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BURUNDI'S FINANCIAL SECTOR

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CHAPTER I
AN OVERVIEW OF ECONOMIC ENVIRONMENT

A. ECONOMIC BACKGROUND

The Structural Adjustment Program

1.1. The development of the financial system in Burundi during the late 1980s has to be set against an economic background characterized by the implementation of radical macroeconomic and sector policies reforms. In 1984, faced with serious external and domestic imbalances, the Government of Burundi requested assistance from the World Bank and the International Monetary Fund to help prepare and implement a reform program with the dual objective of restoring financial equilibria in the short-term, and initiating medium-and long-term structural changes in the economy. Preparatory work started in 1985 and the first measures were implemented one year later.

The economic policies and institutional changes which have taken place since represent a fundamental change in the basic economic doctrine of the country. This change is conducive to growth of the productive sectors of the national economy.

Foreign Exchange Policies

1.2 The local currency unit, the Burundi Franc (BuF) was pegged until November 1983 to the US dollar at a rate of \$1 = 90 BuF. In November 1983, the official rate of exchange was pegged to the Special Drawing Rights (SDR) at a rate of SDR 1 = 122.7 BuF, an implicit devaluation by 30 percent of the local currency against the US dollar. Remaining relatively stable until 1988, the Burundi Franc was devaluated in February 1988 by 10 percent and by another 15 percent during the year through a series of monthly slippages. On December 31, 1988, the official rate stabilized at SDR 1 = 201.0 BuF. The foreign currencies officially quoted by the Central Bank comprise US and Canadian dollars; German Mark; Japanese Yen; British Pound Sterling; Dutch Florin; Danish, Norwegian and Swedish Crowns; Swiss, French and Belgian Francs; Italian Lira; Austrian, Kenyan, Ugandan and Tanzanian Shillings; and Zaire's Zaire. The foreign exchange controls remain in effect and procurement of hard currency for business purposes is time consuming.

B. ECONOMIC PERFORMANCE 1984-1988

Gross Domestic Product

1.3 The Gross Domestic Product (GDP) at market prices experienced a growth of 17 percent in 1985, followed by a period of stagnation between 1985-1987, and an estimated growth of 14 percent in 1988. The economy remains essentially rural. The primary sector's input to the GDP at factor cost ranges between 56 and 61 percent with about 75 percent of inputs remaining non-monetized. In the secondary sector, about 20 percent of inputs are non-monetized and another 25 percent are defined as traditional. In the tertiary sector, the Civil Service represents about 50 percent of inputs and traditional commerce another 10 percent. In over-all terms, the monetized GDP represents about 60 percent of the total GDP at factor cost and the modern activities less than 40 percent. During the last decade both the monetized and modern sectors expressed as a percentage of total GDP have fluctuated within a very narrow range without any discernible tendency.

Foreign Trade.

1.4 Between 1980 and 1984 the trade deficit increased from 11.2 to 16.2 billion BuF. In 1986, the trend reversed itself reducing the deficit to 10 billion BuF. In 1987, the deficit deteriorated suddenly by 97 percent to 19.5 billion BuF. In 1988, another deterioration of 10 percent brought the deficit to 21.3 billion BuF. The latest decline could be attributed to the combined effects of two factors.

1.5 Imports. In 1987, coinciding with the liberalization of trade, [the] imports increased by 20 percent from 27.8 to 33.4 billion BuF. In 1988, a second increase of 21 percent from 33.4 to 40.5 billion BuF was provoked this time by a series of successive devaluations of the Burundi Franc. Both increases mopped up excess liquidity from the banking system and immobilized money in excess inventories.

1.6. Exports. Between 1984-1986, the exports increased from 13.4 to 11.9 billion BuF. In 1987, the exports dropped to 13.9 billion BuF and in 1988, increased again to 19.1 billion BuF. The erratic export performance is influenced by coffee. It should also be noted that since 1981, the manufacturing sector started exporting to the regional markets and between 1980-1987,

the exports of manufacturing goods increased from 0 to 1.6 billion BuF. However, in 1988, these exports dropped to their 1987 level of 1 billion BuF.

TABLE 1.1 : COMPOSITION OF IMPORTS, 1984-1988

	1984	1985	1986	1987	1988
(BuF million)					
Non-Factor Services	7293	4162	4639	7983	11596
Merchandise Imports	22383	22155	23195	25465	28885
Structure					
(in percentages)					
Capital Goods	25.2	30.7	28.0	35.6	33.9
Raw Materials	25.2	23.7	26.0	23.1	24.4
Oil Products	17.6	17.1	13.2	14.2	12.7
Consumer Goods	32.0	28.5	32.8	27.1	29.0

Source : Central Bank Statistical Appendix. Table 2.

TABLE 1.2 : COMPOSITION OF EXPORTS, 1984-1988

	1984	1985	1986	1987	1988
(BuF million)					
Non-factor services	1610	1124	2714	2869	1146
Merchandise Exports	11829	13462	15230	11107	17988
Structure					
(in percentages)					
Coffee	84.0	84.3	85.2	71.1	86.2
Other primary products	11.5	10.3	7.7	14.8	8.1
Manufacturing goods	4.5	5.4	7.1	14.1	5.7

Source : Statistical Appendix Table 2

1.7 The export performance of the principal commodity, coffee, is influenced by five independent factors including three-year production cycles, uneven quality of the processed product, quotas imposed by the International Coffee Agreement, world market prices, and the efficiency of the State monopoly in charge of the product and its marketing.

TABLE 1.3: COFFEE EXPORTS, 1984-1988

	1984	1985	1986	1987	1988
Export value, BuF million	9930	11354	12891	7891	15504
Export volume, tons	29081	34087	36689	27071	36684
Price, BuF	341	333	351	291	422

a/ From 1986, exports are fob Dar-Es-Salaam instead of fob Bujumbura.

Source: Central Bank.

1.8 At present, the Government has a monopoly of the entire production and marketing cycle through two fully government-owned public enterprises: OCIBU controlled by the Ministry of Agriculture and the BCC controlled by the Ministry of Commerce and Industry. The first, the Office des Cultures Industrielles du Burundi (OCIBU) is in charge of financing the coffee campaign, importation and distribution of inputs, collection of semi-washed parchment coffee, hulling and bagging. The Burundian Coffee Marketing Board (BCC), on the other hand, is in charge of the marketing and shipping.

1.9 The Coffee pricing mechanism. The system is rigid and provides few incentives to improve efficiency. Each year, before the official campaign begins in April, the State determines the prices to be paid to farmers for parchment coffee, as well as the amounts to be paid to each intermediary. The intermediaries, including OCIBU and BCC, are paid a fixed cost-plus price to finance their costs and profits. Once all the costs are determined and related to the anticipated production volume, the actual financing is done by a bankers' consortium that allocates quotas to its members. Upon payment by foreign buyers, the difference between the fob cost Dar-es-Salaam and the realized sales price is withheld by the Treasury through the Central Bank after replenishing the Coffee Stabilization Fund to the authorized limit of 1 billion BuF. The residual profits belong to the State.

The Current Account and Balance of Payments

1.10 Between 1984 and 1985, the Current Account deficit was reduced from 14.1 to 8.3 billion BuF. In 1987, the deficit increased to 18.7 billion BuF. The following year the deficit was reduced again to 8.8 billion BuF. The improvement has resulted from the reduction by 4.5 billion BuF in the net factor income and an increase of 7.2 billion BuF in net current transfers.

