, personal computers, and fax machines.

ANNEX II: STATUTORY CHECKLIST

N.B. As agreed with GC/AFR, USAID is using the FY 1989 checklists pending issuance of standard FY 1990 checklists.

The Country Checklist should be reviewed by the Desk as well and confirmed.

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1989 Appropriations Act Sec. 578(b). Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependants or from entering the United States unlawfully?

   TO BE UPDATED

2. FAA Sec. 481(h); FY 1989 Appropriations Act Sec. 578; 1988 Drug Act Secs. 4405-07. (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which drugs are transported, or through which significant sums of drug-related profits are

   N/A

laundered with the knowledge or complicity of the government), (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to precent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance? N/A

3. <u>1986 Drug Act Sec. 2013; 1988 Drug Act Sec. 4404</u>. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec. 481(h), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the N/A

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government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity? — NO

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? — NO

6. FAA Secs. 620(a), 620(f), 620D; FY 1990 Appropriations Act Sec. 512, 550, 592. Is recipient country a Communist country? Is so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided — TO BE UPDATED

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directly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan? — NO

7. <u>FAA Sec. 620(j).</u> Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? — N/A

8. <u>FAA Sec. 620(l).</u> Has the country failed to enter into an investment guaranty agreement with OPIC? — NO

9. <u>FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5.</u> (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? — NO

10. <u>FAA Sec. 620(q); FY 1990 Appropriations Act Sec. 518</u>. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1989 Continuing Resolution appropriates funds? — NO

11. <u>FAA Sec. 620(s).</u> If contemplated assistance is development loan or to come from Economic Support Funds, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of — N/A

Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

12.	<u>FAA Sec. 620(t).</u> Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	NO N/A
13.	<u>FAA Sec. 620(u).</u> What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)	The Administrator has taken Burundi's arrearages into account in the FY 1990 Taking Into Consideration Memorandum.
14.	<u>FAA Sec. 620A.</u> Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?	NO
15.	<u>FY 1988 Appropriations Act Sec. 568.</u> Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)?	NO
16.	<u>ISDCA of 1985 Sec. 552(b).</u> Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?	NO

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17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

NO

18. FAA Secs, 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

NO

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device?

NO

20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Alligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

Taken into consideration at the time of approval of the FY 1990 OYB.

21. FY 1989 Appropriations Act Sec. 527. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

NO

22. FY 1989 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? — NO

23. FY 1989 Appropriations Act Sec. 540. Does the recipient country fully cooperate with the International refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? — YES

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B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? NO

FY 1989 Appropriations Act Sec. 536. Has the President certified that use of DA funds by this country would violate any of the prohibitations against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? NO

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? N/A

FY 1989 Appropriations Act Sec. 578(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? N/A

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5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?.

   Congress has been notified; the waiting period expired without objection on

2. FAA Sec. 611(a)(1). Prior to an obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

   (a) YES
   (b) YES

3. FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   See Annex IV, which describes how laws are enacted in Burundi and summarizes the assurances given by the GRB that the Ministerial Ordinances needed to implement the planned FY 1990 reform agenda will be issued in a timely manner.

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4. FAA Sec. 611(b); FY 1989 Approriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for guidelines.)

   N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

   N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

   NO

7. FAA Sec. 601(a). Information and conclusions whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

   The purpose of the program is to foster the growth of private enterprise in Burundi. It will do so by supporting a series of policy reforms that will support objectives (a)-(e) of FAA 601(a). The program is not expected to have any direct impact on labor unions.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

   By decreasing barriers to entry to the international trade sector, and by supporting policy reforms designed to lead to an expansion of overall private sector activity in Burundi, the program will help increase the number of investment and export opportunities available in Burundi for U.S. entrepreneurs.

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9. FAA Sec. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The GRB will make local currency counter-deposits equivalent in value to the amount of each sector dollar grant provided. This local currency will be used to cover the local costs of all technical assistance and training.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

The U.S. owns no Burundian currency.

11. FY 1989 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A

12. FY 1989 Appropriations Act Secs. 549. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

NO

13. FAA Sec. 119(g)(4)-(6) & (10). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other

(a) NO
(b) NO
(c) NO
(d) NO

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wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

N/A

15. FY 1989 Appropriations Act. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

16. FY 1989 Appropriations Act Sec. 538. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

17. FY 1989 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained?

N/A

18. State Authorization Sec. 139. (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same officers? (See Handbook 3, Appendix 6G for agreements covered by this provision).

The Program Grant Agreement will be below the minimum necessary for application of this provision.

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B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1989 Appropriations Act Sec. 548 (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity: or (b) in support of research that is intended primarily to benefit U.S. producers?

N/A

b. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental

The policy reforms that BEPP will support are specifically designed to foster the development of small and medium enterprises in the rural interior of Burundi. It will thereby help extend access to the economy at the local level, increase labor intensive production and the use of appropriate technology (both of which are salient characteristics of SME's), and disperse investment to rural areas. The program will not have any direct effect on cooperatives. By stressing private initiative, however, it will support self-help among Burundians.

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institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

Women, who are disproportionately represented among the rural informal sector enterprises the program will help will be among its chief beneficiaries. The program will have little or no effect on regional cooperation.

c. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1990 Appropriations Act (Development Fund for Africa). Does the project fit the criteria for the source of funds (functional account) being used?

This is DFA funding.

d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

YES

e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

YES

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

The program is intended to increase employment and net income for Burundi's poor. It includes a Monitoring and Evaluation component that will carefully assess its progress toward that goal.

g.	FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development, and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.	The program will provide some 100 person months of training for Burundians in both the public and private sector, thereby building the intellectual bases of support for private sector, market-oriented development.
h.	FY 1989 Appropriations Act Sec. 536. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?	NO (TO BE UPDATED)
	Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilization?	NO (TO BE UPDATED)
	Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	NO (TO BE UPDATED)
i.	FY 1989 Appropriations Act. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program or coercive abortion or involuntary sterilization?	NO (TO BE UPDATED)
	If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?	N/A (TO BE UPDATED)

j. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

YES

k. FY 1989 Appropriations Act. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 20 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?

At least 10% of the funds budgeted for technical assistance and commodity procurement will be channelled to such enterprises and institutions.

(TO BE UPDATED)

l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase

Yes, the Program is in compliance with Regulation 16. Other items in this section are not applicable.

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production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation, (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k) utilize the resources and abilities of all relevant U.S. government agencies?

m. <u>FAA Sec. 118(c)(13).</u> If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b) take full account of the environmental impacts of the proposed activities on biological diversity? N/A

n. <u>FAA Sec. 118(c)(14).</u> Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas?

(a) NO

(b) NO

o. <u>FAA Sec. 118(c)(15).</u> Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

(a) NO
(b) NO
(c) NO
(d) NO

p. <u>FY 1990 Appropriations Act</u>. If assistance will come from the Sub-Saharan African DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in accordance with the policies contained in section 102 of the FAA;

(a) The program is specifically designed to increase employment and net income for Burundi's poor.

(b) YES

(TO BE UPDATED)

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(c) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa;

(c) NO

(d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development; and to take into account, in assisted policy reforms, the need to protect vulnerable groups;

(d) Yes. The program seeks to overcome short-term constraints to long-term development by promoting reform of Burundi's policies toward the private sector and thereby bring about appropriate sectoral restructuring of its economies.

(e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the natural resource base in ways that increase agricultural production, to improve resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

(e) The program seeks to develop income-generating opportunities for the unemployed and underemployed in both rural and urban areas.

q. <u>FY 1990 Appropriations Act Sec. 515</u>. If deob/reob authority is sought to be exercised in the provisions of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified?

N/A

2. <u>Development Assistance Project Criteria (Loans only)</u>

a. <u>FAA Sec. 122(b).</u> Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

N/A

b. <u>FAA Sec. 620(d).</u> If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

N/A

c. <u>FAA Sec. 122(b).</u> Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

N/A

3. Economic Support Fund Project Criteria

a.	FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?	N/A
b.	FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes?	N/A
c.	FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	N/A

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

Notification was sent to the authorizing and appropriating committees on
The waiting period expired without objection on

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

See Annex IV, which describes how laws are enacted in Burundi and summarizes the assurances given by the GRB that the Ministerial Ordinances needed to implement the planned FY 1990 reform agenda will be issued in a timely manner.

3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

Provision of this assistance through a regional or multilateral organization would not be appropriate. The policy reforms the sector dollar grants under this program will support are internal affairs of the Republic of Burundi.

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	The purpose of the program is to foster the growth of private enterprise in Burundi. It will do so by supporting a series of policy reforms that will support objectives (a)-(e) of FAA 601(a). The program is not expected to have any direct impact on labor unions.
5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise)	By decreasing barriers to entry to the international trade sector, thereby supporting policy reforms designed to lead to an expansion of overall private sector activity in Burundi, the program will help increase the number of investment and export opportunities available in Burundi for U.S. entrepreneurs.
6. FAA Secs. 612(b), 636(h); FY 1989 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.	The GRB will make local currency counter-deposits equivalent in value to the amount of each sector dollar grant provided. This local currency will be used to cover the local costs of all technical assistance & training.
7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	The U.S. owns no Burundian currency.
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	YES
9. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?	N/A
10 FY 1989 Appropriations Act. Will assistance be designed so that the percentage of women participants will be demonstrably increased?	Yes. The Social Soundness analysis concludes that women will be among the program's principal beneficiaries.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? N/A

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities? N/A

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? N/A

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

e. FY 1989 Appropriations Act. If assistance is in the form of a cash transfer: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA N/A

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would themselves be available)? (c) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

2. Nonproject Criteria for Development Assistance

a. FAA Secs. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

The policy reforms that BEPP will support are specifically designed to foster the development of small and medium enterprises in the rural interior of Burundi. It will thereby help extend access to the economy at the local level, increase labor intensive production and the use of appropriate technology (both of which are salient characteristics of SME's), and disperse investment to rural areas. The program will not have any direct effect on cooperatives. By stressing private initiative, however, it will support self-help among Burundians.

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source);

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(1) N/A

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

(2) N/A

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(2) N/A

(4) [106] for energy, private voluntary organizations, and selected development problems; if so, extent activity is:

(4) N/A

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

(5) N/A

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c. FY 1989 Appropriations Act. Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA has been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U.S. Government?

YES

d. FAA Sec, 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

YES

e. FAA Sec. 281(h). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The program will provide some 100 person months of training for Burundians in both the public and private sector, thereby building the intellectual bases of support for private sector, market-oriented development.

f. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

YES

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RÉPUBLIQUE DU BURUNDI

Bujumbura le 17/[illegible]/1990

Ministère des Relations Extérieures
et de la Coopération

Le Ministre

N°510.4/ 012 /RE/90

A Monsieur le Représentant de l'U.S.A.I.D.

à BUJUMBURA.-

Objet : Programme BEPP
Projet BEST

Monsieur le Représentant,

Me référant à votre lettre USAID/90/01 du 8 Janvier 1990 et faisant suite aux multiples entretiens que j'ai eus avec vos services et avec vous même au sujet des réformes économiques envisagées dans les différentes politiques sectorielles, j'ai l'honneur de solliciter, au nom du Gouvernement, une Assistance financière et technique dans le cadre du Programme BEPP et du Projet BEST pour une période initiale de quatre ans allant de 1990 à 1993.

En même temps que je fais cette requête, j'aimerais porter à votre connaissance ce qui suit :

1. Les Réformes proposées pour l'année 1990 peuvent être réalisées assez rapidement et je suis heureux de vous dire que dans les prochains jours je serai à même de vous annoncer que tout ce qui était prévu pour l'année 1990 a été réalisé.

2. Les études devant être faites dans le cadre du programme précité pourraient avoir lieu, si possible, déjà en 1990. Je ne pense donc pas que ce soit nécessaire que nous reportions à plus tard (1991 - 1992 ou 1993) les études qui peuvent être faites déjà maintenant.

3. Je confirme la disponibilité des services de notre Administration qui sont appelés à collaborer avec les Bureaux choisis pour mener les études nécessaires a la poursuite des réformes.

4. Nous souhaiterions en revanche que l'Administration de l'USAID analyse rapidement et favorablement notre requête afin que la signature de

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REPUBLIQUE DU BURUNDI

Ministère des Relations Extérieures
et de la Coopération

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Le Ministre

l'Accord Officiel de subvention ait lieu à la fin Janvier ou les premiers jours de février 1990 pour que l'exécution et la mise en oeuvre du programme BEPP et du Projet BEST aient lieu dans un très proche avenir.

5. Toutefois, la mise en oeuvre du programme précité devant s'adapter à la situation évolutive de notre pays, nous pensons également que des amendements au Premier Accord pourront avoir lieu mais feront l'objet d'un préalable débat entre l'USAID et les différents services du Gouvernement.

6. Nous restons entièrement à votre disposition pour tous commentaires, suggestions ou observations devant nous aider à mettre en application les propositions de réformes déjà discutées avec vous.

En vous remerciant pour votre bonne collaboration dans la formulation du Programme, je vous prie d'agréer, Monsieur le Représentant, l'expression de ma parfaite considération.

LE SECRETAIRE D'ETAT CHARGE DE LA
COOPERATION,

Fridolin HATUNGIMANA.

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Annex IV: Legislative Action Requirements: FAA 611(a)

Analysis of legislative requirements and the political and administrative environment for the success of the policy reforms to be supported by the Burundi Enterprise Promotion Program (BEPP, 695-0125) strongly indicates that the necessary actions in furtherance of program objectives can be expected to be achieved in a timely manner following execution of the Program Grant Agreement.

