

Republic of Burundi / Enhanced Integrated Framework (EIF)

Burundi

Diagnostic Trade Integration Study (DTIS) Update

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Currency equivalent

(Exchange rate as of June 4, 2012)
Currency unit = Burundi Franc (BIF)
US\$ 1.00 = BIF 1,415

Weight and measures

Metric System

Acronyms

ANR	<i>Attestation de non-redevabilité</i>
API	<i>Agence Burundaise de Promotion des Investissements</i>
BBN	<i>Bureau Burundais de Normalisation</i>
BIF	Burundi Franc
BRB	<i>Banque de la République du Burundi</i> (central bank)
CBT	Cross-Border Trade
CCTTFA	Central Corridor Transit Transport Facilitation Agency
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
CWS	Coffee Washing Station
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EBA	Everything But Arms
EIF	Enhanced Integrated Framework
EPA	Economic Partnership Agreement
FDI	Foreign Direct Investment
IFC	International Finance Corporation
LDC	Least-Developed Countries
LPI	Logistics Performance Index
MEAC	Ministry for the East African Community
NCTA	Northern Corridor Transit Agreement
NCTTCA	Northern Corridor Transit Transport Coordination Authority
NTB	Non-Tariff Barrier
NTM	Non-Tariff Measure
OBR	<i>Office Burundais des Recettes</i> (revenue authority)
PPD	Public-Private Dialogue
PSI	Pre-Shipment Inspection
RADDEx	Revenue Authorities Digital Data Exchange
RCS	<i>Régime de Commerce Simplifié</i> (simplified trade regime)
REC	Regional Economic Community
ROO	Rules of Origin
SADC	Southern African Development Community
SCEP	<i>Services Chargé des Entreprises Publiques</i> (State enterprise service)
SPS	Sanitary and Phytosanitary Standards
SSA	Sub-Saharan Africa
TBT	Technical Barriers to Trade
VAT	Value Added Tax

Contents

Executive summary	5
CHAPTER 1– Taking stock of developments since 2004: Burundi’s trade performances, trade policy and DTIS implementation	16
1. Setting the stage: Burundi’s trade performances since 2004	16
2. What explains Burundi’s poor trade performance in the last decade?	26
3. Implementation of the 2004 Action Matrix.....	36
4. Conclusion	40
CHAPTER 2 – Regional integration: opportunities and challenges for Burundi	41
1. The EAC – A Dynamic Economic Community.....	42
2. Burundi’s EAC Membership: Benefits and Challenges.....	43
3. Regional Challenges for Advancing the EAC Integration Agenda.....	46
4. Leveraging regional integration to accelerate Burundi’s trade and regulatory reforms	51
5. Conclusion	53
CHAPTER 3 – Export diversification	55
1. Burundi’s poor export performance during the last decade	55
2. Factors that explain Burundi’s unsatisfactory export performance.....	58
3. Expanding Burundi’s exports of specialty coffee	59
4. Overcoming supply-side constraints and trade barriers to increase Burundi’s horticulture exports	65
CHAPTER 4 – Non-tariff Measures: The Way Forward	73
1. Introduction.....	73
2. Non-tariff measures in Burundi: What do we know?.....	74
3. Streamlining NTMs in Burundi: An agenda for action.....	85
CHAPTER 5 – Strengthening Trade Facilitation and Logistics in Burundi	89
1. Introduction.....	89
2. Review of the DTIS implementation and state of trade facilitation and logistics	90
3. Size of Shipments	93
4. Traffic imbalance.....	93
5. Domestic logistics	94
6. Regional and international connectivity.....	97
7. Core logistics services	105
8. Recommendations.....	111
CHAPTER 6 – The critical role of services for growth and export diversification	114
1. Burundi’s services performance and services trade policies.....	114
2. Financial services.....	119
3. Professional Services	123
4. Conclusion	130
CHAPTER 7 – Lifting the Constraints to Tourism Development in Burundi	132
1. Introduction.....	132
2. Tourism as a catalyst for development.....	133
3. Presentation of the Burundian tourism sector	134
4. The challenges facing tourism in Burundi	139
5. The way forward for tourism in Burundi	141
6. The regional integration of tourism services as an opportunity	144
7. Conclusion	148
References	150

Executive summary

The Government of the Republic of Burundi has requested an update of the 2004 DTIS¹ and has asked the World Bank to take the leading role in this exercise. The update's objectives are to (a) take stock of progress in the implementation of Action Matrix recommendations; (b) complement and deepen the analysis in selected areas; and (c) revise the Action Matrix accordingly. The aim of the analysis is to assist the Government of Burundi in defining a strategy that strengthens Burundi's integration with regional and global markets, and mainstreams trade into the general policy orientation defined by Burundi's Second National Poverty Reduction Strategy (PRSP II).

Three key messages emerge from the DTIS update.

(i) Overall, important steps have been taken in recent years towards the clarification of Burundi's trade policy objectives, but more reforms and efforts are needed to improve the country's trade performances. While recent trade policy engagements at the regional level, as well as legislative and regulatory developments, undoubtedly express the government's political commitment to improve Burundi's trade performance and investment climate, sustaining and effectively implementing such reforms is a major challenge for a country with limited capacities. Indeed, as recognized in the PRSP II, several recently adopted reforms have not yet produced their expected effects because of lacking application texts or insufficient financial, material and human resources for implementation. Furthermore, at least in the short run, the impact of legislative reforms is likely to be limited by the small proportion of firms operating in the formal sector, and by the poor business climate. Supply-side constraints, such as limited access to essential backbone services and the lack of market-relevant skills, prevent the participation of firms and individuals in commercial and trade activities, thus limiting the impact of trade reforms. Moreover, not all priorities for policy action have been effectively dealt with. In this regard, the implementation of the 2004 Action Matrix has been varied: while some progress has been made to stabilize the macro-environment, and reforms to improve the investment framework and increase productivity in the coffee and the tea sectors have started, there has been limited success on equally important matters, such as export diversification or the elimination of non-tariff barriers (NTBs). Finally, a number of relevant issues, including trade in services and informal trade, have remained unaddressed in the initial Action Matrix.

To improve Burundi's trade performances and increase the contribution of trade to job creation and poverty reduction, a comprehensive strategy is needed to (i) remove the internal and external barriers that affect Burundi's costs for trade in goods and services, (ii) address supply-side constraints, (iii) improve the incentive framework for trade and investment, and (iv) strengthen institutional capacity and coordination. This organizing framework is used for the recommendations in the new Action Matrix.

(ii) Export diversification remains the top trade priority for Burundi, and has to be driven by a combination of quality improvements of its traditional products (such as coffee and tea) and a gradual expansion of non-traditional exports (such as horticulture and services). Given the large part of the population employed in agriculture, diversification into horticulture products is a sensible priority for Burundi. Specialty coffee and tourism services are additional areas with high potential for export diversification. Addressing barriers that directly raise the trade costs of Burundian exporters is a first step, but structural distortions, supply-side constraints, and regulatory and governance

¹ Burundi's Diagnostic Trade Integration Study (DTIS) was carried out in 2003 and its draft report validated in a national workshop in December 2003. The final DTIS report and the Action Matrix were adopted by the Council of Ministers in May 2004.

issues are equally important and all need to be part of a comprehensive export diversification strategy. For export diversification to have a tangible impact on poverty reduction, the strategy needs to be inclusive – it has to cover formal firms as well as smallholders and informal traders. Available statistics and anecdotal evidence suggest that Burundi’s informal exports to neighboring countries could be around twice as large as its exports to these countries recorded in official trade statistics. This highlights the necessity to collect data on informal trade flows in a systematic way. Finally, initiatives that support the participation of smallholders and informal traders in commercial cross-border activities should be encouraged.

(iii) Regional integration can play a crucial role in advancing Burundi’s trade, regulatory and institutional reforms. The most important trade policy development since 2004 is Burundi’s accession to the East African Community (EAC), which has evolved from a customs union in the mid-2000s into a common market in 2010. Deeper integration can bring concrete benefits for Burundian producers and consumers. Intra-EAC trade can lead to greater food security, reductions in regional unemployment and more efficiency and equity for all EAC members. For Burundi, regional integration could help mitigate external vulnerability and offer opportunities for export diversification in goods and in services. In addition, access to regional public goods, such as infrastructure networks for transport, energy, telecommunication, not only reduce Burundi’s distance from global markets, but also augment the size of its market and the profitability of private investments. Burundi can also benefit from regional standards and other regional regulatory instruments. For example, regional regulatory cooperation can accelerate Burundi’s on-going reforms in areas such as harmonization of fiscal instruments, development of regional standards, mutual recognition of qualifications and licensing requirements, or strengthening of the business environment. Moreover, Burundi could benefit considerably from a regional political stabilization effect. Regional integration mechanisms tend to seriously lower security risks through regional agreements and other common arrangements. In addition to this, they can strengthen an individual country’s bargaining power, as well as the credibility of its policies. However, to benefit from deeper regional integration and cooperation, Burundi needs to address serious capacity issues.

The recommendations proposed in the new Action Matrix aim to address these challenges by tackling the concrete barriers identified as part of this work:

I. Internal and external barriers that increase Burundi’s trade costs in goods and services

As a small, landlocked country, Burundi continues to confront significant difficulties and costs in accessing regional and global markets.

1.1. Logistics, customs modernization and corridor management

High transport costs, poor infrastructure and an underdeveloped logistics services sector limit Burundi’s ability to develop competitive higher-value activities for export and pursue export-led growth. There are emerging patterns of uneven connectivity within Burundi that seriously affect the country’s ability to export agricultural products and contribute to food insecurity: food crop producers in most rural areas face major logistical challenges in accessing local (urban) and export markets. Even producers based less than 50 km from Bujumbura find it difficult to access the central market in the capital city. Most food crops are characterized by low value-to-weight ratios, making it unprofitable to transport them over long distances. Producers must therefore sell their products in their local areas, some of which are far removed from major urban populations. This underscores the importance of reducing the connectivity gap in lagging regions to enable access to both the local (urban) markets as well as exports of niche horticulture products. Additional constraints such as the lack of storage facilities, especially cold chains for perishable products, limit the participation of horticulture farmers in trade activities. The internal obstacles are compounded by long customs delays and high costs in the ports of

Dar es Salaam (Tanzania) and Mombasa (Kenya), through which Burundi trades. Some estimates put the transport and logistics costs at approximately 40% of export prices of agricultural products in Burundi.

A logistics strategy that is designed around the following broad areas – infrastructure development, logistics quality, customs modernization and corridor management - and includes measures to improve the connectivity of lagging regions needs to be developed and implemented. Moreover, storage facilities (especially cold chains for perishable products) must be put in place.

Small traders (mostly women) face significant barriers when crossing borders. In addition to numerous non-transparent and unpredictable administrative barriers, they need to pay bribes and are exposed to harassment. A “Charter for Cross-Border Traders” could remove the constraints faced by small traders and facilitate regional trade in agricultural products, including horticulture.

1.2. Non-tariff barriers and regulations affecting goods and services

Goods: more efforts are needed to reduce barriers to trade in goods. Although the elimination of burdensome non-tariff measures (NTMs) and the removal of non-tariff barriers (NTBs) were considered high priority issues in the 2004 DTIS, numerous barriers, such as lengthy customs formalities and discriminating administrative procedures, that have a negative impact on trade continue to hinder regional integration, including Burundi’s imports and exports. Burundi stands out as a heavy user of NTMs - about 70% of products imported into Burundi are covered by five or more NTM types, suggesting that economic operators face multiple regulations that can be cumbersome. Regulatory proliferation, combined with weak capabilities and a legacy of discretionary and opaque enforcement, stifle entry and diversification of the Burundian economy. In addition, rising NTBs in at least some neighboring countries highlights weak EAC disciplines and a lack of appropriate diplomatic reaction by partners, including Burundi.

Policy action needs to focus on preventing domestic regulatory proliferation and encouraging the removal of non-tariff barriers (NTBs) faced by Burundian exporters. Regulatory proliferation can be prevented by following “good practices” for new regulations, including consultations and a cooling-off period before measures are put in place, and limiting new regulations to cases where they address clearly-identified societal demands. The current NTB review committee could evolve toward a model in which it plays the role of an independent regulatory-review agency. It is also important to provide support to domestic exporters, by collecting reliable information on NTBs encountered by Burundi’s operators on other EAC markets, by encouraging private-sector use of the online Tripartite NTB reporting/monitoring mechanism, by taking up the issues raised in the monitoring mechanism and dealing with them effectively. Finally, Burundi needs to raise the issues in EAC forums and push for their inclusion in the EAC time-bound program for the elimination of identified NTBs, adopted by the EAC Council in 2009.

Services: The gap between Burundi’s services performance and that of its EAC neighbors is huge. For example, Burundi is characterized by a significantly lower number of individuals and firms with lines of credit or loans from financial institutions, a lower number of fixed and mobile phone subscribers and limited availability of professionals with market relevant skills. This is the case despite a relatively open services trade regime and regulatory measures that do not seem more burdensome than those applied in the EAC. What seem to be important constraints – at least in financial and professional services, the two services sectors analyzed in more detail in this report – are Burundi’s limited capacity to effectively implement its liberalization and regulatory engagements, as well as the insufficiency/absence of regulation in some sectors, which can constrain business growth and allow many opportunities for unfair competition and corruption. Additional constraints are related to the absence of relevant skills and immigration rules that restrict the mobility of services providers.

A key challenge of services reforms relates to putting in place an adequate regulatory framework that supports the effective implementation of existing engagements. Decisions on the nature and pace of reform need to be informed by careful analysis and an understanding of good practices. A national regulatory assessment mechanism covering all services sectors should be put in place. Regulatory cooperation at the regional level has the potential to accelerate services reforms. For example, in financial services, regional integration can contribute to the strengthening of supervisory capacities of sector regulators. In professional services, regional agreements on the mutual recognition of professional qualification can help with the development of adequate curricula for various professions, and provide guidance for employers, mentors and trainees regarding the practical experience requirements for professionals.

1.3. Trade finance

Access to trade finance remains a challenge for most Burundian operators. Difficult access to working capital at competitive terms, high cost of trade finance and failure to tap potential external financial sources were recurrent problems cited by managers who exported non-traditional goods to European markets. Moreover, lack of trade finance was identified as a main factor contributing to their exit from the market. Increased participation in global and regional trade finance programs should be pursued by banks.

II. Supply-side constraints

Several broad and cross-cutting issues, such as the limited availability of essential backbone services and of skills, limit Burundi's production capacities and trade performances. These factors go a long way towards explaining the persisting weakness of the Burundian private sector, which is for the most part informal. According to the PRSP II, the formal private sector is made up of around 3,000 firms, most of which are SMEs lacking the capacities and resources to expand their activities and start exporting.

II.1. Limited access to key backbone services

The main constraints cited by managers of formally registered firms are access to electricity, limited access to and high cost of financing. Findings from a survey of the urban informal sector indicate that the lack of infrastructure, restricted access to finance, insufficient and volatile demand, and the lack of professional and technical skills are among the main constraints. Thus, addressing these constraints, for example by improving the reliability of electricity supply or making financial channels available and affordable to producers, including to smallholders and associations, is necessary for private sector development in general, and for the development of export activities in particular.

II.2. Skills issues

Skills shortages and skills mismatches are among the top supply-side constraints in both the formal and the informal sectors, and constitute a major challenge for diversification into non-traditional, higher-value exports. Concerning horticultural products for example, this constraint could be mitigated by developing vocational training to strengthen human capital in a variety of activities related to production, processing and transport, and by facilitating access to business development services to promote the establishment of efficient managerial and operational frameworks for production and exports processes.

II.3. Unorganized (agricultural) associations

Support for making (agricultural) associations more efficient could be considered. As illustrated by the survey of farmers in the horticulture sector presented in Chapter 3, coordination is currently limited. The emergence of more and better-organized producer associations could enable efficiency gains with regards to access to inputs and extension services, or to the transport of products to local markets or shipping points for regional/international markets. This could follow the example of the coffee sector, where producer associations have become increasingly active, and where the recently established inter-professional organization (InterCafé) facilitates coordination along the value chain. The Government is committed to stepping up its support to agricultural development, and the Council of Ministers adopted in May 2011a draft law on agricultural cooperative based on several EAC examples including Rwanda and Tanzania. If effectively implemented, this law can create a modern framework that encourages the emergence of cooperatives, which can contribute to productivity improvements and export diversification.

III. Incentive framework for trade and investment

III.1. Legal reform and business environment

Recent legislative instruments such as the revised Investment Code, the new Commercial Code, the Code for Public-Private companies and several laws on bankruptcy and competition have been elaborated, but several codes and laws still need application texts in order to be implemented. Also, in many cases these new legislative acts would need to be updated to reflect the changes related to Burundi's EAC membership. Reform efforts should focus on the implementation of these legal acts. Moreover, Burundi's business environment remains poor, despite a significant improvement in the country's 2012 "ease of doing business" indicator. A continuation of the Doing Business reform is essential.

III.2. Public-private dialogue

The public-private dialogue has been historically very weak in Burundi. Limited consultation and cooperation with the private sector has tended to result in poorly informed public sector decision-making that often fails to foresee the impact of decisions on the private sector. Furthermore, many private sector actors are not informed of beneficial reforms – such as the provisions of the new Investment Code - and do not understand how they might benefit from the new arrangements. Likewise, most economic operators lack a sound understanding of the regional integration process underway and its regulatory implications.

Despite a recent recognition regarding the private sector's role as a necessary engine of trade expansion, investment and growth, more needs to be done to strengthen the public-private dialogue. Private sector representatives were consulted in the preparation of both the first and second PRSPs. In order to make the dialogue on investment climate and trade-related issues more systematic, a 2008 presidential decree established a public-private consultation framework with a general assembly, technical groups and permanent secretariat. Actions to strengthen the private sector could include work toward a climate of trust between public administrations and private actors, and ensuring the effectiveness of the public-private dialogue mechanism, which only started recently its activities.

III.3.External trade policy environment

More efforts are necessary to ensure that commitments made in different forums are coherent (for example the trade negotiations in the framework of the WTO, EAC and COMESA) and to monitor their effective implementation. This has largely been lacking so far, notably due to limited and non-systematic cooperation between the Ministries of Trade and of EAC Affairs. In this regard, Burundi could learn from other countries' experience in the region and elsewhere, particularly from low-income countries who have managed to establish efficient coordination mechanisms on trade-related issues despite limited institutional capacities. Also, the planned regional integration strategy needs to be developed and implemented.

IV. Mainstreaming trade and capacity building

IV.1. Trade policy coordination, including DTIS implementation

Institutional coordination, at the government level and with the various development partners and other stakeholders, particularly the private sector, is a critical challenge for the future. Regular coordination is required to ensure that reforms and efforts undertaken to improve the country's trade and business environment take into account the interests and capacities of the various stakeholders. More often than not, these efforts involve not only the actors directly responsible for trade or investment-related issues (such as the Ministry of Trade, the revenue authority OBR, the investment agency API, etc.) but also other institutions, in charge of related policies (finance, education, immigration, standardization, other line ministries and regulatory authorities, professional bodies, etc.). As a first step, the DTIS update should be widely disseminated, including beyond trade and investment circles and to the private sectors.

IV.2. Export promotion activities

Support should be provided to help Burundian exporters gather information about foreign markets. At present, limited knowledge of the rapidly evolving global markets (notably for food products), especially in emerging markets, and insufficient knowledge of international norms and standards, particularly sanitary and phytosanitary standards (SPS), lead to suboptimal strategic positioning of products. In addition, limited knowledge about market conditions in neighboring countries limits Burundi's regional exports. Training activities that reduce such information asymmetries should be encouraged. Examples include electronic and phone based market information systems for smallholders, training on marketing strategies for the specialty coffee, horticulture and tourism sectors, or initiatives to raise awareness on SPS and the establishment of a regulatory and operational framework for SPS compliance. An export promotion service within the API, initially planned but still virtual due to the absence of dedicated resources, should be established.

IV.3.Capacity building

Weak institutional capacity continues to undermine Burundi's ability to formulate and implement trade policy reforms. Lack of adequate human, financial and technical resources in newly created institutions, such as the Ministry for EAC Affairs, but also in older ones such as the Ministry of Commerce and Industry, largely prevent them from operating efficiently. This capacity deficit, which was identified as a high priority in the 2004 DTIS, still reduces the country's ability to abide by its international and regional commitments, and reap the full benefits from increased integration. Institutional coordination, at the government level and with the various development partners and other stakeholders, particularly the private sector, needs to be pursued in a systematic way. Furthermore, poor reliability and availability of data on trade-related issues is a serious obstacle to evidence-based policy

making. Efforts to improve official trade statistics and initiate collection of data on informal cross border trade flows should be made at the national and regional levels.

Finally, contrarily to the approach adopted for the first DTIS, the new Action Matrix voluntarily omits sector specific recommendations for existing export products, such as coffee and tea, or for sectors with potential, such as horticulture and tourism. The sectoral case studies in the report provide analyses of the constraints and opportunities in these different sectors, as well as indications on the way forward. However, the Action Matrix does not directly propose specific objectives or targets for them, notably because such objectives are already set in the framework of ongoing projects, in the coffee, horticulture and tourism sectors for example. Rather, it has been decided to focus on the cross-cutting issues that prevent the emergence of new sectors and hamper trade performances. These priorities for policy action are nevertheless directly relevant to the key or potential export sectors mentioned above. For example, recommendations in the Action Matrix concerning the development of agricultural cooperatives and strengthening of agricultural support services, as well as the improvement of logistics and construction of storage facilities, address key constraints to the production and export of horticultural products. Likewise, recommendations to improve access to finance and to develop Burundi's connectivity within and outside of East Africa are critical for the development of the tourism sector in the country.

To guide the implementation of the Action Matrix in the coming years, the following top 10 priority actions have been identified:

1. Adopt logistics strategy in 2013 and implement it by 2015, include review of competition issues affecting transport and logistics
2. Adopt small-traders charter by end of 2012 and monitor implementation throughout 2013
3. Regulatory review mechanism for NTMs in place by end of 2013
4. Remove the relevant NTBs in Burundi by end of 2013
5. Regulatory assessment mechanism for services in place by end of 2012
6. Financial Sector Regionalization Strategy implemented by end of 2014
7. Regional Integration Strategy in place by end of 2013
8. Trade policy objectives included in major national strategies
9. Export promotion plan developed by end of 2013 and implemented by end of 2014
10. Conduct regular training for relevant stakeholders (e.g. professional associations, sectoral exports, public and private sector representatives) in the priority areas identified in the Action Matrix

The final and interim targets identified in the Action Matrix will be discussed at the Validation Workshop in Bujumbura. Also, an institutional mechanism to monitor the implementation and impact of interventions and to enhance accountability will be put in place at the workshop. The monitoring mechanism will comprise government officials, the private sector and donors. A clear distribution of tasks will be devised and the entities that will be held accountable for attainment of specific performance outcomes will be identified at the validation workshop.

Revised Action Matrix

Identified constraint	Proposed Action	Priority / timeframe	Responsible Agency	Source of financing	Monitoring Indicators
I. Internal and external barriers that increase Burundi's trade costs					
I.1. Logistics (infrastructure development and quality), customs modernization and corridor management					
High transport costs within the country and on the main corridors as well as limited internal connectivity reduce export opportunities	<p>Develop and implement a national logistics strategy that includes issues of lagging regions</p> <p>Participate in EAC discussions on the development of the regional infrastructure (<i>incl. CCTTFA</i>)</p>	2012-2016	President's Office, Ministry of Transport, Ministry of Trade and Ministry of EAC	AFDB, WB, Govt of Burundi and Tanzania	<p>Logistics strategy adopted in 2013 and implemented by 2015, include review of competition issues affecting transport in the strategy</p> <p>___% reduction in internal transport costs achieved by end 2014 and an additional ___% by 2016.</p> <p>___% farmers with increased access to a road achieved by end 2014 and an additional ___% by 2016</p> <p>___% reduction in transport costs and ___% reduction in number of roadblocks on Northern and Central corridors achieved by mid 2013</p> <p>EAC standards on harmonized axle weight loading requirements implemented</p> <p>Lake/rail transport combination revived (<i>incl. railway line from Dar es Salaam to Kigoma</i>) by December 2014 while ensuring competition along the lake/rail routes</p>
Long clearance time due to duplication of customs declarations at Burundi-Tanzania border	Interconnect Burundi's and Tanzania's customs systems	2012-2013	OBR	Trade Mark East Africa, USAID Compete	Kabanga/Kobero converted to one stop border post ___% reduction in clearance time achieved by mid 2013
Lack of storage facilities (especially cold chains for perishable products) limit export opportunities	Develop new and upgrade existing storage facilities	2012-2013	Ministry of Agriculture	Trade Mark East Africa	___ m ³ new (cold) storage capacity developed by end of 2013
Significant barriers faced by small traders	Facilitate small-scale trade by building on initiatives such as the <i>régime de commerce simplifié</i> (RCS) adopted through cooperation between Burundi's OBR and the Rwanda Revenue Authority.	2012-2013	Ministry of Trade/MEAC	WB (TFF), EAC and COMESA Secretariats	Small-traders charter adopted by end of 2012 and implementation monitored throughout 2013
I.2. Non-tariff barriers and regulatory issues affecting good and services					
High incidence and regulatory proliferation in some sectors, and absence of an adequate	<p>Prevent regulatory proliferation, by:</p> <ul style="list-style-type: none"> o Adopting "good-governance" rules for new regulations, including consultations and a 	2013-2014	Ministry of Trade/MEAC/	AfDB, WB	Regulatory review mechanism for NTMs in place by end of 2013

Identified constraint	Proposed Action	Priority / timeframe	Responsible Agency	Source of financing	Monitoring Indicators
regulatory framework in other sectors, combined with weak capabilities and a legacy of discretionary and opaque enforcement, stifle the diversification of Burundi's economy and increase trade costs	<p>cooling-off period before measures are put in place;</p> <ul style="list-style-type: none"> Limiting new regulations to cases where they address clearly-identified societal demands. <p>Strengthen regulatory review mechanism on the basis of the existing NTB monitoring committee</p>		Sectoral regulators and ministries/ Chamber of Commerce		Relevant NTBs in Burundi removed by end of 2013
Rising NTBs in at least some neighboring countries highlight weak EAC disciplines and a lack of appropriate diplomatic reaction by partners	Raise the NTB issues in EAC forums and push for their inclusion in the EAC Time-bound program for the elimination of identified NTBs adopted by the EAC Council in 2009	2013-2014	Ministry of Trade/ MEAC	Trade Mark East Africa?	<p>Support the adoption of an EAC legally binding mechanism for the elimination of NTBs and ensure rapid implementation in Burundi</p> <p>Enhanced cooperation between the NTB monitoring committee and the EABC</p>
Inadequate regulatory framework to support liberalization efforts in services	<p>Coordinate regulatory reform with liberalization efforts</p> <p>Sectoral example: Financial services</p> <p>Sectoral example: Professional services</p>	2012-2014	Ministry of Trade, MEAC, all sectoral regulators (for ex, BRB for financial services, professional associations)	<p>WB, TRADECOM</p> <p>WB</p> <p>WB, IFC</p>	<p>Regulatory Assessment mechanism for services in place by end of 2012</p> <p>Financial Sector Regionalization Strategy implemented by end of 2014</p> <p>MRA in accounting, architectural (and engineering) services implemented and harmonization of selected laws affecting professional and education services completed by end of 2013</p>
I.3. Trade finance					
Banks in Burundi are often required to post cash as collateral for trade-related transactions, making it expensive for companies to trade with overseas counterparts.	Burundian banks increased participation in IFC's Global Trade Finance	2012-2014	BRB/Ministry of Finance	IFC	<p>Cost and risks that institutions in Burundi face when trading with other countries are monitored;</p> <p>Availability/cost of letter of credits and other trade finance instruments is monitored</p>
II. Supply side constraints					
Access to key backbone services (electricity, transport, finance) Lack of access to finance, especially for small trader	<p>Monitor implementation of the AfDB Infrastructure program</p> <p>Encourage provision of technical assistance to banks to develop products targeted at small producers and traders</p> <p>Ensure that competition law is applied in all backbone services and financial services sectors</p>	2012-2016	Ministry of Trade to work with all sector ministries in charge of infrastructure and	AfDB, WB	<p>Availability and prices of electricity monitored</p> <p>Number of individuals/ firms with access to credit monitored</p> <p>Competition law applied across all sectors by end of 2013</p>

Identified constraint	Proposed Action	Priority / timeframe	Responsible Agency	Source of financing	Monitoring Indicators
			finance projects		
Skills shortages	Vocational training to strengthen skills related to the production, processing and transport of horticultural products, including pest management and SPS compliance Access to business development services	2012-2014	Chamber of Commerce/ professional associations	Individual donors?	__X_ participants (farmers, traders, associations) to benefit from training programs
Unorganized (agricultural) associations	Organize and professionalize producers	2012-2014	Ministry of Agriculture/ Chamber of Commerce	Individual donors?	__X__ professional associations in place by the end of 2013 All professional associations receive training on provision of extension services and business development services by the end of 2014 ___% of farmers have access to extension services, business development services (through the associations) by the end of 2013
III. Incentive framework for trade and investment					
Legal reform related to trade and investment	Review Investment code and prepare application texts for enacted codes Review other codes and sectoral laws/regulations (for example, coffee, tourism) related to trade and investment Push for continuation of Doing Business reforms related to trade and investment	2012-2014	Ministry of Trade, Ministry of Justice, API	IFC, WB PSD	Final Investment Code applied by end of 2013 and all documents posted on API's website All other legislative instruments related to trade and investment updated and implemented by end of 2014 Implementation of on-going reforms such as compliance with annual targets for improvements in the Doing Business indicators is monitored
Public-private dialogue	Work toward a climate of trust and mutual respect between public administrations and the private sector Promote effective dialogue on trade between public and private actors	2012-2014	2 nd Vice Presidency, Ministries of Trade, Finance and Justice, OBR, API, PPD platform Chamber of Commerce	IFC, WB PSD	Rules clarified through the posting of all relevant texts on accessible and well-organized web sites by mid 2013; All procedures launched on the basis of offenses allegedly committed years before the OBR's creation are dropped; Trade and investment issues are included and addressed in the public-private dialogue mechanism VAT loopholes closed by the end of 2012
External trade policy environment	Coordinate regulatory reforms and liberalization commitments in multilateral and regional agreements (as part of Tripartite)	2012/2013	Ministry of Trade, MEAC / sector ministries	WB, EU	Consistency of existing commitments evaluated by end of 2012 Necessary amendments implemented by end of 2013 Regular consultations are conducted in the context of regulatory review mechanisms on current and future

Identified constraint	Proposed Action	Priority / timeframe	Responsible Agency	Source of financing	Monitoring Indicators
	Elaborate Regional Integration Strategy				commitments Regional Integration Strategy in place by end of 2013
IV. Mainstreaming trade and capacity building					
Trade policy coordination, including DTIS implementation	<p>Make institutional arrangements to ensure participation of all relevant ministries, regulators, associations and agencies in trade policy decisions</p> <p>Improve trade data, including on informal trade flows.</p> <p>Broad DTIS update dissemination</p>	2012-2013	2 nd Vice-Presidency, Ministry of Trade, MEAC/sector ministries, Chamber of Commerce, API/Statistical office Ministry of Trade	WB All donors	<p>Each ministry, regulator agency, private sector institution has one expert/representative in the regulatory review bodies (for both goods and services)</p> <p>Regular training for selected experts is conducted (based on concrete needs assessment undertaken by each institution) by the end of 2012</p> <p>Trade policy objectives included in major national strategies</p> <p>Effective mechanism for DTIS implementation in place by end of 2012 and regular monitoring of targets undertaken</p>
Export promotion and diversification	<p>Detailed export promotion plan</p> <p>Establishment of export promotion services within the API</p> <p>Electronic and phone based market information systems for smallholders</p> <p>Programs to raise awareness about standards in foreign markets (for example, SPS)</p> <p>Initiatives to raise awareness about marketing strategies in specialty coffee, horticulture and tourism</p>	2013/2014	Ministry of Trade, API	EIF	<p>Export promotion plan developed by end of 2013 and implemented by end of 2014</p> <p>Effective provision of export promotion services</p> <p>Electronic info system in place by end of 2013</p> <p>Training on standards and marketing strategies etc in response to specific demand</p>
Capacity building	<p>Strengthening regulatory and supervisory capacity</p> <p>Improve collection of Trade Statistics (official and informal)</p>	2012-2014	BRB/Sector Regulators Statistical office	WB, Trade Mark East Africa	<p>Regular training as part of FSAP, Knowledge platforms</p> <p>Regular training and exchange of information with EAC and other statistical agencies start in 2012</p> <p>Develop work plan for improvements of trade statistics by mid 2013</p>

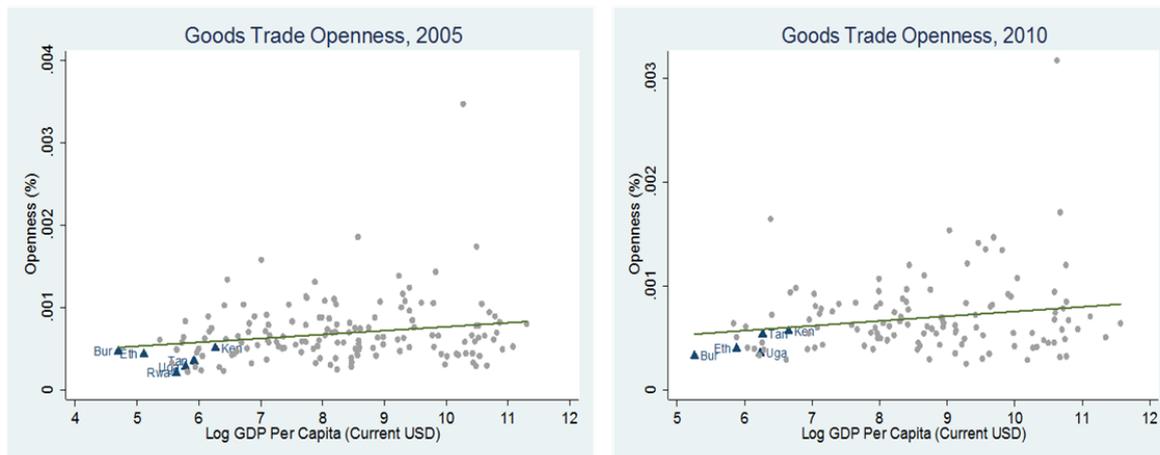
CHAPTER 1– Taking stock of developments since 2004: Burundi’s trade performances, trade policy and DTIS implementation

This chapter takes stock of Burundi’s recent trade developments and discusses the factors that explain Burundi’s poor trade performance during the last decade. It also assesses the implementation of the 2004 Action Matrix and identifies the main factors behind both successful and inadequate implementation.

1. Setting the stage: Burundi's trade performances since 2004

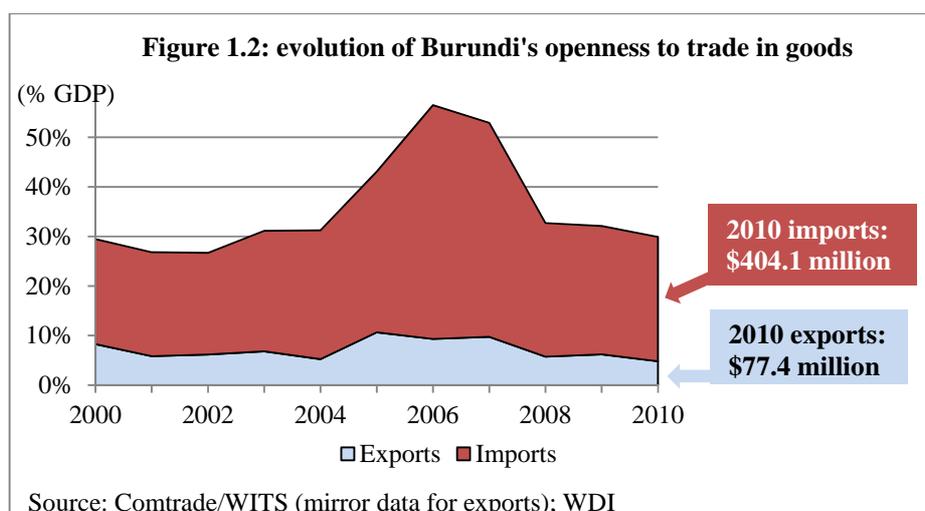
Burundi’s trade performance did not improve over the last years. While the 2005 and 2010 ratios of trade-to-GDP for Burundi were both below the benchmark for a country at its level of economic development, the ratio had worsened by 2010, indicating that Burundi’s trade performance remained poor (Figure 1.1). This evolution has been mainly fueled by the decline in the country’s export performance since 2005, relative to GDP growth.

Figure1.1: Trade-to-GDP ratio showing Burundi below its global benchmark, but worsening between 2005 and 2010



Source: Comtrade/WITS Note: Openness in goods trade (exports plus imports over GDP) are plotted against the log of income per capita in U.S. dollars, after controlling for population.

The export-to-GDP ratio has decreased during the second half of the decade, while the import-to – GDP ratio has rapidly increased (figure 1.2). The trade deficit has continuously increased and reached USD 327 million in 2010 (or 20% of GDP). The resulting current account deficit has been partially financed by increasing flows of foreign aid, but still averaged 17.7% of GDP between 2008 and 2010 (WDI).



The export base remains particularly narrow. Export growth was slower than GDP growth over the decade. As a result, goods exports as a share of GDP hovered around 10% between 2005 and 2007, but have significantly dropped since then to less than 5% in 2010. The export-to-GDP ratio almost doubles when services are included, but this is mainly due to the dramatic increase of “government services” exports (cf. below). When government services are excluded and only commercial services are added to goods exports, the share drops to 5.3% of GDP in 2010. These shares are much lower than the averages for sub-Saharan Africa (SSA) and least-developed countries (LDCs), and also below the performance of all other members of the East African Community (EAC) (table 1.1). These figures confirm that, unlike many African countries, Burundi has not managed to embark on an export-led growth path in the recent period.

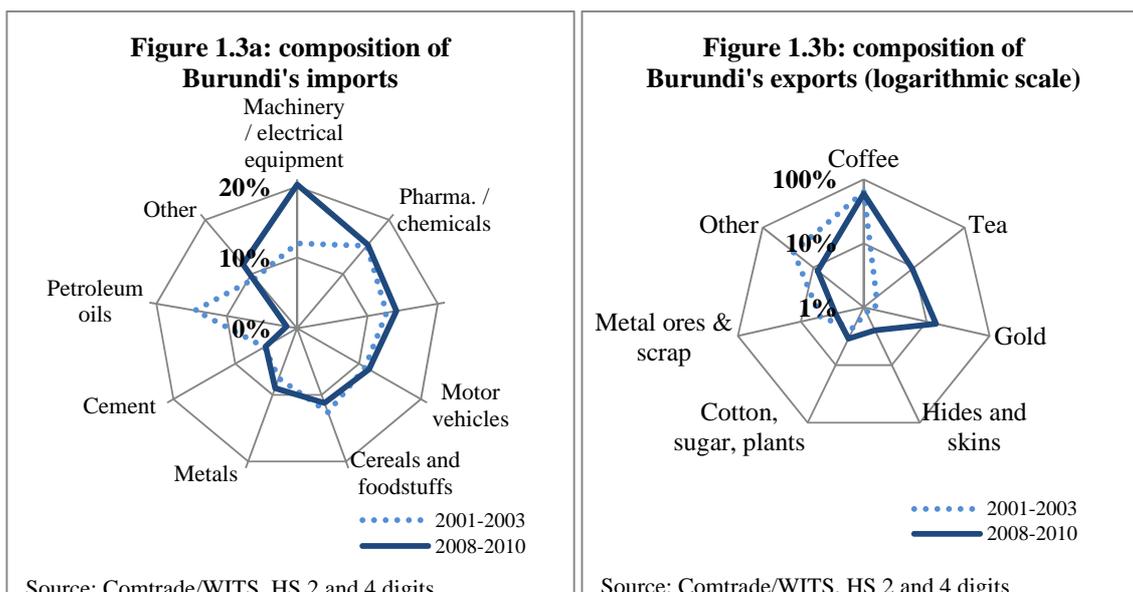
	Goods	Goods & Services
Burundi	4.8	9.7
Rwanda	3.6	10.2
Uganda	6.2	13.9
Tanzania	12	21
Kenya	13.4	25.1
LDCs	25.3	28.7
SSA	29	32.9

Sources: authors' calculations based on Comtrade/WITS (goods exports, mirror data), UnctadStat (services exports)

1.1. Sectoral composition of Burundi's goods trade

Manufacturing imports play a major role in the Burundian economy. Burundi's imports cover a wide range of goods and are dominated by machinery, transport equipment, construction materials, other manufactured goods and chemical products (figure 1.3a, table 1.2). Manufactures represent about two-thirds of Burundi's goods imports. Burundi's import composition largely reflects the lack of a domestic manufacturing industry and of fuel resources, as well as the limits of a small domestic market that prevents economies of scale. Moreover, the country is a net food importer, mostly of cereals like malt, rice and wheat.

Due to the unprecedented global increase in oil prices, the importance of oil in Burundi's imports has also increased. Data by the Central Bank (BRB) suggest that oil imports averaged over USD 100 million per year between 2009 and 2011, bringing the share of fuels in total imports to 20% in 2011². Surprisingly, this trend is not reflected in the Comtrade database, which reports around USD 5 million for Burundi's oil imports per year between 2008 and 2010 (explaining the drop of "Petroleum oils" in figure 1.3a). Partner countries report around USD 4 million of annual oil exports to Burundi during the same period. It is unclear what is behind the discrepancies between COMTRADE and BRB data³, but such inconsistencies are illustrative of the huge data problems that obstruct trade analyses in Burundi⁴.



Imports		Exports	
1. Motor vehicles (HS 87)	11.6%	1. Coffee and tea (HS 09)	69%
2. Machinery and mechanical appliances (HS 84)	10.3%	2. Gold (HS 71)	14.1%
3. Electrical equipment (HS 85)	10%	3. Raw hides and skins (HS 41)	2.5%
4. Pharmaceutical products (HS 30)	9.5%	4. Metal ores (HS 26)	1.8%
5. Cement and other mineral products (HS 25)	5.5%	5. Machinery and mechanical appliances (parts) (HS 84)	1.7%
6. Paper and related products (HS 48)	4.4%	6. Cotton (not carded or combed) (HS 52)	1.7%
7. Iron and steel (HS 72)	4.1%	7. Sugar (raw cane sugar) (HS 17)	1.4%
8. Malt and products of the milling industry (HS 11)	4.1%	8. Iron and steel (waste and scrap) (HS 72)	1.3%
9. Articles of iron and steel (HS 73)	3.1%	9. Motor vehicles (HS 87)	0.9%
10. Various textile articles (HS 63)	2.8%	10. Electrical equipment (parts) (HS 85)	0.9%
Top 10 share of total imports	65.5%	Top 10 share of total exports	95.3%

Source: Comtrade/WITS, mirror data for exports

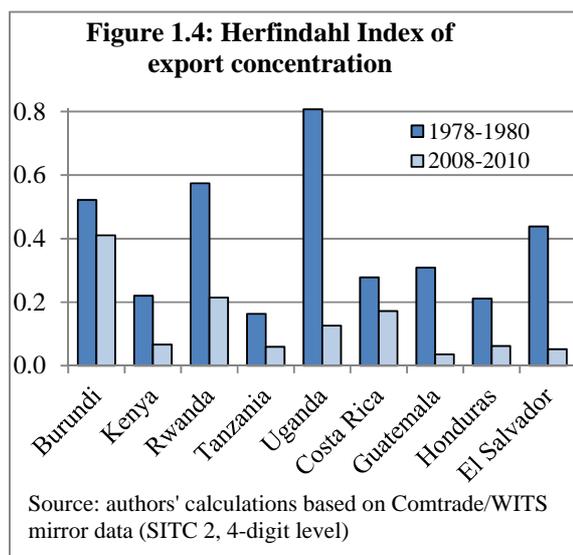
² www.brb.bi/se/docs/bulmens/iv2.pdf

³ This may be due to shortcomings in the reporting of regional exports and re-exports of petroleum products - most oil imported by Burundi correspond to re-exports from Kenya, Tanzania or South Africa.

⁴ Annex 2 (Volume II) provides a detailed discussion of Burundi's trade statistics and the solutions used in this DTIS update to reduce concerns about their reliability.

Burundi's very narrow export base has not changed notably over the last decade. Burundi's goods export basket has been relatively stable in the 2000s (figure 1.3b). Export earnings remain highly dependent on primary products, predominantly coffee and tea, which together represented almost 70% of total exports in 2008/10. Other traditional exports (hides and skins, cotton and sugar) add some degree of diversity - the share of these products increased from 2.5% to 5.6% of total exports between 2001/03 and 2008/10⁵. However, the almost total absence of new higher-value exports in the last decade is striking. Cut flowers emerged as a promising export in 2001, but they never surpassed half a million dollar per year and collapsed in 2008, as they were supplied to only one buyer who cancelled orders in response to low demand during the global crisis (World Bank 2011b).

Product concentration remains the most salient and penalizing characteristic of Burundi's goods export portfolio. The Herfindahl Index (HI)⁶ for Burundi has remained high throughout the last twenty years. In 2008/2010, the top 3 and 10 export categories represented over 85% and 95% of total exports respectively (table 1.2). Unlike the other countries of the East African Community (EAC) or several Central American coffee producers, Burundi has not managed to diversify much since 1980. In recent years, the concentration of Burundian exports fluctuated due to the high volatility of coffee exports but remained high, with an HI averaging 0.4 in 2008/2010 (figure 1.4). The concentration of the export portfolio is even starker in reality, since exports of gold and manufactures (e.g. machinery, electronics, motor vehicles) largely correspond to re-exports.



Burundi's exports remain highly dependent on coffee. As opposed to most coffee-dependent exporters, which have managed to expand the range of their exports, the average share of coffee exports in total export earnings remains unusually high in Burundi (figure 1.5). This situation makes Burundi extremely vulnerable to fluctuating external demand, price shocks, and unfavorable climatic conditions. It largely explains the high volatility of the country's exports. Despite the ongoing coffee reforms, the sector is suffering from declining output and deterioration of quality. Moreover, aging coffee trees entail a highly cyclical yield - the production attains satisfactory levels only every other year⁷, affecting buyers' perceptions about Burundi's reliability as a coffee supplier. Finally, the impact of the expected increase in production due to the on-going coffee reforms is likely to be at least partially offset by an expected decrease in international coffee prices in the coming decade (cf. Chapter 3).

⁵ See World Bank (2011b) for more details on each of these product.

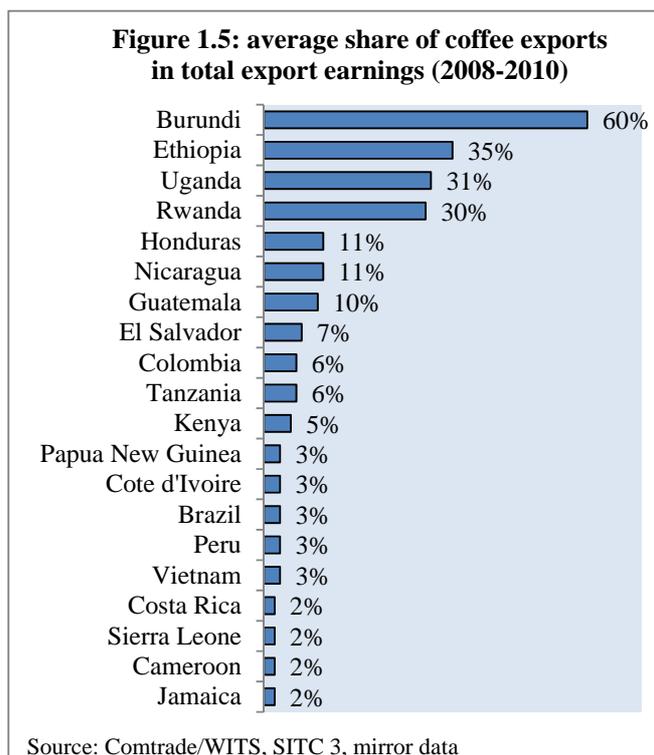
⁶ The HI measures the export concentration and is calculated as $HI = \sum_{i=1}^N s_i^2$ where s_i is the share of product i in total exports and N is the total number of products exported. Two factors can lead to a lower HI, a more even distribution of shares, and an increase in the number of products. The HI lies between 0 and 1, where 1 represents exports that are extremely concentrated (only one product), and 0 stands for a completely diversified export basket. Economies with an index below a threshold 0.1 are considered to have a highly diversified export basket.

⁷ Production (expressed in thousands of bags) went from 499, to 133, to 412, to 112, to 347 in crop years 2006/07 to 2010/11. In calendar year 2011, coffee exports strongly decreased in volume, from 307 to 191 thousands of bags (www.ico.org/new_historical.asp?section=Statistics).

Burundi's second most important export product remains tea.

While tea exports represent a much smaller share of total exports than coffee exports, they have registered a considerable expansion in recent years – increasing from an average of 1.8% of total exports in 2001/2003 to an average of 9.2% in 2008/ 2010. According to data published by the Central Bank (BRB), production reached 8.82 thousand tons in 2011, up from 7.97 thousand the previous year and 6.86 thousand in 2007⁸. Remaining constraints in the tea sector include structural inefficiencies of the tea factories and plantations, poor incentives to smallholders and estate laborers, limited use of inputs and extension services, and nonexistent research. As a result, local value added is limited. A reform of the sector is planned, and partial liberalization has already enabled the entry of private actors. Restructuration of the tea sector institutions and privatization of the public tea factories are expected to be carried out in the coming

years. The tea sector has the potential to contribute more to export earnings, but the current situation suggests that major efforts will be required to improve the quantity and quality of Burundian tea.



Gold is losing its significance in Burundi's exports. It reached as much as a 30% of exports in the early 1990s, but the civil conflict hampered the development of the mining sector. For the most part, gold is only exploited informally and on an artisanal scale. Most of the large gold exports reported in exports statistics in recent years actually correspond to re-exports coming from the DRC (Global Witness 2009), a feature already noted in WTO (2003) with the observation that “the statistics on gold exports are not corroborated by the statistics on its mining and production”. Furthermore, despite the potential resources, no large-scale gold operation is currently being planned (World Bank 2011b).

Burundi's exports of metal ores have picked up in recent years, after a strong decrease in the early 2000s. The extracted and exported quantities of metal ores (including coltan, and to a lesser extent tin and tungsten) remain modest due to the artisanal nature of the mining sector and the civil war that has inhibited the development of the sector. Nevertheless, it appears that Burundi has considerable nickel and coltan resources. The government has developed a strategy for the mining sector in 2011 and has undertaken a reform of the legal framework governing the sector with the hope to attract investors, which could have a strong impact on economic growth in the future⁹.

1.2. Geographical composition of Burundi's goods trade

The geographical composition of Burundi's goods trade has not displayed radical changes during the last decade, despite a slight reorientation of the country's trade flows. Export destinations are

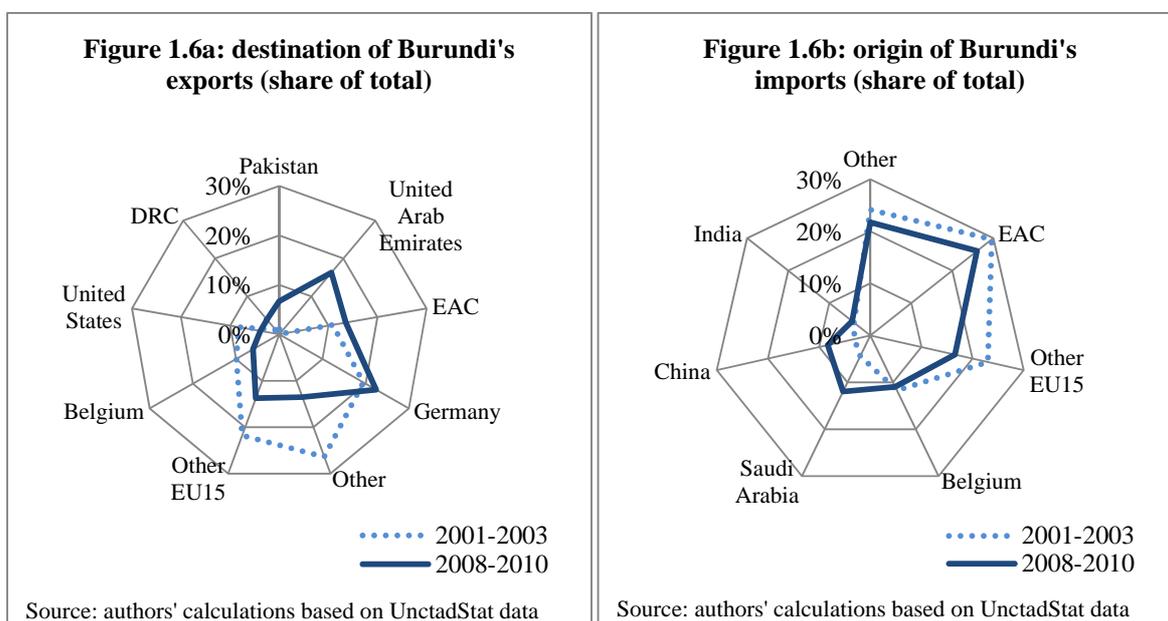
⁸ www.brb.bi/se/docs/bulmens/i5.pdf

⁹ See World Bank (2011b) for a detailed analysis of the mining sector, its potential contribution to growth and the current obstacles to its development.

relatively well diversified – in 2008/2010 the average share of the top 3 and 10 markets in total exports was 35 and 63% respectively (down from 38 and 72% in 2001/2003)¹⁰. The origin of imports is slightly less diverse, as the top 10 countries accounted for 74% of Burundi’s imports in 2008/2010.

Burundi’s export destinations remain dominated by European countries, but their relative weight is diminishing (figure 1.6a). These countries received around 40% of Burundi’s exports between 2008 and 2010, down from 50% in 2001-2003 (however, Germany’s importance has increased, averaging 22% of total exports in recent years). Some other developing countries have become relatively important destinations for Burundi’s products. For example, in 2010 Burundi exports to Pakistan and the Democratic Republic of Congo represented approximately 8 and 7% of its total exports respectively. The United Arab Emirates’ share in Burundi’s exports has strongly increased, from virtually nothing in 2001-2003 to 13% in 2010 (this increase largely reflects gold re-exports). Exports to EAC countries have also increased (from 10.9% of total exports in 2001-2003, to 13.6% in 2008-2010), as did exports to non-EAC COMESA countries (from 1.3% to 5.9% over the same period).

Burundi’s exports have not shifted away from its traditional partners toward fast-growing emerging markets. As opposed to other EAC countries, which have increased their exports to Asia (for example, Tanzania’s exports to China and India have increased significantly in recent years) or to the Middle East and North Africa (for example, Uganda’s exports to several MENA countries have registered a big jump) (IMF 2011a), Burundi’s exports to emerging markets remain modest. The BRIC countries’ share in Burundi’s exports only increased from 2 to 3.5% between 2001-2003 and 2008-2010. Finally, exports to the US have decreased over the decade, indicating that Burundi has not managed to take advantage of its eligibility to the AGOA duty-free quota-free access to the American market since 2006.