1.11 Between 1984 and 1986 the Balance of Payments improved by 4.9 billion BuF: from a negative 0.5 to a positive 14 billion BuF. In 1987, the Balance declined by 5.2 billion BuF to a negative 0.8 billion BuF. In 1988, it improved again by 4.0 billion BuF to a positive 3.2 billion BuF. This improvement was due to a reduction by 9.3 billion BuF in Gross Domestic Investments which declined from 21.1 to 11.8 billion BuF. The decline of the GDI concerned almost exclusively net medium- and long-term loans.

Public Debt

1.12 Burundi's outstanding public debt, including amounts still undisbursed, which stood at 59.8 billion BuF in 1984, increased to 142.2 billion BuF by 1988, an increase of 138 percent. The main increase took place between 1986-1988: 23 percent in 1987 and 34 percent in 1988. During the latter year, the Public debt reached 90 percent of the total GDP and 143 percent of the monetized GDP.

1.13 External Debt. The external debt which stood at 41.1 billions BuF in 1984, increased by 1988 to 116.4 billion BuF, an increase of 183 percent. The increase was 14 percent in 1985, 38 percent in 1986, 26 percent in 1987, and 41 percent in 1988. Of the outstanding amount, 70 percent is owed to multilateral organizations, 27 percent to bilateral organizations and 3 percent to financial institutions. About 96 percent of the external debt is the direct obligation of the Government. The remaining 4 percent is the obligation of public corporations and the National Development Bank (BNDE). About 89 percent of the debt is on concessional terms. About 11 percent of non-concessional borrowing occurred mainly during 1981 and 1982 to finance the Government's industrial ventures.

The external debt has an average interest rate of 1.5 percent, 38 years maturity and 9 years period of grace. About 81 percent of Burundi's external debt structure does not lend itself to the Paris Club type of rescheduling. By 1988, the external debt represented 74 percent of the total GDP and 117 percent of the monetized GDP.

1.14 Domestic Debt. The domestic debt, which stood at 18.7 billion BuF in 1984, increased to 25.7 billion BuF by 1988, an increase of 37 percent without any significant variations in between. About 67 percent of the domestic debt resulted from Central Bank operations and another 22 percent from government papers. By 1988, the domestic debt represented 16 percent of the total GDP and 26 percent of the monetized GDP.

1.15 External Debt Service. Due to the non-concessional loans and the bunching of maturities of concessional loans, debt service payments increased from 2.2 billion BuF in 1984 to 7.1 billion BuF by 1987, with the following annual percentage increases: 59 percent in 1985, 17 percent in 1986, and 69 percent in 1987. The drastic 1987 increase may be attributed to an unusually high bunching of non-concessional loans and pre-payments by some public sector institutions anticipating the 1988 devaluation. By 1988, the external debt service was reduced to 5.9 billion BuF, representing nevertheless 33 percent of total exports.

1.16 Domestic Debt Service. Between 1984-1987, the domestic debt service increased from 1.2 to 4 billion BuF. The biggest increase (120 percent) took place in 1985. From then on, public debt service has increased by a steady 20 percent annually. By 1988, the domestic debt service represented 3 percent of the total GDP and 10 percent of the monetized GDP.

Medium-Term Financing Requirements

1.17 The World Bank's last alternative scenario evaluated the total medium-term external financing requirements at \$1.13 billion of which amount about \$ 350 million would be made available from disbursements of previously contracted debt and \$25 million from direct investments that would require aggressive policies to attract such resources. A shortfall of \$770 million would have to be met from new commitments. To generate this level of disbursements and to accommodate its future debt service requirements, Burundi will require total new loan commitments of about US\$150 million per year for the next five years. Such level of new commitments representing approximately 25 percent of the monetized GDP has been never attained before.

TABLE 1.4: PUBLIC DEBT AND DEBT SERVICE, 1984-1985

	1984	1985	1986	1987	1988
	(growth index, base 1984 =100)				
Total Public Debt	100	116	146	179	238
Foreign	100	115	159	200	283
Domestic	100	118	118	131	138
Total Public Debt Service	100	181	215	317	--
Foreign	100	159	186	315	261
Domestic	100	221	269	322	--
as % GDP at Market Prices	100	117	116	117	134
as % GDP at Factor Cost	100	118	115	120	135
as % Monetized GDP	100	115	115	123	150

p/provisional estimates

Source : Statistical Appendix, Table I and Table 4

National Account Summary

1.18 The domestic consumption expressed as a percentage of the GDP at market prices maintained itself at a 95 percent level during 1984-1987. In 1988, the consumption dropped to 90

percent. Consequently, domestic savings which during 1984-1987 represented on the average 4.7 percent of the GDP at market prices, have increased sharply to 9.9 percent. This is a comparatively low rate of savings in relation to other Sub-Saharan countries: 6 percent for Uganda; 9 percent for Zimbabwe, 15 percent for Zambia; 18 percent for Mauritius, and 20 percent for Kenya. The gross capital formation declined from 21.7 to 19.2 billion BuF during 1984-1985 and increased in 1988 to 29.2 billion BuF. The borrowing requirements declined from 14.1 to 11.6 billion BuF between 1984-1985, maintained themselves at that level through 1986, and increased again to 14.7 billion BuF in 1987.

Current Budget

1.19 During the three-year period 1984-1986, total revenues increased from 15.1 to 22 billion BuF. In 1987, the revenues declined by 4.1 billion BuF and in 1988 increased again by 6.1 billion BuF to a level of 23.9 billion BuF. The 1988 increase resulted essentially from two revenues sources: indirect taxes, which went up by 3.7 billion BuF, and the recovery of commercial credits, which went up by 2.7 billion BuF. The 1989 revenue projections of 29.7 billion BuF focused on: indirect taxes: up by 0.7 billion BuF; direct taxes: up by 0.5 billion BuF; recovery of commercial credits: up by 0.5 billion BuF; and a new revenue source, compulsory dividends from public companies, projected at 3 billion BuF. The recurrent expenditures, after three years of relative stagnation increased between 1986-1988, from 16.7 to 20.1 billion BuF. The increase concerned mainly public expenditures and subsidies. The 1989 budget projections would increase the recurrent expenditures by another 3.8 billion BuF.

1.20 The 1989 projected balance in terms of commitments amounts to 5.8 billion BuF and to 3.4 billion BuF in terms of payments. According to the World Bank, the impact of the public sector on the Government's finances amounts to 8.9 billion BuF, almost one third of the current budget.

TABLE 1.5: CURRENT BUDGET, 1984-1989

	1984	1985	1986	1987	1988	1989
(Sources and uses of revenues as percentage of total)						
Revenues	100.0	100.0	100.0	100.0	100.0	100.0
Direct Taxes	38.2	22.6	20.6	23.9	18.7	16.5
Indirect Taxes	63.9	72.8	69.5	64.9	64.2	60.6
Adm. Revenues	2.1	4.6	5.5	7.4	12.7	7.7
Other Revenues	-	-	4.4	3.8	4.4	15.2
Recurrent Expend.	100.0	100.0	100.0	100.0	100.0	100.0
Public	76.0	71.6	73.4	69.8	72.9	71.3
Subsidies	23.3	25.0	26.0	29.2	27.1	28.1
Other	0.7	3.4	0.6	1.0	-	-
(Growth of Balance index, base 1984 = 100)						
commitments	100	153	311	168	208	322
payments	100	220	694	182	171	560

Source : Statistical Appendix, Table 7

Money Supply

1.21 Broad Money expressed as percentage of the GDP at market prices climbed from 16.9 percent in 1984, to 18.1 percent in 1986 and then went into decline reaching 16.8 percent in 1988. Commercial money (demand deposits plus quasi-money) went into a steady decline one year sooner: from 10.7 percent in 1985 to 9.3 percent in 1988. The same pattern concerning commercial money is evident in the structure of the broad money supply. Expressed as percentage of total, commercial money declined from 62.1 percent in 1985 to 53 percent in 1987, with a slight improvement of 2.3 points in 1988 due primarily to a large increase in term deposits. This increase has been achieved at the expense of demand deposits which went down by 5.7 points: from 43.2 to 37.5 percent. This is the second year in a row that these deposits declined. The previous year the decline reached 6.6 points: from 49.8 to 43.2 percent. However, the entire structure of quasi money is somewhat artificial due to the presence of compulsory savings which fluctuate independently within a narrow range of 8.1 to 11.0 percent of Broad Money. These compulsory savings are monopolized by the state-owned saving institution, la Caisse d'Epargne du Burundi (CADEBU), which uses them as a source of funds for financing the public sector. Outside commercial money, currency in circulation increased somewhat sluggishly from 24 billion BuF in 1985 to 26.6 billion BuF in 1988.