There is no legislature in Burundi. Under the Third Republic, which began with the advent to power of President Pierre Buyoya in September 1987, laws are enacted through two mechanisms. The first is the Presidential Decree. Under this mechanism, the relevant technical Ministry or Agency develops a proposal for a new law or a change in existing law. This proposal is then vetted and amended by an ad hoc interministerial committee including all the various offices of the Government that might be affected by it. Participation in these Committees is normally confined to the staff level, i.e., the highest-ranking participants are usually the Director Generals (the highest sub-Cabinet title) of the offices concerned. Once agreement and approval has been reached at this level, the proposal is then transmitted to the full Cabinet, known as the Council of Ministers. Their approval is often a formality. The Decree is then forwarded to the President for signature, after which it is published in the Official Bulletin of Burundi.

The second mechanism is the Ministerial Ordinance. These are often issued simultaneously with Decrees. Their principal function is to elaborate or further clarify the intent of Presidential Decrees at a level of detail that would be inappropriate for the President's attention. They may also be used to amend existing Decrees or previously-issued Ministerial Ordinances. The procedures for approval of Ministerial Ordinances are similar to those for Presidential Decrees. The chief difference, however, is that once approval of an Ordinance is reached by an ad hoc interministerial committee, the Ordinance is not forwarded to the full Council of Ministers. Rather, it is forwarded for signature by the relevant Minister.

The measures included in the policy reform agenda that BEPP will support in FY 1990 will all be enacted by Ministerial Ordinance signed by the Minister of Finance. One Ordinance, that establishing a full-service customs post at Kayanza, was issued on January 23, 1990, and the Ministry of Foreign Affairs and Cooperation has assured USAID during design of this program that the other required Ordinances would be issued shortly. Proposals to enact Ordinances authorizing the decentralization of ancillary customs clearance procedures and increasing the amount of foreign exchange made available for business travel have been favorably reviewed by the GRB. Similarly, most of the reforms planned for FY 1991 and beyond will also be enacted through Ministerial Ordinance. The GRB has repeatedly stressed to USAID its willingness to work with the Mission to develop the necessary measures. (See, for example, Annex III, "GRB Request for Assistance.") USAID/Burundi is therefore confident that the necessary actions may reasonably be anticipated to be completed in time to permit the orderly accomplishment of the purposes of this Program and Project.

ANNEX V: Activities of Other Donors.

A. Macroeconomic Characteristics.

Burundi's status as one of the least developed countries in the world, or LLDCs, together with its firm commitment to national economic development, has resulted in a sustained flow of official development assistance (ODA) from a host of multilateral institutions and other countries. As noted in Table V-1, total net economic assistance increased from about $117.2 million in 1980 to $192.6 million in 1987. The ODA provided during this period can be briefly summarized in the following form. For each $100 received:

-- $51 was provided bilaterally by members of the OECD's Development Assistance Committee, or DAC;

-- $43 was provided by multilateral donors;

-- $6 was provided by the members of OPEC;

-- $32 was provided in the form of loans whose grant element averaged 65.28 percent;

-- the remaining $68 was given in the form of grants.

The leading multilateral donors were IDA, the World Bank's soft loan window, which contributed 34 percent of total assistance provided in this category, the FED, which provided 19 percent, and the African Development Bank (AfDB) and the UNDP, which each provided 10 percent. The leading bilateral donors during the period were France, which provided 30 percent of all bilateral assistance, Belgium, with 25 percent, and the Federal Republic of Germany, with 16 percent.

How important was Burundi to the above donors as a recipient of their assistance? It is interesting to note that the country was a relatively important recipient only to the former colonial power of Belgium. Burundi was the third highest recipient of Belgian ODA, following closely behind Zaire and Rwanda. Burundi did not appear among the 25 leading recipients for either of the two other major bilateral donors. The country does appear as a major recipient of aid from two other DAC countries with relatively small programs during this period, however. These are Ireland, for which Burundi ranked as the eighth largest recipient, and Switzerland, for which Burundi was the ninth highest recipient of assistance during 1985-1986.

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TABLE V-1 GEOGRAPHICAL DISTRIBUTION OF FINANCIAL FLOWS TO BURUNDI, 1980 - 1987
(US $ MILLIONS)

TOTAL RECEIPTS NET

	1980	1981	1982	1983	1984	1985	1986	1987
DAC COUNTRIES								
AUSTRALIA	-	-	-	-	-	-	-	-
AUSTRIA	-	-	0.0	0.0	0.1	0.2	0.3	0.3
BELGIUM	28.4	20.3	28.1	16.0	17.3	18.4	19.2	17.6
CANADA	0.0	0.1	0.8	0.8	1.8	1.2	1.0	1.0
DENMARK	0.4	0.1	-	0.1	0.1	0.0	-	0.1
FINLAND	0.2	0.0	0.8	0.7	0.3	0.3	0.0	0.0
FRANCE	12.8	16.6	46.0	46.7	21.1	19.4	12.3	17.1
GERMANY, FED. REP.	10.1	12.0	14.3	19.9	14.1	12.6	14.1	16.6
IRELAND	-	-	-	0.1	0.2	0.3	0.2	0.2
ITALY	-0.4	0.1	0.7	0.9	1.7	16.7	6.2	6.3
JAPAN	2.2	2.7	1.6	1.2	4.1	1.7	6.0	11.0
NETHERLANDS	0.7	1.6	0.9	0.7	0.6	1.8	4.4	2.4
NEW ZEALAND	-	-	-	-	-	-	-	-
NORWAY	-	0.2	0.5	1.3	0.1	1.2	3.2	1.2
SWEDEN	0.3	0.1	0.1	-	-	-	-	-
SWITZERLAND	1.1	8.4	1.1	0.9	0.7	3.3	10.7	2.7
UNITED KINGDOM	4.0	10.2	-0.2	0.1	0.1	0.1	0.1	0.2
UNITED STATES	4.0	7.0	8.0	6.0	12.0	9.0	6.0	4.0
TOTAL	63.8	79.4	104.7	95.2	74.4	86.2	77.5	78.6
MULTILATERAL								
AF.D.F.	4.5	1.8	5.5	6.6	5.4	10.3	14.6	12.8
AF.D.B.	0.3	-0.1	0.5	6.4	10.5	4.9	4.0	6.7
AS.D.B.	-	-	-	-	-	-	-	-
CAR.D.B.	-	-	-	-	-	-	-	-
E.E.C.	12.0	25.5	7.2	12.5	10.0	9.6	11.2	10.2
IBRD	-	-	-	-	-	-	-	-
IDA	11.6	10.4	18.1	27.2	26.5	17.7	43.1	40.5
I.D.B.	-	-	-	-	-	-	-	-
IFAD	-	0.5	0.5	0.5	1.5	5.6	2.4	3.6
I.F.C.	-	0.4	1.4	3.5	-	-	-0.7	-3.7
IMF TRUST FUND	6.4	0.1	-	-	-	-	-	-
U.N. AGENCIES	-	-	-	-	-	-	-	-
UNDP	5.8	6.7	7.7	7.8	6.2	6.8	7.8	6.0
UNTA	0.4	0.9	0.7	1.0	0.9	0.8	1.0	1.0
UNICEF	1.1	0.7	0.7	1.2	1.1	2.7	2.7	2.4
UNRWA	-	-	-	-	-	-	-	-
WFP	5.3	2.8	2.1	2.5	2.8	1.5	1.5	2.0
UNHCR	0.6	1.9	1.5	1.0	1.0	0.7	0.0	0.6
OTHER MULTILATERAL	1.9	1.8	1.5	2.4	2.6	3.0	2.5	1.8
ARAB OPEC AGENCIES	4.5	2.0	-0.1	1.4	0.0	1.9	3.9	10.0
TOTAL	54.2	55.2	45.2	74.0	68.3	65.2	84.5	96.5
OPEC COUNTRIES	3.7	2.1	6.0	7.2	13.2	6.3	8.4	12.1
E.E.C. + MEMBERS	67.9	86.4	99.0	96.9	64.9	78.7	67.9	38.5
TOTAL	121.6	134.7	157.0	176.4	155.5	157.4	185.9	188.0

TOTAL ODA NET

	1980	1981	1982	1983	1984	1985	1986	1987
DAC COUNTRIES								
AUSTRALIA	-	-	-	-	-	-	-	-
AUSTRIA	-	-	0.0	0.0	0.1	0.2	0.3	0.3
BELGIUM	27.7	22.7	20.6	16.2	15.6	18.2	19.2	18.9
CANADA	0.0	0.1	0.8	0.8	1.8	1.2	1.0	1.0
DENMARK	0.4	0.1	-	0.1	0.1	0.0	-	-
FINLAND	0.2	0.0	0.8	0.7	0.3	0.3	0.0	0.0
FRANCE	12.9	16.9	25.8	21.2	17.7	22.5	20.7	24.2
GERMANY, FED. REP.	10.0	11.9	14.3	19.8	14.2	12.5	14.2	16.2
IRELAND	-	-	-	0.1	0.2	0.3	0.2	0.2
ITALY	0.2	0.5	0.7	0.9	1.6	3.3	0.2	5.1
JAPAN	2.2	2.7	1.6	1.2	4.1	1.7	6.0	11.0
NETHERLANDS	0.7	1.6	0.9	0.7	0.6	1.8	2.6	1.6
NEW ZEALAND	-	-	-	-	-	-	-	-
NORWAY	-	0.2	0.5	1.3	0.1	1.2	3.2	1.2
SWEDEN	0.3	0.1	0.1	-	-	-	-	-
SWITZERLAND	1.1	0.9	1.1	0.9	1.3	3.3	10.7	2.7
UNITED KINGDOM	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.2
UNITED STATES	4.0	7.0	8.0	6.0	12.0	9.0	6.0	4.0
TOTAL	59.7	64.9	75.2	69.7	69.8	75.5	84.4	86.6
MULTILATERAL								
AF.D.F.	4.5	1.8	5.5	6.6	5.4	10.3	14.6	19.9
AF.D.B.	-	-	-	-	-	-	-	-
AS.D.B.	-	-	-	-	-	-	-	-
CAR.D.B.	-	-	-	-	-	-	-	-
E.E.C.	12.0	25.5	7.2	12.5	10.0	9.6	11.2	10.2
IBRD	-	-	-	-	-	-	-	-
IDA	11.6	10.4	18.1	27.2	26.5	17.7	43.1	40.5
I.D.B.	-	-	-	-	-	-	-	-
IFAD	-	0.5	0.5	0.5	1.5	5.6	2.4	3.4
I.F.C.	-	-	-	-	-	-	-	-
IMF TRUST FUND	6.4	0.1	-	-	-	-	-	-
U.N. AGENCIES	-	-	-	-	-	-	-	-
UNDP	5.8	6.7	7.7	7.8	6.2	6.8	7.8	5.0
UNTA	0.4	0.9	0.7	1.0	0.9	0.8	1.0	1.0
UNICEF	1.1	0.7	0.7	1.2	1.1	2.7	2.7	2.4
UNRWA					-	-	-	-
WFP	5.3	2.8	2.1	2.5	2.8	1.5	1.5	2.0
UNHCR	0.4	1.9	1.5	1.0	1.3	0.7	0.0	0.5
OTHER MULTILATERAL	1.9	1.6	1.5	2.4	2.5	3.0	2.5	1.5
ARAB OPEC AGENCIES	4.5	2.0	-0.1	1.4	0.0	0.7	2.1	7.5
TOTAL	53.9	55.0	45.4	64.1	57.8	59.1	89.4	93.9
OPEC COUNTRIES	3.7	2.1	6.0	7.2	13.2	5.3	8.4	12.1
E.E.C. + MEMBERS	63.9	79.3	69.5	71.3	59.8	70.0	74.7	76.7
TOTAL	117.2	122.0	126.7	141.0	140.5	142.6	187.6	192.6

SOURCE: COMPILED FROM OECD, GEOGRAPHICAL DISTRIBUTION OF FINANCIAL FLOWS TO DEVELOPING COUNTRIES, EDITIONS OF 1984, 1986, 1988

It would be difficult to exaggerate the importance to Burundi of the volume of net ODA received from donors. As noted in Table V-2, in recent years total foreign economic assistance consistently exceeded total foreign exchange earnings from exports by annual amounts ranging between $18.8 million and $44.3 million.

Table V-2
Burundi's Exports and ODA, 1980 - 1986
(US $ millions)

	1980	1981	1982	1983	1984	1985	1986
1. Exports	81.0	87.7	102.6	96.7	101.3	123.8	157.1
2. ODA	117.2	122.0	126.7	141.0	140.5	142.6	187.6
Difference	36.2	34.3	24.1	44.3	39.2	18.8	30.5

ODA has also amounted to about 50 percent of GRB expenditures in recent years. In an interesting comparison of the data for 1986, Burundi's ODA was found to amount to 48.1 percent of GRB spending for the year. This is a relatively high figure. Worldwide, the percentage was exceeded only by a handful of other African countries: Chad and Zaire with 48.6 percent each; Mail, with 60.5 percent; Mauritania, with 120.5 percent; Niger, with 67.3 percent; and Somalia, with 67.6 percent. The overwhelming majority of all of Burundi's public sector investments have consistently been financed from ODA. Likewise, despite customary donor reluctance to the contrary, many of the country's recurrent expenditures have also been funded from donor contributions or concessional loans as well.

B. The Structural Adjustment Program.

1. The First Phase of the Program.

Among the many donor activities carried out in Burundi, the structural adjustment program is unique. With nearly $150 million committed thus far, its size is as impressive as the variety and depth of policies identified for reform are ambitious. The GRB's Structural Adjustment Program was designed by the World Bank and the IMF staffs and has been actively supported by both institutions and co-financed by a variety of other donors, including Belgium, Japan, and Saudi Arabia. The program began in mid-1986 and has evolved through three phases thus far. During the first phase of the program, the IMF supported the shorter-term financial stabilization measures with a SAF from which SDR 8.54 million was eventually disbursed. The SAF included policy actions in the following areas:

> Exchange rate adjustment: aimed at correcting the real effective appreciation that had occurred since 1980 and achieving a structural improvement in the balance of payments;

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External payments: limiting the deficit in the current account, building up foreign exchange reserves, and limiting the debt service to a reasonable proportion of exports;

Budgetary and monetary policies: increasing the level of public savings to finance the public investment program, setting up reasonable targets for budget deficits, with a view to reduce the crowding-out of the private sector by GRB domestic borrowing, to contain domestic demand, and to avoid inflationary pressures;

Credit policies: the goals were to improve incentives for private savings and orient credit to the productive sectors.