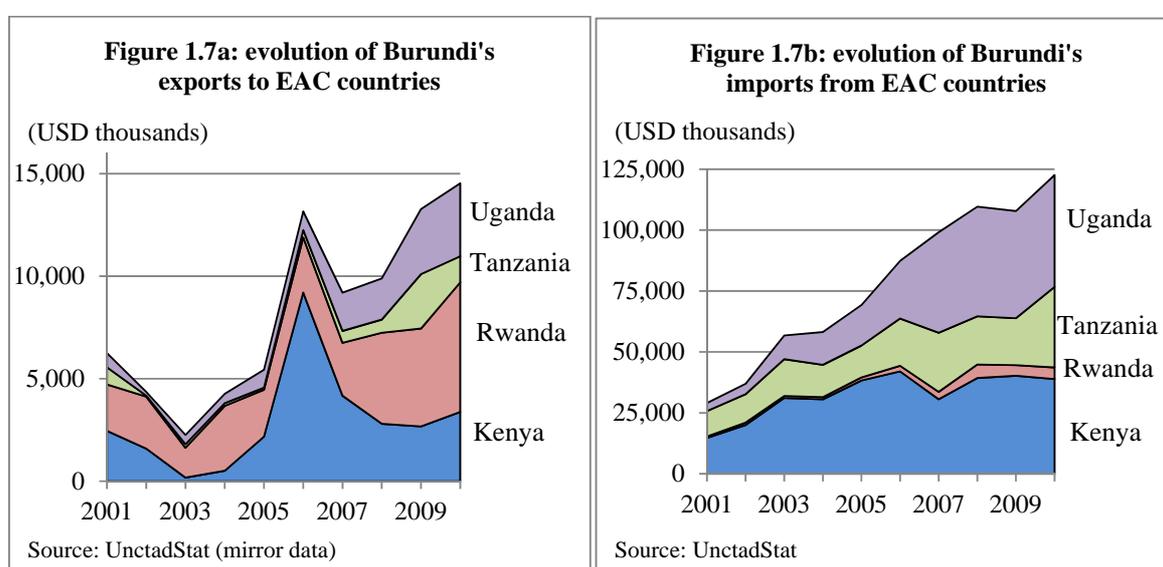


Burundi’s main import sources display a slight decline in the country’s total imports. The relative shares of countries exporting to Burundi have largely remained stable over the decade, in a context of rapidly increasing imports (figure 1.6b). The EU and the EAC are still respectively Burundi’s first and

¹⁰ This calculation excludes the United Arab Emirates, because their increasing share in recent years (over 16% in 2009-2010) is not due to Burundi’s exports *per se* but to gold re-exports.

second largest source markets, but their share decreased (from 35 to 28% and from 30 to 26%, respectively). Growing sources of imports include Saudi Arabia (12% of imports in recent years, mainly for oil) and China (from less than 3% in 2003 to 9% in 2010).

The EAC has become an increasingly important region for Burundi's exports since 2001. Both exports to and imports from the EAC have rapidly increased over the last decade (Figure 1.7a and 1.7b). Moreover, this assessment is based on official statistics, which do not record informal cross-border flows and are therefore likely to underestimate the significance of regional trade (see Box 1.1 for more information on informal trade flows in the Great Lakes region). The share of Burundi's exports going to EAC countries has increased (table 1.3), a dynamic which started in the years preceding Burundi's accession to the Community¹¹. The shares of total exports going to Rwanda (5.6%) and Kenya (3.2%) have been stable, but the shares of Uganda and Tanzania have increased over the decade (from 1.1% and 0.8% respectively in 2001-2003, to 3.1% and 1.6% in recent years). Burundi's main exports to the EAC include hides and skins (around 25%), raw cane sugar (20%), ferrous waste and scraps (17%), coffee and tea (8%) and soap (5%)¹².



Concerning imports, the EAC remains one of the main sources of supply for Burundi¹³. The relative importance of the four EAC partner countries in Burundi's imports varied between 2001/03 and 2008/10: Uganda's share increased from 4 to 10% of total imports, while Kenya and Tanzania saw their share decrease (respectively from 16 to 9% and from 9 to 5%). Imports from EAC countries are more diverse than exports, but consist mainly of materials like iron and steel (18%) or cement (14%), paper and related manufactures (11%); of other manufactures (20%); of chemicals and related products (15%); and of cereals and other foodstuffs (11%).

Table 1.3 : evolution of Burundi's intraregional trade

¹¹ Exchanges between Kenya, Burundi, Rwanda and Uganda have been progressively liberalized between 2000 and 2005, as these countries successively joined the COMESA Free Trade Agreement. Tanzania withdrew from the COMESA in 2000, and its exchanges with Burundi were not liberalized until Burundi's adhesion to the EAC.

¹² Gross exports to the EAC also include various re-exports of manufactures (EAC 2010).

¹³ The share of imports from the EAC in total imports has slightly decreased, but imports from the EAC have strongly increased in value (Figure 1.7b).

(%)	Exports			Imports		
	Share 2001/03	Share 2008/10	CAGR 2001-2010	Share 2001/03	Share 2008/10	CAGR 2001-2010
EAC	10.9	13.6	9.8	29.6	26	17.3
<i>of which:</i>						
<i>Kenya</i>	3.6	3.2	3.6	15.9	9.1	11.4
<i>Rwanda</i>	5.4	5.6	12.1	0.6	1.1	25.8
<i>Tanzania</i>	0.8	1.6	4.8	9	5.4	13.6
<i>Uganda</i>	1.1	3.1	19.9	4.1	10.4	34
COMESA	12.2	19.5	14.5	25.5	27.4	21.5
COMESA non-EAC	1.3	5.9	47	4.9	6.7	26.9
<i>of which :</i>						
<i>DRC</i>	1.2	3.9	44.4			
<i>Egypt</i>				0.2	2.7	65.5
<i>Zambia</i>				3	3.5	30.8
World	100	100	9.3	100	100	15.5

Source: authors' calculations based on UnctadStat data

Burundi's trade with the COMESA region has significantly increased over the decade, but it mostly concerns the countries that are also part of the EAC, and only few non-EAC countries. In 2008-2010, around 20% of Burundi's exports went to COMESA countries on average, including around 6% to non-EAC COMESA countries (table 1.3). The share of imports from (both EAC and non-EAC) COMESA countries slightly increased. In recent years, the DRC has emerged as Burundi's main non-EAC COMESA trading partner for its exports (4% of total exports), while Zambia and Egypt were the main non-EAC COMESA sources of imports (together about 6% of total imports).

Box 1.1: Estimating the magnitude of informal cross-border trade in the Great Lakes region

Although detailed data on Burundi's informal trade is not readily available, existing region-wide evidence suggests that informal cross-border trade (CBT) between countries of the EAC, as well as with other neighboring economies such as eastern DRC, is significant.

Estimates in World Bank (2012a) suggest that informal trade in agricultural products may be as much as five times higher than recorded trade for the DRC's trade with neighbors in the Great Lakes region, including Burundi. According to the same source, Rwanda's and Uganda's informal trade with the region represented around 25% and 55% of their formal trade, respectively. A recent study prepared for the government of Rwanda shows that this country exports more informally to its neighbors than it exports formally, and that informal CBT (mainly with the DRC, but also with Burundi) is growing.

The informal cross-border trade survey conducted by the Rwandan authorities over a 12-month period (May 2009 – April 2010) provides specific data on informal trade between Rwanda and Burundi:

- informal imports from Burundi reached 3.7 billion Rwandan francs (around US\$ 6.2 million), representing 30% of Rwanda's informal imports during this period.
- informal exports to Burundi reached 3.8 billion Rwandan francs (around US\$ 6.4 million), representing 14% of Rwanda's informal exports during this period.

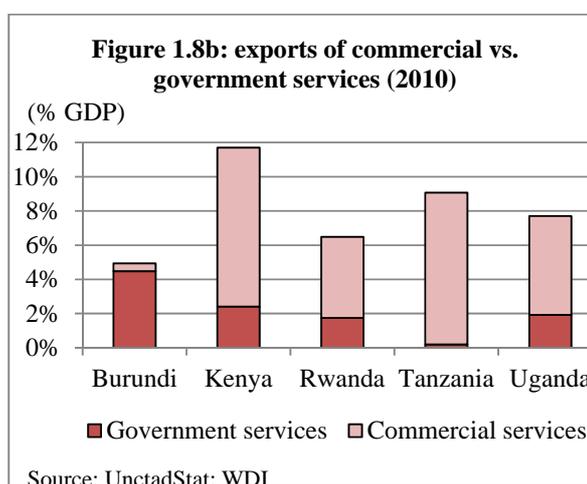
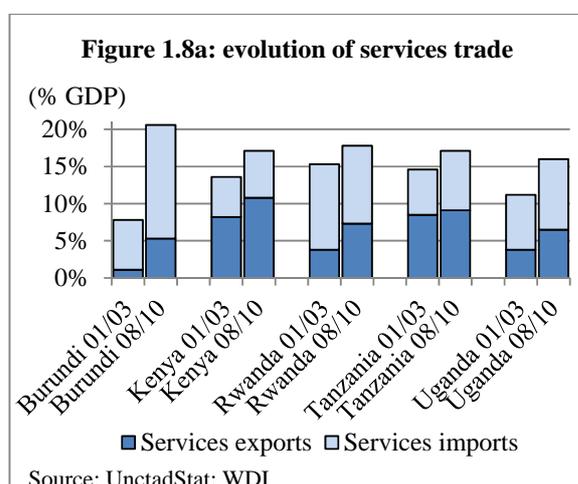
Although the periods do not perfectly match, these figures can be compared to formal flows registered in Comtrade, in which Rwanda reported US\$ 3.3 million of imports from Burundi in 2009, and Burundi US\$ 1.8 million of imports from Rwanda the same year. More data would be required to establish general estimates, but this initial comparison suggests that Burundi's informal exports to Rwanda could be around twice as large as its formal exports recorded in official trade statistics. This confirms that

Burundi's informal CBT flows with neighboring countries are likely to be considerable compared to formal flows, which highlights the necessity to collect reliable and frequent data on Burundi's informal CBT trade.

While there is still very limited information on informal cross-border exchanges in East Africa, the Ugandan and Rwandan Bureaus of Statistics have conducted surveys on informal CBT. Moreover, Rwanda is currently preparing a strategy on this issue. The government of Burundi could emulate these initiatives to assess the magnitude and impact of this trade, and design interventions accordingly.

1.3. Trade in services and FDI

Burundi's services trade has increased during the last decade¹⁴. Figure 1.8a suggests that the share of services in Burundi's trade has significantly increased during the last ten years - between 2001 and 2010, services' share in total trade went from 12 to 51% for exports, and from 22 to 29% for imports. This dynamic echoes the growing share of the tertiary sector in the domestic economy (about one third of GDP in 2010, two thirds of which corresponds to non-market services)¹⁵. The growth of services trade relative to GDP has been much faster in Burundi than in other EAC countries, particularly for imports.



The growth of services trade relative to GDP was mainly driven by exports of “government services”, which currently dominate Burundi's services exports (Figure 1.8b). This category includes transactions in both goods and services by international organizations, embassies, or military units and their staff in the host countries (corresponding to mode 2 for services)¹⁶. In Burundi's case, this seems to reflect the increased presence of donors since 2005. The rest of services exports (i.e. “commercial services”) is negligible and consists of travel services (i.e. the purchase of goods and services in Burundi by non-residents), transport, financial and other business services. Commercial service export earnings fluctuate between 2 and 7 USD millions per year. On the other hand, services imports have amounted to an average of USD 200 million between 2008 and 2010 (almost five times the annual average registered between 2001 and 2003). This is due to the rapid increase of transport and travel services imports, which together represent between 80 and 90% of Burundi's total services imports of services.

¹⁴ The limited availability and reliability of cross-country data on services trade implies that one can only estimate its volume and characteristics. This caveat should be kept in mind when reading this section. On services in Burundi, see also Chapter 6.

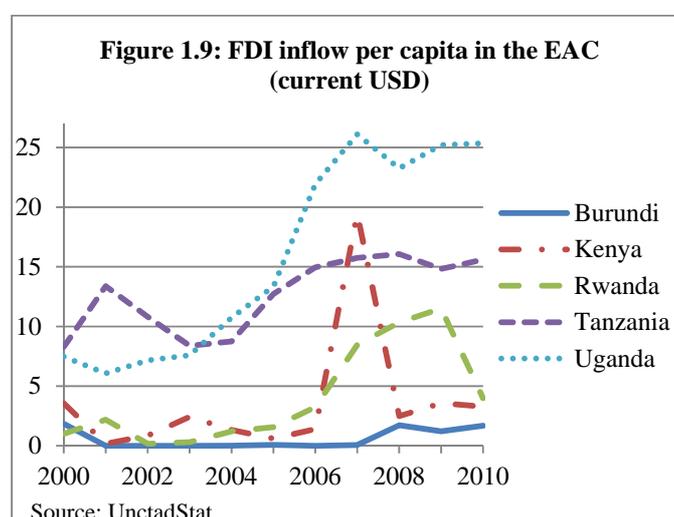
¹⁵ Source: BRB 2010 annual report (www.brb.bi/se/raportanu10.html).

¹⁶ See the IMF's *Balance of Payment Manual*, paragraph 266 (www.imf.org/external/np/sta/bop/bopman.pdf).

Table 1.4 : Burundi's trade in services, 2010		
USD millions (and % of total)	Exports	Imports
Commercial services	7.3 (9%)	156.4 (93%)
Transport	0.7 (1%)	110.9 (66%)
Travel	1.8 (2%)	19.8 (12%)
Communications	..	..
Construction	..	..
Insurance	1 (1%)	2.6 (1.5%)
Financial services	0.6 (1%)	1.4 (0.8%)
Computer and information	..	..
Royalties and licence fees	..	..
Other business services	3.2 (4%)	21.7 (12.9%)
Personal, cultural and recreational services	..	..
Government services	72.2 (91%)	11.9 (7%)
Total	79.5 (100%)	168.2 (100%)
<i>Commercial services CAGR (2001-2010)</i>	15.2% ¹⁷	19.5%

Source: authors' calculations based on UnctadStat data

Foreign direct investments (FDI) to Burundi have started to pick up albeit from extremely low levels. FDI inflows per capita are still lower in Burundi than in all other EAC countries, but they have increased since 2008 (figure 1.9). On average, FDI have represented 1% of GDP between 2008 and 2010, compared to virtually nothing between 2001 and 2007. The relatively high volumes in 2008 (USD 14 million), 2009 (USD 10 million) and 2010 (USD 14 million) were principally due to investments in the telecommunications and banking sectors. According to the UNCTAD, the estimated stock of FDI reached USD 86 million and 6% of GDP in 2010. Such figures are comparable to the FDI estimates for Kenya (7%) and Rwanda (8%). But Burundi's capacity to attract FDI is still undermined by numerous factors, including its poor business environment, high trade costs and small market size¹⁸.



The Burundian Investment Promotion Authority (API) has played an important role in attracting investment projects in the past few years. The increase in FDI seems to be partly explained by the

¹⁷ Burundi's commercial services exports have been highly volatile in recent years, and the CAGR is only 0.7% if 2009 is the end year considered.

¹⁸ See UNCTAD (2010) for a detailed presentation of the nature, impact and constraints to FDI in Burundi.

establishment in 2009 of API with the objective to streamline and increase the efficiency of the investments authorization process. According to recent figures, the API had treated 145 investment projects between its establishment and the end of 2011, which should amount to BIF 477 billion (around USD 400 million) when completed (API 2011). In 2010/11, the projects treated by the API were mainly in hotel/tourism (USD 150 million), manufacturing (USD 130 million) and agribusiness (USD 104 million).

The establishment of the EAC Common Market offers new opportunities in terms of trade in services and FDI, conditional on the continuation of liberalization and privatization processes and of investment climate reforms. The increased size of the regional market and the possibility to develop Burundi as a regional trade hub could create important incentives for foreign investors willing to establish themselves in the region. Increased FDI would in turn be a major asset to facilitate export diversification. For example, the UNCTAD's review of Burundi's investment policy highlights significant opportunities for FDI in mining, manufactures and services (telecommunications, banking, commercial services, tourism) (UNCTAD 2010).

1.4. Conclusion

Burundi's trade performance has historically been poor and the country's trade profile has unfortunately not radically evolved over the last decade¹⁹. Exports are characterized by a high level of product concentration, a strong dependence on primary products and a very low use of technology. Although some efforts have been made to introduce higher-value primary products, these have had limited results. Therefore, the main challenges identified in the first DTIS remain as pressing as they were in 2004, particularly regarding export diversification.

2. What explains Burundi's poor trade performance in the last decade?

Like all landlocked LDC with limited technical and institutional capacities, Burundi faces serious trade policy constraints. Numerous policy developments have occurred since the first DTIS was conducted in 2004, notably due to the increased pace of regional integration in Eastern and Southern Africa, but a series of trade policy challenges remain.

2.1 Despite important liberalization efforts, Burundi's multilateral and regional integration efforts are limited by high internal and external trade barriers

The last decade has been marked by significant trade liberalization efforts in Burundi. Burundi's trade regime was for a long time characterized by high tariffs, numerous nontariff barriers (NTBs), a rigid system of import and export licenses, and exchange rate controls. The main motivation behind the heavy trade controls was the extraction of economic rents by politically connected individuals (Nkurunziza and Ngaruko 2008). Liberalization efforts launched in 1986 were brought to a halt by the civil war that affected the country in the 1990s and early 2000s, but have since then significantly progressed. Most-favored nation (MFN) liberalization efforts have been complemented with regional integration efforts first in the framework of the COMESA and more recently with the EAC (Box 1.2 presents Burundi's main trade policy developments since 2004).

Tariffs have been reduced significantly over the last decade. A tariff reform initiated in 2003 has reduced considerably the average level of protection. However, the system remained opaque and complex, with various taxes or charges on imports and exports. Also, there remained "considerable

¹⁹ In fact, the composition of Burundi's trade (notably the predominance of coffee exports) has hardly evolved since at least the early 1980s, even if there has been some growth in manufactured exports (Milner 2004).

scope for both automatic and discretionary exemptions from customs duty” under various legal texts (Milner 2004). Burundi’s 2008 Overall Trade Restrictiveness Index (OTRI)²⁰ was 12.8 percent based on its MFN tariffs, and 10.1 percent based on the different bilateral tariffs applied to its various partners (OTRI_BE). The wedge between bound and applied tariffs (the overhang), is 54.3 percent (World Bank 2010a). As a result of tariff reductions since 2003, the average share of taxes on international trade as a proportion of total tax revenue declined from 23 percent in 2000-2003 to 16 percent in 2007-2010²¹.

There remains scope for further tariff reductions. Burundi ranks 102th out of 127 countries on the OTRI_BE variable, where 1st is the least restrictive. This places Burundi above Uganda (with a rate of 7.4 percent), Kenya (8 percent) and Tanzania (9.7 percent), but below Rwanda (11.2 percent). A related concern is the case of “sensitive products” for which tariff peaks persist. For example, Burundi has, like other member countries, submitted lists of “sensitive products” that should benefit from higher tariffs than the maximal 25% tariff band of the EAC and COMESA’s CETs, for budgetary or infant industry protection motives. Products on the EAC’s list include dairy, wheat, maize, sugar, with tariffs ranging between 35% and 100% (although a temporary suspension of taxes on basic imported food products was announced by the Government in May 2012 to compensate rising food prices, which is intended to last until December). In addition, Burundi has requested that certain products for which there is a domestic production be added to the list of sensitive products, such as crown corks (50%), soap (40%), beer (35%), paint (35%) and PVC pipes (35%) (Geourjon and Laporte 2008). This has detrimental impacts on the level of competition and on prices. The justification for these high tariffs needs to be carefully reviewed, and alternative ways to enable the Burundian manufacturing sectors to cope with increased competitive pressures need to be explored.

Box 1.2: overview of Burundi’s main trade policy developments since 2004

Burundi’s multilateral liberalization agenda

One of Burundi’s main objectives in the context of multilateral negotiations remains the improvement of market-access and the reduction of trade-distorting subsidies in agriculture in industrialized countries. However, lack of capacity has continually hampered Burundi’s implementation of its WTO commitments and limited its participation in negotiations. During the WTO Doha Development Round, Burundi has advocated with the LDC negotiating group for the extension of the Special and Differential Treatment regime (SDT) granted to least-developed countries.

Burundi’s regional integration agenda

Burundi’s integration in the East African Community (EAC) is arguably the country’s most important policy development in the recent period. Burundi joined the EAC’s Customs Union in 2009 and subsequently signed with the other members the Common Market protocol, which came into force on July 1st, 2010. Although implementation challenges are vast in all member countries, including Burundi, this offers Burundi large opportunities for increased trade and investment, improvement of the business environment and structural transformation of the economy. In the coming years, Burundi will take part in the two final stages of the integration process, first a Monetary Union (expected to be initiated in 2012) and ultimately a Political Federation. While the EAC is arguably a priority for Burundian authorities, Burundi is nonetheless involved in a number of other regional economic

²⁰ The OTRI summarizes the trade policy stance of a country by calculating the uniform tariff that will keep its overall imports at the current level when the country in fact has different tariffs for different goods (see Kee, Nicita and Olarreaga 2010). Dataset accessible at:

<http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:22951240~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html>

²¹ Source : various IMF country reports and statistical appendices, 2000-2011

communities (RECs). Importantly, membership in the COMESA gives Burundi access to a large market of 19 countries totaling over 400 million people. Burundi joined the organization's Free Trade Agreement in 2004 and subsequently took part in the creation of the COMESA Customs Union (CU) in June 2009, which should be fully implemented by all member states by mid-2012.

Burundi's bilateral trade relations

Burundi benefits from preferential access to the European market, but preferences are currently not used due to the concentrated structure of Burundi's exports to Europe. Burundi benefits from a favorable preference regime under the Everything But Arms (EBA) initiative, which grants duty-free quota-free market access to all products originating from LDCs (except arms). These preferences do not currently constitute an advantage, because Burundi's exports to the EU (essentially non-roasted coffee and tea) already enter duty-free under MFN treatment. The EBA could however offer an interesting preferential margin if Burundi managed to diversify its export portfolio in manufactures or processed primary products, provided that Burundian exporters comply with the scheme's complex rules of origin.

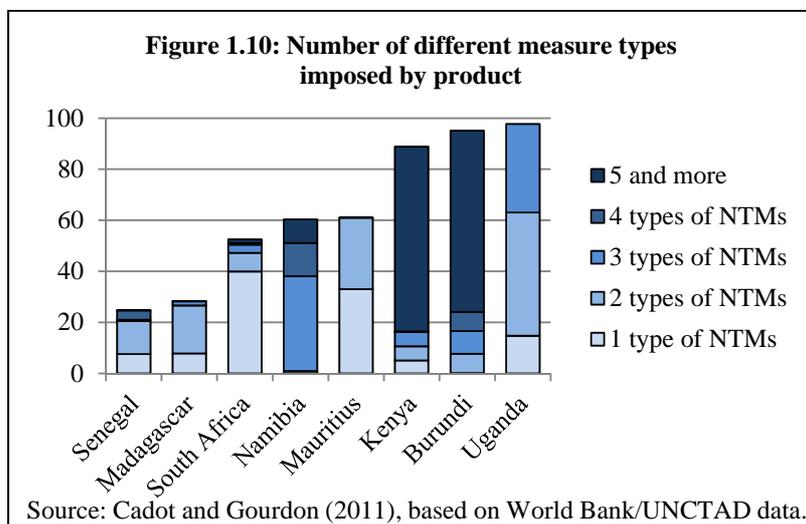
The EAC is currently negotiating an Economic Partnership Agreement (EPA) with the European Union, which will determine the framework of Burundi's relation with its most important trade partner. As planned by the Cottonou Agreement, unilateral preferences were due to be replaced after January 2008 by reciprocal liberalization under EPAs. So far, only an "interim" EPA was adopted in 2007. Negotiations for a comprehensive EPA have been organized since then, but several issues, such as MFN treatment, export duties, rules of origin and trade in services, have proven contentious, due to the concerns expressed by EAC countries about a potential reduction of their policy spaces. After a 14-month break, EU and EAC agreed in late 2011 to resume the formal negotiation process, which is now expected to be concluded in 2012.

Burundi became eligible to benefit from the United States' African Growth and Opportunity Act (AGOA) in 2006. This program grants beneficiary countries duty-free quota-free market access to the United States, and is deemed very favorable due to flexible rules of origin. Unlike many Sub-Saharan African countries however, Burundi has not been able to seize this opportunity to date due to the fact that coffee, virtually the only Burundian product exported to the US, already benefits from duty-free entry under MFN treatment. In 2008, the EAC signed a Trade and Investment Framework Agreement (TIFA) with the United States. This general agreement expresses the parties' willingness to promote an open environment for trade and investment (notably on matters such as good governance, NTBs and protection of intellectual property rights), in order to expand and diversify trade in goods and services between the EAC and the US.

Emerging markets in Asia or in the Middle East and North Africa have a modest role in Burundi's trade. While strong cooperation exists between Burundi and China, and to a lesser extent India, these have hardly resulted in increased trade or investment flows so far, although the share of China in Burundi's imports has risen over the last decade. However, relations with non-traditional partners could evolve in the framework of the EAC. Countries such as Turkey, Brazil, South Africa, India and China have all appointed representatives to the EAC in recent years and have expressed their willingness to strengthen their economic ties with East African countries. While these efforts seem to have more targeted Kenya, Tanzania and Uganda so far, Burundi could try to benefit from these new relations in the future.

While efforts to reduce tariffs have largely been met with success, less progress has been achieved with nontariff measures (NTMs) and non-tariff barriers (NTBs). Although the elimination of burdensome NTMs and the removal of NTBs were considered high priority issues in the 2004 DTIS, numerous barriers such as lengthy customs formalities and discriminating administrative procedures that have a negative impact on trade continue to hinder regional integration, including Burundi's imports and

exports. Burundi stands out as a heavy user of NTMs - about 70% of products imported into Burundi are covered by five or more NTM types (Figure 1.10) suggesting that economic operators face multiple regulations that can be cumbersome.



Addressing burdensome Non-Tariff Measures (NTMs) and removing Non-Tariff Barriers (NTBs) remain essential issues on Burundi’s trade agenda. Burundi has started this process both at the national and regional level – it has been involved for several years in the EAC agenda aiming at the identification and removal of the most detrimental NTMs, with support from the World Bank and TradeMark East Africa, but more needs to be done (see chapter 4). In the coming years, Burundi’s exports would benefit from the removal of NTBs in other EAC countries. Progress on this agenda in Burundi, including the identification of the political economy factors that can explain the persistence of some NTBs, will also be critical to allow concrete benefits of the regional integration process to materialize.

2.2 Despite privatization and investment promotion efforts, a poor incentive framework continues to limit Burundi’s ability to attract domestic and foreign investments

The privatization of key sectors was initiated in the 2000s. The State has traditionally played a major role in the Burundian economy, but numerous ill-managed public firms have constituted both a drain on public finance (causing an inefficient allocation of Government resources) and an obstacle to private activity, due to the poor quality of the services rendered. One prerequisite for increased investment and trade is therefore the divestiture of the State from the productive sector and basic services (energy, transport, communication, financial services). The 1996 privatization law, which constituted the legal framework for initial privatization efforts in the 1990s, was revised in 2002²². The Interministerial Privatization Committee (CIP) and State Enterprise Service (SCEP) have since then given a new dynamic to the privatization and restructuring program, with support from the World Bank’s PAGE and Financial and Private Sector Development Project²³.

The divestiture agenda has registered limited progress to date. Despite the authorities’ commitment, results have so far been modest: privatizations mostly focused on small firms and the State remains the

²² Loi n°1/07 du 10 septembre 2002 portant Révision de la Loi sur l’Organisation de la Privatisation des Entreprises Publiques (Accessible at www.scep.bi/images/stories/scep/privatisation.pdf)

²³ See the PAGE website on public enterprises reform and privatization: <http://page.bi/spip.php?article38>

main actor in the formal sector (UNCTAD 2010). Progress on the divestiture agenda also appear to have been slowed down by the limited resources available to the SCEP to carry out its mission. Cases are also reported where transparency norms in the privatization process have not been respected, for example in the case of the recent concession of the textile complex COTEBU (ICG 2012). A modernized version of the privatization code, designed to increase the efficiency and transparency of the privatization process, was promulgated by the President of the Republic in 2012.

The poor climate for investment and competitiveness limits the capacity of the government and other donor-sponsored initiatives to attract investment. The newly created Investment Promotion Agency (API) – recommended in the 2004 Action Matrix - is one of the main initiatives taken by the government to attract investments. In addition, a number of donor-sponsored initiatives with the same objectives are currently being implemented in Burundi (see Box 1.3 for details regarding these efforts). At this stage however, their contribution in terms of investment, exports and job creation remains limited.

Box 1.3: Initiatives aimed at attracting investments

The establishment in 2010 of the API is one of the main measures taken by the Government in recent years to attract investments. In addition to providing information and support services to investors and exporters, its main role is to analyze investment projects submitted by both local and foreign investors and to issue the required authorizations, with the fundamental objective to streamline the process. A year after its creation, the API was credited with a dramatic decrease of the processing time for investment approval (IMF 2011b) and a significant increase of the number and value of the investment authorizations issued (AfDB, OECD and UNECA 2011). The API is also responsible for the application of the new Investment Code and the various tax incentives and duty exemptions contained in it²⁴. Due to the lack of resources, the export promotion services of the API were reportedly still not in place in late 2011 (Yamuremye et al. 2011).

A free zone regime to attract investments did not produce the expected results. Another responsibility of the API is the application of the free zone regime, which has never been applied to a meaningful degree despite attractive incentives. A revision of the free zone law was adopted in 2001 to revive this scheme introduced with limited success in the 1990s (WTO 2003)²⁵. Rather than a zone *per se*, this regime creates a special legal status for firms meeting the eligibility criteria. It provides for a set of tax exemptions, customs benefits and other targeted incentives regarding foreign exchange operations or labor legislation. However, this system is not used in practice, due to restrictive eligibility criteria (notably the impossibility to produce for the domestic market). It has also been suggested that this status offers limited additional incentives, compared to the general regime planned in the current Investment Code (Yamuremye et al. 2011). The system's contribution to investment, export or job creation has therefore been minimal so far (UNCTAD 2010). The free zone legislation will have to be revised to produce the desired results. It also needs to be harmonized with partner countries in the framework of EAC integration.

Other donor-sponsored initiatives have recently aimed at improving Burundi's business environment and trade performances, but it may be too early to assess their impact and sustainability. They include for example the establishment in November 2011 of a business incubator with USAID and Dutch support to promote entrepreneurship and SME development²⁶. In addition to

²⁴ See on the API's website for a list of existing incentives:

www.burundi-investment.com/fr/incitations/incitations-investissement.html

²⁵ *Loi n°1/015 du 31 juillet 2001 portant Révision du Décret-loi n°1/3 du 31 août 1992 portant Création d'un Régime de Zone Franche au Burundi.* This law has since then been included in the 2008 Investment Code.

²⁶ See: www.bbinburundi.com

this, the Government has elaborated several strategies in 2011, including a strategy for the mining and energy sector and a 10-year national tourism strategy (see Chapter 7 on tourism). This could help attract FDI in Burundi and contribute to export diversification in both goods services in the future. Moreover, a strategy for the development of the private sector is currently being finalized.

2.3 Despite improvements in Burundi's business environment, significant challenges remain

Burundi has undertaken a number of legislative and regulatory reforms since 2004. Such reforms have focused on developing several legislative instruments, such as a new Customs Code and a new Investment Code, as well as on improving the tax system (see Box 1.4 for details regarding these reforms).

Box 1.4: Legislative and regulatory reforms affecting trade and investment

The agenda to reform the laws and regulations affecting trade and investment has accelerated since the first DTIS, under the influence of regional integration and accession to the EAC. Several important legal texts have been updated in recent years, notably with support from the PAGE project:

- a new Customs Code (2007) aims to modernize customs (adoption of a transaction value method for customs valuation, creation of a transit regime, computerization of procedures, etc.). The application of the measures featured in the new code has been mixed to date, and the UNCTAD noted in 2010 the persistence of opaque customs valuation practices²⁷ and the absence in practice of a risk-based verification system (UNCTAD 2010). Moreover, this new code has not been accompanied by a simplification of customs procedures, which remain particularly cumbersome, even by regional standards²⁸;

- a new Investment Code (in force since January 2009)²⁹ aims to create a unified regime for investments (instead of four different regimes that were previously in place). It also liberalizes the entry of FDI in most sectors of the economy and strengthens the guarantees for foreign investors (UNCTAD 2010). While the effective openness of the investment regime has long been limited in practice by the existence of State monopolies in numerous sectors, this began to change in recent years with the on-going privatization program.

Other legislative instruments recently passed to modernize the regulatory environment and harmonize Burundi's legal regime with that of the EAC include: the new Code of Commerce (2010), the country's first Competition Law (2010)³⁰, the new Land Code (2011), and the new Code of Private and Public-Participation Companies (2011)³¹. Furthermore, a revision of the mining code is underway, which is meant to prepare the country for potential large-scale (foreign) investments and clarify the role of artisanal mining.

²⁷ The revenue authority OBR reaffirmed in 2010 that customs valuation must be made according to the WTO Agreement on Customs Valuation, in agreement with the 2007 Customs Code and the EAC Customs Management Act. However, the extent to which this disposition is effectively applied remains unclear.

(www.obr.bi/images/stories/download/D%C3%A9terminations%20de%20la%20valeur%20en%20douanes.pdf)

²⁸ In Doing Business 2012, Burundi ranks 174th out of 183 countries on the "Trading Across Borders" indicator. The procedures to export/import a container take 35/54 days in Burundi, compared to 26/24 in Kenya, 29/31 in Rwanda, 18/24 in Tanzania and 37/34 in Uganda. According to Doing Business, while the time required to export/import has decreased since 2008, the cost has increased, and the number of documents required has remained stable.

²⁹ *Loi n°1/24 du 10 septembre 2008 portant Code des Investissements du Burundi*

³⁰ *Loi n°1/06 du 25 mars 2010 portant Régime Juridique de la Concurrence*

³¹ *Loi n° 1/09 du 30 mai 2011 portant Code des Sociétés Privées et à Participation Publique*

To improve an overly unfavorable tax system, the Government has initiated a general revision of the tax code. Burundi has traditionally had a particularly complex tax regime and one of the highest tax burdens in the world (UNCTAD 2010)³², but taxes have been significantly reduced in recent years. According to the standardized case used by Doing Business (2012), 24 different payments are required per year, taking on average 274 hours. The total statutory tax rate over profits is 46 percent (compared to 41 percent on average in the other EAC countries, but 57 percent in Sub-Saharan Africa). This is detrimental to private sector development and investment, and is likely to encourage tax evasion and informality and reduce the tax base³³. Furthermore, the tax regime is characterized by a vast and complex set of exemptions, mainly concerning imports, which are largely perceived as inefficient and still have to be harmonized with EAC practices (World Bank 2011b). Major tax policy developments in recent years have included:

- the establishment in 2009 of the semi-autonomous Revenue Authority OBR, responsible for the collection of public revenue, including custom duties³⁴. Until 2009 Burundi was the only EAC country without such an institution. The main objectives of the OBR are to broaden the tax base, improve relations with taxpayers and simplify procedures. Although recently established, the OBR is credited with a significant increase in revenue collection. Preliminary data in September 2011 suggests that revenue collection is about 30 percent higher than in the same period in 2010 as the result of improvements in revenue administration and the collection of non-tax revenue.

- the introduction in 2009 of a value added tax (VAT) that replaces the previous transactions tax. The dual objective was to raise the efficiency of tax collection and compensate the revenue loss due to the adoption of the EAC Common External Tariff. The standard rate has been set at 18 percent and imports are subject to the tax, while exports are zero-rated. The VAT is deemed to have contributed to the reduction of the tax burden³⁵, as well as the simplification of the tax regime and its alignment with partner countries' practices in the EAC (AfDB 2010). The government has recently worked on a first revision of the VAT law with support from the IMF.

In late 2011, the OBR finalized draft laws on direct taxes and tax procedures that are compatible with EAC regulations. Furthermore improving the Burundian tax system is a core objective of the IFC's Burundi Investment Climate Reform Program implemented since 2011. Program activities include the simplification of tax procedures, the creation of a simplified tax regime for SMEs and the harmonization of tax incentives for investment with EAC regulations.

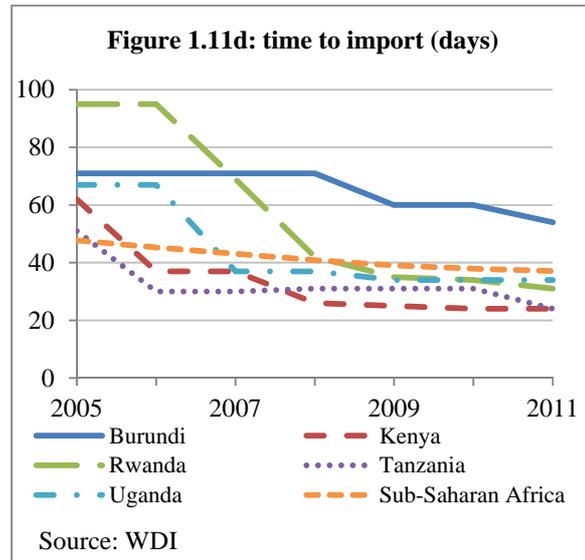
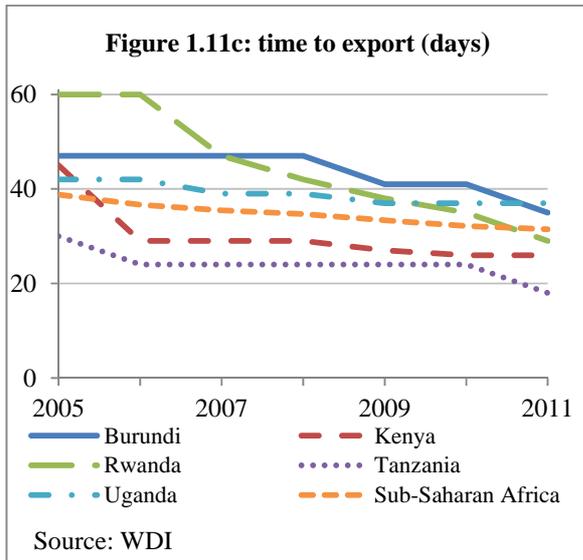
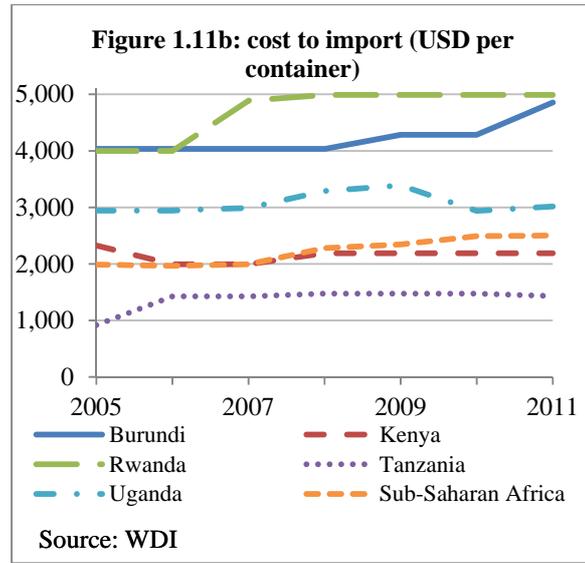
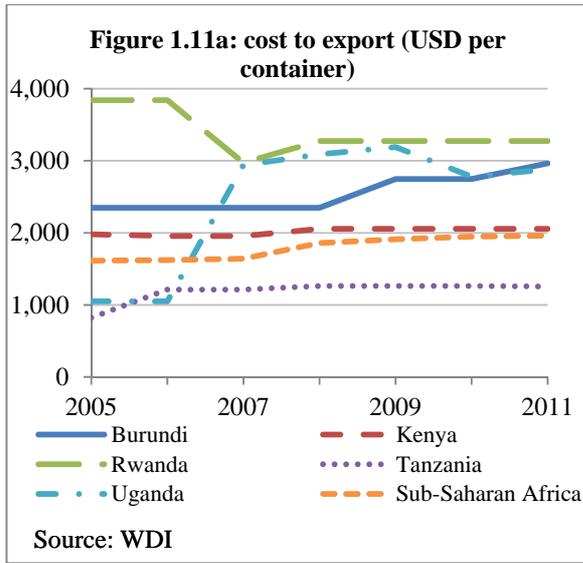
Despite progress with legislative reforms, one of the main causes for Burundi's poor trade performances continues to be the country's unfavorable business environment. This is partly caused by structural factors such as the country's geographical isolation, weak infrastructure and poor human capital, but also includes a major regulatory dimension. For example, the cost and time to import to and export from Burundi as measured by Doing Business remain higher than in most East African and Sub-Saharan African countries (see Figures 1.11 a to d).

³² In Doing Business 2012, Burundi is ranked 125th out of 183 economies regarding the business-friendliness of its tax regime, an improvement of 17 places from the previous year. This is lower than Rwanda (19rd), Uganda (93rd) and Tanzania (129th), but higher than Kenya (166th).

³³ The tax base in Burundi is exceptionally narrow, with 200 large taxpayers contributing to 80 percent of internally collected revenue, the rest being paid by 1,500 small and medium taxpayers (AfDB 2010).

³⁴ The *Office Burundais des Recettes*, which formally began operations in July 2010, was established with the support of the Belgian, British and German cooperation agencies, the IMF, World Bank, Rwandan Revenue Authority and TradeMark East Africa.

³⁵ After the introduction of the VAT, the tax burden as a percentage of profits, as measured by Doing Business, decreased from 279 in 2009 to 153 percent in 2010, and to 46 percent in 2011.



A significant improvement in Burundi’s “ease of doing business” index has been achieved, but the ranking of its business environment remains poor. Doing Business 2012 ranks Burundi 169th out of 183 economies on its overall “ease of doing business” index³⁶, which is far below neighboring countries such as Rwanda (45th), Kenya (109th), Uganda (123th) and Tanzania (127th). This is nonetheless a significant improvement from the country’s previous ranking (177th) and places Burundi in the Top 10 group of countries which have improved the most their regulatory environment in 2010/2011 (Doing Business 2011). After more than a decade without significant reforms in a context of protracted civil war, the Burundian regulatory environment has somewhat improved between 2005 and 2010 with five positive reforms registered in the following areas: construction permits, investor protection, tax payment, and insolvency procedures.

³⁶ This index captures the overall business-friendliness of a country’s laws and regulation as they apply to domestic SMEs. It is the average of 9 thematic indicators (see www.doingbusiness.org for more information).

Firms and exporters in Burundi continue to face severe regulatory obstacles. The positive trend measured by Doing Business does not necessarily imply that the business environment radically improved in practice over the last few years for a given firm, notably because of implementation challenges. While many of the key laws which govern private sector activity have been recently updated, they often do not have the appropriate accompanying regulations yet. This can lead to limited and arbitrary implementation (the preparation of business environment-related implementation texts is expected to be undertaken with support from the World Bank's current Financial and Private Sector Development Project).

As a result, the impact of reforms in terms of investment and trade outcomes has so far been limited. This implies that concrete improvements in Burundi's business environment will require more focus on the effective implementation of reforms. For the period 2012-2014, the Investment Climate Program implemented by the IFC will continue to support the Government's efforts to reduce the time and cost of doing business, simplify the tax system (especially for SMEs) and harmonize key commercial legislation within the framework of the EAC's Common Market.

2.4 Despite commitments to improve the private-public dialogue and efforts to strengthen businesses, the private sector remains weak

The Burundian private sector is small and largely informal. According to the PRSP II, the formal private sector is made up of around 3,000 firms, most of which are SMEs lacking the capacities and resources to expand their activities and start exporting. Moreover, Burundi's formal economy is still largely dominated by the public sector. Beside regulatory obstacles, several severe constraints hamper the growth of the private sector and limit investment and productivity, including: the lack of access to finance; the weak infrastructure and utility networks (especially electricity, recurrently cited by firms as a major obstacles to growth); and the low human capital and lack of skilled workers. These supply-side constraints are all highlighted in the second PRSP, and need to be addressed if the private sector is to play a stronger role in Burundi's economic and trade performances.

Strengthening public-private dialogue (PPD) has been a key objective of the Government since the early 2000s, but this dialogue has been historically very weak in Burundi. Limited consultation and partnership with the private sector has tended to result in poorly informed public sector decision-making that often fails to foresee the impact of decisions on the private sector. Furthermore, many private sector actors are not informed of beneficial reforms – such as the development of the Investment Code - and do not understand how they might benefit from the new arrangements. Likewise, most economic operators lack a sound understanding of the regional integration process underway and its regulatory implications.

More recently, there has been an increasing recognition regarding the private sector's role as a necessary engine of trade expansion, investment and growth. Private sector representatives were consulted in the preparation of both the first and second PRSPs. In order to make the dialogue on investment climate and trade-related issues more systematic, a 2008 presidential decree established a public-private consultation framework with a general assembly, technical groups and permanent secretariat. The materialization of this positive development on paper has however been delayed, and the activities of this dialogue framework were only launched by the Second Vice President of the Republic in January 2012³⁷. The establishment of a number of sector groups within different domains, such as private sector development, energy and regional integration, constitute important meeting points concerning investment and trade related issues. The groups allow concerned ministries, development partners, the private sector and the civil society to come together on a monthly basis to discuss sector issues.

³⁷ www.presidence.bi/spip.php?article2270

The improvement of Burundi's Doing Business indicators since then is partly attributed to this renewed commitment. The effective functioning of the dialogue framework, and its capacity to identify and address constraints faced by private actors in various sectors must be ensured in the coming years³⁸. While the formal sector represented by the new Federal Chamber of Commerce and Industry³⁹ appears to be the natural interlocutor for this public-private dialogue, other actors also need to be involved. In particular, the Government is aware that it needs to take into account the specific needs of both formal and informal micro, small and medium enterprises in its private sector development strategy, given their predominance in the Burundian economy (Republic of Burundi 2011a). In the coming years, the private sector and industrial development strategy currently finalized by the authorities will provide the framework to step up the support provided to Burundian businesses.

2.5 Despite increased external support and capacity building programs in the last years, the weak capacity of Burundi's government continues to hamper the implementation of its commitments and obligations

Numerous governmental institutions are involved in the formulation of Burundi's trade policy. The Ministry of Trade, Industry and Tourism is responsible for the elaboration and implementation of Burundi's trade policy. Other major stakeholders include the Ministry of Finance and the OBR, as well as the recently created Ministry to the Presidency for EAC Affairs, which should see its role increase in the future given the importance of the EAC in Burundi's trade strategy. Other institutions such as the Ministries of Agriculture, of Planning and Reconstruction, and of Transport, the State Enterprise Service (SCEP), the Permanent Secretariat for Economic and Social Reforms (SP/REFES), the Federal Chamber of Commerce and the recent Investment Promotion Agency are involved directly or indirectly in policy formulation. A National Steering Committee has been established to facilitate inter-ministerial coordination on trade issues.

Burundi has received increased external support since the early 2000s. In addition to the Enhanced Integrated Framework, Burundi has received assistance from the World Bank's Economic Management Support Project (PAGE/EMSP) since 2004 to rationalize customs management, strengthen statistical capacities and launch institutional reforms (creation of the OBR and API)⁴⁰. Furthermore, the country will benefit in the coming years from a capacity-building program implemented by TradeMark East Africa, which focuses on trade policy, trade facilitation and regional integration.

Nevertheless, weak institutional capacity continues to undermine Burundi's ability to formulate and implement trade policy, and to negotiate trade agreements. Lack of adequate human, financial and technical resources in newly created institutions like the Ministry for EAC Affairs, but also in older ones like the Ministry of Trade and Industry, largely prevent them from operating efficiently. Furthermore, poor reliability and availability of data on trade-related issues is a serious obstacle to evidence-based policy making (cf. Annex 2). This capacity deficit, which was identified as a high priority in the 2004 DTIS, still reduces the country's ability to abide by its international and regional commitments, and reap the full benefits from increased integration. Strengthening capacity and improving coordination in the public sector are presented as key objectives in the PRSP II, which also emphasizes the necessity to implement the National Strategy for the Development of Statistics (2011-2015) adopted in 2010.

2.6 Conclusion

³⁸ Making the PPD framework fully operational is one objective of the International Finance Corporation's (IFC) Burundi Investment Climate Reform Program for 2011-2012.

³⁹ The *Chambre Fédérale de Commerce et d'Industrie du Burundi* (CFCIB) was created in 2008 and gathers twelve chambers representing the various sectors of the economy. See www.cfcib.org for more information.

⁴⁰ See www.page.bi for more information.

Overall, important steps have been made in recent years towards the clarification of Burundi's trade policy objectives, the expansion of institutional reforms, the modernization of the regulatory environment and the improvement of trade and investment incentives. While these developments undoubtedly express a strong political commitment to improve Burundi's investment climate and trade performance, sustaining and effectively implementing the numerous reforms will be a major challenge for a country with limited capacities. Indeed, as recognized in the PRSP II, several recently adopted reforms have not yet produced their expected effects because of lacking application texts or insufficient financial, material and human resources for new institutions. This highlights the continued need for technical assistance and targeted capacity building programs. Furthermore, at least in the short run, the impact of new laws is likely to be limited by the small proportion of firms operating in the formal sector and by the poor business environment. Also, increased investment and/or additional risk taking (by domestic or foreign investors) is unlikely to be sustained without greater and sustained political stability. In the future, sustaining democratization and improving the socio-integration of all Burundians will be essential conditions to shift economic incentives towards the activities required for long-term development, notably concerning trade and investment (Nkurunziza and Ngaruko 2008).

3. Implementation of the 2004 Action Matrix

The 2004 DTIS Action Matrix included a total of 55 actions, distributed across 11 sections covering Burundi's global macroeconomic environment, its trade policy and institutions, its trade agreements and market access, a number of cross-sectoral areas such as the regulatory environment for investment, trade facilitation and infrastructure, sectoral issues (coffee, tea and cotton), as well as capacity building issues. Annex 1 in Volume II presents a detailed evaluation action by action of the implementation of the 2004 Matrix, undertaken in close collaboration with the Burundian EIF Coordinator.

Progress with the implementation of the Action Matrix has been uneven across sections. Most progress has been registered with actions aimed at ensuring greater macroeconomic stability and removing tariffs within COMESA, as well as customs and investment promotion, while actions aimed at Burundi's export diversification are at the other end of the spectrum with very limited results so far. The record on the implementation of actions aimed at reducing transport and transaction costs, improving the business environment and reforming the coffee and the tea sectors is mixed.

Section 1: Macroeconomic framework

The implementation of actions aimed at ensuring greater macroeconomic stability needs to be sustained. Progress was made in several areas - the PRSP II has been adopted by the Council of Ministers in January 2012, regular consultations regarding monetary and fiscal policies and the liberalization of the exchange system have been conducted with the IMF, a VAT-based fiscal system has been introduced, and activities for strengthening macroeconomic data and analysis have begun. But several actions still have to be finalized. A comprehensive trade development strategy is not yet in place and several loopholes and exemptions in the enforcement of border taxes and the VAT need to be addressed.

The liberalization of Burundi's exchange policy, initiated in the 1990s, has continued in the 2000s. Foreign exchange for current transactions was completely liberalized in 2006 and the exchange regulations were updated in 2010 to "bring them more into line with the requirements for integration into the EAC" (Republic of Burundi 2011b). Burundi continues its cooperation with the International Monetary Fund to enhance the flexibility of the Burundian franc (BIF), which is deemed critical by the IMF "to help the economy adjust to external shocks and the EAC required capital account liberalization planned for 2014" (IMF 2010).

Mainstreaming of trade into national growth and development strategies has proven difficult. Mainstreaming at the policy, the institutional, and the international cooperation levels is incomplete and remains a high priority action. In line with most actions related to the macroeconomic environment, Burundi has made some progress with the development of a trade strategy. For example, the promotion of the export sector and improvement of the investment framework have been identified as key components of Burundi's first national Poverty Reduction Strategy Paper (PRSP I). The second PRSP also mentions the objective to develop a National Export Promotion Strategy and, contrarily to previous strategic documents adopted by the Government of Burundi, it explicitly recognizes the importance of regional integration for trade and growth, and particularly the challenges and opportunities arising from EAC membership. The Government's long-term development strategy adopted in 2010, "Vision Burundi 2025", also emphasizes regional integration as one of its 8 pillars, even if it remains general (Republic of Burundi 2010a). However, Burundi still lacks a coherent and pragmatic strategy for trade and regional integration matters (the development of a regional integration strategy is expected in the second half of 2012). Mainstreaming of trade into national policy – defined as the process of integrating trade into national and sectoral development planning, policymaking, implementation and review in a coherent and strategic manner – remains incomplete. For example, the PRSP II only dedicates half a page to external trade. While it refers to the DTIS update and affirms the necessity to implement its Action Matrix, it does not specify how the stagnation of trade is linked to other development challenges faced by the country, or what could be the impact of improved trade performances on growth, employment and poverty reduction. Additional work will therefore be required to mainstream trade into national growth and development strategies.

Section 2: Trade policy

Most actions related to the removal of tariff barriers in the COMESA context have been addressed. Given the numerous development affecting Burundi's trade since 2004, this section needs to be updated to reflect Burundi's membership in complex multiple regional agreements such as the EAC, the COMESA, the Economic Community of Central African States (ECCAS), and the Economic Community of the Great Lakes Countries (CEPGL), among others. The large deficit of technical and institutional capacity must be taken into account, as well as the need to coordinate policies and programs in Eastern and Southern Africa, under the aegis of the Tripartite arrangement between the three main regional economic communities (RECs), COMESA, EAC and the Southern African Development Community (SADC). Furthermore, the consistency of Burundi's negotiation strategy and commitments in different forums at the multilateral and regional level, as well as in the framework of the EPA between the EAC and the EU, must also be addressed.

Section 3: Trade facilitation

The trade facilitation interventions prioritized in the 2004 Action Matrix related mostly to customs and border management. These interventions are: (i) preparing an action plan on regional transit issues with neighboring countries; (ii) designing a program of action on customs tariffs and valuation; (iii) implementing a customs reform program to conform to international obligations; (iv) finalizing an accord on trade facilitation, in consultation with donors; and (v) facilitating the digital exchange of data between agencies involved in trade facilitation.

Burundi has made good progress in implementing the matrix as far as trade facilitation is concerned. Some of the notable achievements were the following:

- A trade facilitation action plan was prepared that makes a clear distinction between what Burundi can do alone and what it has to work on with its neighbors, especially at the ports of Dar es Salaam and Mombasa-Mpulungu. Cooperation has concentrated in particular on improving road corridors and the creation of one-stop border posts. The issues of transit and movement of goods are now

treated in the framework of regional integration within the EAC and COMESA. Burundi is taking part in a regional pilot on customs bond guarantee;

- A computer system has been designed for data exchange, including data sharing between Burundian customs and revenue authorities of neighboring countries, especially with Tanzania;
- A program is being implemented to harmonize customs revenue services and to provide for single collection point at the ports of entry;
- The Burundi Revenue Authority (OBR) was created in 2009 as an autonomous public institution that collects all government revenues; and
- Reforms of customs valuation are being pursued within the EAC, which since 2004 adopted the system of customs valuation based on the WTO Agreement on Implementation of Article VII of GATT 1994. In November 2010, the EAC Secretariat developed a manual on valuation to allow countries to follow the same assessment procedures. Burundi now uses the EAC manual.

Despite progress with the implementation of the trade facilitation interventions, Burundi's logistics performance has worsened. Most actions were defined around customs and border management, while other components of trade facilitation and logistics, such as infrastructure development, international shipments, logistics quality, tracking and tracing or timeliness, were largely neglected. A weakness in any dimension of logistics can neutralize the benefits expected from other potentially useful interventions. This appears to be the case in Burundi. The country thus needs to implement a comprehensive trade facilitation reform that focuses on all dimensions of logistics (cf. Chapter 5).

Section 4 and 5: Export promotion/diversification and market access (with the common objective to increase non-traditional exports)

Implementation of trade policy reforms remains slow and unsatisfactory in the area of export diversification. Most priorities included in these sections have not been tackled at all. Some progress has been made with the creation of the Investment Promotion Agency that includes an export promotion service, but this service is not yet operational due to lack of resources. Also, an effort was made to establish a system for standards and quality control for products. For example, Burundi is involved since 2011 in a UNIDO capacity-building project on sanitary and phytosanitary compliance for trade, following an EAC-wide project on quality and standards issues in 2007-2011 (UNIDO 2010). But the new laws were not implemented and Burundi's capacity concerning standards, quality and testing have remained very limited, making the country's participation in the EAC standardization agenda difficult.

Finally, the targeted support provided to selected non-traditional exports, such as essential oils, PVC tube production, cut flowers, and several fruits and vegetables as part of the EIF Window II projects had very limited results. In fact, several of the targeted exporters have gone out of business within a short period after receiving support from the EIF. Burundi's export base has thus remained highly concentrated. A high priority for Burundi is therefore to develop and implement a strategy that puts in place an adequate incentive framework for private-sector led export diversification.

Section 6: Regulatory environment for investments

Some progress has been made with reforms regarding the improvement of the investment framework. A revised Investment Code, a new Commercial Code, a Code for Public-Private companies and several laws on bankruptcy and competition have been elaborated, but several codes and laws still need application texts in order to be implemented (see section 2 for details). Also, in many cases these new legislative acts would need to be updated to reflect the changes related to Burundi's EAC membership. Additional efforts covering legal and regulatory reforms and addressing political economy

constraints are required to implement a comprehensive investment climate reform program that will successfully attract domestic and foreign investors.