Financial Systems' Liquidity

1.22 The financial system's liquidity dropped sharply and suddenly in 1988. The total of independent factors representing the currency in circulation and various claims has been reduced by 1.9 billion BuF: from a positive 1.3 billion BuF in 1987, to a negative 0.6 BuF billion in 1988. The liquidity crisis has been attenuated by an unusually high and unprecedented increase in claims on abroad. These claims, representing special drawing facilities and debt disbursements "on call", increased by 11.5 billion BuF from 7.6 to 19.1 billion BuF as of February 1989. The crisis was also attenuated by Central Bank's intervention involving refinancing operations of 2.2 billion BuF. This last measure brought the total liquid reserves to its 1988 level of 1.6 billion BuF, still 1.4 billion BuF short of the 1987 level of 3 billion BuF.

CHAPTER II
BURUNDI'S FINANCIAL ESTABLISHMENT

2.24 Burundi's financial establishment comprises 7 banking institutions and 11 non-banking ones. The banking sector includes the central bank, two development banks and four commercial banks. The non-banking sector includes one holding company, three deposit taking institutions, three insurance companies, a social security fund, a rural credit cooperatives system and two institutions mobilizing credit for coffee campaigns.

2.25 The combined equity capital in the 12 institutions set up as stock companies amounts to 4.5 billion BuF. The Government of Burundi controls the majority of this capital either through direct holdings or indirect holdings as partner in a complex network of equity positions in public, parastatal and private companies. The best estimate of the ownership structure of this combined equity capital is the following:

TABLE 2.6: OWNERSHIP PATTERN OF FINANCIAL INSTITUTIONS

ITEM	BuF million	Percentage
Combined equity capital	4,456	100.0
Direct GOB Holdings	1,238	27.8
Indirect GOB Holding	1,462	32.8
Bi-and-Multilat. Agencies Holdings	340	7.6
Foreign Private Invest. Holdings	968	21.7
Local Private Holdings	448	10.1

Source. Mission research.

A. THE CENTRAL BANK

2.26 La Banque de la Republique du Burundi (BRB) was established by an Act of April 9, 1964, and assigned the typical functions of a modern central bank by virtue of a January 3, 1976 Act: the design and implementation of the monetary policy, the issuing of currency, the management and control of credit, the management of foreign reserves, the management of the regulatory policies concerning the financial system, and the accounting and auditing of the Treasury. In addition to its normal functions, the BRB runs various services for banks such as a clearing house and a credit risk coordinating unit and provides banking services for public sector companies.

2.27 The bank is placed under the authority of a Board of Directors composed of the Governor as Chairman and two Administrators, one of them acting as Vice-Governor. Between October 1986 and October 1987, BRB was without a Governor and its Board of Directors was virtually inactive. Three Senior Directors are appointed as Special Counselors to the Governor. The accounts of the Bank are audited by two "commissaires aux comptes" appointed by the Minister of Finance. The Bank has two field offices, one of which is in Gitega and the other in Ngozi. Its headquarters in Bujumbura is divided into 16 departments.

2.28 Between 1987 and 1988, BRB assets increased from 28.1 to 32.5 billion BuF. The 1988 Balance Sheet shows 10.7 billions BuF in reserves (33.0 percent of total assets) and 48.8 billions BuF in claims on the Treasury (48.8 percent of total assets). The net changes show a 2.8 billion BuF increase in reserves, a 2.6 billion BuF increase in claims on financial institutions and a 1.3 billion BuF decrease in claims on the Treasury. The net changes in liabilities show a 1.4 billion BuF decrease in financial institutions deposits and a 1.0 billion BuF decrease in Treasury and local governments' deposits. Foreign Missions and Agencies deposits show a net increase of 2.2 billion BuF and other liabilities an increase of 2.9 billion BuF. The summary Balance Sheet of the Central Bank is attached as Annex 1.

B. THE DEVELOPMENT BANKS

Banque Nationale pour le Developpement Economique (BNDE)

2.29 Established in 1967, as a limited liability company, the BNDE is Burundi's principal development finance institution. Its initial equity base of 60 billion BuF was expanded several times to reach 740 million BuF in 1988. BNDE share holders are: The Government of Burundi: 25.95 percent; public and mixed-economy companies: 22.12 percent; international development assistance organizations: 45.96 percent; other share holders: 5.97 percent. Although earning reasonable profits (8.7 percent on equity capital in 1988), the BNDE has preferred to build up its equity base and reserves rather than pay dividends. The BNDE's objectives are to provide term loans and equity funds to agricultural, industrial and tourist enterprises. The institution is very well managed.

2.30 The BNDE has an outstanding loan portfolio of 3.4 billion BuF (excluding the coffee campaign).

TABLE 2.7: BNDE'S OUTSTANDING LOAN PORTFOLIO, 1988

(BuF million)	ST	MT	LT	Total
Housing	-	26	885	911
Commercial and Artisan	-	356	71	427
Industry	-	404	444	848
Tourism	-	47	132	179
Agriculture	193	143	288	624
Small loans	458	-	-	458
Total	651	976	1820	3447

Source: BNDE.

2.31 Between 1987 and 1988, BNDE assets decreased from 6.6 to 5.0 billion BuF. The increase of credit to the economy and a decrease in other assets cancelling each other, the decrease resulted from a brutal drop in liquid reserves: from 1644 to 24 million BuF. In its liabilities, the institution lost 2.6 billion BuF in call money and demand deposits, a loss compensated partially by about 1.0 billion BuF increase in time deposits, medium and long-term loans and other liabilities. Institution's liquidity ratio dropped from 46.3 percent in 1987 to 2.4 percent in 1988, but its debt equity ratio improved from 5.2:1 to 3.4:1.

BNDE Summary Balance Sheet is attached as Annex 2.

Societe Burundaise de Financement (SBF)

2.32 Established in 1982, as a limited liability company, the SBF is Burundi's other development finance institution. Its equity base was expanded in 1988 to 860 million BuF. SBF shareholders are: the Government of Burundi: 16.0 percent; public and mixed economy companies: 58.6 percent; local private investors: 26.2 percent. In 1988, the SBF earned a net profit of 86 million BuF (10.0 percent on equity capital). No dividends were distributed. The institution is well managed.

2.33 The SBF provides term loans for housing and commercial and transport equipment and has an outstanding loan portfolio of 3.3 billion BuF (excluding the coffee campaign).

TABLE 2.8: SBF OUTSTANDING LOAN PORTFOLIO, 1988

	(Million BuF)	Loans
Short-Term	813	196
Medium-Term	2,076	199
Long-Term	256	13
Total	3,145	408

Source: SBF.