The IBRD also supported the structural adjustment program. Its SAL I valued at $15 million was designed to (1) improve the utilization of the public sector resources, and (2) rationalize the incentive system and improve the efficiency of resource allocation in the private sector. Measures under the first of these categories covered the following areas:

Public expenditures: the objectives were to ensure the accountability of the public investment program with available resources and stabilization requirements, to transform the budget into an efficient tool of macroeconomic management, and to reinforce existing institutional capacity in view of implementing these reforms;

Public enterprises: although the parastatals account for more than half of formal sector employment and industrial value added, their performance, in the aggregate, has been poor. Most have operated at a low level of capacity, incurred operating losses, have been unable to contribute to their own investment program or service their debt, and have constituted a considerable drain to the GRB budget. The SAL's action plan sought to ensure that GRB participation would be limited to those parastatals that provide vital public services, or where strategic sectors are involved and then only if convinced that reasonable measures were being adopted to ensure their efficient operation.

The rationalization of the incentive system and the improvement in the efficiency or resource allocation were expected to be carried out through the following policies.

Agricultural Sector policies: the action plan consisted of (1) the design and establishment of price mechanisms that would allow for regular adjustment of export crop prices, (2) modification of processing techniques for coffee and increased efficiency in its marketing, and (3) rationalization of the institutional framework, with specific reference to the Regional Development Companies, or SRDs.

Commercial and industrial policies: the objectives encompassed (1) liberalization of imports and the rationalization of tariffs, (2) deregulation of price controls, (3) revision of the Investment Code, and (4) reduction of GRB investment in the industrial sector.

Credit: the policy was to orient the allocation of credit towards productive investments without discriminating against small borrowers.

Policy performance during the first year of the structural adjustment program was consistent with program objectives, and in some cases even surpassed expectations, with the exception of the public finance area, which was adversely affected by a shortfall in coffee export receipts. In the external sector the Burundi Franc was devalued progressively by 24 percent against the SDR to which it was pegged. The GRB undertook a comprehensive import liberalization program. With the exception of three groups of locally-manufactured products, all quantitative quotas were replaced by tariffs, and import licensing became automatic, save for a group of luxury goods. With the aim of reducing high rates of effective protection for many import-intensive industries and providing a more uniform rate of protection for production of intermediate goods based on domestic resources, the GRB introduced a simplified customs tariff, comprising a reduced number of duties (two instead of three) and a reduced number of duty rates (from 57 to 5); the range of the new tariff structure was narrowed to 15-50 percent (from the 0 - 280 percent range). Luxury goods are still taxed at 100 percent. Taxes on manufactured exports were also eliminated to reduce the anti-export bias of the trade regime.

To improve public resource management, the GRB created an interministerial committee to monitor Burundi's external debt and provide advice on the contracting of new debt. Preparatory work was initiated for the first three year Public Investment Program (PIP) for 1986-1989. The PIP is designed to be a rolling program subject to annual revision in light of program implementation and resource constraints. In the parastatal sector, the GRB committed itself to close down four unprofitable enterprises and a Service in Charge of Public Enterprises (SCEP) was created to oversee the rehabilitation programs under preparation. Along with the tariff reform, a reform in the transaction tax was introduced, resulting in the replacement of a "cascade tax" by a single source tax, levied on production and imports. Import duty exemptions were also considerably reduced.

To rationalize the structure of incentives the Investment Code was revised. Most price controls were eliminated, except for eight strategic products for which price ceilings can only be imposed in case of shortages, and for a definite period of time, and for petroleum and cement. To encourage an efficient utilization of credit, the structure of interest rates was simplified considerably and rates were increased to positive real levels. To improve small and medium scale enterprises' access to credit, a National Guarantee Fund was established to provide collateral for their loans.

In the agricultural sector, producer prices for coffee and tea were increased by more than the local inflation. Several studies were launched to assess the potential for coffee production and the agricultural pricing system.

While economic growth and domestic inflation outturns that resulted from the initial reforms were better than envisaged, the program bench marks for net foreign assets, the fiscal deficit, total domestic credit, and credit to the GRB could not be met, owing to the shortfall in receipts from coffee exports and related fiscal revenue.

2. The Second Phase of the Program (1988 - 1990).

The second phase of the structural adjustment program took into account the deterioration of Burundi's fiscal and balance of payments positions as well as the GRB's medium-term outlook, as expressed in the Fifth Five Year Plan (1988 - 1992). While maintaining the basic objectives in the area of pricing policy, export incentives and the financial sector received special emphasis.

The Second Year SAF Program, valued at SDR 12.81 million, was specifically designed to contain the overall fiscal deficit, the current account deficit, and to avoid inflationary pressures. Specific measures called for included (1) increases in GRB revenues owing to an increase in the transaction tax from 12 to 15 percent, an extension of the statistical tax to all imports, and strengthening the administration of customs duties to improve collections; (2) restriction of recurrent public expenditures on personnel outlays, goods and services, and recurrent subsidies; and (3) measures to reduce budgetary financing through the banking system by 32 percent, thus increasing credit to the private sector.

The structural adjustment measures proposed under SAL II, which was valued at $90 million, were aimed at consolidating the progress that had been made under SAL I while addressing a number of additional issues. The latter included further liberalization of the financial and labor markets and initial efforts to accommodate the social dimensions of structural adjustment. Highlights of the new program are summarized below.

Trade and industrial policy: the program aims at improving the competitiveness of non-traditional exports and import substitution activities and at providing more neutral protection across economic sectors. Specific measures called for included: periodic adjustment of the exchange rate, completion of the ongoing tariff reform, promulgation of an Export Promotion Decree conferring rebates and tax advantages on exporters, and studies designed to identify the country's long-term resource and marketing potentialities.

Public expenditures: adoption of a rolling three year Public Expenditure Program (PEP) covering both recurrent and capital expenditures and integrating the parastatals as a basis for rationalizing public sector management. In the parastatal subsector, the GRB's involvement was to be limited to new activities with projected economic viability and all parastatals were to be required to cover their operating costs and service their own external debts to the maximum extent possible.

Market liberalization: financial markets were to be further liberalized by replacing the regulatory system by more efficient instruments to manage credit and liquidity. The market for labor was to be liberalized by making it easier for employers to hire and fire employees.

The economic impact of the program has been felt in several areas and has been judged as largely positive by the IBRD. In general, while some urban consumers have been adversely affected by devaluations and tight public sector wage policies, most low- and middle-income consumers have benefited. A recent assessment of the program by that institution concluded that

> "Increasing domestic competition has led to reduced costs for basic consumer staples. the program has encouraged the development of export-oriented activities, the maintenance of broad financial discipline, and an improvement in the competitiveness of Burundi's exports. Faced with increased competition, firms have been looking for less expensive sources of imports and import substitutes and have shown greater interest in producing for export (exports of goods and nonfactor services increased by 12 percent per annum in real terms in 1987). At the same time, currency adjustment, together with price liberalization, has contributed to containing the growth of imports. In volume terms imports declined both in 1987 and in 1988." (1)

3. The Third Phase of the Program (1989 - 1991).

The GRB, with assistance from the IBRD and IMF, has recently completed and submitted to the staffs of both institutions the third medium-term economic and financial policy framework paper. The document reviews progress made under the second year of the structural adjustment program and outlines the GRB's objectives and program for the 1989-1991 period. As such, it is the first paper prepared by the three parties to contain a concrete policy reform agenda that extends beyond the expiration of the current SAL and SAF Agreements. Overall, the PIP emphasizes the gradual, evolutionary characteristics of the structural adjustment program. Previous reforms will continue to be consolidated while newer, complementary reforms are gradually undertaken. Some of the more important new reforms are summarized below.

External sector policies: now that the GRB has completed the relaxation of import controls, the remaining non tariff barriers on the imports competing directly with domestically produced goods will be eliminated by August, 1990. The right of enterprises to employ foreign labor in areas of expertise not available in Burundi also will be reaffirmed.

Public sector management: pilot Public Expenditure Programs (PEPs) are being finalized for four key sectors: agriculture, transport, health, and education. Drafts for two others -- commerce and energy/mines -- are also underway. Various measures aimed at improving the efficiency and equity of tax collection are scheduled for implementation early in 1990. Budgetary and accounting procedures also are being strengthened with IMF assistance. Public enterprises will be required to finance entirely their own investments.

Production and investment incentives: efforts will be undertaken to analyze regional non tariff barriers to increased exports. Agricultural services delivery will be strengthened and commercial and construction activities of the regional development organizations, or SRDs, will be privatized. The coffee pricing system, especially in view of the recent precipitous decline in world market prices, will be reformed.

Monetary and credit policies: the compulsory savings policy of CADEBU will be gradually phased out. The legal and regulatory framework within which CADEBU and the COOPECS operate is being drafted with the assistance of the Central Bank (BRB).

C. Other Noteworthy Donor Projects and Programs.

1. The APEX Project.

The IBRD's program in Burundi is both relatively large and comprehensive. Past projects heavily emphasized rural infrastructure, especially in the areas of road and highway construction, electric power, and the construction of clinics and schools. New programs in agricultural services, coffee processing, and transport -- all of which have sizeable quick disbursing components -- are also noteworthy. As noted previously, the structural adjustment program has a major component devoted to privatization. Given its target audience, however, the APEX Project is of special interest. It is by far the largest, most ambitious project mounted to date by any donor whose target beneficiaries are exclusively SMEs. The project provides $7.2 million in funds through a special window in the Central Bank that commercial banks can access for loans to SMEs. The loans have a ceiling of FBu 3 million, or a little less than $20,000 each. An additional $800,000 was provided for technical assistance to the Chamber of Commerce and Industry (CCIB) in the formulation and evaluation of loan proposals received. APEX was approved late in 1987. To date, approximately 120 loan applications have been received. All together, the total volume of credit requested substantially exceeds the $7.2 million available. The requests are currently being evaluated and disbursement is expected to commence soon.

2. The European Economic Community's Fund for Economic Development (FED).

The FED's program in Burundi heavily emphasizes the infrastructure component of rural development activities. Roads, rural electrification, and community water systems figure prominently in its portfolio. The FED is also supporting the structural adjustment program with an ECU 12 million commodity import program tied to procurement within the EEC. In addition, the FED's sister institution, the European Investment Bank, at the behest of the FED, has actively supported SME development with an ECU 3 million loan to the National Bank for Economic Development (BNDE) for loans to smaller businesses. Now that the funds are completely disbursed, the Bank is currently in the process of approving an ECU 3 million to 4 million follow-on loan to the BNDE for the same purpose. Finally, the FED has recently approved an ECU 32 million grant for a large integrated rural development project for the Mugamba region that contains an ECU 3 million component for support to handicraft activities. The FED has recently emphasized that once Lome IV is approved, additional, more structured assistance for the private sector is foreseen.

3. France.

The French aid program in recent years has focussed upon assistance for expanding Bujumbura's port facilities to stimulate the growth of trade on Lake Tanganyika. Other assistance has included expansion and modernization of the national telecommunications network, electric power lines, and expansion and improvements in tea culture and processing. France has also extended several lines of credit to the BNDE in the past, a small amount of which has found its way to SMEs. The French are also designing a project that will complement the APEX Project, but the minimum loan size of BuF 3 million commences with the APEX Project's ceiling.

4. Belgium.

Belgian assistance is concentrated in the areas of higher and technical education, public health (especially larger and more modern hospitals), agricultural research, integrated rural development with emphasis upon electrification and irrigation, and transport. Belgium has also supported the structural adjustment program with 300 million in grant assistance in Belgian Francs (about $7.5 million) for a commodity import program with procurement tied to the donor. Activities that most directly affect the private sector include the financing of maintenance for rural roads and improvements in rural housing.

5. The Federal Republic of Germany.

West Germany's aid program also emphasizes rural development. Investments in infrastructure, especially electrification and water systems for medium-sized provincial towns predominant. Improvements in livestock, especially cattle and goats, is another area of emphasis. As with other donors, the FRG has also provided past assistance to the BNDE for on-lending to SMEs. In addition, the FRG has made known to the GRB that several private German firms engaged in international transport would be interested in investing in Burundi if the parastatal trucking company that handles foreign shipping -- OTRABU -- were to be privatized. The West German state of Baden-Wurtemberg is also actively assisting a handicraft project in Burundi.

6. United Nations Development Program.

Several of the UNDP's activities, especially those involving training, directly affect the private sector. This is particularly true of its assistance to the Center for Improvement and Training (CPF), the Center for Training and Professional Improvement, and the Superior Institute for Business Administration. In addition, a number of projects that are currently underway affect in varying degrees the private sector. These include Support for Handicrafts, Standardization and Quality Control, and technical assistance for the Center for Promotion of the Industrial Sector.

Note.

1. IBRD. Burundi -- Structural Adjustment Facility -- Medium-Term Economic and Financial Policy Framework Paper, 1989-1991. Document Number EBD/89/165, dated June 2, 1989, p. 4.

ANNEX VI: Economic Overview.

