D R A F T

VOLUME 1

BURUNDI

Diagnostic Trade Integration Study

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*A*CRONYMS

ACIS	Advance Cargo Information Systems
ACP	Africa, Caribbean and Pacific Group
ARCT	Telecommunication regulation and control agency
AGOA	Africa Growth and Opportunity Act
ASYCUDA	Automated System for Customs Data
AU	African Union
ATB	Local exporting company
BANCOBU	Banque Commerciale du Burundi
BBN	Burundi Standardization Office
BCB	Banque de Crédit de Bujumbura (Commercial bank)
BRB	Banque de la République du Burundi
CAS	Country Assistance Strategy
CCIB	Chamber Of Commerce, Industry, Agriculture and Handicraft
CBD	Coffee Berry Disease
CEEAC	Communauté Economique des Etats de l'Afrique Centrale
CEGPL	Economic Community of the Great Lakes Countries
CET	Common External Tariff
COGERCO	Cotton Production and marketing board (State-owned)
COMESA	Common Market for Eastern and Southern Africa
COMTRADE	Commodity Trading Statistics Database of the UN
COTEBU	Textile Company (State-owned)
CPI	Consumer Price Index
CWS	Coffee Washing Station
DBE	Local exporting company
DRC	Democratic Republic of Congo
DTIS	Diagnostic Trade Integration Study
EBA	Everything But Arms
ECCAS	Economic Community of Central African States
EDI	Electronic Data Interchange
EDI	Economic Development Institute
EU	European Union
EPB	Bujumbura Port Authority (Public sector agency)
Fbu	Franc Burundais
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FTA	Free Trade Area
FY	Fiscal Year
FW	Fully Washed
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GPDT	Goût de Pomme de Terre
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countr(y)ies

I-PRSP	Interim Poverty Reduction Strategy Paper
ICAO	International Civil Aviation Organization
IF	Integrated Framework
IMF	International Monetary Fund
ITC	International Trade Center
ITU	International Telecommunication Union
LDC	Least Developed Countries
MAUA	Local exporting company
MFN	Most-Favored nation
MTS	Multilateral Trading System
MOF	Ministry of Finance
MOP	Ministry Of Planning and Reconstruction
MTI	Ministry Of Trade and Industry
NBI	Nile Basin Initiative
NGO	Non-Governmental organization
OCIBU	Office des Cafés du Burundi
OTB	Office du Thé du Burundi
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SCEP	Service Charge des Entreprises Public
SME/SMI	Small and Medium Enterprises/ Small and Medium Industries
SITC	Standard International Trade Classification
SOBUGEA	Societé Burundaise de Gestion des Aéroports du Burundi (Airport Authority)
SODECO	Societé de Déparcharge et de Conditionnement
TPR	Trade Policy Review
UN	United Nations
UNDP	United Nations Development Program
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial and Development Organization
US	United States
USA	United States of America
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WCO	World Customs Organization
WTO	World Trade Organization

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Executive Summary

Context. With a population of 6.9 million in 2001, crowded into a tiny area in the Great Lakes region in Central Africa, Burundi is a small, land-locked country with exports dominated by coffee (91% of total exports in 1976, 70% in average from 1995 to 2001)[1], a commodity very vulnerable to price shocks. The country, which is also a land-linked entrepôt next to the land-locked eastern side of the Democratic Republic of Congo (DRC), has suffered from civil conflict and regional political instability for more than a decade. This conflict destroyed infrastructure, disrupted transport and trading links, led to an economic embargo imposed on Burundi in 1996 by regional countries, accelerated growth of poverty and reduction of financial assistance from the international community.

Recent political developments and main challenges. Burundi has had a long history of conflicts between its two main ethnic groups. The last conflict broke out in 1993. Between 1993 and 2000, around 250,000 people were killed and about one million were displaced. After years of fighting, a Peace and Reconciliation Agreement was signed in Arusha, Tanzania, in August 2000, and a government of national unity was appointed in November 2001. The commitment of the government to economic growth through trade is depicted by the reduction of international taxes of 4.8% in 2001, compared to the increase of international taxes of 34.1% in 2000.In December 2002, cease-fire negotiations were concluded, with the signing of an agreement in Arusha. On October 8, 2003, the country's largest rebel faction signed a ceasefire accord in Pretoria, South Africa, to put an end to the conflict

Between 1993 and 2000 Burundi's estimated GDP fell by almost 30 percent Agricultural production, the pillar of the economy virtually collapsed. The majority of socio-economic indicators are notable lower that the average for Sub-Saharan Africa, and the HIV/AIDS pandemic has also lowered standards of living. In urban areas, primarily in the capital, Bujumbura, the proportion of the poor doubled from 1992 to 2001, with 2/3 of the population living below the poverty line, in part owing to high population growth and in part to a large rural-urban migration. During the same period, the number of people living below the poverty line in rural areas increased from 35 percent to 58 percent

With an underdeveloped manufacturing sector, Burundi imports manufactured products (including fuel) and its export base is highly concentrated in a few primary commodities, with very little processing or manufacturing. Export performance depends heavily on the price of coffee, represented on average about 70 percent of total exports during 1995-2001. The international coffee market has been particularly weak over the past three years or so. In addition, the sector has deep-seated production and quality control challenges. Its other exports include tea, sugar, cotton (although there have been no formal cotton exports since 1887), and hides. Efforts at export diversification, especially into cut flowers, various fresh fruits and

[1] Source: WITS UN Comtrade.

vegetables, have to date had little impact but nonetheless show potential if infrastructure conditions as well as adequate policy and institutional reforms were met. Until recently, Burundi pursued an inward-looking trade policy through a variety of instruments including high import tariffs, widespread non-tariff barriers, and direct and indirect tax concessions.

Burundi has major imbalances, especially in public finance, domestic credit foreign exchange availability, domestic inflation, and external debt burden. Progress has been made in these areas over the recent past, in part through international support of its policy efforts, but major challenges remain.

The pursuit of regional integration is corner stone of Burundi's trade policy—indeed, of its development and poverty reduction strategy. The dominant factor is Burundi's membership in the Common Market of Eastern and Southern Africa (COMESA). Although regional integration is expected to be beneficial overall, there are justified concerns over possible negative impacts in the shorter term, related to government revenue and the ability of domestic enterprises to compete effectively. In this context, modernization of the investment code and the commercial code is needed. In addition, Burundi is committed to the multilateral trading system, being a member of the World Trade Organization since its beginning, in 1995. Nevertheless, Burundi faces many challenges to bring its trading system into for WTO-conformity, and to reap ensuing benefits thereof.

Trade policy is formulated and implemented by the Ministry of Trade and Industry, in close collaboration with the Ministry of Finance and other ministries and institutions, including the Permanent Secretariat, a part of the Vice-President's office, in charge of follow-up on economic and social reforms. Increased consultation with the private sector is a priority of the transition government's economic program for 2002-04. In the absence of recurrent training and procurement of needed equipment and supplies (such as computers and motor vehicles), the ministry is increasing hampered in dealing with the complex trade-policy issues related to Burundi's multilateral and regional agreements, the interface between trade policy and the government budget, and poverty-reduction strategy.

Burundi now faces extremely pressing and difficult development challenges:

The first challenge is to secure peace and security in the country, while fostering inclusiveness, promoting national reconciliation and good governance, and resettling and reintegrating displaced persons and other victims of the conflict. Any progress on the multitude of problems confronting Burundi is fundamentally dependent on further progress in the establishment of peace and security, in conjunction with a strong commitment to economic, financial, and structural reform. The transition of leadership on May 1st , 2003 was a positive sign of the country's intention and ability to move the peace process forward.

The second challenge is the integration of Burundi's economy into regional and world markets. The absence of proper infrastructure has turned back the clock of trade integration as much as political instability and unsound macroeconomic policies have. Because in 1993, Burundi's trade integration index was 40.42% compared to 26.27% in 2001 as illustrated by the loss of promising export markets in Europe and US (e.g. textiles, horticulture) since 1993 because of war, there is clear hope that the country is capable of catching up with past export performances, and achieve better integration. This will require rehabilitating destroyed economic and social infrastructure, recapturing lost export markets including US markets, strengthening human resource capacities, and revitalizing the economy.

The third challenge is to reestablish traditional internal trade links and Burundi's role as a land-linked entrepôt. Burundi now has a unique opportunity to embark on a multi-year policy of institutional reforms needed to remove obstacles to trade expansion, poverty reduction, and growth.

These challenges must be overcome for progress towards accelerated poverty reduction and sustained economic growth. Adequate policy reforms, in conjunction with technical assistance from the international community, are needed to harness the natural advantages of the country -- for example, its geographic "entrepôt" position, its fertile soil, and a hardworking population.

The Benefits of trade for the Burundi's economy are many, and the recommendations presented in this DTIS are realistic prerequisites. Impaired by its land-locked position, with very poor transport connections to its main export markets and key supply sources, Burundi must implement sweeping policy reforms to restore competitiveness after a decade lost to war and internal conflict. The effort required for Burundi to achieve full integration into global markets will be far higher than efforts expected from most other countries.

Burundi's desperate situation virtually forces it to take advantage of globalization and to grow by supplying fast-growing world economic demand. In opening its markets to the world, Burundi would enjoy static efficiency gains (consumers would gain with better access and increased availability of goods at competitive prices, entrepreneurs would be forced to become increasingly quality and price efficient). Openness to trade would also bring dynamic efficiency gains to Burundi (greater scale economies and better externalities with better access to the best technology), as open trade generally allows countries to specialize and do best rather than produce everything on their own. By inducing Burundi to exploit its natural and economic comparative advantages, trade could help Burundi experience rapid export led growth which in turn could help the poor through three channels: (i) trade leads to the active pull-up rather than "trickle down" [2], as sustained growth absorbs the poor into gainful employment . (ii) trade leads to fast growing economies that can generate fiscal resources which could be targeted to poverty reduction programs and (iii) economic growth help raise incomes of poor families and favor access to public services (sound education, good health, better socio-economic infrastructures). Learning from economic history, empirical evidence suggests that from the end of the 1940s through the mid-1970s, today's industrial countries (e.g. Japan, France, Denmark, Norway, Netherlands, Italy, Portugal, and Greece) enjoyed rapid growth while dismantling their high post-World War II trade barriers. Similarly, newly industrialized economies such as Hong Kong, Singapore, South Korea, and Taiwan have all significantly open to trade during the past four decades and have been entirely freed of poverty for more than a decade. Also, China and India which were closed to trade and grew poorly during the 1960s and 1970s, subsequently achieved accelerated growth while opening up their economies in the last two decades.

[2] Bhagwatti, J (2001)

Because it is clear that integration into world markets is highly associated with faster economic growth[3], Burundi must focus on trade-related reforms needed to sustain growth and reduce poverty. This will require: (i) establishment of a viable macroeconomic framework with readily available foreign exchange and a stable and competitive exchange rate; (ii) aggressive implementation of trade- related reforms supported by the WTO and regional organizations, including the Common Market for Eastern and Southern Africa (COMESA); and (iii) elimination of key domestic constraints to Burundi's competitiveness in domestic, regional, and international markets. However, trade, on its own is not sufficient to bring about development. It will be vital to create an efficient business regulatory framework, adequate transport infrastructure, reliable utilities (water and energy), and efficient supporting services (telecommunications, banking, and finance). To fully benefit from trade and experience commensurate increases in economic growth, Burundi must embark on the following measures and policies:

a. Continued progress toward a stable macroeconomic framework, in which inflation is controlled and major macroeconomic components, including central government finance, are brought into sustainable balance.
b. Establishment and maintenance of an exchange rate system that ensures the competitiveness of the economy, improves foreign exchange availability, and directs scarce foreign exchange to the most productive sectors.
c. Establishment of a conducive environment for development and modernization of the services sector.
d. Coordination with the international community, to alleviate the country's heavy and unsustainable debt burden.
e. Measures to strengthen internal competitiveness and attract both domestic and foreign investment.
f. Further adaptation of the trading system, to derive maximum benefits from participation in the multilateral trading system (WTO).

Burundi has reaffirmed its strong commitment to mainstreaming trade policy into its poverty reduction and growth strategy. Burundi's Interim Poverty Reduction Strategy Paper (I-PRSP—July 2002) identifies six key themes and priority actions that define its strategy, including the need to improve macroeconomic environment, and to promote high-quality economic growth that will help reduce poverty. Promotion of the export sector has been identified as a key component of this strategy. The next version of the I-PRSP will feature trade as a full-fledged priority action. The national consultative process established to help in the formulation of trade policy in the context of this Diagnostic Trade Integration Study will be a full part of the PRSP process.

World Bank-led teams visited Bujumbura in December 2002 and March 2003, to prepare this Diagnostic Trade Integration Study (DTIS), under the umbrella of the Integrated Framework (IF). This study sets out Burundi's trading strengths, potential, and prospects, as well as weaknesses and obstacles to greater integration into the multilateral trading system. A prioritized

[3] World Bank (2003) : "Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda",; and World Bank (2001): "Global Economic Prospects 2002: Making Trade Work for the World's Poor".

action program of trade-related technical assistance is proposed, in the hope that it will mobilize appropriate support from donors and international agencies.

Highest priority actions. Recommendations of this DTIS call for resumption and acceleration of reforms suspended in the early 1990s because of war. Although all actions developed in the DTIS and summed up in the Action Plan Matrix are essential for accelerated poverty reduction and economic growth in Burundi, it is critical to prioritize the actions needed. For each policy action and technical assistance component, priorities are indicated in the Action Plan Matrix as high, medium, or low. For each policy action component, the priorities refer to the relevance and importance of the action in the overall strategy to meet the challenges for macroeconomic stabilization, accelerated integration into global markets, and integration of the domestic market. The following actions have been identified as the highest priority actions:

1/ **Trade Policy**: Implement the COMESA Common External Tariff (CET) and Free Trade Agreement (FTA), to move toward lower and more uniform customs duties and eliminate remaining non-tariff barriers, together with related measures including elimination of tariff exemptions. Although adopting COMESA CET will help address many of the present distortions and prevent future unilateral changes, the country's trade policy strategy should not be limited exclusively to classical trade policy reforms (shift of incentives from the production of import substitution goods to exportables). It should be extended to the exploration of new sources of export earnings and employment (e.g. strengthening the country's entrepôt and transshipment vocation, and building new areas of comparative advantages through education, information and technology, public infrastructure and good institutions).

2/ **Export Promotion/ Diversification Strategy**: Design and implementation of an efficient export promotion / Diversification strategy, including the creation of: a National Export Promotion Council (NEPC) in the office of the Vice-President, to oversee the export promotion / Diversification strategy, and imparts priorities); and a private-sector led Trade Promotion Organization (TPO) to implement the export promotion / Diversification strategy on a day to day basis.

3/ **Coffee sector**: Preparation of and agreement on an action plan and timetable for: (a) introduction of modern risk management instruments to mitigate international price risk, as well as legislation to cover bankruptcy and the use of financial collateral to mitigate credit risk, and (b) strengthening of quality control systems. In view of coffee importance in the Burundian economy, this action could be accompanied by programs for the privatization and liberalization of coffee commercialization (as well as of the cotton and tea sectors). However, privatization and liberalization of the coffee, cotton, and tea sectors should be considered only after a thorough analysis of all socio economic and financial consequences, and learning from the lessons of similar experiences in other parts of the world.

4/ **Business Regulatory Environment**: Update and revamp the entire Business Regulatory Framework including the Investment code, the Commercial Code, and draft bankruptcy legislation; to foster and attract foreign direct investments (FDI).

The six areas calling for priority trade-related technical assistance, as well as priority policy reform programs needed to mainstream trade policy into Burundi‘s poverty reduction strategy, are summarized in the concluding chapter.

It should be stressed that many of the actions and programs suggested in this DTIS will take many years to complete. They will likely make little difference unless the donor community, including the World Bank, adopts a long-term strategy for rebuilding destroyed infrastructure. Policy reforms and technical assistance will not bring forth sustainable export growth unless transport issues and lack of security on roads are resolved. Political stability, peace and sound macroeconomic policies are necessary but insufficient conditions to sustain trade integration; proper infrastructure is the key element. Through trade integration, it is hoped that Burundi shall achieve rapid growth and reduce poverty.

Action Matrix

Policy Reforms and Trade-Related Technical Assistance Requirements Policy Reforms

Proposed Measures	Priority	Responsible Institution and Body	Proposed Timeframe	Monitoring Indicators	Technical Assistance Needs	Existing or to be provided by
Macroeconomic Framework: **Objective:** Ensure greater macroeconomic stability						
Action 1. Elaborate **poverty reduction** and growth strategy: Complete full PRSP.	High	PRSP Secretariat; relevant ministries	As soon as possible	Submission of complete draft; review by IMF and World Bank Executive Boards.	Ongoing policy dialogue	
Action 2. Formulation and implementation of appropriate monetary and fiscal policies.	High	Ministry of Finance Central Bank	Ongoing	Regular consultations with IMF	Ongoing policy dialogue	
Action 3. Support for VAT as well as strategies to improve collection of other taxes to broaden tax base and make up for loss of revenue as a result of COMESA CET.	High	Ministry of Finance	As soon as possible	Regular consultations with IMF	VAT and tax collection experts	
Action 4 Exchange system: liberalization of exchange system; ensure a viable exchange rate.	High	Ministry of Finance and Central Bank.	Ongoing	Regular consultations with IMF; monitoring spread between official and parallel market exchange rates	Ongoing policy dialogue	
Action 5 Achieve sustainable **external debt** position.	High	Ministry of Finance and Central Bank.	Ongoing; linked to completion of PRSP	Approval of PRGF financing and approach to Paris Club	Ongoing policy dialogue	

Proposed Measures	Priority	Responsible Institution and Body	Proposed timeframe	Monitoring Indicators	Technical Assistance Needs	Existing or to be provided by
Trade Policy: **Objective:** Liberalize **trade system;** remove discriminatory elements; strengthen government revenues						
Action 1: Full implementation of COMESA CET &FTA, and Removal of discriminatory taxes on imports	High	Ministry of Finance, trade and Industry, Planning and Reconstruction	December 2003	Publication of new transaction tax rates	International tax experts	
Action 2: Eliminate tariff exemptions on imports through a switch to uniform low duties	High	Ministry of Finance, Minis try of trade and industry	Six months	Publication of new duties schedule; publication of notice abolishing exemptions systems	International expert in tariffs	
Action 3: Elimination of **negative tariff escalation**	Medium	Ministry of Finance, Minis-try of Trade and Industry	Six months	Publication of new tariff schedules		
Action 4: Phase out of **import** surcharges (e.g., on textiles); Eliminate **export prohibition** (e.g., on sugar and cotton)	Medium	Ministry of Finance, Minis-try of Trade and Industry	Six months	Publication of government decree	Not required	

Proposed Measures	Priority	Responsible Institution and Body	Proposed timeframe	Monitoring Indicators	Technical Assistance Needs	Existing or to be provided by
Trade Facilitation: **Objective:**						
Action 1: Preparation of an Action Plan to address all issues related to the transit and movement of consignments to/from Burundi(physical infrastructure, bureaucracy encumbrances, unnecessary paper requirements). The action plan should specify what Burundi can do alone and what they can do with other neighbors.	Medium	Ministry of Transport/ Ministry of Trade/ Ministry of Finance	1 years	Completion of Action Plan , with a clear distinction on what Burundians can do alone and what they can do in collaboration with other countries, to address all trade facilitation issues on all corridors and entry ports in Dar es Salam and Mombassa	Transport experts, trade facilitation experts	
Action 2: Reach agreement with donors on configurations of a possible trade facilitation reform program	Medium	Ministry of Transport/ Ministry of Trade/ Ministry of Finance	2 years	Agreed comprehensive trade facilitation program	Transport experts, trade facilitation experts	
Action 3: Introduce integrated customs tariff and design a program for comprehensive reform of customs administration	High	Ministry of Trade/ Ministry of Finance	6 months	Agreed comprehensive integrated tariff and customs reform program	Customs experts, trade facilitation experts	
Action4: Implementation of a program for comprehensive reform of customs administration	High	Ministry of Trade/ Ministry of Finance	6 months	Program in effect	Transport experts, trade facilitation experts	

Proposed Measures	Priority	Responsible Institution and Body	Proposed timeframe	Monitoring Indicators	Technical Assistance Needs	Existing or to be provided by
Export Promotion / Diversification **Objective:** Increase export of non-traditional exports through implementation of a national export promotion policy						
Action 1: Establish and implement a national export-promotion policy, including **Creation of National Export Promotion Council and** Trade **Promotion Organization.**	High	Ministry of Trade and Industry **and Trade Promotion Organization**	Two years	Preparation of enabling legislation; recruitment of director and staff; provision of budgetary resources; creation of skeleton service for oversees representation	International trade promotion expert, with assistance from international and national experts on short term assignment to set up the National Export Council and Trade Promotion Organization.	
Action 2: Provide support for exports of **fruits,** vegetables **and flowers**	Medium	Ministry of Trade and Industry	Two years	Establishment and implementation of coordination and supervision system; elaboration of transportation and marketing	Resident international expert.	
Action 3: Streamline **duty-**drawback Scheme	Medium	Ministry of Finance, minis- try of trade and industry and Central Bank.	Six months	Publication of government decree	Drawback expert	

Proposed Measures	Priority	Responsible Institution and Body	Proposed timeframe	Monitoring Indicators	Technical Assistance Needs	Existing or to be provided by
Market Access **Objective:** Increase export of non-traditional exports						
Action 1: Preparation and begin implementation of an Action Plan for elimination of regional market access issues	Medium	Ministry of Trade/Ministry of Transport	6 months	Agreed Action Plan and begin implementation	Regional integration expert	
Action 2: Preparation and begin implementation of an Action Plan to address market access issues in developed countries	Medium	Ministry of Trade/Ministry of Transport	6 months	Agreed Action Plan and begin implementation	Market access expert	