Section 7: Capacity building in the Ministry of Trade and Industry

Rather limited progress has been made in terms of enhancing the capacity of the Ministry of Trade to coordinate, implement and monitor trade policy reforms. While the Ministry of Trade has been equipped with computers and management has participated in several short term WTO training courses, both the Ministry of Trade and the new Ministry of EAC continue to struggle with limited capacity and scarce resources. In addition to this, their respective activities remain largely uncoordinated. The development of an adequate capacity building program for relevant actors and the creation of an effective coordination mechanisms between the ministries and agencies involved in trade policy making, as well as with stakeholders in the private sector, remains a priority for Burundi.

Section 8, 9 and 10: Sectors with high potential: coffee, tea and cotton

Some progress has been made with reforms in the coffee and the tea sectors. For example, new productive investments in the coffee and tea sectors have contributed to the rehabilitation of productive capacities in these sectors, an action plan for state divestiture in the coffee sector has been adopted in 2009, the privatization of coffee washing stations has started, and a new Investment Code was enacted in 2008.

Given its weight in Burundi's economy and exports, the reform of the coffee sector is a priority for the Government. A 2005 decree recognized the liberty of establishment and activity at all stages of coffee production, transformation, commercialization and export to private investors, both domestic and foreign. Subsequently, a strategy for State divestiture in the coffee sector has been adopted in 2009, and an institutional reform to increase the role of the private sector in the sector was carried out. The privatization of public coffee processing facilities was initiated with limited success in 2009, notably due to limited investor interest and political-economy resistances. A second phase was launched in early 2012, and the reform is expected to accelerate in the coming years⁴¹. The slow pace of reforms in these traditional export sectors, and the limited results in terms of production and exports so far, show that much more needs to be done to encourage the participation of the private sector in these sectors, increase the quantity and quality of products (notably to strengthen presence on specialty coffee markets), and address logistical concerns.

Section 11: Implementation of WTO agreements

Very limited progress has been made regarding the implementation of Burundi's trade agreements. With the exception of some training courses, none of the actions listed in this section have been addressed. The implementation of Burundi's trade agreements remains a high priority issue that needs to be addressed as part of the trade mainstreaming exercise.

According to the Government of Burundi, the main factors responsible for inadequate results are internal coordination and technical capacity problems. The technical capacity of the Ministry of Commerce and Industry, responsible for overseeing the implementation of the Action Matrix, is particularly problematic. Overemphasis on process to the detriment of trade outcomes were additional factors mentioned by local stakeholders. Moreover, the fact that several key stakeholders were not aware of the DTIS or its findings is problematic. Finally, the first Action Matrix was too long with overambitious timeframe for the realization of objectives, which made implementation difficult given the limited capacities.

⁴¹ See Chapter 3 and Annex 3 (Volume II) on the coffee sector and its reform.

4. Conclusion

As a small, landlocked country Burundi continues to confront significant difficulties and costs in accessing external markets. High trade costs, NTBs, poor infrastructure and utility networks (especially electricity), and underdeveloped services sectors limit Burundi's ability to attract FDI (despite proven potential in sectors such as telecommunication, financial services, mining, agribusiness, and tourism), develop competitive higher-value activities for export and pursue export-led growth. Lack of hard infrastructure and regulatory issues raise the costs of Burundi's isolation. The country lacks good roads, bridges, ships, rails, as well as energy, communications, and water and sanitation infrastructure. The poor coverage and state of infrastructure create costs in time and money that lower the return on investment, discourage domestic and foreign investment, and constrain economic growth. High transport costs, caused by poor infrastructure and inadequate policies, hinder internal trade and reduce Burundi's trade opportunities with East Africa and the world beyond.

Cross-cutting issues that limit Burundi's production capacities and trade performance relate to the limited availability of essential backbone services and skills. For example, the financial sector is small and not well developed, and access to finance is a major obstacle for companies in the both formal and informal sectors. The limited availability of skilled workers and the low productivity of labor is another explanatory factor for Burundi's poor export performance.

The incentive framework for trade and investment is underdeveloped. Burundi has one of the most unfavorable business environments worldwide. Despite a significant improvement in Burundi's "ease of doing business" index in 2011, the ranking of its business environment remains poor. The private sector in Burundi faces several major constraints. The Burundian private sector is underdeveloped - it includes a large number of small enterprises, most of which operate in the informal sector. Furthermore, Burundi's economy is dominated by public enterprises, several of which face financial problems. Low productivity growth impedes the private sector's efficiency.

Limited capacity remains a major constraint for the implementation of trade reforms. Strengthening technical capacity and institutional coordination, at the government level and with the various development partners and other stakeholders, particularly the private sector, is a critical challenge for the future. Regular coordination is required to ensure that reforms and efforts undertaken to improve the country's trade and business environment take into account the interests and capacities of the various stakeholders. More often than not, these efforts involve not only the actors directly responsible for trade or investment-related issues (like the Ministry of Trade, OBR, API, etc.) but also other institutions in charge of related policies (finance, education, immigration, standardization, other line ministries and regulatory authorities, professional bodies, etc.). Coordination is also necessary concerning regional integration, to ensure that commitments made in different forums (for example the services negotiations in the framework of the WTO, EAC, EPA and COMESA) are coherent and implemented.

To address these challenges, the new Action Matrix, provides recommendations for a comprehensive trade strategy that (i) removes the internal and external barriers that affect Burundi's trade and transaction costs in goods and services, (ii) addresses supply-side constraints, (iii) improves the incentive framework for trade and investment, and (iv) strengthens capacity.

CHAPTER 2 – Regional integration: opportunities and challenges for Burundi

A recent and important development in East Africa has been the commitment of Burundi, Kenya, Rwanda, Tanzania and Uganda to deepen regional integration efforts through their membership in the East African Community (EAC). So far, member countries have made substantial progress on the two first out of the four planned stages of EAC integration – customs union, common market, monetary union and political federation. Concerning the customs union⁴², the EAC has successfully reduced tariffs on intraregional trade and introduced its common external tariff (CET) for imports originating outside the Community. The common market commenced in July 2010 and will ultimately allow all factors of production to move freely within the region - it provides for the free movement of goods, services, persons, labor and capital, as well as for the rights of residence and of establishment. All five partner states have made commitments to open up and create regional markets in several services sectors, and have accepted to remove restrictions on the free movement of workers and on the right of establishment, as well as to pursue mutual recognition of academic and professional qualifications. Moreover, an ambitious objective has been set of agreeing on a protocol on monetary union in 2012 and on a political federation in 2015.

Over the last decade, regional integration has emerged as the cornerstone of Burundi’s trade and development policy, particularly in the framework of the East African Community. This priority is clearly expressed in recent strategic documents, such as the second PRSP and the “Vision 2025”. Burundian authorities have shown strong commitment to EAC membership in the last few years. Since Burundi was officially admitted as a member of the EAC on July 1, 2007, efforts have been made by the authorities to align the country’s policies with the EAC requirements in regulatory, institutional, and economic areas. Burundi signed the Community’s treaty, ratified the protocols and conventions, and developed (relatively late) a communication campaign aimed at sensitizing the population to support the integration process. Furthermore, an institutional structure has been put in place to further the integration agenda, and a dedicated ministry was established (the Ministry for the East African Community – MEAC), as practiced within the other EAC member states. However, at this stage, MEAC’s technical capacity is weak and coordination with line ministries and other relevant institutions remains limited.

While the challenges of integrating at a rapid pace with larger economies should not be ignored, substantive benefits are likely to emerge from Burundi’s EAC membership. In particular, it opens opportunities for the country’s goods and services trade. Furthermore, the development of regional physical and regulatory infrastructure can help link Burundi to a larger regional market, and to the rest of the world. The EAC agreement can also create a push for economic and structural reforms, and strengthen political and regional stability. While gains can be expected from both traditional (e.g. economies of scale, increased and more diversified trade and investment) and non-traditional sources (e.g. commitment device for domestic reforms, benefits from access to regional public goods or increased bargaining power in wider trade negotiations), potential challenges are also diverse. This chapter presents the benefits and challenges associated with Burundi’s EAC membership, and provides guidance on areas where capacity building is needed and where technical assistance would be most effective for Burundian authorities to be able to leverage regional integration.

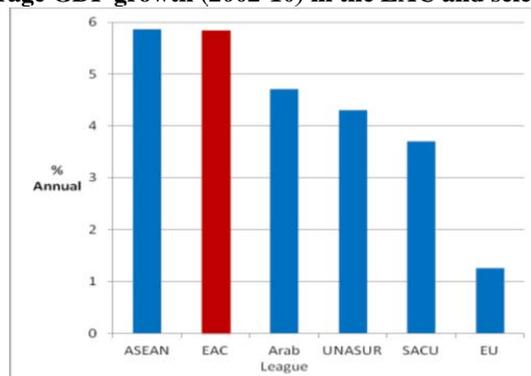
⁴²The main objective of the Customs Union is to create a single customs territory between EAC members in order to foster intra/inter-regional trade and investment, with a view to supporting the process of economic development. This implies the elimination of all customs duty, quotas and non-tariff barriers (NTBs) limiting intra-regional trade (i.e. the formation of a free trade area), and the adoption of a Common External Tariff (CET) applied on imports from third countries. In addition, common norms, standards and documents are adopted (e.g. customs procedures rules of origin, customs valuation method, sanitary and phytosanitary measures, etc.).

1. The EAC – A Dynamic Economic Community

The EAC is one of the fastest growing economic communities in the world. The EAC grew faster than all other economic communities in the last decade, except for ASEAN (Association of Southeast Asian Nations) which grew at 6.1 percent (figure 2.1). The EAC grew at an average of 5.84 percent per year between 2001-2009, and over the last decade each EAC country more than doubled its own GDP. The EAC also experienced unprecedented population growth – the region grew 25 percent from 110 million people in 2002 to 138 million people in 2010. The region’s high population growth has been close to 3 percent per year over the last two decades, compared with the sub-Saharan Africa’s average of 2.6 percent. The population in Kenya alone doubled over the last twenty-five years, and rapid population growth is set to continue.

Significant intra-regional country variations exist. Although each EAC country has grown in the last decade, growth has been unevenly distributed, with Tanzania, Uganda and Rwanda growing at an average of over 7 percent per year between 2002 and 2010, compared to Kenya and Burundi’s 3 and 4 percent respectively. Kenya is the region’s largest economy, with a GDP of approximately US\$ 32 billion in 2010, followed by Tanzania, Uganda and Rwanda, and finally Burundi with a GDP of only US\$ 1.6 billion in 2010. GDP per capita has increased at an average of 112 percent across the region between 2002 and 2010, and now ranges as widely as US\$ 795 in Kenya to US\$ 192 in Burundi.

Figure 2.1: Average GDP growth (2002-10) in the EAC and selected comparators



Source: WDI 2012

Total EAC exports are increasing, and so are intra-regional exports as a proportion of total exports. Total exports from EAC partner states grew at an average of 16 percent annually from US\$ 6 billion in 2002 to US\$ 20 billion in 2010. Kenya, Tanzania, and Uganda (the founding members of the EAC) are the main sources of such growth in regional exports. During the next three years, Rwanda and Burundi are expected to accelerate their export growth in the EAC (albeit from relatively low levels), and both countries are expected to see export growth exceed import growth from 2015 onwards (Nathan Associates 2011). Intra-regional exports as a share of total exports increased from approximately 15 percent in 2000-04 to approximately 19 percent in 2009-10, now represent around US\$ 2.2 billion (see figure 2.2). Compound annual growth rates (CAGR) of EAC exports within the region exceed those of EAC exports to the rest of the world (see figure 2.3). Unlike EAC exports outside the region, which are mainly commodities, the bulk of intra-regional exports are manufactured goods (e.g. food products, beverages, tobacco, cement).

There has been a notable increase in foreign direct investment in the EAC, but challenges remain. FDI flows to the EAC have increased threefold, from approximately US\$ 590 million in 2000 to approximately US\$ 1.7 billion in 2010. FDI to East Africa’s two largest recipients, Uganda and Tanzania (US\$ 850 and US\$ 700 million respectively in 2010), has been stable in recent years. Nevertheless, on average, FDI flows to the EAC (2.5 percent of GDP in 2009) still remain below average flows of about

4.3 percent to SSA as a whole. Most of the inflows have been directed towards natural resource sectors, such as mining, and tourism, hence the remaining challenge for the EAC to stimulate investments beyond natural resources and generate broader linkages in the economy. Moreover, there is unfortunately no well-developed structure in place to promote intra-regional FDI in the EAC at present.

Figure 2.2: evolution of EAC exports by region of destination

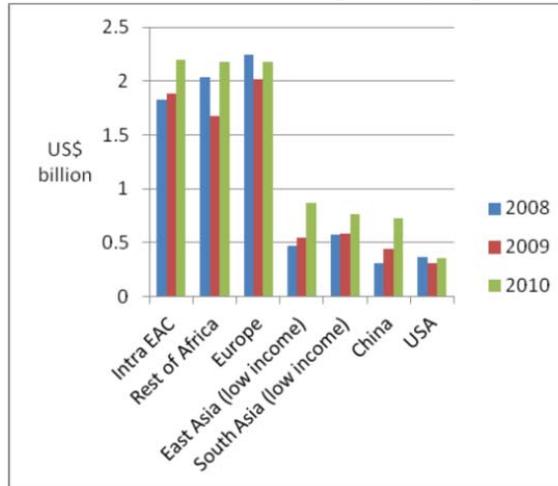
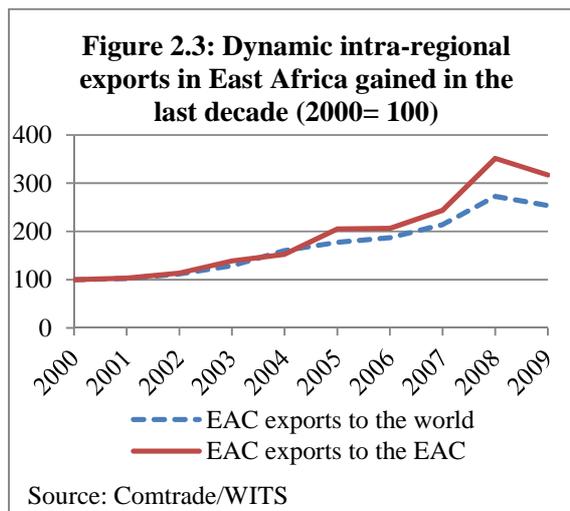


Figure 2.3: Dynamic intra-regional exports in East Africa gained in the last decade (2000= 100)



2. Burundi’s EAC Membership: Benefits and Challenges

2.1. Benefits from EAC integration

The regional dimension offers important opportunities for Burundi’s trade concerning both goods and services. Export diversification in higher value primary products, such as horticulture, and in services is necessary to provide a broader base for sustained export growth, less vulnerability to volatile world prices and to spread the benefits of trade more widely. Moreover, Burundi could also benefit from the development of regional trade in goods and in services for its imports. The regional dimension matters Burundi’s trade in agricultural and manufactured products, as well as in services:

- Concerning *agricultural products*, the EAC has already started to play an important role for Burundi's expansion into horticulture exports⁴³. Given population growth and increased urbanization, Africa's demand for agricultural products will continue to grow in the coming decade. Moreover, intra-EAC trade in agriculture can contribute to Burundi's food security. Burundi is a food deficit country. Opening up trade in food, particularly grains, would ease domestic food prices - Burundi has high food prices, but maintains tariff and non-tariff barriers in cassava flour, maize flour, wheat flour, beans, rice, potatoes, fish and palm oil, as well as other foodstuffs⁴⁴. If NTBs were reduced, the large EAC market could boost production in surplus countries, which is win-win. Regional trade integration can have a substantial impact by better linking farmers to consumers across borders and in mitigating the effects of periodic national food shortages and increasing global food prices. At this stage, however, regional trade in food staples remains far from free, despite efforts for policy and regulatory harmonization. The arbitrary and erratic imposition of barriers undermines private sector confidence to invest, and distorts incentives towards cash crop production away from food staples.
- Intra-EAC trade in basic *manufactured goods* and regional production chains can reduce unemployment. Trade in basic manufactured goods, such as plastics, chemicals, paints and cosmetics, construction materials and pharmaceuticals, is beginning to materialize in East Africa, but high transport costs and NBTs are currently limiting such opportunities. Similarly, prospects for regional production chains driven by trade in parts and components ("trade in tasks") remain limited, due to trade and regulatory barriers that raise transaction costs and increase uncertainty. The removal of such barriers would increase Burundi's existing exports (for example, exports of ferrous waste and scraps, hides and skins, or soap), increase vertical specialization and, on a long term basis, it could enable Burundi's participation in regional production chains that create employment and promote export diversification.
- Intra-EAC trade in *services* can have significant economy-wide benefits for all EAC countries. As argued in Chapter 7, Burundi can for example leverage the regional dimension by participating in EAC-wide tourism projects to increase its exports of tourism services. Strategic regional partnerships aimed at attracting FDI can help Burundian firms increase profitability resulting from economies of scale generated by a bigger market and better supporting services. Moreover, beside the dynamic opportunities for services exports, opening up to imports of services and foreign direct investment is also a key mechanism to increasing competition and providing more efficient and competitive services, which are critical inputs for other sectors in the domestic economy. Ultimately, lower prices, higher quality, and wider access to services raise productivity and improve competitiveness across all sectors, including agriculture and manufacturing. Policy makers in Burundi are beginning to realize the limitations of services sectors in Burundi, and the need to open them up to imports and foreign direct investment in order to increase competition and efficiency.

Regional integration can play a crucial role in improving the business environment for Burundi's exports. Deeper regional integration can reduce transaction costs and provide a regulatory environment in which goods and services can flow freely and cross-border production networks can begin to flourish. It can also relax the constraints faced by many firms in accessing the essential services and skills that are needed to boost productivity and diversify into higher value-added production and trade. The integration agenda needs to cover not only goods but also services, given their important role as intermediate inputs in most activities. In this regard, regional trade agreements among a smaller set of partners are more

⁴³ Burundi's exports of horticultural products to the EAC and RDC are mainly informal flows.

⁴⁴ Burundi has recently suspended taxes on imported basic foods such as flour and oil to help citizens squeezed by a jump in living costs that has prompted strikes. See: <http://af.reuters.com/article/investingNews/idAFJJOE84002Q20120501>

likely to facilitate deeper integration, involving differentiation and diversification, which can further expand welfare gains.

As a small country with limited capacities and resources, Burundi can also benefit significantly from to the development of regional public goods. Several areas of cooperation can make a huge difference for Burundi, which will increasingly be the case as the regional integration process makes progress in the coming years:

- *Regional Infrastructure*

Access to regional transport infrastructure networks can reduce transport and trade costs⁴⁵. Economic distances from key global markets (magnified by a range of technical, political and policy-related factors) hinder the movement of goods, people and services. As one of the EAC's landlocked countries⁴⁶, which must move goods long distances over land, Burundi is particularly reliant on its neighbors' capacity and willingness to supply substantial externalities and public goods in the form of good transit policies, regulations, infrastructure and institutional arrangements. Current divisions associated with the "thickness" of borders and differences and inefficiencies in institutions, regulations, and currencies pose a major cost on intra-regional trade. For example, it costs US\$ 5,000 to transport a container from Mombasa to Bujumbura by road, compared to the US\$ 1,000 it costs to transport the original container from Japan to Mombasa. These constraints present huge challenges to prevailing economic activities. If they can be successfully overcome and effectively managed, great opportunities for growth, in particular for the region's landlocked countries and for Burundi, can emerge.

Access to regional communications infrastructure networks can increase communication traffic and cut bandwidth costs. If communication costs remain high, the price of financing trade and ultimately of goods is likely to remain high as well. Broadband networks support regional integration by stimulating cross-border trade and investment among neighboring countries and by strengthening institutional relationships. Burundi is currently involved in the Regional Communications Infrastructure Program (RCIP) undertaken by the World Bank that aims at promoting regional market integration and sector liberalization, supporting the deployment of regional connectivity and ensuring the viability of the regional communication infrastructure.

Developing under-exploited hydropower potential in the region through appropriate regional transmission networks and regulation can be key to meeting electricity demand, as well as improving security of supply, enhancing environmental quality, and ensuring better economic efficiency. Power remains an important infrastructure challenge in the EAC in general, and in Burundi in particular, where the poor supply, high cost and limited reliability of electricity supply has a significant impact on the ability of firms to be competitive. Power demand in the East Africa Power Pool (EAPP) area (comprising Burundi, DRC, Egypt, Ethiopia, Burundi, Libya, Rwanda, Sudan and Tanzania) is expected to increase by 69 percent over the next 10 years. Regional initiatives such as the EAPP, a specialized institution for electrical power in East Africa adopted at the COMESA level in 2006, can help mitigate the constraint of access to energy.

- *Regional regulations and standards*

Burundi can benefit from regional standards and other regional regulatory instruments. Regional integration can help Burundi accelerate its on-going reforms in several areas, including the implementation and harmonization of fiscal instruments, services sector reform, and reform of the business environment on the basis of EAC regulation. In several regulatory areas, such as the mutual recognition of educational and professional qualifications, intra-African arrangements could be more

⁴⁵ See Chapter 5 on trade facilitation and logistics.

⁴⁶ Uganda, Rwanda, Burundi – and, if successful in its bid to join the EAC, South Sudan

suitable than global ones for the supply of regional public goods. Also, for a small country such as Burundi, many public goods that are national in large countries need to be regional. Regional agreements such as the EAC Common Market Protocol may also make it possible to reap scale economies in regulation and supervision, particularly where national regulatory agencies face skill and capacity constraints; they could also reduce scope for the capture of national regulation by private sector interests and reduce regulatory heterogeneity. In addition, regional regulatory cooperation can also provide gains as a commitment mechanism to strengthen the credibility of a country's reform.

- *Political stabilization and improved security*

Burundi could benefit considerably from a regional political stabilization effect. Regional integration mechanisms tend to lower security risks through regional agreements and other common arrangements. The EAC has thus adopted in 2006 a Strategy for Regional Peace and Security in East Africa, and various common initiatives have been initiated or planned by member States to promote security in the region.

2.2. Facing the challenges of EAC integration

While the benefits are clear, integration in the framework of the EAC also involves a number of challenges, which will have to be adequately addressed. Like all regional integration and trade liberalization processes, progress on the EAC integration agenda will have unequally distributed benefits and costs between and within member countries, and some categories actors will gain while others will stand to lose. The balance of costs and benefits is expected to be positive for Burundi (especially if one considers the cost of maintaining the status quo), but there will most likely be adjustment costs, at least initially. For example, intensified competition in the framework of the common market, while likely to have positive effects on productivity and consumers' welfare, can be a challenge for the weak Burundian private sector in the short run. It is therefore important that the challenges related to regional integration be properly identified and addressed in each sector. This notably calls for reinforced dialogue with all relevant actors in Burundi, for which the recently revived public-private dialogue mechanism offers an appropriate framework. Moreover, the authorities can request technical assistance to support their efforts to address the specific challenges identified through this channel.

Burundi must also define its strategic positioning in the regional integration process. As discussed above, integrating with larger and more competitive economies presents opportunities, but it also means that Burundi has to find and exploit its comparative advantages to benefit from this process. One possibility is for Burundi to position itself as a gateway for exchanges between East Africa and its periphery to the West and to the South. This is notably made possible by Burundi's geographical (and linguistic) proximity to the DRC and by the already strong trade and other economic ties with the Eastern part of this country, an advantage shared with Rwanda. This opportunity has already been seized by some private actors, notably the foreign banks who recently opened branches in Burundi, partly to reach these new markets. In the future, progress on the Tripartite (COMESA-EAC-SADC) integration agenda could contribute to intensifying exchanges on the Southern corridor, which could also represent important opportunities for Burundi, notably due to its position on Lake Tanganyika.

3. Regional Challenges for Advancing the EAC Integration Agenda

Despite considerable achievements since 2000, the EAC integration process is far from complete. In particular, the full implementation of the Community's Customs Union and the establishment of a single customs territory (SCT) remain challenging, despite the removal of internal tariffs. A recent report on the SCT stresses several impediments to its materialization, such as: (i) the membership in multiple regional economic communities can distort the common external tariff; (ii) customs clearance and tax

collection remain destination-based and joint revenue sharing mechanism for tariffs are absent; (iii) the persistence of various controls at customs for goods circulating within the Community; (iv) the limited institutional authority to ensure compliance with the customs union policy framework; and (v) the prevalence of non-tariff barriers (see 3.1 below) (ASI 2012). Moreover, significant efforts will be needed in the coming years to progress towards the realization of the Common Market enacted in 2010 and the effective implementation of the four freedoms it grants. This section discusses in more detail several issues that hamper the broad integration agenda, such as the prevalence of non-tariff barriers, the missing links between policy and infrastructure reforms, and the insufficient provision of regional public goods.

3.1. Removing Non-Tariff Barriers (NTBs) is essential to free-up regional trade

The EAC has made good progress with tariff liberalization, but numerous behind the border barriers remain in place that hamper trade within the Community. Tariffs in the EAC have been reduced dramatically. In the last two decades, the EAC partner states reduced their tariffs from approximately 26 percent in 1994 to 10 percent in 2011. The tariffs currently in force are set out in the Common External Tariff (CET) adopted in 2007⁴⁷. Burundi has largely liberalized trade with EAC partner countries since its accession to the Customs Union, and has adopted the community's CET. The progressive reduction and elimination of tariffs applied to imports from other EAC countries has to a large extent been facilitated by the preexisting COMESA free trade agreement.⁴⁸ The application of the CET in 2009 resulted in a further reduction of Burundi's average level of protection, following the liberalization dynamic initiated in 2003. Despite initial concerns, the public revenue losses incurred after the adoption of the CET were limited⁴⁹, and offset by the improvement of revenue collection and compensation funds received in recent years from the COMESA Adjustment Facility. Important remaining issues concern the reduction of tariffs for sensitive products and the harmonization of duty exemptions, which still apply to a large proportion of Burundi's import, with the Customs Union Protocol and the Customs Management Act provisions (World Bank 2011b).

While rapid progress has been made on the tariff front, progress with the elimination of NTBs⁵⁰ remains limited. A wide range of NTBs and regulatory measures restrict intra-regional trade in East Africa. These include, inter alia, restrictions relating to rules of origin, import and export bans, and costly import licenses. The main NTBs limiting intra-EAC trade concern the following categories:

⁴⁷ The EAC's CET is a three-band cascading tariff: 0 % for raw materials and capital goods; 10 % for intermediate goods; 25 % for consumer goods. Higher rates, ranging from 35 % to 100 %, apply to a list of sensitive products like dairy, wheat or corn. Burundi has proposed that other products be added to the list, for budgetary or infant industry protection purposes (Geourjon and Laporte 2008).

⁴⁸ Burundi joined the COMESA FTA in 2004. As a result, exchanges with other members were totally (Kenya, Rwanda) or almost totally (Uganda) liberalized. Tanzania is no longer a member of the COMESA since 2000 and Burundi had not liberalized trade with this country prior to its accession to the EAC CU (Geourjon and Laporte 2008).

⁴⁹ A 2008 study by the PAGE estimated that, while the full liberalization of intra-EAC trade would entail a loss of customs revenue of around FBU 1.3 billion, the adoption of the EAC's CET would actually result in an increase of customs revenue of FBU 2 billion (tariff and VAT) (Geourjon and Laporte 2008).

⁵⁰ A NTB is any non-tariff measure imposed to protect a domestic market. While there are legitimate reasons for governments to introduce non-tariff measures to protect consumers (such as food safety regulations), those measures can also be imposed to protect the domestic market (as substitutes to tariff) instead. Moreover, even without protectionist intent, private-sector surveys have repeatedly shown that non-tariff measures can raise trade costs, divert managerial attention, and penalize small exporters and those located in low-income countries, where access to legal and regulatory information is difficult. The elimination of the non-tariff measures (NTMs) that are applied in a trade-restrictive manner, and therefore constitute non-tariff barriers (NTBs), is a major dimension of multilateral and regional trade negotiations. This objective is explicitly stated in the EAC Customs Union Protocol (Art. 13) but limited progress has been achieved by member States since the establishment of the customs union.

1. *Customs and administrative entry and passage procedures* (number and effectiveness of institutions involved, arbitrary use of rules of origin, excessive verification of transit cargo, etc.). Complex, opaque and country-specific rules continue to add to monetary costs and loss of time. Unequal treatment according to the country of origin of the goods and/or truck and opportunities for fraudulent behavior remain frequent. Most of the NTBs identified in Burundi appear to fall in this category.
2. *Government participation in trade and restrictive practices tolerated by it* (ports and internal container freight station operations, delays at the numerous weighbridges and non-harmonization of authorized weight per axle, etc.)
3. *Distribution restrictions* (multiple police roadblocks causing delays and rent extortion, prohibition on transportation of locally produced goods by returning trucks, etc.).
4. *Specific limitations* (use of immigration and visa procedures, business registration, etc).
5. *Technical barriers to trade and sanitary and phyto-sanitary measures*

The NTMs and NTBs impose significant trade costs. The largest costs of these NTMs stem from (i) lost man-days during transit and clearance before reaching the market, and (ii) nonofficial expenses related largely to the scope for corruption in the implementation of policies, followed by (iii) official payments, and (iv) lost business opportunities. For example, the costs of crossing the Burundi-Rwanda border on relative agricultural prices is equivalent on average to pushing the two markets an additional 174 km or 4.6 hours further apart. Also, differences in regulation and immigration procedures limit the substantial potential for cross-border trade and investment in services. In some cases, the persistence of cumbersome procedures and rules in the different countries is caused by limited dissemination of the information on harmonizing regulations to all the implementing agents involved in cross-border transactions. It also appears that many NTMs are sustained for protectionist purposes and to offset the impact of tariff liberalization in the EAC.

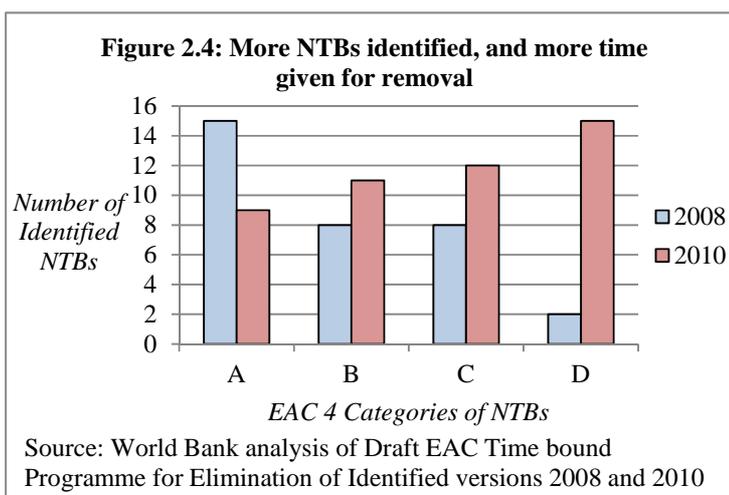
The established reporting mechanisms and monitoring committees for NTBs have so far been largely ineffective. While significant efforts have recently been made in the EAC to identify and publicize NTBs⁵¹, their actual reduction/removal has proven far more difficult, notably because the EAC Secretariat has no constraining enforcement mechanism to help remove the identified NTBs. In 2009, a *Time-Bound Programme for the Elimination of Identified NTBs* was adopted by the EAC Council, which seeks to identify “easy” NTBs to remove in order to harness a growing consensus behind further reform. In practice however, there has been very few such “quick wins” (Kirk 2010). A recent analysis confirms that “moving across borders is just as difficult in 2010 as it was in 2005” and that governments have so far hardly given up any border control (World bank / IFC 2011).

Raising awareness and improving transparency are necessary steps, but it is becoming increasingly apparent that they are not sufficient due to the lack of effective progress in removing identified NTBs. The EAC Secretariat’s “*Draft EAC Time bound Programme for Elimination of Identified NTBs*” identified 33 NTBs in 2008 for elimination (A - 15; B - 8; C - 8; D - 2) and 47 NTBs in 2010 (A - 9; B - 11; C - 12; D - 15)⁵² (Figure 2.4). The outcome was that only around 50 percent of the NTBs identified in 2008 and 30 percent of the NTBs identified in 2010 were eliminated by the EAC partner states within the agreed timeframe.

⁵¹ In cooperation with the East African Business Council, the EAC Secretariat has set up a mechanism to identify and monitor the elimination of NTBs (EAC / EABC 2008), which has since then been completed by an online reporting and monitoring mechanism at the COMESA-EAC-SADC Tripartite level (see: www.tradebarriers.org).

⁵²The EAC Secretariat has defined 4 categories of NTBs (categorized on the basis of ease of removal, and degree of trade distortion): Category A – To be addressed immediately; (ii) Category B – To be addressed in 1-6 months; (iii) Category C – To be addressed in 6-12 months; and (iv) Category D – To be addressed in >12 months.

To-date, the approach to eliminate NTBs has focused on establishing National Monitoring Committees (NMCs) and publicizing specific NTBs, but without sufficient attention paid to the actual reduction efforts. As highlighted in World Bank (2012a), “the absence of a clearly defined monitoring mechanism with time limits for action means each Partner State is responsible for voluntarily removing or reforming listed NTBs without being subject to possible sanctions for non-compliance.”



Given the limited progress made at the EAC-level, bilateral negotiations on NTB-removal have recently been initiated by member states, notably landlocked ones. For example, Rwanda has started discussing the matter with Uganda in January 2012 and is expected to launch similar exchanges with Burundi and Tanzania. In order to benefit from the removal of NTBs imposed by its EAC partners, Burundi should develop a clear understanding of the most detrimental measures faced by Burundian operators in East Africa and adopt a proactive attitude in the EAC negotiations on NTBs. In parallel, as argued in Chapter 4, it will also have to make progress towards the elimination of the NTMs and NTBs it maintains on the domestic market.

3.2. Political economy issues and institutional failures limit the provision of efficient regional public goods

Inappropriate standards can stifle intra-regional trade. The development of standards may be desirable at a regional rather than national level, in order to exploit economies of scale in regulatory expertise, prevent fragmentation of the market by differences in standards, and limit the scope for regulatory capture. However, it is important to tailor those standards to the specific preferences, needs and capacity of regional actors, in order to avoid non-compliance and unnecessary implementation costs (see box 2.1).

Box 2.1: Case Study – Harmonized EAC Standards as a Potential Trade Barrier

Dairy sector: In 2006, the EAC adopted harmonized dairy standards for eight categories of product that follow the international Codex Alimentarius standards for dairy almost verbatim. The EAC standards therefore assume that consumer incomes and production infrastructure are equivalent with Western levels, which is obviously not the case in East Africa.

Consistent with developed country norms, the newly EAC standards focus on pasteurization as the key to ensuring product safety. This technology is widespread in developed countries but is difficult and expensive to apply in the context of smallholder dairying, which is the dominant form of production in East Africa. While smallholders in Africa can and do supply perfectly good raw milk for pasteurization, the infrastructure and quality control systems needed for delivery of smallholder supplies to a processing plant results in consumer prices that are four to five times higher than for raw milk traded through informal channels.

Moreover, consumers in East Africa have found an alternative to reducing health hazards not recognized in the EAC standards, which is to consume raw milk after boiling. This practice reduces the otherwise high bacteria levels found in East African milk to safe levels, a point not recognized during the

harmonization process because the Codex standards were developed for Western countries that consume pasteurized milk.

As a result of setting the regional standards too high, the EAC's harmonized dairy standards have been difficult to implement and provide little practical guidance for farmers, dairy traders, and large processors on how to upgrade their operation. According to the letter of the law, more than 95% of the EAC's milk supply is technically illegal because it does not comply with the new standards requirements and could be stopped from regional trade at any time.

Maize sector: A similar situation is currently emerging in the maize sector. The newly developed EAC standards for maize are more stringent with respect to the maximum share of discolored and immature/shriveled grains than either the Codex standard or the existing national standards of Burundi, Tanzania, and Uganda. Given that compliance with the EAC quality standards will be mandatory, the newly harmonized EAC standards will not only result in additional certification costs, but also make it difficult even to find smallholder supplies that are of suitable quality.

Source: World Bank (2012), Africa Can Feed Africa

The development and upgrading of “hard” (physical and technological) infrastructure needs to be coordinated with improvements to the “soft” infrastructure, such as institutional and regulatory reforms, that deliver the competitive provision of high quality transport and logistics services.

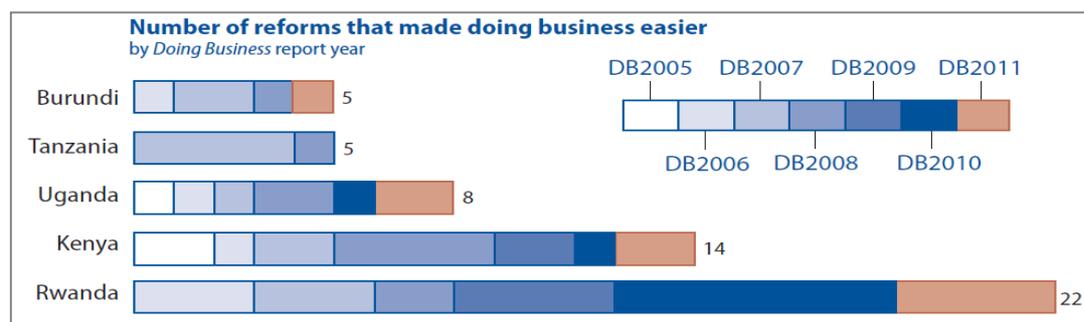
World Bank research shows that regional corridors with limited competition in road transport services face higher prices (e.g. West Africa) than those where there is more competition (e.g. Southern Africa) (Teravaninthorn and Raballand 2009). It is therefore important to invest in regulatory reform in the logistics services sector, including trucking, warehousing, customs clearing, and freight forwarding, that ensures competitive and efficiently provided services along trade networks and lower trade costs. Infrastructure investments in EAC trade corridors will only truly achieve their purpose if accompanied by regulatory reforms which transmit the benefits from hard infrastructure into more competitive markets and lower prices for consumers (World Bank 2012a).

Wide disparities across countries and an unequal distribution of costs and benefits hamper the efficient supply of regional public goods. In particular, coastal countries are responsible for investments in their infrastructure that is being used by landlocked countries, creating an incentive for underinvestment. This will require the establishment at the EAC-level of political and technical mechanisms to deal with the asymmetric benefits and costs of integration policies.

Finally, although the EAC business environment improved in 2010 and 2011, the five economies still lag behind globally in implementing institutional reforms to improve competitiveness (Doing Business 2012). Over the past year, all five economies making up the EAC instituted regulatory reforms (Figure 2.5). Burundi in particular has registered significant progress. But despite such progress, productivity and competitiveness are hampered in most countries by a combination of constraints including severely unreliable power supply, skills shortages and inadequate access to long-term finance for small businesses, and a constraining regulatory environment. In Burundi it is currently estimated that unreliable electricity lowers sales revenues of firms by 7 percent and reduces GDP growth by 1.5 percent annually⁵³. These factors pose serious barriers to badly needed FDI (which despite recent increases remains below the SSA average). The development of common standards and harmonized regulations would greatly enhance the regional business environment and facilitate legal enforcement. If each member country were to adopt the region's best practice for each indicator measured by Doing Business, East Africa would rank 19th, comparable to Germany, rather than 115th, comparable to Guyana.

⁵³ Africa Infrastructure Country Diagnostic (AICD), World Bank, 2008

Figure 2.5: Improvements in doing business reforms⁵⁴



Source: Doing Business in East Africa (2011)

4. Leveraging regional integration to accelerate Burundi's trade and regulatory reforms

While EAC membership represents both large potential benefits and challenges for Burundi, the country has a large deficit of technical and institutional capacity, and the challenges to develop a coherent and effective regional integration policy are enormous. Chief among those challenges and concerns are:

Burundi faces significant challenges with the removal of priority NTBs. As noted above, this issue is problematic in all EAC member countries. Burundi has established a National Monitoring Committee (NMC) for the identification and removal of NTBs in 2008, composed of individuals from the public and private sectors. The NMC presented a first preliminary report on the identification of NTBs in Burundi in 2010 (Republic of Burundi 2010b) and consultations and workshops with public and private stakeholders were organized in 2010/2011. However, as recognized in its 2010 report, the concrete action of the monitoring committee has so far been significantly hampered by inadequate capacity and resources. Beside the issue of insufficient capacity, the limited progress so far is likely to be partly due to political economy resistances from actors who may have interests in the maintaining of NTBs. Coping with these resistances will require both consultations with all the actors concerned and strong political commitment from the authorities. In the coming years, additional support on trade facilitation and NTB removal will be available from the capacity-building program focused on regional integration that TradeMark East Africa implements in Burundi.

Burundi also faces important challenges with the application of the EAC's rules of origin (ROO). The functioning of the custom union requires the application of the Community's ROO to distinguish between goods produced within the EAC, and therefore eligible for EAC preferential treatment, and those produced in third countries, to which the CET applies. This issue is not specific to Burundi: several reports have highlighted difficulties in the application of the ROO several years after the establishment of the CU (varying interpretation of the rules in partner countries, absence of mutual recognition of certificates of origin, administrative red-tape and delays in issuing certificates, etc.), which all affect exporters and encourage fraud (World Bank 2008a; Mugisa et al. 2009). In the future, the EAC rules of origin are expected to be simplified and harmonized with that of the COMESA and SADC, in the framework of the Tripartite Free Trade Area under negotiations since June 2011.⁵⁵

Burundi has made progress with the adoption of the relevant EAC laws and regulations regarding customs operations and trade facilitation, but implementation is lagging behind. The adoption of a new Customs Code in 2007 has set the ground for customs modernization, but its application has been mixed to date (UNCTAD 2010). Customs procedures remain uncoordinated and particularly

⁵⁴ A reform is counted as 1 reform per reforming economy per year

⁵⁵ See: <http://www.comesa-eac-sadc-tripartite.org/node/107>

cumbersome compared to international and even regional practices, particularly concerning the length of clearance formalities and the multiplicity of institutions of control at the port in Bujumbura. This means that efforts are still needed to comply with the EAC's 2004 Customs Management Act (CMA). In this regard, a number of measures have been recommended to facilitate intra-regional trade, like the establishment of a one-stop window to streamline transit and customs formalities, or the introduction of competition in the selection of companies for preshipment inspection (World Bank 2011b). In recent years, positive trade facilitation measures have included the partial computerization of customs since 2004 and the adoption of ASYCUDA ++ (UNCTAD 2010), as well as the extension of customs hours (Republic of Burundi 2011b). The newly-created Revenue Authority (OBR), which is in charge of customs administration, will be a critical actor of this improvement process in the future and initiated efforts to establish one-stop border posts, with support from TradeMark East Africa.

Limited progress has been achieved by Burundi on the specific issue of EAC standardization. The harmonization of standards and technical regulations is a core element of regional integration required by EAC law, and the elaboration of numerous East African Standards (EAS) started before Burundi's accession to the Community⁵⁶. Despite the good progress made on this issue at the diplomatic level, the concrete implementation of this agenda since 2005 has been slow in all member countries. This is notably due to a general lack of awareness (of both public and private actors) and to severe capacity and resources constraints at the national and regional levels (Mugisa et al. 2009). The exclusive focus on developing common standards (as opposed to more pragmatic options like favoring the mutual recognition of national standards) has also been blamed for the limited results (World Bank 2008a; World Bank / IFC 2011). Nevertheless, Burundi lags behind EAC partners, even if a law on standardization and quality assurance was passed in the end of 2010 to strengthen the national system and facilitate compliance with EAC requirements. The national bureau of standards (Bureau Burundais de Normalisation et Contrôle de la Qualité – BBN) has never had the necessary technical capacity and financial, human and material resources to carry out its mission effectively to this date. It has also been argued that Burundian entrepreneurs still have limited interest in standardization and quality assurance, due to the absence of such requirements to do business in the domestic market (Yamuremye et al. 2011). Some technical assistance to support the BBN and facilitate the implementation of the standardization and quality agenda in Burundi has been provided in the framework of several projects (TradeMark East Africa's Burundi program, World Bank's Private Sector Development project, ONUDI project on agribusiness and SPS compliance), but conforming with all the EAC standards remains a challenging program for Burundi.

Overall, the institutional capacity dedicated to the integration process in Burundi is weak. Key institutions, such as the MEAC, OBR and customs, or BBN, do not currently have the adequate technical capacity and resources to fully participate in regional meetings, defend their country's interests in negotiations and steer the implementation of numerous commitments. This is compounded by the language barrier, due to the fact that English is the working language of the EAC. All this could undermine Burundi's credibility and marginalize the country in the integration process. Several technical assistance and capacity-building sources are already available (e.g. PAGE, TradeMark East Africa⁵⁷), but support will continue to be needed in the coming years. Concerning the specific issue of language, the PRSP II recognizes that "bilingualism appears to be the way forward for Burundi, as the country is a link between the EAC and francophone Africa". In accordance with this vision, the authorities should develop English proficiency nation-wide and develop bilingualism as a comparative advantage.

⁵⁶ The EAC Treaty (Art.81) provides for cooperation among partner states in standardization, quality assurance, metrology and testing (SQMT). An SQMT Act was adopted by the Community in 2006. See <http://eac-quality.net/>

⁵⁷ In 2011 for example, TMEA undertook various support activities for the MEAC (e.g. technical assistance to prepare regional negotiations, English language training, procurement of material and internet access, outreach towards stakeholders to increase awareness about regional integration).

Public awareness and stakeholders support for regional integration is limited in Burundi. Efforts to gather public support and to associate key groups at the onset of the EAC integration process have arguably been too limited. For example, consumers have largely been left out of the EAC and COMESA integration process, despite the critical importance of their participation (World Bank / IFC 2011). Likewise, more efforts are needed to consult private sector organizations and to take into account their interests. Special attention should also be given to SMEs and informal traders, who have specific constraints and are hardly represented by institutions like the Federal Chamber of Commerce (CFCIB) or the East African Business Council. All this matters, because commitments made without proper consultations with the stakeholders concerned are likely to translate into implementation challenges, for example concerning the application of the Community's Rules of Origin or the adoption of EAC standards. In this regard, the diffusion in the EAC and COMESA of the simplified trade regime for small scale traders would be a progress.⁵⁸ Moreover, consumers are likely to benefit from the regional integration of goods and services markets, so associating them to the process could help build support and balance resistances. Positively, efforts have recently been made by the Burundian authorities to organize stakeholders' consultations and a communication campaign on the EAC.

There is currently no comprehensive regional integration strategy in Burundi. A regional strategy is critical to ensure consistency of the various commitments made in different regional negotiations. Integration, notably in the framework of the EAC, is fully underway and substantive results have already been achieved, but Burundi still lacks a coherent and concrete strategy with a prioritized roadmap for action. The full implementation by member States of the EAC and COMESA integration agendas will take several years in all cases, so there is still a strong rationale for Burundi to develop such a strategy. Moreover, the establishment of an efficient institutional mechanism to coordinate and monitor regional integration efforts is a *sine qua non*. In addition to the different public entities concerned, this mechanism should benefit from the involvement of the private sector, civil society and development partners. The DTIS update and the UNDP-MEAC project currently implemented to identify Burundi's key responsibilities and opportunities vis-à-vis the different integration frameworks should constitute relevant inputs to develop such a strategy. Its elaboration is currently planned for the second half of 2012, and should help Burundi in the prioritizing of its numerous regional commitments in the future.

5. Conclusion

Advancing regional integration and deepening regional trade would help Burundi mitigate external vulnerability and reduce its current account deficit. The regional market also offers significant opportunities for export diversification in goods and in services. However, high transport costs and numerous non-tariff barriers undermine regional integration efforts and limit the benefits associated with it, despite great progress on reducing regional tariffs in recent years. Efforts towards the removal of NTBs and unnecessary NTMs must be intensified, notably by strengthening the institutional mechanism dedicated to this task and building adequate capacity. Regional integration needs to cover both goods and services. In the case of Burundi this will require a clear and consistent strategy to participate in the negotiations launched in several forums, such as the EAC, COMESA and GATS, and to monitor the implementation of the commitments made. To benefit from increased integration in the EAC and address the associated challenges, Burundi needs to address capacity issues, devise a comprehensive regional integration strategy and raise public awareness about the regional agenda.

More efforts are needed to reduce barriers to trade in goods. Although the elimination of burdensome non-tariff measures (NTMs) and the removal of non-tariff barriers (NTBs) were considered high priority issues in the 2004 DTIS, numerous barriers, such as lengthy customs formalities and discriminating administrative procedures, that have a negative impact on trade continue to hinder

⁵⁸ See: www.obr.bi/publications/actualites/173-lobr-donne-des-eclaircissements-sur-le-regime-de-commerce-simplifie.html

regional integration, including Burundi's imports and exports. Burundi stands out as a heavy user of NTMs - about 70% of products imported into Burundi are covered by five or more NTM types, suggesting that economic operators face multiple regulations that can be cumbersome. Regulatory proliferation, combined with weak capabilities and a legacy of discretionary and opaque enforcement, stifle entry and diversification of the Burundian economy. In addition, rising NTBs in at least some neighboring countries highlights weak EAC disciplines and a lack of appropriate diplomatic reaction by partners, including Burundi.

Policy action needs to focus on preventing domestic regulatory proliferation and encouraging the removal of non-tariff barriers (NTBs) faced by Burundian exporters. Regulatory proliferation can be prevented by following "good practices" for new regulations, including consultations and a cooling-off period before measures are put in place, and limiting new regulations to cases where they address clearly-identified societal demands. The current NTB review committee could evolve toward a model in which it plays the role of an independent regulatory-review agency. It is also important to provide support to domestic exporters, by collecting reliable information on NTBs encountered by Burundi's operators on other EAC markets, and encouraging private-sector use of the online Tripartite NTB reporting/monitoring mechanism, by taking up the issues raised in the monitoring mechanism and dealing with them effectively. Finally, Burundi needs to raise the issues in EAC forums and push for their inclusion in the EAC time-bound program for the elimination of identified NTBs, adopted by the EAC Council in 2009.

CHAPTER 3 – Export diversification

The 2004 DTIS called for priority technical assistance to expand and diversify Burundi's exports. The DTIS indicated that Burundi's goods export diversification will have to be driven by a combination of quality improvements of its traditional products (such as coffee and tea) and a gradual expansion of non-traditional exports (such as such mining, agro-processing, and fishing products). However, up to date Burundi has made only limited progress with the diversification of its exports – the narrow export base has not changed significantly in the last 8 years, making the country vulnerable to external shocks and dependent on foreign financing. Moreover, Burundi's main export – coffee - faces severe challenges, and, except for tourism, services have so far been neglected as a source of export diversification.

What factors explain Burundi's lack of export diversification? What are the concrete measures that Burundi needs to start expanding the breadth of its exports? To provide answers to these questions, this chapter analyses Burundi's export performance during the last decade, identifies the main challenges that limit Burundi's export performance in two sectors (coffee and horticulture) and presents concrete recommendations to address those challenges. The analysis is based on a review of recent studies, as well as new case studies and field visits. Export diversification can take several forms, two of which are emphasized through the sectoral case studies in this chapter: (i) the quality improvements of traditional exports; and (ii) the gradual expansion of non-traditional exports. In addition, services as a source for export diversification - through improving services inputs to improve Burundi's competitiveness and facilitate goods exports diversification, and through the export of services such as tourism - are analyzed in Chapters 6 and 7 respectively.

1. Burundi's poor export performance during the last decade

As indicated in Chapter 1, Burundi's very narrow export base has not changed notably over the last decade. Burundi's goods export basket has been relatively stable in the 2000s, despite efforts to diversify. Export earnings remain highly dependent on primary products, predominantly coffee and tea, which together represented almost 70% of total exports in 2008 /2010. Other traditional exports (e.g. hides and skins, cotton, sugar) add some degree of diversity - the share of these products increased from 2.5% to 5.6% of total exports between 2001/03 and 2008/10⁵⁹. Moreover, the almost total absence of new higher-value exports in the last decade is striking. Cut flowers emerged as a promising export in 2001, but they never surpassed half a million dollar per year and collapsed in 2008, as they were supplied to only one buyer who cancelled orders in response to low demand during the global crisis (World Bank 2011b). Overall, Burundi's export performance is still characterized by a high product concentration and a strong dependence on coffee (Chapter 1).

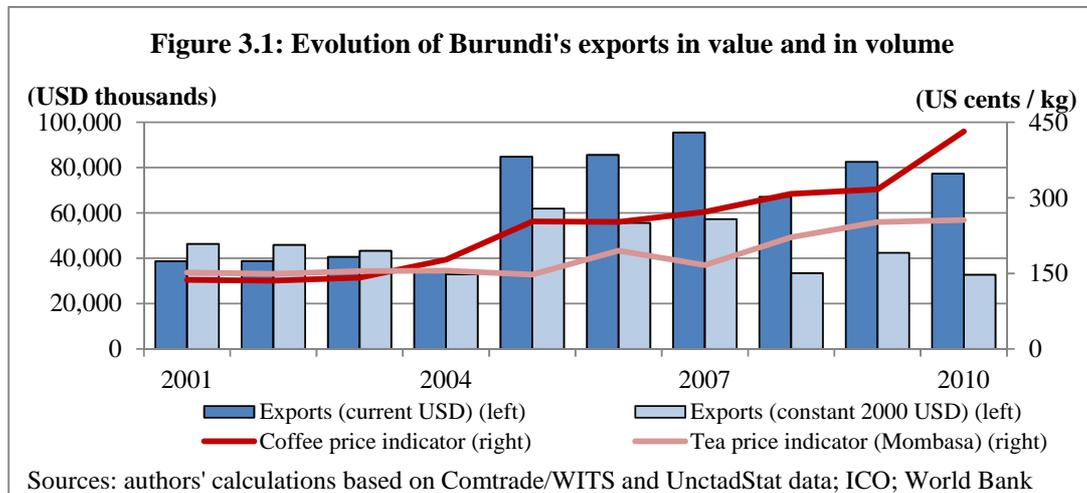
The recent increase in Burundi's export values is to a large extent caused by price mechanisms, particularly the strong increase of the international price for coffee (figure 3.1). The picture is much more mixed in real terms: between 2008 and 2010 exports in constant prices averaged USD 36 million per year, which puts them below the average for 2001-2003 (USD 45.2 millions). The export figures are highly dependent on the quantity of coffee that Burundi manages to produce and export. For example, the large drop in exports in 2008 corresponds to a decrease in the quantity of coffee exported from 21.4 to 15 thousand tons⁶⁰. So far, the very favorable evolution of coffee and, to a lesser extent, tea prices (registering compound annual growth rate between 2001 and 2010 of 13.6% and 6%, respectively)⁶¹ has

⁵⁹ Cf. World Bank (2011b) for a more detailed presentation of these products.

⁶⁰ Source: International Coffee Organization (ICO)

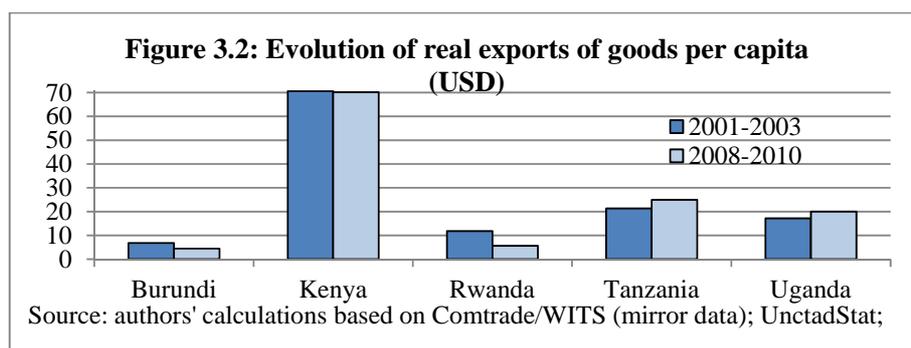
⁶¹ Sources: ICO (historical price for Burundi's coffee category); World Bank DEC Prospects Groups (Mombasa tea auction)

offset the impact of declining export performances in real terms, which exhibited a compound annual growth rate of - 3.8% between 2001 and 2010.



Forecasts suggest that Burundi will not be able to rely on the upward trend of coffee and tea prices in the current decade. The international price for Arabica coffee (the type produced in Burundi) continued to increase to 597 cents/kg in 2011, but it is expected to steadily decline to around 355 cents/kg by 2020⁶². Likewise, the average price for tea peaked at 271 cents/kg in 2011, but is expected to decrease to 250 cents/kg by 2020. This reinforces the necessity for Burundi to improve its real trade performances and to go up the coffee and tea value chains (notably by entering specialty and niche markets). More generally, this implies that export diversification is more needed than ever.