A. Trends in real GDP.

Growth in Burundi's real GDP between 1980 and 1987 averaged 2.6 percent per year. This performance was slower that of the 1965 -1980 period, when growth averaged 3.5 percent annually. The growth in per capita income for the entire 1965 - 1987 period was sustained at an annual average of 1.6 percent. Nonetheless, Burundi's performance, relative to that of other LDCs and low and middle income sub-Saharan African countries, actually improved during the 1980s. The comparable annual averages for real GDP for other LDCs, but excluding China and India, was 5.5 percent between 1965 and 1980 and 1.7 percent between 1980 and 1987. For the sub-Saharan African low and middle income countries as a group, growth averaged 5.1 percent annually between 1965 and 1980, but only 0.4 percent between 1980 and 1987. Thus, Burundi's GDP growth performance was substantially below average for the earlier period, but has been well above the averages during the 1980s. The growth performance of per capita GDP was just above the 1.5 percent average annual rate registered by the other low income LDCs excluding China and India, but well above the 0.6 percent sustained by the sub-Saharan countries as a group.

Preliminary figures indicate that the rate of growth in the real GDP at market prices for 1988 was 3.5 percent. The comparable figure for 1989 is estimated at approximately 2.4 percent. The recent slowdown is attributable to a combination of factors. They include below normal crop output due to abnormally heavy rainfall. There was also an unanticipated accumulation of inventories of imported consumer goods due to a real effective depreciation of the exchange rate by 16 percent during the course of 1988. Finally, there was a conscious effort on the part of the central bank (BRB) to conserve foreign exchange by slowing down the process of approving import licenses during the latter half of the year owing to the precipitous decline in the terms of trade due to the plunge in world coffee prices following the collapse of the International Coffee Agreement in July.

On a sectoral basis, industry has proven to be the most dynamic sector. Between 1965 and 1980 industry grew at an average annual rate of 7.8 percent. Since 1980 it has grown at the somewhat more leisurely pace of 4.9 percent. Within the industrial sector, however, the manufacturing subsector's rate of performance differed slightly. Average annual rates of growth were 6.0 percent and 6.6 percent, respectively, for the 1965 -1980 and 1980 - 1987 periods. Despite the sustained rates of growth well above those for the economy as a whole, however, the industrial sector commenced from such a small base that by 1987, it still accounted for no more than 14 percent of the GDP.

The agricultural sector grew at the slower pace of 3.3 percent between 1965 and 1980 and 1.7 percent after 1980. Given its preponderance within the economy, however - 59 percent of GDP if livestock, fishing, and forestry activities are included - it is scarcely surprising that the overall rate of economic growth was heavily influenced by its performance.

The services sector, along with the other remaining economic sectors, grew at the average annual rate of 2.7 percent between 1965 and 1980. Between 1980 and 1987, the tempo increased to 3.5 percent per year. The activities in this catch-all category have amounted to 27 percent of the GDP in recent years.

Given the private sector focus of the proposed BEPP Program, it is interesting to compare Burundi's performance on a sectoral basis with other countries at similar levels of development and within the sub-Saharan African region. While industry has been the country's most dynamic sector since at least the mid sixties, its relative performance was well below average in the years prior to 1980. Since 1980, however, the reverse has been true. Other low income LDCs, excepting China and India, experienced average rates of industrial growth of 10.0 percent annually between 1965 and 1980, but only 0.2 percent between the latter date and 1987. Within the sub-Saharan African countries, the average annual growth rates were marginally lower. They reached 9.8 percent between the mid 1960s and 1980, but -1.2 percent thereafter.

Burundi's agricultural sector, on the other hand, while seemingly less dynamic in comparison, fares significantly better relative to that of other countries. Between 1965 and 1980 the average annual rate of growth in the agricultural sectors of other low income LDCs was 2.3 percent, compared to 3.3 percent for Burundi. Between 1980 and 1987 the rate of growth declined to 1.9 percent. Burundi's was only marginally lower at 1.7 percent. In comparison to the other lower and middle income sub-Saharan countries, Burundi's performance was even better. As a group, the sub-Saharan countries managed only an average annual rate of growth in agriculture of 1.7 percent between 1965 and 1980. For the 1980 to 1987 period, the aggregate growth declined to 1.2 percent.

Burundi's growth performance in the services and other sectors category lagged significantly behind that of other countries at a similar level of development through 1980. The country has turned in a higher than average performance since 1980, however. The other low income countries minus China and India as a group registered growth rates of 5.7 percent between 1965 and 1980 and 2.9 percent thereafter. For the sub-Saharan countries, the rates were lower, i.e., 5.5 percent and 1.2 percent, respectively. The comparable rates for Burundi, as noted above, were 2.7 and 3.5 percent, respectively.

B. Prices, Wages, and Employment.

1. Prices.

Consumer prices increased at an average annual rate of 8.5 percent between 1965 and 1980. They declined to a 7.5 percentage rate thereafter. This performance compares very favorably with the rates turned in by the other LDCs. For other low income countries excluding China and India the relevant figures are 18.2 percent and 13.3 percent, respectively. For the low and middle income sub-Saharan African countries, the comparable rates are 12.3 percent and 15.2 percent, respectively. The rate of inflation has increased dramatically in recent months, however. Between March of 1988 and March of 1989, the latest figures currently available, the overall price index rose by 11.8 percent. The increase is attributable in large part to two factors. The first is the size of the GRB's growing deficits, which have been financed in part by borrowing from the BRB. The second is the rate at which the Burundi Franc was devalued in 1988 and 1989, driving up the price of imported goods in local currency.

2. Wages.

Wages in the private sector are subject to a minimum wage which has been revised upward twice since 1980. Outside Bujumbura and Gitega, the minimum currently stands at FBu 88 per day. In the urban areas, daily minimum wages are fixed as follows: unskilled, FBu 140-170; semiskilled, FBu 240-294; and skilled, FBu 351-403. Employers also bear social charges, which range from 30 percent to 60 percent of the wage bill. Most skilled workers in the private sector receive salaries that are 30-40 percent higher. However, civil servants receive some additional benefits such as monthly allowances and housing.

3. Employment.

Few data are available on employment in Burundi. The IMF recently reported the following figures: the total population in 1987 was estimated at 5.1 million, with 58.1 percent in the active labor force and 27.3 percent employed (including nonpermanent employment). Of those employed, the overwhelming majority were in traditional agriculture (73.1 percent) with the remainder in the modern sector (3.4 percent in the public sector, 9.8 percent in the private sector) and in handicrafts (13.7 percent). (1)

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C. Public Finance.

Between 1982 and 1988 public sector expenditures and net loans represented an average of 25 percent of the GDP. Public sector receipts, on the other hand, averaged about 16 percent of GDP. The averages mask some significant year to year fluctuations in the deficit, however. Fiscal deficits declined progressively from 18.8 percent of the GDP in 1983 to 6.1 percent in 1986, before jumping back up to 18.4 percent in 1987 as a result of the precipitous decline in the price of coffee on the world market. Subsequent movements in the deficit have been in the downward direction. The deficit stood at 11.6 percent of the GDP in 1988 and is unofficially estimated by the IBRD to have fallen further to about 9 percent in 1989. The GRB's latest rolling three year plan for the period 1989 to 1991 envisages that the deficit will be further reduced to 4.8 percent by the end of the period. The target is to be achieved by a combination of fiscal policy measures including collection of tax arrears, forcing parastatals to repay their own debts, collecting dividends from previous years' earnings from public sector investments, and the rapid withdrawal of subsidies from parastatal enterprises that experience chronic economic difficulties. If the GRB's targeted reductions in expenditures are met, the public sector's share of the GDP will decline from the 31 percent share registered in 1989 to 24 percent in 1991.

The most important component of the GRB's budget is usually current expenditures. They regularly constitute between 45 percent and 60 percent of total GRB spending, depending upon more volatile fluctuations in investment expenditures financed largely by foreign donors, both multilateral and bilateral. Current expenditures rose by 84 percent in current prices between 1984 and 1988.

Salaries are the most important sub component of current expenditures, regularly accounting for about 40 to 50 percent of total current spending. They were frozen between 1983 and 1988. Due to increases in personnel, especially in the education and health sectors, however, the GRB's total wage bill rose by 49 percent between 1984 and 1988, or by 25 percent in real terms. A further increase of 14 percent in nominal terms was projected for 1989, followed by stability in 1990 and 1991. A recent study of the budget by the World Bank, however, observes that such stability will only be possible if planned measures to privatize some education and medical services and personnel are carried through.

Debt service has become an increasingly important part of the current budget. It has increased at an alarming rate in recent years - 177 percent between 1984 and 1988. A total of 42 percent of the principal and 60 percent of the interest paid was for debt contracted for parastatal enterprises. The rapid growth reflects an increased tempo of borrowing by the GRB - especially from the IBRD and African Development Bank - and the declining real value of the Burundi Franc.

Funding for the recurrent costs of projects, once donor support is terminated, has become a concern of the GRB in the midst of the stricter financial discipline imposed by the structural adjustment program. A preliminary review of four key sectors - agriculture, education, health, and transport - makes apparent a level of under-financing that is disturbing. For example, in the agricultural sector the volume of recurrent costs that are without an identified source of financing is projected to increase from FBu 3.2 million in 1989 to 6.2 million in 1991. In the area of infrastructure, the lack of maintenance during a prolonged period will be translated into an accelerated wearing out of infrastructure. Overall, the inability to finance recurrent costs will render unsustainable the majority of the investment activities that are undertaken in the long run. Not even the parastatal enterprises have escaped unaffected. The GRB's accumulating arrears in payments for water electricity and telephone services are equally translated into an accelerated deterioration in the financial situation of the parastatals that provide such services.

Finally, as noted throughout this section, the GRB encounters substantial direct and indirect costs vis a vis the parastatal enterprises. In addition to their sizeable debt service burden, through 1987 the GRB had invested a total of FBu 17.9 billion, or $106 million in 48 parastatals of which FBu 12.7 billion were in mixed corporations. Through 1987, 24 of the industrial/commercial enterprises, of which the GRB was the sole owner, directly or indirectly, had accumulated losses of FBu 5.6 billion, or 44 percent of the capital invested in them by the GRB. They were only able to continue operating because of infusions of equipment and subsidies by the GRB.

Capital expenditures, which doubled between 1983 and 1987, are "lumpier" in comparison. The are related not only to projects for infrastructure or other government functions, but also to public enterprise investments. Only about one fifth of capital outlays is financed from domestic sources, with the rest being financed outside the budget, from foreign grants and loans, most of which are on concessional terms. After several years of progressive slowdown, from 18 percent of GDP in 1983 to 11 percent of GDP in 1986, capital expenditure expanded by 55 percent in 1987, to FBu 24.5 billion, or 17.5 percent of GDP, on account of large outlays for roads, energy, and a large sugar complex. The increase also reflected in part the 19 percent devaluation of the currency. Capital expenditures during 1988 are estimated to have declined by 21 percent from the previous years' level.

D. The External Sector.

Burundi's overall balance of payments in the first half of the 1980s deteriorated as the real effective exchange rate appreciated by a cumulative 27 percent from 1980 to 1985 and generally weak coffee prices contributed to a worsening of the terms of trade. By the end of 1984, gross official reserves had declined to the equivalent of one month of imports of goods and services. A substantial improvement in coffee export earnings and the initiation of a IBRD/SAF-supported structural adjustment program were the main factors causing the overall balance of payments to move into surplus in 1985-1986, resulting in an increase in gross official reserves to a level equivalent to 3.4 months of imports by the end of 1986.

A 45 percent decline in the world price of coffee in 1987 provided a major shock to the adjustment program, resulting in an increase in the current account deficit to $111 million from $51.3 million in 1986. The deficit declined to $59.2 million during 1988 as a result of a strong recovery in coffee exports and a sharp decline in imports owing largely to the delay in the disbursement of external aid. A real effective depreciation of the exchange rate of 16 percent also provided a strong stimulus to noncoffee exports and helped to contain imports. The IBRD/IMF projected the deficit would widen to about $196 million during 1989. Preliminary indications are that despite the plunge in coffee prices at mid-year, the deficit did not reach the projected level. This was due in large part to the fact that unanticipated delays in the disbursement of external assistance during 1989 prevented the forecast increase of 22 percent in imports from materializing. Indeed, Burundi finished the year with an estimated 8 months' worth of accumulated foreign exchange reserves.

Given coffee's importance as an export (83 percent of total exports in 1988, the lowest figure in years), the GRB has spent a considerable amount of time analyzing the potential implications of the recent sharp decline in world market prices. The short-term impact is significant - earnings are projected to decline from $103 million in 1988 to $68.1 million in 1989 and $54.6 million in 1990. Gradual improvement is expected thereafter, however. There are a number of reasons for the improvement, including some that are independent of future movements in price. These include the fact that Burundian coffee is of relatively high quality, i.e., mild arabica, and thus commands a premium price, that additional trees planted several years ago will start coming into production soon, and that Burundi is in the process of processing the coffee further than had been the case previously, thus increasing domestic value added. Overall, with some fairly moderate assumptions concerning the recovery of world coffee prices, the GRB anticipates that export earnings will return to the 1988 level by 1993 and will double that figure by 1998. It is doubtful that the stronger recovery in prices projected from the mid-1990s on will occur without another International Coffee Agreement coming into force, however.

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In the capital account, developments have traditionally been dominated by movements related to medium- and long-term official loans. Disbursements on these loans, an increasing proportion of which - about 70 percent - are conferred by multilateral donor institutions with privileged creditor status such as the IBRD and the African Development Bank, after peaking at $150 million in 1983, declined over the next few years to average a little above $91 million in 1985-1986. Disbursements then rose substantially again in 1987 to $156 million as a result of lending associated with the structural adjustment program. In 1988 the level fell further to $108 million.

Burundi's outstanding medium- and long-term external debt approximately tripled between end-1981 and end-1988. Because of the heavy reliance on multilateral and official creditors, the terms of Burundi's debt are very concessional and have become even more so in recent years. The average interest rate on Burundi's new debt commitments declined from 4.3 percent in 1983 to 1.0 percent in 1988, and the average maturity has risen from 25 years to nearly 40 years over the same period. The grant element of Burundi's debt increased from 42 percent in 1983 to 65 percent in 1987. Notwithstanding this high degree of concessionality, Burundi's debt service payments have risen considerably as a result of the large increase in the size of the outstanding debt. Debt service as a share of exports of goods and nonfactor services rose from 17 percent in 1984 to 26 percent in 1986. Primarily as a result of the sharp drop in coffee exports in 1987, the debt service ratio jumped to 48.2 percent, but it is estimated to have declined to about 34 percent in 1988 with the brief recovery of coffee exports.