Proposed Measures	Priority	Responsible Institution and Body	Proposed timeframe	Monitoring Indicators	Technical Assistance Needs	Existing or to be provided by
Regulatory Environment for Investment **Objective:** Attract both local and foreign investment by revision of the entire macro business framework to ensure simplicity, automaticity, streamlined procedures						
Action 1: Prepare an integrated code covering present investment code, labor code and commercial code; ensure consistency across codes and with COMESA and WTO agreements.	High	Ministry of Trade and Industry; Ministry of Planning and Reconstruction; Ministry of justice.	1 year	Completion of draft integrated code Setting timeframe for training of national officials	Regional team of experts to prove expertise in draft of the code; training specialist to design appropriate training of national officials.	
Action 2: Review the strengths and weaknesses of the judiciary system to ensure implementation and enforcement of the rule of law.	Medium	Ministry of Justice	2 years	Action Plan for strengthening of judiciary system and institution of an ombusman office	Legal experts in judiciary reforms	
Capacity Building in the Ministry of Trade and Industry **Objective:** Enhance the ministry of trade capacity to coordinate, implement and monitor progress on envisaged policy reforms						
Action 1: Purchase of equipment and vehicles; provide staff training; reorganize structure of ministry to enhance ministry's capacity to formulate and implement trade policy.	High	Ministry of Trade and Industry	1 year	Preparation of detailed inventory of needs; set timetable for staff training; provide draft of ministry restructure; and implement.	External expert to identify and verify needs; External trainers in trade policy, increase participation in WTO Training Institute	

Proposed Measures	Priority	Responsible Institution and Body	Proposed timeframe	Monitoring Indicators	Technical Assistance Needs	Existing or to be provided by
Sectors with High Potential ***Coffee Sector:*** **Objective:** Introduce modern risk management tools, privatize production and liberalize commercialization						
Action 1: Draft legislation on bankruptcy law and realization of collateral against which credits are advanced.	High	Ministry of Agriculture; ministry of Finance and Central Bank.	Dec 2004	Preparation of enabling legislation; develop staff training program.	Legal experts; international expert in modern financial instruments.	
Action 2: Set up regulatory and financial environment enabling coffee sector access to price protection on international markets	High	Ministry of Agriculture; ministry of Finance and Central Bank.	Dec 2004	Preparation of enabling legislation; develop staff training program.	Legal experts; international expert in modern financial instruments.	
Action 3: Enhance the **quality, grading** and quality control of Burundi's coffee	High	Ministry of Agriculture; Gitega Laboratory	Three year span	Preparation of training program for national liquorers or testors.	Internationally recruited expert liquorers to be based at	
Action 4: Create effective **coffee promotion capacity;** create niches; establish entry into specialty markets	Medium	Ministry of Agriculture/ Trade Promotion Organization ((TPO) National Export council to be created.	Dec 2004	TPO to take on coffee public relations representations, especially in Japan and the USA.	International expert, for intermittent services over 3-4 yrs	
Action 5: Establish and maintain effective research **and extension capacity**	Medium	Ministry of Agriculture	Three years	Preparation of appropriate program and timeframe	International expert to guide process	
Action 6: Privatization of washing stations and coffee mills	Medium	Ministry of Agriculture/Ministry of Finance	Three years	Preparation of appropriate program and timeframe	International expert to guide process	
Action 7: Liberalization of commercialization	Medium	Ministry of Agriculture/Ministry of Finance	Three years	Preparation of appropriate program and timeframe	International expert to guide process	

Proposed Measures	Priority	Responsible Institution and Body	Proposed timeframe	Monitoring Indicators	Technical Assistance Needs	Existing or to be provided by
Tea Sector: **Objective:** Reform of production and commercialization						
Action 1: Prepare reforms of the sector which **is still entirely under Government control**	Medium	Ministry of Agriculture/ Finance	2 years	Full ownership privatization	Privatization expert	
Action 2: Introduction **of a "Burundi tea" label**	Medium	Trade Promotion Organization	1 year	Burundi tea labels on international markets		
Cotton Sector: **Objective: Reform of production and commercialization**						
Action 1: Prepare reform of the sector which is still **entirely under Government control**	Medium	Ministry of Agriculture/ Finance	2 years	Full ownership privatization	Privatization expert	
Action 2: Implement agreed changes learning from experience in other parts of the continent	Medium	Ministry of Agriculture/ Finance	2 years	Full ownership privatization	Privatization expert	

Proposed Measures	Priority	Responsible Institution and Body	Proposed timeframe	Monitoring Indicators	Technical Assistance Needs	Existing or to be provided by
Implementation of WTO Agreements **Objective:** Ensure compliance with WTO Agreements and enhance capacity and understand international agreement						
Action 1: Undertake detailed **inventory of existing legislation**	Medium	Ministry of Trade and industry, Ministry of Justice	Three months	Completion of inventory;	International expert on WTO Agreements	
Action 2: Prepare action plan and timeframe for compliance with WTO agreements	Medium	Ministry of Trade and industry, Ministry of Justice	Three months	Completion of action plan and timeframe	International expert on WTO Agreements	
Action 3: Compliance with WTO agreements	Medium	Ministry of Trade and industry, Ministry of Justice	Three months	Compliance with WTO agreements	International expert on WTO Agreements	

CHAPTER 1
THE OVERALL CONTEXT

1.1 Introduction

After a general background on Burundi's fragile political context (Section 1.2), this chapter sketches out the multiple challenges of poverty reduction and growth in a post-conflict context (Section 1.3), and outlines the objective and overall organization of this Diagnostic Trade Integration Study (DTIS) (Section 1.4).

1.2 Background

As one of the poorest countries in the world, with a GNP per capita of US$110, the Republic of Burundi ("Burundi") has endured socio-political turmoil over the last decade. The country, a land-locked as well as land-linked entrepôt country in Central Africa, covers an area of 27,834 km^2. The neighboring countries are Rwanda to the north, the United Republic of Tanzania ("Tanzania") to the east, and the Democratic Republic of Congo ("DRC") to the west. In 2001 its population was estimated to be 6.9 million, of which almost 91 percent live in rural areas. Over two thirds of the population live below the poverty threshold, and Burundi's development has been hampered by political instability.

Burundi has a long history of conflicts between its two main ethnic groups. The last conflict broke out in 1993, following the assassination of democratically elected President Ndadaye, and the President of the National Assembly. The death of President Ntaryamira, who succeeded President Ndadaye, in a plane crash in Kigali in April 1994 contributed to increased tensions that were exacerbated by the outbreak of massive violence in neighboring Rwanda. Burundi's situation was also aggravated by political instability in the DRC.

Between 1993 and 2000, around 250,000 people were killed and about one million were displaced, and Burundi's estimated GDP fell by almost 30 percent. The majority of socio-economic indicators are notably lower than the average for sub-Saharan Africa, and the HIV/AIDS pandemic has also lowered standards of living.

In addition, Burundi's neighbors[4] imposed sanctions in 1996 that prevented the free flow of commercial goods. The sanctions sharply raised prices of food, agricultural items (such as seeds, tools, and fertilizers), and fuel. The sanctions were eased somewhat in April 1997, and suspended in January 1999. The sanctions were respected by many donors: official transfers declined from more than US$135 million per year prior to 1996 to US$43 million in 1999.

The signing of the Arusha Peace Accord in August 2000 under the auspices of former South African President Nelson Mandela marked a turning point in Burundi's political history, and provided a fresh opportunity for political and economic reforms needed for poverty reduction and sustainable growth. The accord is comprehensive. It provides detailed outlines of the responsibilities and attributes of administrative institutions, including the army and national police force, the state, and the international community. It provides a framework for rehabilitation and resettlement of refugees and victims of conflict.

A new transitional constitution was adopted, and an inclusive transition government based on power sharing was inaugurated on November 1st , 2001. This transition government includes representatives from virtually all political parties that signed the Arusha Peace Accord, and will administer the country during the 36-month period leading to general democratic election. To respect the power-sharing principle, the transition period has two phases. President Pierre Buyoya, a Tutsi, led the transition government for 18 months until April 30th , 2003, and Mr. Domitien Ndayizeye, a Hutu, assumed leadership on May 1st, 2003.

On October 8, 2003, the Burundian government signed a ceasefire implementation accord with the largest rebel faction, in Pretoria, South Africa.

To reinforce the peace process, and to tackle the interrelated needs to reduce poverty, rebuild the socio-economic infrastructure, reintegrate the victims of the conflict, and revive the overall economy, the government has embarked on a poverty reduction and growth program. The ambitious targets of this program, which reflect the United Nations Millennium Development Goals, are set out in the Interim Economic Growth and Poverty Reduction Strategy Paper (I-PRSP). Any progress on the multitude of problems confronting Burundi is conditional on further progress in the establishment of peace and security, in conjunction with a strong commitment to economic, financial, and structural reform.

The government places heavy emphasis on the international trade of goods and services and on strengthening the competitiveness of the economy. Progress in these areas will require trade to be an essential element of the poverty reduction and growth strategy, to be supported by trade-related technical assistance. To this end, Burundi participates in the Integrated Framework (IF), which emphasizes the need for each country to take trade priorities into account in its national development plan and poverty reduction strategy. This entails trade integration at the political and institutional levels, and an active partnership between the government, multilateral agencies, donors, and domestic stakeholders. This DTIS is a cornerstone of the IF process.

1.3 Growth And Poverty Reduction Challenges in a Least-Developed Post-Conflict Country

After ten years of ethnic conflict and warfare, the transitional government of President Domitien Ndayizeye is aiming to achieve political and social stability in Burundi. Despite a successful transition from former President Pierre Buyoya (a Tutsi) to President Ndayizeye (a Hutu) on May 1, 2003, the security situation remains precarious. The challenge is for the country to make the dual transitions from civil war to sustainable peace, and from a state-controlled economy to one that is market-based. The government has focused its efforts so far on security, humanitarian assistance, and implementation of the Arusha peace process. With the return to normalcy, the authorities plan to progressively shift their focus towards reconstruction and rehabilitation, reduction of internal and external macroeconomic imbalances, and further key economic reforms abandoned in the last decade because of war. Among the priorities are: tackling widespread poverty and unemployment, re-launching productive activities, and establishing a business-friendly regulatory framework to promote private sector development. Major challenges as depicted in the I-PRSP, include six strategic priority themes and related actions; namely:

a. establishing peace and good governance;
b. improving the macroeconomic environment and promoting high-quality growth, which will help reduce poverty;
c. enhancing the quality and accessibility of basic social services (health, education, hygiene), to accelerate the development of human capital;
d. addressing the socio-economic consequences of the conflict;
e. combating HIV/AIDS ; and
f. advancing the role of women in development.

1.4 Objective And Organization Of This Study

Objective. The primary objective of this diagnostic study of the trade and investment environment in Burundi is to help the government define a strategy and an integrated approach for a greater participation of the country in global markets. To this end, the study: (i) develops an integrated approach for trade, investment, and sector development activities for traditional and non-traditional areas with high growth potential; and (ii) provides a framework to better integrate the efforts of key stakeholders (i.e. government, the private sector, multilateral and bilateral donors) to promote pro-poor trade and investment. The study concludes with an actionable program to enhance competitiveness, and to increase trade and investment in traditional and non-traditional sectors.

Organization. The overall study comprises two volumes. Volume 1, the main report, contains 10 chapters and three annexes. Chapter 2 describes the macroeconomic environment. Chapters 3 and 4 document Burundi's international trade performance and policies. Chapters 5 and 6 assess market access issues in neighboring countries and the rest of the world, constraints to trade facilitation, and non-commercial obstacles to trade. Chapters 7 and 8 review the business regulatory environment and analyze sectors with high potential for growth. Chapter 9 analyzes linkages between international trade and poverty, with a focus on the likely impact of envisaged trade policy reforms on the poor. Chapter 10 proposes a detailed and time-bound action plan of practical steps to implement the proposed trade strategy. Volume 2 contains the various component reports prepared for the study.

CHAPTER 2

THE MACRO-ECONOMIC ENVIRONMENT: RECENT PERFORMANCE, OUTLOOK AND POVERTY CONTEXT

2.1 Introduction

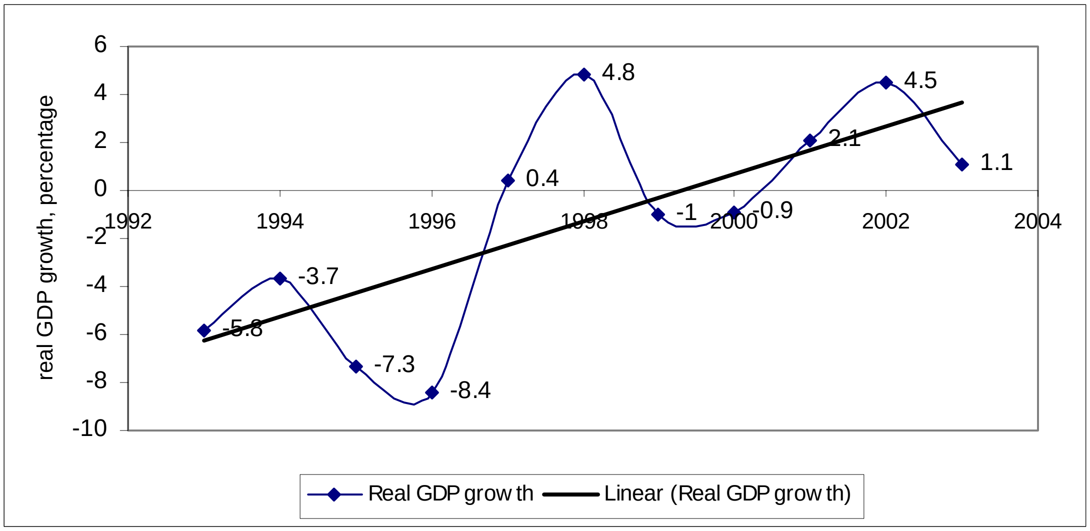
The political crisis in Burundi since 1993 has taken a heavy toll on its macro-economic and social fabric. Agricultural production virtually collapsed, due to internal conflict, demobilization of the agricultural labor force, and economic sanctions that reduced input supplies. In addition, the crisis derailed reforms to modernize the economy, and has left the government with very limited resources to combat poverty. External and internal disequilibria, including a severe scarcity of foreign reserves, make macroeconomic and structural reforms a prerequisite for sustainable growth. The government seeks to address the macroeconomic, financial, and structural challenges through reforms with support of the international community, including a financial program supported by the IMF.[5] This endeavor is a fundamental requirement for successful poverty reduction and growth. Section 2.2 discusses recent macroeconomic developments and internal balances. Section 2.3 analyzes external balances including recent exchange-rate developments and limited foreign exchange availability. Section 2.4 provides the country's poverty profile and human development indicators.

2.2 Recent Economic Developments and Internal Balances

Growth. Because of internal conflict, real GDP growth was consistently negative in the 1994 to 1997 period (Figure 2.1), declining by 7.3% and 8.4% in 1995 and 1996, respectively. Despite the easing of economic sanctions on Burundi in 1997, which led to a slight (0.4 percent) increase of real GDP in 1997, real GDP growth has again declined, from 4.8 percent real growth in 1998 to a 0.9 decline in 2000. Agricultural production, the pillar of the economy, virtually collapsed. Economic activity showed slight gains in 2001, with a real GDP growth rate of 2.1 percent. The recovery continued during 2002, driven by a doubling of coffee production, and increased tea production, and boosted by a return of refugees and, more important, ongoing rehabilitation. GDP growth in 2002 is estimated at 4.5 percent. However, growth prospects for 2003 have been clouded by the adverse weather conditions early in the year. Therefore, real GDP growth for 2003 is projected at only 1.1 percent.

[5] Burundi: Use of Fund Resources – Request for Post-Conflict Emergency Assistance, Country Report No. 03/135, May 2003 ("IMF 2003"). See: http://www.imf.org.

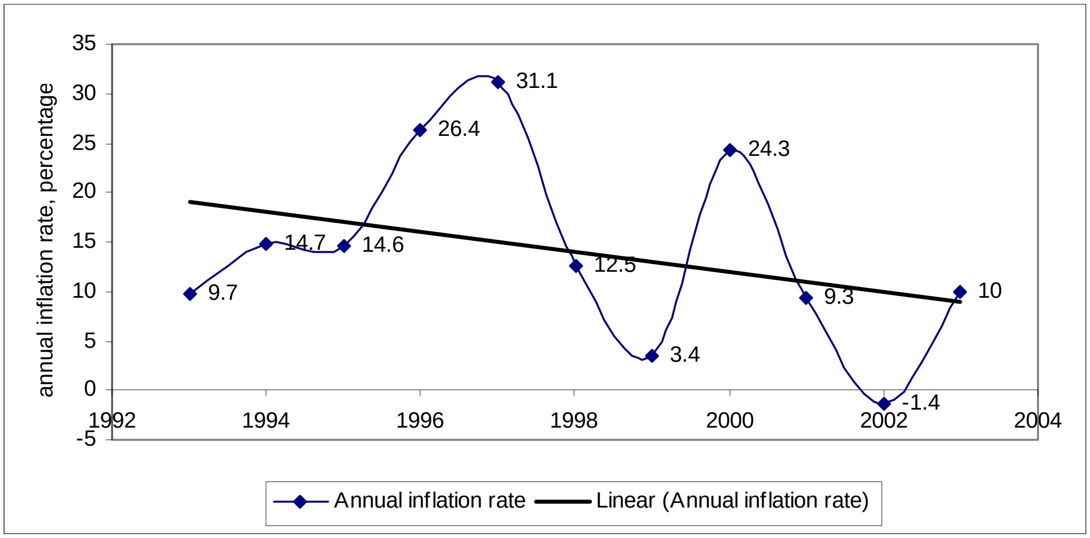
Figure 2-1: Burundi, Real GDP Growth, 1993-2003
(Annual Percentage Rate)



***Sources**: Burundi authorities; and Bank and IMF staff estimates and projections, May 2003*

Inflation. Inflation has yet to be fully brought under control (Figure 2.2). The annual inflation rate, as measured by the CPI, dropped from an average of 24 percent in 2000 to about 9.3 percent by the end of 2001, thanks to a 2001 increase in food crop production. In 2002 the annual inflation rate was estimated at –1.4 percent. The positive trend observed since 2001 is likely to be reversed, with a projected 10-percent inflation rate for 2003.

Figure 2-2: Burundi, Inflation rate, 1993-2003
(Annual Percentage Rates)

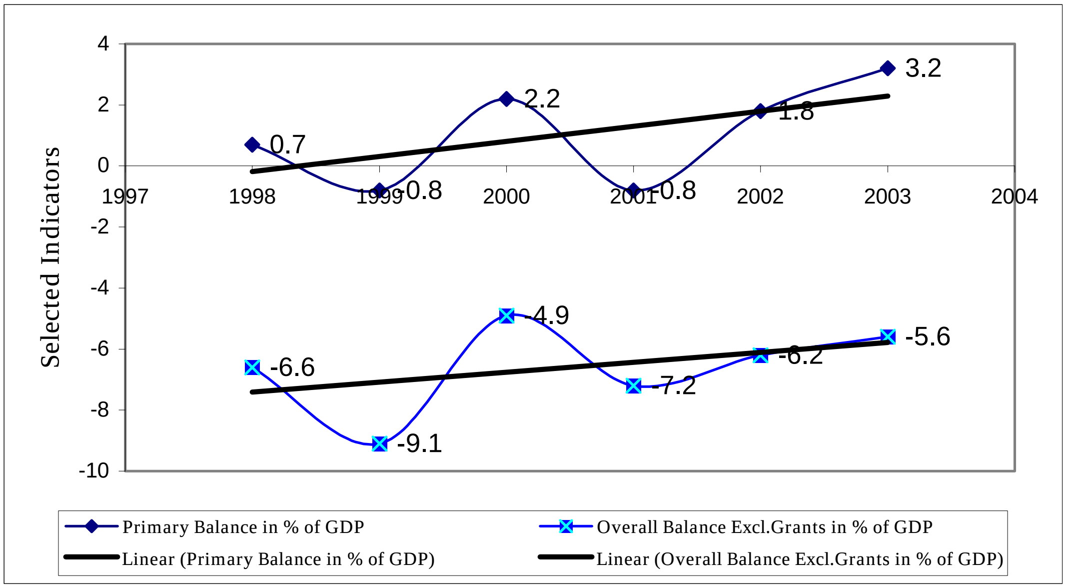


***Sources**: Burundi authorities; and IMF staff estimates and projections, May 2003.*

Unemployment and Labor market. Recent unemployment estimates indicate a 22-percent[6] unemployment rate. However, the informality of the labor market, coupled with sluggish development of the private sector, as well as the under-development of small and medium enterprises and the absence of entrepreneurship, lend credence to higher unemployment estimates. The labor market is highly influenced by local socio-political fundamentals, with a vibrant informal labor market absorbing large parts of the population, and only a tiny fraction in public sector employment.

Public Finance remains extremely fragile (Figure 2.3). The overall budget balance, excluding grants, declined from a deficit of 4.9 percent of GDP in 2000, to a deficit of 7.2 percent in 2001, then increased to a deficit of 6.2 percent in 2002. Defense expenditures, and recruitment of teachers and health service professionals, explain the increase in the deficit, despite efforts to increase tax recovery. The government still plays a central role in the economy: subsidies and transfers, which amounted to FBu 12 billion in 2002, have averaged about 10 percent of government revenue since 1998. Since 1998, the primary and overall fiscal balance, as a percentage of GDP, have been improving slightly, despite growing military expenditures.

Figure 2-3: Burundi, Budget Balances, 1998-2003
(in percent of GDP)



***Sources**: Burundi authorities; and IMF staff estimates and projections, May 2003.*

Government revenue is largely derived from taxes, including income taxes, taxes on goods and services, and taxes on international trade, along with small amounts of non-tax revenue. Table 2.1 shows that average taxes on international trade accounted for about 22 percent of total revenue and 4.2 percent of GDP from 1998 to 2002.