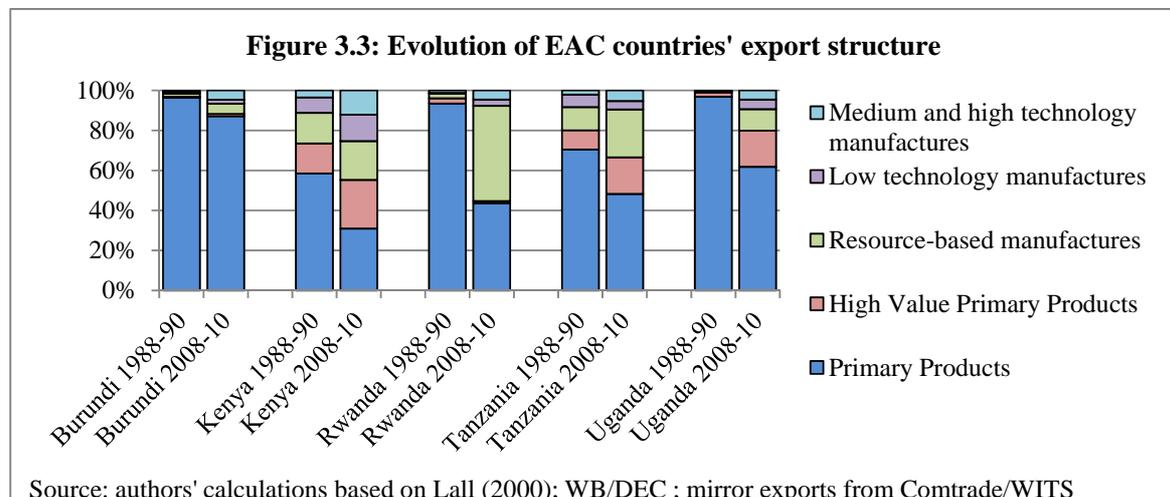
Burundi's competitiveness has stagnated at best in the 2000s. Using real export per capita as a basic indicator to measure a country's success in facing international competition and penetrating foreign markets, the analysis shows that Burundi lags behind most EAC countries, and that the gap has somewhat widened over the decade (figure 3.2). In terms of market shares, Burundi remains a (very) "small fish in a big pond" for its main export products, with shares averaging 0.2 percent of global coffee exports in recent years (compared to 0.9 in the late 1980s) and 0.1 percent of global tea exports.



Burundi's exports are relying heavily on low value-added products. Based on the classification of exports provided by Lall (2000), and adding a distinction between primary and high value primary

⁶² Source: World Bank DEC Prospects Groups, Commodity Price Forecast (January 2012). Accessible at: http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1304428586133/Price_Forecast.pdfm

products, Figure 3.3 shows that Burundi's shares of manufactures and high value primary products are extremely limited.



Unlike its EAC partners, Burundi has not managed to diversify into manufactured products to a significant extent over the last two decades (figure 3.3). The modest increase of manufactures' share in total exports is mainly due to the decreasing value of total exports (mainly coffee) since the late 1980s, rather than to a strengthening of the industrial base. Moreover, the actual share of manufactured products (especially complex ones) is most likely lower than trade statistics suggest, as these usually include re-exports of products like motor vehicles, machinery or electronics⁶³. Overall, the low share of manufactures reflects the underdevelopment of the secondary sector, which produces few products and performs poorly. Given the low competitiveness of the sector and the high structural barriers and costs it faces, competing in global markets for manufactures will be a considerable challenge and is unlikely in the short run (UNCTAD 2010). However, regional markets seem to be more reachable for some of Burundi's manufactures and could be used as an entry point to develop existing products, notably resource-based/agro-industrial (beer, lemonade, sugar, cigarettes, soap, etc.)⁶⁴.

Local value-added in primary products in Burundi is particularly limited; primary product exports mainly consist of low-value, unprocessed commodities. For example, in 2010 Burundi exported over 18 thousand tons of green coffee, but no processed coffee⁶⁵. Without neglecting commodity coffee, Burundi should exploit its potential to enter fast-growing specialty coffee markets (e.g. gourmet, fair-trade, organic, local/regional branding), for which customers are willing to pay a premium⁶⁶. Likewise, tea is exported in bulk, with no additional processing or marketing, and hides and skins are exported raw or with very limited preparation.

Burundian exports – like most African exports – are characterized by a low survival rate. The decomposition of Burundi's export evolution between 2004 and 2010 shows that the "shrinking export relationships" and "death of exports" categories are the significant. Reducing such infant export mortality is key to generating sustained export growth and job creation. Recent work by the World Bank focusing on four African countries (Tanzania, Malawi, Senegal and Mali) has identified that network

⁶³ <http://legacy.intracen.org/countries/metadata00/technote.htm#Burundi>

⁶⁴ Burundi's state-owned textile factory (COTEBU) stopped producing in 2007 due to poor performances and financial difficulties (PAGE 2009), but the concession obtained by a Mauritian textile operator in 2010 should enable production to resume progressively (<http://mininfo.burundi-gov.bi/spip.php?article1616>).

⁶⁵ www.ico.org/countries/burundi.pdf

⁶⁶ See World Bank (2011c) for an analysis of the potential and constraints to enter specialty coffee markets.

effects between exporters of the same product from the same country can help exporters survive in international markets. This implies that when more firms export the same product to the same destination from the same country, the survival ability of a new entrant increases. Such findings can have useful implications for policies devised by export-promotion agencies.

2. Factors that explain Burundi's unsatisfactory export performance

Several recent studies have attempted to identify the main constraints to Burundi's export expansion and diversification. These constraints range from barriers that affect trade and transaction costs, and supply-side issues that limit production capacities, to weaknesses of the business and regulatory environment, and capacity issues. Several sector-specific constraints are listed below:

- The main obstacles to Burundi's coffee exports are inadequate standards, the absence of reliable traceability and differentiation systems that limit access to specialty markets, and lack of marketing strategies for coffee distribution.
- The fishing sector faces numerous constraints ranging from weak institutional capacity of all actors in the sector, degradation of shipping equipment resulting from fishermen's lack of access to finance, to noncompliance with sanitary standards by unloading, drying, and smoking facilities, and inadequate management of fishing resources that limit fish exports.
- While horticulture seems to have the potential to contribute to the diversification of Burundi's export base with specialty products⁶⁷, a number of constraints such as the lack of market knowledge, insufficient knowledge of international norms and standards, the lack of storage facilities, especially cold chains for perishable products and limited availability of air transport, unorganized producers, or the lack of extension services for producers hamper the development of the sector.
- And finally, despite considerable mineral resources, the mining sector remains dominated by some 20,000 artisanal producers, with no industrial-scale production and performs below its potential.

Cross-cutting issues that limit Burundi's production capacities and trade performance relate to the limited availability of essential backbone services and skills. For example, the financial sector is small and not well developed, and access to finance is a major obstacle for companies in the both formal and informal sectors. The limited availability of skilled workers and the low labor productivity of labor is another explanatory factor for Burundi's poor export performance.

Burundi exhibits this poor trade performance despite implementing a number of trade policy reforms aimed at export diversification – including reforms recommended in the 2004 DTIS. Several factors can explain this outcome.

- First, the focus of Burundi's export diversification strategy seems to be mainly on devising proactive policies that promote trade and encouraging the exports of certain winners (selected products and/or firms), while less emphasis is placed on creating an overall enabling framework for trade. For example, the targeted support provided to selected non-traditional exports such as essential oils, PVC tube production, cut flowers, and several fruits and vegetables as part of the EIF Window II projects had very limited results. In fact, several of the targeted exporters have gone out of business within a short period after receiving support from the EIF because numerous regulatory obstacles, supply-side constraints, and channels to reduce transaction costs have remained unaddressed in the export diversification strategy.

⁶⁷ The following foodstuffs have been identified as specialty products with export potential: pineapple, avocado, passion fruit, small bananas, papaya, mango, maracuja, cherimoya, green peas, baby vegetables, leafy greens, selected roots and tubers, macadamia, flowers and plants.

- Second, measures that encourage the participation of individuals or firms in trade activities did not feature in the proposed export diversification strategy. For example, many farmers lack the necessary skills and information to participate in commercial activities, including trade.
- Third, the importance of services in export diversification and the role of backbone services as necessary inputs to increase productivity and encourage trade were largely neglected.

This suggests that a high priority for Burundi is to develop and implement a strategy that puts in place an adequate incentive framework for export diversification. The export diversification strategy needs to include actions targeted at measure that directly raise Burundi's trade costs but structural distortions, supply-side constraints, and regulatory and governance issues need to be part of a successful export diversification strategy. The next sections provide concrete recommendations for two sectors - specialty coffee and horticulture - prioritized by the Government of Burundi. .

3. Expanding Burundi's exports of specialty coffee⁶⁸

The coffee sector is dominant in the Burundian economy. In recent years, on average, coffee has represented between 60 and 80 percent of export revenues, and around 3 percent of GDP. Moreover, contrary to some countries where large producers account for most of the production, in Burundi coffee is grown by an estimated 600,000 to 800,000 rural households (out of a total of 1.2 million), for which it constitutes an important source of income. The different coffee processing activities along the value chain are also significant sources of employment and income in Burundi. This highlights the potential impact of a successful reform of the sector on export performances and poverty reduction (Box 3.1 gives a brief overview of Burundi's main past and ongoing reforms in the coffee sector).

Burundi has the potential to produce high quality coffee for specialty markets, but the country is still lagging far behind competitors. Burundi benefits from optimal agro-ecological conditions and climate for the production of high-quality coffee⁶⁹, and the existence of a dense network of coffee washing stations (CWSs) allows the production of fully washed coffee, which is a prerequisite to producing high-end coffee. Nevertheless, Burundi has been slow to match the increased demand for specialty coffee. Burundian coffee has historically been sold as a commodity and blended with other coffees. CWSs and dry mills were not geared, in their infrastructure or practices, to produce higher-quality coffees and they were not capable of producing the smaller, traceable lots of green coffee required by specialty markets (World Bank 2011c).

Box 3.1: Burundi's Reform Strategy in the Coffee Sector

A first attempt at liberalizing and privatizing the sector in 1991/92 resulted in a partial reorganization of the coffee industry but failed to improve its performance. The partial restructuring left a predominant role to the State in the organization of the industrial process from cherry to green coffee, and allowed a limited entry of private companies into the sector.

The reforms, which stalled between 1994 and the early 2000s, have progressively resumed in the recent period. Presidential and ministerial decrees were adopted in 2005 to i) open access at all levels of the sector to private operators, i.e. full *de jure* deregulation of the sector; ii) limit the role of the public institution OCIBU, which was previously controlling the whole sector, to that of a coordination and regulation agency; iii) deregulate prices throughout the sector and authorize direct sale; and iv) abolish the orchard tax imposed on producers by OCIBU. Despite this liberalization on paper, corresponding

⁶⁸ This section focuses on the opportunities and obstacles to access specialty coffee markets. See Annex 3 (Volume II) for a detailed presentation of Burundi's coffee sector, its various actors and its reform institutional and regulatory.

⁶⁹ In particular, the production of Arabica is enabled by the high elevation of coffee growing regions in Burundi (1,500 to 2,000 meters), coupled with abundant rainfall. The Bourdon variety of Arabica trees has been the coffee of choice grown by Burundian producers, and is highly prized in specialty coffee markets (World Bank 2011a).

changes concerning the organization and property of the industry were not implemented in practice. OCIBU maintained a *de facto* control over the sector after 2005, notably through the setting of producer prices, persistence of regulations on curing, and dominance of the auction system over direct sales from producers to foreign buyers, despite strong the appetite shown by specialty coffee roasters⁷⁰.

Continued pressure by donors and negotiations between the actors involved in the sector eventually pushed the OCIBU to announce full deregulation of the sector in 2006. This shifted the debate towards the different options for privatizing the various institutions and facilities, particularly CWSs. In 2006, a Coffee Reform Committee was established to pilot the preparation of privatizations.

The latest phase of the reform, initiated in late 2008, is aimed at accelerating the liberalization, privatization and reorganization of the coffee sector. Based on a disengagement strategy adopted in December 2008⁷¹, the Government launched several reform processes in two broad areas: (i) strengthening of the value chain; and (ii) transformation of coffee institutions.

The on-going reform will most likely take several years to be fully completed. In addition to the finalization of the privatization process, it will take time and capacity-building efforts for the newly established institutions, such as the interprofessional organization InterCafé, to be fully operational. In the coming years, these institutions will be called on to play a major role in the organization of the coffee sector and the promotion of high-quality specialty coffee.

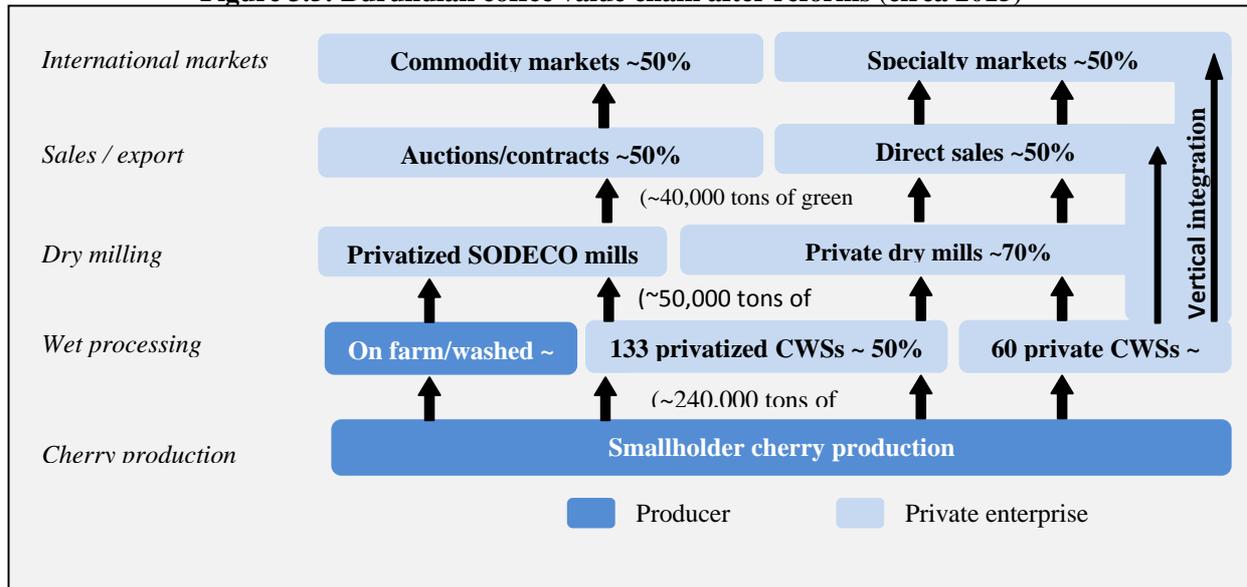
One of Burundi's recent objectives for the coffee sector is the development of the specialty coffee segment, which offers considerable opportunities to develop the value of Burundi's exports. Figure 3.5 gives an overview of what the Burundian coffee value chain could look like once the reforms are completed. While only a portion of Burundian coffee is likely to qualify as "exemplary" coffee (which commands the highest quality premiums on specialty markets), there is also scope for trading higher volumes in the high/medium/low specialty grades and in the marketing/certification/flavoring categories, which will benefit from the image and name recognition built by selling exemplary coffee (USAID 2008).⁷²

⁷⁰ One reason is that, as processed coffee remained OCIBU's property, direct sales required State clearance. If the proposed sale price was below a composite average tender price for that week, OCIBU had the authority to prohibit the sale.

⁷¹ This strategy was commissioned by the Government through the World Bank's PAGE project. Its objectives were to (i) increase coffee farmer incomes; (ii) enhance sector competitiveness to ensure its sustainability; and (iii) secure best returns on state assets (Republic of Burundi / PAGE 2008).

⁷² See Annex 1 in USAID (2008) for a summary of specialty coffee categories, and their respective entry costs.

Figure 3.5: Burundian coffee value chain after reforms (circa 2015)



Source: World Bank (2011c)

Some progress in Burundi’s specialty coffee segment is already visible. As a result of recent reforms that focused on enhancing the quality of exported products and developing marketing capacities, around 10 percent of Burundi’s coffee production was sold to specialty markets through direct sales in 2009/2010 (World Bank 2011c; Ottaway 2010).

- For example, with initial support from an NGO to cover inspection, training and equipment costs one grower association in Kagombe has obtained international certification by UTZ, which brought higher prices, higher productivity and a stable relationship with a US-based buyer⁷³.
- As part of “relationship coffee” projects, several international buyers/roasters tours were organized since 2008, during which prospective buyers showed strong interest in Burundi’s quality coffee (Ottaway 2010)⁷⁴. As a result, over a dozen specialty buyers (mostly American) have purchased Burundian coffee through direct sale and established durable trading relationship with producers. For example, one of these retailers, Intelligentsia Coffee, who participated in a 5-day tour in May 2009, has been selling coffee from three CWSs in Muyinga for the third year in a row. Moreover, Burundi participated in a number of industry events in East Africa or in the United States in recent years, and plans on organizing its first “Cup of Excellence” competition mid-2012.⁷⁵

Such success stories can have a useful demonstration effects and create incentives for producers and their associations to focus on quality. But a number of barriers remain.

⁷³ See Annex 6 in World Bank (2011c).

⁷⁴ See: www.cafeduburundi.com/markets/buyers

⁷⁵ See www.cafeduburundi.com/coffee-events and www.cupofexcellence.org. The internationally recognized *Cup of Excellence* competitions and auctions have been organized in South and Central America since the early 2000s, and have consistently commended the highest prices for specialty coffee producers.

Recommendations

i. Addressing barriers that affect trade costs

Trade logistics

The logistics system upon which the coffee chain depends critically impacts the performance of the sector. Beyond the border regional logistics, especially on the central corridor going to the port of Dar es Salaam through Tanzania, are of major importance for Burundian coffee exports. As argued in Chapter 4, Burundi should push for logistical improvements on the main corridors and for the removal of non-tariff barriers in the context of EAC integration. While Burundi has no direct control on logistics in neighboring countries, it is critical to ensure that all links in the domestic system function efficiently, from production to export. As discussed in Chapter 5, Burundi has sound basic infrastructure for coffee logistics comprised of roads, local storage capacities, processing plants and export processing facilities. In particular, the dense network of CWSs in coffee growing regions ensures relatively short travels from farms, which is important as quality coffee requires cherries to be delivered for depulping within a few hours after being picked. However, Burundi currently ranks last of all the countries surveyed in the latest Logistics Performance Indicator (LPI) conducted by the World Bank (Chapt. 5). Local logistics costs already represent an estimated 12 percent of coffee value when delivered to exporters.

It is important to ensure that the organization of the value chain enables maximal logistic efficiency, so as to reduce transport cost, potentially through consolidation of shipments. According to an estimate for landlocked Rwanda, a 50 percent reduction in the transport costs in rural areas would lead to a 20 percent increase in producer prices for coffee, which in turn would reduce poverty incidence among coffee farmers by more than 6 percent (Diop et al. 2005). Although situations are not perfectly comparable due to differences in coffee sectors and domestic logistics, this suggests that improving transport could have a positive impact on access to markets and farmers' income.

Access to finance

Access to finance is a major impediment in the coffee sector. In 2005, the State decided that it would no longer guarantee loans made by a consortium of Burundian banks to the public agency OCIBU (now ARFIC) to finance the coffee campaigns. This put the companies managing washing stations (SOGESTALs) in a difficult situation, as they were expected to finance the purchase of cherries and other expenses, but had no access to working capital given the absence of collateral (CWSs remained State property and were only rented to SOGESTALs). The SOGESTALs and SODECO (dry mills) are in a dire financial situation and the banking sector has become increasingly reluctant to extend new loans to the industry. Recent campaigns were marked by tough negotiations in which the government intervened despite the theoretical deregulation initiated in 2005 (World Bank 2011c).

Affordable financing channels must be made available to producers and their associations to facilitate the use of inputs and replacement of aging trees by farmers or to enable them to buy shares in CWSs. A new financing arrangement for the coffee sector has to be found, especially for SOGESTAL-owned CWSs⁷⁶. It will be critical to facilitate credit allocation to the coffee sector in Burundi, and the regional integration of financial services could ease financing constraints in this regards. Various types of actors, from banks to microfinance institutions, NGOs and donors, could play a role concerning the different financing needs of actors in the coffee sector. In recent years, the USAID has for example worked on issues related to campaign financing and purchase of inputs/equipments with the specialized credit institution Root Capital, Burundian banks such as InterBank, and coffee sector actors (USAID 2010).

⁷⁶ Private operators with large financial capacities, such as Webcor, face less difficulty to mobilize financing.

ii. Addressing supply-side constraints

Development of productive capacities is necessary to increase Burundi's exports of specialty coffee. Years of declining yields and quality mean that significant efforts are also required to strengthen production. Entering specialty markets, which command significant price premiums, has long been identified as the best strategy for Burundi, but the country still has to exploit its potential for producing and marketing high-quality coffee.

Improvements in the production of coffee are needed on both quantitative and qualitative fronts. The current objective is to increase production to an expected annual volume of 40 to 60 thousand tons of green coffee, as well as to reduce the cyclical production pattern observed in the 2000s. Increasing yield will require a combination of actions (e.g. fertilization, planting of new trees, training of farmers to adopt efficient and sustainable growing techniques) and a supporting environment for farmers (role of producer associations, funding for research and availability of extension services, etc.). Increasing the efforts and care dedicated to growing coffee will be critical to ensure the quality of beans. It will also depend on the reform's success in offering farmers sufficient incentives to improve yield and quality, as failing to do so could lead farmers to focus on alternative crops instead.

iii. Improving export promotion and marketing strategies

To deal with the growing complexity of global coffee markets, Burundi must rethink its current practices related to specialty coffee. As highlighted in World Bank (2010a), the quality improvements envisaged in Burundi's coffee sector will be fruitful only if they are complemented by carefully designed marketing strategies aimed at improving revenues from coffee sale and penetrating specialty markets. Proper gathering of market information and, more importantly, its dissemination along the value chain are essential to understand price trends and supply and demand dynamics. The specialty markets rely increasingly on the development of long-term partnerships between producers and roasters or retailers. Countries that have successfully transitioned toward specialty markets have managed to build a strong image of their coffee industry to attract such partners.

Entering specialty markets will require adequate marketing capacities. Specialty coffee markets primarily value quality (determined largely on the basis of cupping profile). Therefore, an important prerequisite for Burundi's participation in these markets is the production of high-quality coffee beans in terms of both grading and flavors. But certification requirements and links to specific origin (e.g. "relationship model" that puts a "human face" on coffee) are equally important. The following dimensions need to be addressed to strengthen Burundi's marketing capacities (USAID 2008):

- improvement of CWSs' and dry mills' capacity to ensure coffee lot traceability and differentiation by quality;
- elaboration of an effective marketing strategy and enhancement of market intelligence at all levels of the value chain;
- acquisition and maintenance of certifications (e.g. fair trade, organic)⁷⁷;
- branding and image building;
- development of cupping capacity is critical, notably at the regional/local level;
- availability of information technology for business and marketing purposes;
- capacity to organize regular strategic buyer/roaster tours;
- participation in trade shows, industry workshops, tastings, etc.

This overview shows increasing export of specialty coffee will require concerted efforts to address the barriers that directly affect trade costs as well as supply side constraints and export promotion and marketing strategies. The characteristics of specialty markets as well as the necessary requirements to

⁷⁷ See Annex 5 in World Bank (2011c) for a summary of major coffee certification schemes, their returns and defining characteristics.

penetrate these markets are extensively discussed in numerous reports, such as World Bank (2008; 2011a; 2011c) and USAID (2008). Most recent donor-funded projects targeting the coffee sector have provided support and capacity building to actors involved in specialty coffee market segment. Further support that focuses on the development of sustainable production methods, certification, marketing and promotion of direct sales, etc. can be expected in the coming years to continue (see Annex 3). ARFIC, InterCafé and the CNAC/producer associations need to coordinate these activities. Additional lessons can be drawn from the successful experience of other countries (Box 3.2).

Box 3.2: selected countries' experiences with coffee sector reform

Several countries in East Africa and elsewhere have preceded Burundi in reforming their coffee sector, with varying degrees of success. Rwanda and Ethiopia have successfully implemented coffee reforms that facilitated entry on specialty markets.

In Rwanda, as in Burundi, coffee is a major export product. The State has historically been heavily involved in the coffee sector, and elites have extracted large amounts of rents from coffee growers. After a decade of rapidly declining quantitative and qualitative performance, reforms supported at the highest political level were initiated in 1998, and led to a rapid transformation of the sector. The government liberalized coffee processing, marketing and exports, and improved incentives for farmers and the private sector to invest in coffee production. In addition to opening to private sector competition, a strong emphasis was put on improving the coffee value chain and producing specialty coffee (in 2000, 90 percent of Rwandan coffee was classified as low-quality ordinary coffee, notably due to the low incentives to produce quality coffee and the absence of CWSs in the country). This objective, supported by donors such as the USAID's *PEARL* project, led to the strengthening of producer cooperatives, the construction of numerous CWSs (mostly by private investors, but also by coffee growers), the improvement of quality control throughout the industry, and successful image building. This sponsored initiative met with success and inspired the private sector to produce and market specialty coffee.

As a result, Rwanda has made a remarked entry on specialty markets in the 2000s: the total value of specialty coffee exported increased from \$ 0.1 million in 2002 to \$ 11.6 million in 2009. The country has organized *Cup of Excellence* competitions since 2008, and the winners received prices as high as \$20 per pound during the 2011 edition. While these prices remain exceptional, the average income of farmers producing higher quality coffee has also significantly increased since 2003. However, the quantitative and qualitative targets initially set for the sector have not been met so far, suggesting that more efforts are needed to consolidate these gains. Challenge remains to increase the production of specialty coffee, including: insufficient production of high quality cherries, calling for better price incentives for farmers and enhanced production techniques; limited efficiency and profitability of CWSs; weak managerial capacity of producer cooperatives; concerns with Rwanda's land law; and high transport costs and poor rural transport infrastructure.

Ethiopia is believed to be the birthplace of Arabica and is by far the largest coffee producer in Africa (but as opposed to Burundi, half of the production is consumed domestically). While the coffee sector used to be under tight public control during the *Derg* military regime, the government started to progressively liberalize the sector from 1991 onwards. Although reforms were partial and strict controls have remained in place, these reforms led to an increased participation of private actors along the value chain, a rise in the share of the export price received by growers, and a positive impact in terms of coffee production and exports. One major progress in 2001 was the authorization given to producer cooperatives to sell directly to international buyers, outside the government auction system which was until then mandatory.

These cooperatives, organized in unions and supported by donors and NGOs for capacity building, have since then played a critical role in the development of the value chain, with a focus on quality. They enabled Ethiopian coffee grown by small farmers to acquire a significant position on international specialty markets (e.g. high quality, certified or relationship coffee). Between 2001 and 2005, direct

sales of specialty coffee by cooperative unions grew from \$0.3 million to \$ 31.9 million. This transformation substantially increased the livelihoods of farmers producing quality coffee, and has created incentives for private actors in the sector to advocate in favor of the expansion of the direct sale model and full liberalization of the sector.

In some other countries however, poorly conducted or incomplete reforms have failed to improve the performances of coffee sectors. *Kenya*, for example, used to produce high quality coffee in the 1980s and 1990s. The quantity and quality of coffee produced has dramatically declined since then, notably because of poor management and corruption in the large cooperatives that controlled production and processing. Incomplete reforms have failed to reverse this trend, as coffee processing and marketing have remained under tight public control, and the value chain has remained plagued by inefficient practices, insufficient support and incentives to small farmers, and lack of trust between stakeholders. Experience from *Cameroon* shows that complete withdrawal of government from the coffee sector can also have detrimental effects, and that government's role in providing support in the form of regulatory reform and legal framework, strategic direction, access to extension services and research, is critical for sustainable development of the sector.

Source: Dempsey (2006), Petit (2007), International Alert (2007), USAID (2008), World Bank (2005, 2011c), Boudreaux (2011)

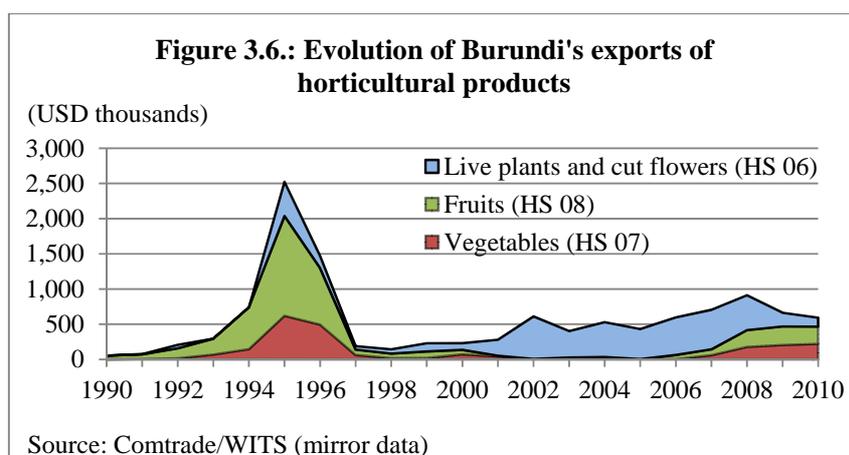
4. Overcoming supply-side constraints and trade barriers to increase Burundi's horticulture exports

Horticultural products have been identified in several recent strategic documents adopted by the Burundian government as one of the high-potential sectors for diversification into non-traditional exports (e.g. first and second PRSPs, 2008 National Agricultural Strategy). The following foodstuffs have been identified as specialty products with high export potential: pineapple, avocado, passion fruit, small bananas, papaya, mango, maracuja, cherimoya, green peas, baby vegetables, leafy greens, selected roots and tubers, macadamia, flowers and plants. In addition to being an important source of rural income and employment creation, the horticulture sector offers great scope for the gradual transformation from primarily unprocessed products to agro-processing.

Horticultural products⁷⁸ are currently marginal in Burundi's formal export basket. Horticulture exports from Burundi, which had progressively gained momentum in the early 1990s, were severely and durably affected by the subsequent civil war and embargo. Burundi started to export cut flowers in the 2000s, but this sector collapsed in 2008 with the global crisis (World Bank 2011b). Nevertheless, trade statistics suggest that exports of fresh fruits and vegetables have picked up since 2006, principally to Belgium, and have reached almost half a million dollar annually in recent years (Figure 3.6). However, these exports of horticultural products still represented less than one percent of total exports in 2010⁷⁹.

⁷⁸ Burundi's production of fresh vegetables and fruits were estimated at 403,000 and 102,000 tons respectively in 2010 (Source: FAOStat). This production is realized by around 1.4 million smallholder farmers. Product quality as well as the on-farm mix of products is highly variable and almost always produced in small quantities (Clay et al. 2007).

⁷⁹ Official trade statistics do not capture informal flows, and are therefore likely to underestimate the flows of food products exchanged between Burundi and its neighboring country. Cross-border trade in food products is very significant in the Great Lakes region, notably towards Eastern DRC (World Bank 2012).



The following case study present the concrete barriers faced by (i) horticulture exporters who exited the market recently, (ii) small holders attempting to participate in commercial and trade activities; and (iii) small, informal traders.

(i) Failed horticulture exporters

A number of export constraints such as high transport costs, insufficient knowledge of international norms and standards, and the limited availability of air transport have been singled out in numerous studies. For example, transport and logistics costs represent, on average, 35% of import prices and 40% of export prices of agricultural products in Burundi. Also, discussions with several past exporters revealed another set of constraints encountered when exporting non-traditional products (such as cut flowers) to European markets (see Box 3.3).

Box 3.3: Learning from failed exporters

The following recurrent problems were cited by managers who engaged in exports of non-traditional goods to European markets:

- The few existing exports are transshipped through Nairobi or Entebbe, resulting in increases in transport costs, longer transport times that affect product freshness, and damaged packaging due to frequent mishandling. The lack of regular air cargo space is a major obstacle to the recovery of fruit and horticulture exports from Burundi;
- Difficult access to working capital at competitive terms; high costs of trade finance and failure to tap potential external financing sources;
- Lack of refrigeration equipment at the Bujumbura airport;
- Insufficient knowledge and understanding of European market operations, requirements, pricing, competition, and potential niches.

Source: Consultant interviews in Bujumbura, 2010-2011

(ii) Small producers of horticulture products

Patterns of uneven logistics connectivity within Burundi affect both more established exporters as well as small holders. Food crop producers in lagging regions – which include most rural areas in Burundi - face a major challenge in dealing with the country's underdeveloped logistics system. Most food crops are characterized by low value-to-weight ratios, making it unprofitable to transport them over

long distances, given the high cost of transport in Burundi. Producers must therefore sell their products in their local areas, some of which are far removed from major urban populations. This underscores the importance of reducing the connectivity gap in lagging regions to enable access to both the local (urban) markets as well as exports of niche horticulture products. Without addressing the constraints at the sub-national level, exports to regional and international markets will not materialize.

Additional constraints such the lack of market knowledge, the lack of storage facilities, especially cold chains for perishable products, the lack of extension services and agricultural inputs as well as unorganized producers limit the participation of horticulture farmers in commercial and trade activities. Markets for agricultural produce are not working properly. Even producers based less than 50 km from Bujumbura find it difficult to access the central market in the capital city. To identify the concrete constraints that hamper the participation of horticulture farmers in production and trade activities, a detailed survey was administered to 36 farmers in ten locations, spread in five *communes* near the RDC and Rwanda (Rumonge, Mutimbuzi, Rugombo, Matongo and Kayanza). Despite the small sample size, the results of the survey are illustrative of the distortions related to the production and commercialization of horticultural products in Burundi (see Box 3.4).

Box 3.4: Results of a qualitative survey administered to small producers of horticulture products

Access to information:

Over two thirds of the respondents (25 out of 36) own cell phones, most of which were acquired between 2004 and 2011. Moreover, most of the respondents who do not currently have a cell phone plan on acquiring one in the near future. Only two of the farmers surveyed explained that mobile phones are unaffordable.

Mobile phones are used more most frequently to get information on prices (61% of respondents) and on quality (53%), for tracking and follow-up purposes (53%), to get information on demand conditions (47%) and to a lesser extent to get paid (22%). Out of the 25 cell phone owners, 21 responded that decisions to sell their products are in part based on information received by phone. The availability of mobile telephony therefore appears to have been an important factor to facilitate the diffusion of information and communication for these farmers.

However, the impact of possessing a mobile phone on obtaining other important types of information (e.g. access to extension services, weather conditions, or production and commercialization techniques) seems to be more limited. In fact, most respondent reported that they never seek information on these points.

Sourcing of agricultural inputs:

A majority of the surveyed farmers reported that they were sourcing inputs in local markets or cooperatives, most of which are less than 20 kilometers away, rather than from traders selling at farm-gate. Only a third of respondents declared that they coordinate with other farmers on how much input to buy in terms of quantity, through the organization of meetings or the use of mobile phones. Moreover, none of the respondents reported coordination with others regarding the price of inputs. This suggests that they these small farmers have insufficient weight to negotiate with traders and are price-takers.

Storage and processing:

None of the farmers surveyed owned storage facilities or had contracts with other providers for storage space. This means that agricultural products must most of the time be brought directly to the market or be consumed locally. Furthermore, no processing or value addition was reported by farmers prior to selling their products.

Transport:

All the farmers declared to bear the cost of bringing their products to the market, although 42% of them responded that buyers also contribute to this cost. Bicycles is the most frequently cited mode of transport used, followed by trucks. Most respondents reported costs between FBU 1,000 and 5,000 (\$ 0.7 and 3.7) to transport products to the market. Only around 20% of respondents share transport costs with other farmers. Where they exist, producer associations are still at an early stage and are not involved in the transport of goods to markets.

All surveyed farmers use asphalt roads to get to markets, and a majority also use foot/bicycle paths and dirt roads. These roads are deemed to be in fair to good condition, indicating that the availability and quality of transport axis may not be a major constraint. Finally, while 70% of respondents own one or several functioning bicycles, none possess motor vehicles and only two farmers reported that they own animal-drawn carts. Around two thirds of respondents also report that they hire means of transport, mostly to intermediaries. Rental rates are relatively low for bicycles, buses or taxi are used, but go up to FBU 50,000 (\$37) for the rental of motor vehicles.

Marketing:

For all respondents, the main factor determining the frequency of selling is the readiness of products. Second order factors include high prices are high (44% of respondents), and the availability of transport services (33%). The survey also indicates that most farmers (70%) do not actively search for buyers for their products, but rely on established relationships instead. Other common modalities include the use of mobile phones or word of mouth. Moreover, none of the surveyed farmers reported had a sales contract with buyers.

The majority of the surveyed farmers (75%) seek information on the prices offered at the market prior to selling, especially those who own mobile phones. In addition to phones, most respondents also obtain information on prices by word of mouth and through other farmers. Although information on prices appears to be widely shared at the village level, the survey shows that a minority of farmers coordinate with others on which market to target, what quantity to sell and when. This suggests that coordination among local producer remains limited, which reduces the possibility to share the cost of bringing products to the market or increase the bargaining power with buyers.

Source: Consultant interviews in Rumonge, Mutimbuzi, Rugombo, Matongo and Kaynaza, 2011

The results of the survey confirm that building a favorable environment for the production and marketing of horticultural products is a high priority. Overall, the main obstacles faced by the surveyed farmers to increase their agricultural production and bring it to the market are: (i) the difficult access to agricultural inputs, (ii) the prevalence of crop pests and diseases, (iii) the limited access to credit, (iv) the lack of output market access, (v) the absence of storage facilities and (vi) the lack of means of transport. These conclusions from the survey largely echo the constraints to the development of the horticulture sector listed in the 2008 National Agricultural Strategy adopted by the government of Burundi, namely:

- Limited knowledge of the rapidly evolving global markets for food products, especially in emerging markets, leading to suboptimal strategic positioning of products;
- insufficient knowledge of international norms and standards, particularly phytosanitary standards;
- the lack of storage facilities (especially cold chains for perishable products) and availability of air transport;
- producers who are not well organized; and
- the lack of extension services and training for producers.

The over exploitation of land is often mentioned as a supply-side constraint in Burundi. The overexploitation of land has contributed to land degradation and soil erosion. The use of land is already at its limits (using traditional technology), and the average size of a plot is only 0.5 hectare. The soil is characterized by low fertility, about a third of the soil is acidic, and the hilly terrain is prone to soil erosion. The irrigation potential is mostly underexploited, with less than 10 percent of the potentially irrigable area under irrigation. As a consequence, Burundi's food supply is not meeting the increasing demand, leading to food insecurity and the need to rely on food aid (World Bank 2010).

(iii) Small, informal traders

Finally, as with horticulture production, a large part of (intra-regional) trade in horticulture products remains informal. Also, most small traders are women (see Box 3.5). Small traders face significant barriers when crossing the borders. In addition to numerous non-transparent and unpredictable administrative barriers they need to pay bribes and are exposed to harassment. Measures that address such issues and facilitate the progressive formalization of informal flows are urgently needed.

Box 3.5: Informal cross-border trade in the Great Lakes region

As explained in Box 1.1, the available evidence suggests that informal cross-border trade (CBT) between countries of the EAC, as well as with other neighboring economies such as eastern DRC, is significant. This trade plays an important role for both the individuals and the countries concerned. In particular, CBT in agricultural products has been highlighted for its capacity to improve food security by linking food surplus areas to food deficit areas, hence making food products more widely available at lower prices.

A survey carried out in 2010 by the World Bank at four key border crossings between the RDC and neighboring countries (including with Burundi at Uvira-Bujumbura) sheds some lights on key characteristics of this trade. The majority of this trade concerned small quantities of foodstuffs, such as cereals, pulses, vegetables and fruits. It has a strong relevance for poverty reduction, as most respondents declared that it was their main source of income. Moreover, there is an important gender dimension to the issue of small scale CBT, as most of the traders concerned are women (85% of respondents were women, while 82% of the officials at the borders were men).

This study shows that CBT between the DRC, Burundi, Rwanda and Uganda is mainly an informal, although not illegal, activity. Most women engaged in this trade cross at formal border crossing points and are willing to pay appropriate duties. They wish to be treated as business people, but complain that they are often looked down upon and considered as mere "smugglers" by officials. At present, various controls are imposed in a non-transparent and unpredictable manner by the numerous administrative authorities present at the borders. Moreover, CBT is largely undermined by quasi-systematic unofficial payments and bribes, as well as by high levels of harassment and violence. As a result of these obstacles, substantial differences in the prices of basic food products remain between markets on opposite sides of borders.

To realize more fully the potential for CBT in the region, action on the informal trade agenda is required. One immediate priority is to recognize the important role played by small cross-border traders, and to improve conditions at the borders (including gender-wise), notably by simplifying and enhancing the transparency of administrative procedures. A strategy could also be established to progressively integrate small traders in the formal economy, starting by promoting their organization in associations to represent and defend their interests. Gradual formalization could also help lifting other major constraints faced by small traders, such as access to finance.

As mentioned in Box 1.1, one useful progress would be to start collecting detailed data and information on CBT between Burundi and its neighbors. Strengthening regional cooperation on CBT is also critical,

for example by ensuring the implementation of the EAC and COMESA simplified trade regimes, which could facilitate the formalization of informal trade. In addition, a Traders Charter aimed at improving treatment of small traders and streamlining procedures at the border could increase cross-border flows in the region with potentially significant benefits for Burundi (Box 3.6).

Conclusions and recommendations

Rather than focusing on interventions that target specific products (such as mangos or tomatoes), it appears that the best bet for the authorities is to lift the common constraints that currently hamper the participation of horticulture farmers in commercial and trade activities. In fact, easing these constraints would benefit not only horticulture, but also the main segments of Burundi's export agriculture, coffee and tea. Establishing a more supportive business environment for horticulture exports is therefore the main area where the government should be proactive. In particular, improving the availability and quality of essential support institutions and services is critical:

- *business development services*, to enhance the knowledge of markets and current demand characteristics⁸⁰, and to facilitate the establishment of efficient managerial and operational frameworks for production and exports processes;
- *SPS management services*, including initiatives to raise awareness on SPS standards and the establishment of a regulatory and operational framework for SPS compliance;
- *vocational training*, to strengthen human capital in a variety of activities related to the production, processing and transport of horticultural products;
- *extension services*, which, as illustrated by the survey described above, are currently lacking and will be required to increase productivity;
- *research services*, which are currently minimal.

The horticulture sector in Burundi would also benefit from more general efforts aiming at improving the availability and affordability of critical services. For example, financial services are needed to finance horticulture investments at all levels (production, processing, and marketing). The availability of efficient transport and logistics services is crucial for exports (see Chapter 5). Concerning air transport, this will notably require tackling the “chicken and egg” dilemma identified by Clay and co-authors (2007), by which airlines do not make more charters available because shipping volumes are low, while exporters and suppliers do not increase volumes because air cargo space is limited⁸¹.

Support for making horticulture associations more efficient could be considered. As illustrated by the survey of farmers in the horticulture sector, coordination among producers is currently limited. The emergence of more and better-organized producer associations could enable efficiency gains with regards to access to inputs and extension services, or to the transport of products to local markets or shipping points for regional/international markets. This could follow the example of the coffee sector, where producer associations have become increasingly active and the recently established inter-professional organization (InterCafé) facilitates coordination along the value chain. The modernization in 2011 of the legal framework for agricultural cooperatives represents an opportunity to develop such organizations and enable them to play a stronger role to diversify and improve the productivity of both food and export crops.

Some investments in physical infrastructure will also be needed for the sector to develop. One critical point is the availability of adequate storage facility (notably cold storage) at key points of the

⁸⁰ See Clay et al. (2007) for a detailed analysis of the different traditional and emerging markets for Burundi's horticultural products.

⁸¹ This dilemma is not specific to horticultural exports and also hampers the development of the tourism sector in Burundi (see Chapter 7).

logistics chain. Other types of facilities, such as collection, processing and packing facilities, will also have to be developed.

Finally, the adoption and compliance with a charter for small scale cross-border traders could support the removal of constraints faced by small traders (see Box 3.6). The proposed measures could help reduce the border delays and the additional costs imposed on traders and consumers. Improving the procedures at the border can increase government revenues and accelerate trade. In addition, it is a fundamental right for traders and officials at the border to be treated in a professional manner.

Box 3.6: Charter for Cross-Border Traders

Basic rights and obligations for traders and officials at the border

1. All individuals shall be able to cross the border without verbal or physical abuse or harassment including but not limited to sexual and gender-based violence
2. Traders shall be processed at the border in an efficient and timely manner without discrimination. A receipt must be provided to the trader for any payment made and the payment properly recorded.
3. Only officials of the approved agencies are present at the border and all border officials wear uniforms or ID badges that allow the identification of their respective agency.
4. Physical checks of traders must be recorded with the reason and outcome provided. Female traders have the right to receive a physical check by female officials in a private but regulated and accountable environment.
5. All duties, fees and taxes and the basis for their calculation are publicly available at the border. Any change to duties, fees and taxes must be publicly announced at the border, with reasonable time for traders to prepare, before their application. No unpublished fees or charges should be demanded at the border.
6. Documentary requirements should be clearly stated and publicly available at the border. Any change in documents required must be publicly announced at the border with reasonable time for traders to prepare before implementation. Simplified procedures should be applied to small traders.
7. Traders should be aware of their rights and obligations when crossing the border. Traders must present required documentation and pay appropriate duties at the border and to obtain a receipt for any payments made to an official. Traders shall not attempt to bribe any official to avoid payment of duties or obtain preferential treatment in any way, including avoiding queues.

With the support of the international community, governments commit to

1. That by mid-2012 these basic rights and obligations governing cross-border movement of goods and people are clearly stated in the local language and visibly apparent at all border crossings
2. By end 2012 at every border post there is at least one agent that has received gender awareness training. All senior officials at the border have received gender awareness training by the end of 2013. Ensure that 50% of officials at any border post have received gender awareness training by the end of 2014.
3. At all border posts traders have recourse to an independent and confidential mechanism to register violation of any of these basic rights. Female traders must be able to register the violation of any basic rights with a female staff.
4. Apply strict disciplinary measures against officials found to have violated the rights of a trader.

5. Support organizations of informal cross-border traders in disseminating information on these rights and obligations and in delivering advice and information to enhance the capacities of the traders.
6. Continue to improve the quality of infrastructure at all border crossings to provide an open and safe environment for traders, with attention to the specific needs of women traders, and appropriate facilities for officials to undertake their work.
7. Improve the quality of data collected at all border posts on small traders, including the number passing through the border each day and the nature of the goods carried.

Burundi has a recognized potential for the production of a variety of horticultural products, which could help shift the country's export basket from basic to higher value primary products⁸² in the medium term. As stated in the PRSP II and in the National Plan for Agricultural Investment 2012-2017 adopted in 2011, the Burundian authorities are committed to promote the intensification, diversification and quality improvement of agricultural production in Burundi, notably in horticultural products. Moreover, several recent or ongoing donor projects have targeted the horticulture sector, which should have a positive impact on horticultural production in the near future⁸³. However, the limited response in terms of country-wide production and exports so far, as well as the results of the survey of farmers carried out for the DTIS update, suggest that the strategy needs to put more emphasis on creating a favorable business environment and facilitating the participation of the various actors in the horticultural value chain. Supporting individual products or producers without addressing the fundamental constraints that limit production capacities and transaction costs will translate into limited results. Areas for priority action include the provision of support services (including research and extension services), strengthening of producer associations, the improvement of logistics (notably transport and storage facilities), and the increased access to financial services.

⁸² For example, World Bank (2011b) identifies several specialty fruits and vegetables (e.g. pineapple, avocado, passion fruit, small bananas, papaya, mango, cherimoya, green podded peas, baby vegetables, leafy greens, macadamia), as well as flowers and plants such as roses, dracaena, and cinchona bark.

⁸³ Donors involved in the Burundian horticulture sector include the USAID, the European Union, the IFAD, the FAO and the World Bank. The UNIDO has also been active on issues related to SPS compliance for exports.

CHAPTER 4 – Non-tariff Measures: The Way Forward

1. Introduction

Non-tariff measures (NTMs) are regulations other than tariffs affecting the import or export of products. NTMs may affect only traded products (e.g. quantitative restrictions) or they may affect all products, whether imported or produced locally (e.g. technical regulations). They may be imposed in response to growing societal demands for traceability, protection against various hazards to human health, or the preservation of local public goods like the environment. However, they can also be imposed to protect the domestic market as substitutes to tariffs or contingent protection, in which case they take the name of non-tariff barriers (NTBs).

In Burundi, the regulatory environment in which import and export operations take place has evolved substantially since the 2004 DTIS. This has been the result of various forces, including Burundi's accession to the EAC, which has led to a major effort to harmonize the national legislation to the EAC's principles and agreements. Some of the issues raised in a 2008 report by the NTB Review Committee, like frequent roadblocks, have been effectively addressed. Others, including a lack of regulatory certainty, and a degree of arbitrariness in the interpretation and enforcement of laws and regulations, seem to go on.

NTMs currently cover over 80% of Burundi's imports. This makes the country one of the heaviest NTM users in a sample of 30 countries for which data is available, on par with the EU. It is not clear to what extent these measures respond to genuine societal demands in an economy where basic needs are not fulfilled and moral hazard affects the government as much as the private sector. Moreover, should they be enforced on all the goods to which they nominally apply, NTMs could raise the cost of living by 30% or more, based on ad-valorem equivalents (AVE) estimated by the DTIS update team.

Burundi's fiscal environment is also changing. In particular, the forceful deployment in 2009 of a new VAT-based fiscal system by the newly-created *Office Burundais des Recettes* (OBR), together with the formalization of transactions that it entails, is a major change in the business environment. The private sector's perception of this change is mixed.

- Regular operators welcome the OBR's attempt to close important loopholes in the enforcement of border taxes and the VAT, which distort competition, while recognizing that there is so much the OBR can do when loopholes benefit operators with high-level connections.
- At the same time, traditional operators resent the OBR's heavy-handedness and do not always seem to grasp the extent to which the rules of the game are changing, reinforcing a feeling of legal insecurity and arbitrariness.

This overhaul of the country's fiscal environment, which was recommended, *inter alia*, by the 2004 DTIS, is portent of benefits in terms of trade facilitation, some of which are already apparent. But it is also fragile, as heavy-handedness can encourage the emergence of coalitions of traditional operators who would like to revert to their old ways and political opponents to modernization. In order to keep the momentum, the transition must be firmly dialogue-based and perceived as such, which is currently not the case.

NTMs *strict sensu* are not perceived as a major problem, especially by established operators, but the rapid evolution of the regulatory environment at home and abroad can quickly change that. It raises, in particular, two potential issues: (i) Regulatory proliferation, combined with weak capabilities and a legacy of discretionary and opaque enforcement, which can stifle entry and diversification of the economy; (ii) Rising NTBs in at least some neighboring countries, highlighting the need to reinforce EAC disciplines through regional dialogue and institution-building.

Dealing with both recurrent and emerging challenges requires effort along three axes. First, national authorities should work to build a climate of trust and mutual respect between public administrations and the private sector, by clarifying rules, training administrative personnel, and possibly also by dropping procedures launched on the basis of offenses allegedly committed years before the OBR's creation. Second, they should contain regulatory proliferation, by adopting WTO "good-governance" rules for new regulations and limiting those to cases where they address clearly-identified societal demands. Third, they should provide political support to domestic exporters, by collecting reliable information on NTBs encountered by Burundi's operators on other EAC markets, raising the issues in EAC forums and asking for explanations and changes, and ultimately pushing for the adoption of a binding dispute-resolution mechanism on NTBs in the EAC, possibly open to private-sector complainants. In all three areas, donors can help through financial and technical assistance.

This chapter is organized as follows. Section 2 provides a statistical overview of data on Burundi's NTMs based on newly-collected data and a detailed factual overview based on a mission on the ground; Section 3, a set of recommendations for national authorities and donor support to go forward in the current reform agenda based on the diagnostic of Section 2⁸⁴.

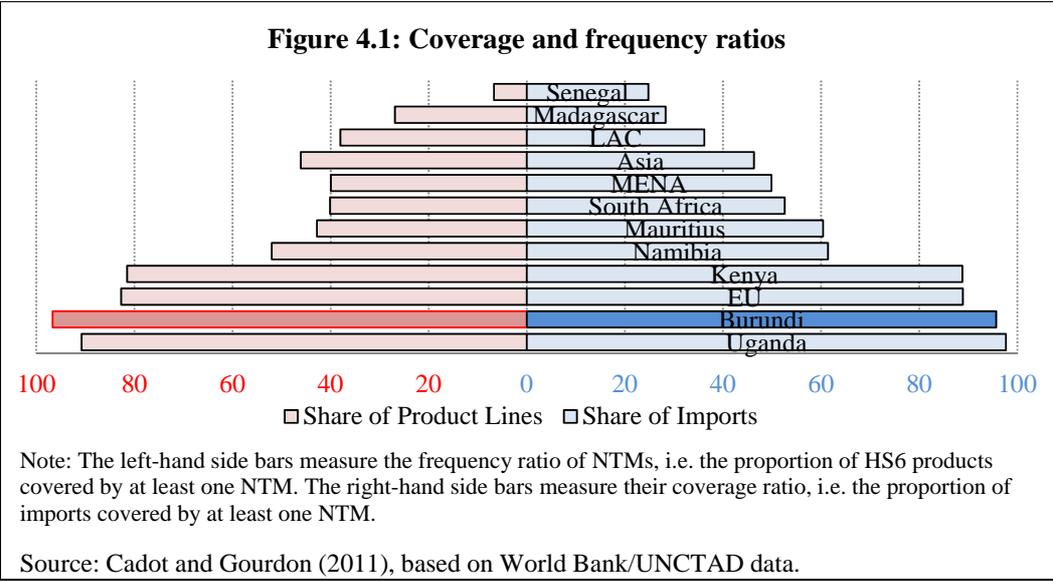
2. Non-tariff measures in Burundi: What do we know?

Information on NTMs in Burundi is available from an inventory drawn up at the World Bank's initiative in 2011. The inventory, based on interviews with all government agencies involved in trade-relevant regulatory activity, was presented to and approved by national authorities at a validation workshop held in April 2011.

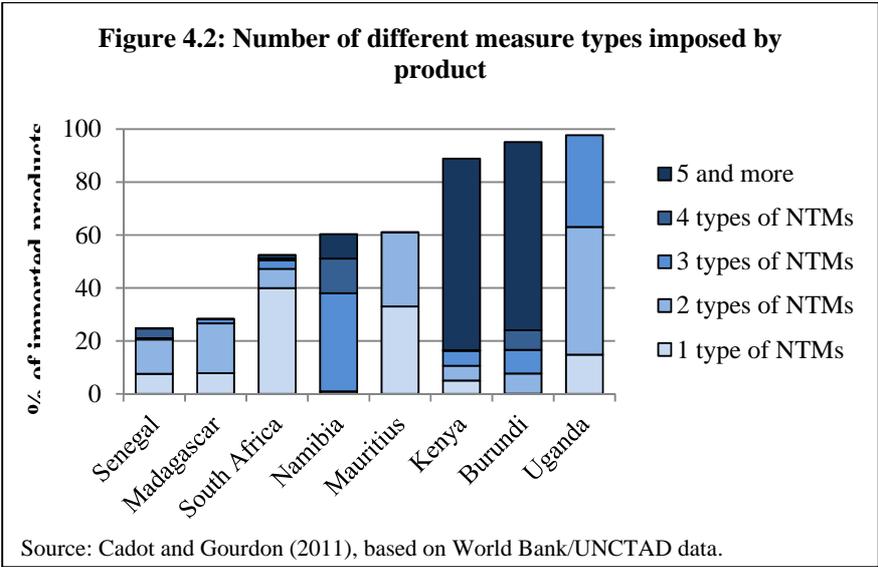
2.1 Incidence

Together with Uganda and, to a slightly lesser extent, Kenya, Burundi stands out as a country where most imports are covered by one measure or another (Figure 4.1). These three countries, all members of the EAC, are together with the E.U. the heaviest users of NTMs. As discussed previously, NTMs can be justified by consumer concerns for traceability and protection against health and other hazards; however, it is not clear that these concerns are as acute in the three EAC countries as they are in the E.U., raising the question of whether there is "overkill" in terms of NTMs, in particular in view of local regulatory capabilities.