E. Money and Credit.

A primary factor influencing and constraining monetary policy in the 1980s has been the substantial financing requirements of the GRB budget. A largely accommodating policy stance has resulted in a high level of domestic liquidity, with intermediate targets and overall policy objectives limited primarily to influencing the composition rather than the volume of total domestic credit. Since 1986 another key variable has been the effect of the adjustment measures implemented by GRB under the structural adjustment program.

Broad money expanded at a somewhat erratic pace, reflecting the variation in budgetary deficits and, to a lesser extent, changes in net foreign assets arising primarily from variations in coffee export receipts and import expenses. For the period between 1983 and 1988, broad money expanded at an annual compounded rate of 9.5 percent, moderately above nominal GDP expansion of about 8.5 percent. Total domestic credit increased at an annual compounded rate of 8.4 percent, as the persistence of substantial budgetary deficits resulted in increased GRB recourse to central bank financing except in 1986 and 1988. In 1988, the decline in credit to the GRB was, however, more than compensated by a sharp increase in credit to the private sector. This was the result of an increase in financing related to coffee production and stocking, demand for import financing following the devaluation of the Burundi franc, and a sustained demand for operating credits. Net claims on the private sector jumped by 38.1 percent. By contrast, credit to the GRB declined by 7.3 percent.

The credit system is noted for its rigidity. This is particularly underlined by the relatively meager amount of credit extended to the agriculture sector other than coffee. Despite the importance of this sector to the economy, credit extended for agricultural activities remained at a markedly low level during the 1983 - 1988 period, reaching a high of only 3 percent to total credit in 1987. The credit situation is not too different for the nontraditional sector. The lack of suitable collateral such as real estate or other financial assets and the fiscal disadvantage for commercial banks of foreclosures and reserves for loan losses, all compounded by the modest amount of venture capital available domestically, have resulted in relatively high financing costs of non-traditional investment projects, thereby reducing demand for credit for these types of activities.

Note.

1. IMF. Burundi - Recent Economic Developments. Document Number SM/89/115 dated June 21, 1989. p. 20.

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ANNEX VII: Commodity Procurement Plan.

A. Responsible Agency.

Overall responsibility for implementation of the BEPP/BEST procurement plan will rest with USAID/Burundi. USAID will prepare a detailed schedule of procurement actions to help assure that commodities are received in a timely manner. Appropriate time should be allowed for approvals (when required), for communications, and for slippage. The presence of this plan will prevent critical dates form passing unnoticed.

B. Purchasing Entities.

All procurement will be done either under A.I.D. direct contracts by USAID/Burundi or by a procurement services agent under REDSO/ESA's PSA IQC. The three categories of commodities employing one or the other of these entities are (i) vehicles, (ii) household furnishings, and (iii) office equipment and furniture.

1. Vehicles.

Five vehicles (two 4WD and three sedans) will be purchased during the first year of BEPP/BEST. These vehicles will be purchased either locally or directly from Japan. Substantial savings can result from purchasing vehicles, especially 4WD, directly from Japan.

In exercising the Japan option, USAID cables the U.S. Embassy in Tokyo (Attention: Central Procurement Office), listing the type (specifications) and quantity of vehicles to be purchased and the delivery requirements. The cable will provide a funding citation to cover equipment costs, handling fees and shipping costs.

Vehicles sourced from the U.S. Embassy in Tokyo will be supplied on a C&F/CIF Mombasa basis. USAID is responsible for arranging overland transportation from Mombasa to Bujumbura. Delivery is estimated at 4-6 months from the date the order is placed. Because one or more sedans will be required ahead of the arrival of the long-term technical assistance team and savings on sedans are less substantial than in the case of 4WD vehicles, sedans will be purchased locally. Arrangements will be made to assure that taxes are not paid with U.S. appropriated dollars.

As funds for BEPP/BEST are provided under the Development Fund for Africa (DFA), the authorized geographic code for motor vehicles is AID code 935 (Special Free World) and no "special circumstances" waiver is required to purchase vehicles from non-U.S. sources. Because U.S. manufactured vehicles with necessary parts and after sales service are unavailable in Burundi the project intends to purchase the vehicles from code 935 sources.

2. Furniture sets, appliances and generators.

USAID will exercise one of two options in procuring household furnishings for BEPP/BEST. These items will be sourced either (a) directly from the U.S. employing the services of the PSA IQC or (b) from USAID/Somalia. Due to a scaling back of project activities in Somalia the Mission in Mogadishu possesses significant quantities of new household furniture (including appliances and generators) which are being offered to USAID's in East and Southern Africa. Any decision about sourcing from USAID/Somalia will be governed by Mogadishu's ability to provide concrete assurances that the desired commodities can be provided in a timely manner and at a lower cost than similar commodities coming directly from the U.S.

If the Mogadishu option is exercised, the modalities for securing commodities from Somalia will be worked out with the assistance of REDSO/ESA. A decision on whether to source from USAID/Somalia will be made as early as possible. If the Mogadishu option is not exercised, USAID will issue a PIO/C authorizing the REDSO/ESA PSA IQC as the authorized agent for the procurement. Prior to forwarding the PIO/C and specifications to REDSO for contract action, USAID will ensure that sufficient funds (normally from 6-8% of the FAS value of the commodities) are reserved for the PSA's fee.

Under the PSA IQC, payment for the commodities will be through a Bank Letter of Commitment issued by AID/W with the PSA's fee paid by USAID/Burundi under the terms of a Direct L/Com or similar direct payment upon invoice of the PSA. Payment terms for commodities coming from USAID/Somalia have yet to be established, although in addition to paying storage and transportation costs, Missions will be required to reimburse the respective USAID/Somalia projects for the cost of the furnishings.

3. Office furniture, computers and fax machines.

If the USAID/Somalia option is not exercised, USAID/Burundi will issue a single PIO/C for household furniture and appliances, office furniture, computers and fax machines. USAID will coordinate preparation of the specifications for the computers with AID/W/IRM. The estimated value of the PIO/C, which designates the PSA IQC as the authorized procurement agent, is $250,000. (The PSA's fee, which must be funded from within the commodity allocation, will range from $0-4,000.)

These commodities will be needed prior to the arrival of the long-term technical assistance, whose ETA is estimated for early calendar 1991. To meet this schedule the PIO/C will be issued by May 1990 thereby permitting the PSA sufficient time to prepare the specifications and solicitation documents, advertise in the Commerce Business Daily and the A.I.D. Bulletin, receive and evaluate offers, conduct negotiations, issue contracts or orders, establish payment documents and arrange transportation of commodities to Burundi.

Sufficient funds are budgeted for 8 computers and related software. These computers along with furniture and fax machines will have their source in the U.S. Future computer purchases may be sourced locally because of the need to provide hardware and software compatible with that employed by the GOB.

The equipment list, drawn up with the assistance of the REDSO/ESA Regional Commodity Management Officer, endeavors to maximize U.S. purchases whenever practicable.

Equipment List

Item: ($U.S.)	Quantity:	Probable Source/Origin:	Procurement Agent:	Estimated Amount:
1. Vehicle - 4WD	2	Japan	USAID	60,000
2. Vehicle - sedan	3	Japan/Europe	USAID	55,000
3. Furniture, appliances, & generators	3 sets	USA	PSA/USAID	155,000
4. Office Furniture		USA/Kenya	USAID	20,000
5. Computers/software	8	USA/Europe	PSA	100,000
6. Fax machines	4	USA/Japan	PSA	10,000
		Total:		400,000

C. Local Cost Financing - Shelf Items.

Imported shelf items are items imported and kept in stock to meet a general demand for these items within the country. Under pre-DFA rules, a shelf item from Code 899 (Free World) sources could be financed if their total cost was less than $25,000 for any given project and did not exceed 0% of the AID funds available for local costs, and each item cost the local currency equivalent of $5,000 or less. The Shelf Item Rule Dollar Limitations for Code 899 procurements noted here no longer applies to DFA purchases. However, the grantee will follow the AID order of preference when making purchases: a) U.S., b) host country, c) code 941, and d) code 935.

D. Commodity Marking.

Commodities purchased by BEPP/BEST will be appropriately marked with the AID handclasp emblem. The PSA will be instructed to ensure that goods it purchases are marked at source. USAID will maintain a supply of emblems for distribution for commodities purchased locally as well as marking the vehicles purchased for the program.

E. Development Fund for Africa (DFA) Certification.

This program is funded with DFA resources. Following the Congressional guidelines set forth in the legislation authorizing DFA, all reasonable efforts will be made to maximize U.S. procurements. Only items which are not available from the the U.S. or because of their nature cannot be purchased and shipped to Burundi from the U.S. at reasonable cost will be purchased from non-U.S. sources.

The USAID Project Officer assigned to monitor BEPP/BEST will keep records of all commodities purchased by the program by AID geographic code and report this information on a yearly basis to AID/W AFR/DR.

Annex VIII: Draft Scopes of Work for Long-Term Technical Assistance, Burundi Enterprise Support and Training Project (BEST)

A. Policy Analyst/Chief of Party.

1. Basic Function of the Position.

This individual will serve as Team Leader and Chief of Party for a team of three long-term technical advisors who, with financing from the Burundi Enterprise Support and Training Project (BEST), will assist the Government of the Republic of Burundi (GRB) in identifying, articulating, and implementing policy reforms supported by the Burundi Enterprise Promotion Program (BEPP). In this capacity, he or she will perform a full range of consultative, advisory, analytical, and administrative functions to help ensure that A.I.D.-supported policy reform programs in Burundi are implemented effectively and with appropriate consideration not only to the requirements of sound economic policy, but also to the social, institutional, and political realities of Burundi.

2. Location of the Position.

The Policy Advisor/COP will work within the GRB's Ministry of Plan (MOP), where he or she will serve as counterpart to the GRB Project Manager for BEPP and BEST. This expert will be responsible to the Interministerial Coordinating Committee that the MOP will establish to oversee BEPP and BEST, and to the USAID Program Manager for BEPP and BEST.

3. Major Duties and Responsibilities.

a. Provide overall direction and substantive guidance to all other technical advisors supported by the BEST Project (both long- and short-term).

b. Initiate and direct a program of empirical research and analysis designed tc improve the quantity and quality of information available to Burundian policy-makers concerning the private sector, enterprise development, and trade promotion. Specific topics on which research is to be conducted are set forth in Sections II and III of the Program Assistance Approval Document (PAAD) for BEPP. In this capacity, the Policy Analyst/COP will work with the GRB and the other members of the long-term TA team to develop scopes of work for all short-term technical assistance funded by BEST and to coordinate all project-funded research. He or she will then help the GRB analyse the findings of the studies and to transform these findings into policy reform proposals.

c. Initiate and direct a training program for Burundians from both the public and private sectors. The objective of this training shall be to provide Burundians with the capacity to implement and take full advantage of the policy reforms supported by BEPP. This training shall include group-study visits to other developing and middle-income countries, individual visits to other developing countries for attendance at trade fairs and other activities, in-country technical training, and short-term in-country seminars. In this capacity, the Policy Analyst/COP will work with the GRB and the other members of the long-term technical assistance team to identify training opportunities in other developing and middle-income countries, develop curricula for in-country technical training and seminars, identify potential trainees, and locate the expertise needed to carry out this training.

d. Initiate and direct a program for monitoring and evaluating the impact of policy reforms supported by BEPP. In this capacity, the Policy Analyst/COP will work with the GRB and the other members of the long-term technical assistance team to identify the experts needed to monitor the variables set forth in Section V and in Annex I, "Logical Framework", of the PAAD for BEPP, to draft scopes of work for those experts, and to compile and synthesize the results of their research for presentation to to USAID/Burundi and to the GRB Interministerial Coordinating Committee.

e. Provide overall administrative and substantive guidance to all BEST-funded personnel. In this capacity, the Policy Analyst/COP will review the workplans of all other BEST-funded long-term personnel, and will then submit these workplans for approval by the GRB Interministerial Coordinating Committee and by USAID/Burundi.

f. Provide quarterly and annual progress reports to the GRB Interministerial Coordinating Committee and to USAID/Burundi.

4. Qualifications.

The Policy Analyst/COP must be a citizen of a country included in A.I.D. Geographic Code 935. He or she must possess a Ph.D or equivalent degree in Economics or a related discipline, and should have a thorough professional knowledge of the economic and institutional aspects of enterprise and trade development. This expert should have a minimum of five years of prior experience in the area of policy analysis and enterprise development, including previous administrative and leadership experience. This expert must be fluent in French at the FSI 3+/3+ level. While not absolutely required, those candidates with prior professional experience in the developing world, particularly in Africa, should be given preference.

B. Small Business Specialist.

1. Basic Function of the Position.

This individual will work with Burundi's Chamber of Commerce and Industry (CCIB) to help it analyze the broad spectrum of constraints faced by formal and informal enterprises in Burundi. He or she will help the CCIB examine these constraints from the perspective of the private business person. These analyses should focus on developing additional policy reform measures for support under BEPP, particularly in those areas classified as "Category B" in Section II of the PAAD for BEPP.

2. Location of the Position.

The Small Business Specialist will work within the CCIB. Though it has existed since Burundi's independence, the CCIB has been reorganized in the past few years and made the predominant advocate for Burundi's private sector. It is a quasi-independent organization principally financed by dues from formal sector enterprises. The GRB, however, appoints its leadership, and the CCIB maintains close working relationships with GRB ministries. The Small Business Specialist will be responsible to the Director of the CCIB, and to the Policy Analyst/Chief of Party.