[6] Estimated by African market specialists, at www.hmnet.com.

Table 2-1: Burundi, Taxes on International Trade, 1998 to 2003

	1998	**1999**	**2000**	**2001**	**2002**	**2003**
In billions of Burundi francs	18.3	17.0	22.8	21.7	23.2	30.4
As percent of GDP	4.6	3.7	4.5	3.9	4.0	4.7
As percent of tax revenue	29.3	24.2	24.3	21.0	22.1	27.2
As percent of total revenue	26.7	23.0	23.2	19.7	19.6	24.2
(Annual increase, percent)						
Taxes on international trade		-7.1	34.1	-4.8	6.9	31.0

Source:: derived from IMF, May 2003

The overall level of tax collection (Government revenue excluding grants, as a percentage of GDP) was below the African average. It reached about 20 percent of GDP during 2000-02, an increase of about 3 percentage points of GDP from 1998-99, but still well below the Sub Saharan Africa average estimated at 25.9 in 2001.

Regional Integration and Trade. Burundi, like many African countries, recognizes that trade can serve as a powerful tool for growth and development, and can also make an important contribution to the realization of the Millennium Development Goals (MDGs). Because sub-regional and regional integration can serve as a dynamic building block for the country's integration into the Multilateral Trade System (MTS), Burundi is a member of several and often overlapping regional organizations, including: the Common Market for Eastern and Southern Africa (COMESA, since 1994), the Nile Basin Initiative (NBI, since 1999), the Economic Community for Great lakes countries (CEPGL), and the Economic Community of Central African States (ECCAS). Table 2.2 below presents a trade integration index[7] which reflects Burundi's trade integration momentum, and shows a return in 2001 to pre-1993 world integration levels.

Table 2-2: Burundi, Trade Integration index, 1976 to 2001.

	1976	**1993**	**1996**	**1999**	**2000**	**2001**
COMESA	1.05	**4.38**	2.04	3.07	3.73	3.60
ECCAS	0.32	0.97	0.63	0.43	0.61	0.61
EAC[8]	0.88	3.80	1.34	2.04	5.16	4.30
NBI[9]	1.05	3.36	1.26	1.70	2.38	3.00
SADC[10]	0.37	3.75	2.11	3.13	5.58	3.60
World	25.00	40.42	24.61	27.21	28.44	26.27

[7] Percentage of the sum of imports and exports to and from a regional arrangement, normalized by Burundi's GDP.

[8] EAC comprises Tanzania, and two COMESA countries: Kenya and Uganda. Tanzania, the leading exporter to Burundi, represented 8.2 percent of all imports in 2001; COMESA accounted for 11.9 percent of imports that year.

[9] The Nil Basin Initiative is a sub-regional of COMESA, it comprises Egypt, Ethiopia, Eritrea, Sudan, Kenya, Uganda, DR Congo, Rwanda and Burundi.

[10] SADC comprises Tanzania, nine COMESA countries, South Africa, Botswana, Lesotho and Mozambique.

Source: UN Comtrade database and SIMA.

Fiscal reforms, to be implemented in the context of the Common Market for Eastern and Southern Africa (COMESA), are likely to result in decline of tax revenues in the short term. There are two elements to these reforms. The first is the reduction of duties on goods from COMESA partner countries, as part of a fuller participation in the COMESA Free Trade Area (FTA), beginning January 1, 2004. The second is implementation of the COMESA Common External Tariff (CET), effective on November 1, 2004. Implementation of the FTA agreement will have a marginal impact, reducing revenues by an estimated at 1.6 percent. Implementation of the CET commitments, which require reduction in import duties to a 30 percent maximum, could lead to a 5 percent revenue reduction. In addition, export taxes on traditional exports (e.g., coffee, tea, and cotton) were already eliminated in the 2003 budget[11]. The projected declines in revenue will call for accompanying mitigating measures.

In recent years, expenditures have exceeded projections owing primarily to national defense, security requirements and priority recruitment. In addition, the coffee sector deficit has cumulated[12]. Prior to the start of the 2003-2004 coffee season (May-April), this sector's cumulative arrears (over the past three crop seasons) to a bank consortium and financial institutions were FBu 11,238 million. The state assumed payment of these arrears using treasury bonds, which are not eligible for the refinancing of banks by the BRB. However, only a small part of the interest on the first treasury bond issuance (i.e., FBu 300 million) has been paid. Banks have not received any additional payments. This situation has put strain on banks and financial institutions and constrains their participation in other financing. This effect reduces credit available to the economy, restrains consumption, and therefore slows economic growth and employment.

Given the insufficient level of government revenues, declining coffee prices (Box 3.3, Chapter 3), and the incompressibility of most core expenditures, the government has in recent years increasingly resorted to bank financing through Central Bank (the " Banque de la République du Burundi": BRB) advances. In 2001, the BRB considerably extended direct financing to the government, while the refinancing of commercial banks decreased. In 2002, this policy continued, and by mid-2003, BRB's net internal assets have increased by FBu 10 billion, resulting in a rapid increase in money supply (equivalent to 27 percent of 2002 money supply) without a corresponding increase real economic activity.

Such a financing strategy is inflationary and heavily penalizes the poor, as their incomes are not adjusted for inflation rate. In this context, BRB's stated monetary policy objectives are to contain inflation and to achieve adequate foreign reserve targets. To achieve these objectives, which are part of the financial program for 2003, supported by the IMF's Post-Conflict Emergency Assistance,[13] the BRB plans to maintain tight liquidity conditions during 2003.

[11] The 31 percent levy on coffee exports has not been enforced since the 1998/1999 harvesting campaign.

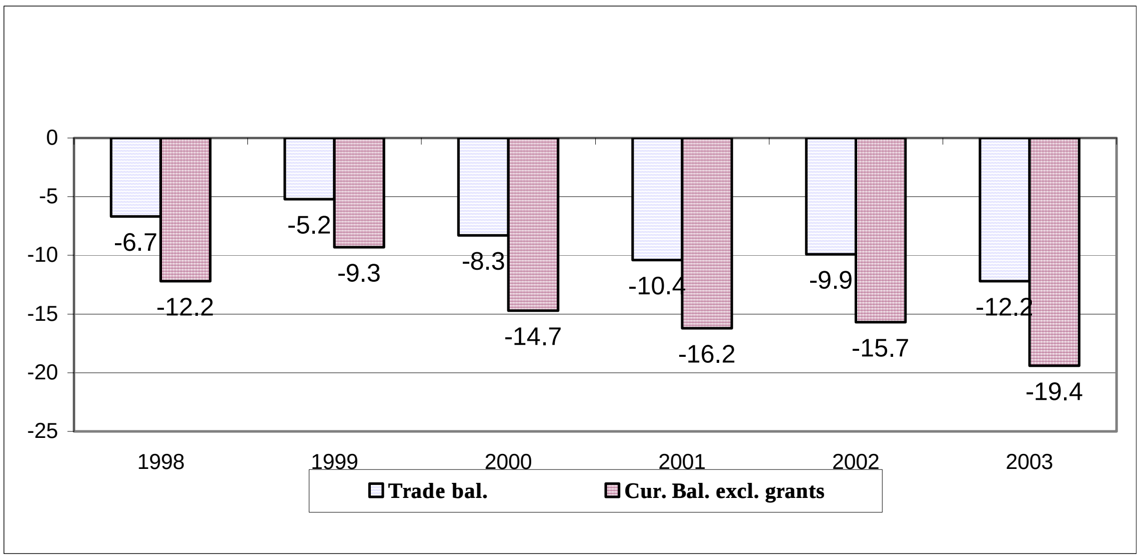
[12] The coffee sector deficit is defined as the difference between coffee export revenue and coffee production campaign and commercialization cost, essentially financed by commercial banks from BRB advances.

[13] On May 5, 2003, the IMF approved a second purchase for about US$ 13 million in post-conflict assistance. See IMF Press Release No. 03/64, May 5 2003.

2.3 External Balances

Continued worsening of the current account deficit (excluding grants) (Figure 2.4). The current account deficit amounted to about 12 percent of GDP on average during 1998-2000, before reaching 16.2 percent in 2001 and 15.7 percent in 2002. Owing to a significant drop in coffee exports, the deficit is projected at 19.4 percent in 2003.

Figure 2-4: Burundi, Balance of Payments, 1998-2003
(In percent of GDP)



Sources: *Burundi authorities; and IMF staff estimates and projections, May 2003.*

Declining coffee prices over the last five years constitute a major challenge for Burundi. Arabica coffee prices on international markets were about US$1.10 per pound in 1999, dropping to US$0.50 for the 2001-02 harvesting campaign (May-April) and about US$0.65 per pound in mid-2002. The renewed weakening of world coffee prices during the first half of 2003 exacerbated the coffee sector's deficit, as reflected in OCIBU's accounts.[14] This weakening of world coffee prices is partly due to the emergence of new, efficient producers (e.g., Vietnam) in the last 10 years.

Burundi will therefore need to reduce coffee sector costs to compete in an intensely competitive international market. This will require measures to redirect marginal producers to other economic activities, limit expenditures in washing and hulling of coffee beans, and reduce operating costs of Office des Cafés du Burundi (OCIBU), the state coffee marketing agency. Improving the competitiveness of Burundi's coffee sector is essential for its survival, and to underpin economic growth of the economy as a whole.

[14]IMF (2003): Burundi: Use of Fund Resources – Request for Post-Conflict Emergency Assistance, Country Report No. 03/135, May 2003 ("IMF 2003"). See: http://www.imf.org .

External Debt. The burden of external public debt on Burundi's public finances and balance of payments is unsustainable and the principal blockage to progress in poverty reduction and economic growth. External public debt reach about US$1.1 billion in 2001-02, equivalent to about 180 percent of 2002 GDP. Scheduled debt-service obligations were estimated at over 160 percent of exports of goods and services in 2002, and external debt arrears amounted to about US$150 million at the end of 2002, representing 3 to 4 years of Burundi's exports.

Progress on alleviating Burundi's heavy debt burden will require support from the international community, including the Heavily Indebted Poor Countries (HIPC) initiative, and related accompanying reforms.

Exchange Rate Regime and controls. The Burundi franc is a managed floating currency, with no pre-announced path. Because of controls on current account transactions there is a gap, estimated at 15 to 30 percent, between the official and the parallel exchange rates.

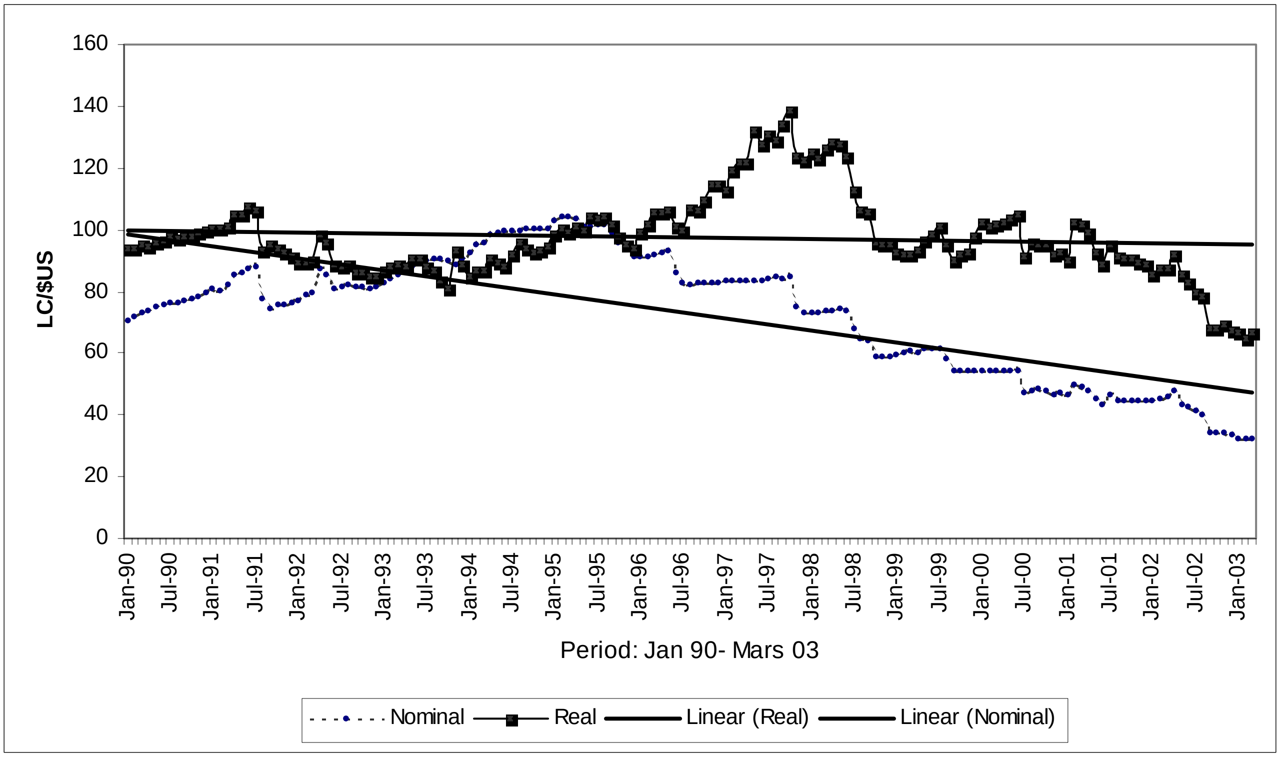
Since January 2003, exporters are no longer required to surrender foreign exchange earned on non-traditional exports. However, they must still repatriate and surrender 70 percent of their foreign exchange earnings from traditional exports (coffee, tea and cotton) to the central bank. These export proceeds provide the foreign exchange resources allocated by the central bank. Until August 2002, the central bank's foreign-exchange allocation was based on a restrictive list of eligible imports. Since the beginning of September 2002 the central bank has been holding weekly auctions, with no limits on foreign exchange bids since January 2003. Under the weekly auction system, the central bank sells foreign exchange weekly to authorized commercial banks. The rate set in the auction becomes the official exchange rate until the subsequent auction.

Currency convertibility. Burundi does not systematically restrict access to foreign exchange for current transactions. Despite the market-determined exchange rate system, the existence of a parallel market premium indicates a serious scarcity of foreign exchange at the official rate. This scarcity is the result of macroeconomic imbalances caused by sustained fiscal deficits and by a policy of avoiding severe currency depreciation through controls on some current account transactions, as well as on capital transactions: many transactions are still forbidden, and restrictions on dividend payments to non-residents were lifted only in early March 2003. Trade flows are affected directly by constraints on current transactions, and indirectly by constraints on capital accounts.

Foreign exchange scarcity and cost have historically been serious constraints to competitiveness. The central bank introduced foreign exchange rationing during the crisis of the 1990s. Eligibility for foreign exchange depended on the nature of commercial banks' clients seeking foreign exchange, a list of imports eligible for foreign exchange through official channels, and success in obtaining an import license. A reform of the system in 2002 took effect on January 1, 2003. However, renewed foreign exchange scarcity could lead to new rationing.

Burundi's nominal and real effective exchange rates have been depreciating continuously since 1997 (Figure 2.5), reflecting the scarcity of foreign exchange, but preserving the competitiveness of the Burundi franc. Despite the real effective exchange rate depreciation which outpaced the depreciation of Côte d'Ivoire and Uganda, the premium on the black market still ranges from 15 percent to 30 percent.

Figure 2-5: Burundi, Nominal and Real Effective Exchange Rates January 1990 to May 2003



Source: IFS Statistics.

Exchange rate volatility and domestic firms' competitiveness. Burundi's real exchange rate is not only misaligned, but also volatile. This volatility seriously constrains export expansion and diversification. Domestic construction firms complain that the volatility of the exchange rate reduces their competitiveness in construction projects: international bidders can bid in hard currencies, with only a small domestic component consisting mostly of salaries. Domestic firms must budget their bid in Burundi francs, and correctly anticipate the depreciation of the currency. If they must re-calculate their bid, in some contracting mechanisms their bid is automatically disqualified.

An appropriate exchange rate regime is a key factor in strengthening the economy. A number of steps have been taken recently to enhance the exchange system and to strengthen the competitiveness of the Burundi franc, including: elimination of foreign exchange surrender requirements for non-traditional exports; review of the foreign exchange control policy, to allow economic operators to export without cumbersome administrative requirements and extensive data collection; automated exchange of bank data (EDI); and actions to ensure that all relevant parties have computers.

Foreign Direct Investment (FDI): Burundi has not attracted large amounts of foreign direct investment (FDI) over years, in part owing to the domestic political and economic environment. FDI can significantly contribute to the development process through fostering the transfer of technology and catalyzing local investment. Moreover, FDI brings in additional foreign exchange, helps to consolidate the balance of payments, and strengthens external debt management. Thus FDI can become an important force for growth, with a positive effect on employment creation and poverty reduction. Other elements are needed, however, such as a robust financial sector, and a transparent and enforceable system of contracts and property rights. A modernization of the investment code and related legislation (discussed in Chapter 7) would contribute to the creation of an environment conducive to FDI.

2.4 Poverty Profile and Human Development Indicators in Burundi

Prior to the 1993 political crisis, GDP per capita was estimated at US$210. Since the crisis, GDP per capita has been on a declining trend, averaging US$110 between 1998 and 2001. With a Human Development Index (HDI)[15] score of 0.313, Burundi lags behind virtually all countries in terms of human development (just ahead of Niger and Sierra Leone). Life expectancy is only 40.6 years and only an estimated 48 percent of the total adult population, 15 years of age or older, are literate. The annual population growth rate was estimated at 2.9 percent from 1994 to 2000, compared to 2.6 percent in all of Sub-Saharan Africa. Poverty is endemic in both urban and rural areas.

In urban areas, primarily in Bujumbura, the proportion of the poor doubled from 1992 to 2001, with 66 percent of the population living below the poverty line (Box 1). This acceleration of urban poverty is partly due to high population growth, and partly to a large rural-urban migration. Urban poverty was exacerbated by the embargo imposed on Burundi in 1996 by regional countries, which severely disrupted the flow of commercial goods. The sanctions were eased in April 1997, and suspended in January 1999. The sanctions contributed to sharp price rises for food, agricultural inputs, and fuels.

In rural areas, the number of people living below the poverty line (Box 2.1) has increased from 35 percent in 1992 to 58 percent in **2001.** The impoverishment of the rural population is both cause and effect of a migration from rural areas to cities, primarily to Bujumbura, as young people seek a better future. The out-migration further reduces agriculture production and deepens poverty in both rural and urban areas[16].

Box 2.1: Burundi Poverty Line Definition

The relative poverty line has been established at two-thirds of the yearly expenditure per capita, while the absolute poverty line is determined by the minimum cost of estimated food requirements per individual per year. The relative poverty line determined by the 1990 poverty profile was FBu 17,980 in rural areas, and FBu 46,160 for Bujumbura. The 1998-2000 poverty profile shows an increase in the poverty line to FBu 53,603 in rural areas, and FBu 251.580 in urban areas

[15] The Human Development Index measures a country's achievements in three aspects of human development: longevity, knowledge, and decent standard of living.

[16] Significantly lower agriculture production and producer prices have deteriorated standards of living in rural areas. Soaring consumer prices have also contributed to deepening poverty. The inflation rate practically tripled, from 9.7 percent in 1993 to 31.7 percent in 1997, due to the disruption of external and domestic marketing facilities.

CHAPTER 3

KEY FEATURES OF FOREIGN TRADE: RECENT PERFORMANCE AND OUTLOOK

3.1 Introduction

With an underdeveloped manufacturing sector, Burundi imports manufactured products and exports commodities. It is a price-taker in international markets. Burundi's export base is highly concentrated in a few primary commodities, with very little processing or manufacturing. Burundi imports a wide array of items, with heavy concentration in petroleum, machinery and transportation equipment, chemicals, and foodstuffs. For Burundi to make a dent on the poverty situation, it needs to revive existing exports, work towards export diversification, and create a supportive environment for local entrepreneurs to invest in competitive industry. Section 3.2 and 3.3 highlight the structure and performance of exports and imports, respectively.

3.2 Structure and Performance of Exports

Export composition. Burundi's export performance (Table 3.1) depends heavily on the price of coffee, its major export. Its other exports include tea, sugar, cotton (although there have been no formal exports of cotton since 1997), and hides.[17]. Total exports were US$42 million in 2001. In terms of commodity composition (SITC categories), exports of foods and feeds accounted for three-fourths of total exports. Coffee, the major export product, represented on average about 70 percent of all exports from 1995 to 2001. Export of ores and metals accounted for 9 percent of exports in 2001; manufactured goods, for less than one percent. Overall, the government's desire to promote exports of non-traditional products has not led to a noticeable diversification of the export structure.

[17] Re-exports of gold are included in the box but excluded from the presentation in this chapter. The share of gold re-exports in total exports fluctuates, from the highest level amounting to 50 percent of total exports in 1994, to zero in 1997 and 1998, and then to 32 percent and 10 percent in 1999 and 2000, respectively. Detailed tables and charts on exports and imports statistics are presented in Annex 3.

Table 3-1: Burundi, Structure of Merchandise Exports, 1976, 1993, 1996, 2001
(in thousand of US dollars and percent)

	Yearly Export Value, $000				Annual Percentages			
Destination	**1976**	**1993**	**1996**	**2001**	**1976**	**1093**	**1996**	**2001**
EU	16872	26647	10393	20554	31	17	13	49
USA	23747	264	48	46	44	0	0	0
COMESA	676	12396	5322	8029	1	8	7	19
Tanzania	73	512	2695	2812	0	0	3	9
Switzerland	0	34856	6643	10228	0	22	8	24
Others	12196	83588	56675	486	23	53	69	1
World	53564	158263	81776	42155	100	100	100	100
Product/Commodity								
Coffee(071)	48840	39100	47817	21147	91	25	58	50
Tea (0741)	812	3454	1937	6812	2	2	2	16
Cotton (263)	920	6770	282	1	2	4	0	0
Ores and Concentrate.	7	655	606	3020	0	0	1	7
Gold, non-monetary	0	92294	24704	6292	0	58	30	15
Other	2985	15990	6431	4884	0	10	8	12
Total	53564	158263	81776	42155	100	100	100	100

Source: UN Comtrade data base. The products groups are classified by SITC Revision 2 as Ores and Concentrated (2879), Gold (9710).