2.34 Between 1987 and 1988, SBF assets increased from 4.7 to 5.7 billion BuF. The increase resulted mainly from new investments in government securities (0.3 billion BuF) and 0.7 million BuF increase in other assets. In its liabilities, the institution increased its capital and reserves by 0.3 billion BuF, time deposits by 0.4 billion BuF and other liabilities by 0.2 billion BuF. The institution has no call money and demand deposits in its liabilities structure. Its liquid assets dropped from 102 to 22 million BuF, but its debt-equity ratio improved from 5.6:1 to 4.6:1. SBF Summary Sheet Balance is attached as Annex 3.

C. COMMERCIAL BANKS

Banque de Credit de Bujumbura (BCB)

2.35 The bank has an unchanged equity capital of 400 million BuF with the following ownership structure: the Government of Burundi: 11 percent; public and mixed-economy companies: 40 percent; foreign banks: 42 percent; local private investors: 7 percent. In 1988, the BCB earned a net profit of 143 million BuF (35.8 percent on equity capital) and distributed 74 million BuF in dividends (18.5 percent on equity capital). The bank is professionally managed.

2.36 Between 1987 and 1988, the bank's assets increased from 5.9 to 9.4 billion BuF. The increase resulted mainly from a 4.0 billion BuF short-term credit increase to the economy, of which amount 2.0 billion BuF represented a net increase in BCB participation in the bankers' syndicate coffee campaign. The bank's liquid assets were reduced from 561 million to 97 million BuF. Combined with an increase of call money and demand deposits from 4093 to 6944 million BuF on the liabilities side of the Balance Sheet, the bank's liquidity ratio dropped from 13.7 percent to 1.4 percent. Its debt-equity ratio went up from 10.0:1 to 14.7:1. The investments in government securities represented 3.4 percent of total assets, down from 6.7 percent in 1987 the maturities of deposits and credits are well-matched. The ratio of time deposits as percentage of sight deposits went up from 18.5 to 21.2 percent. The bank is well managed. The BCB Summary Balance Sheet is attached as Appendix 4.

Banque Commerciale du Burundi (BANCOBU)

2.37 The bank increased its equity capital from 210 to 330 million BuF, with the following ownership structure: the Government of Burundi: 3 percent; public and mixed-economy companies: 42 percent; foreign investors: 49 percent; local private investors: 6 percent. In 1988, the bank earned a profit of 57 million BuF (17.3 percent on equity capital) and distributed 28 million BuF in dividends (8.5 percent on equity capital). The bank is professionally managed.

2.38 Between 1987 and 1988, the bank's assets increased from 5.7 to 9.1 billion BuF. The increase resulted mainly from a 3.6 billion BuF short-term credit increase to the economy, of which amount 1.2 billion BuF represented a net increase in BANCOBU participation in the bankers' syndicate coffee campaign. The bank's liquid assets were reduced from 952 to 380 million BuF, while the call money and demand deposits in its liabilities increased from 4417 to 6924 million BuF. As a result, the liquidity ratio dropped from 21.6 percent to 5.5 percent. The debt equity ratio stayed at 12.6:1. The investments in government securities represented 8.2 percent of total assets, down from 11.6 percent in 1987. The maturities of deposits and credits are well matched. The ratio of time deposits as percentage of sight deposits went up from 11.5 to 14.0 percent. The bank is well managed. BANCOBU's Summary Balance Sheet is attached as Appendix 5.

The Meridian Bank of Burundi (MBB)

2.39 The bank opened in 1988, as a limited liability company with an equity base of 300 million BuF subscribed by: local private investors: 48 percent; public and mixed-economy companies: 27 percent; a foreign bank: 25 percent. After five months of operations, the banks' assets stood at 1.2 billion BuF. Investments in government securities represented 41.3 percent of total assets and its liquidity ratio stood at 13.9 percent. The bank is well managed. MBB's Summary Balance Sheet is attached as Appendix 6.

The Arab Burundi Bank of Commerce and Investment

2.40 After an official opening in August 1988, the bank started operations in 1989 as a limited liability company. The bank's equity structure is unclear and the subscribed capital of 330 million BuF is under review since the same promoter apparently has had some second thoughts about his commitments.

D. DEPOSIT TAKING INSTITUTIONS AND HOLDING COMPANY ^{IES}

Holding Arab Libyen Burundais (HALB)

2.41 For political reasons alone, the future of this institution is uncertain. The holding company took equity positions of 5.2 billion BuF in several parastatal and mixed economy enterprises and these assets representing 54 percent of the total are non-performing. In consequence, HALB has been incurring operating losses which should have been reflected in its Capital and Reserves structure. An informal evaluation of the holding's non-audited financial statements is attached as Appendix 7.

La Caisse Centrale de Mobilisation et de Financement (CAMOFI)

2.42 The mission was not given the opportunity to visit this institution. It would appear however that CAMOFI's principal sources of funds are the deposits of public institutions and fines imposed on banking institutions for non-compliance with certain regulatory instructions. The information contained in Central Bank's Monthly Bulletins indicate that CAMOFI's assets increased from 4.3 to 5.8 billion BuF between 1987-1988. The structure of its assets would indicate that 76 percent of claims are on the Government and public sector. The liquid assets increased from 5 to 91 million, the net profits decreased from 128 to 74 million BuF and the debt-equity ratio stayed at a level of about 20.0:1. The capital and reserves are estimated at 259 million BuF, up from 128 million in 1987.

La Caisse d'Epargne du Burundi (CADEBU)

2.43 CADEBU is a special case. The institution was saved from certain bankruptcy by the introduction in 1987 of a compulsory savings scheme which created serious distortions in the financial system. At present, the compulsory savings scheme is based on three categories of deposits blocked for three years at 3 percent interest: (i) All salaried persons: 5 percent of gross income withheld at the source (ii) Merchants and independent professions: an annual flat assessment ranging from 2,500 to 15,000 BuF (iii) Artisans: an annual flat assessment ranging from 500 to 10,000 BuF. The assessment of farmers was abandoned in 1988. After three years, the depositors can withdraw one year of savings with interest. CADEBU operates through its ten branches.

2.44 The information contained in Central Bank's Monthly Bulletins indicate that CADEBU's total assets decreased from 3.5 to 2.9 billion BuF between 1987-1988. About 55 percent of its assets are in form of claims on the government and public sector and 94 percent of its liabilities are in form of compulsory savings. The management of CADEBU is very weak and its exact financial situation unknown since the last audit of CADEBU accounts took place in 1984.

Office of Cheques Postaux (CCP)

2.45 The postal checking system is attached to the Financial Department of the National Post Office under the Ministry of Transport, Posts and Telecommunications. The sources of funds of the system come from voluntary deposits to checking accounts of civil servants and private individuals in the provinces where the CCP has a network of 25 branch offices. In 1988, the CCP had total assets of about 0.5 billion BuF consisting exclusively of claims on the Government. In its liabilities, the CCP had about 0.2 billion BuF in small deposits and 0.3 billion BuF in deposits from public institutions and banks.

E. OTHER INSTITUTIONS

Insurance Companies

2.46 The total domestic insurance market is estimated at about 1.3 billion BuF. This market is now shared by two companies: SOCABU (1 million BuF) and a new company, UCAR (0.3 billion BuF). There is now strong competition between these companies for market shares.

2.47 Societe d'Assurance du Burundi (SOCABU). This mixed economy company used to have till 1987 a de facto monopoly in the insurance business in the country. Its equity capital of 180 million BuF has the following ownership structure: the Government of Burundi: 25 percent; parastatal and mixed-economy companies: 73 percent; Burundi's banking sector: 3 percent.

2.48 Union Commerciale d'Assurance et de Reassurances (UCAR) This new company was created in 1986 with the share capital of 60 million BuF with the following ownership structure: The Government of Burundi: 30 percent; local private investors: 60 percent; a foreign insurance company and sponsor: 10 percent.