3. Major Duties and Responsibilities.

a. Work with CCIB officials, with other GRB officials, with the Policy Analyst/COP, and with representatives of the private sector to draft proposed scopes of work for BEST-funded research efforts on several of the topics listed in Sections II and III of the PAAD for BEPP. These topics shall include, but not be limited to, the effects of the Burundi labor code on SME's, access to credit and related support services, the assessment and administration of taxes, the development of simplified accounting procedures, regulatory policies and practices that affect the private sector, the development of fair trade legislation, the design of possible tax benefits for SME's, and possible updates of and amendments to Burundi's Investment Code. The Small Business Specialist will then be responsible for assisting the Policy Analyst/COP in his or her oversight of the conduct of this research, and for helping the GRB to analyze the findings of the studies and transform these findings into policy reform proposals.

b. Assist the Policy Analyst/COP in his or her efforts to coordinate the GRB's consideration and implementation of the policy reforms supported by BEPP. In this capacity, the Small Business Specialist should play a key role in opening and facilitating communication between the GRB and the private sector.

c. Assist the Policy Analyst/COP in identifying training opportunities for, and potential trainees from, Burundi's private sector, and in developing appropriate curricula for in-country technical training and seminars.

d. Assist the Policy Analyst/COP as needed in monitoring the effects of the BEPP reform program on the Burundian private sector.

e. Provide on-the-job training to his or her counterparts in the CCIB to continue to carry out the above functions following completion of the BEST Project.

4. Qualifications.

The Small Business Specialist must be a citizen of a country included in A.I.D. Geographic Code 935. He or she must have a minimum of five years of prior experience in the development and promotion of small-scale enterprises in the developing world, and must be fluent in French at the FSI 3+/3+ level. While not absolutely required, those candidates with prior professional experience in Africa should be given preference.

C. International Trade Specialist.

1. Basic Function of the Position.

This individual will help provide Burundi's Export Promotion Service (EPS) with the ability to analyse constraints to export enhancement and diversification and to develop and advocate within the GRB policy reforms addressing those constraints.

2. Location of the Position.

The International Trade Specialist will work within the planned Export Promotion Service, a new entity being organised by the Ministry of Commerce and Industry (MCI). While created by the Ministry, the EPS is to maintain a quasi-private status, allowing it to work with and to represent existing and potential exporters. The Service will provide assistance and advice to potential private exporters, and will be the primary representative of exporters in developing ideas for reforms to help them to be competitive. The International Trade Specialist will report the the Director of the Export Promotion Service and to the Policy Analyst/Chief of Party.

3. Major Duties and Responsibilities.

a. Work with the EPS, other elements of the GRB, the Policy Analyst/COP, and representatives of the private sector to produce industry- and/or product-specific plans for expanding exports.

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b. Work with EPS officials, with other GRB officials, with the Policy Analyst/COP, and with representatives of the private sector to draft proposed scopes of work for BEST-funded research efforts on several of the topics listed in Sections II and III of the PAAD for BEPP. These topics shall include, but not be limited to, domestic constraints to export expansion, regional export marketing opportunities, regional transport constraints, and the development of fair trade legislation. The International Trade Specialist will then be responsible for assisting the Policy Analyst/COP in his or her oversight of the conduct of this research, and for helping the GRB to analyze the findings of the studies and transform these findings into policy reform proposals.

c. Assist the Policy Analyst/COP in his or her efforts to coordinate the GRB's consideration and implementation of the policy reforms supported by BEPP, particularly insofar as the proposed reforms touch on the international trade sector. In this capacity, the International Trade Specialist should play a key role in opening and facilitating communication between the GRB and the private sector.

d. Assist the Policy Analyst/COP in identifying training opportunities for, and potential trainees from, Burundi's private sector, and in developing appropriate curricula for in-country technical training and seminars on topics pertaining to international trade and export development.

e. Assist the Policy Analyst/COP as needed in monitoring the effects of the BEPP reform program on the international trade sector.

f. Provide on-the-job training to his or her counterparts in the EPS to continue to carry out the above functions following completion of the BEST Project.

4. Qualifications.

The International Trade Specialist must be a citizen of a country included in A.I.D. Geographic Code 935. He or she must have a minimum of five years of prior international business experience, preferably with a firm engaged in import and export operations in Africa. This expert must be fluent in French at the FSI 3+/3+ level.

Annex [illegible]: GR[illegible] Ordinary Budget Line Items Related to the Private Sector, CY 199[illegible]

(U.S. $1.00 = FBU 175)

Budget Line Item:	FBU (000)	U.S. $ (000)
Ordinary Budget		
Ministry of Finance:		
- General Directorate for Public Markets	3,055	[illegible]
Ministry of the Family and Women's Affairs:		
- Directorate for the Economic Promotion of Women	5,[illegible]	[illegible]
Ministry of Social Affairs:		
- Center for the Handicapped	19,[illegible]	[illegible]
- Directorate for Social Promotion	[illegible]	[illegible]
Ministry of Labor and Professional Training:		
- General Directorate of Labor and Professional Training	[illegible]	[illegible]
- Bureau of Studies and Labor Administration	[illegible]	[illegible]
- Directorate for Professional Training	[illegible]	13[illegible]
Ministry of Agriculture and Livestock:		
- General Directorate for Agricultural Planning	[illegible]	[illegible]
- Directorate for Agricultural Training	[illegible]	[illegible]
Ministry of Rural Development and Crafts:		
- Office of Studies and Planning	[illegible]	[illegible]
- General Directorate for Crafts, Cooperatives, and Rural Housing	[illegible]	[illegible]
- Directorate for Cooperatives	[illegible]	[illegible]
- Directorate for Crafts	[illegible]	[illegible]
Ministry of Commerce and Industry:		
- General Directorate for Commerce	[illegible]	[illegible]
- Directorate for Interior Commerce	[illegible]	[illegible]
- Directorate for Exterior Commerce	[illegible]	[illegible]
- General Directorate for Industry	[illegible]	[illegible]
- Directorate for Industry	14,42[illegible]	[illegible]
- Directorate for Industrial Studies and Information	[illegible]	[illegible]
Ministry of Tourism and the Environment:		
- National Tourist Office	22,[illegible]	[illegible]
Total Ordinary Budget:	[illegible]	[illegible]

Best Available Document

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ANNEX XI: INITIAL ENVIRONMENTAL EXAMINATION

or

CATEGORICAL EXCLUSION

Country: Burundi

Program Title: Burundi Enterprise Promotion Program (BEPP, 695-0125)

Project Title: Burundi Enterprise Support and Training (BEST, 695-0124)

Funding: Program: $35.0 million (planned) FY's: 1990-93

Project: $ 5.0 million (planned) FY's: 1990-94

IEE Prepared by: Leon S. Waskin
Project Development Officer, REDSO/ESA

Environmental Action Recommended:

Positive Threshold Decision:	
Negative Threshold Decision:	
Categorical Exclusion:	X
Deferral:	

Summary of Findings:

This activity warrants a Categorical Exclusion pursuant to the criteria of 22 CFR 216.2(c)(1)(i).

Clearance:

AID Representative: Donald F. Miller Date: Feb 15, 1990

Regional Legal Advisor: Stephen Spielman Date: Feb 16 1990

Concurrence:

REDSO Director: Satish P. Shah Date: Feb 16 '90

Bureau Environmental Officer: APPROVED: ______

DISAPPROVED: ______

DATE: ______

Program Description:

This activity is limited to support to the development and implementation of policy reforms that will support private sector growth, thereby increasing employment and income for Burundi's poor. Anticipated outputs include policy reforms that will make it easier for businesses to enter and move within the formal sector, will facilitate the conduct of business on a day-to-day basis, and will promote international trade. A complementary project activity will provide technical assistance and training in support of these policy reforms.

Environmental Considerations:

While it is recognized that policy reform can have environmental implications, this activity is limited to structural elements. The direction policy adjustments will take is, at this juncture, sufficiently diffuse to preclude meaningful analysis of environmental impacts, if any. Nonetheless, to maintain environmental oversight, the REDSO/ESA Regional Environmental Advisor should be part of any interim or mid-term evaluation, and should also participate in the final evaluation. Additionally, if there are any amendments or extensions, the provisions of 22 CFR 216.2 should be revisited, and the REDSO/ESA Regional Environmental Advisor should be notified in such eventuality and should participate in the exercise.

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ANNEX X

A. Method Used to Estimate Impact of the Program on the Macroeconomic Aggregates, GDP and Employment

1. Introduction

The nature of the BEPP policy reforms, in particular the uncertain outcome for the policy reforms in the out-years, complicates the analyst's ability to estimate the potential impact of the program. However, by making likely estimates of the policy reforms in the out-years and using some rough estimates of the relationships between investment and GDP and GDP and employment, it is possible to arrive at a rough order of magnitude of the achievements that can be anticipated for GDP and employment some ten years after the policy reforms are expected to begin to take effect.

Several sets of calculations and assumptions were necessary to arrive at estimates of the potential impact of the policy reform program on GDP and employment. For the purposes of this analysis, it is assumed that the two basic effects of the program's policy reforms are: (1) the reduction in the cost of conducting business, which translates into business cost savings; and (2) increased productivity of investment, as investment is increasingly directed at the more investment efficient SME sector, i.e., less investment is needed to obtain a dollar's worth of output than in other sectors. In addition, to the policy effects, the GRB receives a grant of $35 million as part of the program which will have its own separate effect. Second, it is assumed that some portion of the business cost savings and grant are invested in the economy in addition to the levels that are assumed would have been invested without the program, and that GDP will increase as a result of this additional investment. Third, the increase in investment productivity, or investment efficiency, is assumed to have its own separate effect on GDP. The relationship between investment and GDP, known as the incremental capital output ratio, or ICOR to economists and which is explained below, plays a central role in translating the increased investment and the increased investment efficiency into changes in GDP as a result of the program.

Several decisions had to be made before the ICOR could be used to estimate the changes in GDP as a result of the policy reform program. First, a base case had to be established to represent what would happen in the absence of the policy reform program. Second, the amount of additional investment as a result of the increased business cost savings and the injection of the $35 million grant had to be estimated. Third, the effect of the increased efficiency of investment had to be determined.

The following sections describe the ICOR concept, how it is used in estimating changes in GDP and the decision process used to arrive at an incremental investment figure and a lower ICOR value--the result of increased investment productivity--due to the reform program. The final section describes how the change in GDP can be used to estimate the expected changes in employment as a result of the program.

2. <u>The Incremental Capital Output Ratio (ICOR)</u>

The ICOR can be defined as the increase in a country's capital stock, over a period of years, divided by the increase in the country's productive capacity, expressed as output per year during the same period. In symbols the relationship can be expressed as: ICOR = dK/dO, where d stands for "change". For example, if during a 10 year period there is $4 billion of investment in a country and the increase in annual output, as measured by GDP, is $1 billion, the ICOR is 4.

Conceptually the ICOR should be taken net of depreciation both in the numerator and denominator. Because depreciation estimates are of doubtful reliability and because depreciation is likely to be highly stable over long periods of time, the use of a ratio of gross investment to gross output will produce consistant and reliable results. That is the convention used in this analysis. The ICOR is considered a crude concept because it disregards economic or technical changes that may be occurring in an economy. It takes the increase in the capital, whatever the reasons for it, and divides it by the increase in productive capacity, whatever its causes. Yet, as crude a concept as the ICOR may be, empirically it is a very useful measure or tool for estimating, among other things, the amount of capital needed over time to achieve a given increase in productive capacity, or the change in productive capacity as a result of a change in investment. Both approaches are used in the analysis in order to estimate the impact, or achievements, that can be expected as a result of the policy reform program. Much of the above discussion relies heavily on the presentation by Hagen in his text, <u>The Economics of Development</u>.

The numerator and denominator of the simple equation above are normally expressed in terms of GDP because the ratios are generally available and doing so does not change the value of the equation. In addition, if I is substituted for dk, the equation now takes the form:

$$\text{ICOR} = \frac{I/GDP}{dGDP/GDP}.$$

If the effect upon GDP is lagged one year, equation 1 can be made more operational by using values in the base or "t" period for I and GDP and letting dGDP equal the difference between GDP in period "t+1" and GDP in period "t". The equation would thus take the form:

$$ICOR_{t+1} = \frac{I_t/GDP_t}{(GDP_{t+1} - GDP_t)/GDP_t} .$$

Rearranging and simplifying gives:

$$GDP_{t+1} = \frac{I_t}{ICOR_{t+1}} + GDP_t ,$$

where I_t is composed of the base case investment figure plus one of the three program investment figures shown in Table 1, in this particular case Fbu 0.46 billion. All the program GDP values shown in Table 1 were calculated using the above equation. The GDP value for 1992 under Case 2b of the program is calculated in the following manner:

$$GDP_{t+1} = \frac{36.1 + .46}{4.4} + 170.7$$

$$= 179$$

3. <u>Base Case Values</u>

The GDP figures for the base case as shown in Table 1 have been taken from the estimates made by the Macroeconomic Planning Unit in the Ministry of Planning (INPLABU) for the years 1990-1998. For the 1999-2003 period, GDP is assumed to grow at the 5 percent target level set by the GRB. The ICOR is assumed to be 4.7 throughout the period as discussed in more detail below. The amount of investment needed to support a given set of GDP growth rates and an ICOR of 4.7 is thus a derived figure. As stated earlier, the annual amounts of investment implied in the base case are assumed to be available during the period that is analyzed for BEPP.

Over the period, 1978-1986, with investment lagged one year, the average ICOR has been 5.5. With the structural adjustment program and the consequent changes in the type of investment and the increased efficiency of investing, the ICOR should be expected to fall from the previous 5.5 level. What is not known is the amount of the decrease. IMF/Bank documents of 1987 vintage estimated that the ICOR would fall to 4.2 by 1992. While such a large decrease might be possible, the fall seems to have been generated by the need to keep down the amount of investment (and hence outside financial assistance) needed to obtain GDP growth rates high enough to produce an ever increasing per capita income. See Table 9.