⁸⁴ Annex 4 in Volume 2 of the DTIS update provides more conceptual and measurement background on NTMs and NTBs. In particular, it discusses the potential justification of NTMs and the WTO rules that discipline their use. It also explains why NTBs are more detrimental and counter-productive in small countries such as Burundi, where domestic production is less likely to take place under competitive conditions. Finally, it presents the various existing initiatives to measure and collect information on NTBs, at the global level and in East Africa.



Burundi also stands out, together with Kenya, as a heavy user of multiple NTMs (Figure 4.2). About 70% of products imported into Burundi are covered by five or more NTM types (in terms of the 2-digit NTM classification), again raising the issue of regulatory overkill, as dealing with multiple regulations can be cumbersome for economic operators.

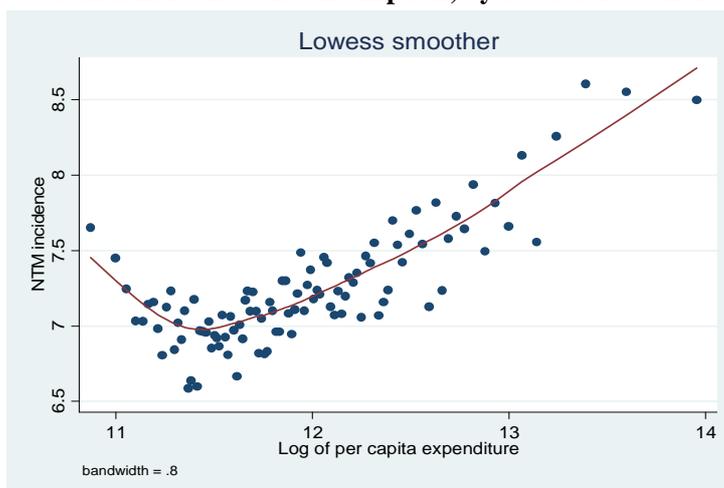


Appendix 4.3 (in the DTIS update Volume 2) shows examples of the database for Burundi. The examples are HS100510, maize seeds, and HS721633, steel “H beams” for construction. Both illustrate the large number of measures that can apply to fairly simple products which are inputs for important economic activity (agriculture and construction) and where importers may well be large enough to watch quality by themselves.

There is a positive correlation between the incidence of NTMs and household incomes in Burundi. The incidence of NTMs on consumption (measured by the average number of measures per HS6 product) rises with the per-capita income of Burundi’s households (Figure 4.3) for per-capita incomes

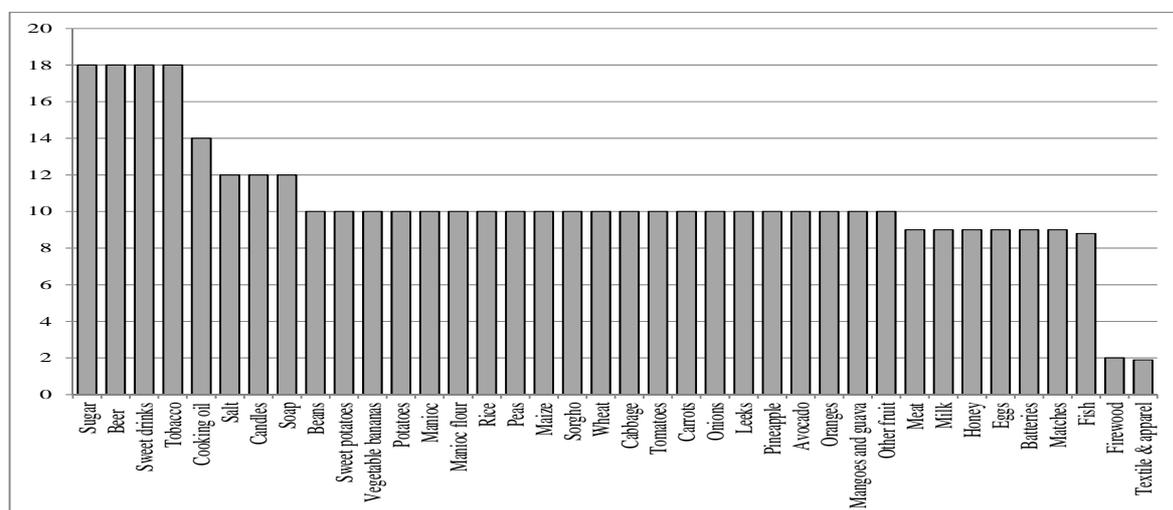
higher than FBU 100'000 per year (\$70)⁸⁵. The figure measures, on the vertical axis, a weighted average of the number of NTMs affecting consumed products, each weighted by its share in household budgets. On the horizontal axis, it measures household income, i.e. the log of the annual expenditure of each centile of Burundi's household income distribution⁸⁶. Incidence first goes down at very low income levels, and then rises after FBU 100'000 ($e^{11.5} = 100'000$). The correlation shown in Figure 4.3 is rooted in patterns of expenditure and regulation. The latter are shown in Figure 4.4: most heavily regulated products include sugar, beer, sweet drinks ("limonades"), tobacco and cooking oil. Most lightly regulated products include firewood and textile & apparel.

Figure 4.3 NTM incidence on consumption, by level of household income



Source: Mission calculations using Burundi's household survey.

Figure 4.4 NTM incidence, by product



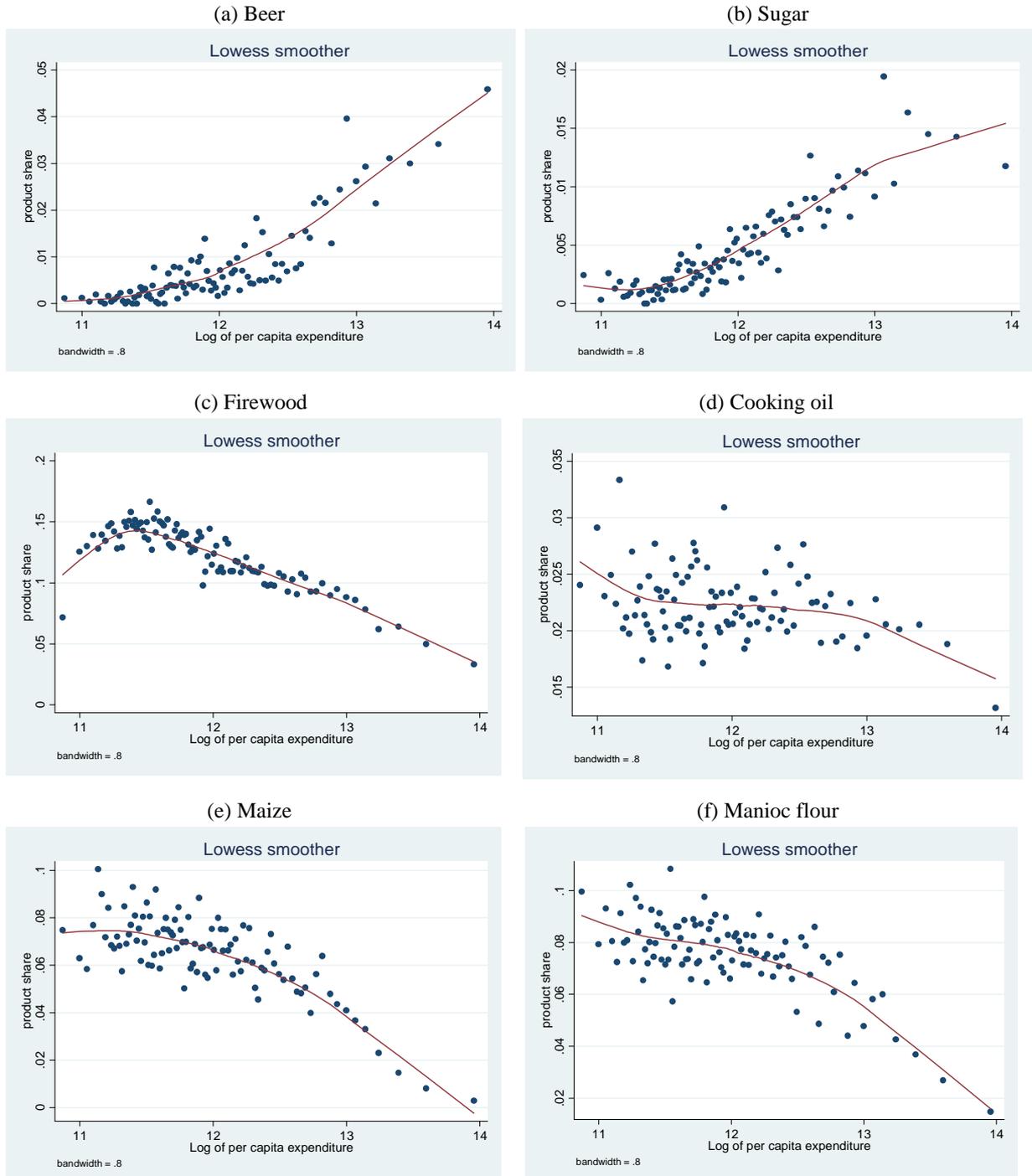
Source: Mission calculations, based on Burundi's household survey and World Bank/UNCTAD data.

⁸⁵ Per-capita income is obtained by dividing household income by the number of household members, including children.

⁸⁶ Household income is best approximated by expenditure, as savings is likely to be nil for most household surveys and respondents typically give more reliable answers to questions about spending than about income.

Some of the most heavily regulated products, sugar, beer, and sweet drinks, are also superior goods, with expenditure shares that rise with household income. The case of beer and sugar is illustrated in panels (a) and (b) of Figure 4.5. At the other extreme, the case of firewood, an inferior good which is also lightly regulated, is shown in panel (c). Intermediate cases including cooking oil, maize, and manioc are shown in panels (d), (e) and (f) respectively.

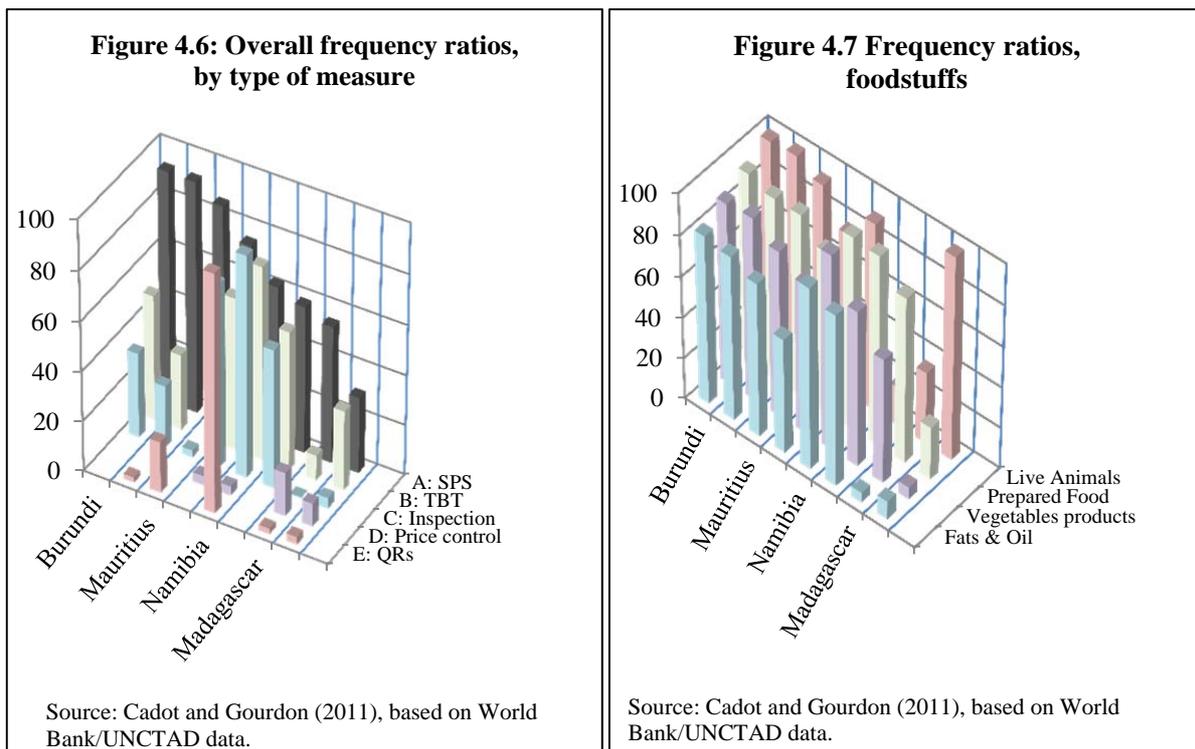
Figure 4.5: Expenditure shares and household income



Source: Mission calculations, based on Burundi's household survey.

A substantial chunk of the measures imposed by Burundi are SPS (Figure 4.6). The balance corresponds to technical regulations for reasons other than SPS (so-called “TBT”) and pre-shipment inspection (PSI), which is imposed on all imports above a *de minimis* threshold. PSI has been repeatedly flagged by the private sector as an issue, which we discuss in the next section.

NTM frequency ratios are pretty much the same, and very high, across agro-food product categories (Figure 4.7). Such high frequency ratios, again, raise questions for a country where most of the population consumes its own production and where small-scale cross-border trade in agricultural products can be an important source of income, in particular for women, and is not very amenable to the type of traceability and quality controls that full application of the country’s arsenal of SPS legislation would imply.



In sum, a preliminary look at Burundi’s inventory of NTMs, in international comparison, suggests that once controlled for Burundi’s level of income and administrative capabilities, there is a definitive risk of regulatory overkill. It is not clear that the heavy regulatory apparatus being put in place addresses a well-identified societal demand. Fragmentary evidence gathered in the course of the mission suggests that the kind of consumer concerns that justify heavy regulation in the E.U. may not be central issues for the functioning of markets in Burundi. Instead, market transactions seem to be affected in Burundi by double moral hazard: sellers are worried of buyers not paying them, while buyers are worried of sellers cheating on product characteristics or quantities. Such lack of trust in market transaction is not overly surprising for a country that is just emerging of a protracted civil war. The State has a role to play to encourage the buildup of confidence (“social capital”) through a transparent and fair regulatory environment. However it is not clear if regulations that go so much beyond current capabilities that they carry little credibility will really help, because the same lack of trust currently characterizes relations between the private sector and the State.

2.2 Severity: the impact of NTMs

While the current impact of NTMs on household consumption is negligible, their generalized enforcement – as envisaged by the government – could raise consumer prices across the board by 30-40%. To estimate the impact of technical regulations on consumer prices of affected products, regressions were run (see Box 4.1). The results show that SPS measures do not seem to affect consumer prices. This is to be expected given that most households in Burundi consume products that are produced locally, many by themselves. Thus, the effect of NTMs on the cost of living goes through manufactured products such as textiles and apparel. Given that textile and apparel represents, on average, only 4% of household expenditure in Burundi (the rest is mostly food and services), the estimated AVE raises the cost of living for the average Burundian household by a negligible 1.5%. However, the estimation illustrates the potential effect on the cost of living of generalized enforcement of measures, given that such seems to be the government's objective. Raising consumer prices across the board by 30-40% (since most products are covered) would have a non-trivial effect on poverty, and this should be kept in mind.

In addition to their impact on consumer prices, NTMs and NTBs also have an effect on the import of intermediary goods and can therefore undermine the performances of the productive sector (e.g. manufacturing, construction, agriculture). Although it was not possible to carry out a quantitative estimate of this issue for the DTIS update, this channel should nevertheless be considered when assessing the relevance of NTMs and the need to remove domestic NTBs.

As a tentative estimate, a simulation using a dynamic computable general equilibrium (DCGE) model shows that reducing Technical Barriers to Trade (TBT) imposed in Burundi would have significant economy-wide impacts. Most significantly, a reduction in TBT that would generate a decrease in the price of the products affected (mainly manufactured products) could have a potentially large impact on consumption and investment, and hence on GDP growth.

Box 4.1: Estimating the price impact of NTMs in Burundi

This AVE estimate is obtained from regression results shown in Table 4.1. They are based on a panel of 1'260 country × product pairs combining price data from the World Bank's International Price Comparison Project (IPCP) and the NTM database, after reconciliation of product nomenclatures (the IPCP nomenclature is much more aggregated than the HS system). The estimator is "within-product", meaning that the data is de-meaned by product. Regressions (1) and (2) also include cost-of-living adjustment by country, whereas regression (4) includes a full set of country dummies. All regressions include a Burundi dummy. Regressions (1) and (2) use the simple price gap (i.e. the difference between a product's domestic price and its average world price across the entire sample) either in logs or in percentage, and explicitly control for tariffs on the RHS, whereas regressions (3) and (4) directly correct for tariffs in the construction of the dependent variable. Estimates are remarkably stable across specification (the difference between column 1 and the others is due to the construction of the dependent variable). AVEs calculation is detailed in Appendix 4.

Box 4.1 (continued)

Estimator	Within	Within	Within	Within
Dep. Var.	ln (gap)	percent gap	tariff-corrected gap	
	(1)	(2)	(3)	(4)
Tariff	0.000 (0.00)	0.037 (0.04)		
Burundi	-0.560 (2.88)***	-57.008 (3.52)***	-64.481 (4.41)***	-69.283 (3.17)***
<u>NTM coverage ratios, by type</u>				
Coverage ratio, A	0.042 (1.62)	1.942 (0.98)	2.652 (1.03)	2.966 (0.96)
Coverage ratio, B	-0.005 (0.19)	0.396 (0.19)	5.398 (1.92)*	-0.690 (0.22)
Coverage ratio, C	-0.005 (0.19)	-1.456 (0.68)	-7.972 (3.08)***	-0.849 (0.24)
Coverage ratio, D	-0.022 (0.69)	0.793 (0.29)	2.386 (0.68)	-1.897 (0.37)
Coverage ratio, E	-0.000 (0.01)	-0.488 (0.18)	3.165 (0.82)	0.088 (0.02)
<u>NTM cov. ratios interacted with Burundi dummy</u>				
Coverage ratio, A × Burundi	0.143 (0.83)	21.082 (1.46)	19.142 (1.48)	18.599 (1.03)
Coverage ratio, B × Burundi	0.314 (1.85)*	31.967 (2.29)**	29.052 (2.29)**	34.510 (2.30)**
Coverage ratio, C × Burundi	0.079 (0.42)	12.422 (0.67)	19.180 (1.21)	12.027 (0.88)
Coverage ratio, E × Burundi	0.115 (0.39)	14.252 (0.48)	9.602 (0.34)	13.829 (0.55)
COL adjustment	1.246 (15.96)***	1.028 (14.02)***		
Constant	-1.305 (19.90)***	-3.722 (0.66)	2.510 (1.67)	7.857 (1.22)
Observations	1260	1260	1260	1260
Number of groups (icpcode)	42	42	42	42
R-squared (within)	0.32	0.30	0.03	0.08

Note: Robust t-statistics clustered at the product level in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%. All regressions include product fixed effects.

Source: Mission estimation using price data from the World Bank's International Price Comparison Project (IPCP) and the World Bank/UNCTAD NTM database.

2.3 Main issues on the ground

2.3.1 A major but uneasy transition in the fiscal environment

Burundi is currently in the midst of a major transition of its fiscal environment. This transition is from an informal, weak-State economy in which taxation, heavily reliant on border taxes, was haphazard and largely avoided, to a more formal one where the State asserts its authority, imposes the fiscal traceability of transactions, and tries to regulate economic activity. Under strong leadership, the *Office Burundais des Recettes* (OBR) is actively reaching out to broaden the tax base, contesting established practices and applying the newly-established VAT to transactions that used to go without a trace.⁸⁷

Box 4.2: rent-seeking, loopholes, and anticompetitive practices

⁸⁷ The OBR's creation was one of the recommendations of the 2004 DTIS.

In spite of efforts to improve the enforcement of regulations, according to fragmentary information gathered by the DTIS update team outside of formal interviews, several products seem to be imported or distributed through channels characterized by rent-seeking or anti-competitive practices. These informal arrangements contribute to discourage regular operators and to high prices that penalize consumers.

For instance, **powder milk** is bought by well-connected operators in Goma at the equivalent of FBU6'950 per box, imported into Burundi using networks of informal traders—mostly women—who pay small lump-sum taxes at the border and then loaded onto minivans or pickups, to be sold at a domestic price around FBU12'000 per box. Volumes imported are estimated to top off 60'000 boxes per year, generating a stream of profit that could be as high US\$200'000 per year at the current exchange rate and costing almost as much in lost tax revenue, since neither tariff nor VAT are paid.

Sugar is produced in the country by a State-owned company, Sosumo. Sosumo has a list of authorized buyers who can buy sugar at FBU1'250/kg, whereas the market price is said to have recently shot up to as high as FBU2'500/kg. Some of the sugar bought by big buyers is said to be profitably exported to neighboring markets, which contributes to keeping Burundi's domestic price high, while arbitrage through competitive imports from other EAC countries like Tanzania is made difficult by a web of regulatory and anticompetitive arrangements.

In the same vein, **cement** is said to have been imported in growing quantities through parallel, tax-avoiding channels with high-level connections, until what appears to be a recent crackdown by OBR. All three examples, if confirmed, would illustrate the interlinkages between anticompetitive practices, tax loopholes and rent-seeking, all of which contribute to distort competition, undermine OBR's efforts to level the playing field, and deprive the State from sorely needed tax revenue.

There is a “clash of cultures” between the new system embodied by OBR and some of the traditional ways of doing business in the country. This can be illustrated by the following. Below a given threshold of turnover, operators can claim lump-sum taxation at a rate which often makes the lump-sum choice attractive. However, the system is easily abused by slicing operations, under-reporting, and by the practice of cash-based transactions with no paper trace. The OBR is now reclassifying businesses upon evidence of abuse. It also conducts spot checks of imported merchandise sold on domestic markets. But this creates a problem for small-scale traders shopping for imports in Middle-East or Asian markets. When these traders share containers of retail merchandise bought, say, in Dubai, they may end up being taxed twice—once upon customs clearance under one of the traders' names, and a second time when the others cannot prove that they bought from the first one at random checks on markets. Such a problem would not happen if all transactions, including those between traders, were recorded and billed, but this is not in the habits of small-scale traders for a variety of reasons.

This transition is accompanied by progress on several fronts in terms of trade facilitation. Anecdotal evidence suggests that customs clearance times at the Kobero border post have been reduced, that there is more flexibility in the choice of a clearance point, and that the customs-broker industry has been restructured and professionalized. Many of these changes address issues raised in the 2004 DTIS. In addition, cooperation between Burundi's OBR and the Rwanda Revenue Authority has led to the creation of a *régime de commerce simplifié* whose objective is to facilitate small-scale cross-border trade. Both countries have established a common list of commodities eligible for the use of a simplified certificate of origin to establish eligibility to intra-EAC tariff-free treatment. However, traders wrongly assumed that eligibility would also entail exemption from VAT, which is not the case, leading to misunderstandings at the border.⁸⁸

⁸⁸ See <http://www.obr.bi/publications/actualites/173-lobr-donne-des-eclaircissements-sur-le-regime-de-commerce-simplifie.html>.

Notwithstanding these improvements, the transition is perceived by the private sector as traumatic. Established operators see usual ways of dealing with fiscal authorities not working anymore, and old habits all of a sudden deemed illegitimate. Informal operators, sometimes illiterate, are asked to document transactions and hold books, all things for which they have no training and which they see as intrusive and unnecessary. Compounding difficulties, business-support services (accounting and the like) are weak, when available at all, in Burundi.

Against this sensitive background, fiscal and customs authorities ought to redouble in rigor, act with moderation, and communicate systematically. But as a matter of fact, they seem to have been quicker to adopt a new aggressiveness than to shed an entrenched culture of discretionarity, lack of clarity, and sometimes even plain disregard for the rights of taxpayers. For instance, a duty-drawback system has been in place for a long time in Burundi. However, it was difficult to ascertain whether it applied to re-exports within the EAC zone, a frequent issue in FTAs. Moreover, in reality drawbacks seem to be rarely if ever refunded. VAT reimbursements also seldom take place except for NGOs, diplomatic missions, and the like. According to the OBR, no demands have been received from the private sector. However, some private-sector operators complained about arrears reaching half a million dollars, and about documented demands that seemed to get lost each time administrative personnel changed. In some instances brought to the DTIS update team's attention, disciplinary procedures based on the reclassification of activities involving higher tax rates have been notified to private-sector operators over four years after the facts in order to prevent prescription. Whereas such practices are standard in stable regulatory environments, during a transition period where the rules of the game are being redefined, the OBR might consider refraining from disciplinary actions based on facts that happened half a decade ago. This might, incidentally, lighten the work load imposed on an administration with limited capabilities.

2.3.2 Ratcheting up the regulatory environment

Following Burundi's accession to the EAC and the bloc's harmonization efforts, the country's regulatory environment is also in mutation. The *Bureau Burundais des Normes* (BBN) is trying to drastically modernize product regulations (SPS and TBT) and their enforcement, by revamping texts and procedures and recruiting aggressively (the Bureau, which currently has 34 employees, indicated to the mission that it was considering hiring 15 more, mostly engineers).

Modernization of the country's regulatory apparatus is an unavoidable byproduct of regional integration and is desirable. However, it has the potential to become yet another vehicle for heavy-handed government intervention in the conduct of business, coming on top of the fiscal overhaul discussed in the previous section. The question is whether the BBN and ministries concerned have the organizational—not just technical—capability to manage such an ambitious transition in a rational manner.

Box 4.3: the EAC Standards Review - the need for engagement

The EAC Secretariat is currently launching a large-scale review of the area's 2,500 standards. The five-year review, which is expected to lead to the confirmation of some existing standards and to the elimination of other, outdated ones, is mandated by the EAC Common Market Protocol and involves a process of public consultation. The East African Business Council is pressing for the tightening of standards on counterfeit trade in a long list of consumer products that includes, inter alia, such major items as textile and apparel, cosmetics, cigarettes, alcoholic and other beverages, pharmaceuticals, soaps and detergents, software, books, batteries, or electrical and electronic equipment.

The EAC Secretariat released a schedule of consultative meetings spanning January and February, with a meeting to be held in Bujumbura on February 8, during this mission. According to indications provided *ex post facto* to the mission, the EAC delegation met with representatives of Burundi's Bureau of

standards, which kindly share the minutes of the meeting. Input from Burundi consisted in general remarks on the need to revise EAC standards to cope with development on international standards and regional trade issues. Meeting discussions centered on measurement units for powdered hair dye and on the heavy-metal content of whisky, brandy and vodka. While certainly crucial to the welfare of populations, these items might not have been so much at the center of the discussions if substantial preparatory work and consultations with the private sector had taken place prior to the meeting.

In view of the concerns raised by the private sector to the mission during interviews, substantial engagement of the national authorities and particularly the Bureau of Standards, is crucial.

Already, the fiscal-regulatory environment is perceived as too heavy for some activities that could generate jobs and export earnings to the country, including the provision of services for the sub-region. For instance, one of the country's domestic producers, having strong technical know-how, could be, economically, in a position to provide repair and maintenance services for diesel engines to a range of clients in the region, given his unique expertise in the area. However, the customs clearance procedures involved in the import and re-export of an engine for repair from a neighboring country, and in the import of spare parts from Europe, would be so daunting as to discourage the activity altogether. For instance, assuming that the engine was shipped by a Rwandan customer for repair in Bujumbura, it would have to carry a temporary export declaration including origin documentation on the engine (however old it was) and security deposits both for Rwanda's and Burundi's customs. Imported spare parts would carry 10% duties in addition to the VAT, unless some agreement was reached with OBR, which would likely involve numerous discussions whose result could anyway be overturned later on. Adding more controls on top of such an environment would just make things worse.

There are also issues and a clear capacity deficit concerning quality control, certification and pre-shipment inspection. To be effective, BBN's involvement in quality control would require that its resources be sufficiently stable to ensure that its controllers were offered attractive remunerations. Otherwise, incentives would grow over time to use controls to demand side payments. It is not clear that the ambitious hiring currently considered is sustainable in this regard. Moreover, SGS' (the pre-shipment inspection firm) involvement in quality control, which is being considered in the context of negotiations over the renewal of its contract, might bring in recognized expertise in the enforcement of technical regulations. However, the record so far is less than compelling, as the company's involvement in customs-clearance procedures is widely reported to be a source of complications. Whereas no one challenges the company's know-how and all recognize the professionalism of its Bujumbura staff, doubts are expressed about the credibility of the pre-shipment inspections, as SGS offices abroad are suspected of only performing cursory checks of the paperwork, albeit at the cost of substantial delays. The perception of many of Burundi's economic operators is that, because of their small scale, their files are not always given top priority by the company. For instance, it is frequently the case that paperwork sent from neighboring EAC countries on the internet manages to reach Bujumbura *after* the truck, a logistics performance. Bureau Veritas' operations, which concern exporters to the DRC, are even less streamlined, involving extraordinarily circuitous paperwork and resulting in unacceptable delays.

More than the proliferation of rules and controls, what is needed today in Burundi is a clarification of effectively applicable rules and tighter coordination across government agencies. For instance, there is uncertainty surrounding licensing requirements, which are largely used to enforce a variety of regulations (rather than as quantitative restrictions). Economic operators indicated to the mission that it was not entirely clear if export licenses, granted by the Central Bank, were still required for exports within the EAC zone. They are said to have been eliminated, but Customs apparently still requires them. Conflicting messages across administrations and ministries are apparently frequent, and, for the private sector, it is never entirely clear whether inconsistencies reflect mere disorganization or a willful practice designed to "corner" users into resorting to side-payments.

What is needed also is a careful coordination of regulatory and logistics policies. Gross Vehicle Mass (GVM) and axle-load (AL) regulations are a case in point. These regulations and their enforcement are changing, and the transition raises specific challenges which need to be addressed. GVM and AL regulations are progressively being tightened throughout Africa, as overloading of already heavy trucks has in the past contributed to rapidly degrading roads and to accelerated depreciation of donor-financed infrastructure investments⁸⁹. After a long period of overloading practice—there are many examples and testimonies from transporters accepting up to 50 tons of payload where the GVM and AL regulations would have permitted only 28 tons for a 6-axles tandem tractor/trailer combination—the existing fleet’s load capacity will be reduced to the real authorized weight per trip. Modern trailers are also often now equipped with single axles instead of tandem axles, this in order to reduce the GVM and accept more paying tonnage, but the AL regulation for these single axles should be also more restrictive and reduce the total tonnage of paying cargo per trip. During the transition period where both technology and rules of the game change, it is critical that controls at weigh bridges, which are frequent sources of traffic jams, bureaucratic hassle, and sometimes irregular payments as well, be perceived as fair, credible, and not more frequent than needed. A planned reduction of weigh-bridge controls to border crossings for international transport could be an improvement, but could also create unmanageable traffic jams at borders if the logistics (infrastructure, staffing, opening hours and so on) was not thought out carefully.

2.3.3 Lingering barriers to export on EAC markets

Burundi’s few formal exporters face non-tariff barriers in EAC partner markets which do not seem to abate over time, and Burundi’s authorities do not seem to be of much help either.

Interviewees mentioned to the mission a number of issues in dealing with Rwanda. These issues are discussed below as they were presented to the mission, although they may or may not be representative of a general pattern. For instance, a company leasing industrial equipment to clients in neighboring Rwanda would need to obtain temporary export licenses—with a security deposit and documentation of the equipment’s origin. Additional difficulties would await the operator on the other side of the border. In some cases a temporary import authorization would have to be issued by Rwandan Customs’ Kigali office, which might ask for documentation from the client and a security deposit to be placed in a Rwandan bank. In a particularly egregious case, Rwanda’s authorities demanded documentation from the client’s client, Rwanda’s Ministry of Public Works, Transport and Communication. The whole process could take up to five weeks, with consequences that are easily guessed for the client and his supplier.

Rules of origin can also be a source of complication, although difficulties may come, by the private sector’s own reckoning, from insufficient knowledge or misuse of the rules.⁹⁰ Origin is assessed on the basis of one of three possible criteria. For those products which are not “wholly obtained”, i.e. which embody imported inputs, the exporter can claim either local content or a change of tariff classification (at the heading level, i.e. HS4). Rule 4 of the EAC Customs Union rules of origin expresses the local content in two alternative ways:

- The CIF value of [imported] materials does not exceed 60% of the total cost of the materials used in the production of the goods;
- The value added resulting from the process of production accounts for at least 35% of the ex-factory cost of the goods as specified in the first schedule to these rules.

⁸⁹ EAC (2006) mentions a GVM maximum of 56 tons in Tanzania, 54 tons in Kenya and 46 tons in Uganda. By comparison, the maximum weight allowed is 44 tons on EU roads with strong ballast; in Switzerland, it was reluctantly raised from 28 tons to 34 tons in 2001.

⁹⁰ See supra on the *régime de commerce simplifié* between Burundi and Rwanda, which enables small-scale traders to use a simplified declaration of origin. A similar arrangement is under consideration with Tanzania.

According to a testimony gathered in the course of the mission, claiming the first of these criteria is a challenge because it is based on an addendum to the EAC CU rules of origin that administrations sometimes do not seem to possess or know of. As for the second rule, a company's administrative overheads are typically not counted as domestic value added, yielding a very restrictive estimate of value added.

Certificates of origin must be obtained from the Ministry of Commerce (they used to be issued by the Chamber of Commerce), and Rwanda's authorities assess the authenticity of those certificates by checking a list of authorized signatures communicated by Burundi's authorities. When personnel at the Ministry of Commerce changes, Rwanda's authorities may (they do) challenge the validity of the signature and embark in a process of inter-ministerial verification whose time schedule is very different from the schedule of business transactions. One interviewee mentioned a "circus" that lasted four months and came to an end only with the intervention of a high-level political official.

3. Streamlining NTMs in Burundi: An agenda for action

4.1 Key challenges

The priorities emerging from the analysis so far are clear. Right now, an important subject of friction between national authorities and the private sector lies in the forceful deployment of a new VAT-based fiscal system and the formalization of transactions that it entails. This is in spite of the fact that the formal sector welcomes OBR's efforts to level the playing field by attempting to close loopholes of various sorts.

NTMs *stricto sensu* are not perceived as a major problem, especially by established operators. However, the rapid evolution of the regulatory environment at home and abroad can quickly change that, and raises, in particular, two potential issues:

- Regulatory proliferation, combined with weak capabilities and a legacy of discretionary and opaque enforcement, with the effect of stifling entry and diversification of the economy;
- Rising NTBs in at least some neighboring countries, highlighting weak EAC disciplines and a lack of appropriate diplomatic reaction by partners.

Dealing with these current and emerging challenges requires effort along three axes:⁹¹

1. Work toward a climate of trust and mutual respect between public administrations and the private sector, by:

- Maintaining the momentum of efforts to close loopholes and to put the most egregious forms of rent-seeking to an end;
- Clarifying rules through the posting of all relevant texts on accessible and well-organized web sites;
- Training administrative personnel so that interpretations, information and enforcement criteria do not vary;
- Dropping procedures launched on the basis of offenses allegedly committed years before the OBR's creation;
- Furthering efforts to facilitate small-scale trade by building on initiatives such as the *régime de commerce simplifié* (RCS) adopted through cooperation between Burundi's OBR and the Rwanda Revenue Authority. Broadening the RCS approach could lead to a small-traders charter designed to facilitate small-scale trade without encouraging the slicing up of large-

⁹¹ These recommendations build on and are complementary to those of Kirk (2010).

scale operations to abuse fiscal loopholes. Such an approach could be coordinated at the regional level and supported by the World Bank's Trade Facilitation Fund.

2. Prevent regulatory proliferation, by:

- Adopting WTO “good-governance” rules for new regulations, including consultations and a cooling-off period before measures are put in place;
- Limiting new regulations to cases where they address clearly-identified societal demands.

3. Provide government support to domestic exporters, by:

- Collecting reliable information on NTBs encountered by Burundi's operators on other EAC markets and encouraging private-sector use of the tripartite online NTB reporting/monitoring mechanism, by taking up the issues raised in the monitoring mechanism and dealing with them effectively;
- Raising the issues in EAC forums and pushing for their inclusion in the EAC Time-bound program for the elimination of identified NTBs adopted by the EAC Council in 2009;
- Pushing for a binding dispute-resolution mechanism on NTBs in the EAC, possibly open to private-sector complainants.

Progress toward these goals can, at least in part, build on “quick wins”. A recent example is the reform of the OBR's *attestation de non-redevabilité* (ANR), a document required to establish that a domestic company is up to date on taxes and customs-duties payments. The document must be issued afresh for each import/export operation as well as numerous other business transactions such as responding to tender offers. Private-sector operators rightly point out that (i) it is difficult not to be up to date on customs duty payments since otherwise merchandise would not have been cleared, (ii) it is not clear why the OBR needs to receive from taxpayers a document based on information from its own data system, (iii) the single-purpose nature of the document is an unnecessary hassle. According to indications provided to the mission by the OBR, an overhaul of the ANR is about to be implemented.

OBR's responsiveness on this particular issue is good news. The discussion during the mission's restitution workshop held in Bujumbura on February 10 suggested that more dialogue-based improvements in OBR's procedures are under consideration. OBR is currently under a strong leadership, but things can change quickly and there is a danger of reversion to old habits of administrative discretionarity and non-responsiveness. In order to keep whatever momentum there is for dialogue-based reform, consultation structures must be reinforced, an area in which donors can help.

4.2 Building on the current institutional setup to move forward

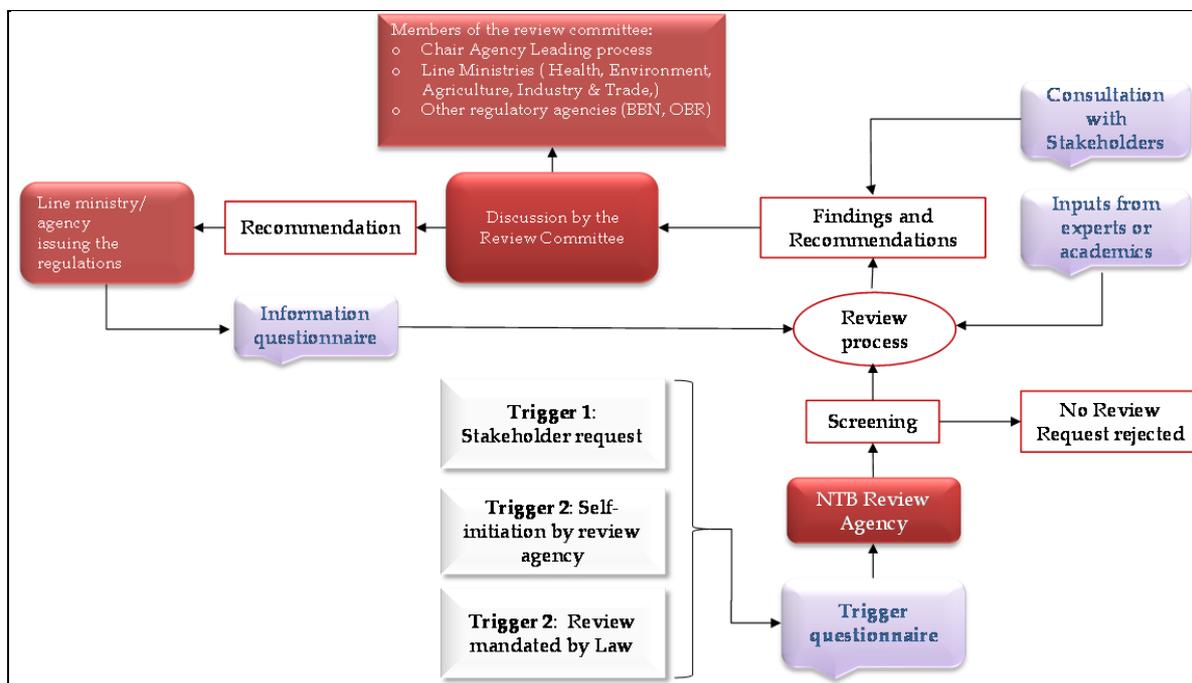
Progress toward the goals above can and should draw on existing mechanisms in order to ensure sustainability of the timid progress toward dialogue-based reform. As part of the EAC NTB monitoring mechanism, Burundi set up a *Comité national de suivi des mécanismes d'élimination des barrières non tarifaires*, i.e. an NTB monitoring committee. This committee can provide a starting point toward a permanent dialogue structure with the private sector on NTB-related issues. Burundi's NTB review committee is, like everywhere else, a mere forum for discussion, as follow-up on issues raised in the committee is left to the discretion of the agencies concerned.

The NTB review committee could evolve toward a model in which it plays the role of an independent regulatory-review agency⁹². In the long run, it could possibly be given competition-policy authority as well, as anticompetitive practices are plenty in a small emerging economy and the kind of expertise needed to conduct regulatory reviews and antitrust investigations—law and industrial economics—is largely the same. Moreover, a body having watchdog authority over both private and

⁹² This could follow the approach laid out in the World Bank's recent NTM review toolkit (World Bank 2012d).

public sectors would have more clout and credibility. The model, as currently piloted in Mauritius, involves the creation of a permanent secretariat of the NTB review committee with technical capabilities, say through the hiring of a newly-trained, technically proficient economist. Acting on triggers like written submissions from private-sector operators, or through self-initiation, the secretariat conducts technical reviews of regulations based on factual analysis and consultations with stakeholders and the issuing agency, and makes recommendations. Those recommendations are then discussed in a plenary session where the issuing agency and private-sector representatives have a new opportunity to explain their positions. If the issue can be solved technically, the committee adopts or rejects recommendations by consensus. If the issue is political, final decision is ratcheted up to ministerial level. The full model, as implemented model, is illustrated in a flow chart in Figure 4.8. It can be scaled up or down to accommodate local needs or capabilities.

Figure 4.8 Mauritius’ regulatory-review agency model



The same model can be adapted to deal with new regulations in the spirit of “Regulatory Impact Assessment” (RIA). Whereas full RIA is a complex process, simplified examination and, most importantly, the adoption of simple dialogue and good-governance procedures in the issuance of new regulations could go a long way toward drawing the economy’s key players into the reform process.

Donors can help in this process through technical assistance and by contributing resources to the regulatory agency, possibly broadening its mandate to cover competition issues as well. This would help to build an institutional setup capable of (i) containing regulatory proliferation, (ii) instilling a spirit of good governance and quality into government action, and (iii) facilitating the spread of best practices in the EAC region. It would also strengthen the modernization action of OBR by embedding it into a legitimate and sustainable reform process.

Most importantly, donors can encourage the creation of similar regulatory-oversight agencies across EAC member states in order to leverage economies of scale through cooperation and to facilitate a unified approach to regulatory improvement. Agency technical personnel could be trained to perform regulatory reviews through regional capacity-building workshops, building a common body

of expertise and encouraging cooperation at the technical level. Informal contacts at the technical level have proved, in other regional settings, a powerful vehicle for substantial regional cooperation and the reduction of trade and regulatory frictions before they ratchet up to political level. In particular, stronger agencies in the larger/more advanced countries in the region could provide assistance and guidance to weaker ones, such as Burundi's.

CHAPTER 5 – Strengthening Trade Facilitation and Logistics in Burundi

1. Introduction

Burundi, like other landlocked countries, faces a disadvantage to access overseas markets. Distances to regional seaports in Tanzania and Kenya are long and the country has to rely on neighboring countries for reliable transit routes for its trade traffic. Logistics costs are a significant component of most imported products and can be a significant component of the free on board (FOB) price for exports. Virtually all goods, manufactured products and basic foodstuffs, such as sugar, rice and flour are imported. Industrial production in the country is limited to the production of beer, small quantities of cement as well as packaging and distribution of imported products. Even for the production beer, the main industry of the country, 90% of inputs are imported with only land, water and labor being the important local inputs.

Bujumbura plays a key role in Burundi’s logistical system. Any national logistics system has two distinct, but complementary, components: a domestic system that handles local flows of goods between centers of production and processing, and an international system that links the country to regional and international markets. In Burundi, the fulcrum of the two systems is the capital, Bujumbura, which serves as the country’s domestic logistics hub and also as the preeminent international trade gateway. Bujumbura is connected to all parts of the country by a national road network, while connectivity to regional and global markets is by a multimodal system comprised of road, water and air transport. It is also the main center for customs and border management, where cargo is processed, consolidated or deconsolidated and transferred between the domestic and international systems. As such, Bujumbura has a concentration of services providers in logistics, trucking, inland water transport, clearing and forwarding, warehousing, and banking among others.

An important goal of trade facilitation in Burundi is to reduce logistics costs, which are high compared to neighboring countries. These high costs increase the costs of Burundi’s imports and undermine the competitiveness of its exports. Burundi imports cover a wide range of commodities, such as petroleum products, building materials (e.g. cement, metal products, sheet, pipe, hardware, millwork), chemicals used in cleaning, food items, transport equipment (e.g. vehicles, tires, spare parts), and communication equipment (e.g. computers, antennas, etc.). Twelve products account for almost three-quarters of the import basket in terms of tonnage. Petroleum products alone are more than a fifth of the tonnage transported. Exported products, mainly coffee, tea, hides, beer and soap need to reach foreign markets smoothly and without additional costs detrimental to their competitiveness, while satisfying the quality requirements of foreign buyers. Diversification of exports at the same time is important to broaden the base of the economy, stabilize revenues and create jobs. It is therefore imperative that measures be taken to reduce logistics costs, as it is to address other constraints that are faced in the economy to create local value addition (energy, agricultural inputs, etc.). The main import and export volumes are shown in Table 5.1a and 5.1b, respectively.

Table 5.1a: Main imported products (tons)					
Product	2007	2008	2009	2010	2011
Cement	67,077	83,594	120,804	156,989	142,364
Diesel	29,330	40,732	23,751	49,247	65,299
Gasoline	24,582	24,706	16,028	37,169	38,426
Iron and steel	16,727	15,403	17,938	28,669	35,353
Vegetables	294	4,445	403	9,208	29,191
Salt	6,364	1,941	1,879	10,678	23,896
Malt	11,869	11,242	12,685	14,319	17,199
Fertilizers	3,240	4,006	6,317	10,114	16,782
Durum wheat	3,328	0	11,071	6,125	16,446
Articles of iron and steel	5,106	4,573	6,861	9,682	12,140
Ceramic products	3,742	4,802	7,112	8,966	12,123
Sugar	6,209	6,137	5,901	13,564	9,825
Rice	4,115	873	3,192	10,412	8,833
Petroleum	1,092	1,477	6,543	2,842	5,817
Aviation fuel and kerosene	6,049	5,989	16,856	4,573	3,307
Total for main products	189,124	209,920	257,341	372,557	437,001
Total import	278,287	307,483	353,490	494,987	681,790
Main products as share of total imports (%)	68.0	68.3	72.8	75.3	64.1
Share of fuels (%)	21.9	23.7	17.9	19.0	16.6
Table 5.1b: Main exported products (tons)					
Product	2007	2008	2009	2010	2011
Coffee	20,307	15,883	17,114	20,661	17,446
Tea	6,475	5,406	6,293	7,139	8,075
Beer	3,207	4,299	2,959	3,699	6,112
Soap	426	1,014	1,301	1,289	4,040
Raw hides and skins	2,682	2,256	2,273	3,019	3,090
Total for main products	33,097	28,858	29,940	35,807	38,763
Total export	39,175	38,231	37,806	38,998	47,604
Main products as share of total exports (%)	84.5	75.5	79.2	91.8	81.4
Share of coffee and tea (%)	68.4	55.7	61.9	71.3	53.6
Export tonnage as a share of import tonnage (%)	14.1	12.4	10.7	7.9	7.0

Source: Authors' calculations based on BRB data (www.brb.bi/se/docs/bulmens/iv3.pdf ; www.brb.bi/se/docs/bulmens/iv8.pdf)

2. Review of the DTIS implementation and state of trade facilitation and logistics

The 2004 DTIS proposed five actions relating to trade facilitation:

- i. preparing an action plan on regional transit issues with neighboring countries;

- ii. designing a program of action on customs tariffs and valuation;
- iii. implementing a customs reform program to conform to international obligations;
- iv. Finalizing an accord on trade facilitation, in consultation with donors; and
- v. Facilitating the digital exchange of data between agencies involved in trade facilitation.

It is apparent that interventions prioritized in the first Action matrix related mostly to customs and border management. Since then, some significant progress was made in implementing the matrix, as far as trade facilitation is concerned. Some of the notable achievements were the following:

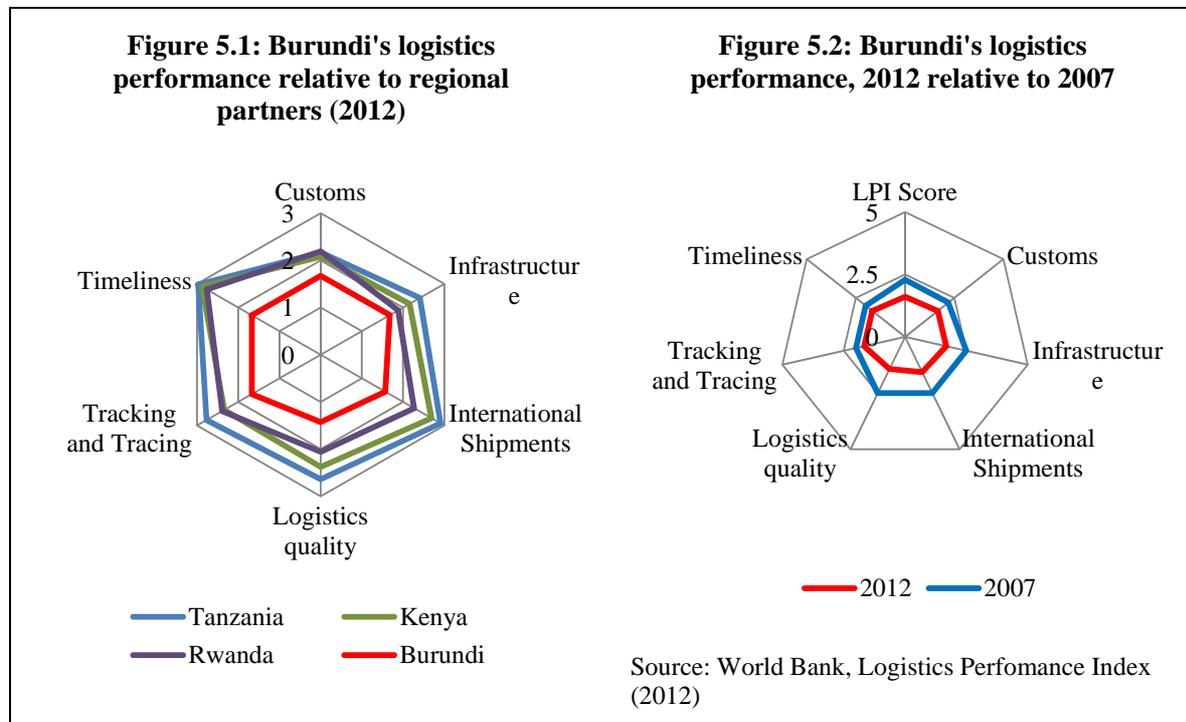
- A trade facilitation action plan was prepared that makes a clear distinction between what Burundi can do alone and what it has to work on with its neighbors, especially at the ports of Dar es Salaam and Mombasa-Mpulungu. Cooperation has concentrated in particular on improving road corridors and the creation of one-stop border posts. The issues of transit and movement of goods are now treated in the framework of regional integration within the EAC and COMESA. Burundi is taking part in a regional pilot on customs bond guarantee;
- A computer system has been designed for data exchange, including data sharing between Burundian customs and revenue authorities of neighboring countries, especially with Tanzania;
- A program is being implemented to harmonize customs revenue services and to provide for single collection point at the ports of entry;
- The Burundi Revenue Authority (OBR) was created in 2009 as an autonomous public institution that collects all government revenues; and
- Reforms of customs valuation are being pursued within the EAC, which since 2004 adopted the system of customs valuation based on the WTO Agreement on Implementation of Article VII of GATT 1994. In November 2010, the EAC Secretariat developed a manual on valuation to allow countries to follow the same assessment procedures. Burundi now uses the EAC manual.

Besides customs and border management, several other components of trade facilitation and logistics matter. A weakness in any dimension of logistics can neutralize the benefits expected from other potentially useful interventions. This appears to be the case with the experience of Burundi in this area. A valuable assessment tool for measuring the logistics performance of a country is the Logistics Performance Index (LPI) published by the World Bank. The latest LPI data, published in May 2012, show that Burundi's logistics performance is the lowest in East Africa (Figure 5.1), and is in fact the lowest of all the 155 countries surveyed across the world. Burundi came out last with a score of 1.61 out of a possible maximum of 5. Burundi's logistics performance is low across all six dimensions covered by the LPI (Figure 5.1): customs, infrastructure, quality of logistics services, international shipments, ability to track and trace shipments, and timeliness. The LPI is a useful starting point to explore where and how Burundi could improve its logistics performance, in order to underpin and support its trade competitiveness.

Even though Burundi has been implementing various reforms relevant to improving trade facilitation, LPI results for the country show that performance has in fact deteriorated between 2007 and 2012 (Figure 5.2). Overall score went down from 2.29 to 1.61 out of 5 over this period. The declines in performance were particularly acute in the quality of logistics services, international shipments and infrastructure. It is worth noting, however, that the LPI score can reflect also the improvements made in other countries, especially those that are Burundi's major trading partners. As such, if Burundi's improvements trail those of its main partners, then its LPI score will show a decline. As a landlocked country, it is important for Burundi to continuously improve its trade facilitation and logistics environment, at least as fast as its neighbors.

Clearly, countries have greater control over the first three dimensions of the LPI through decisions they make on investments in infrastructure, customs and border management systems, and regulation of

logistics services, while the other three dimensions are a reflection of the quality of the resultant system. Landlocked countries like Burundi, which rely on external service providers, may also have little control over the quality of those services. Still, a country is in a better position to engage with its coastal neighbors if it has a clear logistics improvement strategy.



Empirical evidence shows that landlocked countries like Burundi face many challenges to access overseas markets. These countries are separated by long distances from seaports in neighboring countries which increase, transit times and generally expose them to reduced reliability of their supply chains. Typically, such countries have to rely on service providers in neighboring countries to handle shipments through seaports, provide shipping, road, rail, clearing and forwarding services, as well as warehousing for storage of goods in transit. Shippers in countries such as Burundi therefore have reduced control over the movement of their international trade traffic.

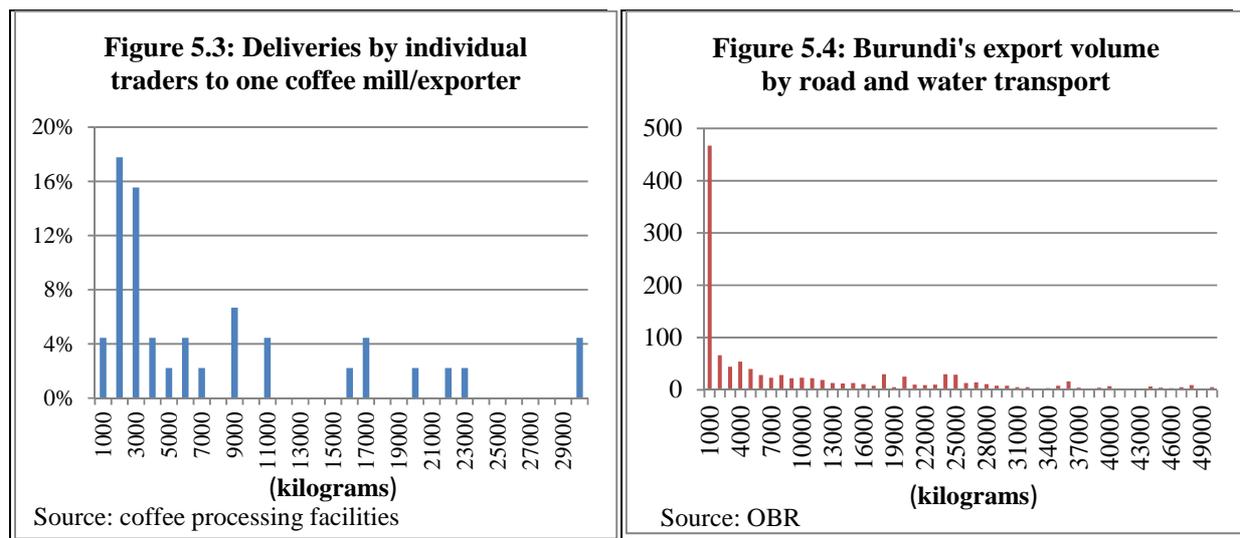
However, even under these circumstances, it is still possible for landlocked countries to take proactive policies to improve the performance of their logistics systems. Different landlocked countries, both low and high income, demonstrate that through innovative approaches and close integration with their neighbors, they can have logistics performances that are not very different from that of their coastal neighbors. Rwanda is an example of a country that is very similar to Burundi in various aspects, especially in terms of geographical location and reliance on the same regional logistics infrastructure and systems in East Africa. Rwanda has over the past few years developed a far reaching logistics strategy and made reforms in customs among other areas. As a result, Rwanda's logistics performance as measured by the LPI is much higher than Burundi's and comparable to that of other countries in East Africa: Rwanda's score on the 2012 LPI is 2.27, which represents 41% of the highest performer's score (compared to 20% for Burundi).