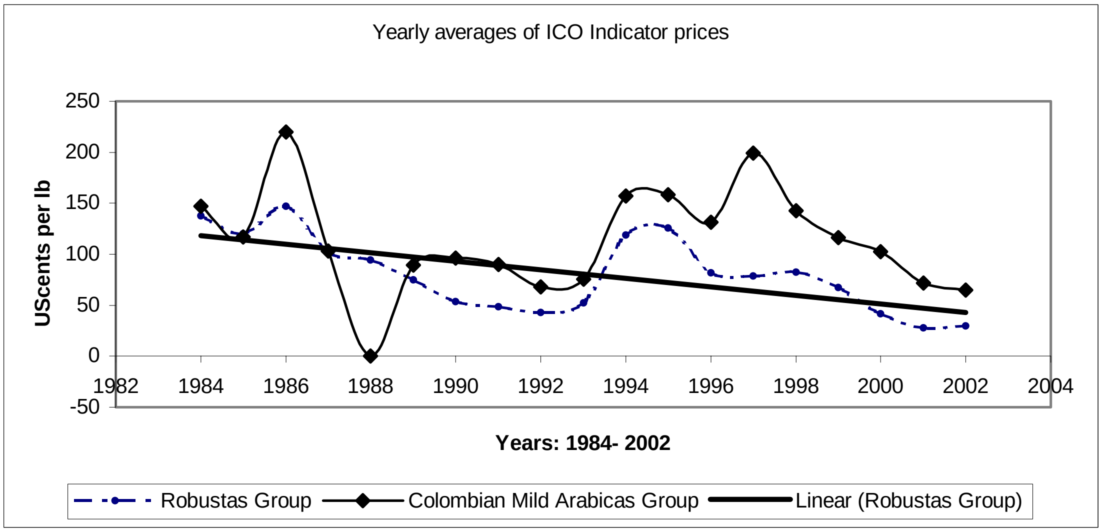
Export concentration. The majority of Burundi's exports go to industrialized countries in Europe. Coffee is the main export to these markets. The industrialized markets' share of Burundi's exports increased in 1998 and 1999, when economic sanctions imposed by regional countries reduced African countries' share of Burundi's exports. Following the lifting of sanctions, exports to African markets recovered. At present, African countries are among Burundi's main export markets.

Coffee: the Export Base. The steady decline of world coffee prices that started in the mid 1980s (Box 3.1) reduced coffee export revenues. Increased world production since the early 1990s, especially in Brazil and Vietnam, has reduced the incomes of coffee growers in uncompetitive countries like Burundi. War, the regional embargo and inadequate political and macroeconomic policies have also reduced coffee exports from Burundi. Controls on coffee were relaxed in the early 1990s, but producer prices are still set by the government; marketing is also government-controlled, through OCIBU.

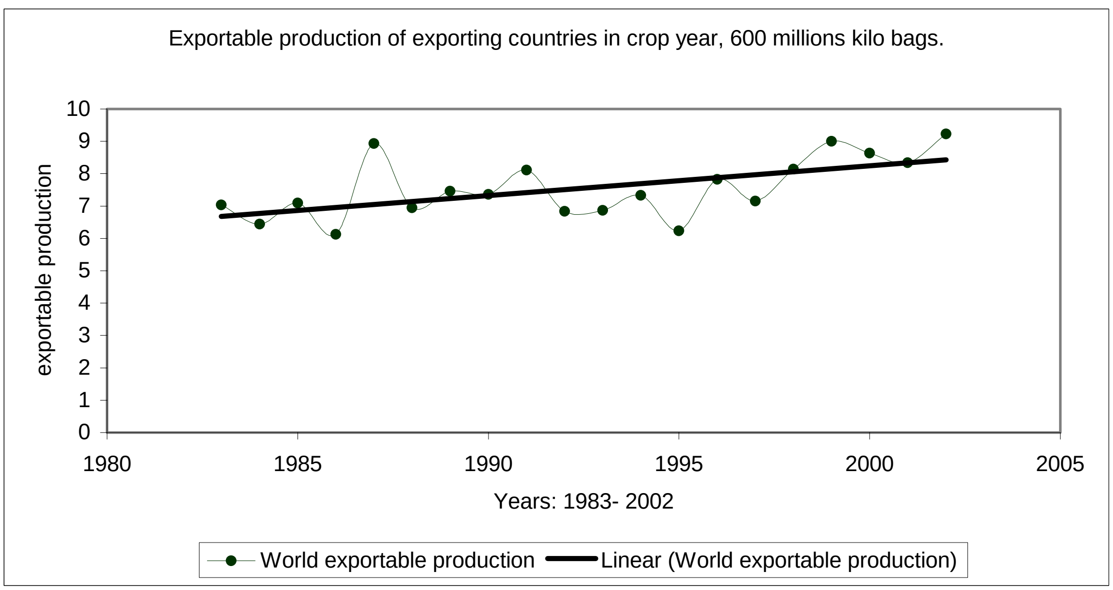
Box 3-1: Global Coffee Price and Volume of Exports.

The increase of worldwide volume of exports of coffee partly explains the continuous decline of global coffee prices

(a)



(b)



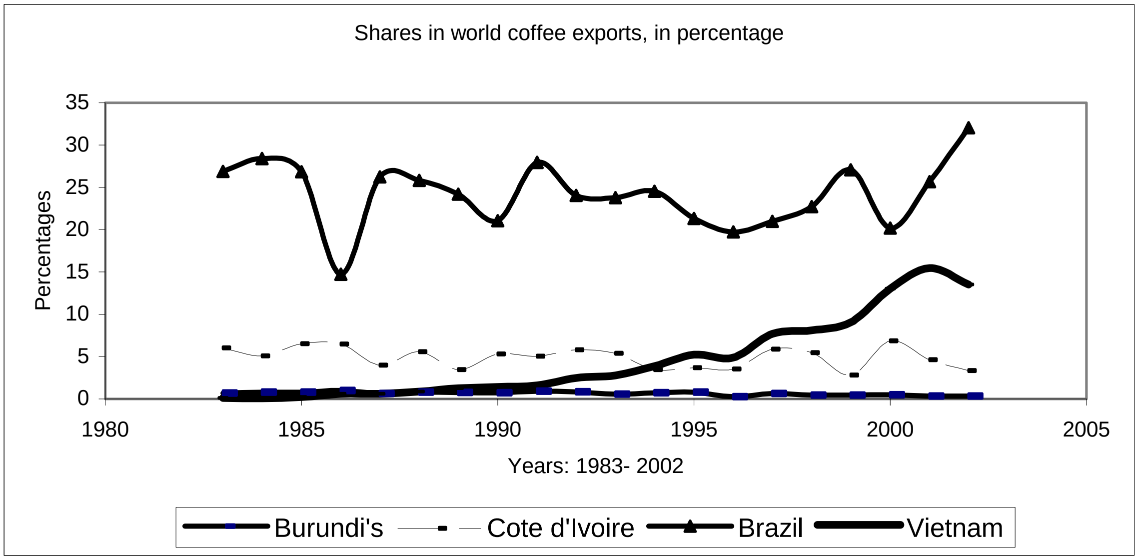
Source : www.ico.org; www.ico.org/frameset/priset.htm

Average prices paid to coffee farmers relative to world prices have been falling since the mid 1980s (Box 3.2(b)), and have been very low in Burundi (about 40 percent of world prices, since 1986), compared to Kenya (about 85 percent) and Cameroon (about 50 percent).

Box 3-2: Burundi's share in the global coffee market and income of growers.

With an insignificant world market shares, Burundi has poor competitiveness in the global coffee market. Exporters like Brazil and Cote d'Ivoire have maintained their shares of the market. Vietnam has increasingly become an important player, producing more than twice the volume of Cote d'Ivoire and 15 times that of Burundi in 2002.

(a)



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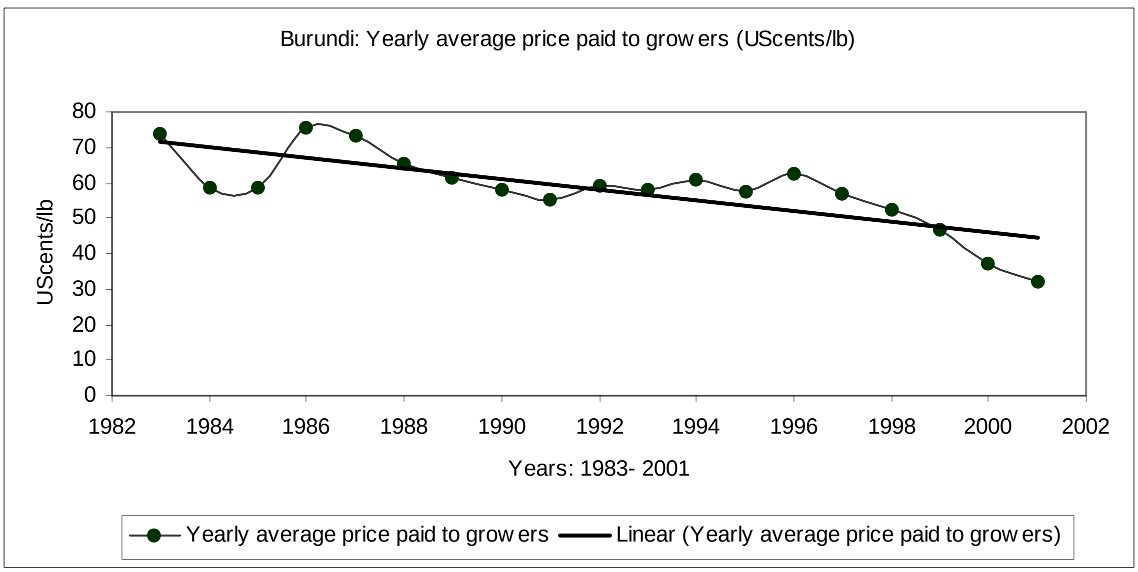

Source: www.ico.org/asp/display7.asp

Adequate measures must be implemented in a timely manner to help Burundi compete in the global coffee market.

3.3 Structure And Performance Of Imports

Composition. Manufactured goods, chemicals, oil and petroleum products, textiles and clothing, machinery, and transportation equipment dominate Burundi's imports (Table 3.2). This commodity composition largely reflects the lack of domestic manufacturing and of fuel resources, and a small domestic market that limits the benefits to be derived from economies of scale. In 2001, manufactured goods represented 69 percent of total imports, compared to 67 percent in 1996. Burundi's chemicals imports accounted for 18 percent of all imports in 2001. Fuels, oil, and petroleum products are large components of Burundi's imports (14 percent in 1996 and 12 percent in 2001).

Table 3-2: Burundi, Structure of Merchandise Imports, by origin and product (in thousand of US dollars and percent) 1976, 1993, 1996, 2001

	Yearly import value, $000				Annual percentages			
Origin	1976	1993	1996	2001	1976	1993	1996	2001
Canada	596	562	248	374	1	0	0	0
USA	2812	4489	6188	4370	5	2	4	3
COMESA	4030	28717	13035	16575	7	13	9	12
Tanzania	841	12792	3853	11336	1	6	3	8
Switzerland	529	1657	401	751	1	1	0	1
EU	24332	63022	50377	49996	42	28	36	36
Japan	2529	22086	8358	6157	4	10	6	4
Others	22292	87887	57344	49336	38	40	41	36
World	57962	221212	139804	138895	100	100	100	100
Product/Commodity								
Chemicals	4077	29514	17492	25131	7	13	13	18
Machinery and transport Equipments	16514	59540	39087	32475	28	27	28	23
Fuels	5086	27118	19513	17400	9	12	14	13
Textiles and Clothing	4689	3837	2445	4289	8	2	2	3
Other	27596	101204	61267	59600	48	46	44	43
Total	57962	221212	139804	138895	100	100	100	100

Source: UN Comtrade database. The product groups are classified by SITC Revision 2 as: Chemicals (5), Textiles and cloting(65+84), Machinery and transport equipments (7), Fuels (3).

The combined effects of the economic downturn, the imposition of economic sanctions by regional countries in 1996, and the scarcity of foreign exchange, reduced imports after 1995. Imports of goods and services fell to 14 percent of GDP in 1997, before approximating their 1995 value of 27 percent of GDP, in 2000. The lifting of economic sanctions in 1999 and the return to economic growth in 2001 helped to increase imports.

Burundi is a net importer of services, particularly trade-related services such as transport, freight, and insurance. The trade deficit in services has decreased sharply since 1995, due to the economic crisis and the scarcity of foreign exchange. The decline in freight operations, which account for almost half of services imports and whose value is one-third of the figure for 1994-95, indicates the impact of the crisis on Burundi's trade. The trend in imports of services since 1999 shows no clear pattern: they rose from 1999 to 2000, but then fell in 2001.

Concentration. European Union countries, in particular Belgium and France, are the major sources of Burundi's imports. Since 1994, African countries' share of imports has gradually increased. The share was not greatly affected by the economic sanctions imposed from 1996 to 1999. Tanzania, Kenya, and Zambia have been the leading African exporters to Burundi. The share of imports from COMESA countries (Table 3.3) was 12% percent in 2001, with Tanzania alone accounting for 8.2 % of imports. Manufactured goods are the main imports from COMESA countries. Mineral fuels and related products (perhaps in transit) are becoming an important commodity import from COMESA.

Table 3-3: Burundi, imports from COMESA & the World, 1976, 1993, 1996, 2001.

	Trade (import) value, US$'000 per stated area				**Import share, in percentages**		
	1976	1993	1996	2001	1993	1996	2001
COMESA							
All goods	4,030	28,717	13,035	16,575	12.98	9.32	11.93
Food and Feeds[18]	875	12,759	2,940	3,070	5.77	2.10	2.21
Agricultural raw Materials	11	28	5	363	0.01	0.00	0.26
Ores and Metals	159	539	275	603	0.24	0.20	0.43
Mineral fuels, related	128	2,065	924	1,650	0.93	0.66	1.19
All manufacturers[19]	2,600	11,868	8,874	10,822	5.36	6.35	7.79
Chemicals- *5*	310	2,264	2,681	2,105	1.02	1.92	1.52
Iron and Steel – *67*	183	2,581	569	1,977	1.17	0.41	1.42
Other Manufactures[20]	1,377	5,803	4,102	4,466	2.62	2.93	3.22
Misc. Manufactures[21]	354	592	658	720	0.27	0.47	0.52
The World							
All goods	57,962	221,212	139,804	138,895	100.00	100.00	100.00
Rest of the World							
All goods	53,932	192,495	126,769	122,320	87.02	90.68	88.07
Food and Feeds	10,159	20,509	19,232	15,125	9.27	13.76	10.89
Agricultural raw materials	2,300	4,593	2,349	3,154	2.08	1.68	2.27
Ores and Metals	876	3,359	1,547	1,780	1.52	1.11	1.28
Mineral fuels, related	4,958	25,053	18,589	15,750	11.33	13.30	11.34
All manufacturers	34,311	137,345	84,743	85,991	62.09	60.62	61.91
Chemicals - *5*	3,767	27,250	14,811	23,026	12.32	10.59	16.58
Iron and Steel – *67*	1,596	6,372	2,350	3,568	2.88	1.68	2.57
Other Manufactures	4,614	29,587	9,886	14,912	13.37	7.07	10.74
Misc. Manufactures	3,507	11,386	17,027	9,276	5.15	12.18	6.68

Source: UN Comtrade Databse

[18] Food and live animals, beverages and tobacco, animal and vegetable oils, fats and waxes, oil seeds and oleaginous fruit.

[19] Chemicals and related products (5), manufactured goods classified chiefly by material, machinery and transport equipment, miscellaneous manufactured articles; excluding non-ferrous metals.

[20] Manufactured goods classified chiefly by material excluding textile yarn, fabrics, made-apart, 67, non-ferrous metals.

[21] Miscellaneous manufactured articles excluding articles of apparel and clothing accessories.

3.4 Outlook

Trade developments in Burundi will depend on: national and regional peace and security; developments in the coffee sector (with respect to price, quantity and quality, marketing arrangements, and world coffee price developments); and shifting geographical trade patterns as Burundi moves to full participation in the FTA and CET under COMESA, where there is potential for economies of scale.

Burundi, like other least-developed countries (LDCs), has very little influence over developments in world markets. LDCs are potential beneficiaries of trade preferences granted by various trading partners including the EU, the US, Canada, and Japan. Nevertheless, Burundi and other LDCs frequently encounter obstacles in the form of rules-of-origin provisions, standards, sanitary and phyto-sanitary rules, and tariffs. Developing countries also frequently face the threat of anti-dumping measures by other countries.[22] These issues will be further explored in Chapters 6.

[22] See WTO, Sub-Committee on Least-Developed Countries, Negotiating Group on Market Access, Market Access Issues Related to Products of Export Interest Originating from Least-Developed Countries, WT/COMTD/LDC/W/28; TN/MA/S/7; October 30, 2002.

CHAPTER 4

ANALYSIS OF FOREIGN TRADE POLICY

4.1 Introduction

Until recently, Burundi pursued an inward-looking trade policy through a variety of instruments including: high import tariffs; widespread non-tariff barriers; and a variety of direct and indirect tax concessions, such as duty drawbacks, free-trade zones, and an export promotion act, to encourage domestic manufacturing and export-oriented investments. Although many African countries began trade policy reforms in the mid-1990s, as it had become clear that inward-looking policies failed to generate sustained growth, war and civil conflict made it impossible for Burundi to follow suit. Import substitution is still a formal objective in the Investment Code now under review, but the Burundian government is refocusing on trade policy reforms suspended in the early 1990s. The government believes that active promotion of non-traditional exports will lessen the country's heavy dependence on coffee. Section 4.2 briefly presents the key players in trade policy formulation. Section 4.3 analyzes tariff and non-tariff barriers to imports and exports. Section 4.4 summarizes major trade policy reform recommendations.

4.2 Trade Policy Formulation

There is now evidence that trade is a powerful engine for growth, and maximizing the gains from trade largely depends on the nature of incentives created for domestic producers, as well as on the degree to which Burundian exports can access markets abroad.

Trade policy is formulated and implemented by the Ministry of Trade and Industry, in close coordination with the Ministry of Finance. Other institutions involved in implementing trade policy include: the Ministry of Agriculture and Livestock; the Ministry of Planning and Reconstruction; the Ministry of Justice; and the State Enterprises Service (SCEP). A Permanent Secretariat, a part of the vice president's office, is charged with following up on economic and social reforms. The Economic and Social Council is a consultative and advisory body with competence in all areas related to economic and social development, and it must be consulted on any draft development plan or any regional or sub-regional integration project.

Increased consultation with the private sector is a priority in the transition government's program for 2002-04.

In fulfilling its functions, the Ministry of Trade and Industry is hampered by the lack of regular training for its staff at all levels. Moreover, there is an inadequate supply of computers, and only one or two motor vehicles available for collecting and analyzing information and data essential for the monitoring of trade policy measures and practices.

The following sections focus on incentive structures created for domestic producers in Burundi, such as tariff and non-tariff barriers on imports and exports, and other trade incentives (drawback, Export Processing Zone, Export Promotion Fund), and provide an overall assessment of Burundi's trade policy. Trade facilitation and market access issues are analyzed in Chapter 5 and 6, respectively.

4.3 Tariffs And Non-Tariff Barriers To Imports

Tariffs. With the progressive elimination of many non-tariff barriers in the 1990s, tariffs[23] are the primary instruments for protecting import-competing industries in Burundi. As a sharp deviation from free trade, high tariffs generally reduce the welfare of the nation as a whole with negative impacts on imports and exports[24]. The existing protective structure is harmful to non-traditional and processing activities. It perpetuates the inefficiencies of production units, which confines them to local market production, and to low-value-added agricultural products. This deters economic diversification and makes Burundi extremely vulnerable to external shocks, given the continuous heavy dependency of the country on the export of a few primary commodities subject to extreme price volatility and long term decline.

Maximum tariff. The maximum tariff rate is an important indicator of the level of protection for import-substituting industries, because policy makers tend to levy this rate on imported products competing with domestically produced goods. Import tariffs were unchanged for more than a decade because of war and political instability, but a major revision of import tariffs, effective January 1, 2003, reduced the maximum tariff rate from 100 percent to 40 percent. Under the revision, tariffs are set at: zero for some products, including wheat, muslin, and submersible warships; 10 percent for primary commodities; 12 percent for capital goods; 15 percent for raw materials and inputs; and 40 percent for finished products. The 40-percent maximum rate is expected to decline to 30 percent on January 2004, with full implementation of the COMESA Common External Tariff (CET) agreement. Agriculture is the most protected sector, with 94-percent WTO bound tariffs and a simple average tariff of 32.8 percent. The mining and quarrying sector is the least protected, with 37.5-percent WTO bound rates and a 12.2-percent simple average tariff. The current simple average tariff in manufacturing is 23.2 percent.

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[23] Tariff is simply defined as what is, in the Burundi's customs code, referred to as statutory "Most Favored Nation" (MFN) tariff. It is the Customs Duty in the tariff book. An overall assessment of Burundi's Trade policy restrictiveness will be developed in the weeks ahead to assess the overall impact of trade barriers on relative prices, taking into account the actually collected tariff and all other import surcharges levied exclusively on imports; as well as any discriminatory element of any indirect tax.

[22]. The negative impact on imports is associated with static distortionary effects in resource allocation and consumers' choices , as well as dynamic welfare losses (missed scale economies, missed externalities, no incentives for learning, no exposure to innovations, and captures of rent by some interest groups). The negative impact on exports is associated with anti-export bias.