2.49 Fonds National de Garantie (FNG). For convenience sake, this loan portfolio guaranty institution could be considered as an insurance company. FNG was established as a limited liability company with a capital of 300 million BuF by a special Decree of 14 June, 1988, to insure high-risk loans or loans without sufficient collateral. The ownership structure of the subscribed capital is the following: the Government of Burundi: 70.67 percent; the Central Bank: 16.67 percent; local banks: 12.66 percent. The FNG has about 17 loans in the pipeline with the following average loan characteristics: Project cost: 2.5 million BuF; loan request: 1.9 million BuF; leverage: 76 percent; terms: 4.1 years; grace period: 1.3 years; guarantee requested: 1.1 million; risk coverage: 58 percent of the loan requested. The fund needs urgently professional assistance to set up its operations on a sound basis: one credit risk analyst and one portfolio management specialist.

Office des Cultures Industrielles du Burundi (OCIBU)

2.50 As mentioned in paragraphs 1.8 and 1.9, this organization projects budget requirements for each coffee campaign subject to approval by the Government, imports and distributes inputs, collects, hulls and bags the product, and acts as a paymaster to farmers and intermediaries of transactions. The actual financing of coffee campaigns is done now by a bankers' syndicate. The coffee Equalization Fund acts only as a keeper of equalization reserves established at 1 billion BuF.

Institut National de la Sécurité Sociale (INSS)

2.51 The institute has been set up in 1962 as an autonomous organization under the supervision of the Ministry of Social Affairs to administer the retirement and workers compensation funds. Its sources of funds are the compulsory insurance premiums of 7.5 percent of gross salary with a ceiling of 25,000 BuF per month. Approximately 70 thousand employees are insured by the system. The institute invests money in government papers and in equity funds.

The COOPEC System

2.52 The COOPEC system (Savings and Credit Rural Cooperatives) has been set up in 1984 under the Rural Development Ministry with the French Assistance Program. This is by far the most spectacular and the most cost-efficient venture in Burundi. Operating in the poorest segment of the market with a total grant of 8.8 million French Francs and assisted by three French experts, the results are the following:

TABLE 2.9: THE GROWTH OF THE COOPEC SYSTEM, 1984-1985

	1985	1986	1987	1988
Number of Cooperatives	10	20	34	56
Number of Members	4526	23501	43982	68390
Share Capital (BuF million)	3	13	25	40
Deposits (BuF million)	7	57	154	330
Loan Portfolio (BuF million)	-	6	57	132
Number of Loans	-	152	1667	4100

Source: French Embassy and Caisse Centrale de la Coopération Economique.

2.53 The system expects to be accredited by the Central Bank and intends to develop a nation-wide network of private and autonomous cooperative banks. The COOPECs pay 3 percent on all deposits and lend to members only at rates between 11 to 14 percent according to the use of the credit.

F. THE INFORMAL SECTOR

2.54 The size and precise nature of the informal financial sector in Burundi is unknown. On the more "legal" side, there is a growing number of informal Mutuelles de Crédit (Credit Unions) organized by professions. On the illegal side, it would appear that Bujumbura is rapidly becoming a regional contraband center which would require an underground financial system to finance the operations and laundry the proceeds.

CHAPTER III
BANKING REGULATIONS

A. LEGAL FRAMEWORK

3.55 The legal framework regulating the banking system and its relations with the clients is based on an antiquated jurisprudence imposed on the country by the colonial administration. The present limited legislation has resulted from two phenomena: (i) adopting piecemeal new foreign experiences to the Burundi situation rather than stemming from a genuine legislative effort, and (ii) enacting separate pieces of legislation to deal separately with each one of the various radical macroeconomic and sector policies reforms as they emerged, thus producing an exceedingly complex and unclear state of affairs. The resulting legal patchwork cannot therefore be considered sufficiently adequate and both the Government and financial establishment are acutely aware of this inadequacy.

B. STANDARD ACCOUNTING PRACTICE

Accounting System

3.56 The existing Plan National Comptable is based on the French OCAM system and does not reflect the needs of modern banking and could be considered, at best, as a guideline for financial operations. In practice, each financial institution has its own accounting system which, depending on the institution, could be rated from excellent to non-existent. There is also an inherent conflict of interest between the accounting profession and the Internal Revenue Administration concerning the interpretation of Financial Statements.

Internal Revenue Rules

3.57 In essence, the tax authorities have their own independent views on what constitutes legitimate income and admissible business expenditures. Some of these views are accepted by custom and are included in the Tax Code, others are arbitrary ad-hoc rulings of individual tax inspectors. In some instances, the tax authorities impose equally arbitrary and unrealistic ceilings on legitimate business expenses. Examples include tax penalties and reserves for bad debts, which are considered as taxable income, and compulsory membership fees in the Chamber of Commerce, which are considered as non-deductible expenses. Moreover, business expense accounts are limited to 150 thousand BuF per enterprise, while accounts receivable and bad debts can be written off only upon presentation of court judgments pronouncing either the debtor's insolvency or his death, which is a complex and time-consuming legal process. These issues were raised in June 1988, during a national conference for the promotion of dialogue between public administration and the private sector.

Impact on the Promotion of the SMEs

3.58 The dichotomy between standard accounting practices and arbitrary internal revenue rulings is particularly harmful to the promotion of small and medium scale enterprises. Since the "taxable profit" can be as much as five times higher than the "accounting profit", it is not clear what criteria should be used in preparing a feasibility study to demonstrate the financial viability of a venture and to project its profit-earning potential, cash flow, and debt servicing capacity.

Certification of Accounts

3.59 All bank accounts must be prepared and certified by two internal auditors (commissaires aux comptes). A new ruling of September 1988 stipulates that one of the auditors must be appointed by the Minister of Finance and the other chosen by the institution, but recognized as competent by the Governor of the Central Bank. In addition, the new ruling introduces the function of external auditor (reviseur). However, there are no specific auditing guidelines nor specific instructions defining the standard of professional competence of an auditor, his rights, and his liabilities vis-a-vis his client.

C. REPORTING REQUIREMENTS

Monetary Policies

3.60 The monetary policy of the Central Bank has three purposes: (i) to drain excess liquidity from the system, (ii) to limit financial sector's net claims on the government and on outstanding credit to the economy, and (iii) to direct credit toward priority projects. Policy instruments include: (i) a liquid assets ratio, (ii) a working capital ratio, and (iii) a new rediscountable loan ratio. A prior credit authorization system has been apparently abandoned. The methods of computing the ratios are conceptually weak. The deposits of penalties with CAMOFI provide this institution with free income at the expense of banks. All reports are monthly.

Liquid Assets Ratio

3.61 The banks are required to maintain a portfolio of rediscountable credit equivalent to 8 percent of the average of their resources and their non-rediscountable credit: a rather unusual combination. The computing method is as follows. The numerator is the sum of cash holdings, call money, and the difference between rediscountable and refinanced loans, short-term negotiable securities, investment bonds and savings certificates. The denominator is the sum of the following: 100 percent of demand and time deposits of less than one year, 50 percent of deposits of 1 - 2 years, 25 percent of deposits of more than two years, 100 percent of documentary credit deposits, borrowed call money and fees and expenses payable within one year. The penalty is 0.25 percent of the amount of insufficiency.

Working Capital Ratio

3.62 The ratio set up once a year is a derivative of the formula: working capital equals net worth less fixed assets, with the net worth being the sum of the following: 25 percent of the ceiling of pre-financing of the coffee campaign, 10 percent of the monthly average of the difference between all outstanding loans and export commitments and government loans, 5 percent of the monthly average of all guaranties not provided for, and one percent of the monthly average of all documentary credits. The penalty is 3 percent on the amount of insufficiency.