Trade facilitation and logistics in Burundi has two main characteristics that impact on costs and are important to the identification of feasible options for improvement. These are the size of shipments at both domestic and international levels, and the balance between import and export volumes. The two characteristics are elaborated upon below.

3. Size of Shipments

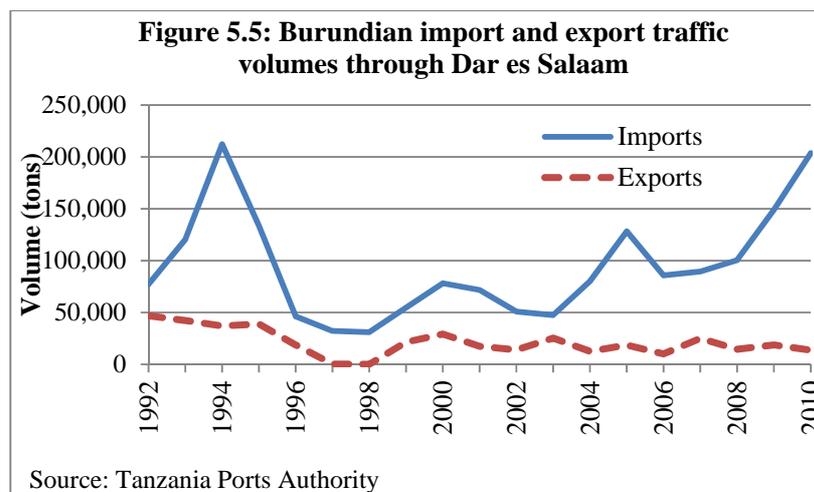
The small average size of shipments in Burundi is a concern for logistical efficiency. The transport sector typically shows increasing returns to scale. As the volume of shipments increases, larger vehicles can be deployed or the load capacity of the vehicles optimized, which lowers the unit cost of transport. However, for Burundi both domestic and international consignments are typically small in size. This is very apparent when one looks at the volume of deliveries of coffee by individual farmers to processing plants (Figures 5.3) or the size of consignments processed by customs for exports and imports (Figure 5.4). Coffee, the main export commodity, is produced by small scale farmers and more than half of the shipments delivered to primary processing plants (washing stations) are less than 5 tons. As a result of the small quantities, small sized vehicles are deployed, unless consolidation of volumes is carried out by intermediaries. Due to the high number of small deliveries, handling costs at the processing plants are high and consequently overall logistics costs also increase. The same applies to international shipments, where most individual consignments are less than five tons.

Efforts should be made to facilitate the consolidation of shipments. One way of reducing costs is to develop a wide range of consolidation services in containers from the main points of origin up to final destination Bujumbura. For international logistics, it is important that infrastructure and services that facilitate consolidation be developed in Burundi. Some consolidation of imports already takes place, for example of petroleum. Similar arrangements are important for all other types of cargo.



4. Traffic imbalance

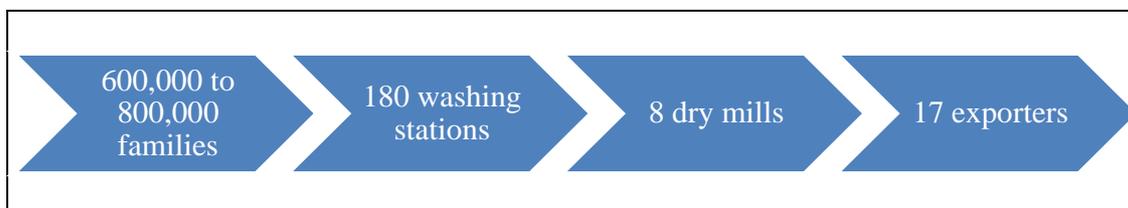
The other defining characteristic of cargo flows in Burundi is the large imbalance between import and export volumes. For example, exports through the main seaport gateway of Dar es Salaam can be as small as fifteen per cent of imports (Figure 5.5). Such an imbalance means that vehicles are more than 90% of the time empty going in one direction. It also means that import traffic has to bear the burden of vehicles running empty on the outbound trips. Predominantly one way flows of cargo affect the ability of Burundi based operators to participate in their country's logistics markets. Due to cabotage restrictions in East Africa, Burundi trucks travel to the port of Dar es Salaam empty to pick up cargo, whereas Tanzanian trucks have the possibility of picking up cargo in the western part of Tanzania to deliver to Dar es Salaam or domestic destinations in between. The integration of regional transport and logistics markets under the EAC framework is therefore important for the ability of Burundi to participate actively in regional logistics services markets.



5. Domestic logistics

The infrastructure to facilitate trade in coffee, Burundi's main export commodity, is critical to the organization and overall performance of the national system. Coffee is produced by between 600,000 and 800,000 families whose production passes through 180 washing stations across the country, is further processed through eight dry mills and ultimately sold to international markets by 17 exporting firms in 2011 (Figure 5.6). How well this chain works has important implications on the livelihoods of a large proportion of the population and the economic prospects of the country. Coffee is also the main export commodity in tonnage of Burundi. This gives added importance to the coffee supply chain, as there is a close interaction between the domestic and international logistics systems around this single commodity.

Figure 5.6: Coffee Supply Chain in Burundi



Burundi has a relatively sound basic infrastructure for coffee logistics, comprised of roads, local storage facilities, primary and secondary processing plants and export processing facilities. At the local level, the system is centered around a national network of coffee washing stations which are the primary processing facilities for coffee. The washing stations present the first opportunity for some consolidation of coffee volumes. As coffee is the main export commodity, its logistics patterns account for a large proportion of the domestic logistics system. The volume of coffee exports from Burundi has been highly variable, though volumes processed at all washing machines increased between 2009 and 2010. The average volume of coffee delivered increased from 28t in 2009 to 117t in 2010. Total volume increased from 3,552t to 16,461t respectively. The majority of washing stations have storage capacity of less than 100t. A typical processing facility during the 2011 selling season handled an average of 1,340 producers with each farmer producing an average of 84kgs in 2011. There is a close relationship between the distribution of washing stations, the distances farmers have to travel and the volumes each farmer is able to sell. This is the reason why the wide distribution of washing stations provides a sound basis for a primary infrastructure for rural logistics for coffee in Burundi. The network of stations reduces distances to the primary processing infrastructure at which some initial value addition can take place. This then

makes it possible for the coffee to be shipped over longer distances to the dry mills, which are fewer. Intermediaries and washing machine operators have traditionally managed the logistics operation between the washing stations and the dry mills.

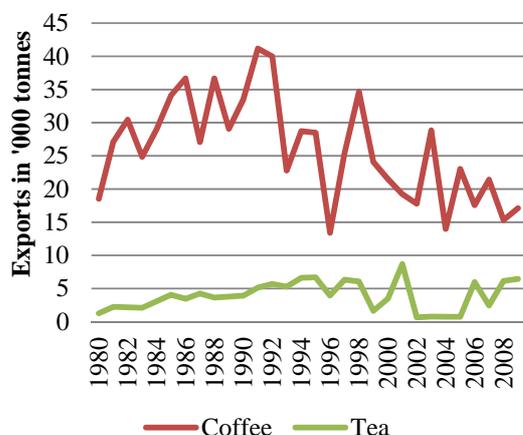
Government policies on the distribution of value in the coffee chain directly and indirectly affect logistics costs. Based on an analysis of over 600 deliveries to one secondary coffee processing plant, coffee is delivered by both middlemen and farmers to the facility. Most traders supply less than 5t of coffee (44%), though the average for all traders is 7.4t. Based on 2010 and 2011, each trader would have to purchase coffee from more than 80 farmers to make up these amounts. For example, during the 2011 selling season, one mill handled coffee from 58 buyers who supplied 4.7t of coffee.

A critical policy implemented in recent years is the government's decision that 72% of value in the coffee chain has to go to farmers, while the rest of the players share the remaining 28%⁹³. The critical aspect is that farmers essentially retain ownership of produce until it is exported. Changes in coffee policy therefore have a direct impact on how the chain is organized from a logistics management perspective and the prospects for minimizing logistics costs. The latter may mean intermediaries are used, which may then impact negatively on the socio-economic goal of empowering farmers. The current policy has the effect of pushing logistics organization to parties that are least able to manage sophisticated and efficient logistics systems. It is estimated that already logistics costs at the local level are more than 12% of the value of the coffee when it is delivered to exporters. What is critical is to encourage farmers to cooperate with each other when deciding when and where to sell their produce. This will enable them to increase volumes and lower unit logistics costs. Empirical evidence suggests that when they act individually, small scale producers are not able to manage long supply chains. It is therefore possible that the new policy can discourage intermediation, which has in the past enabled small scale farmers to participate in coffee markets. There is obvious need to strike a delicate balance between the economic empowerment needs that the government seeks to address, and the efficiency of the supply chain organization to minimize logistics costs.

In the framework of the coffee reform process implemented by the Government, the country's coffee washing stations are open to doing business. Amid growing political and social stability, Burundi has started since 2008 to privatize 133 public coffee washing stations. This means opportunities for coffee growers to rise to the challenge of producing high quality coffee. Already underway are intense initiatives to train and support coffee growers in environmental farming practices designed to achieve success in the specialty market. As explained in Chapter 3, producers already start to feel the benefits of this focus on quality coffee.

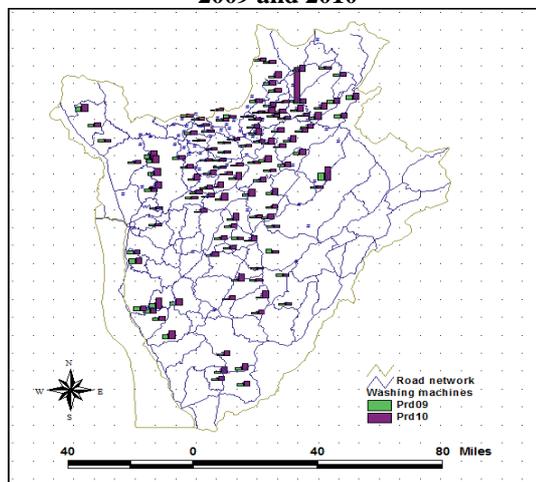
⁹³ This should evolve with the ongoing reform of the coffee sector (cf. Annex 3 in Volume II).

Figure 5.7: Burundi Coffee Exports, 1980 – 2008



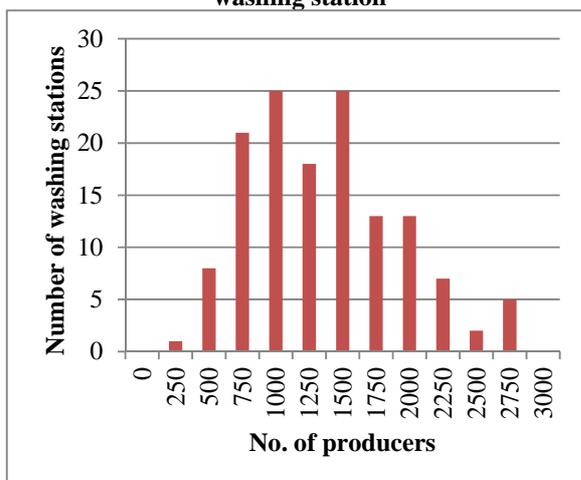
Source: FAOSTAT

Figure 5.8: Deliveries of Coffee to Washing Stations, 2009 and 2010



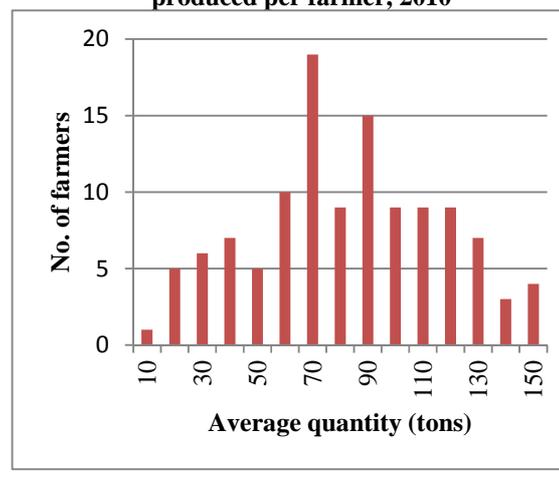
Source: Own estimate

Figure 5.9: Distribution of number of producers per washing station



Source: coffee processors

Figure 5.10: Distribution of average quantity produced per farmer, 2010



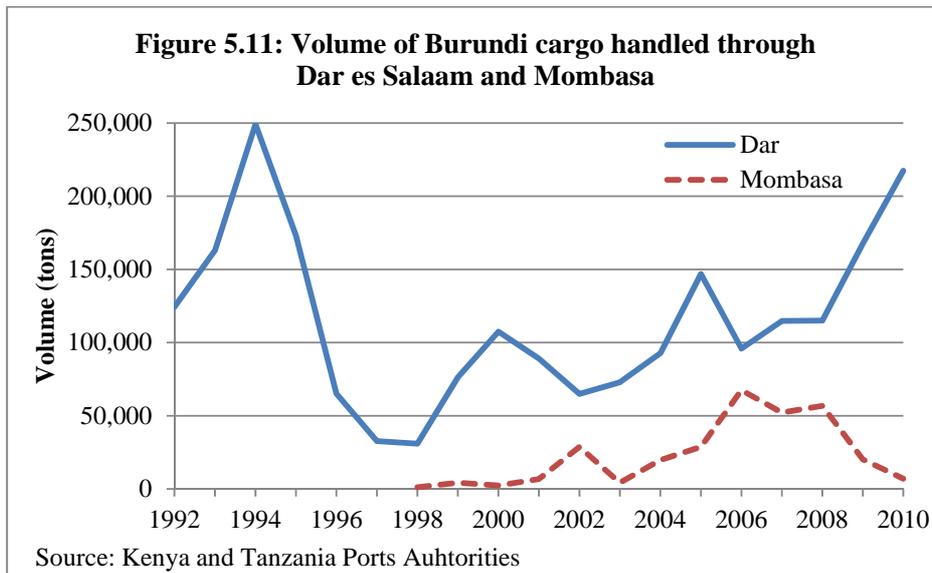
Enabling small scale producers to respond to globalization is important for inclusive growth and development in Burundi. Both the public and private sectors have long acknowledged the challenges faced by small scale producers. In other countries some innovative solutions have been designed but have met with varying levels of success. These have included among others, special postal services and express services tailored to small scale producers in South America. Brazil, for example, has successfully implemented innovative trade facilitation policies for low-valued exports based on postal services. The policies have two dimensions: the simplification of export procedures, and the use of the postal network to minimize logistics costs and enhance the viability of the export products. As such, these policies help overcome two major hurdles to exportation faced by many developing countries: overly complicated and costly export formalities on the one hand, and lack of access to an affordable

logistics services on the other. Typically, some of the greatest constraints are at the local level, and how flows cascade from local to international logistics chains.

6. Regional and international connectivity⁹⁴

Regional transport corridors are at the heart of regional integration in East Africa, as they are across most of Africa given the large number of landlocked countries. The corridors are necessary for regional integration to achieve maximum potential, to expand and to integrate markets, exploit economies of scale, and attract foreign direct investment. The development of regional markets, in turn, creates interdependencies that increase the demand for infrastructure. Traded goods flow through roads, railways, inland waterways, ports and airports, as do people seeking to take advantage of attractive services or job opportunities in other nations. Therefore, an efficient and integrated transport system facilitates trade and factor mobility. It is connective infrastructure that can effectively reduce the economic distance between locations for merchandise trade (World Bank 2009). By enhancing connectivity, regional infrastructure (especially in the form of transport and communication corridors) can facilitate the exploitation of economies of scale and scope, make possible greater specialization in production, and allow for more efficient division of labor. The most important benefits of regional infrastructure derive from network externalities.

Infrastructure development that impacts Burundi's regional and global connectivity has largely been designed around trade corridors. Burundi has access to the sea through two main corridors, namely the Northern Corridor, connecting to the Port of Mombasa, and the Central Corridor, connecting to the Port of Dar es Salaam. Due to its shorter length, the dominant trade route has traditionally been the Central Corridor, which accounts for more than 80% of import and export volumes (Figure 5.11).



The volume of Burundi traffic passing through the Northern Corridor and using the port of Mombasa has always been small. Less than 7,000 tons of Burundi's traffic passed through this port in 2010 (Figure 5.11). It is clear from the above figure that when the Central Corridor performs well the volumes on the Northern Corridor decline, and vice versa. With the exception of tea (normally less than 10,000 t/year), which is still auctioned in Mombasa, a large proportion of the cargo flow using the Northern Corridor is comprised of goods originating from the EAC market. However, the fact that

⁹⁴ See Annex 6 (Volume II) for a map of the main transportation routes in East Africa.

Burundi has access to the Northern Corridor provides alternatives in case of disruptions to the Central Corridor, like what happened in 2009 when the roads and railway were rendered impassable by floods. In addition to the main two corridors for access to the sea, Burundi also trades through the Southern Corridor, connecting to Zambia, and beyond to the countries of the Southern African Development Community. The three corridors have road, rail and inland waterway transport, providing Burundi with different permutations of multimodal combinations for its regional and international trade logistics.

6.1 Central Corridor

The Central Corridor comprises three main mode options for Burundi (Table 5.2): (a) an all road route from Bujumbura to Dar es Salaam via the Kobero border post; (b) a road–rail option from Bujumbura by road to Isaka, where there is a rail head, then by rail to Dar es Salaam, and (c) a lake–rail option consisting of barge from Bujumbura to Kigoma in Tanzania then rail to Dar es Salaam. The shortest mode combination is this lake/rail combination, which is 1,446km long. However the railway service in Tanzania is currently not fully operational, after the track was damaged by floods in 2009.

Route option	Distance (km)			
	Rail	Road	Lake	Total
Lake/rail	1255	..	191	1446
All road	..	1567	..	1567
Road/rail	999	659	..	1658

Source: Author's estimates

As roads between Bujumbura and Dar es Salaam have been improved in recent years, there are three major weak components to the Central Corridor for Burundian trade: i) poor cargo clearance at the port of Dar es Salaam; ii) non-availability of railway services and iii) old equipment on Lake Tanganyika. The main issues that have to be addressed to reduce trade costs are identified below.

6.1.1 Port of Dar es Salaam

Due to distance advantage and the fact that Burundian cargo transits through only one other country to reach a seaport, the main sea gateway for Burundi's trade is the port of Dar es Salaam in Tanzania. As such, the performance of the port is critical to the overall efficiency of the corridor. However, the Port has not always performed at a high level. Leading up to the global financial crisis, the Port of Dar es Salaam was heavily congested. The container terminal at the Port of Dar es Salaam was concessioned in 2000 and realized a considerable improvement in handling and dwell times. The container terminal, however, is constrained by space limitations and the increased traffic through the port led to congestion and a rapid deterioration in port performance indicators. Several container freight stations were established to move cargo out of the port and to alleviate the congestion at the Container Terminal and at the gate. However, though the use of container freight stations has reduced the congestion at the port and on the access roads, truckers still face problems in locating their containers at the port. As a medium term measure, two new container berths are planned, contiguous to the current container berth. Presently, the port is operating freely with no congestion.

Of course, a more important indicator of port performance from a trade perspective is the distribution of dwell time for cargo handled through a port. For Burundi dwell times for cargo through Dar es Salaam have always been long, in fact they have been longer than for cargo to the other landlocked countries (Zambia, Malawi, Rwanda, Uganda) except the DRC (Table 5.3 and 5.4).

<i>Days between:</i>	discharge and invoice payment	invoice payment and release	discharge and release
Mean	11	6	16
Median	10	4	15
St. dev.	9	6	12
Maximum	57	45	80
Minimum	0	0	0

Source: Author's calculations based on TPA data

<i>Indicator</i>	<i>Local</i>	<i>All transit</i>	<i>DRC</i>	<i>Zambia</i>	<i>Rwanda</i>	<i>Burundi</i>	<i>Uganda</i>
Maximum	107	119	113	112	70	80	56
Minimum	0	0	0	0	0	0	0
Mean	13	15	15	16	11	16	11
Median	9	12	13	13	7	15	7
Standard deviation	13	13	12	13	11	12	12
Total traffic	302,840	118,180	50,060	27,600	21,000	14,880	2,760

Source: World Bank (2012e)

The numbers indicate two characteristics of Burundian cargo handled at the Port of Dar es Salaam: (a) more than a week on average is lost just at the port, and it is not unusual for clearance times to exceed six weeks; and (b) clearance times are marked by a high level of variability, which indicates that the clearance process is unpredictable. Empirical evidence does suggest that unreliability increases logistics costs, as firms are forced to maintain high inventories to minimize the risk of stock-outs.

Long cargo dwell time is a pervasive problem in Africa, with both complex causes and a severely detrimental impact on trade. Recent research by the World Bank suggests that, beside institutional inefficiencies and deficient infrastructure, political economy factors bear a heavy responsibility in the delays at sub-Saharan African ports⁹⁵. This report notably shows that the private actors involved in port operations may have incentives to keep dwell time long and use the port as a storage area, in order to reduce their costs, limit competition and extract rents. While it has no direct control on the operations of Dar es Salaam port, Burundi should actively cooperate with the Tanzanian authorities to obtain further improvements of dwell time for its cargo, as least to bring it in line with those achieved for cargo destined to other landlocked countries such as Rwanda and Uganda.

6.1.2 Tanzania Railways

A major component of the Central Corridor system has always been the railway line that connects Dar es Salaam to the dry port at Isaka. However, the line has not been fully operational in recent years. In fact, traffic volumes have fallen from a peak of about 1.5 mtpa in 1994 to current levels of about 0.5mtpa. Even then, this volume is reached only when the line is fully operational, which it has not been for more than a year. The condition of the asset has deteriorated and substantial investments are

⁹⁵ See World Bank (2012e).

required to bring the railway back to a reasonable operating standard. The government of Tanzania had concessioned the line in 2007 to get it restored to full operations. However, the concession failed and was cancelled in early 2011. The low volumes of traffic were compounded by a lack of confidence in the railway operator, which resulted in guarantees necessary for financing for rehabilitation being held back.

Though there is now a regionally sponsored proposal to introduce a new standard gauge railway to replace or supplement the existing one, in the medium term the prospects for a rail based corridor operation lie in rehabilitating the TRL line. The Government of Tanzania is currently working with the World Bank on a project for such revival of the line. The risk in the short term is that essential maintenance of the existing systems will be further neglected in the enthusiasm to shift to the new system. It is also worth acknowledging that the rail based central Corridor option is about cost savings much more than it is about time. When it is operational train turnaround time is 17 days, with a tariff of US\$0.065 per tkm. An operational model (Nathan Associates 2011) has indicated that if turnaround time was reduced to 7 days, traffic could be increased to 1.5mtpa (the level reached in 1994), and tariffs could fall to less than US\$0.05 per tkm. This underscores the link mentioned above between scale and costs.

6.1.3 Lake Tanganyika

Freight traffic volumes on Lake Tanganyika using the combination rail/lake are currently very low. Except for some trade with Mpulungu in Zambia, and aid shipments for the DRC through Kigoma, most of the DRC and all of the Tanzanian flagged vessels operate on cabotage routes (i.e. between ports or landing places in their own territorial waters). While existing capacity is able to meet the current depressed level of lake transport demand, this generally involves considerable delay and long cargo dwell time in the lake ports of origin.

The current fleet operating on Lake Tanganyika is particularly small. A recent study for the Central Corridor development identified 23 vessels operating on the lake, of which 56.5 percent were 50 years or older and six were laid up or inoperable. There were no fully cellular container vessels, dry bulk or RoRo vessels operating on Lake Tanganyika, and trade is currently dominated by privately owned Burundian flagged vessels sailing on north-south routes. There are eight dry cargo barges in the fleet, two of which have a total cargo capacity of 1,014 tons. In addition, there are three general cargo vessels with a total capacity of 1,500 tons, and three combo carriers with a total capacity of 74 TEUs⁹⁶ were available for handling general or container cargo. This fleet would however not be able to meet a future increase of transport demand, especially if there is container transport demand driven by increasing GDP growth and/or growth realized through increased port efficiency (especially vessel turn-around time) and railway performance.

Bujumbura port is relatively better equipped than other ports on the lake. Bujumbura is the sole port that has the capacity for handling lift-on lift-off (LoLo) containers in the northern part of the lake. In general, of the six major ports on the lake, only Bujumbura has made a major investment in the port infrastructure in the last two and a half decades. The main quay, which was built between 1939 and 1957, was rehabilitated in 1990 (the 100 m wide apron was resurfaced in concrete and new crane rails and bollards were installed). In addition, the 50 year old rail mounted derrick cranes were rehabilitated in 2001. The only other infrastructure project under way is the dredging of the Port of Kigoma and the rehabilitation of its slip ways. In September 2010, the Port of Kigoma got a new mobile harbor crane capable of handling containers. However, the design and age of the wharf limits its effective use to less than 100 m of the quay.

⁹⁶ The vessels have capacities of 14, 24 and 36 TEU.

The Central Corridor is potentially very attractive for transit traffic. The main reasons for this are that: (i) customs arrangements are less costly, simpler and less restrictive; (ii) the number of transit countries is kept to a minimum; (iii) management and labor are more flexible at Dar; and (iv) direct transport costs are significantly lower for Burundi. However there are capacity constraints imposed by the Tanzanian railway company TRL. The Kigoma and Isaka routes are potentially the lowest cost transit alternatives for Burundi and Rwanda, but they are crucially dependent on an adequate level of rail service through Tanzania.

6.2 Northern Corridor

The Northern Corridor comprises the transport facilities and infrastructure linking landlocked countries of East and Central Africa, namely Burundi, D.R. Congo, Rwanda and Uganda, to the sea port of Mombasa in Kenya. The corridor also serves Northern Tanzania, Southern Sudan and Ethiopia. The main route available for Burundi traffic is the road passing through Rwanda, Uganda and Kenya, over a distance of about 1,990 km between Bujumbura and Mombasa. The corridor therefore connects most of the East African Community, and also links the EAC to states on its periphery (Sudan, DRC and Ethiopia). Beside roads, it has lake and railway combinations that form its constituent parts. Its strategic role derives from the importance of the Port of Mombasa to the region.

A number of road rehabilitation projects along the corridor are in various stages of development. There are also plans to improve the road network further from Uganda to South Sudan, as well as to extend the pipeline from Eldoret in Kenya, where it currently ends, to Kampala and further to Kigali. Uganda is expected to start exporting oil soon, which could lead to these extensions moving Uganda from the periphery of the pipeline network to its hub. Also planned is an expansion of the Port of Mombasa and an upgrade to the railway network. In fact, the approach to the railway that forms part of the Northern Corridor is probably the most illustrative example of a regional approach to infrastructure development and management.

Uganda is connected to Kenya in general, and to Mombasa in particular, by a railway line, which could be accessed by Burundi. The whole network is narrow gauge (1000mm) system, similar to the TRL system on the Central Corridor. In the mid-2000s the governments of Kenya and Uganda jointly concessioned the system to a private operator. The objective of the concession was to improve the management, operational and financial performances of the two railway systems by granting exclusive rights to the concession companies for the provision of freight services in both Kenya and Uganda for the duration of the concession term. However, the process has been difficult and has not yielded the desired results, in terms of traffic growth of the railway system and increased investment in track and rolling stock. As a result, the Northern Corridor carries only about 1.5 mtpa, down from 2 mtpa in 2005/6, or less than 5% of the container volumes handled through the Port of Mombasa. The service from Mombasa to Nairobi takes 19 to 24 hours, while the service from Nairobi to Kampala takes 6 days. Relative rail prices are \$590/TEU to Nairobi and \$2,500/TEU to Kampala, reflecting the long transit times. Bulk tariffs from Mombasa to Kampala are \$120/ton by road and \$80/ton by rail.

Based on the above, the Northern Corridor therefore hardly serves as a low cost or more reliable alternative for Burundi traffic. The Central Corridor has a distinct comparative advantage over all mode combinations on the Northern Corridor.

6.3 Southern Corridor

The Southern corridor has gained in importance in recent years. The route Mpulungu-Bujumbura on Lake Tanganyika, was developed mainly for cement and sugar shipments from Southern Africa to Burundi and, to a much lesser extent, Rwanda. The route carries little or no overseas trade. The potential of the route is reflected by looking at the trade volumes for 2011. A total of 681,790 tons was imported, including 134,046 tons from Tanzania, 92,291 tons from Zambia and 12,566 tons from South Africa.

These figures give an idea of the economic potential of the southern route and the growing importance of the way South using Lake Tanganyika. These tonnages from the south have been rising steadily for the past four years (Table 5.5). It should be noted however that only 133,237 t were transported by lake in 2010 and were composed largely of manufactured goods from Zambia (sugar and cement). These products find a market outlet in Burundi through the lake because of cheap transport cost (without the lake, Zambia would be at a greater economic distance from Burundi than China). Burundi's COMESA membership has also made imports of Zambian products more accessible and more competitive.

	2006	2007	2008	2009	2010	2011
Zambia (1)	48,277	16,117	12,432	31,249	101,272	92,291
South Africa (2)	5,446	6,120	4,107	3,266	5,244	12,566
Zimbabwe (3)	204	639	121	109	72	106
Total (1+2+3)	53,927	22,876	16,660	34,624	106,588	104,963

Source: BRB (www.brb.bi/se/docs/bulmens/iv6.pdf)

There is potential to further develop the Southern corridor. The southern route can become a workable reality provided that transportation costs combining rail, road and lake are equivalent to, or cheaper than, the cost of shipping from East Asia, and COMESA custom tariffs remain attractive. The economic potential in terms of transit for goods from the South (RSA, Zimbabwe, Zambia), to the EAC and the DRC can only be fully realized if lake transport is properly organized and seamless mode transfer is introduced between road and lake transport in the south of Lake Tanganyika.

6.4 Air Transport Connectivity

Air cargo volumes through Bujumbura airport are very low (Table 5.6). There is market potential, notably in fresh and processed horticultural commodities, which could be realized by providing efficient air transport services. However, the figures concerning air cargo have not changed much since 2006, suggesting that there has not been growth in demand. The market is particularly narrow and sluggish, and peaked in 2010 at 3,114 tons for import (59 tons / week) and 331 tons for export (6.3 tons / week). The demand seems limited and some products are available only in small quantities, which are not enough for dedicated services to remain competitive in foreign markets. Air carriers are prepared to deploy more capacity to Burundian trade only if production increases, while potential exporters would like to have price guarantees and regularity before committing to production. One alternative to this conundrum is to increase air transport connectivity by feeding Bujumbura traffic by road to Uganda and to Nairobi in particular, the air transport hub in East Africa. The price differential between air freight for similar products sent to Europe from Bujumbura and Nairobi is one euro per kilogram. This is potentially a significant cost saving.

Year	Import			Export		
	commercial	baggage	postal	commercial	baggage	postal
2006	2,590	487	59	210	432	16
2007	2,251	491	38	278	403	24
2008	2,184	608	40	365	401	26
2009	2,416	736	51	275	495	33
2010	3,114	589	45	331	372	35
2011	2,240	436	46	310	290	26

Source: BRB (<http://brb.bi/se/docs/bulmens/v3.pdf>)

Air connectivity, while limited in Burundi, is much denser in the broader region (Figures 5.13a and 5.13b). Nairobi is the most connected regional airport, followed by Dar es Salaam and Entebbe. Nairobi has many more flights, including direct flights to many major export markets, and handles many types of wide-bodied aircraft that provide much more capacity for export. A public-private partnership was recently formed at Nairobi to lease land for a freight terminal with a capacity of 300,000 – 600,000 tons per annum. This will dramatically increase the airport’s ability to support trade in fresh and other high value products. At the same time, Nairobi benefits with Kenya Airways from one of the most successful airlines in Africa, which handles 70% of the East African market. Kenya Airways flies code share flights with KLM, thus expanding its geographic range and market. It has routes to Europe, West Africa, the Middle East and Asia. It is therefore important to approach Burundi’s connectivity to global markets not just by considering options within the country, but also those in neighboring countries. This places even more demand on the necessity of further improving the performance and reliability of regional land transport corridors.

Of course, this approach is premised on trade patterns that continue to be oriented outside Africa. However, some of the fastest growth rates in trade in the region have been towards South Sudan and to Eastern DRC. It is therefore important to look also at connectivity to these other countries, which have not traditionally been among major trade partners for Burundi. As such, another option to increase volumes through Bujumbura might be to develop Bujumbura as a conduit for air cargo destined for eastern DRC or the Kigoma region and the economic areas of Lake Tanganyika. This will however require significant improvements in the general performance of all aspects of logistics in the country.

Figure 5.13a: Burundi air transport connections (scheduled flights)



Figure 5.13b: Regional hub connections



Source: Author’s estimations, based on DIIIO data

One of the reasons for Burundi’s poor air connectivity is the poor performance of the (only) national airline, Air Burundi. It is a very small airline with one operational aircraft, which is not reliable. It operated scheduled air services to Tanzania and Rwanda, but ceased operations in 2009 after its aircraft had reached its maximal flight time and had to undergo maintenance. The government has since then been keen on restructuring the airline, as a way to revive and expand its operations. The restructuring process of Air Burundi is currently underway and intended to lead to privatization of the airline. Privatization and other alliances are trends in the airline industry that have seen the emergence of prosperous airlines, such as Ethiopian Airlines and Kenya Airways. Recent decision taken by the council of Ministers has open the way for a privatization process of Air Burundi. Clearly the process should be

carried out carefully so that the country gets the full benefits of this privatization. The choice of the right partners will be paramount and should be done with great care.

6.5 Cost Comparison

Based on the above, Burundi has two main alternative routes to access seaports in Kenya or Tanzania, namely the Northern Corridor to Mombasa and the Central Corridor to Dar es Salaam (Table 5.7). The Northern Corridor is an all road route for Burundi, while the latter has two main route options, either transporting goods by road all the way, or using a rail and lake transport combination. The rail and lake option has the lowest price primarily because it uses modes with comparative advantage given the distances involved. Even though distance is greatest, the fastest alternative is by road on the Northern Corridor. This is due to a combination of factors, including faster clearance of goods at the Port of Mombasa and at the border posts between Kenya and Uganda, Uganda and Rwanda, and Rwanda and Burundi.

Corridor	Mode combination	Distance (km)	Container		Bulk		Liquid bulk	
			Cost USD	Time (hrs)	Cost USD	Time (hrs)	Cost USD	Time (hrs)
Northern	Road	1903	4,950	411	8,511	364	8,316	328
Central	Road	1567	4,369	440	6,704	545	6,704	449
Central	Rail/Lake	1446	2,403	524	2,146	533	2,146	533

Source: Based on Marine Logistics Ltd (2009)

Road and a rail/ lake multimodal combination are the feasible options for Burundi to access the Dar es Salaam port in Tanzania. Of these two options, the rail/ lake option has the least cost though it is slower than using all road transport (Table 5.8). Traditionally, this has been the preferred option for Burundi trade traffic and in fact remains the one the private sector is most interested in reviving. A study by Nathan Associates (2011) estimated that the cost of the multimodal option (including facilitation and extra inventory) is 38 percent less than the road, even though handling costs at modal interfaces are higher. Cargo goes through three port nodes, Dar es Salaam, port of Kigoma and the port at Bujumbura. When the intermodal option is operational, it has been found to take 21 percent more time than road, mainly due to poor port infrastructure and inefficiencies of the rail and the lake ports, which delay intermodal transfers.

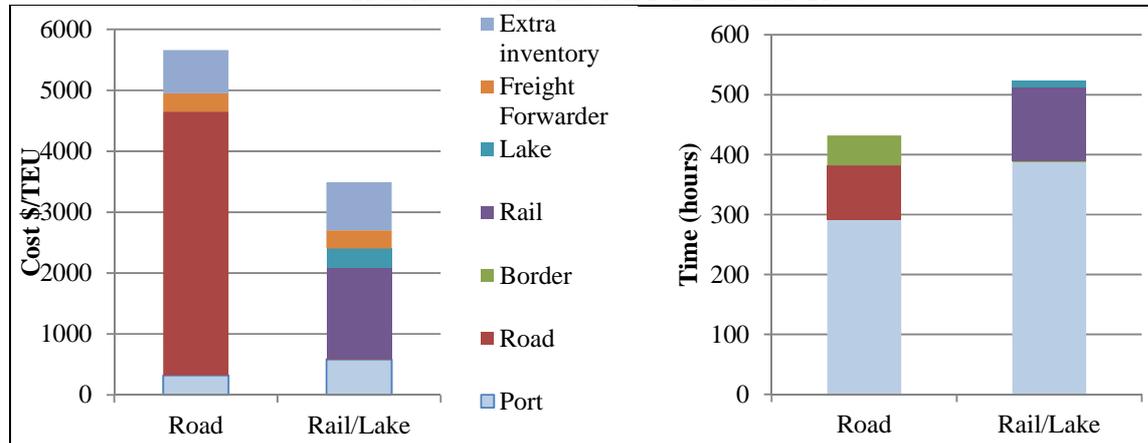
Mode combination	Cost per ton (USD)	Cost per ton per km (USD)
Road	242	0.150
Rail/Lake	96	0.068
Rail/Road	142	0.087

Source: Author's estimates based on Marine Logistics Ltd (2009)

Nathan Associates (2011) carried out a detailed analysis of the two main trade routes options for Burundi and found that a large proportion of the costs of road transport are due to vehicle running costs, while in the multimodal option rail transport costs are the most relevant part with a 62 percent share of the total (Figure 5.14). For both options, time in the port is the most important, accounting for 67 percent and 74 percent respectively, though for the latter the number includes also time taken to transfer cargo at the

Kigoma and Bujumbura lake ports. The large cost advantage the rail and lake combination has over road transport makes this the preferred option for most Burundi shippers when the intermodal system works. This is despite the fact that this option takes longer than road transport. Most Burundi trade is not very time sensitive, so that the time disadvantage can be offset by the cost savings.

Figure 5.14: Contribution of different components to the Cost and Time of Using Road and Rail/Lake Combination for Burundi Trade



Source: Nathan Associates (2011)

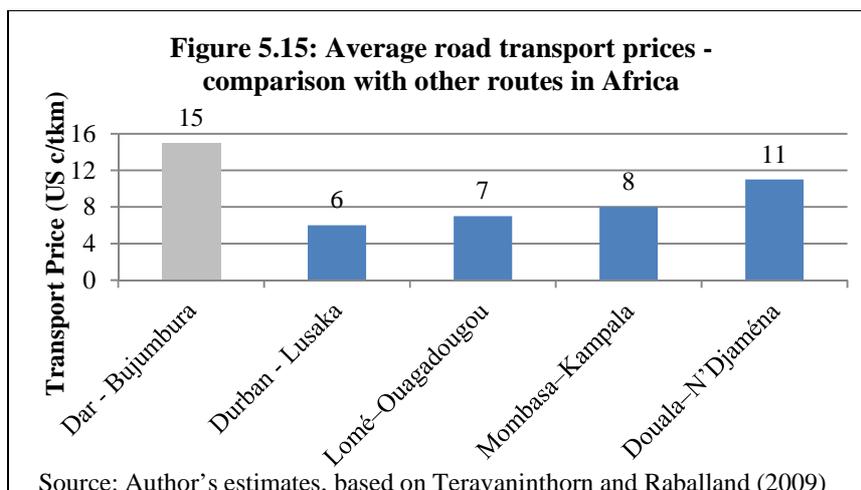
7. Core logistics services

7.1 Trucking Services

Geography, market size and the state of logistics services in Burundi leaves logistics services largely controlled by external service providers. In fact more than 85% of shipments between Dar es Salaam and Bujumbura are handled by non-Burundian trucks. This pattern poses some risks for Burundi, the main ones being that trucks may not be available when they are needed and that costs are much higher than to other countries in the region. In fact, Burundi faces the highest logistics costs in East Africa.

Most trucks operating on the route are Tanzanian owned, because arranging cargo from the port and seeking return hauls in other countries is easier for Tanzanians. Road transporters from landlocked countries generally have an office or partner who arranges for return haulage, mostly to their own country. The cargo is imbalanced in favor of imports, and many return hauls are empty. The Tanzanian road transporters have an active association, the Tanzanian Truck Owners Association (TATOA), which represents their interests at the port and with government agencies concerning the regulations that affect their operations. Freight forwarders are represented by national and regional associations. These associations will be important stakeholders drivers for more effective transport facilitation measures on the corridor.

The transport prices on the Bujumbura – Dar es Salaam route are among the highest in Sub-Saharan Africa (Figure 5.15). This is notably due to the lack of competitiveness of services on this route.



The Tripartite Agreement on Road Transport, which in essence is the governing framework for road transport services between the EAC countries, provides for equal treatment of service providers registered in the different countries. Operators are required only to register with the competent authorities in their state of registration before they can provide international services. There is therefore no restriction embedded in the agreement that prevents Burundi operators from providing services on the Dar es Salaam route or any other regional route. Rather, restrictions are found in the various charges that individual countries levy at their borders. In the case of Burundi, operators pay approximately \$500 more per return trip to and from the Port of Dar es Salaam than their Tanzanian competitors. Tanzania operators have in general lower charges to operate their transport activities. As a result, the latter have a comparative advantage on the Central Corridor road route. There are also differences in axle load limits between the two countries, but these are being addressed following the recent adoption of EAC limits.

Burundi would benefit from a stronger domestic trucking sector. In the past the Government of Burundi has tried to encourage the development of local participation in international trucking by allowing the payment of transport costs in local currency. However this is no longer feasible after the relaxation of currency controls, so other measures would have to be taken to develop domestic trucking capacity. Burundi is a landlocked country which has suffered from considerable disruption to its external trade routes. A locally based international trucking or forwarding industry could be one means of providing transit flexibility, and security. Burundi could thus promote this industry by giving specific incentives, such as tax free import of heavy haulage equipment.

7.2 Customs and border management

One of the areas where there has been the most progress in trade facilitation in Burundi since the original DTIS is in customs and border management. The Office Burundais des Recettes (OBR) was established in July 2009 as the agency for revenue collection responsible for registering, checking and collecting all taxes and duties on import and export flows. In fact, the introduction of OBR was one of the recommendations of the DTIS to address the concerns and needs of trade integration. The establishment of OBR was arguably the most significant change in public administration in Burundi after the liberalization of foreign exchange for trade facilitation since the 2004 DTIS. OBR's overall goal is to reduce poverty through improved revenue collection service and an improved business environment in Burundi. It was created also to promote the economic integration of Burundi in the East African Community (EAC).

In its Strategic Plan 2011-2015, the OBR clearly refers to its regulatory tasks and facilitation of trade for both the flow of goods, and the collection of fees and duties, based on clear regulations and procedures that are consistent and well known. In this regard, the establishment of the OBR has helped modernize customs. It has made trade more transparent through the dissemination of information, treaties and regulations, as well as through the application of expedited and simplified customs clearance procedures, enabled by the intensive use of information technology.

Since its introduction, OBR has made several advances of significance to trade facilitation:

- improved transit management regime, especially through the Kobero border post
- The waiving of VAT on products offered after receiving the EAC certificate of origin
- Harmonization and definition of the rules on customs valuation, rules of origin, application of risk management methods for the abandonment of systematic physical control and the delay they engendered.
- Preparation for the introduction of data sharing with other customs administrations at border posts of importance, especially at Kobero;
- Introduction of simplified clearance procedures for specific types of traffic, such as petroleum products, at the border post of Kobero;
- Compulsory registration of customs declarants in a professional association and the gradual disappearance of offices too small to be economically viable;

In addition, OBR has also commissioned studies to introduce one stop border operations at the border with Tanzania at Kabanga/Kobero, where a feasibility study is planned. However, there is at present no commitment regarding the borders between Burundi and DRC, where traffic is relatively light.

These reforms and changes have resulted in:

- A significant increase in customs revenues. For instance collections in the first eleven months of 2011 were more than a third higher than the corresponding period in 2010 (OBR 2011).
- Trucking firms and freight forwarders report faster clearance at Kobero and faster issuance of T1 forms for traffic to be cleared in Bujumbura, where the average clearance time has been reduced to 2 or 3 days. The unloading of petroleum products directly into the tanks is now possible without passage of trucks through the parking lot, as was the case before.
- Clearance of cargo can now take place in any city across the country, without the obligatory passage through Bujumbura. Now only about 80% of goods are still cleared in Bujumbura, while the remainder is cleared elsewhere (airport, Gitega, Kayanza, Kobero);
- Improved treatment of import declaration exemption and reduction of time for cases under a uniform and well-defined regulation (e.g. personal belongings, medicines, diplomatic parcels, agricultural products) from 3 weeks to 3 days.

While a lot of progress has been made, it is apparent that further improvements are necessary.

These include:

- Although the selectivity of physical controls have been recommended in the DTIS, the goods are still subject to systematic control without differentiation between operators. Implementation of green and blue channels in the audit is not yet effective, but information system that will allow application of differentiation is being considered.
- There are still delays in filing a certificate of non-accountability of customs and taxes which take 2 to 3 days. The OBR could establish a bridge between the ASYCUDA program and Sycatas to receive in real-time the financial status of importers without using intermediate services. A significant gain in time and paperwork could be realized.

- There are still frequent disputes over valuation in commercial transactions. More than 95% of disputes on matters of customs duties and adjustments relate to the value of the goods. OBR records indicate an average of 200 disputed statements per month on an average total of 2,500 declarations per month. There could be better cooperation between OBR and SGS (the pre-shipment inspection company contracted by the government for inspection of the quantities and values), especially concerning the sharing of valuation databases.

The use of a pre-shipment inspection (PSI) company with responsibility to monitor weight, volume and values for imports is well established in Burundi, but could be improved. As part of trade facilitation, the role of such surveillance companies is frequently questioned, as they are often considered by many operators as an unnecessary and slowing step in the logistic chain, while representing a non-negligible cost. It is true that in some countries, the cost of the intervention of surveyors and public organizations involved in quality control can represent up to 3% of the CIF value of goods. In the case of Burundi, the costs are reasonable (1 % of CIF value) and the added value brought by the pre-shipment's control of quality, quantity and value is a real asset for a sound management of foreign trade flows. The role of SGS is not really challenged by importers, though there is some criticism of practical difficulties and delays that are experienced worldwide to perform pre-shipment inspection. Some areas of the world are poorly covered by SGS agents and the pre-inspection system should be better designed to suit the needs of small traders, mostly originating from the informal sector, buying goods in Dubai, China or India. SGS procedures could also be adapted to cope with the challenge posed by control in Burundi's neighboring countries, since sometimes the goods travel faster than the documents. The figures gathered by SGS on behalf of the authorities in charge of trade and revenue collection could also be systematically used for cross examination with the figures published by the other intermediaries in the import and export chain, i.e. BRB, OBR , the commercial banks and the ministry of trade .

7.3 Clearing and Forwarding Agents

The other logistics service sector where Burundian operators only play a marginal or local role is in clearing and forwarding. Clearing and forwarding agents are an indispensable community in international trade. They are the ones who link the various components of international supply chains, including shipping lines, port operators, border agencies, trucking and railway services, and shippers. How the clearing and forwarding services are organized and how efficiently they work is critical to the overall performance of a country's logistics system.

The East Africa region has a well established and large clearing and forwarding industry. Not surprisingly, the largest numbers of registered agents are in Kenya and Tanzania, followed by Uganda. The numbers in Rwanda and Burundi are smaller because of the size of these markets, with just over forty agents registered in Burundi in 2011, about a third of the number in Rwanda. In the case of Burundi, only a few international firms are active in the local market, such as Kuehne & Nagel and SDV, and the majority of firms tend to be small. As such, these firms, even the largest ones, typically have to work with clearing and forwarding firms in neighboring countries, especially in Tanzania. The foreign firms handle and manage a significant part of Burundi international trade logistics. A sample of Burundi shipments that passed through the port of Dar es Salaam between October and December 2008 showed that there were just over thirty Tanzanian and foreign clearing and forwarding firms handling Burundi consignments. However there was still a lot of concentration as the top ten agents handled more than three quarters of all consignments, with the largest agent handling over a quarter of all cargo.

Ultimately therefore, clearing and forwarding services in Burundi are in a position similar to other logistics services; such as trucking, in that they have to collaborate and rely on service providers in the main transit countries, particularly Tanzania. The prospects to improve performance, reduce costs and

increase reliability would therefore depend to a large extent on the performance of services provided in the coastal and transit countries.

7.4 Institutional arrangements for regional connectivity

In addition to loss of control over logistics operations, the fact a large proportion of activities for landlocked countries take place outside their national territory exposes the countries to numerous non-tariff measures. Throughout the transport chain, non-tariff barriers are numerous. For a landlocked country like Burundi, for which 95% of transport operations, transshipment and transit take place outside the national territory, the removal of NTBs requires optimal international cooperation. Such cooperation could help identify non-tariff barriers and provide a forum for discussion and resolution of the identified barriers in place.

East Africa has well established mechanisms for regional cooperation and integration. For landlocked countries such as Burundi, regional cooperation is indispensable for trade facilitation and improved logistics performance. In this regard, increasing regional and international connectivity requires appropriate institutions. For instance, the Central Corridor has been operational as a transit route for Burundi since the early part of the 20th century, and specific institutional arrangements were agreed in the 1920s for traffic to the landlocked countries to pass through Dar es Salaam and Kigoma, through concessions agreed during Belgian rule. More modern agreements have since been agreed, but with similar objectives of providing access to the sea for Burundi and the other landlocked countries and regions of the Great Lakes.

Having the right institutional arrangements in place to facilitate co-production of policies is paramount for a country like Burundi. Active participation in the development of the two main trade corridors that help it connect to overseas markets is particularly important. In this regard, Burundi participates in two regional institutions that are critical, the Northern Corridor Transit Transport Coordination Authority and the Central Corridor Transit Transport Facilitation Agency.

7.4.1 Northern Corridor

The Northern Corridor has a well-established institutional set up. The need to facilitate interstate and transit trade in East Africa led Burundi, Kenya, Rwanda and Uganda to negotiate and sign the Northern Corridor Transit Agreement (NCTA) in 1985. Later, in May 1987, the Democratic Republic of Congo also acceded to the NCTA, thereby becoming the fifth contracting State. The NCTA covers transit issues along the corridor between the port of Mombasa and each of the other countries. It was negotiated to achieve the following objectives, amongst others:

- Promoting the use of the Northern Corridor for the surface transport of goods between the respective countries and the sea;
- Granting the member countries a right of transit in order to facilitate movement of goods through their respective territories; and
- Taking measures to expedite the movement of traffic and for avoidance of unnecessary delays in the movement of goods; minimizing the avoidance of Customs duties and taxes; and simplifying and harmonizing documentation and procedures relating to the movement of goods in transit.

In order to meet the above objectives, a regional institution called the Northern Corridor Transit Transport Coordination Authority (NCTTCA) was established. Over the years the NCTTCA has been instrumental in facilitating the proper functioning of the Northern Corridor and giving a forum for landlocked countries such as Burundi to influence corridor development and performance. It has played an active role in seeking infrastructure improvements on the corridor, better facilitation of trade and harmonization of regulations and their implementation. Notable achievements include:

- Simplification of port clearance procedures,
- Significant reduction in the number of national documents and copies to which transit transport along the corridor was previously subjected,
- Deployment of the COMESA Customs Declaration Document (CD-COM) to replace national documents for customs clearance,
- Mobilization of funding for the rehabilitation of major highways along the Corridor, and
- Enhanced cooperation among its member States in matters concerning transit transport.

Burundi contributes 10% to the budget of the NCTTCA, via a levy on all cargo passing through the port of Mombasa. While not perfect, the use of a tonnage levy has improved funding sustainability for the NCTTCA, and has emerged as a model that other corridors across Sub-Saharan Africa are trying to replicate. Recently in 2007, the NCTA was updated and its scope broadened for the corridor countries to collaborate in the transformation of the Northern Corridor into an economic development corridor.

7.4.2 Central Corridor

The Central Corridor has one of the newest corridor institutions in Sub-Saharan Africa. Until recently, trade facilitation along the Central Corridor was addressed through bilateral agreements, mainly between Tanzania and the landlocked countries to its west. This was replaced in 2006 by a multilateral agreement, which also led to the establishment of the Central Corridor Transit Transport Facilitation Agency (CCTTFA). The agreement was signed between Tanzania, Uganda, Rwanda, Burundi, and the DRC. The agreement is among the Governments, and the CCTTFA is governed by a Board with two representatives from each country, one representing the government and the other the private sector.

The institutional framework for the Central Corridor is largely inspired by the Northern Corridor experience. However, it has a greater involvement of the private sector, something that is only being introduced in the case of the Northern Corridor. The governing organs are an interstate council of ministers, an executive board, and a stakeholders consultative committee, supported by a permanent secretariat. In addition to the Stakeholders Consultative Committee, there is a more compact Stakeholders Representatives Group (STAREP) that provides continuous input into the functioning of the corridor body. Like on the Northern Corridor, Burundi is well represented in both the policy and technical organs of the CCTTFA. The functions of the CCTTFA include developing and implementing:

- strategies designed to provide seamless transportation along the corridor
- performance targets and indicators for the corridor
- strategies to market the corridor
- strategies to attract more traffic to the corridor.

Start up funds for the CCTTFA were provided by the African Development Bank as part of the World Bank's East Africa Trade and Transport Facilitation Project. There are plans to introduce a tonnage-levy type funding mechanism once the corridor institution is operating fully.

Burundi is an active participant in both the Northern and Central Corridors, where its interests are represented by public and private sector stakeholders. On the Northern Corridor, a Northern Corridor Stakeholders' Consultative Forum brings together chief executives of public and private sector agencies, while the Stakeholders Consultative Committee has the same configuration on the Central Corridor. Both forums meet periodically to review operational matters and to agree on practical solutions, which are then implemented through the secretariats. In both cases, the corridor bodies are important instruments to guide regional development across the member countries. They provide a seat at the table for Burundian stakeholders to influence development priorities and investment decisions in the coastal states in particular. Burundi should make maximum use of these opportunities.

8. Recommendations

The foregoing shows that Burundi needs to make some major decisions to improve its trade facilitation and logistics performance. This is the only way to enhance its regional and international trade integration. In order to effect this, Burundi has to promote and support excellence and expertise in water, rail and road transport, transit procedure, and distribution systems. This should be done to serve not only Burundi but mainly the regional market, and to offer modern, well-sized logistic services giving added value to regional economic operators from the DRC, Uganda and Rwanda.

A comprehensive approach to trade facilitation and logistics improvement must be developed. The DTIS 2004 prioritized customs and border management measures. It is apparent that significant progress has been made in implementing them, with notable improvements on the ground. The government is keen on continuing to pursue and deepen the earlier interventions. This of course is important and remains particularly relevant to continued improvement. However, as the LPI data on Burundi show, there are various other weaknesses in the country's performance across all six dimensions, including those where the government policy can have a direct impact, namely infrastructure, customs and logistics quality. A fourth area included in the LPI data, active participation in regional cooperation programs, is also critical. This was recognized in the DTIS and clearly remains pertinent. The recommendations in this DTIS update are designed around these four broad areas.

8.1 Infrastructure development

The development of both hard and soft infrastructure occurs in one country, but many national infrastructure projects have a wider regional dimension. They can notably be planned and coordinated with several countries, connect to existing regional networks, or have spillover effects on neighboring countries. Regional infrastructure ranges from simple projects that involve two countries, such as building a road link or negotiating a trade facilitation agreement, to complex ones that involve several countries such as the Northern Corridor, in which many countries cooperate and coordinate their activities for common benefit. Infrastructure development is included in many regional treaties to provide the framework for aligning sector policies, designing regional master plans, developing a portfolio of synergistic projects, harmonizing regulatory regimes and investment codes, and mobilizing investment resources. Increasingly, nations are moving away from integration strategies that are based solely on formal trade agreements and towards strategies that include at least some integration of infrastructure policies.