Tariff Escalation. To protect domestic processing and fabricating industries, tariff rates often increase at each stage of production, with the lowest tariff rates imposed on raw materials and capital goods, moderate rates on intermediate goods, and the highest rates on consumer goods. In Burundi, this tariff escalation is mixed, and was little affected by the new rates introduced on January 1, 2003. Tariffs increase though all three processing stages for textiles, clothing and leather, paper and paper articles, printing and publishing, chemicals, and base metals. However, in all other industries, tariff rates decline from the first to the second stage of processing, then increase from the second to the third stage of processing. Without taking into account tariff concessions and other incentives, Burundi's tariff structure is hardly conducive to investment, especially in industries displaying negative tariff escalation such as non-metallic mineral products.

Import surcharges rates**.** Besides the customs duty, imports into Burundi may be subject to three other types of duties and taxes with discriminatory bias against imports. These taxes add protection to certain domestically produced goods and include:

1. the service tax, set at six percent, levied on all imports regardless of origin;
2. the transaction tax (similar to a value added tax), applied at the rate of 17 percent on all imports[25].; and
3. a tariff surcharge applied to textile imports, set at 20 percent.

Other taxes levied imports include excise duties and the consumption tax. Excise duties are levied on a specific basis, on products such as beer, carbonated beverages, cigarettes, sugar, and alcoholic beverages. The consumption tax is also applied on a specific basis on a limited number of domestic and imported products (tobacco, sugar, beer, and soft drinks, in particular). Proceeds of the consumption tax are paid into a national solidarity fund. Because excise and consumption taxes apply to imports and domestic production alike, they do not discriminate against imports. Besides excise and consumption taxes, a four-percent flat-rate levy is collected on the customs value of imports by taxpayers in arrears, as an advance payment on income tax.

Number of statutory rates and bound rates. A wide dispersion of varying tariff rates causes additional distortions and welfare costs beyond those resulting from the average level of protection of domestic activities. Since January 1, 2003, the number of tariff rates was reduced from ten rates to eight. Almost 20 percent of Burundi's tariff lines are bound in the WTO context. All tariffs for agriculture products were bound at a ceiling of 100 percent, with the exception of 6 percent of lines that had been previously bound. Textiles and clothing were bound at 24.2 percent; leather, rubber and footwear were bound at 20.2 percent; and equipment at 11.2 percent.

Customs administration. The absence of clear and simple rules, as well as the lack of adequate capacity in customs administration (see Chapter 5), are important constraints to trade in

[25] Because domestic productions are subject to two different rates, 7 percent and 17 percent, depending on the product, the transaction tax is discriminatory against imports. In the case of agriculture, fisheries, and stock breeding products, for example, a 7 percent tax is levied while imports are taxed at 17 percent. This generates substantial amounts of government revenue, and provide additional protection to local products, clearly against WTO commitments

Burundi, leading to distortions, undermining the transparency of the tariff system, and increasing costs for economic operators. In addition, corruption and inefficiencies in Burundi's customs administration create distortions in resource allocation and raise the cost of imported goods. This favors import-competing industries relative to export industries.

Import Valuation systems. WTO rules require that countries use a transaction-based system that records the actual cost of each import shipment**.** To meet WTO commitments, the customs administration uses the Brussels Definition to estimate the customs values. Pre-shipment inspection is mandatory for all imports worth more than US$5,000, or more than US$3,000 for food, chemicals or pharmaceutical products.

Exemptions. From 1994 to 2001, the total value of tariff exemptions granted represented about 16 percent of imports. Exemptions covered imports by the government, foreign NGOs, diplomatic missions and international agencies, and enterprises operating under the free zone or under the Investment Code. In addition, exemptions applied to medicines, agricultural inputs, and imports for humanitarian aid.

Average tariffs and dispersion of tariff rates. The 2003 reform lowered the simple average tariff rate from 30.8 percent in 2000-01 to 23.5 percent in 2003. The elimination of tariffs exceeding 40 percent has helped reduce tariff dispersion. Tariff dispersion, measured by the standard deviation from the simple average, is a useful indicator of the variation of tariff rates, and hence of differences in protection and distortions in resource allocation among activities. Burundi's overall standard deviation of bound rates was estimated at 41.5 in 2003, compared with 7 in Benin, 10 in Uganda, and 12 in CFA countries.

Table 4-1 shows recent values for selected indicators of the level and distribution of tariffs (In the table, domestic tariff "peaks" are defined as tariffs exceeding three times the simple average rate applied. International tariff "peaks" are tariffs exceeding 15 percent. Nuisance tariffs rates are those greater than zero percent but not exceeding two percent).

Table 4-1: Selected Import Tariff Indicators.

	2002	**2003**
Bound tariff lines (percentage of all tariff lines)	21.6	21.6
Duty-free tariff lines (percentage of all tariff lines)	0.1	0.1
Non-*ad valorem* tariffs (percentage of all tariff lines)	0.0	0.0
Tariff quotas (percentage of all tariff lines)	0.0	0.0
Non-*ad valorem* tariffs with no *ad valorem* equivalent (Percentage of all tariff lines)	0.0	0.0
Simple average Bound rate	68.3	68.3
Agricultural products (HS01-24)	94.0	94.0
Non-agricultural products (HS25-97)	37.5	37.5
WTO agricultural products	95.1	95.1
WTO non-agricultural products	27.9	27.9
Overall standard deviation of bound rates	41.5	41.5
Simple average applied rate	30.8	23.5
Agricultural products (HS01-24)	63.9	35.4

Non-agricultural products (HS25-97)	25.6	21.6
WTO agricultural products	54.6	32.6
WTO non-agricultural products	27.3	22.1
Domestic tariff "peaks" (percentage of all tariff lines)	12.1	0.0
International tariff "peaks" (percentage of all tariff lines)	42.9	42.9
Overall standard deviation of applied rates	28.9	14.4
Applied "nuisance" rates (percentage of all tariff lines)	0.0	0.0

Non-tariff barriers. Burundi abolished the majority of quantitative import restrictions in April 2000. Bans currently apply on ivory, narcotic drugs, weapons, and ammunition. The positive list, which identified priority products for the purposes of access to foreign exchange, has been abolished. Import licenses are now only used for statistical purposes.

Effective Protection Rates. Effective protection rates take into account tariffs on both outputs and inputs. Because tariff escalation is mixed, Burundi has a mixed effective protection structure, with effective protection rates higher than nominal protection rates on consumer goods, and effective protection rates lower than nominal protection rates on intermediate goods. This has a distortionary impact on resource allocation in the country. Although, overall, effective protection rates in most sectors have been declining, thanks to declining nominal protection protection, effective protection of the Burundi manufacturing sector remains relatively high (Kadede, 1997) with rates ranging from 551.4% for sewing treads, 326.7% beers (Amstel Bock), 180.3% for cookies, 120.1% for cigarettes, to negative effective protection rates (-259% for school chalk, -100% for cardboard boxes and soap).

Details on overall assessment of Burundi's import restrictiveness will be provided later.

4.4 Tariffs And Non-Tariff Barriers To Exports

There are still tariff and non-tariff barriers to export. Although on January 1, 2003, progress was made with the abolition of export taxes on traditional exports (coffee, tea, and cotton[26]), most other exports are subject to a five-percent duty.

Sugar exports are subject to a quota, which varies according to estimates of local demand. Coffee cherries may not be exported, and ivory exports are banned pursuant to an international agreement.

All export receipts must be repatriated; coffee, tea, and cotton exporters may retain 30 percent of their earnings in foreign-exchange denominated accounts in the domestic banking system; other exporters may retain 100 percent. Use of locally deposited foreign exchange is subject to strict rules.

[26] The export tax on coffee had not been collected since 1998/99.

4.5 High-Priority Actions To Improve Trade Policy

With the planned realignment of its tariff with the COMESA Common External Tariff, Burundi has made major progress in liberalizing its trade regime. Nevertheless, much remains to be done, as was identified in the recent trade policy review of Burundi conducted by the WTO and broadly endorsed by the Burundi authorities[27]. The review noted the well-known extreme dependence of Burundi on exports of coffee and, to a lesser degree, tea. However, a number of policy-related factors hinder export diversification and Burundi's ability to derive development benefits from its participation in international trade. High protection of "traditional" sectors has discouraged investment in nontraditional agricultural exports, while the mixed nature of tariff escalation has not encouraged investment in certain processing activities. Extensive state intervention is seen as crowding out private sector activity. The high cost of certain services, an underdeveloped financial sector, and high transport costs related to Burundi's landlocked situation have also contributed to supply-side bottlenecks. The review stressed that improvements to Burundi's business environment could be made through reforms to the investment code aiming at eliminating its bias toward import substitution, and establishing simple and transparent procedures. Further tariff reductions would reduce current reliance on a myriad of overlapping incentive; fewer exemptions could in turn mitigate the fiscal impact of tariff reform. The review urged Burundi to make its tariffs more predictable by binding the majority of its tariff lines, and by rationalizing its non-tariff barriers and the exemptions granted under various support schemes. Major policy areas requiring attention, in line with WTO recommendations, are summarized in Box 4.1.

Box 4-1: WTO-Identified Areas For Further Trade Policy Reform

The Secretariat Report, prepared for the trade policy review, identified areas in which trade policy reforms could contribute to improved economic performance and fuller participation in the multilateral trading system. The identified areas are:

- Enhanced capacity to analyze and disseminate trade information, to make better use of the potential afforded by market openings, including recourse to preferential schemes.
- Tariff reform: enlarge coverage of tariff bindings; narrow gap between bound and applied tariffs; transpose tariff binding into the harmonized system; eliminate discrimination in internal taxes; and rationalize exemptions.
- Replacement of exemptions by uniformly lower customs duties, which would potentially benefit small producers.
- Ensure national treatment of all imports.
- Reduce effective protection on traditional products, to give more incentives to nontraditional ones.
- Reduce mixed escalation on certain products
- Modernize various codes, laws, and standards.
- Streamline drawback scheme, and make it operational.
- Reduce the role of the state in the agriculture sector.
- Improve fiscal management
- Continue privatization process.
- Formulate and implement reforms in key sectors: energy, financial services, telecommunications, and transport.

[27] WTO, Trade Policy Review, Burundi, April 2 & 4, 2003. See the concluding remarks by the Chairperson, on www.wto.org. Trade policy reviews are essentially peer-group assessments of a member's trade regime and performance, based on factual leg-work undertaken by the WTO Secretariat and material provided by the reviewed country.

- Implement WTO custom valuations provisions.
- Undertake further commitments in trade in services.

Source: *WTO, Trade Policy Review Body; Trade Policy Review—Burundi—Report by the Secretariat, WT/TPR/S/113; March 5, 2003.*

CHAPTER 5

TRADE FACILITATION AND EXPORT SUPPORT CONSTRAINTS

5.1 Introduction

The objective of trade facilitation policies is to reduce the cost of doing business, by eliminating unnecessary administrative burdens and lowering the cost of importing and exporting. Trade facilitation reduces the cost of trading, by improving international transportation services, customs administration, ports, and logistics management. Besides the need for modernization of import and export processes, to match international standards, trade facilitation requires substantial new investment, technical assistance, and coordinated multilateral efforts.

The government's main trade-policy objectives are to diversify exports, particularly in non-traditional export sectors (i.e. other than coffee, cotton, and tea), to facilitate trade, and to create an environment conducive to investment. Reaching these objectives will require large-scale reform of trade policy, improved trade facilitation including reformed customs administration, key sector reforms, and measures to alleviate supply constraints and upgrade logistics and infrastructure. Section 5.2 summarizes major customs administration issues. Section 5.3 highlights transit issues for consignments to and from Burundi. Section 5.4 analyzes inefficiencies of the Export Support System. Section 5.5 presents major recommendations.

5.2 Customs Administration Constraints

Multiplicity of public institutions involved in trade transactions. The customs department is the lead agency involved in the administration, control, and taxation of goods imported into and exported from Burundi. Various public and private organizations are also involved at various stages of trade, with considerable impact on transaction costs and speed of passage at clearance offices and border posts. These organizations include: the ministries of trade, finance, agriculture, and environmental services; foreign pre-shipment inspection companies; commercial banks; quality control institutions; and security services. Administrative controls and requirements are numerous and often redundant, inducing some traders to solicit dispensation or to bribe officials, to accelerate or escape customs formalities.

Excessive controls occasion detrimental delays. For example, all the formalities to be fulfilled in Burundi take an average of three weeks, added to the time required for placing orders, negotiating documentary credit (CDEDOC), fulfilling pre-shipment inspection requirements, and shipping the goods by sea and then by road, rail, or lake vessels. The lapse of time between making purchases and taking possession of goods is about three months.

Inadequate computerization. Computerized procedures (at banks, customs, port and airport) are very limited. In most cases they were designed with little thought for the mutual exchange of information. One consequence is costly redundancy: hard copies of customs declarations (digitized by ASYCUDA 2.7) frequently circulate in parallel with the itemized customs declarations (COMESA CD) formulated by customs brokers ("customs agents").

Incompatibility of customs clearance procedures from intervening institutions. Although the Burundi customs administration is striving to perform its tasks expeditiously, customs clearance procedures are not fully computerized and are not compatible with the logistics platforms of the Bujumbura Port Authority (EPB) and Bujumbura airport. This incompatibility creates difficulties in monitoring that adversely affect trade.

Poor equipment of border stations and customs clearance offices. All customs clearance offices are badly under-equipped. This hampers continuous delivery of services and slows down the customs capacity to process vehicles and goods, and to monitor international transit operations.

Diversion of Senior Customs Department officials to low-level tasks. The location of the customs administration, in a building that also houses the Bujumbura Port Authority, approximates something like a "one-stop" setting, but diverts senior managers to decisions which should be handled by lower-level officials**.**

Inadequate training of junior customs staff. In a context of quick changes of customs legislation at the regional level, as well as increased multilateral commitments, junior staff are not trained to effectively execute their duties. All too often such tasks are shifted on to more senior staff, who are diverted from their managerial responsibilities.

Specific actions that could significantly speed up delivery of goods, lower transaction costs, and improve duty collections include[28]: (i) better training for junior customs officials, to free senior management to focus on key management issues; (ii) provision of equipment for border stations and custom clearance offices within the country; (iii) process simplification and improved coordination between the customs administration and other administrative services (such as, the Ministry of Trade and Industry, the Ministry of Agriculture, the Ministry of Environmental Services, and the Burundi office of standards and norms); (iv) establishment of a standardized customs clearance contract for customs agents, to improve monitoring of their activities; and (v) improving the mobility and equipment of customs surveillance units, to fight customs evasion along Burundi's extremely porous the borders.

[28] A detailed diagnostic and exposition of the problems identified is presented in Volume II.

Other areas in need of immediate attention include: (i) facilitation of foreign exchange controls; (ii) infrastructures for quality control; (iii) pre-shipment import verification; and (iv) identification of economic operators.

Foreign exchange controls. As discussed in Chapter 2, exchange controls administered by the central bank (BRB*)* are major impediments to foreign trade. Uncertainty about foreign exchange acquisition for the importation of goods, and cumbersome requirements for repatriation of export earnings, with unnecessary paperwork, seriously hinder trade.

Infrastructures for quality control. Other administrative services contributing to the registration and monitoring of external trade, especially regarding quality control, need better computers and other equipment, to accelerate the reliable completion of required documents.

Pre-shipment Import Verification (PSI). There is a need to integrate the use of PSI with other customs activities. The contracts with the inspection companies (SGS and Baltic Control) will be renegotiated in 2003; this provides a good opportunity to address remaining needs, including: (i) broadening the scope of PSI verification; (ii) ensuring active collaboration of PSI companies with the customs services; (iii) setting a time limit on PSI contracts, without automatic extensions; (iv) mandatory reconciliation of PSI inspection reports with customs declarations; (v) specification of arbitration or appeal procedures, to provide an avenue to contest PSI assessments; (vi) delineation of PSI and customs responsibilities in the modernization of customs administration; and (vii) periodic distribution of PSI reports of PSI to the public.

Lack of Single Identification number for economic operators is a severe constraint. There is no linkage between the various identification systems. Maintaining several registers is both costly and a source of confusion for the operators.

5.3 Transit Issues for Consignments to and from Burundi

Goods to and from Burundi are carried along one of three corridors (Box 5.1; Figure 5.1), using a combination of rail, truck, and lake ships. Occasionally one or more corridors are closed due to war, rain, or technical problems; there are high transport costs, abnormally long delays, and cumbersome reloading.

Box 5-1: Burundi's transportation corridors

Northern Corridor: Mombassa-Bujumbura, via Nairobi, Kampala, Kigali, and entry into Burundi at Kobero or Kanyaru-Haut.

Distance: about 2,050 kilometers.
Modes of transport: trucks.

Conditions along corridor: The road conditions are bad between Bujumbura and Bugarama (30 km) and in relative good condition between Bugarama and Kanyaru-Haut or Kobero; generally good through Rwanda and Uganda; and generally bad in Kenya. The Northern Corridor crosses countries with periodic civil wars, and trucks are sometimes blocked on the road, or must wait for escorts. Shipping companies estimate that the rotation time for a truck is one month, given the normal traveling time, escort, border formalities, loading and unloading, truck maintenance, and license validation.

Central Corridor: Dar es Salaam to Bujumbura via Kobero, by truck; or
Dar-es-Salam to Kigoma , by rail, and Kigoma to Bujumbura, via lake vessels on Lake Tanganyika.

Road distance: about 1,200 kilometers, mostly in Tanzania.

Modes of transport: truck, rail, and lake vessels.

Conditions along the corridor: The road has been rehabilitated and is in good condition. The Burundi road section is also in good condition, with the exception of the Bujumbura – Bugarama section. The Tanzanian section is often damaged by heavy rainfalls, which may also hurt bridges. Road repairs in Tanzania often take time. The trip takes 4 days to Dar-es-Salam, and 5 days to return. However, unloading in Dar-es-Salam and in Bujumbura is time-consuming, trucks require maintenance and the Model "A" License takes time to be validated. The estimated turnaround time on this corridor is about one month. Key problems affecting the rail transport Dar-es-Salam – Kigoma – Lake Tanganyika include: lack of railcars; poor track condition; congestion of Kigoma harbor; and poor quality of services. Rail transport, like road transport, is affected by rain, as the track may be flooded. Furthermore, the corridor requires several intermediate reloading.

Southern Corridor: Southern Africa countries (for example, Beira in Mozambique and Durban, in South Africa) to Bujumbura, via the ports of Mpulungu (Zambia) or Kalemie (DRC), and onward on lake vessels on Lake Tanganyika.

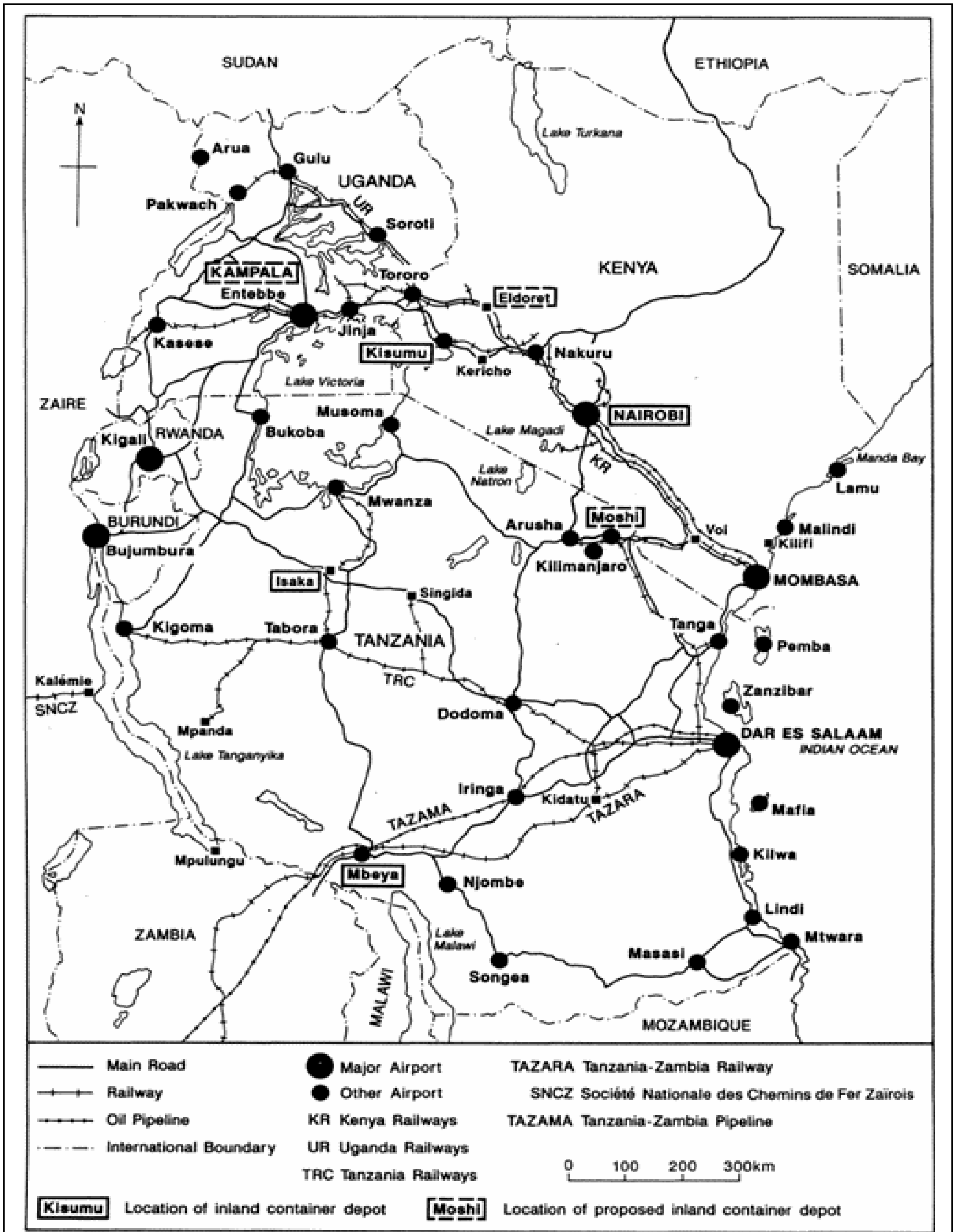
Modes of transport: rail and lake vessels.
Conditions: Mpulungu's port is very small and ill-equipped. Once the embargo was suspended, imports from Europe and Asia returned to the use of the ports of Mombassa and Dar es Salaam.