Rediscountable Loan Ratio

3.63 The ratio is set up at 15 percent. The numerator comprises all rediscountable loans and is the sum of the following: 100 percent of demand deposits of less than one year and all medium-and loan term non-refinanceable loans; 75 percent of deposits of 1-2 years; 50 percent of deposits of more than two years, savings accounts and reserves for letters of credit. The denominator is the sum total of all outstanding loans. The penalty is up to 3 percent on the amount of insufficiency.

CHAPTER IV
CREDIT TO THE ECONOMY

A. CLASSIFICATION CRITERIA

4.64 Burundi's legislation recognizes five different types of public sector enterprises: (i) Etablissements Publics à Caractère Administratif (EPA), state-owned public service companies; (ii) Sociétés Régionales de Développement (SRD), state-owned rural development corporations under the authority of Decret-Loi No. 1 of June 15, 1979; (iii) Etablissements Publics à Caractère Industriel et Commercial (EPIC), state-owned manufacturing and commercial enterprises under the authority of Decret-Loi No. 1/23 of July 26, 1988; (iv) Sociétés de Droit Public (SDP), government joint-venture companies with other State or States in which private investors can own a maximum of 10 percent of share capital. These companies are established under Decret-Loi No. 1/027 of September 28, 1988; (v) Sociétés d'Economie Mixte (SEM), mixed-economy companies in which the Government can own, either directly or indirectly, a minimum of 10 percent but no more than 90 percent of share capital. These companies are established under Decret-Loi No. 1/027 of September 28, 1988. This concept of what is public and what is private introduces a serious bias in the classification system. Example: according to this system, Burundi's entire financial establishment belongs de jure to the public sector. This report uses the official classification system in determining the credit to the economy by agent.

4.65 The terms of credit are defined as follows: short-term, up to two years; medium-term, 2 to 7 years; long-term, over seven years. This definition introduces another classification bias as it varies from the more universally accepted standard of: up to one year for short-term, one to three years for medium-term, and over three years for long-term credit.

B. DISBURSEMENT OF CREDITS

Development Finance Institutions' Credit

4.66 For convenience sake, the Holding Arab Libyen Burundais and Caisse Centrale de Mobilization et de Financement are considered as development finance institutions. In 1988, of the total credit to the economy of 14.7 billion BuF disbursed by these institutions, 4.2 billion BuF (29 percent of the total) were allocated to the Government, 4.8 billion BuF (33 percent of the total) to the public sector, and the remaining 5.7 billion BuF (38 percent of the total) to the private sector. The sources and uses of funds of the development finance institutions and the evolution of their credit to the economy are shown in Annex 8.

Commercial Banks' Credit

4.67 In 1988, of the total credit to the economy of 15.8 billion BuF disbursed by the commercial banks, 1.6 billion BuF (10 percent of the total) were allocated to the Government, 5.1 billion BuF (34 percent of the total) to the public sector, and the remaining 8.8 billion (56 percent of the total) to private sector. The sources and uses of funds of commercial banks and the evolution of their credit to the economy are shown in Annex 9.

C. EVOLUTION OF CONSOLIDATED CREDIT TO THE ECONOMY

4.68 According to the Central Bank's Centralization des Risques, total credit to the economy increased between 1984 and 1988 from 13.7 to 25.4 billion BuF. The credit disbursements by term were as follows: 68 percent short-term, 16.7 percent medium-term, and 14.7 percent long-term. The distribution of credit by agent was as follows: the Treasury: 32.3 percent, all short-term; foreign trade operations: 34.8 percent, also all short-term; housing: 3.8 percent medium-term and 9.9 percent long-term; equipment, including small consumer loans: 12.9 percent medium-term and 4.8 percent long-term.

CHAPTER V
CREDIT OPERATIONS

5.69 After abolishing the a priori credit authorization system, theoretically there are no limits to lending activity in quantitative terms, sectorial allocations and risk exposure, except for the authorized interest rates. All credit facilities must be supported by promissory notes at sight or at a given maturity.

Reporting Requirements

5.70 Each bank must submit to the Central Bank a monthly statement recapitulating by name all credits disbursed during month. The statements are processed by Central Bank's clearing house and risk-coordinating unit which in turn informs the reporting banks about the total exposure of each borrower and the status of his credit with arrears if any.

Resource Financing

5.71 Banks are authorized to mobilize resources in the form of deposits at sight or for any term length. There also exists an interbank market which is the only form of money market existent in the country. Funds are lent on a call basis. The size of this market is unknown since it is not monitored by the Central Bank.

Rediscounting operations.

5.72 In addition to their clients' resources, the banks may obtain Central Bank financing through rediscounting of credits. In practice, there are a few rules determining an a priori rediscountability of credit and some of these rules may appear to be somewhat arbitrary. Example: credit for the coffee campaign is rediscountable at 100 percent for export operations, but only at 75 percent for processing and storage, and at 50 percent for coffee collection. In all cases not covered by rules, the eligibility of credit for rediscounting must be negotiated by the lender with the Central Bank. Rediscountability is always conditional.

5.73 Once the lender has received a prior authorization, the borrower must sign a 180-day promissory note, whatever the term of the credit facility. The note is endorsed by the lender to the Central bank. At the expiration of the 180-day term, the Central Bank may extend the note, adjusted for the installment payments made by the borrower during the period, for another 180-day term, and so on. If the borrower defaults on payments, the Central Bank may call the note. The exact mechanism of the process is not too clear.

Collaterals and Guarantees.

5.74 All bank lending is backed by some form of collateral: mortgages, floating charges on stocks or other assets, personal guaranties, overseas guarantees, and so forth. The enforceability of some of these guarantees is legally difficult and time-consuming. In essence, the socio-cultural traditions are so strongly opposed to foreclosures that no court in the land will rule against the small borrower even though the laws do exist. During the legal proceedings against him, all the borrower has to do is make one "good faith payment" to have the case thrown-out of court. This situation discourages the banks from financing SME development projects. The position of commercial banks on the subject is explicitly clear. The development finance institution whose principal line of business is a high-volume term-lending are better disposed to accept risks within the limits dictated by the quality of their loan portfolio.

5.75 The situation did not improve with the introduction of the revised "Code Foncier" which has been in effect since January 1987. Under the revised code, the Treasury will have a prior claim with no ceiling on all guaranteed property, even when the State has not previously laid claim to the mortgage. The commercial banks consider the Treasury's pre-emptive rights to be equivalent to lending without a guarantee that is already not easily enforceable.

Interest Rates and Fees

5.76 In August 1986, the number of posted rates was reduced from 94 to 57 and special deposits and lending rates for non-bank financial institutions were abolished, making all financial institutions subject to the same interest rate structure. In May 1987, the scale was further simplified, some anomalies in the previous scale were removed and the number of posted rates reduced further to 37.

5.77 As of January 18, 1989, the Central Bank posted three rates only. Export credit: onlending rate 6 percent, rediscount rate 5 percent, spread 1 point; other short-term credit : on lending rate 11 percent, rediscount rate 8,5 percent, spread 2,5 points. Medium-and long-term credit: onlending rate: 12 percent, rediscount rate: 8.5 percent, spread: 3.5 points.

5.78 In addition to the above rates, the informal call money market rate averages 4.5 percent. The BNDE lends at 8 percent to borrowers who qualify for the line of credit facilities provided by the French Caisse Centrale de la Coopération Economique, the German Kreditanstalt für Wiederaufbau and the European Investment Bank. The International Development Association APEX lines of credit available to participating financial intermediaries will have, in all probability, an onlending rate of 8 percent. SBF charges up to 17 percent on non-rediscountable credit covered by its equity funds and reserves. The average 1988 onlending rates of the two development finance institutions were 6.31 percent at BNDE and 5.87 percent at SBF.