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Discussions over the past year with various economists involved with Burundi indicate that the ICOR will likely remain higher than originally anticipated for the structural adjustment program unless the kinds of change included in the BEPP are put in place. Therefore, for the purpose of establishing the base case, the ICOR is assumed to fall from its historical figure of 5.5 to 4.7, as a result of the structural adjustment program, at which level it remains through the year 2003.

As shown in section 5 below, the use of a lower ICOR figure for the base case would actually produce slightly larger GDP changes and hence employment changes for the BEPP program than are derived in the BEPP program analysis which uses the 4.7 ICOR base case figure. The impact of the BEPP program on GDP is evaluated at 3 different ICOR levels: 4.7, in order to measure solely the effect of the increased investment and to get a minimum program change case; a 7 percent decline to 4.4, with case 2b assumed to be the most likely outcome; and an 11 percent decline to 4.2 to set an upper limit on expected change.

4. Increased Investment as a Result of the Program

Although it is not possible to judge precisely how businesses, especially SMEs, will use their cost savings, it is certain that some portion of it will be reinvested, and in the very businesses that benefit from the savings. In addition, the resource transfer in the program itself (the sector grant) makes possible additional domestic absorption. The initial form in which this is available to the economy is as additional fiscal financing available to the public sector. The proportion of these resources which do not finance additional public sector spending are available to finance additional private sector investment. Sensitivity analysis involving the cost saving policies indicates that a good estimate for the average annual value in constant dollars of the two groups of funds would be approximately $6 million. See Table 2.

With no basis for establishing the amount of the $6 million that might be invested annually, other than a sense that small businesses would likely consume a good portion of the business savings and that overall investment of more than 50 percent was unlikely, a range of 35, 45, and 55 percent was selected, with 45 percent assumed to be the more likely result. Examination of the impact of the 3 values as shown in Table 1 reveals that an increase from 35 to 55 percent has little impact on the level of GDP and hence ultimately little on employment.

5. Procedure Used to estimate ICORs

One of the major assumptions of the program is that output per dollar of investment will rise as more investment is made in the SME sector than in others. Sensitivity analysis of the base case indicates that an ICOR of 4.4 requires $2-$3 million

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less investment on average to achieve the same GDP levels than the base case ICOR of 4.7. As Table 3, with its medium values for the three policy reform variables, indicates, the average annual cost savings in constant dollars as a result of the three cost savings policies are about $3 million. Finally, with 4.2 having been estimated by some as a possible ICOR level for Burundi, the choice of 4.4 as a result of BEPP/BEST does not seem to be an unreasonable quesstimate in the exercise of trying to estimate where Burundi might be some 14 years from now. Given the tenuousness of this ICOR value, various sensitivity analyses were conducted to examine how sensitive the estimates of GDP and employment are to the ICOR values chosen. The following section describes those results.

6. GDP Estimates and Analysis of the Sensitivity of the ICOR Assumptions

Table 1 contains the GDP base case with its 4.7 ICOR and derived investment levels, and the estimated program GDP values at the 3 investment and 3 ICOR levels. The middle case, case 2b, is assumed to be the most likely outcome. The GDP changes include the efficiency effect as expressed in the change from the base case ICOR of 4.7 to the program value of 4.4, and the increased investment of Fbu 0.46 billion from the business cost savings and the increased foreign exchange made available by the program grant.

To separate out the efficiency effect, the same investment level was applied to case 2b in Table 1 as is used in the base case. Thus the effect of the increase in efficiency, as measured by the fall from 4.7 in the base case to 4.4 in the program case, was isolated. The same procedure was applied to a program ICOR of 4.6 as well. The summary results of the calculations are shown in Table 4. In 2003, as a result of the program assumptions of case 2b, GDP is estimated to be Fbu 309.3 billion in constant 1987 Fbu compared to the base case of Fbu 299.3 billion. The importance of the assumption that the program leads to increased efficiency is readily apparent. Of the estimated Fbu 10 billion increase in GDP in 2003, as a result of the program, Fbu 8.7 billion, or about 87 percent, is due to the efficiency increase alone. If the ICOR were to fall from 4.7 to only 4.6 rather than 4.4, the increase in GDP would be only Fbu 4 billion, with Fbu 2.8 billion, or 70 percent, due to the increased efficiency element. Considering the entire period 1993-2003, the increased efficiency, as expressed by the move from an ICOR of 4.7 to 4.4, produces an increase in the net present value of GDP by some $110.4 million, but only $35 million with the lower increased efficiency implied by a move from 4.7 to 4.6.

Finally, if the estimated percentage change in efficiency as a result of the program is about correct, but the base case turns out to have an ICOR lower than 4.7, say 4.4 or 4.2 (and thus the corresponding program levels of 4.12 and 3.93), the

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increase in GDP as a result of the program would increase slightly from the Fbu 309.8 billion figure for 20003, to Fbu 310.5 and Fbu 311.5, respectively. The relative importance of the efficiency assumption would not change.

7. Employment Estimates by Sector.

As in much of Africa, employment data is weak and dated. As would be expected, the best employment information is found in the modern sector, defined as registered firms. There is some data available on the informal sector. World Bank data for 1979-85 divides employment into the modern sector, the informal sector, and traditional agriculture. The Bank estimates that about 52 percent of the population is of working age (15-64) and of this number about 98.5 percent are assumed to be employed. With figures for the modern and informal sectors, employment in the traditional agricultural sector becomes a residual. Such an employment assumption implies that those who cannot find work in the modern or informal sector are able to find work, be it subsistence or not, in the agricultural sector. While it is true that only the well-off can afford to be unemployed, such a definition of employment will overstate the relationship between GDP growth and employment. A comparison between GDP growth and employment becomes in effect a comparison not with employment but simply the number of people entering the working age category. To adjust for this overstatement problem, data from the IMF were used.

The IMF estimates the active labor force to be 58.1 percent and employment to be a mere 27.3 percent of the population. Presumably the IMF expands the age definition of the labor force. These figures translate in 1987 into an active labor force of 2.96 million, 1.39 million employed, and 53 percent unemployed. This high unemployment figure presumably reflects the large amount of part-time, causal work that exists in the agricultural sector. While the IMF unemployment estimate seems rather high, it does imply a dependency ratio of about 5, which does not seem too out of line. Although a bit uncomfortable with the IMF data, it is better than the Bank's assumption of practically no unemployment. For that reason the IMF employment percentage figure has been adopted, with the recognition that the subsequent analysis will likely understate the amount of employment generated by GDP growth.

To obtain employment estimates, basic Bank data are used, especially the percent figure of total population in the labor force because it more closely parallels the 1979 Census figures for that age cohort. Table 5 is thus based on the World Bank Table 1.4 of World Bank Report No. 6764-BU, with the additional "Employed" to incorporate the IMF's estimate of unemployment. In estimating the composition of those employed, the IMF's estimate of 71 percent in traditional agriculture is adopted, while the modern sector figures developed by the Bank are used. The values for the informal sector thus become residuals. This procedure seemed the most appropriate and consistent manner in which to deal with the conflicts between various data sources. World Bank data are used, with the noted exceptions, through 1985. From 1986-1993, the population is assumed to grow at 3.06 percent, employment stays constant at 27.3 percent, and the percentage composition of the 3 employment sectors remains constant through 1993.

If the unemployment figure used here is high, employment levels will be consequently lower, and the relationship developed below between GDP growth and employment will be understated, i.e. conservative, and will understate the impact of BEPP on the economy. Whatever the ultimate levels may be, it is certain that there will be sufficient labor available to fill the jobs that will be created as GDP grows.

8. Estimating Employment Growth as a Result of the Program

To estimate the impact of the policy reform program on employment the relationship between GDP growth and employment was first established. Table 6 presents the GDP and employment data for the 1979-1985 period. During that period the average annual increase in employment was approximately 28,000 with a GDP compound growth rate of 3.28 percent. Thus, for every 1 percent of GDP annual growth, employment increased on the average by slightly more than 8,500 a year. The analysis for the policy reform program assumes that this relationship will hold throughout the program. Employment under the program grows faster than in the base case because of the more rapid GDP growth due to the increased investment and greater investment productivity or efficiency resulting from the policy reform program.

Employment change calculations in Table 7 are straightforward. Using the base case as the example, the 1993/94 GDP growth rate of 4.5 percent is multiplied by 100 and then multiplied by the employment figure of 8,529 per 1 percent of GDP growth to arrive at the increased employment figure of 38,380. This latter figure is added to the total employment figure of 1,669,089 in 1993 to get 1,707,471 in 1994. The change in employment for the base case between 1993 and 2003 is obtained by multiplying the compound growth rate of 4.85 percent for the 1993/2003 period by 100. The resulting 4.85 figure is then multiplied by 8,529 to get the average annual increase in employment. This figure is then multiplied by the 10 year period to arrive at the 413,660 figure. This latter figure is added to the employment figure in 1993 to arrive at the new total employment figure of 2,082,752 in 2003. The same calculations are made for the program cases.

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B. Program Benefits

The discussion of the benefits or cost savings to be derived from the policy reform program are discussed in some detail in the text of the PAAD. Two brief comments will be made here on the insurance cost and transport cost savings benefits.

1. Insurance Cost Savings

The $166.1 million import FOB figure for 1988 (IFS 1989 Yearbook) was used to estimate the potential savings in reduced insurance premiums. Discussions with importers indicate that the insurance charges by the parastatal could average as high as 3 percent of the value of imports while European firms average between 0.5 and 1.0 percent. Part of the price difference is quite clearly due to the inefficient operation of the parastatal. However, a monopoly element may explain part of the difference, reflecting what in essence is a tax. The following discussion assumes that the estimated cost savings benefits are derived solely from increased efficiency.

The price differences in the above paragraph produce a range of potential savings of $3.3 to $4.1 million annually. Other discussions indicated, however, that the absolute amount and the differences might not be as large as indicated by the above figures. A more reasonable set of numbers appeared to be an average 2 percent charged by the parastatal and 0.05 to 1.0 percent charged by the potential European alternatives. This gives a possible total savings figure in the range of $1.661 to $3.322 million. To take account of the possible monoopoly element in the savings figure, the lower number was rounded to $1.7 and accepted as the best available, and probably conservative estimate for insurance cost savings due to increased efficiency alone.

2. Transport Cost Savings

Table 10 provides the detail not available in Table VIID-1 of the PAAD text and Table 2 in this annex. Benefits are expected to begin immediately from the savings realized by the 4 firms that have petitioned the government for the right to off-load in Kayanza and Gitega and the two tea firms who will use Kayanza as their port of exit.

Savings as a result of the shift of other goods to the interior cities are assumed to be delayed until 1992. Importers and traders will need time to work out new packing arrangements, etc., so that goods can be easily removed from fully-packed trucks. The delay also recognizes that it will take some time before new traders can take advantage of the opportunities. As the Note in Table 10 indicates, the total savings figures are assumed to grow at 1 percent a year beginning in 1993 to reflect increased trade.

Table 1

Comparison of Base Case GDP Growth with Program Estimates

Base Case Assumptions and Results

			1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
:								(Billions FBU)									
: Annual Growth Rate																	
:GDP at Factor Costs			0.6%	5.4%	4.4%	4.5%	4.5%	4.5%	4.6%	4.7%	4.9%	4.8%	5.0%	5.0%	5.0%	5.0%	5.0%
:Investment			7.0%	-4.5%	6.8%	4.5%	4.5%	6.8%	6.9%	9.2%	2.8%	9.2%	5.0%	5.0%			
:																	
: In constant 1987 prices																	
:GDP at Factor Costs			155.1	163.5	170.7	178.3	186.4	194.8	203.7	213.3	223.7	234.5	246.2	258.5	271.4	285.0	299.3
:																	
:ICOR			4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Investment			35.4	33.8	36.1	37.7	39.4	42.1	45.0	49.1	50.5	55.1	57.9	60.8	63.8	67.0	70.3

Program Impact Estimates

GDP at Factor Costs

			1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
CASE 1: ICOR				4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
: a. Prog. Investment	0.35	GDP1a		163.5	170.7	178.4	186.5	195.0	204.0	213.7	224.2	235.0	246.8	259.2	272.2	285.8	300.2
: b. Prog. Investment	0.46	GDP1b		163.5	170.7	178.4	186.6	195.1	204.1	213.8	224.3	235.2	247.0	259.4	272.4	286.1	300.4
: c. Prog. Investment	0.56	GDP1c		163.5	170.7	178.5	186.6	195.1	204.2	213.9	224.5	235.3	247.2	259.6	272.6	286.3	300.7
:																	
CASE 2: ICOR				4.7	4.7	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
a. Prog. Investment	0.35	GDP2a		163.5	170.7	179.0	187.6	196.6	206.3	216.6	227.8	239.4	252.0	265.2	279.1	293.7	309.0
b. Prog. Investment	0.46	GDP2b		163.5	170.7	179.0	187.7	196.7	206.4	216.7	228.0	239.6	252.2	265.4	279.4	294.0	309.3
c. Prog. Investment	0.56	GDP2c		163.5	170.7	179.0	187.7	196.8	206.5	216.8	228.1	239.7	252.4	265.7	279.6	294.2	309.6
CASE 3: ICOR				4.7	4.6	4.5	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
: a. Prog. Investment	0.35	GDP3a		163.5	170.7	178.8	187.8	197.3	207.4	218.2	230.0	242.1	255.3	269.2	283.7	299.0	315.0
: b. Prog. Investment	0.46	GDP3b		163.5	170.7	178.8	187.9	197.4	207.5	218.3	230.1	242.3	255.5	269.4	283.9	299.2	315.3
: c. Prog. Investment	0.56	GDP3c		163.5	170.7	178.8	187.9	197.4	207.6	218.5	230.3	242.4	255.7	269.6	284.2	299.5	315.6
:																	
:Exchange Rate FBU/US$	175																