Lake transport on Lake Tanganyika

Traffic on Lake Tanganyika is carried out through four Burundian companies, *Arnolac, Batralac, Sotralac and Tanganyika Transport*. Burundi's fleet has a low capacity, being composed of very aged units, some of which are more than 100 years old. Burundi has no naval yard; the naval yard in Kalemie has not been in operation for several years. Kogima's yard is overloaded and gives priority to Tanzanian boats.

The main impediments to transport on the Central Corridor (the main corridor used for transport to and from Burundi) are the poor condition and unreliability of the physical infrastructure. In contrast, the Northern Corridor, through Kenya, Uganda and Rwanda, is more encumbered by institutional problems, such as bureaucracy, incompatible or unnecessary documentation, limited national and international institutional coordination, and "rent-seeking behavior." The Southern Corridor is of less importance than the other two corridors, and therefore is not discussed in this report (details are in Volume II).

Figure 5-1: Burundi – Map of Main Corridors From/To Burundi



The Northern Corridor exemplifies Burundi's international transport problems.

The route to Bujumbura from Mombassa comprises 480 kilometers between Mombassa and Nairobi, 695 kilometers between Nairobi and Kampala, 440 kilometers from Kampala to the Uganda-Rwanda border, 240 kilometers through Rwanda to the Burundi entry point at Akanyaru, and 100 kilometers from Akanyaru to Bujumbura port.

The main road between Bujumbura and the Burundi-Rwanda border at Akanyaru (Highway Number 1) is surfaced with bitumen, and is in good condition, but has a number of steep gradients, particularly through the mountains, which begin five kilometers outside of Bujumbura. There is no weight restriction imposed on road traffic in Burundi, but security is constant concern. As a result, trucks are not allowed to travel unaccompanied between 5 p.m. and 8 a.m. on any road, and there is a significant risk of attack, even during the day, particularly on the 45-kilometer mountain stretch outside Bujumbura.

The main highways of Kenya and Uganda, particularly between Mombassa, Nairobi, and Kampala, are reportedly of high quality. Weight restrictions are more lenient than in Tanzania, allowing an additional axle and heavier loads. Kenya has nine fixed weigh bridges and four mobile "random check" weighbridges, but they do not communicate with one another, which can cause considerable delay. In addition, the penalties are limited (court appearances within 24 hours normally result in a minimal fine and permission to continue) and insufficient to deter future offenses. Apparently, these restrictions can be avoided through illegal means, such as operating after dark.

Port facilities used by Burundi. Burundi uses the ports of Dar-es-Salam (Tanzania), Mombassa (Kenya), Kigoma, and Bujumbura (Box 5.2). Bujumbura's port facilities are grossly inadequate. In addition, there are cumbersome documentation requirements at the port (Box 5.3), and police in the port unnecessarily slow down movement of goods, adding to import costs. A further problem at the Bujumbura port, specifically in connection with the movement of coffee, is that the floor of the OCIBU warehouse is not strong enough to support forklifts, so each palletized consignment has to be moved out of the warehouse manually, prior to onward movement to the wharf by forklift. The resulting delay is between two and three hours.

Box 5-2: Port Facilities Used by Burundi

Bujumbura: The Port of Bujumbura has a reported total capacity of 500,000 tons per annum. It presently has five berths, of which four handle general cargo. One berth also has facilities for offloading bulk liquids, including oil and lubricants.

In 2002 the port handled a total of about 177,000 tons. The port is spacious and relatively well organized, and is capable of handling far more cargo. However, the age and associated unreliability of cranes in the port is a source of occasional delay in loading and unloading.

The Port of Bujumbura is jointly owned by a number of public and private shareholders. Staffs for port functions and institutional representation are all housed in the same building at the port. Despite this physical concentration, little progress has been made in reducing the bureaucracy and the time of the clearing process. The process is encumbered by the inability to "pre-clear" documentation and delays in payment of excise duties by Burundian importers.

Dar-es-Salaam: The Dar-es-Salaam port comprises four terminals, with a total capacity of 10 million tons of cargo per year. The port is open 24 hours a day, 365 days a year. The container terminal of the port was leased out in early 2002 to a private-sector consortium. This has resulted in a significant improvement in the container terminal, making it one of the most efficient and effective components of the port. The container terminal was enhanced in 2002, with the installation of the latest computerized Container Terminal Systems.

Kigoma: The consultants were to assemble only very limited information on the Kigoma port. Nevertheless, a number of problems were reported by stakeholders. These included delays in loading and unloading in the port (or adjacent marshalling yard), unavailability of suitable railway rolling stock, and the age and unreliability of the cranes in the ports.

Mombassa: The Port of Mombassa comprises two parts, for containers and general cargo, respectively, with a combined total of 16 berths. The port has a designed capacity of 20 millions tons per annum. The general cargo port is operating under capacity; its cranes are aging and frequently unreliable. In contrast, the container port is frequently operating in excess of capacity, giving rise to both offloading and clearance congestion. Transit consignments for Burundi are stored in separate areas at the port and have a slightly simpler clearance procedure. In all, their consignment and movement through the port is reasonably efficient

Box 5-3: Port of Bujumbura, Required documents

For Import and Export Consignments

Imports

For import consignments, the following documents are required by the Customs Department:

- bill of lading;
- commercial invoice;
- origin certificate;
- packing list;
- customs declaration form (the C.63 COMESA agreed form, issued in Kenya has only recently been accepted by Burundi (and Rwanda) customs; and
- delivery note (lettre de transport).

Exports

For export consignments, the following documents are required to clear export transit consignments from the Port of Bujumbura:

- "through" bill of lading, or modal equivalent, including final destination list;
- packing list;
- customs declaration form; and
- official letter to authorize export, where necessary, from OTB or OCIBU.

5.4 Export Support System

Burundi's main export support institutions are the drawback system, and the Export Processing Zone, and the Export Promotion Fund. In the late 1980s, the government of Burundi pursued policies aimed at promoting exports of new products, creating institutions, and mobilizing financing for export activities. To compensate for the impact of customs duties on costs, particularly of inputs, a variety of exemptions and duty reductions were granted under incentive schemes including: the Investment Code, the Customs legislation, the 1988 Export Promotion Code and Export Promotion Fund, the Free Zone law, and the Tax Code. These incentives were particularly targeted at agricultural activities, small- and medium-sized enterprises, cottage industries and the promotion of decentralized activities throughout Burundi. The authorities had relatively wide discretion in the granting of exemption; the value of exemptions granted represented about 15 percent of total imports.

The drawback system, widely used in most countries, basically allows the reimbursement of import duties paid for inputs to products that are being exported. The drawback system may also be used as a tax credit system for the refund of indirect taxes on inputs intended to promote exports. These inputs may include raw materials, chemicals, spare parts, and packaging materials, such as cartons and bottles. The reimbursement is paid after the imported input has been re-exported, so that there is a proof that it has not been used for domestic consumption. This facility does not concern companies registered in the Export Processing Zone (Zone Franche) as these are exempted from all import duties (see next section).

In Burundi, this facility has theoretically existed since 1994. However, many exporting companies claim that it is not applied or that reimbursement takes several months. Most companies prefer not to use this facility, as it is cumbersome and bureaucratic, and rarely results in any reimbursements. It appears that some big companies (such as BRARUDI) manage to obtain reimbursement (after long delays), while many others never do. Only very few companies indicated that they use the drawback system .

The fact that the drawback system is not really operational for many exporters means that it fails to reduce their costs and improve their competitiveness. In addition, fails to encourage exporting firms to import high-quality inputs for their export products.

In addition to the drawback system for the refund of customs duties, there is a tax credit system for the refund of indirect taxes on inputs intended to promote exports. The overlapping of these incentives and those granted under the Tax Code and the Investment Code mean that enterprises engaged in similar activities may be eligible for different types of incentives, with ensuing confusion, and loss of transparency in export incentives.

The drawback system should be simplified, streamlined, and made effectively operational. One way of doing so could be to require the customs administration to set up a special account that could automatically make necessary payments (possibly using special treasury checks) for eligible imports. The special account should be very closely monitored.

The Export Processing Zone (Zone Franche). An Export Processing Zone (EPZ) can take the form of either a geographical or a judicial entity: a geographical area which is declared as a "free area" within a country in which companies work purely for export ; or a grant of status to designated producers as "free companies," irrespective of location. The main advantages of such schemes could include: employment creation; transfer of know-how; foreign exchange earnings; trade policy reform; demonstration effects for development in the rest of the country.

Burundi set up the Zone Franche in 1993 as part of the overall effort to encourage FDI, export diversification and the promotion of non-traditional exports. The scheme adopted was not a geographical free trade area but as a judicial act: the registration of individual companies situated in different locations as "Free Enterprises." To be able to register, the companies must meet a number of criteria, essentially to be totally export-oriented, fully owned by foreign companies, and dealing with non-traditional products. Enterprises dealing with traditional products such as green coffee, cotton, tea, raw hides and skins and live animals do not qualify for registration. The main advantages offered by the Zone are:

- total exemption of corporate tax for the first 10 years of operation and a reduced rate of only 15 percent thereafter;
- exemption from taxes on company dividends for an unlimited period;
- duty-free imports and exports;
- the right to repatriate capital and earnings;

permission to have bank deposits in foreign currencies; and
- very flexible labor legislation.

Each decision to grant a company the status of "Free Enterprise" is made on the basis of recommendations of the "Commission Consultative de la Zone Franche", which is composed of representatives of the Ministries of Commerce, Planning, Finance, and APEE. The approval system is insufficiently transparent, and lacks post-approval monitoring and audit of the operations of the "Free Enterprises"; many abuses may have taken place, such as duty-free imports of items not directly connected with exports.

A total of 36 enterprises have been granted the status of "Free Enterprises." Of these, 20 were exporters of fresh fruits and vegetables; the rest included companies dealing with minerals, wood-processing, ready-made garments, coffee roasting, and chemicals. Due to the political crisis, thirteen of these enterprises never started operations, five closed down, and five saw their status revoked for various reasons. Today there are only thirteen companies still operational, of which twelve export fresh fruits and vegetables. However, only a few are still exporting in significant quantities. In statistics provided from SOBUGEA (the airport), it appears that the most active are MAUA, DME and ATB.

Overall, although some experience in marketing and selling to Europe has been gained and made available to other exporters, most benefits expected from the Zone Franche did not materialize: there was no significant attraction of FDI, and only slight employment creation in the Zone. Operation of the Zone Franche should therefore be thoroughly reviewed and revamped to make it effective.

The Export Promotion Fund (Fonds de Promotion des Exportations (FPE)). This fund was created in 2000. It is part of a package of reforms aimed at diversifying exports and promoting new non-traditional exports. As its name suggests, the fund only supports export-oriented investments. FPE's initial capital, in the form of a credit under the control of BRB, was 1 billion FBu. FPE offers credit at a preferential interest rate of 9 percent (the commercial banks charge 25 percent) for a period of 36 months. Requests for funding are reviewed by an inter-ministerial committee that makes recommendations to the Minister of Finance. This committee has no technical support to enable its members to evaluate requests. It meets on only an ad hoc basis.

Since its creation the fund has made loans to about 20 projects for export of non-traditional products, of which half are in the sector of fresh fruits and vegetables and cut flowers. These loans have exhausted the initial capital of 1 billion FBU; the activities of the fund are at a temporary standstill. In addition, many of the borrowers are unable to pay back their loans.

Besides the FPE, and as part of IDA support to intra-COMESA cross border trade, an IDA supported regional trade facilitation project has been in effect since 2001, to support establishment of a regional political insurance facility covering cross border trade and political/non-commercial risks (e.g. inability to convert or transfer currency, imposition of exchange controls, cancellation of licenses, seizure of goods, prevention of sales or export).

The activities of the FPE have been adversely affected by various factors, including: the lack of regular air cargo space for shipments to Europe ; difficulties in accessing production activities because of security risks; and problems of quality and packaging of the export products. In addition, no proper monitoring has taken place for the use of the loans, which in some cases have not been used for the purposes for which they were initially approved.

Although experience in many countries suggests that funds like the FPE rarely function well, or recover their capital, many economic operators hope that the activities of the fund will resume. This should depend on a thorough review of the institutional infrastructure for export promotion.

Political-risk insurance. An IDA-supported regional trade facilitation project has been in effect since 2001, to establishment a regional political-insurance facility covering non-commercial risks in cross-border trade, such as imposition of exchange controls, cancellation of licenses, seizure of goods, and prevention of sales or exports.

Constraints to exports. Persistent obstacles to exports, in particular non-traditional exports, fall into three broad categories:

a. **Administrative and policy constraints** include: the high cost of and difficult access to export credits; scarcity of foreign exchange for importing essential inputs; a dysfunctional duty drawback system; mandatory pre-shipment inspection requirements that increase import costs; cumbersome customs procedures; a central bank staff with insufficient specialized knowledge of non-traditional export operations; taxes levied on non-traditional exports; and a tariff schedule protective of existing local industries, which discourages investment in non-traditional sectors.

b. **Institutional constraints.** Present and future exporters need a mutually supportive, interconnected network of domestic and overseas services. Such a network is almost non-existent in Burundi, as demonstrated by the lack of: an efficient service for quality control, standards and metrology; advisory services regarding packaging, packing, labeling and design; an effective information service; opportunities for staff training in international marketing and export techniques; legal advisory services; and trade representation abroad.

c. **Structural export obstacles and constraints** due to Burundi's political and geographic situation include: high transport costs; long transport times that reduce export quality; lack of regular air traffic to Europe; difficult access to rural areas for the supply of export products, due to a lack of security; poor port infrastructure (box 5), and high costs of energy and other infrastructure services (e.g., water and telecommunications).

Prerequisites for a successful change. A successful national effort to promote exports requires three features: (1) the conscious political willingness to support export promotion with all available means; (2) creation of an economic enabling environment favorable to businesses; and (3) the establishment of export-support structures. The present economic and business environment in Burundi does not support trade-promotion efforts, and measures to stimulate exports have been disappointing, for lack of consistent -- or any -- application. This is largely attributable to the political crisis in the country, which gives priority to political security questions.

5.5 High-Priority Reforms and Actions to Promote Exports

Policy reform. Burundi needs a new global export promotion / Diversification strategy. The strategy should have well-defined objectives, should identify and mobilize required resources for its implementation, and should specify the respective roles of government, state-controlled enterprises, and businesses, with adequate monitoring mechanisms to ensure accountability.

The strategy may sometimes influence major economic policy decisions in conflicting ways. For example, development of exports may reduce some state revenues in the short term, although they should be recouped with later economic growth. Attitudes will need to change among public servants as well as among business operators.

Finally, a successful strategy will require close cooperation between the authorities and other economic stakeholders.

The following actions could help establish the institutional arrangements needed for an export promotion strategy: (a) clear articulation of a high-level political commitment to treat export support and promotion as a primary goal for the country; (b) creation of a National Export Council empowered to create an export-enabling policy environment; and (c) creation of a Trade

Promotion Organization, led by the private sector, to implement the strategy and promote exports on a day-to-day basis. To end the greatest constraints to exports, the new export-enabling policy environment to be created should avoid: an overvalued exchange rate; a tariff structure that provides high protection; non-tariff barriers; scarcity of trade finance; the costliness of infrastructure services, such as for roads and ports; and excessive bureaucratic control of trade processes.

The proposed National Export Council (NEC) must be able to influence policy, mobilize the resources and services needed to support the export drive, and deliver these services efficiently. It should coordinate all export-related activities without interference from other administrative bodies. The Council's chief executive should be well-qualified and dynamic, with easy access to members of the council, and should be selected without reference to political party loyalties.

The proposed Trade Promotion Organization (TPO) should be headed by a capable representative of the private sector. Learning from the experience of past TPOs which have not lived up to expectations, the proposed TPO should have administrative autonomy, especially to recruit highly qualified staff and pay competitive salaries not bound by the civil service wage scale, and an assured operational budget with sufficient funding. The TPO will require staff with expertise in all aspects of the support services mentioned above, and in non-traditional products: horticulture and fruit products; agro-business; hides and skins; and manufactured products. A majority of the board of the TPO should be from sector, to inspire confidence among private-sector operators. The TPO will need continuously to identify existing export opportunities, obstacles, and constraints, and to review the export potential of new products.[29]

The National Export Council (NEC) should let the private sector play a dominant role in defining, implementing, and monitoring the trade promotion strategy. This strategy could initially focus on existing exporting sectors, such as horticulture, and gradually expand to other sectors. In the past, export promotion institutions have focused primarily on offshore activities, such as information gathering, market research, trade representation abroad, and fairs; the proposed council should add onshore activities, aimed at pricing, quality standards for exports, timeliness of delivery, outsourcing and relations among companies, supportive infrastructure services such as telecommunications and finance, and quality domestic input production unhampered by protection. The strategy should be balanced between offshore and onshore activities.

Earlier export-promoting organizations' funding has suffered from dwindling budget transfers, fees raised that had to be transferred to the Treasury, and piecemeal, badly-structured donor financing. Efforts should be made to provide adequate funding for the NEC and the TPO mainly from domestic sources, to ensure sustainability, even though donor support can initially be useful.

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[29] The launching of an essential oil plant cultivation project by RUGOFARM, assisted by ITC, is a good example. According to experts' estimates, the project could contribute to the livelihood of thousands of families, using a relatively small area in contrast with coffee. Additionally, its products are easily transportable.

Technical assistance is needed for all aspects of the new export promotion strategy, including: defining the composition of the National Export Council and the Trade Promotion Organization, and their relationship to other public and private organizations in the country; writing a master plan for implementation of the export strategy; bringing together all economic operators in the country, perhaps through a national workshop; and defining the legal status, composition, functioning and the necessary resources of new institutions to lend support to exporters. In addition, technical assistance is required for trade information, export financing, vocational training, and quality control and standards.[30]

Finally, technical assistance will be required for: preparation of in-depth studies of Burundi's export potential, and identification of new exportable products; market surveys of the sub-region and COMESA countries; and specialized work on priority sectors such as fruits, vegetables and cut flowers, processed foodstuffs, and other manufactured and semi-finished products.

Institutional reform/ Trade Facilitation: In addition to policy reforms and strategy formulation, institutional and trade facilitation reforms will be necessary, including:

a. reorganization and strengthening of customs services, and training of customs civil servants. Reform of customs services should be comprehensive and not piecemeal;

b. strengthened co-ordination of government intervention, including formulation and introduction of an Integrated Customs Tariff, enhancing the role of senior customs civil servants, and consolidation of administrative services;

c. strengthening collaboration between the Customs Department and the inspection companies;

d. introduction of computerized data exchange between various institutions including the Central Bank and commercial banks to streamline procedures for controlling financial settlements. The proposed computerization should be ambitious, learning from the lessons of successful experience of electronic trade data documentation (Singapore and Ghana);

e. adoption of a common transit regime with other COMESA countries, and computerization of transit management at the national level; and

f. introduction of the Advance Cargo Information Systems (ACIS) developed by UNCTAD, to accelerate the process of establishing a common transit system (at least along the Northern Corridor, where a specialized body has prepared the ground), to facilitate automated data exchange among the customs departments of the region (as the Tanzanian customs service has requested), and to provide operators with factual information about the shipment of goods from the ports of Mombassa and Dar Es Salaam to Burundi; and

[30] In the area of control and standards, there is already a 48-month project proposal by UNIDO for possible funding by UNDP, to find necessary solutions and help BBN assume a quality-control role. This project, or a similar one, should be approved and funded by the international community as soon as possible. If UNIDO funding is not available, it is recommended that similar assistance be lent to the BBN as part of this study. See "*Technical Assistance Project for the implementation of a standardization, certification, quality control, metrology and testing system*" (Burundi) UNIDO, July 2002.

g. enactment of reforms across the full array of customs operations.

Technical assistance needs related to institutional and trade facilitation reforms will include help with:

a. training of employees of the Ministry of Finance (customs and tax officials) and the Ministry of Trade to: (i) update Burundi trade regulations to comply with international conventions (WCO, WTO, and COMESA); (ii) assist in implementing new processes; (iii) computerize services of the two ministries, to help make them more responsive, faster in handling customs declarations and more effective in processing refunds; and (iv) develop greater coordination in combating tax evasion;
b. formulation of an Integrated COMESA Tariff to facilitate the introduction of a new viable computerization system based on ASYCUDA++ (which is an updated and expanded version of ASYCUDA currently in use);
c. designing a unified system for the identification of operators[31];
d. enhance the capacities of the Burundi Ministry of Trade and Industry to deliver certification of origin.
e. exchange of computerized banking data through electronic links; and
f. establishment of Customs Inspection Units (Brigades) for the fight against customs evasion and smuggling.

[31] The work could build on the technical assistance provided by the IMF to the Department of Taxation, Ministry of Finance, to develop a system for identification of taxpayers. The system should build on existing identification systems including the Chamber of Commerce system and Ministry of Commerce importer/exporter identification system.

CHAPTER 6

MAJOR MARKET ACCESS ISSUES AND INTEGRATION OF THE BURUNDI ECONOMY INTO THE GLOBAL ECONOMY[32]

6.1 Introduction

Burundi can significantly improve resource allocation by reforming and liberalizing its own trade regime. However, the country will not be able to take full advantage of potential gains from trade if its trading partners maintain import barriers against Burundi's existing or potential exports.