5.79 The mission found only one instance of an institution charging a small loan origination fee to the borrower. All loans are subject to a uniform transaction tax of 7 percent on interest paid.

CHAPTER VI
FUNCTIONING AND PRACTICES OF LENDING OPERATIONS

A. LENDING POLICIES

6.80 As mentioned in paragraph 5.68, all lending institutions receive from the Central Bank's clearing house and risk-coordinating unit a monthly updated summary of the exposure and credit standing of each borrower. In addition, the borrower is required to produce a credit rating report from all other lending institutions when applying in a bank of his choice for a new credit facility. Furthermore, since the introduction of the revised Code Foncier in January 1987, the borrower must also produce a statement from competent administrations attesting that his various tax obligations are not in arrears.

Commercial Banks

6.81 About 50 percent of revenues of the established banks come from operations involving documentary credit transactions not posted on the Balance Sheets. Short-term lending defined as that extended for up to two years is the predominant type of lending among Burundi's commercial banks. The proportion of ST lending could be estimated in the range 85-90 percent of the portfolio, with the remaining consisting of medium-term loans defined as that extended for 2-7 years. The commercial banks do not extend any long-term credit facilities. About 30 percent of ST credit facilities involve coffee campaigns.

6.82 Term-loans are disbursed almost exclusively to well-known clients and the capacity of commercial banks to appraise such loans is adequate. Credit analysis, although emphasizing the personality of the borrower, covers such aspects as evaluation of market potential, sales forecasts, projected financial statements and cash flows, financial ratios, quality of the management and visits to the company. For large, well-known clients, disbursement is made directly to the beneficiary. For smaller or less-known clients and for foreign goods, funds are directly disbursed to the supplier or contractor, and disbursement and procurement conditions are thoroughly checked. No fees are charged to the borrower.

Development Finance Institutions

6.83 The two institutions under consideration, la Banque Nationale pour le Développement Economique (BNDE) and la Société Burundaise de Financement (SBF) disburse short, medium and long-term credits to qualified borrowers. Over 50 percent of SBF short-term lending involves financing the coffee campaigns. In the BNDE's portfolio this percentage is less than 20.

6.84 Both institutions have somewhat similar lending policies and procedures. Their credit analysis capacity has improved significantly since the unsatisfactory experience concerning the implementation of IDA's Cr 731-Bu, which ended with the bulk of financing disbursed to a few large companies and eighteen SME projects turning out unsuccessful. Presently, all loans are subject to comprehensive risk analysis by competent and professional staff. All screened loans of less than 500 thousand BuF must then be approved by a management directorate. Loans exceeding this cap must be approved, in addition, by the Board of Directors. Loans over 10 million BuF must be submitted to a Credit Committee. This screening and filtering process insures a certain quality of loan portfolios: the non-performing loans represent about 10 percent of the total. Small processing fees are charged to the borrower.

6.85 BNDE is the only development finance institution with foreign exchange resources and lines of credit provided by international development assistance organizations. About 85 percent of these resources are for specific operations or have specific conditions concerning procurement or type of projects.

B. CHARACTERISTICS OF LOAN PORTFOLIOS

6.86 As mentioned in paragraphs 4.63 and 4.61, the classification of loan portfolios by sector and term has to be taken with caution given the unusual classification criteria.

Commercial Banks

6.87 Commercial Banks' consolidated loans portfolio of 15.8 billion BuF includes about 95 percent of short-term loans of which 30 percent are coffee campaign credits. About 56 percent of total loans are disbursed to the private sector.

Development Finance Institutions

6.88 There are significant differences in the loan portfolio of the two financial institutions under consideration. SBF's total loan portfolio of 4.4 billion BuF contains 1.4 billion BuF of short and medium-term credits to the Government (32 percent of total) and 1.2 billion BuF of short-term coffee campaign credit (27 percent of the total). The remaining 1.8 billion BuF consists of short, medium and long-term loans to the public and private sectors. According to Central Bank's Monthly Bulletins, the most likely sectorial credit distribution would be the following: 0.7 billion BuF to the public sector and 1.1 billion BuF to the private sector.

6.89 BNDE's total loan portfolio of 4.3 billion contains 0.8 billion BuF of short-term coffee campaign credits (19 percent of total). The remaining 3.5 billion BuF consists of short, medium and long-term credits to the public and private sector. According to Central Bank's Monthly Bulletins, the most likely sectorial credit distribution would be: 1.3 billion BuF to the public sector and 2.2 billion BuF to the private sector, double of the SBF amount.

6.90 The classification of loan portfolios by term excluding the coffee campaigns would be the following:

TABLE 6.10: LOAN PORTFOLIOS OF DEVELOPMENT INSTITUTIONS BY TERM (billion BuF)

Institution	ST	MT	LT	TOTAL
SBF	0.8	2.1	0.3	3.2
BNDE	0.7	1.0	1.8	3.5
TOTAL	1.5	3.1	2.1	6.7

Source: SBF and BNDE

C. PORTFOLIO MANAGEMENT

6.91 The Central Bank does not provide guidance on the treatment of doubtful and contentious loans, leaving the matter to the discretion of individual institutions. The legislation concerning provisions for and write-offs of non-performing loans does not reflect the needs of modern banking.

Commercial Banks

6.92 Commercial Banks' portfolio management is influenced by (i) low volume of operations, (ii) high value of individual disbursements, and (iii) low risk factor of individual loans. As the result, all commercial banks seem to have a fairly sound portfolio condition and the impact of non-performing loans is manageable. The banks generally apply the standard provisions policies of their parent companies. The exact situation, however, is difficult to assess because of differences in policies followed by individual banks.

Development Finance Institutions

6.93 BNDE seems to be the only financial institution which strictly applies clearly defined policies with regard to non-performing loans. Loans are classified as overdue as soon as a repayment installment is in arrears, an action that automatically triggers a review of the borrower's situation and may lead to classification of the loan as doubtful. Doubtful loans become contentions once the file is send to BNDE Lawyers. The Table below represents a three-year evolution of doubtful and contentions loans in million BuF and as percentage sector's total. Considering that SBF has somewhat similar credit risk analysis and portfolio management system, the Table could be interpreted as an indication of the general non-performing loans situation.

TABLE 6.11: BNDE NON-PERFORMING LOANS BY SECTOR, 1986-1988
(percentages)

SECTOR	1986	1987	1988
Housing	0.9	0.9	2.6
Trade and Artisanat	19.2	16.7	22.1
Industry	20.6	7.7	18.0
Tourism	12.7	14.1	15.2
Agriculture	7.9	6.7	6.7
Small-Loans	4.9	3.7	6.8
Total NP Loans (M BuF)	(255.4)	(199.5)	(371.1)
% of Portfolio	9.7	6.3	10.8

Source: BNDE

6.94 N.B.: since the introduction of the revised Code Foncier, all financial institutions follow closely the tax liability status of their borrowers.

CHAPTER VII
CREDIT TO SMALL AND MEDIUM ENTERPRISES

7.95 The mission found no evidence of financial institutions' discrimination against bankable SME projects.

A. DEMAND FOR CREDIT

7.96 The demand is defined as the volume of projects in banks' project pipelines. In all conventional banking operations, there is an upstream screening process which reviews all loan applications according to individual banks' selection criteria. Loan applications considered a priori as viable are accepted, others are rejected. In the pipeline, the accepted projects undergo an extensive evaluation based, this time, on standard financial practices. Bankable projects are retained and submitted for approval to a credit committee, non-bankable projects are rejected. In the final analysis, it is the lender--the risk taker-- who decides what is and is not bankable. His decision is certainly influenced either by the quality of borrower's collateral or by the availability of a loan guarantee scheme willing to insure him against a bad credit risk at an additional cost to the borrower.