For Burundi, improving logistics necessarily implies strong regional cooperation. Ideally it would be better if landlocked countries such as Burundi were able to directly invest in the infrastructure of importance to them. However, the geography of East Africa is such that most of the investment lies in Tanzania in particular. This issue was raised by Burundi as far back as 1979 when TRC was prepared to accept additional rolling stock but was not willing to concede its dedicated use for Burundi traffic or to accept the concept of Burundian trains. For Rwanda and Burundi traffic, the use of dedicated trains may, given the imbalances in traffic, appear inefficient, increasing empty running. But if the customer is willing to pay for the enhanced service, then TRC should be willing to provide it, especially if its domestic traffic capacity is not affected.

A critical consideration is the incentive for Tanzania to prioritize this infrastructure development. There are two main reasons why improving infrastructure that will benefit Burundi is important to Tanzania: (a) the Western regions of Tanzania have significant growth potential especially in mining, agriculture and fisheries in the Great Lakes. The Government of Tanzania has sought to promote development in the region through the Spatial Development Initiative, an approach which has proved effective in Southern Africa, and (b) Tanzania can access the large markets in Eastern DRC. Transit access across Burundi and Rwanda could provide direct access to this significant potential market for Tanzanian products.

For domestic logistics, Burundi has an effective template with its coffee sector. Similar infrastructure should be developed for other selected products, notably horticultural. Rural logistics services are facilitated by careful development of transport and storage infrastructure, incentives to service providers typically encouraged by producer initiatives to provide predictable demand in terms of quantity and location, and information services for farmers to know when, where and how much to sell. The coffee sector has a fairly dense and well distributed network of washing stations representing the main signal for farmers to produce for the market. Selected market centers can be encouraged to incentivize horticulture farmers to also produce for the market.

8.2 Logistics quality

Increasing the involvement of Burundian service providers in logistics in the country will have positive effects. One can notably identify three main benefits: (a) it reduces the risk that services are not available when required, as is currently the case; (b) it will enable Burundi to participate more in the evolving integrated logistics services markets under the EAC integration program; and (c) Burundi can then grow into a distribution center for Eastern DRC. This requires fundamental reforms in how the country deals with transit, competition between modes of transport (road, rail / barge, road / barge, air), and the mastery and participation of domestic operators in international transportation. However, the most critical area is to design programs for financing the Burundi trucking sector. The sector is currently very small and struggling to compete with Tanzanian and other countries' fleets.

The above would have to be supported by a program of logistics skills development. Transportation and logistics services (storage, cargo handling, maintenance, mechanical assistance to fleets of trucks, packing activities, groupage and distribution) have great potential to create jobs and grow incomes. Skills development programs are critical in all the areas of logistics, where it is apparent that skills levels are currently very weak.

8.3 Customs

Customs is one of the areas identified in the original DTIS where Burundi has made the most progress, but more can be done. OBR in particular is making great strides in simplifying cargo clearance procedures and developing a modern customs and border management regime. It is important to build on this success. Focus should be in areas already identified, but in particular:

- further automation including data sharing especially with Tanzania Revenue Authority. This can be designed around the already proven solution of RADDEx (Revenue Authorities Digital Data Exchange), which transmits customs declaration in near real time, from point of initial lodging, through all affected transit points to final destination. This automatic electronic transmission directly decreases transit delays through provision of advance notification, facilitation of pre-lodging, elimination of duplicate data entry and risk analysis. This automatic regional connectivity in customs greatly contributes to more efficient and paper free processes at borders and to creating a transparent trading environment. RADDEx has already been deployed at various border posts in the EAC and doing the same at Kobera could be strategic;
- Data sharing between ASYCUDA and SYCTAS.

Burundi and Tanzania signed in 2011 an MoU to convert the Kobero/Kabanga border post to one-stop operation. The one stop border post that is being constructed there should be supported by procedural reforms to maximize the intended benefits. Emerging lessons coming from one-stop border posts that are already in operation point to such reforms as being more important than even the physical co-location of border agencies of the two countries.

8.4 Regional cooperation

Cooperation at the regional level and with neighbors is key. Given its landlocked nature and dependence on Tanzania in particular, Burundi should actively participate in regional corridor authorities, and notably in the CCTFA. In addition, it should also cultivate arrangements for bilateral engagement with Tanzania to address its specific transit needs.

CHAPTER 6 – The critical role of services for growth and export diversification

Services matter for growth and export diversification. Services such as telecommunications, energy, transport, and business services are important inputs into the production of goods and other services and hence influence productivity and competitiveness. Opening up to services imports and foreign direct investment (FDI) can be an effective mechanism to increase the availability, affordability and quality of these services, which are crucial for export diversification, economic growth and poverty reduction in Burundi. In addition, services offer dynamic new opportunities for exports. Exports of services are of particular importance for land-locked countries like Burundi for which opportunities to diversify into the export of manufactures is more limited by the high costs of transporting goods.

Burundi’s services are underdeveloped with performance indicators well below the Sub-Saharan average. For example, compared to many of its African neighbors, Burundi is characterized by a lower number of fixed and mobile phone subscribers, lower number of firms with lines of credit or loans from financial institutions, higher number of power outages in a typical month, and higher delays in obtaining an electrical connection. This suggests that Burundi does not have a robust supplier base from which to draw high quality services inputs.

The Government of Burundi is starting to realize the importance of services for the economy. In the past, services were rather neglected as a potential source for growth and export diversification. For example, the 2004 DTIS Action Matrix does not contain one single reference or action related to trade in services. However, several recent strategic documents highlight the need to improve the performance of services such as telecommunication, transports and financial services, and the need to open them up to imports and foreign direct investment to increase competition and efficiency. Furthermore, increasing tourism exports is a strategic objective of the Government (e.g. Republic of Burundi 2010a, 2011a, 2012). To guide and support the government’s services strategy, this chapter provides an assessment of Burundi’s services sectors, with a particular emphasis on financial and professional services. The main objective is to provide concrete guidance to policy makers regarding the coordination of regulatory reforms with liberalization measures, and to indicate clearly how regional integration can help advance Burundi’s services reforms.

1. Burundi’s services performance and services trade policies

Services represent around a third of Burundi’s GDP. Burundi’s tertiary sector is dominated by growing public services, which account for around two thirds of the sector (Table 6.1a⁹⁷). The recent increase in public services largely corresponds to the growth of priority social spending, notably education services, since 2005 (World Bank 2011b). According to BRB statistics, both market and non-market service grew faster than overall GDP in recent years (table 6.1 b). The informal tertiary sector is likely to be significant, but no data on its size or characteristics is readily available.

Table 6.1a: Composition of Burundi’s GDP in 2010

⁹⁷ National accounts data should be considered with caution - As explained in a recent assessment by the IMF: “Serious deficiencies in real sector data compilation hamper economic analysis and management. National accounts statistics are compiled infrequently by ISTEERU, the national statistical office. [...] Consequently, there is a high degree of uncertainty regarding estimates of the level and the growth rate of GDP, components of expenditure, and all ratios to GDP.” (IMF 2012).

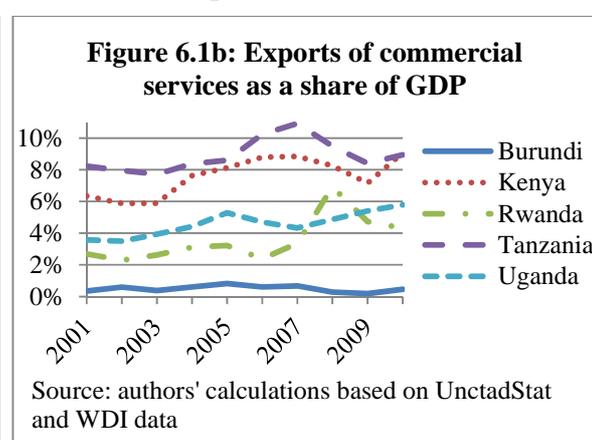
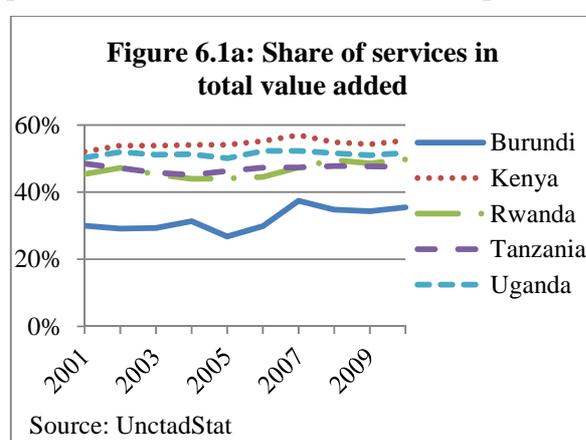
	(BIF billion)	(%)
1. Primary sector	790.4	42.9%
2. Secondary sector	290.6	15.8%
3. Tertiary sector, of which:	645.2	35.0%
<i>market services</i>	235.6	12.8%
<i>non-market services</i>	409.6	22.2%
4. GDP at factor prices (1+2+3)	1726.2	93.6%
5. Indirect taxes less subsidies	117.7	6.4%
6. GDP at market prices (4+5)	1843.9	100.0%

Table 6.1b: growth rate (in constant 1996 prices)

	2006	2007	2008	2009	2010
Tertiary sector, of which:	6.4	8.1	5.0	5.1	3.7
<i>market services</i>	6.0	11.1	5.1	6.0	3.4
<i>non-market services</i>	6.6	6.5	5.0	4.5	3.9
GDP at market prices	5.2	3.6	4.5	3.5	3.9

Source: BRB 2010 annual report (www.brb.bi/se/raportanu10.html)

Available statistics show that Burundi is lagging behind EAC partner countries in terms of its services performance. The share of Burundi's tertiary sector in GDP has increased in the 2000s (principally due to the increase in public services noted above), but is still significantly lower than the corresponding shares in Kenya, Rwanda, Tanzania and Uganda (Figure 6.1a). This reflects the predominantly agricultural nature of the Burundian economy: the primary sector represented over 40 percent of total value added in 2010, compared to between 23 and 34 percent for other EAC countries.



Burundi remains a very modest regional player in terms of services exports. Government services dominate Burundi's services exports (Table 6.2). This category includes transactions in both goods and services by international organizations, embassies, or military units and their staff in the host countries (corresponding to mode 2 for services)⁹⁸. In Burundi's case, this seems to correspond to the increased presence of donors since 2005. The rest of services exports (i.e. "commercial services") consist of travel services (i.e. the purchase of goods and services in Burundi by non-residents), transport, financial and other business services. These exports of commercial services have fluctuated between 2 and 7 USD millions annually over the last decade, and represent a much lower share of GDP than in partner EAC countries (Figure 6.1b). Furthermore, Table 6.2 shows that – as opposed to most EAC countries where both traditional (e.g. distribution, real estate, hotels and restaurants) and non-traditional (e.g. communication, financial and business services) services sectors now have a significant weight in the economy - Burundi has so far not managed to develop strong and diversified services sectors.

Table 6.2: Services exports in Burundi and the EAC					
<i>(USD millions and % of total)</i>	Burundi	Kenya	Rwanda⁹⁹	Tanzania	Uganda
Commercial services, of which:	7.3 (9%)	2,920 (79 %)	250 (73%)	2,047 (98%)	984 (75%)
Transport	0.7 (1%)	1,563 (43%)	54 (16%)	446 (21%)	47 (4%)
Travel	1.8 (2%)	800 (22%)	175 (51%)	1,255 (60%)	730 (56%)
Communications	..	360 (10%)	0.4 (0%)	39 (2%)	30 (2%)
Construction	..	..	7 (2%)	..	..
Insurance	1 (1%)	32 (1%)	1 (0%)	36 (2%)	12 (1%)
Financial services	0.6 (1%)	110 (3%)	1 (0%)	10 (1%)	22 (2%)
Computer and information	..	0.4 (0%)	..	5 (0%)	39 (3%)
Royalties and licence fees	..	54 (1.5%)	0.1 (0%)	..	4 (0%)
Other business services	3.2 (4%)	..	12 (4%)	257 (12%)	100 (8%)
Personal, cultural and recreational services	..	2 (0%)	0.2 (0%)	1 (0%)	..
Government services	72.2 (91%)	756 (21%)	92 (27%)	44 (2%)	327 (25%)
Commercial services CAGR (2001-2010)	15.2% ¹⁰⁰	16.7%	25.4%	15.1%	19%

Source: UnctadStat, based on IMF BOP statistics

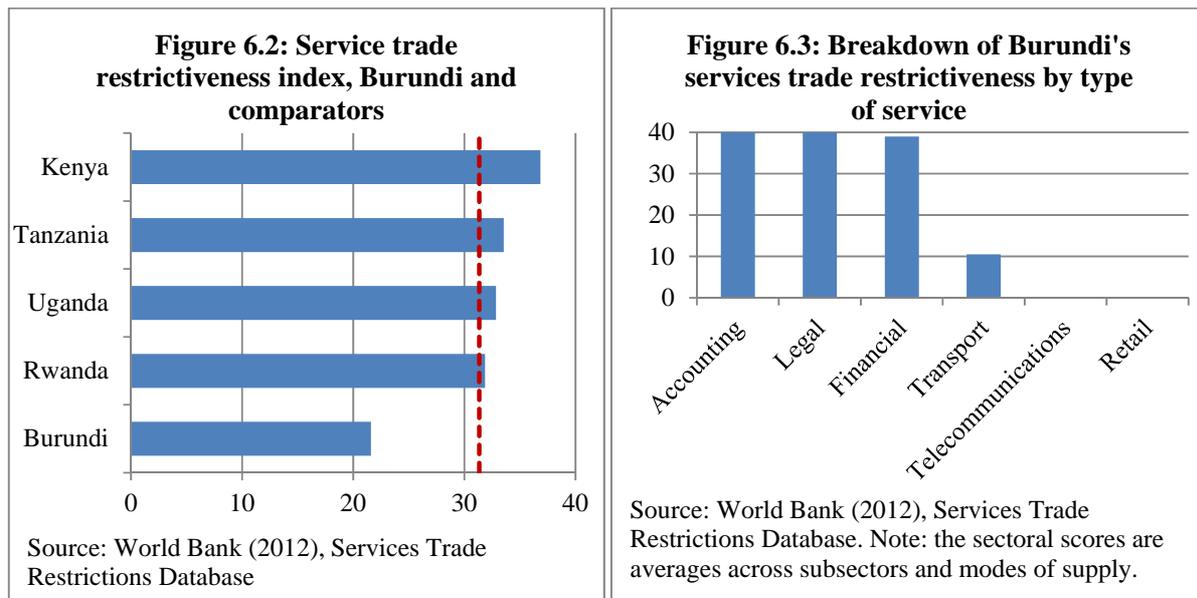
Most services sectors remain underdeveloped in Burundi. An overview of basic performance indicators for several backbone services reveals that the gap between Burundi and its EAC neighbors is large (Table 6.3 below). For example, Burundi is characterized by a lower number of individuals and firms with lines of credit or loans from financial institutions, a lower number of fixed and mobile phone subscribers and a low professional density (suggesting the availability of professionals to provide business services is problematic in Burundi). This translates into an important competitive disadvantage given that services are essential inputs for most economic activities.

⁹⁸See the IMF's *Balance of Payment Manual*, paragraph 266 (www.imf.org/external/np/sta/bop/bopman.pdf).

⁹⁹ 2009 data are used for Rwanda (latest year available with disaggregated services data).

¹⁰⁰ Burundi's commercial services exports have been highly volatile in recent years, and the CAGR is only 0.7% if 2009 is the end year considered.

A striking feature of Burundi's services trade policy is its relatively high level of openness. A recent World Bank survey of applied trade policies in five services sectors - financial services (banking and insurance), telecommunications, retail distribution, transport and professional services in over 80 countries shows that Burundi's overall restrictiveness index of applied services policies (explicit market access and national treatment barriers plus selected discriminatory regulatory measures) is well below the EAC average (Figure 6.2). In fact, the results of the survey suggest that Burundi is completely open in telecommunication and retail services (Figure 6.3).



Reducing or eliminating explicit trade barriers is only one part of the story. How can we reconcile Burundi's poor services performance with its relatively liberal services trade policy? Such results clearly show that to improve the performance of services sectors trade reform needs to be integrated into an open and transparent process of regulatory reform, in which decisions on the nature and pace of reform are informed by careful analysis and an understanding of good practices. For example, it is important to ensure that the regulatory frameworks in place do not restrict directly or indirectly competition in service markets and slow down their expansion in spite of the extensive liberalization measures. An equally important problem is the absence of regulation, which can create a legal vacuum that actually constrains business growth and allows many opportunities for unfair competition and corruption.

A key challenge of services reforms relate to the coordination of regulatory reform with liberalization. Indeed, coordinating regulatory reform with liberalization of trade in services is the main recurring challenge raised by Burundian officials in several services talks. Liberalizing services trade is typically more complex than liberalizing goods trade and can require considerable technical capacity. The ability to implement such a reform process is constrained by limited capacity within government and the private sector.

This chapter provides practical advice to the Government of Burundi regarding reform in two services sectors. These two sectors – financial and business (professional) services – were selected in consultation with the Government of the Republic of Burundi. Both sectors are important for Burundi's growth and export diversification, and are priority sectors in the EAC and COMESA services negotiations. The analysis presents a diagnostics regarding the level of development and the availability of financial and professional services and services providers in Burundi. The analysis identifies which policies explain the underdevelopment of financial and professional services in Burundi and the

segmentation of these markets in Eastern and Southern Africa. While the focus of the chapter is on trade policies and domestic regulation, limiting the analysis to those areas would only partially address the diagnosed problems. It is also important to analyze the education challenges, in order to remedy the origin of the skills shortages and skills mismatches in financial and professional services. Similarly, the general immigration restrictions have to be analyzed to address the free movement of various professionals.

This chapter makes concrete recommendation for action in all relevant policy areas at the national, regional and multilateral levels. Particular attention is given to policy action at the regional level to illustrate how Burundi can benefit from regional regulatory cooperation that can advance its domestic services reforms and facilitate trade. For example, the report shows how the development of regional standards in financial services or the mutual recognition of qualifications and licensing requirements in professional services can accelerate the development of these services in Burundi and reduce the fragmentation of services markets in Africa. Concrete technical assistance activities related to the implementation of this section’s recommendations could be pursued as part of the on-going World Bank operational project “Financial and Private Sector Development in East Africa” and “Professional Services Knowledge Platform in Africa”.

Table 6.3: performance indicators for selected services sectors					
<i>Indicator</i>	Burundi	Kenya	Rwanda	Tanzania	Uganda
<i>Financial services</i>					
Financial market development index (1-7: lowest - highest) ¹	2.29	4.83	4.26	3.89	4.12
Domestic credit to private sector (% GDP) ²	25.5	34.7	..	16.1	15.8
Account at a formal financial institution (% age 15+) ³	7.2	42.3	32.8	17.3	20.5
Accounts per 100 adults at ⁴ :					
- commercial banks	2.34	38.16	22.62	...	17.32
- cooperatives and credit unions	8.41	..	..	..	..
- microfinance institutions	0.74	0.80	..	..	2.25
Branches per 100,000 adults of ⁴ :					
- commercial bank	1.81	4.38	1.87	1.84	2.25
- cooperatives and credit unions	2.80	..	..	..	..
- microfinance institutions	0.47	0.02	..	..	0.47
Loan from a financial institution in the past year (% age 15+) ³	1.7	9.7	8.4	6.6	8.9
Saved at a financial institution in the past year (% age 15+) ³	3.3	23.3	17.8	11.9	16.3
Debit card (% age 15+) ³	0.8	29.9	5.3	12.0	10.3
ATMs per 100,000 adults / per 1,000 sq.km. ⁴	0.08 / 0.16	8.21 / 3.21	0.46 / 1.05	3.44 / 0.91	3.29 / 2.69
<i>Telecommunication services</i>					
Telephone lines (per 100 people) ²	0.389	0.940	0.373	0.389	0.979
Fixed line and mobile cellular subscriptions (per 100 people) ²	14.11	62.57	33.78	47.19	39.36
International Internet bandwidth (bits per person) ²	1.91	498.84	154.65	77.14	107.95
Internet users (per 100 people) ²	2.1	25.9	13	11	12.5

Business services					
Number of accountants per 100,000 inhabitants ⁵	1.7	14	0.9	7.7	2.3
Number of lawyers per 100,000 inhabitants ⁵	1.7	18.9	4.6	2.1	3.7

Source: ¹WEF Global Competitiveness Index 2012; ²World Bank WDI (2010 data); ³World Bank Global Index (2011 data); ⁴CGAP (2010); ⁵World Bank (2010), Niyongabo (2010) and OPC figures for Burundi

2. Financial services

Burundi's financial sector is still recovering from the damage done by years of political and macroeconomic turmoil. Its contribution to the overall development of the Burundian economy is severely constrained by its own underdevelopment. Scaling up its participation in the emerging East African financial market can give Burundi an opportunity to benefit from the wider range of financial products and services offered by the more advanced financial institutions in the region. At the same time, it is critical for Burundi to build capacity at an accelerated pace to effectively realize the benefits and manage the risks associated with leapfrogging financial sector development via regional financial integration.

2.1. Brief sketch of the Burundian financial sector

Financial services are currently available on a very limited scale to a very small segment of the Burundian population. Around 2 percent of the total population hold bank accounts, less than 1 percent use bank lending services, and 4 percent are members of microfinance institutions. As is typical in most African countries, banks dominate the financial system and account for almost 80 percent of total financial assets. Banks have highly concentrated loan portfolios, with credit being extended mostly to large traders and public enterprises.

The microfinance sector, which could play an important role in making financial services available to a larger segment of the population, especially outside Bujumbura, has been slow to gain a foothold. With donor assistance to the sector waning off, the prospects for commercial resource mobilization are also limited by incomplete financial reporting by most microfinance institutions. There is an urgent need to professionalize the industry, with improved human capacity, good governance, and strengthened supervision.

Given the substantial risk that characterizes the business environment in Burundi, the insurance industry could play an important role in supporting the private sector and in making long term finance available. However, current penetration levels (measured as a ratio of premiums to GDP) are only around 1 percent. Moreover, over 60 percent of the market is made up of mandatory motor insurance products, and the market in life products is especially underdeveloped. A number of measures are urgently needed to revive the insurance sector in Burundi, including a capital infusion, capacity building among providers, creating awareness in the market, and effective regulatory and supervisory oversight.

In addition to the banking and insurance sectors, a market for government debt has been created by the central bank (BRB), and appears to be taking root, with all banks and insurance companies, as well as the social security fund, investing. There is however no commercial bond issuance or stock exchange yet.

2.2 The emerging regional financial market in East Africa

The signing of the Common Market Protocol by members of the East African Community in November 2009 has paved the institutional way for the integration of financial markets in the region. At the same time the private sector in general, and commercial banks in particular, are even

further ahead in recognizing the scale economies that can accrue from establishing a cross-border presence.

Kenya-based banks are leading regional integration in the EAC banking sector. A growing number of multinational and Kenyan owned banks use Nairobi as a hub to expand their operations into the EAC region. These include four indigenous Kenyan banks (KCB, Equity Bank, Fina Bank, and Commercial Bank of Africa). Most of these banks have to some extent operationally integrated in the areas of ICT, risk management, customer service, and treasury operations. It is especially significant that interviews with these regional banks indicate that their cross-border presence has facilitated the introduction of financial products and services that would not have been possible in the absence of scale.

There are also indigenous Kenyan insurance companies with branches within the region. These include: APA Insurance, Insurance Company of East Africa, (ICEA), Jubilee Insurance, Phoenix of East Africa, Real Insurance, and UAP Insurance. Similarly, several Kenyan stock broking firms have subsidiaries within the EAC region. These include, Dyer and Blair Investment Bank (Uganda and Rwanda), Faida Securities (Rwanda), and Kingdom Securities (Rwanda).

Cross-listing of shares in the EAC is already occurring and has increased private capital flows within the region. Kenya defines a local investor as an EAC citizen and allows foreign participation of up to 75 percent. Tanzania allows foreign participation of up to 60 percent of shares in primary or secondary issues. There are no restrictions in Uganda or Rwanda. Participation in EAC stock and bond markets is usually dominated by institutional investors, national pension funds, fund management firms and insurance companies.

2.3 Burundi and the East African financial market

Becoming an active participant in the fast integrating East African financial market can yield several potential benefits for a small, underdeveloped financial system such as Burundi's. This would notably be made possible by the generation of “systemic scale economies” that typically accrue to larger financial systems:

- Scale introduces efficiencies in financial markets. By raising the number and type of financial institutions that operate in a particular local market, integration fosters greater competition and lowers the prices of financial products and services. By enabling them to cater to a larger regional market, it allows financial service providers to operate with smaller margins and maintain revenues.
- Regional financial markets expand the scale of and opportunities for financial intermediation beyond national borders. It allows domestic savers to avail of investment opportunities that might be scarce at home, and/or alternatively also allows for a regional financing of lumpy national investment projects where domestic savings might not suffice.
- A larger volume of transactions also means a better use of various parts of the financial infrastructure, such as payment systems, regulation and supervisory expenditures, all of which have high initial fixed costs.
- Regional markets create more opportunities for risk management. They allow for greater diversification of assets and markets for individual investors. They also allow individual financial systems to tap into a collective pool of reserves in the event of an idiosyncratic shock or speculative attack.
- Finally, in the long run integration also fosters the harmonization of business practices, laws, and institutions, closer to those prevailing in the most developed member state.

At the same time there exist several constraints to the integration of the Burundian financial system with the regional market. Burundi (with Rwanda) was a late entrant to the EAC, having joined in 2007, while Kenya, Tanzania, and Uganda have a longer history of mutual cooperation. Moreover, as a former Belgian colony (also like Rwanda) Burundi follows the civil law tradition, as opposed to the common law tradition among the other three Partner States. Many other concerns about Burundi's place in the emerging regional market in financial services are actually rooted in the present. Some of the problems associated with being a small financial system are most apparent in Burundi. Developing a coherent strategic vision of how its financial system will be integrated with the EAC and an implementation plan based on this vision, will clarify and demonstrate Burundi's ownership of the process of integration and also how effectively it realizes the benefits of being part of the regional financial market. The alternative is to see the direction and development of its financial system largely passed to the more advanced institutions in other EAC countries.

The EAC has worked on a post-membership convergence principle, with countries joining and then seeking to harmonize their laws and regulations for the financial sector with other member states. One consequence of this approach for Burundi is that parts of the financial sector may be exposed to cross-border activity and competition, especially from sophisticated financial institutions from larger markets, before the regulatory and supervisory frameworks have had the time to build the requisite capacity. As a result, Burundi may be called upon to build capacity on a "crash basis". These circumstances in turn may require a greater willingness to seek capacity-building solutions, which may require some willingness to surrender a degree of sovereignty in order to gain the benefits of scale. Despite this, attitudes towards convergence with the EAC are very positive at an official level, reflecting in part a strong political commitment at the highest level to the EAC.

It is not clear, however, that this enthusiasm for regional integration has found its way to the private sector. The Burundian financial and business communities convey a sense of resignation rather than enthusiasm towards EAC membership. There is acute awareness that Burundi's low level of development means that the consequence of membership is likely to be a substantial increase in competition from larger and better capitalized firms and financial institutions based in more developed EAC countries – particularly Kenya.

2.4 The path ahead

For Burundi the path ahead is a difficult balancing act between realizing the gains from being part of a larger regional market and managing the risks associated with regional integration. For a landlocked country that relies heavily on trade, some of the early gains will likely be in the form of better financing for trade related activities. Over time, Burundi will have the opportunity to leapfrog several stages of financial sector development, learning from the experience of its more advanced neighbors. However, it will also have to simultaneously build capacity at an accelerated pace to keep up.

The legal framework already accommodates for the entry of foreign financial institutions and does not seem to place any undue restrictions on their operations subsequently. Foreign banks are permitted to set up a presence in the Burundian market either by greenfielding or via a joint venture or acquisition. While participation by a single investor (foreign or domestic) in a bank is capped at 20 percent, investment in local private bank can exceed this cap with the permission of the Burundian central bank (BRB) and can constitute the controlling stake in the bank. There are no significant operational limits on foreign banks either. Foreign insurance companies are also allowed entry in a similar manner in automobile, life and reinsurance services (ownership in insurance company by a single investor, domestic or foreign, is capped at 33 percent), and there are also no significant restrictions on the operations of insurance companies.

While the single investor caps seem restrictive they are not in of themselves the biggest hurdle to the entry of financial institutions in Burundi. In fact, several regional financial institutions are already

present in the Burundian market. Diamond Trust Bank has been operating in Burundi since 2008, and Kenya Commercial Bank recently started operating in May 2012. Another regional bank, CRDB from Tanzania, has plans to set up business in Burundi later this year. Jubilee Insurance Company is also seeking a license for the Burundian market. While the influx of these financial institutions can provide a much-needed fillip to financial sector development in Burundi, it also poses certain challenges.

The World Bank is supporting partner States participate and benefit from the emerging regional market by means of a USD 16 million grant under the Financial Sector Development and Regionalization Project I (FSDRP I). The project has been effective since June 2011 and is being implemented for the EAC by the Secretariat. In particular, the capacity building component of the project includes several activities that leverage the learning opportunities that come from closer cooperation in the financial sector, for Burundi and partner States. Certain key actions will ensure that Burundi can most effectively participate in the regional financial market:

- *Develop an EAC Integration Strategy for the Burundian Financial Sector.* Burundi needs to develop a comprehensive, coherent strategy for integrating the financial sector with the EAC. This strategy should include assessments of: (a) the financing needs of the real sector, including manufacturing, housing, agriculture, and trans-shipment trade, (b) the capacity of the financial sector as presently constituted to meet financing needs and identification of capital shortfalls and financial products needed, (c) the resources that can be tapped within the regional financial market. Such a strategy document would clarify the priorities for the financial sector in the regional context and define the areas where a threshold local institutional development is critical to participating in the regional financial services trade (especially in capital market development where Burundi has a great deal of ground to cover). It would also identify the more obvious learning opportunities in the neighborhood, for instance mobile money products in Kenya, or agricultural financing innovations in Tanzania.
- *Strengthening Supervisory Capacity.* As more sophisticated financial institutions begin to operate in the local market, there is a critical need to shore up the capacity of the supervisory authorities at an accelerated pace to provide the necessary oversight. Failure to do so will not just imperil the Burundian financial system, but also creates room for regulatory arbitrage, thus undermining the functioning of the regional market.
- *Building financial skills among market participants.* It is just as important that local businesses and financial sector professionals not be left behind in the new regional market in financial services. Capacity building for market participants will ensure that the private sector welcomes and benefits from the regionalization of financial markets and go a long towards filling the current enthusiasm gap.
- *Modernize interoperable payments and other financial infrastructure.* Both the wholesale and retail payments infrastructure in Burundi is in dire need of upgrade and modernization. Burundi has a certain “last mover” advantage here. Having come late to the game, it can avoid the costs that the other partner states have incurred in ensuring interoperability. FSDRP I is already supporting efforts by member states to standardize and harmonize the wholesale payments infrastructure. The roadmap to establish an integrated retails payments systems is perhaps more difficult to conceptualize since the field is crowded by a number of players. The project team has been in consultations with technical experts from the World Bank to initiate this work.

Given the dominance of the banking sector, the central bank (BRB) shoulders the biggest part of the burden of maintaining stability in the Burundian financial sector. There is an urgent need to modernize and upgrade all systems in the BRB, including data collection and dissemination. At the same time, training human resources at the central bank is also critical to improved oversight. The gaps in the regulatory framework and enforcement capacity are even more apparent in the insurance sector. The effective operationalization of the insurance supervision and regulation agency (ACRA) is long overdue.

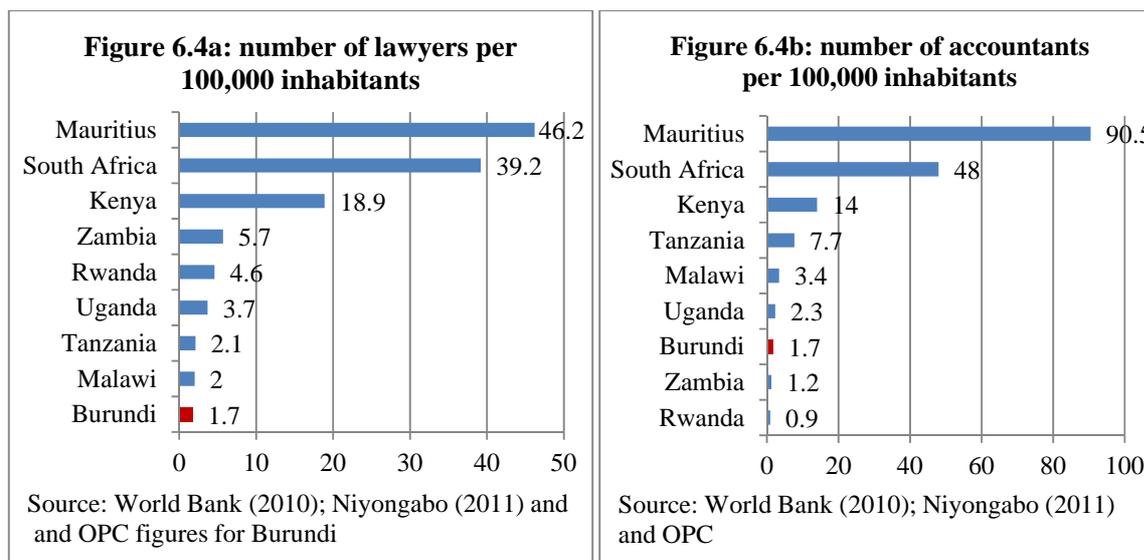
Under the capacity building component of FSDRP I, a comprehensive training program, for both market regulators and participants, is being prepared to ensure that their skills keep up with the emerging regional market. The curriculum for the regulators and participants will be separately tailored to their individual needs. Even prior to this, an important step towards capacity building at the regulatory level would be to increase cooperation with regional supervisory counterparts and share information on a regular basis through forums, as is being done through the Monetary Affairs Committee (MAC) and the Capital Markets Insurance and Pension Committee (CMIPC). Moreover, beside the training program being developed for market participants, there is scope to benefit from partnerships or twinning arrangements with regional counterparts and industry associations. Plans supported by FSDRP I are already underway to establish a Council of Financial Service Providers in the region. The Council will meet at regular intervals to facilitate the sharing of ideas between private financial sector players and provide them with an opportunity to air their views on the institutional initiatives towards harmonization of financial sector regulations. This is an ideal forum for financial sector providers from Burundi to interact with their counterparts from other EAC countries.

3. Professional Services

Professional services provide inputs to many other economic activities and can have significant positive spillover effects throughout the economy. These services contribute directly and indirectly to economic growth, including by lowering transactions costs and by creating spillovers of knowledge to other sectors. Accountancy is critical for accountability, sound financial management, and good corporate governance (Trolliet and Hegarty 2003). Effective legal and justice systems, and access to legal services, improve the predictability of the professional environment, facilitate engagement in contracts and mitigate investment risks (Cattaneo and Walkenhorst 2010). Engineering services are knowledge-intensive sectors essential to the productivity and sustainability of other economic activities. For example, civil engineering is critical for the development and maintenance of a country's physical infrastructure, while electrical engineering is important to the operation of public networks, such as utilities or commercial facilities and communication systems (Cattaneo et al. 2010).

3.1. The limited availability of professionals in Burundi

Burundi is facing an acute shortage of professionals and skills mismatches. Skills shortages of both highly skilled and middle level professionals are observed across all examined sectors in Burundi. Figure 6.4a and 6.4b present the density of lawyers and accountants per 100,000 inhabitants for Burundi and a sample of Sub-Saharan African countries. They reveal significant variations in the availability of professionals, with relative scarcity in Burundi, Rwanda, Zambia, Malawi, and Tanzania and relative abundance in Mauritius, South Africa, and Kenya. However, the ratio is particularly low for Burundi, suggesting that accounting and legal professionals are extremely scarce.

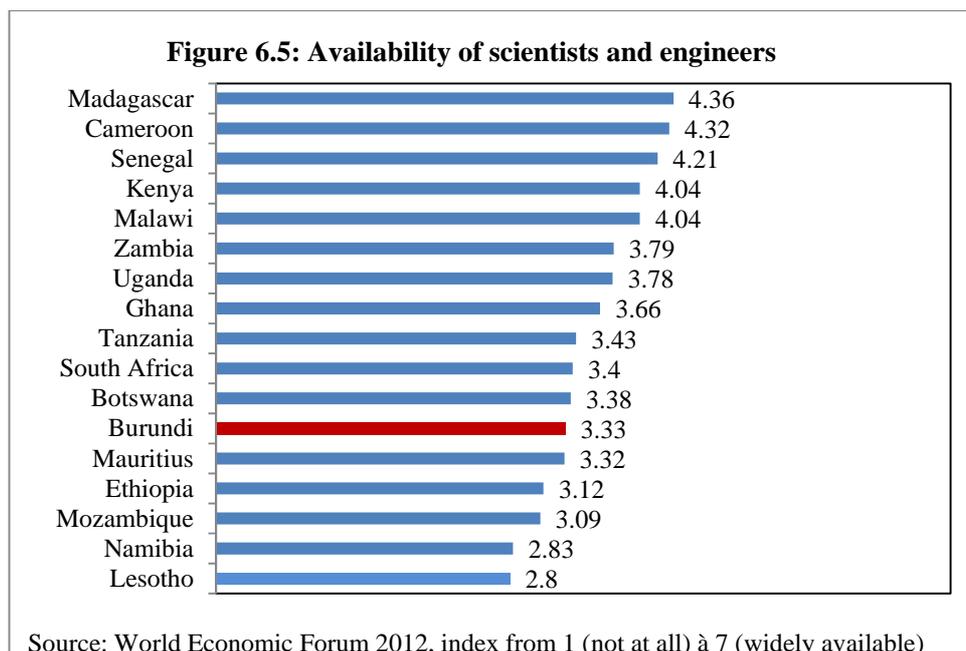


The limited availability of accounting professionals: in 2010, the professional association OPC (*Ordre des Professionnels Comptables*) had 17 institutional members (audit firms) and 144 individual members, including 40 auditors (category A), 20 accountants (category B), 5 tax advisors (category C) and 79 employees of public or private firms practicing accounting tasks (category D)¹⁰¹. A 2007 report on the sector estimated that, due to limitations of the Burundian higher education system, many professionals working as accountants in Burundi do not have the academic level recommended by the International Federation of Accountants (IFAC) (World Bank/ IMF 2007). The OPC plans to increase education requirements and offer additional training to its members. However, given the small size and limited accounting needs of most businesses in Burundi, the country would also likely benefit from an increased number of mid-level accounting technicians¹⁰², but there is currently no legal framework or training program in place for technicians. It appears that a few foreign accountants – mainly from East Africa - are employed by accounting firms in Burundi. Foreign firms, notably from Mauritius, Kenya, France or Belgium occasionally provide accounting and auditing services.

The limited availability of engineering professionals: concerning engineering services, capturing the number of professionals practicing in Africa accurately is more difficult. Burundi does not have a professional engineering body (even if present, registration with those bodies is often patchy). Hence, to shed some light on the availability of engineers in Burundi and other African countries we rely on responses to the survey conducted by the World Economic Forum for the yearly Global Competitiveness Report. Respondents were asked to assess the availability of scientists and engineers in their respective countries, ranked from 1 = nonexistent or rare, to 7 = widely available. The results of the 2012 survey for a sample of Eastern and Southern African countries are illustrated in Figure 6.5, which shows the rather limited availability of engineers in Burundi.

¹⁰¹ Source: March 2010 presentation by OPC (Accessible at http://www.ileap-jeicp.org/downloads/burundi_march_2010/presentations/session_viii-comptables.pdf)

¹⁰² The limited availability of middle-level professionals in professional services is a pervasive problem in East Africa, see World Bank (2010c).



3.2. Factors accounting for this limited availability of professionals

Available evidence suggests that the current demand for professional services might be limited, which may partly explain the low number of professionals. Results of a business survey undertaken as part of the Professional Services Knowledge Platform Project (forthcoming in 2012) indicate that usage of accounting and legal services is lower in Burundi than in other EAC countries. It also suggests that a larger share of accounting services used is provided in-house in Burundi than in neighboring countries. However, increased investments and regional integration are expected to boost the demand for such professionals. Several other factors related to education, domestic regulation, trade and labor mobility can explain the skills shortages and the underdevelopment of professional services in Burundi

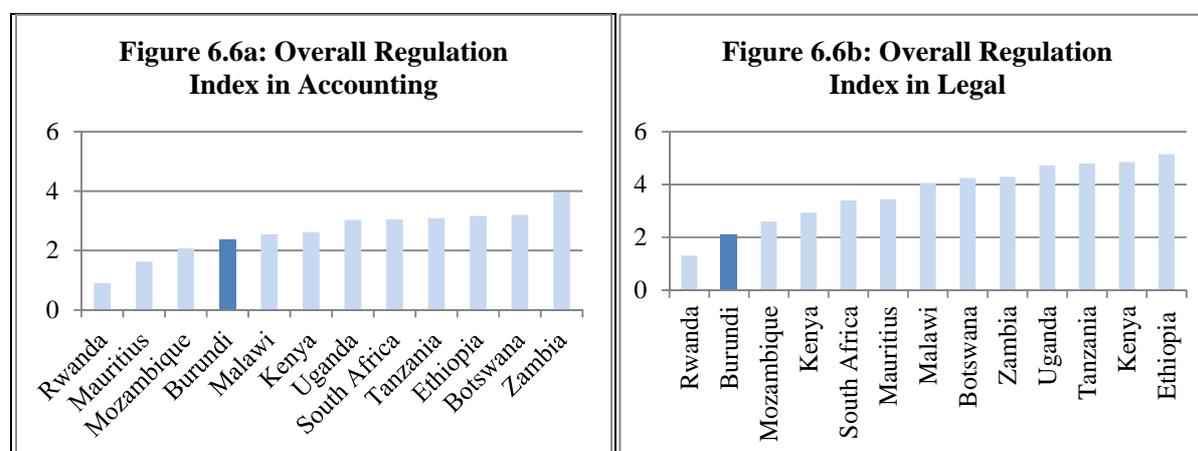
Explaining the Skills Shortages and Skills Mismatches in Professional Services – Education Issues

Some key education-related reasons for these shortages are as follows: (i) the weaknesses in secondary and tertiary education witnessed in Burundi limit the ability of students to acquire professional skills; (ii) institutions that offer specialized post-graduate courses, as well as institutions that offer academic and professional training courses for middle-level professionals, are insufficient or absent; and (iii) the missing links between educational systems, employers, and users of services can explain skills mismatches.

Explaining the Underdevelopment and the Segmentation of Markets for Professional Services – Domestic Regulation

Professional services have traditionally been subject to a high degree of regulation, as a result of direct governmental regulation and of rules adopted by self regulatory bodies (professional associations). These regulatory measures affect the entry and operation of professionals and professional services firms, and can undermine competition and constrains the growth of the sector. Information compiled in several African countries on domestic entry regulation (such as licensing and educational requirements, quantitative restrictions on the number of suppliers of professional services and exclusive rights granted to suppliers in certain activities), as well as on regulations on the operations of firms (such as restrictions

on prices and fees, advertising, form of business, and inter-professional cooperation), are used to calculate the regulatory indices presented in Figures 6.6a and 6.6b¹⁰³.



Source: OECD Regulatory Database on Professional Services and World Bank Regulatory Surveys in Africa, 2009 and 2010.
Notes: A higher value of the index indicates a more stringent regulation

Burundi has moderate regulatory indices for accounting and legal services. Entry requirements, such as pre-qualification requirements, licensing or membership in a professional association tend to be lighter than in most neighboring countries. The range of exclusive activities¹⁰⁴ reserved to accounting and legal professionals in Burundi is comparable to that in most other Sub-Saharan African countries. The regulation affecting the conduct/operations of professional service providers in Burundi is heavier - this is notably explained by price regulations in legal services, and advertising prohibitions in both accounting and legal services.

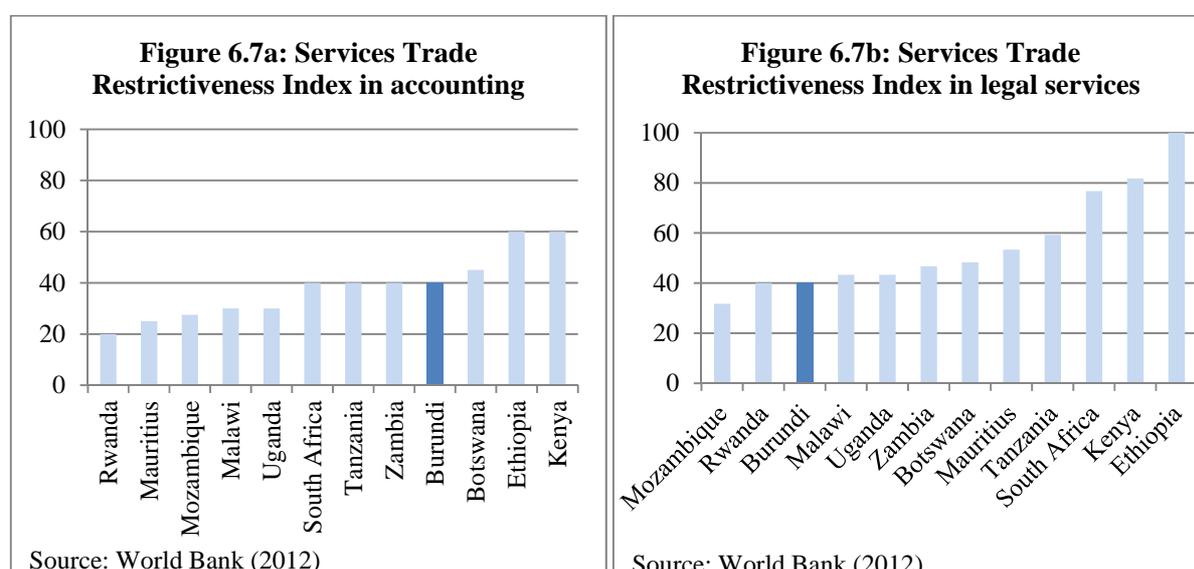
A more acute barrier for the development of professional services seems to be the absence of relevant regulations. The regulatory survey – implemented by the Ministry of Commerce – provides concrete cases. For example, there is no official curriculum for the training of professional accountant trainees under the authority of the Order of Professional Accountants (OPC). This implies that the training of professional accountants is not done systematically, and each subsequently qualifying member may have unique and certainly non-uniform skills, knowledge, professional values and attitudes (compared with other qualifiers). There do not seem to be any mechanisms for identifying approved employer organizations or mentors/supervisors within the analyzed professions. This suggests that the practical experience of professionals is not structured, and may not achieve the expected outcomes.

¹⁰³ The indices shown in Figure 6.6a and 6.6b convert qualitative information on regulatory conditions into quantitative indicators for each sector, using the OECD methodology described in Conway and Nicoletti (2006). Entry regulations include barriers to becoming a member of a profession taking the form of licensing and educational requirements, quantitative limits on the number of suppliers of professional services, and/or exclusive rights granted to suppliers in certain activities. Conduct/operation regulations include restrictions on prices and fees, advertising, form of business, and inter-professional cooperation. The qualitative information originates in regulatory surveys conducted by the World Bank. The data, indices and a detailed description of the methodology will be available at www.professionalservicesreform.com.

¹⁰⁴ Highly skilled professionals in the different professional services sectors generally have exclusive rights to perform certain activities (e.g., auditing, representation of clients before courts, advice on legal matters, feasibility studies, design and planning).

*Explaining the Segmentation of Markets for Professional Services – Trade Barriers and Immigration Regulation*¹⁰⁵

Burundi has a moderate services trade restrictiveness index. Trade barriers can limit competition and the efficiency of professional service providers in Africa. Foreign entry restrictions include: (i) Restrictions on the movement of natural persons (nationality and residency requirements, quotas, economic needs test, limits on the length of stay, recognition of academic and professional qualifications); (ii) Restrictions on the establishment of commercial presence (restrictions on foreign ownership, limits on the type of legal entry, limits on the scope of business); (iii) Restrictions on cross border trade (entry restrictions and limits on the scope of business); and (iv) Restrictions on labor mobility (procedures for hiring a foreign worker). The Services Trade Restrictiveness Indices that take measure such restrictions reveal that Burundi is not more restrictive than most sub-Saharan African countries in accounting and legal services (Figures 6.7a and 6.7b).



Trade restrictions in professional services in Burundi include: nationality requirements to provide certain legal services, prohibitions to use the name of the parent company, requirements to employ a certain percentage of nationals and restrictions on the composition of management of foreign professional firms established in Burundi. Foreign degrees are recognized on an ad-hoc basis. Similarly, work permits are allocated and extended on a case by case basis.

3.3. Recommendations for policy action

Policy action is required to address the constraints to the development of professional services. The national markets for professionals and professional services in Burundi are underdeveloped, with performance indicators below the averages of countries at a similar level of development. Inadequate domestic regulations, combined with a lack of regional coordination among countries, further constrain foreign investment and Burundi’s integration with other Sub-Saharan African countries. These outcomes are the result of constraints that suggest policy action in the following areas: education, regulation of professional services, trade policy, and labor mobility. International and regional cooperation (for example, WTO, EAC and COMESA services negotiations) would ideally complement domestic policy

¹⁰⁵ Data on trade barriers come from the WB/DECTI Survey on Foreign Services Restrictions. Only accounting and legal services are covered at this stage.

reform. Trade liberalization and regional integration can be used to advance regulatory reform, enhance competition, and deal with labor mobility issues that are crucial in professional services.

- *Policy action at the national level*

Reforms at the national level need to focus on the development of framework conditions that address skills shortages and skills mismatches, and that attempt to facilitate the growth of professional services in Burundi through regulatory reforms.

Education reforms: Faculties and other training programs must be improved and expanded to satisfy professional training needs, but this must be planned and carried out in a manner that will increase not only the quantity but also the quality of offerings. Merely certifying schools and granting more degrees or certificates to poorly-trained students would not address the needs, and instead would worsen the overall situation in the long run by infusing poorly equipped graduates into the system.

International and national experiences related to quality assurance of secondary and higher education could serve as a model for Burundi. For example, the program that is currently being developed by the Inter-University Council for East Africa (IUCEA) in terms of designing university curricula and research, and creating university/industry partnerships for fostering knowledge, could provide guidance for education reforms in Burundi. Also, collaboration with the IUCEA could contribute to the reduction of education-related differences that fragment the regional market for education.

Moreover, Burundi needs to put special emphasis on the development of programs for middle level professionals. Malawi's experience with courses for middle-level legal professionals¹⁰⁶ could be a useful model for other African countries, including Burundi.

Finally, the absence of links between educational systems, employers, and users of services prevents young graduates from finding employment, and further explains the attrition of skills in several professions. Several stakeholders from the private sector have emphasized the coordination problems between employers, professional associations, and education institutions in the content of educational programs for engineers and accountants. Policy actions to encourage collaboration between universities, professional associations, and the private sector, for example through internships, could help students acquire skills and practical training. The Structured Engineers Apprenticeship Program (SEAP) for Graduate Engineers developed by the Engineers Registration Board in Tanzania provides an example that could be followed by Burundi.

Regulatory reforms: Reforms need to focus on incremental, qualitative improvements in domestic regulation:

- a. Disproportionate cumulative entry requirements need to be relaxed. For example, narrowing the scope of exclusive tasks in certain professions would contribute to this goal. Exclusive rights can lead to increased specialization of professionals and guarantee a higher quality of service, but if they create monopolies they can have adverse price and allocation effects, especially when granted for services for which adequate quality can be provided at a lower cost by less-regulated middle-level professionals.

¹⁰⁶ Some successful initiatives have encouraged the education, training, and development of middle-level professionals. The Paralegal Advisory Service in Malawi is an innovative program that offers paralegal aid in criminal cases and has so far trained 38 paralegals. Candidates receive training from NGOs working in partnership with key stakeholders, including Malawi Prisons, Police Services, and the court system. The paralegals are then able to work with these same institutions, making the arrangement beneficial for both sides. The program has been so successful that the organization is being transformed into the Paralegal Advisory Services Institute and is introducing similar programs throughout Africa and even further abroad in Bangladesh.

- b. Adequate regulations that ensure that professionals are equipped with market-relevant skills need to be put in place.
- c. Disproportionate restrictions that limit competition need to be eliminated:
 - o Price regulations affecting legal services and public procurement contracts in engineering are supported and introduced by professional associations or the government, who claim that they are useful tools to prevent adverse selection problems. Burundi needs to adopt less restrictive mechanisms, such as better access to information on services and services providers to accomplish the same goals at lower economic cost.
 - o Advertising prohibitions are imposed by Burundi in accounting and legal services. The country needs to allow advertising of professional services, which facilitates competition by informing consumers about different products and which can be used as a competitive tool for new firms entering the market.

- ***Policy action at the regional and multilateral levels***

The fragmentation of regional markets for professional services and professional education by restrictive policies and regulatory heterogeneity prevents Burundi from taking advantage of gains from trade based on comparative advantage, as well as gains from enhanced competition and economies of scale. Trade barriers would ideally be liberalized on a most favored nation (MFN) or non-preferential basis, since this would generate the largest welfare gains, and complemented with regional cooperation to reduce regulatory differences.

(i) Steps need to be taken to relax the explicit trade barriers applied by Burundi to the movement of natural persons and commercial presence of professional services.

Examples of possible reforms are:

- Articulating the economic and social motivation for nationality and residency requirements;
- Minimizing restrictions on the forms of establishment allowed;
- Developing a transparent and consistent framework for accepting professionals with foreign qualifications.

The reduction of explicit trade barriers also needs to be complemented with the reform of immigration laws and rules on the hiring of foreign workers.

(ii) Trade liberalization needs to be coordinated with regulatory reform and cooperation at the regional level.

Deeper regional integration, through regulatory cooperation with neighboring partners who have similar regulatory preferences, can usefully complement non-preferential trade liberalization. Regional integration would also enhance competition among services providers, enable those providers to exploit economies of scale in professional education, and produce a wider variety of services. Regional integration brings further benefits in that a larger regional market is able to attract greater domestic and foreign investment; and regionalization may help take advantage of scale economies in regulation, particularly where national agencies face technical skills or capacity constraints¹⁰⁷.

¹⁰⁷ See World Bank (2010d) for a discussion on the role that international trade agreements, particularly the Economic Partnership Agreements (EPAs) that are currently being negotiated with the European Union (EU), can play in supporting coordinated trade and regulatory reforms in Africa. The study discusses the key issues that EPAs will have to address if they are to support the development of service sectors in Africa, while recognizing that EPAs might not necessarily be the most effective way to pursue service sector reform for all African countries.

Opening up regional boundaries and establishing Mutual Recognition Agreements (MRAs) would facilitate Burundi's services integration with its African partners. The free movement of EAC nationals without work permit requirements would be of great help to increase business opportunities within the region and boost service exports. Burundi's participation in MRAs of professional qualifications and licensing requirements within EAC and COMESA in the areas of accounting, architecture, engineering, and legal services would likely benefit Burundi service firms (as well as firms in neighboring countries) in their exports of services to the region. The EAC Common Market Protocol, adopted by the Multi Sector Council in 2009, includes an annex on a framework agreement on MRA of academic and professional qualifications. The five EAC countries, including Burundi, have already signed an MRA in accounting services and implementation focuses on the following areas: requirements for education, examinations, experience, conduct and ethics, professional development and re-certification, scope of practice, and local knowledge. To assist with the implementation of MRAs and support more broadly the integration of markets for professional services in Africa, the World Bank is currently developing with the COMESA Secretariat a Knowledge Platform for Professional Services (see Box 6.1 below).

Box 6.1: Professional Services Knowledge Platform

The Professional Services Knowledge Platform for Eastern and Southern Africa will provide:

- Information and analysis of the current situation regarding the performance of several professional services sectors in the different countries covered, and their impact on other sectors and the wider economy. This will require surveys of both users and providers of services.
- An assessment of barriers to trade and foreign investment and of current regulatory policies, in the form of a trade and regulatory audit, together with an assessment of their impact on entry and conduct in the market.
- A review of the necessary steps to remove explicit barriers to trade and the regulatory options for integrated services markets, including measures that can be pursued at the national level and those that are likely to be more effective in collaboration with partner countries at the regional level. This will be informed by a careful analysis of the experience of other countries that have implemented reform programs in the specific sector, drawing on inputs and interactions with officials and experts from these countries.
- An assessment of capacity building that will be necessary for effective implementation and monitoring of outcomes in the different sectors and the impact of current regulation.