Table 2

Present Value Analysis of BEPP and BEST

Without Including Efficiency Benefits

U.S. Dollars

Year	Program Costs	5% Transport Off-Load, 1% Ex/Imp Assump.	10% Transport Off-Load, 1% Ex/Imp Assump.	Potential Transport Insurance Savings	Total Various Business Cost Savings	Program Foreign Exchange Benefits	Total Benefits 5 % Offload	Total Benefits 10 % Offload	Total Costs	Net Benefits 5% Offload	Net Benefits 10% Offload
1990	13,715,000	542,054	542,054			13,000,000	13,542,054	13,542,054	13,715,000	(172,946)	(172,946)
1991	5,541,000	542,054	542,054			4,500,000	5,042,054	5,042,054	5,541,000	(498,946)	(498,946)
1992	9,284,000	748,304	954,554	1,700,000	1,000,000	7,500,000	10,948,304	11,154,554	9,284,000	1,664,304	1,870,554
1993	11,736,000	755,787	964,099	1,700,000	1,040,000	10,000,000	13,495,787	13,704,099	11,736,000	1,759,787	1,968,099
1994	1,391,000	763,345	973,740	1,700,000	1,080,000		3,543,345	3,753,740	1,391,000	2,152,345	2,362,740
1995		770,978	983,478	1,700,000	1,120,000		3,590,978	3,803,478		3,590,978	3,803,478
1996		778,688	993,312	1,700,000	1,160,000		3,638,688	3,853,312		3,638,688	3,853,312
1997		786,475	1,003,246	1,700,000	1,200,000		3,686,475	3,903,246		3,686,475	3,903,246
1998		794,340	1,013,278	1,700,000	1,240,000		3,734,340	3,953,278		3,734,340	3,953,278
1999		802,283	1,023,411	1,700,000	1,280,000		3,782,283	4,003,411		3,782,283	4,003,411
2000		810,306	1,033,645	1,700,000	1,320,000		3,830,306	4,053,645		3,830,306	4,053,645
2001		818,409	1,043,981	1,700,000	1,360,000		3,878,409	4,103,981		3,878,409	4,103,981
2002		826,593	1,054,421	1,700,000	1,400,000		3,926,593	4,154,421		3,926,593	4,154,421
2003		834,859	1,064,965	1,700,000	1,440,000		3,974,859	4,204,965		3,974,859	4,204,965
	Present Value at 10%	5,345,088	6,559,025	9,572,955	6,619,620	28,002,186	49,539,849	50,753,786	32,902,275	16,637,574	17,851,512
						AvgAnlConst$	5,758,177	5,945,017			
						0.35 Savgs R	2,015,362	2,080,756			
						0.45 Savgs R	2,591,179	2,675,258			
						0.55 Savgs R	3,166,997	3,269,759			

Table 3

Present Value Analysis of BEPP and BEST

Without Including Efficiency Benefits or Foreign Exchange Benefits

U.S. Dollars

Year	Program Costs	5% Transport Off-Load, 1% Grwth Ex/Im Assump.	10% Transport Off-Load, 1% Grwth Ex/Im Assump.	Potential Transport Insurance Savings	Number Busin.	Various Cost Savings per Busin.	Total Various Business Cost Savings	Total Benefits 5 % Offload	Total Benefits 10 % Offload	Total Costs	Net Benefits 5% Offload	Net Benefits 10% Offload
1990	13,715,000	542,054	542,054					542,054	542,054	13,715,000	(172,946)	(172,946)
1991	5,541,000	542,054	542,054					542,054	542,054	5,541,000	(498,946)	(498,946)
1992	9,284,000	748,304	954,554	1,400,000	5,000	200	1,000,000	3,148,304	3,354,554	9,284,000	1,364,304	1,570,554
1993	11,736,000	755,787	964,099	1,400,000	5,200	200	1,040,000	3,195,787	3,404,099	11,736,000	1,459,787	1,668,099
1994	1,391,000	763,345	973,740	1,400,000	5,400	200	1,080,000	3,243,345	3,453,740	1,391,000	1,852,345	2,062,740
1995		770,978	983,478	1,400,000	5,600	200	1,120,000	3,290,978	3,503,478		3,290,978	3,503,478
1996		778,688	993,312	1,400,000	5,800	200	1,160,000	3,338,688	3,553,312		3,338,688	3,553,312
1997		786,475	1,003,246	1,400,000	6,000	200	1,200,000	3,386,475	3,603,246		3,386,475	3,603,246
1998		794,340	1,013,278	1,400,000	6,200	200	1,240,000	3,434,340	3,653,278		3,434,340	3,653,278
1999		802,283	1,023,411	1,400,000	6,400	200	1,280,000	3,482,283	3,703,411		3,482,283	3,703,411
2000		810,306	1,033,645	1,400,000	6,600	200	1,320,000	3,530,306	3,753,645		3,530,306	3,753,645
2001		818,409	1,043,981	1,400,000	6,800	200	1,360,000	3,578,409	3,803,981		3,578,409	3,803,981
2002		826,593	1,054,421	1,400,000	7,000	200	1,400,000	3,626,593	3,854,421		3,626,593	3,854,421
2003		834,859	1,064,965	1,400,000	7,200	200	1,440,000	3,674,859	3,904,965		3,674,859	3,904,965
Present Value 10%		5,345,088	6,559,025	7,883,610	33,098	1,126	6,619,620	19,848,318	21,062,256	32,902,275	14,948,229	16,162,166
					Avg Annual Constant $			3,001,034	3,187,874			

Table 4

Estimating The Impact of Efficiency Change and Different ICOR Levels on GDP

	Base Case ICOR	Program ICOR	GDP Values in 2003: Col 1 GDP Base Case	Col 2 GDP Program Due to Efficiency Change Only	Col 3 GDP Program Due to Efficiency And Increased Investment Changes	GDP Changes: Col 4 Total Change GDP (Col 3-Col 1)	Col 5 GDP Change Due to Efficiency Change Only (Col 2-Col 1)	GDP Change Due to Increased Investment (Col 4-Col 5)
			Fbu Billions					
Case 1	4.7	4.4	299.3	308.0	309.3	10.0	8.7	1.3
Case 2	4.7	4.6	299.3	302.1	303.3	4.0	2.8	1.2
Case 3	4.4	4.12	299.3		310.5	11.2		
Case 4	4.2	3.93	299.3		311.5	12.2		

Cases 1 and 2 assume the base case amount of investment for both the base and program cases. Hence, GDP in Column 2 is due to increased efficiency only.

Cases 3 and 4 assume additional program investment at lower ICORs for the base and the program cases, with the same percentage difference between the two as in the 4.7 to 4.4 relationship.

Table 5

Employment

Sector	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
								(In thousands)							
Total Population	4022	4130	4241	4355	4472	4520	4642	4809	4982	5161	5347	5539	5738	5945	6159
Working Age Pop.	2105	2162	2220	2280	2341	2366	2429	2520	2611	2704	2802	2902	3007	3115	3227
% of Pop	52.34%	52.35%	52.35%	52.35%	52.35%	52.35%	52.33%	52.40%	52.41%	52.39%	52.40%	52.39%	52.41%	52.40%	52.39%
Employed	1090	1119	1149	1180	1212	1225	1258	1303	1350	1399	1449	1501	1555	1611	1669
% of Population	27.10%	27.10%	27.10%	27.10%	27.10%	27.10%	27.10%	27.10%	27.10%	27.10%	27.10%	27.10%	27.10%	27.10%	27.10%
Modern	106	116	123	129	132	133	137	143	149	156	163	170	177	185	193
Informal	210	209	210	213	219	222	228	235	243	250	257	265	274	282	291
Sub Total	316	325	333	342	351	355	365	378	392	406	420	435	451	467	484
Traditional Agri.	774	795	816	838	860	870	893	925	959	993	1029	1066	1104	1144	1185
Total Employment	1090	1119	1149	1180	1212	1225	1258	1303	1350	1399	1449	1501	1555	1611	1669
Percentages															
Modern	10%	10%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	12%
Informal	19%	19%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	18%	17%
Traditional Agri.	71%	71%	71%	71%	71%	71%	71%	71%	71%	71%	71%	71%	71%	71%	71%

1979-85
Growth Rate Modern Sec 0.0437

Source: Table 1.4, World Bank Report No. 6764-BU, Burundi, Structural Adjustment and Development Issues Background Papers, January 20, 1988, and USAID estimates.

Table 6

Relationship Between GDP Growth and Employment Growth

(In Millions of FBU, at Constant 1970 Prices)

	1979	1985	% Change	Growth Rate
GDP at Factor Cost (fc)	23784	28871	21.4%	3.28%
Primary Sector	15463	17743	14.7%	
Food Crops	11913	13246	11.2%	
Export Crops	1516	2242	47.9%	
Secondary Sector	3358	4746	41.3%	
Modern Manufacturing	925	1944	110.2%	
Artisan Manufacturing	1084	1161	7.1%	
Tertiary Sector	4963	6382	28.6%	
Modern Commerce	1027	1223	19.1%	
Traditional Commerce	855	985	15.2%	
GDP at Market Prices (mp)	26784	32147	20.0%	3.09%
Traditional Sector	18121	20345	12.3%	
Modern	8662	11802	36.3%	
Total Employment (1,000s)	1089.962	1257.982	15.4%	2.38%
Modern	106	137	29.2%	
Informal	210.0889	227.8147	8.4%	
Modern + Informal	316.0889	364.8147	15.4%	
Traditional	773.8730	893.1672	15.4%	

Average Yearly Change in Employment per 1 percent change in GDP, 1979-85

Using GDP fc Growth Rate	8,529
Using GDP mp Growth Rate	9,067

Source: World Bank Report No. 674-BU, Burundi, 1988.

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Table 7

Additional Employment Created by the Program

(Employment Figures in Thousands)

	Employment 1993	GDP Gr. Rate 1993-94	GDP Gr. Rate '93-2003	Employment per 1% GDP Growth	Change Employment 1994	Change Employment 2003	Total Employment 1994	Total Employment 2003	Employment Change Due to Program 1994	Employment Change Due to Program 2003
1. Base Case	1669.089	4.50%	4.85%	8.53	38.38	413.66	1707.471	2082.752		
2. Program Cases	1669.089			8.53						
1a		4.54%	4.87%		38.69	415.62	1707.781	2084.704	0.310	1.952
1b		4.55%	4.88%		38.79	416.20	1707.874	2085.288	0.403	2.537
1c		4.56%	4.89%		38.88	416.78	1707.967	2085.872	0.496	3.120
2a		4.82%	5.12%		41.09	436.40	1710.181	2105.491	2.710	22.739
2b		4.83%	5.12%		41.19	437.00	1710.279	2106.093	2.808	23.342
2c		4.84%	5.13%		41.29	437.61	1710.377	2106.695	2.906	23.943
3a		5.04%	5.31%		43.00	452.59	1712.086	2121.684	4.614	38.932
3b		5.05%	5.31%		43.10	453.21	1712.188	2122.303	4.717	39.551
3c		5.07%	5.32%		43.20	453.83	1712.290	2122.921	4.819	40.169

Table 8

Change in GDP and Employment Growth Rates as a Result of The Program

	Gdp Gr Rate '93-'94	Gdp Gr Rate '93-2003	Employ Gr Rate '93-'94	Employ Gr Rate '93-2003	Increase Gdp Grwth Rate Program '93-'94	Increase Gdp Grwth Rate Program '93-2003	Increase Employ Gr Rate Program '93-'94	Increase Employ Gr Rate Program '93-2003
Base Case	4.50%	4.85%	2.30%	2.24%				
Prog Case 2a	4.82%	5.12%	2.46%	2.35%	7.06%	5.50%	7.06%	4.96%
Prog Case 2c	4.84%	5.13%	2.47%	2.36%	7.57%	5.79%	7.57%	5.22%
Prog Case 3c	5.07%	5.32%	2.59%	2.43%	12.56%	9.71%	12.56%	8.73%

Source: Table 7

Table 9

Calculating The ICOR for the 1978-1986 Period

GDP at Constant 1970 Market Prices
FBU Millions

Item	1978	1979	1980	1981	1982	1983	1984	1985	1986
GDP fc	23345	23784	24761	28310	26801	27534	27257	28871	29822
Investment	3404	3482	3329	4582	3346	6288	4850	4147	4939
ICOR									
1978-86	5.54								

Note: The calculation is lagged one year, thus investment is summed for the years 1978-1985 and the change in GDP is the increase between 1979 and 1986.

Source: World Bank Report No 674-BU, Structural Adjustment and Development Issues Background Papers, January 20, 1988.

Table 10

Sources of Transport Cost Savings

	Tons	Kms Saved	Cost/ Ton Km Fbu	Savings in Fbu. 1990	1991	1992
1. Four Firms	6,000	200	50	60,000,000	60,000,000	60,000,000
2. Tea	1,659	228	50	18,912,600	18,912,600	18,912,600
3. Tea	1,954	80	50	7,816,000	7,816,000	7,816,000
4. Tonnage Continuing to Bujumbura 1988	66,000					
a. 5% Offload Assump.	3,300	200	50	0	0	33,000,000
b. 10% Offload Assump.	6,600	200	50	0	0	66,000,000
A. Total Savings @ 5% (1+2+3+4A)				86,728,600	86,728,600	119,728,600
B. Total Savings @ 10% (1+2+3+4B)				86,728,600	86,728,600	152,728,600
A. Total Savings in $US @ 5%				542,054	542,054	748,304
B. Total Savings in $US @ 10%				542,054	542,054	954,554
EXCHANGE RATE, FB/$US	160					

Note: From 1993 through 2003, the Total Savings of $748,304 and $954,554 are assumed to grow at 1 % annually due to increased trade. See Table VIID-1 in text and Table 2 in this Annex.

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