7.97 BNDE, which has the best data base, estimates that out of 100 applications, about 30 have a chance to enter its project pipeline, about 15 to be considered as bankable projects and 10 approved by one of its three credit review boards. BNDE's first quarter credit operations summary is indicative of the local SME's bankable demand for credit.

TABLE 7.12: BNDE 1989 1ST QUARTER SUMMARY OF LOANS
(million BuF)

Type of Loan	Number	%	Amount	%	Av. Loan Amount
Devlpt, over 50M BuF	3	0.8	219.3	35.2	73.1
Devlpt, over 50M BuF	22	5.0	67.6	10.9	3.1
Housing	47	10.8	261.2	42.0	5.6
Consumer Loans	364	83.4	73.8	11.9	0.2
Total	436	100.0	621.9	100.0	--

Source: BNDE

B. SUPPLY SIDE

7.98 It could be safely assumed that, so far, the local commercial banks did not consider the SME's ventures as their market segment and it is difficult to say whether these banks will change their marketing strategy in the foreseeable future. This is why this market segment was taken over by BNDE in 1967, and by SBF in 1982. So far, BNDE disbursed 20,640 loans whose total value was 8.4 billion BuF: an average of 938 loans per year. No comparative data are available for SBF operations.

7.99 BNDE lending operations have been supported by the following concessional lines of credit: Caisse Centrale de Coopération Economique: 15 million FF; Kreditanstalt für Wiederaufbau: 3 million DM; European Investment Bank: 3 million ECU; International Development Association: 3.4 million U.S. dollars; African Development Fund: 4 million US dollars equivalent. In addition, BNDE negotiated three new lines of credit: Caisse Centrale de Coopération Economique: 30 million FF, European Investment Bank: 4 million ECU; Belgian Administration for Development Cooperation: 50 million FB.

7.100 In parallel to the above, the International Development Association allocated 7.2 million US dollars to an APEX line of credit through a second-tier rediscounting window at the Central Bank to all participating financial intermediaries. This line of credit is reserved exclusively for subloans of less than 300 thousand US dollars to all qualified SMEs. It is the mission's understanding that Caisse Centrale de Coopération Economique intends to provide APEX-type credit facilities of 50 million FF.

7.101 The technical assistance components include funding of experts and training in BNDE by international donors and funding of assistance and training for the Small Enterprise Bureau within the Chamber of Commerce by the World Bank with other donors' participation.

7.102 Finally, the Government of Burundi established in 1988, Fonds National de Garantie to provide lenders with credit risk insurance for qualified SMEs. The fund has in its pipeline 17 requests covering 43 percent of the total of 43 million BuF solicited credits.

BURUNDI: FINANCIAL SECTOR STUDY
Consolidated Sources and Uses of Funds of Develop. Institutions
(BuF million)

ITEM	1984	1985	1986	1987	1988
Source of Funds:					
Demand Deposits	-	-	1	0	0
Time Deposits	1109	1408	803	2803	1786
Financial Inst Deposits	1915	2497	1379	1830	2508
Government Deposits	1459	1913	4257	6975	5107
External Borrowings	872	868	889	1257	67
Other Liabilities (S,M<)	1102	1303	1192	910	3452
Capital and Reserves	2148	2670	2856	3010	3405
Profit	84	59	229	268	204
SOURCES = USES	8689	10718	11606	17053	16529

Use of Funds:					
Reserves	140	420	1361	697	139
Foreign Assets	101	193	185	150	119
Other Assets	616	896	713	1231	1615
Credit to the Govant	1643	2023	2340	3776	4198
Credit to Fin. Inst.	40	739	243	1883	833
Credit to Public Sector	3697	3693	3441	4091	4810
Credit to Private Sector	2452	2754	3566	5225	5715

Memorandum Items:

(Sources and Uses of funds as percentage of total)

Demand Deposits	-	-	-	-	-
Time Deposits	12.8	13.1	6.9	16.4	10.3
Financial Inst Deposits	22.0	23.3	11.9	10.7	14.4
Government Deposits	16.8	17.9	36.7	40.9	29.3
External Borrowing (M<)	10.0	8.1	7.7	7.4	0.4
Other Liabilities	12.7	12.2	10.3	5.3	19.8
Capital and Reserves	24.7	24.9	24.6	17.7	19.5
Profit	1.0	0.5	1.9	1.6	1.3
SOURCES = USES	100.0	100.0	100.0	100.0	100.0
Reserves	1.6	3.9	11.7	4.1	0.8
Foreign Assets	1.2	1.8	1.6	0.9	0.7
Other Assets	7.1	8.4	6.1	7.2	9.3
Credit to the Govant	18.9	18.9	20.2	22.1	21.1
Credit to Fin. Inst.	0.5	6.9	2.1	11.0	4.8
Credit to Public Sector	42.5	34.5	29.7	24.0	27.6
Credit to Private Sector	28.2	25.7	30.1	30.6	32.8

Source: Monthly Bulletins BRB
Annual Reports BRB

BURUNDI: FINANCIAL SECTOR STUDY
Consolidated Sources and Uses of Funds of Commercial Banks
(BuF million)

ITEM	1984	1985	1986	1987	1988
Source of Funds:					
Demand Deposits	5099	7914	8521	8303	8039
Time Deposits	2227	2432	881	1382	3205
Financial Inst Deposits	454	29	347	1723	2878
Government Deposits	-	-	-	-	656
External Borrowings	984	983	1391	1022	1201
Other Liabilities (S.M<)	332	362	518	566	809
Capital and Reserves	919	1068	1109	1180	2131
Profit	102	100	17	157	143
SOURCES = USES	10117	12888	12913	14333	19062

Use of Funds:					
Reserves	595	2075	463	1678	353
Foreign Assets	801	587	1204	699	798
Other Assets	431	473	472	576	1190
Credit to the Govant	317	778	776	1179	1597
Credit to Fin. Inst.	862	600	224	338	880
Credit to Public Sector	2552	3583	3789	3933	5405
Credit to Private Sector	4559	4792	5985	5930	8839

Memoranda Items:

(Sources and Uses of funds as percentage of total)

Demand Deposits	50.4	61.4	66.0	58.0	42.2
Time Deposits	22.0	18.9	6.8	9.6	16.8
Financial Inst Deposits	4.5	0.2	2.7	12.0	15.1
Government Deposits	-	-	-	-	3.4
External borrowing	9.7	7.6	10.8	7.1	6.3
Other Liabilities (S.M<)	3.3	2.9	4.5	4.0	4.2
Capital and Reserves	9.1	8.3	8.9	8.2	11.2
Profit	1.0	0.8	0.4	1.1	0.8
SOURCES = USES	100.0	100.0	100.0	100.0	100.0
Reserves	5.9	16.1	3.6	11.7	1.9
Foreign Assets	7.9	4.6	9.3	4.9	4.2
Other Assets	4.3	3.7	3.7	4.0	6.2
Credit to the Govant	3.1	6.0	6.0	8.2	8.4
Credit to Fin. Inst.	8.5	4.7	1.7	2.4	4.6
Credit to Public Sector	25.2	27.8	29.3	27.4	28.5
Credit to Private Sector	45.1	37.2	46.4	41.4	46.4

Source: Monthly Bulletins BRE
Annual Reports BRB