Burundi belongs to several and often overlapping regional organizations including: the African Union (AU, formerly the Organization of African Unity), the Common Market for Eastern and Southern Africa (COMESA)[33], and the Economic Community of Central African States (ECCAS)[34].

Burundi has been an original member of the WTO since July 23, 1995, after having been a contracting party to the GATT since March 13, 1965. Burundi is also a member the United Nations Organization and its agencies, the World Bank Group, and the International Monetary Fund. It has signed the Cotonou Agreement between the European Union and the ACP countries. As a least-developed country (LDC), Burundi can benefit from more special and differential treatment than that given to many developing countries. However, problems of lack of capacity have delayed Burundi's implementation of many WTO agreements, and the country has thus been unable to make full use of the trading opportunities afforded by the multilateral trading assistance.

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[32] This chapter draws on a study of the impact of regional and international trade agreements on the economy of Burundi, prepared by Mr. Tharcisse Kadede, Consultant, Economic Development Institute (EDI), Bujumbura (unpublished) April 2003.

[33] At the end of 1994, the Preferential Trade Area for Eastern and Southern Africa, in effect since 1991, became COMESA. COMESA has 20 member countries: Angola, Burundi, Comoros, DRC, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe. Lesotho, Mozambique, and Tanzania have withdrawn.

COMESA's objectives include: complete elimination of internal tariff and non-tariff barriers, followed by adoption of a Common External Tariff; free movement of labor and capital; harmonization of product standards; fiscal harmonization; and cooperation on intellectual property. On October 31, 2000, nine members met the FTA target. A full customs union is targeted by 2004., with tariffs of 0 percent on capital products, 5 percent on raw materials, 10 percent on intermediary products, and 30 percent on manufactured products.

[34] The Economic Community of Central African States (ECCAS) was established in 1985. The contemplated integration process has been at a standstill since 1992.

Burundi is also a member of the Economic Community of the Great Lakes Countries (CEPGL). However, as a result of crises in the three signatory countries (in addition to Burundi, DRC and Rwanda), the CEPGL no longer operates.

The Treaty of Abuja (Nigeria, 1991) provided for the establishment of an African Economic Community, but this is yet to come into operation

Regional and international factors will influence Burundi's trade performance over the coming years. Such factors include the evolution of COMESA, agreements reached in multilateral trade negotiations under the umbrella of the WTO (negotiations under the Doha Development Agenda[35] are underway), and Burundi's (and COMESA member states') future relations with the European Union, as Economic Partnership Agreements are negotiated to succeed the current Cotonou Agreement in 2008.

Section 6.2 of this chapter looks at market access issues at the regional level and section 6.3 focuses on market access issues in major international markets, briefly reviewing the implications of existing arrangements for Burundi's exports.

6.2 Market Access Barriers in Neighboring Countries

The pursuit of regional integration is a cornerstone of Burundi's trade policy --indeed, of its development and poverty reduction strategy. The dominant factor is Burundi's membership in COMESA: there are other regional and multilateral initiatives underway or in the offing, but they are of less immediate importance. Although regional integration is expected to be beneficial overall, there are justified concerns over possible negative impacts in the short term. These concerns relate to government revenue, which is heavily dependent on the taxation of imports, and to domestic enterprises that are ill-equipped and unprepared for intensified competition. This section provides an overview of these issues, policy recommendations, and identification of technical assistance needs.

COMESA. Burundi's participation in COMESA constitutes a major component of its strategy for integration into the global economy. COMESA currently comprises 20 states, which have agreed to promote regional integration through the development of trade as well as their natural and human resources. COMESA's program is to broaden and expand the integration process in member countries by adopting general measures to liberalize trade, over a wide range of goods and services. The internal markets of most of the COMESA countries are too small to achieve economies of scale in production and in finding markets for their products. Therefore, they formed a regional bloc, to benefit from enhanced competition, meaningful economic growth and fuller integration into a world economy that is increasingly dominated by integrated regional groupings. The intent is for COMESA to become over time (by 2020) a customs and monetary union.

The COMESA Free Trade Area (FTA) was set up to become effective on November 1, 2000; nine of its member countries were able to respect this deadline; Burundi was given a waiver to allow it to apply a 60-percent reduction on its MFN tariffs on imports from COMESA member countries. Burundi effected an 80-percent reduction as of January 1, 2003, and plans full integration into the FTA by 2004.

Intra-COMESA trade liberalization. At the time the Free Trade Area was established (in October 2000), nine countries became members after eliminating tariffs on goods originating

[35] The Doha Development Agenda was agreed by Trade Ministers at the 4th Ministerial Conference of the WTO, held in Qatar, Doha in November 2001.

from COMESA countries[36]. The remaining member countries encountered difficulties in meeting FTA requirements.

Burundi was one of the countries that had played a leading role in intra-COMESA trade liberalization: by 1993, it had already applied the agreed reductions of 60 percent of its average customs duties on imports from COMESA countries. The further reductions, which were expected to be gradual, did not reach projected magnitudes because of difficulties due to the crisis and the regional economic blockade. Burundi regularly requested and obtained exemptions from further reductions in duties.

In May 2002, after consultations with the private-sector stakeholders, Burundi announced its two-phase program for joining the FTA, namely:

a. effecting tariff reductions from 60 percent to 80 percent at the beginning of 2003; and
b. eliminating tariffs on imports from COMESA countries in January 2004.

The COMESA common external tariff (CET). Burundi also announced its commitment to apply the COMESA common external tariff (CET). The customs union should come into effect on November 1, 2004, with a common external tariff (CET) comprising four rates: zero for capital goods, 5 percent for raw materials, 10 percent for semi-finished and intermediate goods, and 30 percent for finished goods. The issues of immediate relevance are:

a. the impact on tax revenue resulting from tariff elimination within the FTA and the subsequent admission to the Customs Union;
b. the impact on the fledgling industrial sector already debilitated by the crisis, the embargo, and the freezing of co-operation.

Revenue Impact of COMESA FTA. A study[37] by the Economic Development Institute (EDI), prepared for this DTIS, shows that the customs duties collected on products coming from COMESA member states represent small fractions of the total taxes paid on foreign trade: an average of 1.3 percent from 1998 to 2002. The proportion is even more insignificant as an average share of total tax revenue: 0.55 percent. In the two years (2003 and 2004) covered by reduced customs duties on intra-COMESA imports (of 80 percent and 100 percent, respectively), the loss in tax revenue from participation in the FTA is expected to be modest. (These results will be verified and cross-checked with other models.)

According to recent estimates, the expected loss of customs revenue for 2003 and 2004 is estimated at FBu 269 million and FBu 647 million, respectively, accounting for an annual marginal loss of less than 1 percent of the total taxes and duties paid on foreign trade and only 0.3 percent of total tax revenue. This low level of loss reflects Burundi’s low level of imports from COMESA members, and the tariff preferences already in place. The value of imports from COMESA member countries from 1998 to 2002 was only 16.7 percent of the total value of Burundi’s imports, and customs duties had already been cut by an average of 60 percent prior to

[36] The nine members were: Egypt, Djibouti, Sudan, Kenya, Madagascar, Malawi, Mauritius, Zambia and Zimbabwe.

[37] Tharcisse Kadede: A study impact of Regional and International Trade Agreements on the Burundi Economy, Economic Development Institute (EDI), Bujumbura (unpublished) April 2003.

January 1, 2003. However, in the absence of strict rules of origin, there are fears that non-COMESA products may be imported duty-free, and consequently aggravate the loss of customs revenue. In the medium term, the loss of revenue could be more substantial.

Revenue Impact of a COMESA CET. The revenue collected from trade with the rest of the world (i.e. MFN normal customs rates) is relatively high both in absolute terms (FBu 8.2-12.0 billion annually from 1998 to 2002) and in terms of the proportion of total duties (an annual average of 34.3 percent of duty collected during that period) and taxes paid on foreign trade (transaction and service taxes account respectively for 33.9 percent and 14.3 percent on the average during the period under review). This is due to the preponderance of Burundi's purchases in countries outside COMESA.

Estimates of future revenue losses are based on a number of key assumptions about the commodity composition of non-COMESA imports, applied duty rates, and exchange rate movements. Variations in any of these assumptions change the outlook for revenue.

On the basis of EDI simulations, revenue losses in customs duties and other taxes following adoption of the CET would be relatively high (4.8 percent to 8.5 percent of total annual tax revenue during 2005-07).

Many LDCs that embraced trade liberalization as part of their adjustment strategies improved collection of other taxes (taxes on incomes, profits, capital gains, property, consumption, or sales) to offset the losses on international trade taxes. Burundi could explore such alternative strategies, after adoption of the CET within COMESA.

Tax reforms aimed at offsetting estimated tax losses should focus on improving administrative efficiency (including effective anti-fraud measures) and introducing new fiscal and customs procedures, better exemptions management, streamlining of the drawback scheme, and a value-added tax (VAT). These accompanying measures for tax reform could, and access to the COMESA Equalization Fund, could help offset revenue losses from Burundi's entry into the COMESA FTA and CET.

Impact of accession to COMESA on Burundi Industry. Accounting for around 16 per cent of the GDP in 2003, the Burundi manufacturing sector is still embryonic . Nearly half of the manufacturing production come from the food industry including alcoholic beverages, carbonated beverages, cigarettes, sugarcane, bread, flour milk, cottonseed oil and groundnut oil. The textile industry account 10% while handicraft and other industries represent about 25% of manufacturing sector production. Although there has been some growth since 2000 as a result of exports of beverages to neighboring countries, exports of manufactures have been very low. The average customs duty is 23.2 per cent; nevertheless, taking into account customs duty concessions, the mixed escalation of the tariff structure does not encourage investment in certain manufacturing industries. Textiles and clothing are deemed to be a nascent industry and consequently benefit from certain additional measures of protection (for example, surcharges on certain imports and a ban on imports of cotton duck).

Burundi's entrepreneurs have misgivings about the country's entry into the COMESA Free Trade Area. Many entrepreneurs doubt that the creation of the FTA will open up significant new market opportunities for their businesses; at present, these enterprises virtually confine themselves to the domestic market. Several factors shape entrepreneurs' views. These include: problems in obtaining supplies of raw materials; the narrowness of existing markets; problems in arranging adequate finance; tax burdens; and unsuitable organizational and managerial structures. Other problems contributing to the inefficiency of industrial plants include: obsolescence of machinery and equipment, lack of skilled labor, unfair competition from fraudulently imported goods, and false customs declarations.

There will undoubtedly be benefits from the creation of a COMESA FTA (and from other regional integration initiatives), as the main purpose of regional integration is to achieve greater competitiveness in economic grouping. The benefits expected from the creation of regional economic groupings include:

- The expansion of intra-COMESA trade, through trade creation and possibly trade diversion; and
- Dynamic gains, the most important of which is overcoming the narrowness of markets due to the emergence of economies of scale and promoting the industrialization of member states. Other gains can also be: greater competition among producing countries, promotion of trans-border investments and restructuring of existing industrial plants.

As industry responds to these factors, Burundi could become more attractive to external investors, which could lead to larger investment inflows, enhanced access to modern technologies, lower costs of production, and expanding employment.

The low level of industrialization of Burundi's economy is a major impediment to its competitiveness. Therefore, Burundi's membership in the COMESA FTA, and subsequently in the Customs Union, must be accompanied by internal and external measures to help industrial units maintain production. Accompanying measures could include: use of the COMESA Infrastructure Fund to correct disparities in industrial development and alleviate the costs of being landlocked; fiscal improvements and provision of credits to promote industrial activities; restructuring industrial enterprises; and improvements in the institutional framework.

To mitigate the cost of tariff reductions, the donor community, including the IMF and the World Bank, could work closely with Burundi to assess the nature and magnitude of any adjustment and compensation needs. In addition, they could assist in designing policies, institutional reforms, and investment programs that address key obstacles to trade expansion, and mitigate the impact on affected populations. Finally, the donor community could also examine ways to use and tailor lending to respond to the specific challenges posed by tariff reduction, including support of transitional policies for the sectors most harmed. Such lending could take place at the project, sector, and country levels.

Technical and financial assistance needs. The areas requiring technical and financial assistance to facilitate effective regional integration include:

a. capacity building of enterprises, perhaps through practical training in fields where there is shortage of qualified labor, such as marketing, industrial management, and computer management;
b. capacity building of the Ministries of Trade and External Relations, and possibly of civil society, through instruction about trade negotiations and World Trade Organization commitments;
c. study of the competitiveness of industries in Burundi, within the context of the COMESA CET and FTA, and suggestion of ways to improve competitiveness and modernize the industrial sector;
d. restructuring support programs for fast-disappearing industrial plants based on a clear assessment of the causes of their disappearance, such as undesirable administrative bottlenecks, inadequate business regulatory framework and infrastructure, reduced protection, and shrinking markets which could be expanded; and
e. technical assessment of the macro and micro implications of the COMESA CET and FTA, and of necessary accompanying measures to offset the revenue losses on international trade.

6.3 Market Access Issues In Developed Countries

Burundi's exports enjoy preferential market access to developed countries. In the absence of such preferences, the pattern of protection that Burundi's exports face would be identical to that of all other exporters. Many developed countries provide enhanced preference and reciprocal preference schemes.

EU preferences. Burundi has signed the Cotonou Agreement[38] between the European Union and 77 African, Caribbean and Pacific countries (ACP). Burundi, as an LDC, receives additional preferences granted by the EU under the "Everything-but-Arms"(EBA) initiative. The EBA initiative was launched in March 2001, and grants duty-free and quota-free access to all products imported from LDCs, with the exception of arms. A timetable has been set for applying preferential treatment to sugar, rice, and fresh bananas.

However, a preliminary review of the EBA (Brenton, 2003) indicated the scheme is little used, partly because the beneficiaries prefer the Lomé protocols, which seem to have less restrictive rules of origin.

US preferences. The U.S. African Growth and Opportunity Act (AGOA)[39] gives extended preferential access to Sub-Saharan African countries that meet stipulated eligibility criteria. To benefit from AGOA, a country must be deemed to be making progress towards a market economy, a multiparty system and the rule of law, the elimination of discriminatory barriers to American trade and investment, intellectual property protection, the combat against

[38] This agreement renewed the majority of on-reciprocal trade preferences already granted by the EU to the ACP countries, under successive Lome Agreements.

[39] Signed into law, May 18, 2000, and modified through AGOA-II, signed into law, August 2, 2002.

corruption, protection of human rights and labor standards, and the abolition of certain forms of child labor. Burundi does not currently meet these criteria. However, the recent peace accords may improve Burundi's chances for compliance with AGOA.

Other preferences granted. Other advanced countries that have granted limited duty-free and quota-free market access include Australia, Canada, Japan, New Zealand, Norway, and Switzerland.

Key Market-Access Issues. Burundi, a producer of primary agricultural commodities, with coffee and cotton as the major exports, and untapped potential in non-traditional horticulture exports and textiles, faces various barriers to its exports in Western markets. These barriers include: (1) high agriculture subsidies and support to domestic cotton production and export in the US and the EU; (2) tariff escalation at successive stages of processing (for example, Burundian coffee beans and final processed coffee are subject to tariffs of 7.3 percent and 12.1 percent, respectively, in the EU, to tariffs of 0.1 percent and 10.1 percent in the US, and to tariffs of 6 percent and 18 percent in Japan), particularly in textiles; (3) average agricultural tariffs (19 percent in the EU) that are much higher than tariffs on manufactures (4.3 percent in the EU); (4) high tariff peaks for some specific goods produced in developed countries (1000 percent in South Korea, 506 percent in the EU, and 350 percent in the US; (5) restrictive sanitary and phytosanitary measures; and (6) antidumping and countervailing measures.

6.4 High Priority Actions to Improve Market Access.

Weak transportation infrastructure, numerous road blocks, cross checks and controls, and security concerns appear to be the major impediments to trade within the COMESA region in the medium term. Given progress on intra-COMESA trade liberalization, steps to reduce these institutional and structural problems would be most promising for increasing regional exports. At the international level, progress on the elimination of market access barriers in developed countries, in the context of ongoing Doha Round of trade negotiations round, will eventually have a significant positive impact on Burundi's exports, and on the country's growth and development. Technical assistance and financial support from the donor community will be critical to overcoming the challenges ahead.

CHAPTER 7

BUSINESS REGULATORY ENVIRONMENT AND CONSTRAINTS FOR OPERATIONS AND GROWTH OF ENTERPRISES

7.1 Introduction

This chapter analyzes Burundi's business regulatory environment. Although Burundi's difficult and expensive access to world markets, with the consequent costliness of imported components, is offset in part by its locational advantages within Central Africa and its low labor costs, the domestic regulatory regime severely reduces the competitiveness of the country.

For most domestic enterprises the "domestic" market, where goods are sold locally or ex-factory gate with no special export activities undertaken or trade formalities met, includes Rwanda, and nearby regions of Democratic Republic of Congo (DRC) and Tanzania. The goods sold in this market include beer, textiles, soap, cooking oil, flowers and fruit, possibly sugar, and other smaller products. Burundi is an important center for informal trade with eastern DRC, where intermediaries deal in hard currencies, especially the U.S. dollar. The recent conflict in the Great Lakes region has transformed these markets, creating new niches and eliminating traditional ones; trade structure and flows will likely change further when peace and security return to the region. Some local industries, such as insecticides and concentrated emulsions, require larger markets to be profitable. At the same time, local products face foreign competition in markets near the Tanzanian border. Nevertheless, firms in Burundi in general face a narrow market, and over-investment during the economic growth of the 1980s has led significant excess productive capacity today. This capacity can supply increased regional trade.

Section 7.2 analyzes business regulatory constraints in the Investment Code, the Commercial Code, the Labor Code, and the Mining Code. Section 7.3 reviews infrastructure contraints. Section 7.4 highlights major service constraints that hinder efficient operations and the growth of enterprises. Section 7.5 offers recommendations to improve the business regulatory framework and enhance infrastructure quality and service delivery.

7.2 Business Regulatory Constraints

The Investment Code. The main business incentives are given in the Investment Code, which is described below. Overall, regulation is a serious constraint to trade in Burundi. Regulations are developed and imposed by the government with no private-sector input and often little opportunity for private-sector comment; there is no formal system for consultation between government and the private sector on regulations affecting business, though the Bankers' Association has had some input into policy change. The private sector also complains that, due to frequent changes of government, ministers dealing with regulations under development are not fully informed on issues affecting the private sector. Effective regulation has sometimes been taken up by the private sector itself, with production safety standards controlled by insurance companies, and product quality controlled by the market. However, in some cases the producer's quality standards, and hence the price that can be charged, are compromised by lower-quality counterfeited imported products.

A modern investment code is required to attract international investment and to provide local entrepreneurs with incentives to expand profitable activities. Modern investment codes specify automatic, transparent, and rapid processes that reduce or eliminate political or administrative influence over the investor's profitability analysis. Even the most liberal code will not lead a firm to invest in Burundi when the opportunity for profit is greater elsewhere, and the fiscal cost of tax and customs concessions to attract investments which would probably come to Burundi anyway should be born in mind.

The existing code, [40] in effect since 1987 and updated repeatedly (with a Ministry of Plan team beginning research for another update in 2003) has been simplified, but it does not meet modern criteria. The present Investment Code does not offer incentives to investments themselves, but an exoneration on income, property, and buildings taxes for the initial years of operation (up to eight years) and the possibility of reduced taxation in future years. This has unfavorable implications for the national treasury and helps favored entrepreneurs compete unfairly against other firms. The Code includes regional policy, with increased incentives for investment outside the Bujumbura area. It mixes investment policy with other policies in the incentives it offers. The incentives offered under the present Investment Code are well intended, but they cannot substitute for a good incentive environment, including an efficient judicial system, good infrastructure, and adequate training and schooling for workers. The Code lacks provisions for efficient implementation based on the transparency and automaticity that are essential to attract foreign investments.

The Investment Code favors "first entrants" in a sector, granting them a monopoly that locks out and discriminates against later competitors, particularly when existing capacity is deemed by the government planners to be "sufficient."

The Code requires that each investment proposal be reviewed by a National Commission on Investments. The Commission imposes requirements for clearance by several actors, unrelated to judgments of the profitability of the business plan. The composition of the Commission has changed over time. As of October 9, 2001 it included the Ministries of Plan and Development, Industry, Finance (Taxes, Customs), Environment, Agriculture, Arts and Crafts, Labor, and the sector in which the proposed project is classified, as well as the central

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[40] *Reference: Loi No 1/005 du 14 janvier 1987 portant Code des Investissements du Burundi; Décret-loi No 1/021 du 30 juin 1990 modifiant certaines dispositions de la loi No. 1/005 du 14 janvier 1987 portant Code des Investissements du Burundi ; Décret-loi No. 1/007 du 30 avril 1998 portant modification de certaines dispositions du Code des Investissements du Burundi, Décret No. 100/034 du 27 juillet 1998 portant composition de la commission nationale des investissements et fixations du plafond d'investissement dont l'octroi des avantages du Code des Investissements du Burundi relève de la compétence de cette commission; and varions ministerial ordinances modifying sections of the code to agree with the texts of other new laws and/or implementing the decrees, the most recent 9 October 2001 modifying the composition of the National Commission on Investments.*

bank, the National Guarantee Fund and a representative of the financing institution (the only potential representative of the private sector).

The Commission classifies proposals according to the size of the investment, whether the proposal is for what planners consider a "priority" sector, contribution to the national plan, the number of jobs possibly created, the products to be produced, the training offered, contribution to the balance of payments, diffusion of technology, and location (with special fiscal advantages accorded for investments outside Bujumbura and its suburbs). The Commission interprets this mix of possible contributions, to determine the level of priority of the proposed investment. Many of the conditions for according priority status, and for determining the duration of relief from various taxes, are negotiable and thus susceptible to abuse.

The Code also provides for annulling benefits in the case of violation of the Code. The form of such violations is not specified in the Code or in the implementing decrees, leaving considerable discretion in judgment of potential violations. Performance is monitored by the Ministry of Plan and the relevant sectoral ministry.