In pursuing these outputs, the platform aims to support a process that ensures regular consultation between private and public stakeholders; effective communication between the regulator, sector specialists, and the relevant government ministries; extensive dissemination of information and analysis at the national and regional levels for increased awareness and deeper understanding of the policy issues affecting each sector.

4. Conclusion

Burundi needs to engage in deep regulatory cooperation at the regional level and use multilateral trade liberalization and regional integration to reform and strengthen its professional services sectors. The government could engage with donors to secure technical and financial assistance to strengthen the capacity of regulatory organizations, and develop appropriate regulation.

The pace of integration is largely dependent upon Burundi's political motivation and conviction that such liberalization is beneficial to the domestic constituencies. To improve such prospects, the promotion of more frequent and open dialogue between the key stakeholders involved in professional services - professional bodies, private sector providers, users of services, higher education institutions, trade negotiators – is important. Burundi's participation in the Professional Services Knowledge Platform can help the country with the development of a meaningful reform program that includes the elimination of explicit barriers *and* regulatory, education and immigrating reforms.

CHAPTER 7 – Lifting the Constraints to Tourism Development in Burundi

1. Introduction

Tourism has become one of the world’s fastest growing economic sectors over the past six decades, notably in the South. It currently ranks fourth globally as an export category, after fuels, chemicals and automotive products (UNWTO 2011). Growth has been particularly fast in the world’s emerging regions since the 1990s, and well-known examples of success in Africa include countries such as Egypt, Morocco, Tunisia, Mauritius, South Africa, Tanzania and Cape Verde.

Tourism is rising in sub-Saharan Africa’s (SSA), and the sector already accounts for half of the sub-continent’s services exports (World Bank 2011a). Though still small (3.4% of world tourist arrivals in 2011), SSA’s share of global tourism is rising. While arrival volume widely differs among African countries, the continent as a whole welcomed over 33 million international tourists in 2011, compared to 6 million in 1990 (UNWTO 2011, 2012). Despite the global crisis and recession, international tourist arrivals to SSA increased by 6% between 2010 and 2011, and the growth prospects for the travel and tourism sector is promising. International hotel chains are notably expected to invest hundreds of millions of dollars in Africa over the next few years, to meet increased demand from both international tourists and the continent’s own fast-growing middle class (World Bank 2011a). The available data show that, within SSA, East Africa is the best performing region with Southern Africa (table 7.1).

<i>Region</i>	Total Tourist Arrivals	Total Long Hauls	Receipts (USD million)	Average contribution to GDP
Southern Africa	12,485,000	3,320,676	9,827	3.6%
East Africa	12,253,664	4,479,341	6,489	5.1%
West Africa	4,630,265	1,764,332	2,790	2.2%
Central Africa	1,197,882	730,835	1,063	1.4%
Total	30,566,811	10,295,184	20,169	4.0%

Source: World Bank (2011a)¹⁰⁸

The development of tourism in SSA in general, and in East Africa in particular, suggests that this sector could be a significant vehicle for economic diversification and growth in Burundi. While tourism has so far not expanded in Burundi as it has in neighboring countries, developing the sector has become in recent years an explicit objective of the Government, who adopted a national tourism strategy in 2011. However, while most low-income countries include tourism as a potential driver of socio-economic development in their development strategies, there is a clear implementation gap, meaning that objectives are often not reached. This gap is likely to be even wider in post-conflict countries such as Burundi, due to weak capacity and legacies of violent conflict (Novelli et al. 2012). It is therefore crucial to set clear and realistic goals, and to focus on effective implementation. This chapter presents an overview of the present state of the tourism sector in Burundi and describes the opportunities and challenges for its future growth. It proposes recommendations to improve the current situation, complementing those of the national strategy. The main message is that there is now a window of opportunity to start expanding tourism in Burundi, but that considerable challenges, some of which will

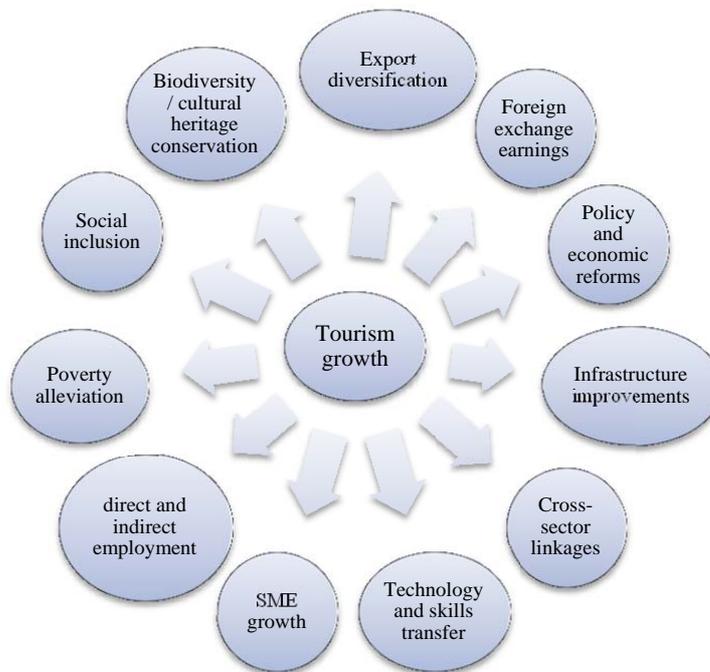
¹⁰⁸ The four SSA regions used in World Bank (2011a) broadly correspond to the groupings defined by the UN Statistics Division (<http://unstats.un.org/unsd/methods/m49/m49regin.htm#africa>). “East Africa” is made up of 16 countries, including the 5 EAC countries. Within “Southern Africa”, South Africa accounts for 65 percent of arrivals and 92 percent of receipts. Arrival figure concern overnight visitors only, i.e. they do not include same-day visitors.

take time to overcome, are likely to slow the progress and must be taken into account. Similar to other sectors, the regional dimension offers Burundi crucial opportunities to enable tourism growth.

2. Tourism as a catalyst for development

Tourism can be a major driver of development and has strongly contributed to economic growth, job creation and improved livelihoods in many developing countries¹⁰⁹. When sustainably and inclusively managed, the sector can have numerous virtuous effects and spillovers, including export diversification, job creation, backward linkages and biodiversity conservation (figure 7.1). Take-off in tourism can also trigger an improvement of a country’s investment climate and infrastructure, which can benefit not only this sector, but the economy in general. Moreover, tourism can play a pioneering role, with spillover and demonstration effects for broader private sector development. The emergence of a country, especially post-conflict, as a tourism destination also contributes to improve a country’s image, which can enhance investors’ confidence. Finally, tourism can also play an important role for post-conflict recovery.

Figure 7.1: The potential impacts of tourism growth



Tourism is fundamentally a multi-sectoral activity, characterized by its extensive supply chain. This means that it creates demand for many non-tourism goods and services, such as transport, retail, finance, real estate, construction, manufacturing, handicrafts, communication, etc. These backward linkages can have sizable effects, and the World Travel and Tourism Council¹¹⁰ estimates that travel and tourism generated globally twice as much from indirect and induced supply chain benefits than from

¹⁰⁹ See for example the 24 tourism case studies (including 7 from sub-Saharan Africa) presented in World Bank (2011a). See also Novelli et al. (2012) for references on the role of tourism for socio-economic development in low-income and fragile countries.

¹¹⁰ The WTTC is “the forum for business leaders in the Travel & Tourism industry” (www.wttc.org).

direct tourist spending in 2011 (WTTC 2011b). Backward linkages (i.e. the local sourcing of intermediate goods and services for tourism) are however likely to be weaker in countries which, like Burundi, have limited local supply capacity and new tourism sectors, as operators tend, at least initially, to import a larger share of their inputs (UNCTAD 2008). Conversely, this supply chain implies that a diversity of sectors must be functional for tourism to develop, and that bottlenecks in important sectors, such as construction or financial services, can hamper tourism growth. In terms of policy, the multi-sectorality of tourism requires effective coordination between public authorities in several domains (infrastructure, finance, environment, education, etc.), as well as adequate communication with the private sector, which can all prove challenging in developing countries with limited institutional capacities. Finally, countries which are, like Burundi, attempting to initiate tourism are likely to face a critical mass issue (box 7.1).

Box 7.1: Tourism and critical mass

Tourism needs to reach a scale of operation where the economies of scale, or “critical mass,” kick in, no matter how advantageous the basic assets for tourism are. At this point, airlines establish routes, tour operators promote the destination and investors invest in hotels, resorts and ecotourism. This is often viewed as a chicken and egg situation; indeed, it is not clear what exactly triggers a change. A certain volume of hotel rooms and visitors are required in order to justify large investments in infrastructure, such as airports, roads, ports, power, local transport companies, waste management, landfills, etc.

Tourism operators can absorb a certain amount of infrastructure in their own projects, as long as it does not weigh too heavily on investment costs. Concentrated and well-planned integrated resort development can often be more successful than generalized development strategies for the country as a whole. In this regard, one interesting option can be ecotourism projects, which tend to be more self-contained and to require fewer public services. Nonetheless, success in this type of project also requires reaching a minimum scale and addressing key constraints, such as access to and within the country.

Source: World Bank (2012c)

Tourism, however, has limits and an unmanaged growth of the sector can entail risks. These risks can be of various natures, including unsustainable uses of natural, cultural and social assets; social risks (increased crime, income inequality, mistreatment of women and children, tensions with local communities); or economic risks (increased reliance on imported goods and services, increased prices of land or food). This reinforces the need for careful planning and supervision by the authorities and other actors involved, such as professional associations or civil society organizations.

3. Presentation of the Burundian tourism sector

3.1 The limited economic weight of tourism

Compared to other East African countries, such as Tanzania and Kenya, Burundi’s tourism sector is still largely underdeveloped (table 7.2). This is partly due to the fact that years of conflict prevented the country from becoming a regular travel destination for tourists. According to the WTTC, the direct contribution of both travel and tourism to GDP is expected to be 2.1 % in 2011¹¹¹, which ranks Burundi 134th out of 181 countries for relative contribution of travel and tourism to the economy (WTTC 2011a). This estimated figure overwhelmingly corresponds to business spending, as opposed to leisure spending,

¹¹¹ In the WTTC’s methodology, this includes GDP generated by industries that deal directly with tourists, including hotels, travel agents, airlines and other passenger transport services, as well as the activities of restaurant and leisure industries that deal directly with tourists.

and to domestic travel spending, as opposed to visitor exports¹¹². Thus, the impact of leisure tourism as commonly understood is still marginal.

Table 7.2: Available tourism statistics for EAC countries						
2a.UNWTO Compendium of tourism statistics, 2011 edition ¹¹³						
	Burundi	Kenya	Rwanda	Tanzania	Uganda	
Total arrivals ('000)	201	1,817	666	783	946	
Origin ('000):						
- Africa	141	205	547	392	676	
- Europe	32	1,237	54	243	113	
- America	4	134	33	71	65	
- East Asia	10	168	7	43	28	
- Other	14	73	25	34	64	
Purpose ('000):						
• Personal	137	1,575	359	727	762	
<i>Holiday & leisure</i>	66	1,279	68	609	149	
<i>Other</i>	71	296	291	118	613	
• Business	64	242	307	56	184	
Mode of transport ('000):						
- Air	50	1,118	110	405	369	
- Water	40	16	-	23	-	
- Road	111	683	556	352	577	
Tourism receipts (\$ millions)	1.3	917	202	1,255	730	
2b. WTTC Travel & Tourism Economic Impact 2011						
	Burundi	Kenya	Rwanda	Tanzania	Uganda	SSA
International arrivals ('000)	156	2,875	1,016	788	1,019	36,833
Visitor exports (M\$)	2	1,302	259	1,247	599	28,000
Direct contribution of travel & tourism to GDP (%)	2.1	4.5	3.4	4.5	3.2	3.1

Country	Domestic spending (%)	Visitor exports (%)
Burundi	97%	3%
Kenya	49%	51%
Rwanda	25%	75%
Tanzania	30%	70%
Uganda	35%	65%
SSA	59%	41%

Country	Leisure spending (%)	Business spending (%)
Burundi	10%	90%
Kenya	68%	32%
Rwanda	53%	47%
Tanzania	80%	20%
Uganda	34%	66%
SSA	65%	35%

(expected figures for 2011, as estimated by the WTTC. For more information on the methodology used, see www.wttc.org/research/economic-impact-research/methodology)

While detailed data on the Burundian tourism sector are not available, partial information can be gathered, which can give a sense of its size:

¹¹² In the WTTC methodology, visitor exports correspond to “spending within the country by international tourists for both business and leisure trips, including spending on transport”.

¹¹³ For each country, the latest year for which detailed data are available is used, i.e. Burundi (2006), Kenya (2007), Rwanda (2010), Tanzania (2010), Uganda (2010).

- *arrivals*: a recent estimation is that only nine percent of people arriving at Bujumbura's international airport were leisure tourists in 2009-2010 (compared to 52 % for business purposes and 19 % to visit relatives), representing 5,000 people (Republic of Burundi 2011a).
- *private sector*: the sectoral chamber of tourism and hotels (part of the Federal Chamber of Commerce and Industry – CFCIB) had a membership of only 75 operators at the end of 2010 (restaurants, hotels, travel agencies, etc.) (Republic of Burundi 2011a).
 - o *hotels*: there are around a hundred hotels, the vast majority of which are located in Bujumbura. Together, they offer a total of around 1,700 rooms (Republic of Burundi 2011a). While the State has historically been in the hotel business through ownership in a few large hotels in Bujumbura, a divestiture process has recently been initiated and several privatizations are underway or planned. Most hotels in Bujumbura and the few establishments outside the capital are small and do not conform to international standards. However, a new dynamic seems to be underway and, according to the Investment Promotion Agency, the hotel and tourism sector received around USD 150 million in investment projects in 2010/11(API 2011). For example, Opulent (B) Ltd (Hotel company) signed on 4th November 2011, a loan agreement of US \$5.5 million with IFC to develop the first DoubleTree by Hilton Hotel in Burundi¹¹⁴. The hotel will help improve the country's essential business infrastructure by providing international-standard rooms and conference facilities. This is also expected to stimulate a range of indirect jobs and SMEs to provide goods and services to the hotel and its clients.
 - o *tour operators*: around half a dozen of tour operators are established in Bujumbura, employing a total of less than 40 people. Since the end of the conflict, tour operators have proposed regional circuits, principally for local clients and expatriates, and are reportedly more and more working in networks with foreign partners (Republic of Burundi 2011a).
- *jobs*: estimations of the number of jobs directly generated by the tourism industry so far are between 1,000 and 1,500, mainly in the hotel business (OTF 2008, Republic of Burundi 2011a).

3.2 The weak institutional and regulatory framework for tourism

The institutional framework for tourism in Burundi suffers from a lack of capacity and resources. The tourism sector is under the authority of the Ministry of Trade, Industry, Posts and Tourism. The human and financial resources allocated for the administration of tourism in this ministry are very limited. Comparatively, the National Tourism Office (ONT) appears in a better position to promote the sector, but also suffers from poor visibility, limited budget for promotion activities, and inadequate dialogue with private actors involved in tourism activities (Republic of Burundi 2011a).

The sector's relevant legislation largely dates from the 1950s-60s and is considered inadequate. In addition to the general texts regulating economic activity, the main document specifically regulating the sector is a 1955 ordinance on the operations of hotels, restaurants and bars, which chiefly requires these establishments to obtain an annual license to operate. Normative rules, for example on room characteristics or hygiene, have not been applied due to the absence of effective supervision (Republic of Burundi 2011a). Technical assistance to modernize the sector's regulatory environment has recently been provided to the Burundian authorities by development partners (UNDP, TradeCom), and several draft laws and regulations have been prepared (Law on Tourism and various regulations and application texts). The IFC started to provide further support to the Government and the Private sector to improve

¹¹⁴ IFC's investment will specifically support the renovation and rebranding of the former 106-room Novotel Hotel and transform it into a 4-star international standard, 138-room DoubleTree Hotel by Hilton, employing 155 staff. See: www.ifc.org/IFCExt/Pressroom/IFCPressRoom.nsf/0/52ADA0F3741BB71C8525793E0066C362

the attractiveness of the sector for investors, through the Burundi Investment Climate Reform Program launched in 2010.

Burundi does not impose barriers to trade in tourism services, which should facilitate the entry of foreign actors. Tourism (including hotels, restaurants, tours operators, guides, etc.) is one of the service sectors for which Burundi has committed not to impose any trade restrictions on mode 1 (cross-border supply), 2 (consumption abroad), and 3 (commercial presence) under the WTO's GATS, the EAC's schedule and provisional COMESA schedule on the progressive liberalization of services (i.e. commitment schedules specifying "none" for these three modes of supply). Mode 4 (presence of natural persons) is unbound (i.e. no commitment made), except for managers and specialized senior management under the GATS commitments, for which a renewable 90-day visa can be delivered. In practice, no specific market access or national treatment barriers seem to be currently imposed against foreign actors (TradeCom Facility 2011), and the main issue, as far as regulation is concerned, is the overall weakness of sector's domestic regulations and institutional framework.

3.3 Burundi's new commitment to develop tourism

The example of post-conflict countries, such as Mozambique and Rwanda (box 7.2), suggests that tourism, when supported by adequate policies and liberalization efforts, can attract FDI and contribute to economic recovery¹¹⁵. While no such pattern has been observed in Burundi so far, strengthening the sector has become an important long-term development objective of the Government (e.g. the Government's "Vision 2025"), who sees tourism as a way to create jobs, diversify exports and obtain foreign currency. To this end, a comprehensive "National Strategy for the Sustainable Development of Tourism" (SNDDT) was launched in September 2011 (Republic of Burundi 2011a). This strategy, developed with support from the UNDP, presents the sector, describes its regulatory and institutional framework, and suggests ways to strengthen it over the next decade (cf. box 7.3 below).

Box 7.2: Post-conflict tourism development, the examples of Rwanda and Mozambique

Tourism development in post-conflict countries involves a unique set of challenges. Nevertheless, when successful, tourism can be a tool for peace building, poverty alleviation and infrastructure investment. It can also improve the image of the country as an investment destination. Rwanda and Mozambique are two examples of post-conflict countries which managed to develop tourism and attract foreign investment in the sector, contributing to economic recovery.

Mozambique: marked by a history of conflict since the 1960s, Mozambique was in the early 1990s one of the poorest countries in the world, with extremely weak infrastructure and human resources. Although tourism was well-developed in the colonial period, it collapsed with the independence and civil wars. In the post-war period, the Government devised a strategy with the World Tourism Organization to promote tourism, which was based on the development of both high end facilities for international tourists and medium end infrastructure for regional visitors. Legislative reform and the removal of visas for visitors from SADC countries are also credited as important drivers of success. In the five years following the conflict, the sector received significant amounts of FDI and foreign firms contributed to job creation. Moreover, marginalized regions also benefited from a new dynamism thanks to investments in tourism. The growth of tourism has been sustained in the recent period, and international tourist arrivals grew by 284 % between 2005 and 2010 (the government expects four million tourists annually by 2025).

Rwanda: after it had been severely affected by the 1994 genocide, Rwanda managed to improve its international image and is now considered one of the safest destinations for tourists in Africa. This rebranding has principally gone hand in hand with the revival of gorilla tourism. Rwanda's strategy has

¹¹⁵ The argument that tourism can contribute to post-conflict recovery is developed in Novelli et al. (2012).

been highlighted as an example of successful focus on high-end tourism which contributed to wildlife/environmental conservation, as well as to poverty reduction through the involvement of communities. Additionally, the country has been particularly successful in attracting large numbers of business and conference travelers, mainly from the Democratic Republic of Congo and countries of the EAC. This success is evidenced by the large increase in the number of hotel rooms, restaurants, and the planned construction of a convention center. Local and foreign direct investments have been substantial, accounting over the last 10 years for 16 and 20 percent of total local and foreign direct investment, respectively. In terms of export revenue, tourism already outperforms coffee and tea by a wide margin.

Besides viable tourism assets and relatively good infrastructure, several key characteristics have contributed to the successful revival of the tourism sector in Rwanda. First and foremost, the government has shown a clear commitment to the development of tourism and has established Rwanda as a safe destination in the region. The early development of a strategy and policy, as well as domestic campaigns to promote tourism and international marketing efforts, demonstrated this commitment. Furthermore, the government involved the private sector from the start, despite its initial lack of capacity and resources. The business environment has improved markedly in recent years, promoting private sector involvement in tourism. In addition to this, Rwanda has always seen tourism as an instrument to reduce poverty, for example by directly involving local communities.

Sources: Nielsen and Spenceley 2011; UNCTAD 2010; World Bank 2011a

Burundi has a significant potential to attract tourists. The country's assets notably include the diversity of its landscapes (with Lake Tanganyika and some natural parks with diversified wildlife), cultural heritage (notably traditional drumming and dances) and historical sites. However, due to the small size of the sector, most of this potential has not been exploited on a commercial basis yet¹¹⁶. In terms of tourism products, the main options envisaged by the SNDDT include the promotion of tourism on Lake Tanganyika (beaches, nautical activities) and of niche activities, particularly eco-tourism and business tourism¹¹⁷. Indeed, the UNCTAD recently argued that given its low competitiveness, Burundi cannot bet on mass tourism, but should rather focus on niches and "adventure tourism" for which visitors have lower demands in terms of comfort (UNCTAD 2010). Moreover, the relatively unexplored nature of the country as a tourism destination could be marketed as an asset for this category of tourists. Other activities, like community-based tourism (for example in coffee or tea growing areas) could also contribute to diversify Burundi's tourism offer. As discussed at length in section 7, the most promising strategy is to insert these products in a regional framework, in order to piggyback on the higher maturity of tourism in other EAC countries.

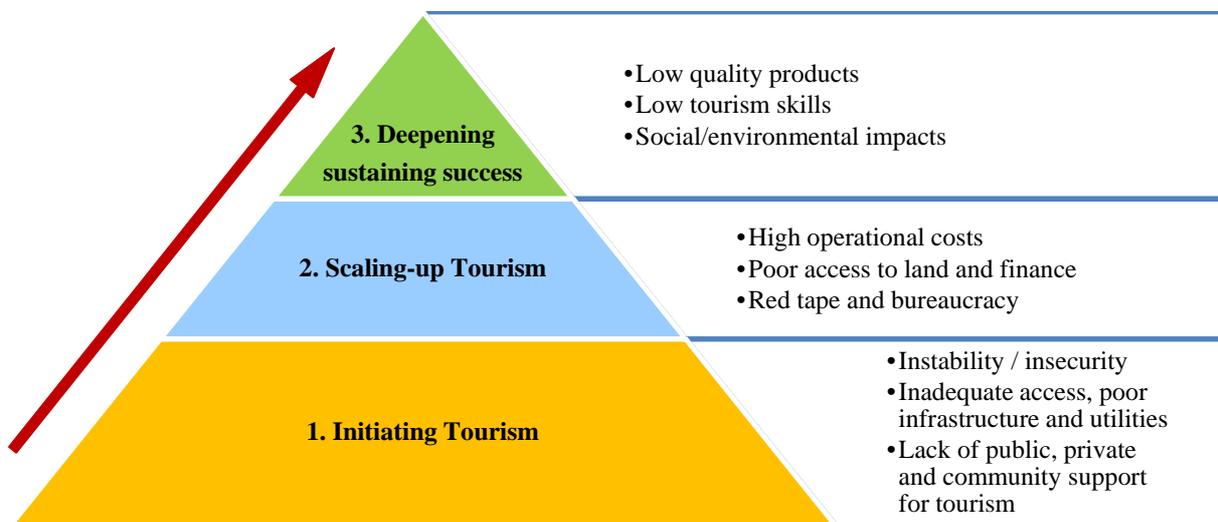
¹¹⁶ The limited weight of tourism also means that tourism assets, such as national reserves or Lake Tanganyika, are at a risk of being harmed by unsustainable policies and practices, concerning notably land allocation, deforestation and construction. This highlights the need for sustainable land management and conservation policies, and for efforts to orientate tourism development in a sustainable way, which will all require broader awareness of the opportunities offered by tourism (Novelli et al. 2012).

¹¹⁷ See the SNDDT (Republic of Burundi 2011a) for a detailed overview of the country's tourism assets. Several pilot projects are proposed in the strategy, including an eco-tourism project in the Ruvubu national park and a community-based tourism project around Gishora drummers.

4. The challenges facing tourism in Burundi

The development of tourism in sub-Saharan Africa is typically hampered by several categories of obstacles. These often include an unpredictable business environment, poor transport infrastructure and utility networks, inadequate access, institutional weakness, price/value mismatch, etc. At each stage of tourism development, different types of constraints are likely to be the most binding for continued growth of the sector (figure 7.2). According to the classification of African countries as tourism destinations established by the World Bank (cf. annex 5 in Volume II), Burundi belongs to the group of countries in the process of *initiating* tourism. This means that, in addition to the weakness of the tourism sector itself, several other general obstacles reduce the chances for a take-off of tourism in Burundi in the short run.

Figure 7.2: Pyramid of tourism destinations and typical constraints to growth



Source: adapted from World Bank (2011a)

As described in details in the national tourism strategy, constraints directly related to the tourism sector in Burundi include:

- the weakness of the regulatory and institutional framework (cf. above)
- the lack of tourism facilities, total investment in the sector being estimated at less than USD 40 million over the past twenty years (as noted above this should change with the increased number of investment projects in recent years);
- the absence in practice of quality standards for tourism facilities;
- the limited number of trained workers in hotels/restaurants/tour operators and of professional guides (there is currently no dedicated tourism training facility in the country);

In addition to this, several more general obstacles will most likely hamper the development of tourism:

- The political instability, security situation, corruption and health concerns.** In the words of Novelli and coauthors (2012), “the guarantee of tourists’ personal safety is perhaps the most important prerequisite for any aspiring tourism destination” These are currently considered serious constraints to the development of the sector in Burundi (World Bank 2009a). If the “risk of renewed conflict at the regional level” is envisaged in the national tourism strategy (p.11), the strategy emphasizes the increased stability since the end of the war and the necessity to improve the country’s image accordingly. Notwithstanding the major progress achieved in the years following

the Arusha Agreement, mounting political tensions and violent events, notably since the end of 2010, show that the situation is not fully sustained yet, even if it seems to have improved in early 2012¹¹⁸. While poor quality of tourism facilities or insufficient marketing efforts are likely to slow tourism growth, news of disease or security concerns in a country can result in immediate cessation of tour activities and a drastic reduction of tourist arrivals, as was recently experienced by Zimbabwe, Madagascar, Kenya or Mali (World Bank 2011a). Moreover, “unlike short-term disasters, civil unrest can affect the image of a destination for years to come and so internal conflicts is totally inconsistent with sustainable tourism development” (Novelli et al. 2012). Security issues are also a clear deterrent for potential investors. Significant improvements will therefore be needed for Burundi to be considered a safe destination by investors, tourists and tour operators. At present, major source markets like the United Kingdom, the United States or France still advise their citizens against all but essential travels to Burundi, particularly outside of Bujumbura and after nightfall.

ii. The difficulty to access the country: Poor air and road connections are among the most common constraints to tourism growth in SSA mentioned by tour operators. The transport infrastructure in Burundi (road, lake, absence of railways) remains weak (AfDB 2009), even if this is in part compensated by the small size of the country, the relatively limited distance of tourism assets from the hub Bujumbura and the existence of a reasonably well-maintained network of paved roads. Another major concern is the limited number and high cost of flights to Burundi, especially long haul. Currently, the only non-African airline flying to Bujumbura is Brussels Airline, who operates a service from Brussels to Bujumbura three times per week. According to the SNDDT, around 4,500 seats on flights to Bujumbura are available weekly (234,000 / year), with only half of these being occupied. Nevertheless, the limited number of flights and absence of direct flights mean that the time and cost of reaching Burundi are considerable, especially coming from countries outside Africa.

iii. The cost and complexity of procedures to obtain a visitor visa. This is a crucial enabler for tourism, especially for small countries like Burundi. If the visa is too expensive or difficult to obtain, tour operators may opt to not include the country as part of a regional tour, and individual travelers may favor countries with less constraining visa requirements. An analysis of visa requirements in 47 SSA countries carried out by the World Bank showed a clear correlation between ease of visa processing and tourism performances (World Bank 2011a). In Burundi, a visa is required for all foreigners (except EAC nationals). According to the tourism office, tourists can request a 1-month renewable visa by completing a form at the Embassy of Burundi and presenting an international certificate of vaccination against yellow fever, a round-trip plane ticket, a passport valid six months after the return, an invitation from a friend or hotel reservation, two photos and 60 Euros in cash¹¹⁹. While the tourism office’s website mentions the possibility to obtain a visa on arrival at Bujumbura international airport, conflicting information suggests that this is not the case anymore since January 2010, at least officially¹²⁰.

iv. The weakness of Burundi’s utility networks, all the more so outside of Bujumbura:

- **Electricity:** the country’s installed generation capacity is very limited and almost completely dependent on hydropower, making the country’s energy supply highly vulnerable to droughts. The current system is characterized by a growing power supply-demand gap and frequent outages. Major energy supply crises affected Burundi in the 2009, 2010 and 2011 dry seasons (June-September), resulting in severe electricity shortages for all basic services (e.g. water

¹¹⁸ See, for example, HRW (2012).

¹¹⁹ Source: www.burunditourisme.com

¹²⁰ See, for example: www.diplomatie.gouv.fr/fr/conseils-aux-voyageurs/909/pays/12191/burundi/12220/index.html or www.travel.state.gov/travel/cis_pa_tw/cis/cis_1078.html

supply, hospitals), and in large-scale and systematic load-shedding reaching approximately 40-50% of existing demand during peak hours (World Bank 2011d). As recognized in the tourism strategy, Bujumbura and Gitega are the only two urban areas with a municipal electricity service and most rural zones are not directly connected to electrical grids, which makes the use of power generators necessary.

- **Water/sanitation:** Despite abundant water resources, the demand for potable water is not satisfied. The combined impacts of destructions caused by the civil conflict, lack of investment and the migration of refugees have resulted in a serious drop in the rate of urban water supply coverage. In rural areas where the DGHER¹²¹ is responsible for service delivery, coverage is around 40 percent (World Bank 2011d). Sanitation is also an issue: the service responsible for sewerage and wastewater treatment in Bujumbura only covers 38 percent of the city's needs. Therefore, much of the city's wastewater ends up in storm drains and creeks and from there flows untreated into Lake Tanganyika. Other cities and towns do not have a sewerage system or wastewater treatment facilities. Sanitation services in rural areas are also limited and only 23 percent of the population use functional facilities (World Bank 2011d).
- **Telecommunications and internet:** despite the rapid development of mobile telephony in the 2000s, which improved the availability and reduced the cost of telecommunications for Burundians, the number of fixed-lines remains one of the lowest in the world, even in the Bujumbura area where they are concentrated (rural regions are still largely uncovered) (UNCTAD 2010).

v. The limited availability/quality of essential services, notably:

- **Health services:** the availability of health facilities in Burundi is relatively good by sub-Saharan and East African standards, and national health indicators have improved in recent years (UNDP 2009). Nevertheless, the number and quality of health professionals remains insufficient (Republic of Burundi 2012) and there are important regional disparities: 80% of doctors and 50% of nurses are concentrated in the Bujumbura Municipality (World Bank 2009b).
- **Financial services** are largely underdeveloped in Burundi. Concerning tourism specifically, this is problematic for both potential tourists and investors. For example, credit cards are not accepted outside a small number of establishments and ATMs are still virtually absent from the country, forcing travelers to carry large amounts of cash and bear the risk of doing so. Concerning investors, the provision by banks of long term credits for investment projects is extremely limited (Nkurunziza et al. 2010).

5. The way forward for tourism in Burundi

The recently adopted national tourism strategy provides recommendations to strengthen specific dimensions of the tourism sector. These include regulations and standards; communication and marketing; tourism statistics; and professional training (box 7.3). They are all key areas for tourism growth and competitiveness, but they are, to a large extent, more pressing concerns for countries *scaling-up* or *sustaining* their tourism industry (cf. figure 7.2 above).

¹²¹ *Direction Générale de l'Hydraulique et des Energies Rurales*

Box 7.3: Recommendations and priority actions of Burundi's SNDDT

As a way to create a more favorable environment for the development of the tourism sector, Burundi's national tourism strategy provides a list of recommendations in four main areas:

- 1) **Legal and institutional environment:** introduction of a framework law on tourism and of application texts; reorganization of the public administrations in charge of tourism; creation of a National Tourism Commission with public and private sector representatives
- 2) **Investment climate:** guarantee the security of investments; simplification of administrative procedures; targeted investment incentives; inclusion of tourism in land-use planning and protection of tourism areas; improvement of the financing options available for investment projects
- 3) **Demand stimulation:** marketing actions targeting tourism professionals; communication campaigns in key markets
- 4) **Statistics and control:** improving the collection of statistics on tourism (international arrivals and hotels); implementation of the EAC classification standards for tourism facilities

Options are proposed in all these areas, and a program of actions in the short (2011-2014), medium (2015-2017) and long run (2018-2020) is established. Apart from the legal and institutional reform, the priority projects considered are:

- i. Technical assistance to improve various dimensions of the investment climate for tourism
- ii. Communication and marketing plan
- iii. Quality diagnostic and training plan for tourism worker
- iv. Capacity building of the ISTEERBU for the collection of tourism statistics
- v. Classification of tourism facilities and implementation of EAC standards
- vi. Development of touristic circuits, improvements of the accessibility and visibility of tourism sites, and protection of the Lake Tanganyika littoral.

Source: Republic of Burundi (2011a)

In addition to laying the institutional and policy foundations, general constraints must also be addressed by countries who, like Burundi, are *initiating* tourism development¹²². This means that, while efforts along the lines presented in the SNDDT are important, the authorities should take into account as priorities the basic concerns which will critically determine the country's capacity to initiate this growth of tourism. Most of these issues are not tourism-specific and are considerable development challenges in themselves. Nevertheless, the objective to develop tourism could provide an additional incentive to seek improvements, at least in the few high-potential zones identified in the national tourism strategy (e.g. Ruvubu national park, Gishora-Gitega, Bujumbura and Lake Tanganyika). This would not only facilitate tourism development, but would also benefit other sectors of the economy, as well as local communities.

- **Guaranteeing stability and security.** The national strategy considers how tourism development can contribute to strengthening peace, notably by creating jobs (p.7), but less how improved stability is required for tourism to develop in the first place. As noted above, significant and

¹²² See also UDNP (2011) for a similar list of fundamental preconditions required to establish an enabling environment for tourism development in LDCs.

durable improvements in terms of stability and security will be required for Burundi to be considered a safe tourism destination. The PRSP II recognizes this necessity to strengthen security in order to socio-economic development in general, and tourism growth in particular. Promisingly, there are early signs that Burundi can improve its image: for example, Burundi received the award for “Best African exhibitor” at the leading international tourism fair ITB-Berlin in 2011 (an award earned three times by Rwanda between 2007 and 2009)¹²³. During the 2012 edition, Burundi won this prize again, and was also recognized as best exhibitor out of the 180 countries represented¹²⁴. This could significantly enhance Burundi’s visibility as a tourism destination among sector professionals. While tourism would clearly benefit from countrywide improvements in terms of stability and security in the future, one potential measure to improve tourists’ real and perceived safety in the short run could be the establishment of dedicated police units, trained in tourism sector sensitivities (World Bank 2011a). In the short run, and until stability is sustained, it appears that Burundi will have to continue relying on a smaller clientele of regional business travelers and employees of international/non-governmental organizations. This is not negligible: a vast majority of tourists in Rwanda arrive for business/conference, to visit relatives or are in transit, and the share of tourists arriving in Rwanda for vacation is still small (6 percent in 2008) (Nielsen and Spenceley 2011). In the longer run, the development of Burundi as a tourism destination could also improve the country’s image more generally and enhance investors’ confidence.

- **Improving access.** In particular, it appears that scope exists for more proactive policy action to develop aerial connections between Burundi, source markets and other regional tourism destinations. A recent study of air transport in Africa determined that the level of competition at a particular airport and on a particular route is by far the strongest driver of airline tariffs (SH&E 2010). Efforts should therefore aim at increasing the supply of air service to Burundi, notably concerning:
 - *air safety and airport operations:* lack of compliance with ICAO requirements currently make it difficult for Burundi to attract major international airlines, and progress is required concerning the respect of international civil aviation standards and the operations of Bujumbura international airport (see the specific recommendations in AfDB (2009));
 - *air access liberalization:* only eleven of the 18 bilateral air services agreements (BASAs)¹²⁵ signed by Burundi are or have been exploited since their signature, and none gives transporters the “fifth freedom”¹²⁶ (TradeCom 2011). Moreover, the bilateral agreement system, developed in the framework of the Chicago Convention, has been deemed too rigid and an obstacle to the growth of newer airlines (SH&E 2010). In other LDCs, “open skies” policies have eased access to the main tourism sites, such as, for example, Siem Reap in Cambodia (UNDP 2011). While the regional initiatives undertaken at the COMESA and EAC levels to liberalize air transport have not been fully implemented so far (Schlumberger 2010), these communities and the SADC recently restated their intention to progress on this agenda and to implement the Yamoussoukro Decision (YD) through a multilateral air service agreement (MASA) at the Tripartite level.

However, it seems clear that increasing the number of commercial flights serving Burundi will prove difficult as long as demand remains low due to the limited visibility and offering of tourism

¹²³ www.burundi-gov.bi/Burundi-Culture-The-Best-exhibitor

¹²⁴ www.burunditourisme.com/index.php?option=com_content&view=article&id=101&Itemid=112&lang=en

¹²⁵ Belgium, Cameroon, Congo, DRC, Djibouti, Egypt, Ethiopia, France, Gabon, Kenya, Romania, Russia, Rwanda, South Africa, Switzerland, Tanzania, Uganda, Zambia.

¹²⁶ Following the definition given by the ICAO, this is “the right or privilege, in respect of scheduled international air services, granted by one State to another State to put down and to take on, in the territory of the first State, traffic coming from or destined to a third State”

in the country. In the meantime, an alternative could be to seek the entry of charter operators from major tourist source markets. Furthermore, the insertion in regional circuits could also allow Burundi to attract tourists visiting other East African countries, and hence to benefit from the better connections of their international airports, including the regional hubs in Nairobi and Addis Ababa. Beside flights from Nairobi, Addis Ababa, Kigali or Johannesburg, tourists could enter Burundi by road or lake if the corresponding infrastructure is improved.

- ***Streamlining visa processing.*** Minimal visa requirements can contribute to improving air traffic infrastructure by stimulating demand. In this regard, the announced end of the possibility for tourists to obtain a visa on arrival is a negative signal, as the securing of tourist visas upon arrival has become a common practice in East African countries. The reasons justifying this policy reversal should be clarified, including the potential political economy factors linked to the collection of visa fees. Burundi could also consider the quick-win of simplifying visa requirements for tourists, by re-introducing visa-on-arrival, or even by allowing tourists to visit Burundi for a short period of time with a simple passport stamp. As a matter of fact, all Southern African countries are already visa-free (World Bank 2011a) and Rwanda has waived tourist visa requirements for citizens of some source markets, including the US, UK and Germany¹²⁷.
- ***Enhancing the availability of utility networks and essential services:*** Targeted measures are required in potential tourism zones to improve the availability of energy, water, sanitation and essential services demanded by tourists. For example, clinics could be built to address health concerns. Another important avenue for action is the necessity to develop financial services, to enhance the financing options available for tourism investment projects and to provide alternatives to cash for tourists. In this regard, the regional dimension could be critical (cf. infra).

Finally, as explained in more details in the next section, one critical recommendation concerns the necessity for Burundi to fully participate in the regional integration of tourism services initiated at the EAC level.

6. The regional integration of tourism services as an opportunity

Tourism is an important area of cooperation for the EAC, and several joint initiatives have already been launched¹²⁸. Member States have developed a common agenda to promote the industry, as planned in art. 115 of the EAC treaty and outlined in the Community's third (2006-2010) and fourth (2011/2012-2015/2016) development strategies. The overall objectives are i) to take advantage of national complementarities to elaborate a single regional offer of tourism services for international visitors, and ii) to promote intra-regional tourism. The main initiatives implemented or envisaged include:

- the creation of an East African Tourism and Wildlife Coordination Agency (EATWCA), which will be responsible for the regional tourism policy including marketing but is not operational yet¹²⁹;
- the marketing of East Africa as a single destination, with some joint participation at the London and Berlin international tourism fairs since 2007;
- the implementation of common classification criteria for tourism facilities (which are currently not applied to a meaningful degree in Burundi). A curriculum for hotel assessors has been approved and Kenya, Rwanda, Tanzania and Uganda have trained EAC-recognized assessors in 2009/2012;

¹²⁷ www.migration.gov.rw/visitor-s-tourism-visa.html

¹²⁸ www.eac.int/travel

¹²⁹ SADC countries established a similar regional tourism agency in 1997, governed by public and private sector representatives (www.retosa.co.za).

- the introduction of a single EAC visa for tourists, following the example of the EU's Schengen Visa. While it would constitute a critical measure to develop regional tourism and has been planned for many years, this measure is still delayed. This is partly due to lack of progress on the ground concerning the harmonization of immigration management systems and ICT equipment¹³⁰, and partly because no agreement has been found so far concerning the dispersal of visa fees amongst the participating countries. SADC countries are closer to agreeing on the creation of a "univisa" between themselves, and their experience on this issue could provide interesting policy lessons for the EAC tourism visa project;
- the cooperation on capacity building in the tourism sector. Three establishments related to the tourism industry have been recognized as EAC "Centres of Excellences": the Utalii College, (Kenya), the College of African Wildlife Management (Tanzania) and the East African Civil Aviation Academy (Uganda). The establishment of a unified fee structure for all EAC students appears to be a goal for these centres. So far, Kenya already announced that it would provide ten full scholarships to students from each EAC country to train at the Utalii College¹³¹;
- the adoption of a regional approach and harmonization of policies/legislation on wildlife conservation and management.

Beside direct cooperation in tourism, other EAC areas of action are particularly relevant for the regional integration of tourism services:

- *infrastructure*: as argued in AfDB (2009), regional integration is critical to reduce the transport, energy and communication infrastructure gap, especially for a small and isolated country like Burundi¹³². While the country is likely below the threshold size to attract investors for infrastructure projects, this disadvantage can more easily be overcome at the regional level (World Bank 2012b). Given its catalytic role for various activities such as trade, agriculture, and tourism or for the movement of labor, infrastructure development is a priority cooperation area of the EAC, and more broadly of the Tripartite (COMESA-EAC-SADC). Several initiatives or studies have therefore been launched to harmonize policies and regulation, to improve regional transport corridors, and to develop regional energy networks and markets¹³³. Moreover, a regional airport project was initiated to increase interconnectivity, and an EAC civil aviation authority (CASSOA¹³⁴) was established to strengthen standards and improve the safety and security of civil aviation in the Community. It must however be recognized that, despite recent improvements, East Africa starts from a low-base in terms of regional transport and energy networks. Physical and regulatory or administrative hurdles still strongly inflate costs, and individual countries (especially the two coastal ones) often do not have sufficient incentives to invest in connective and cross-border infrastructures¹³⁵.
- *financial sector*: for small financial systems, the economies of scale from pooling resources and risks can be large, and the EAC countries could significantly benefit from the progressive

¹³⁰ www.theeastafrican.co.ke/news/EAC+single+tourist+visa+likely+to+fail/-/2558/1306008/-/2kx2/-/index.html

¹³¹ www.eac.int/travel/index.php?option=com_content&view=article&id=151:ministers-want-eac-single-visa-&catid=40:press

¹³² See the report (AfDB 2009) for a detailed presentation of the current situation of different types of infrastructures in Burundi and the opportunities offered by regional integration for each of them.

¹³³ www.eac.int/infrastructure ; www.eac.int/energy ; see also the East Africa Power Pool (www.eappool.org), a specialized institution for electrical power in East Africa adopted at the COMESA level in 2006.

¹³⁴ www.cassoa.org

¹³⁵ See the World Bank report on East African economic geography (2012b) for a detailed discussion of the obstacles and opportunities to regionalize connective infrastructure for transport and energy, and for recommendations to sequence integration, maintain momentum and overcome political economy obstacles.

creation of a single market in financial products and services (World Bank 2012b). The EAC considers financial markets integration and the constitution of a single investment area as a key step towards the future establishment of its monetary union. The Common Market Protocol requires member States to progressively remove all restrictions on the movement of capital belonging to persons resident in the EAC and forbids discrimination based on the nationality or place of residence of investors, or on the place where the capital is invested. While Kenya, Rwanda and Uganda have already opened up their capital accounts, Burundi and Tanzania are requested to open up by 2015 to respect their obligations under the Common Market Protocol. Several regional banks, notably based in Kenya, already exploit regional opportunities, including in Burundi, even if important regulatory and technical impediments to integration remain (World Bank 2012b).

- *peace and security*: the EAC has adopted in 2006 a Strategy for Regional Peace and Security in East Africa¹³⁶. To implement the strategy, various ongoing initiatives are promoted: the exchange of security information between partner States; the development of joint operations and cooperation in police matters; the development of conflict early warning and resolution mechanisms; the establishment of common mechanisms for the management of refugees and IDPs; and measures to combat illicit proliferation of small arms and light weapons, drug trafficking, etc. As recognized in the EAC's fourth development strategy, some progress was achieved, but results on this agenda are still mixed overall (EAC 2011).

Notwithstanding the rapid achievements of EAC integration over the last decade, the effective implementation of the various initiatives described above is often limited. This has been due to domestic resistances and/or limited capacities at the regional and national levels. Nevertheless, the EAC already offers opportunities and further progress on these agendas in the future could significantly benefit the Burundian tourism sector, by harnessing regional goods like infrastructure, and by improving its visibility and accessibility for regional and international tourists. As is clearly stated in the SNDDT, the EAC represents “important regional cooperation possibilities, in infrastructure, legislation, human resources or marketing”.

Burundi can piggyback on the higher maturity of tourism in its EAC neighbors. Given its isolation, small size and limited number of attractions, it will be hard for Burundi by itself to attract numerous tourists for long stays. This is not necessarily a binding constraint. For example, the extension of Thailand's tourism packages launched the initial growth of the sector in Lao PDR and Cambodia (UNDP 2011), and a large majority of tourists visiting Mozambique arrive from South Africa (USAID 2004). Likewise, most leisure tourists visit Rwanda as part of a multi-country itinerary and do not yet consider it as a stand-alone destination. In 2009, the most frequently cited length of stay by international tourists in this country was four days (Nielsen and Spenceley 2011). The integration in East African circuits and the connection with well-known tourism “brands” such as Kenya is therefore a promising option for Burundi, as recognized in the SNDDT. Doing so will require convincing more tour operators to add Burundi to their circuits¹³⁷. To do this, Burundi will need to exploit complementarities with other EAC countries by highlighting its comparative advantages (potentially leisure tourism around Lake Tanganyika, francophone culture and linkages to francophone source markets) and by developing the niche activities described above (eco-tourism, community-based tourism with coffee-growers, etc.), as well as by engaging in regional cooperation initiatives in the areas discussed above. Burundi could also seek direct cooperation with other East African countries to develop common circuits or jointly manage specific assets, following an approach already pioneered in East and Southern Africa (box 7.4).

¹³⁶ www.eac.int/security

¹³⁷ This is already happening to some degree: e.g. the tour operator Eos Visions, recently established and specialized in educational travels in East Africa for professional/academic/advocacy groups (www.eos-burundi.com).

Box 7.4: Examples of regional conservation and tourism initiatives in Southern and East Africa

Southern Africa: Since 2000, SADC member States have been cooperating on common conservation and tourism related issues through the establishment of transfrontier conservation areas (TFCAs), adjoining protected areas in two or more countries. Seven TFCAs are already showcased to tourists and investors through a common brand, “Boundless Southern Africa”. Together, these parks involve nine countries and up to five for a single park in the case of the Kavango Zambezi TFCA (Angola, Botswana, Namibia, Zambia, Zimbabwe). Moreover, several other TFCAs are at a various stages of development. While essentially a government-led initiative, the establishment of TFCAs has been supported by numerous stakeholders, including international donors, NGOs, the private sector or foundations.

East Africa: One notable example is the cooperation between the authorities in the DRC, Rwanda and Uganda for the conservation and management of their trans-border forests in the Virunga Conservation Area, which covers the Parc National des Virunga (DRC), the Volcanoes National Park (Rwanda) and the Mgahinga Gorilla National Park (Uganda). Collaboration between national agencies was formalized by the establishment of a transboundary strategic plan and memorandum of understanding. Various joint initiatives are carried out, notably concerning the harmonization of the rules governing gorilla tourism.

Sources: www.boundlessa.com ; www.peaceparks.org ; www.igcp.org

Integrating into the regional market will require attracting FDI, especially from the actors who are active in the EAC region. Tourism operators in East Africa already exploit the regional dimension: for example, Kenya is one of the main sources of tourism FDI in Uganda, and more than 20 percent of hotels in Kenya do business in the region through hotel chains and branches of tour operators based in Tanzania (UNCTAD 2008). Moreover, the UNCTAD’s study suggests that firms with some degree of foreign ownership are more likely to do business in the region than wholly local firms. The experience of other East and Southern African countries shows that, FDI in tourism i) has been a significant source of investment capital in the tourism sector, especially where tourism was emphasized as a new sector of growth ii) has enhanced service delivery and supply capacity (especially accommodation provided by international hotel chains), hence contributing to a sustained increase in both arrivals and revenues from international tourism; and iii) can contribute to raising domestic tourism sectors’ productivity and competitiveness by transferring skills, technology and standards, especially in countries relatively new to tourism¹³⁸. Burundi could learn from neighbors’ experience in this regard. For example, to foster the private sector’s interest, the Rwandan government organized familiarization tours for international investors and tour operators, during which the Minister of Commerce and Rwandan tourism office received the delegates to demonstrate the importance of their visit (Nielsen and Spenceley 2011). Importantly, Burundi’s new Investment Promotion Agency (API) will have a role to play to promote FDI in tourism, in coordination with the ONT.

¹³⁸ See the UNCTAD’s (2008) detailed analysis of the role and developmental impact of FDI in the tourism sector, with case studies of several East and Southern African countries.

7. Conclusion

Strengthening tourism is a valuable development objective for Burundi, as this could constitute a welcome source of economic diversification and contribute to job creation. The country's tourism potential has been emphasized in recent years, and there is scope for a varied offer of different types of tourism (adventure/eco, cultural and community-based, business, etc.). The renewed commitment of the authorities to modernize and develop the sector, as well as the regional integration process underway, are important enabling factors for tourism development. Moreover, the broader context is favorable: the African tourism sector has grown steadily in the recent period, and sub-Saharan Africa was between 2000 and 2010 one of the regions with the highest average annual growth rate of international tourist arrivals (6.6 %), after the Middle East (9.6%) and East Asia (6.8%) (UNWTO 2011).

Nevertheless, numerous obstacles hamper the emergence of tourism in Burundi. The country ranked 137th out of 139 countries on the World Economic Forum's Travel & Tourism Index¹³⁹ in 2011 and is presently not considered a viable destination by tour operators (Twining-Ward 2010). Given the competitive nature of the tourism business globally and in Africa, emerging as a tourism destination from a low base like Burundi's is a considerable challenge. While some constraints can be eased faster than others, it seems clear that taking-off will take time. Nevertheless, efforts have to start somewhere if tourism is to become an important sector in the Burundian economy. National authorities have a significant role to play in this regard, to make Burundi a viable tourism destination and create an environment conducive to a private-sector led growth of the sector. Moreover, being proactive and setting sound basis for tourism before it develops will ensure that the growth of the sector is controlled and will help maximize tourism's developmental benefits.

Below are three main strategic recommendations for tourism development in Burundi:

- i) **Address the most basic constraints first.** Modernizing the regulatory and institutional framework for tourism or marketing the country as a destination are important objectives, but they should not obscure the necessity to address fundamental constraints hampering tourism development. As argued above, improvements in terms of security/stability, infrastructure/access and essential services (notably health and financial) are *sine qua non* conditions for tourism growth in the country. Concerning security in particular, recent research on tourism in Burundi concluded that the "complex state-society relations and ongoing internal conflicts" are "serious barriers to the realization of [Burundi's] potential" (Novelli et al. 2012). Realistically, as these are not likely to change dramatically in the short run, improvements should be sought at least in Bujumbura and the selected high potential tourism zone(s). Moreover, tourism development could play a catalytic role and bring about improvements in these areas which would also benefit local communities and the economy in general. Other essential enablers for which immediate policy actions can be taken include liberalized air policy and simplified visa requirements. These aspects should all be considered top priorities to develop tourism. Burundi could learn from the experience of other countries that confronted similar constraints, but managed to circumvent them to initiate tourism growth, such as Rwanda, Uganda or Cape Verde.

Once improvements in these fundamental areas are achieved, success stories like Mozambique or Rwanda suggest that the emergence of the sector will require actions to (i) guarantee a stable environment for both tourism operators and tourists (ii) market the country as a safe and attractive destination (iii) support and involve the private sector (iv) improve the business environment and attract FDI. Later on, the solidity and developmental benefits of the sector will notably depend on the capacity of the authorities and of the private sector to improve the quality of tourism products (e.g. standards for tourism facilities, training of tourism workers); ensure the environmental,

¹³⁹ See www.weforum.org/issues/travel-and-tourism-competitiveness

cultural and social sustainability of tourism assets; and enable local communities to benefit concretely from tourism activities¹⁴⁰.

ii) Start at a low scale. In the short run, expectations should be realistic and a piecemeal approach could be envisaged. The experience shows that, for countries at the start of their tourism journey, focusing scarce resources on the locations and market segments with highest growth potential is an effective strategy (World Bank 2011a). Such an approach is for example followed by Guinea-Bissau with the Bijagós Archipelago (World Bank 2012c). Similarly in Burundi, the focus should be put on concrete actions to launch pilot projects (presumably those identified in the SNDDT), rather than on broad development strategies at the national level. This process can reduce a critical mass of constraints, such as infrastructure, security, skills, and enables the early arrival of world-class investors. These first movers can then play a major role in “launching” the destination. Such a focused approach can also help pilot policy reforms (e.g. land and air transportation) and have the demonstration effect necessary to gather broader support for tourism.

iii) Leverage the regional dimension. Last but not least, Burundi has the chance to be part of the EAC, one of the most advanced and dynamic regional integration projects in sub-Saharan Africa. Partner countries in the Community have already well-developed tourism industries. Similar to other sectors, it is therefore crucial for Burundi to integrate into regional tourism markets and to fully participate in the EAC cooperation agenda. In particular, Burundi can harness the public goods produced in the framework of EAC integration to remove or ease some of the most binding constraints to tourism development. While many regional initiatives have had mixed results or remain projects at this stage, Burundi will benefit from further progress on regional programs in tourism (e.g. development of regional circuits, marketing and branding, training programs) and in other related domains, such as infrastructure and civil aviation, integration of financial markets, or peace and security. In the short run, Burundi should push for the effective adoption as soon as possible of the planned regional tourist visa, and initiate joint tourism projects and circuits.

The Burundian authorities have, in conjunction with regional partners and the private sector, a leading role to play in planning the emergence and sustainability of tourism. Donors can support this dynamic by providing different types of assistance¹⁴¹. In the case of Burundi, it appears that the Government’s project to initiate tourism could benefit from advisory services for policy, institutional and regulatory reforms, as well as from financial/technical support for anchor tourism projects. As an example, the IFC has recently initiated a technical assistance program on tourism in Burundi, which aims at identifying with all the stakeholders a limited number of high potential sites/circuits that could constitute pilot projects. Given the country’s limited resources and capacities, another important avenue for cooperation is the provision of technical assistance to ensure Burundi’s full participation in regional initiatives and negotiations in tourism and its enabling sectors.

¹⁴⁰ See UNDP (2011) for an analysis of the links between tourism development, poverty reduction and economic/social inclusion in LDCs, based on a review of tourism chapters in existing DTIS.

¹⁴¹ See, for example, the World Bank’s Africa Region Tourism Strategy (World Bank 2010b).

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