The review process is claimed by some investors to take 2 to 3 years but this was not verified in the interviews. Economic agents report delays, the need for expediting payments, and arbitrary modifications to or refusals of proposed projects. Tariff concessions have been given on a case-by-case basis to firms not included in the Code, particularly parastatal firms under their performance contracts with the government. At the end of this delay the commission may base its approval or rejection of the application on a mixture of economic and political grounds.

The Ministry of Plan has created a committee to develop a modern investment code. The work of this committee should be supported by outside technical assistance, including from the Foreign Investment Advisory Service (FIAS) of the World Bank which provides technical assistance on investment codes, to adopt a state-of-the-art investment code for Burundi.

The Commercial Code[41]. The Commercial Code was designed with World Bank assistance in 1993. It represents a remarkable improvement, but it is incomplete. The document covers: (1) a declaration of freedom of trade, including a liberal price regime which eliminated existing price controls; (2) definition and registration of traders; (3) property rights of spouses of traders; (4) bookkeeping requirements for firms; (5) registration of firms; (6) definition of and penalties for unfair competition; (7) consumer protection; and (8) enforcement of rental contracts. The Code addresses commercial enterprises, rather than commerce, itself and serves as a business code, but the code does not impose extraordinary registration requirements on firms and as such is not a constraint to firms' membership in the formal sector or to competitiveness (many of the difficulties in registering an enterprise had earlier been eliminated with clearance provided by the CCIB).

Registration with the Tribunal de Commerce is straightforward. Business operators do not complain of the difficulty of registering. However, it requires supplementary reporting for many non-business events, such as change in marital status, all rental agreements for business

[41] Décret-Loi No 1/045/ du 09/07/1993 portant dispositions générales du Code de Commerce.

space, and all liquidation of inventory. Such declarations may become a nuisance to operators. The Code also does not provide for standards (e.g. fair weight) and does not provide guidance on the regulatory treatment of monopolies. Of greater importance, however:

- there is no provision for bankruptcy;
- definitions of "unfair competition" (*concurrence déloyale*) are unnecessarily narrow, excluding monopoly and other practices beyond what is considered "fair" in other countries;
- the Commercial Code has not been harmonized with the tax and tariffs laws or with the Investment Code;
- the Code does not discuss the status of foreign firms operating in the domestic economy;
- the Code is open to varying interpretations, because no implementing texts have been published, which allows implementation to discretionary; and
- there is insufficient financing in the government budget for enforcement of the Commercial Code.

The Commercial Code could be improved by a thorough review leading to an updating to: (i) address the shortcomings faced by economic agents; (ii) make the code consistent with those of other COMESA countries; and (iii) formulate long-overdue implementing regulations and a regulatory budget so that the Code provides meaningful guidance to economic agencies.

Technical assistance from a regional team would be useful to help Burundi update the Commercial Code, and to harmonize that Code with those of other COMESA countries. Training is required for government agents who enforce the Code, and a publicity program for the private sector that is expected to comply with the Code. A review of Commercial, Bankruptcy and Labor Codes has been scheduled with World Bank financing. Legal documents have limited impact if the judiciary is not able to ensure their implementation. Therefore, technical assistance should also be provided to review the strengths and weaknesses of the judiciary system and to propose needed reforms.

The Taxation System. The sheer number of taxes, the level of taxation, and onerous administrative enforcement mechanisms, are all serious burdens on the private sector. Private operators complain that the government has concentrated on increasing its control of existing taxpayers. The *Inspection Générale des Finances*, which is charged with the internal audit of government offices, agencies, and firms, recently has extended its mandate to supervise undefined "strategic enterprises," in order to perform independent controls of private firms that have already been re-certified by the tax authorities. These controls are not undertaken as a random audit of the performance of the tax authorities, but as a duplication of effort, even though in some cases the tax authorities have not yet certified the results.

Firms also suffer from uneven enforcement of tax rules. Frontiers are porous, both for the large volume of informal trade (exports and imports) with Burundi's neighbors, and for unrecorded official trade. Customs fraud affects not only the competitiveness of those who smuggle but that of the formal sector. Firms pay a transaction tax on imported capital, trade goods and inputs; those that do not can out-compete tax-compliant firms in home and regional markets. Some imported items counterfeit the labels of local firms for use on lower-quality goods. Operators claim that fiscal fraud is increasing in response to increased pressure on the Treasury to raise revenue.

The Labor Code. Burundi's labor code provides no restriction on salary determination, and no constraints on hiring and firing. There are also no restrictions on the movement of skilled labor in Burundi. Workers receive a premium wage for assignments outside Bujumbura.

Many of the technicians operating equipment were originally trained when the equipment was first introduced, often 20 years ago, and many of these technicians are now approaching the age of retirement. Burundi needs training for skilled labor and technicians. A private-sector training needs assessment would determine the extent of the need for training.

Non-wage labor issues, such as safety, are ineffectively controlled by the government but controlled instead through the market, usually by the insurance companies of formal sector private firms

Overall, the private sector (and institutions representing private-sector interests) claims that its interests are not integrated into the formulation of policies and regulations which affect them, leading to difficulties and inconsistencies in implementation as well as a lack of awareness among private operators of the current regulatory requirements.

Besides the Investment Code, the Commercial Code, and the Labor Code, other business regulations in need for review and update include: the Mining Code, Energy Code, and Telecommunication Code.

7.3 Infrastructure Constraints

Telecommunications Costs and quality. Despite the recent growth of mobile telephony, telephone contacts within the region are unreliable and very expensive. Telecommunications is one of the most dynamic services sub-sectors, and is covered by the General Agreement on Trade in Services (GATS). Worldwide, telecommunications have become indispensable to development. Telecommunications in Burundi remain a privileged instrument of international and domestic communication, and their improvement has been part of Burundi's development strategy since independence. Generally, multilateral trade rules have contributed to developing domestic, regional and international telecommunication traffic.

Burundi's telecommunications sector regulations promote competition in both domestic and international markets. Although the market is accessible to all operators and foreign and domestic investors are treated equally, prices are still very high. Under the regulating code, foreign capital companies enjoy special advantages, including the transfer of the dividends, and of capital in the case of sale or normal cessation of activities.

As is the case for other market services, Burundi has signed trade agreements relative to telecommunications in the context of multilateral institutions, such as the WTO, the International Telecommunication Union (ITU), and COMESA.

Telecommunication institutional framework. The telecommunications sector has an operational institutional framework. The key institution is the telecommunications regulation and control agency, ARCT, under government control. The government defines and ensures the implementation of telecommunications sector policies and enforces sector regulations. Since its accession to the World Trade Organization (WTO) in 1995, Burundi has complied with and assumed rights and obligations governing the relationships between WTO member states. Burundi's telecommunications regulations appear to be compatible with its GATS commitments to promote competition.

Major constraints in telecommunications. Burundi needs to accelerate privatization of existing government-owned telecommunications, and to liberalize the telecommunication sectors, to facilitate entry and exit of firms. Other major economic constraints include: widespread poverty in Burundi, which makes telecommunications services unaffordable for a large part of the population; scarce foreign exchange, which makes it difficult for companies to import equipment to extend and improve facilities and to repay credits from foreign banks; exchange rate depreciations that increase the difficulty of repaying credits in foreign currency; obsolete tax and customs legislation; lack of specialized human resources; and weakness in communication and marketing, due to a culture that is not naturally open.

Potential strategies for telecommunication development. As most countries move towards an information-based economy, new economic development strategies must be designed and implemented. Since Burundi's economy is based on agriculture, information-technology-based social and economic development will require an approach that overcomes the constraints mentioned above. Key conditions for such an approach would include: involvement of the majority of the primarily active population in information-related activities; increasing the capacity of the population to access telecommunications-generated products and services; support for key telecommunications sub-sectors that facilitate the production and delivery of goods and services; development of the national information infrastructure towards universal access; and education and familiarization of the population with new telecommunication technologies.

Meeting these conditions will require new strategies aiming at: implementing required infrastructures; educating human resources; supporting promotion activities; creating an appropriate legal regulatory and institutional framework; and encouraging all socio-economic sectors to make optimal use of telecommunications.

Energy Costs and quality. Energy costs are high in Burundi, and the service quality is poor. Despite the abundance of potential hydroelectric capacity, electricity is expensive (under existing tariffs, large users pay high rates to subsidize household consumption) and undependable, with frequent power failures or reductions that raise costs, impose needs for backup sources of power ,and prevent the use of some industrial processes entirely. Fuel is imported and expensive, but can be obtained fairly rapidly, because it is not subject to the pre-shipment inspection system used for other imports.

Transport Costs. Landlocked Burundi is heavily dependent on sea shipment services at the ports of Dar es Salaam (1,200 km away) and Mombassa (2,050 km), on the Indian Ocean. The transport of imports and exports is frequently hampered by the closure of one or more routes to the ports, due to war, heavy rains, or technical problems. Transport is further impeded by high transport costs, abnormally long delays, and intermediate reloading. Transport costs to the coast are high because: fuel is expensive; road conditions are poor; and tolls and axle weight limits add to the number of expensive trips that transporters make.

Only road transport is available for goods to and from Mombassa. Goods to and from Dar es Salaam use the railway to Kigoma and then lake transport on Lake Tanganyika from Kigoma to Bujumbura. Burundi makes extensive use of the road from Dar-es-Salaam to Kobero, via Dodoma, Singida, Nzega, and Kahama; this route is known as the Central Corridor. The lake is also the prime transport corridor to Kalemie, in the Democratic Republic of Congo (DRC), and Mpulungo, in Zambia. During the colonial era and immediately after independence, Burundi used the port of Matadi, in the DRC, and Lobito, in Angola, as well as railways to Kalemie. Transport from Kalemie to Bujumbura was by boat. Over the years, the importance of these links has declined. At the end of apartheid in South Africa, and of the war in Mozambique, economic operators started using, albeit timidly, the ports of Beira, Durban and Cape Town. These ports increased in importance during the embargo period.

Road transport. Road transport is costly, and trucks are expensive. Competition from foreign trucks is strong, even on domestic routes, and Burundi's trucks are not authorized to serve markets abroad. To survive, Burundi's truck companies engage in price wars on the domestic market, and their prices often do not reflect actual operation costs.

Lake transport, on Lake Tanganyika. Traffic on Lake Tanganyika is carried by four Burundian companies, Arnolac, Batralac, Sotralac and Tanganyika Transport. Burundi's fleet has a low capacity, and is composed of ancient vessels, some of which are more than 100 years old. Burundi has no naval yard, and the risk and cost of accidents is high. The naval yard in Kalemie has not been in operation for several years, while Kogima's yard is overloaded and gives priority to Tanzanian boats.

Administered prices are applied to lake transport: there is no price competition among fleet owners.

The port of Bujumbura is well equipped with a total capacity of 400,000 tons per year, although the maximum achieved so far was 283,000 tons in 1991. Capacity depends largely on rotation, and the capacity could be doubled if double-shifting was practiced. Therefore, the port of Bujumbura could better achieve its objectives if its status was changed to that of a free port. The port of Bujumbura has problems with dredging, and with of four aging crates that date back to 1960. To complicate matters, the EPB, the company that operates the port of Bujumbura, has only a ten-year concession and has little incentive to undertake large investments.

Air access. There is no scheduled air freight service between Burundi and its external markets. Existing air freight services are irregular and unpredictable; in addition, they are expensive, with high costs both in Burundi and at transit locations such as Kenya and Uganda. To reduce the cost and increase the availability of air freight requires full plane-load shipments in both directions for direct flights and minimum delay through transshipment points for others; Burundi has had little success in arranging even modest direct air freight services to Europe. Bulk freight continues to move slowly by lake and railroad. The costs will likely be little changed by entry into COMESA, although competition may reduce road transport fees.

Transport operators and producers blame each other: transporters explain that there are no scheduled flights because there are no products to ship, and producers counter that they cannot produce without being sure of finding airplanes. Therefore, the strategy is to define where to start: first make the airplanes available, and then the products, or vice-versa.

One of the solutions that has been contemplated is the creation of a Europe-Bujumbura route. Air Burundi would be the marketing agent of this route in partnership with an air operator capable of making an airplane available for a weekly rotation. This strategy would require financial support exceeding € 1 million for a period of two years. A feasibility study should be conducted to specify the quality and capacity of the airplane as well as export tariffs.

Bujumbura's international airport is generally in good condition and well-maintained. The terminal has been well designed and has enough capacity. However, there are a few deficiencies: the control tower is not tall enough; the landing strip is cracked; and communications are not efficient. No survey of the landing strip has taken place for over 18 years, although such surveys should take place every 10 years, to ensure flexible pavement. The distance-measuring equipment is more than 20 years old and does not guarantee the security of aircraft. The ILS system was installed in 1984, but does not meet the standards recommended by ICAO. In addition, the airport's warehousing equipment is not adapted to the handling of garden fruit and vegetable products; in particular, it lacks an export warehouse with cold chambers.

Deteriorated Physical Capital. The average age of the capital stock of Burundi business exceeds 10 years, with some equipment over 20 years old. Most of the capital stock of industrial enterprises was obtained during a growth period from 1975 to 1988. Since then, due to Burundi's political crisis, the embargo, and foreign exchange rationing, there has been only modest upgrading or replacement of capital equipment. Equipment is often outdated or worn out, and may have been designed originally for a scale of production greater than current demand in the reduced local market.

For some firms, a fully depreciated capital stock has increased competitiveness. For others, however, the lower capital cost is offset by higher operating costs or lower product quality. Many technologies in use are more energy-intensive than current techniques, which raises operating costs for Burundian firms above costs in neighboring countries. The products of some processes are not acceptable as inputs to manufacturing that requires consistent quality (for instance, dyeing processes for cloth to be transformed into clothing for an export market). Burundian technology does not embody recent advances in environmental protection, which imposes local externalities.

The extreme change in the economic environment since 1988 (when the existing Investment Code became effective) discouraged new investment (including foreign investment), as well as replacement, upgrading, and maintenance of existing machinery. Many modern machines and processes require economic infrastructure, such as a reliable electric supply, that is unavailable in Burundi.

7.4 Service Constraints

Credit Costs and Availability. Financing is more expensive and unreliable in Burundi than it is in other countries. Entrepreneurs report that the execution of financial transactions such as letters of credit is relatively swift and reliable, but the paperwork requirements, plus the costs of other financial services, reduce competitiveness. Nominal annual interest rates on loans from the commercial banks' own resources of range from 17.5 to 25 percent, as the result of: (a) the central bank's limitations on its rediscounting in order to maintain macroeconomic stability; (b) government "crowding out" of private lending by its borrowing from the banks and by its issuance of treasury bonds, some of which are in arrears on interest; and (c) the depreciation risk associated with financing in Burundi francs. Bank credit is only available for short-term and working capital lending. The BRB continues to impose credit ceilings on banks as part of its control of the money supply, though credit rationing is a poor form of allocation of resources among potential borrowers.

The lack of equity financing from foreign or domestic sources, high interest rates, and the absence of medium- and long-term debt finance, are the principle obstacles to new investment, which even the most permissive investment code could not overcome. Existing firms also are in a difficult position: many invested during the boom of the 1980s, but now, with the country in a post-conflict recovery, they are able neither to finance expansion internally nor to borrow for the medium term at affordable interest rates.

Inefficiency of the financial system. The number of banks and financial institutions has expanded significantly in Burundi since independence in 1962. The financial sector now comprises eight banks, and nine non-bank financial Institutions.

All banks have agencies outside of Bujumbura, but the number of their agencies remains insufficient. Only 12 communes out of 114 have a bank agency.

The financial sector can be an engine of growth in productive activities and the private sector of the economy, provided it can finance profitable investments. Making the financial sector responsive and efficient is a prerequisite to growth and development of the economy. Financing of foreign trade, on competitive terms, is especially critical.

The government has implemented policies to liberalize the banking sector. Domestic and foreign investors are treated equally: a bank may be constituted with Burundian capital, foreign capital, or a mixture of both. In addition, government regulations give advantages to companies with foreign capital, including permission to repatriate interest on invested capital, or the entire investment, in case of divestiture or normal termination of activities, when the central bank has a comfortable level of foreign exchange. Two banks --BANCOBU and BCB -- have foreign minority shareholders, of 49 percent each.

The central bank, under the authority of the Ministry of Finance, regulates the banking sector. It approving banks' formation or suspends their activities in case of non-compliance with national banking regulations.

Financial institutions may face many constraints that strongly limit their ability to extend medium- and long-term credits. These constraints include: insufficient liquidity; central bank regulations and requirements; scarcity of resources for long-term lending (as well as risks associated with such lending activities); and inflation rates and exchange rates that constantly erode the value of the national currency. The combination of these factors has negatively affected the economy. The resulting rise in interest rates has reduced the profitability of most investment projects, particularly long-term investments in industry, real estate, and transport. Moreover, imports are constrained by weak exports that bring insufficient foreign exchange to the country.

Like most developing countries and transition countries, Burundi has faced difficulties in the banking sector following deregulation. Liberalization of financial services should be approached prudently, to ensure that ensuing capital flows do not contribute to financial instability. Box 7.1 provides background on recent financial liberalization measures in neighboring countries.

Besides measures to generate adequate foreign exchange, measures to improve the effectiveness of the financial system would include: strengthening the central bank's monetary, credit and supervisory capacities; developing effective deposit insurance policies in case of a bank's insolvency or bankruptcy; promoting the quality of data in the banking sector; strengthening law enforcement; publishing information about accounting and audit capacity, to improve the quality of data; and simplifying the administrative procedures imposed on importers and exporters. Practical measures, such as a reduction of the interest rate with the support of the central bank, and the diversification of financial instruments offered by banks and other financial institutions, could bring more confidence to economic operators and other clients of the financial system. In parallel with the restructuring of the domestic financial sector, it would be increasingly important to identify and promote institutions such as local micro-credit providers. Increasing the effectiveness of financial intermediation will help reduce poverty and generate growth.

Box 7-1: Internationalization of Financial Services

Neighboring countries such as Uganda have already adopted reforms of their legal framework to make it more responsive, including the following reforms:

- liberalization of the capital account; and
- internationalization of financial services.

These two reforms require the convertibility of the currency, and elimination of any discrimination against foreign suppliers of financial services and their local correspondents. Such reforms serve as models of good practice for Burundi, with the necessary attendant prudence.

High interest rates reduce competitiveness in several ways. First, most Burundian firms are highly leveraged, with low equity and high debt despite the high cost of credit. This leveraging increases the financial risk of high interest rates, and reduces the return to capital when interest costs exceed the overall return on capital. In addition, local traders and contractors lack access to foreign credit sources and thus have difficulty bidding against foreign firms that are able to finance themselves less expensively on international markets. Finally, normal transactions within the country, and with suppliers abroad, incur long delays due to poor communications and poor infrastructure. During these delays, accumulating interest charges and banking fees increase the need for capital and represent a greater threat to competitiveness than suggested by nominal short-term rates.

There is little long-term credit, as existing lines administered by the government and the development bank have been largely dissipated in loans to borrowers who subsequently defaulted on their debts. In addition, there are no long-term source of deposits, such as retirement plans, insurance company assets, or housing finance institutions, that would permit banks to offer long-term credit without assuming substantial asset-liability coordination risks.

Special programs promoted by central-bank refinancing at subsidized interest rates, such as a rate of 9 percent for coffee credits to be on-lent at 12.5 percent, seem promising in theory. However, the programs have generally proved unworkable, due to administrative delays and uncertainty about access to the program. In addition, there is a danger that access to the programs will be granted, then maintained under duress, as was the case with an annual agricultural commercialization credit by a consortium of participating banks. The government has accrued arrears on guarantees covering payments not made on loans under some programs. As a result of the delays and uncertainties, private operators perceive their cost of borrowing as being the banks' market rate that is assured them, rather than the special rate for credit that may be unavailable.

Labor costs in Burundi are considerably lower than those in East and Southern Africa, for both unskilled and skilled labor. One study reports that skilled labor is available in Burundi at a cost of less than a third of that of Kenyan skilled labor. Interviews with private and parastatal companies indicate that the Labor Code is not a serious practical impediment to competitiveness. The market for skilled labor, in particular, is competitive. However, the cost of skilled labor may be higher than simple wage data would suggest. High premiums are necessary to attract skilled labor to conflict-affected areas of the country. One construction firm chooses to maintain its skilled labor force during slack periods in order to have the necessary skills when projects become available. However, many of these skills are associated with the obsolete equipment and must be upgraded as new equipment becomes available and as technicians retire.

Input Supply Constraints. Inputs are difficult to obtain. Within the country, poor roads, security roadblocks and road closures, and conflict have made provisioning an uncertain and costly undertaking. Some agricultural goods no longer reach markets in large volume. In some cases, farmers cannot obtain necessary inputs or cannot tend their fields due to insecurity or population displacements. For those who can produce, delays in transport, marketing, and market information lead to unacceptable rates of spoilage. For imported inputs, poor transport, communications, foreign exchange and financial services combine to reduce the reliability of supply for local processors. Domestic packaging is of poor quality and is more expensive than packaging imported from Kenya. However, an improved security situation will likely facilitate local supply and allow production based on local agricultural materials to recover its competitiveness.

Information is scarce in Burundi's private sector. Many entrepreneurs, particularly in Bujumbura, have access to the Internet; other data sources are not available locally. Current information on appropriate technologies, improvements or modifications in phytosanitary treatments or environmental safeguards, or market trends, is not easily available. Government agencies responsible for such information may lack the budget to obtain or to distribute it. Before the embargo a service that reported local market prices was provided with USAID financing, but this has ceased. The CCIB operates a regular radio program that broadcasts market prices, but this does not have national coverage.

7.5 High Priority Actions to Improve the Regulatory Environment, Infrastructure, and Service Delivery

The key priority for the business regulatory environment is technical assistance for a comprehensive review of the overall investment framework. The government and the private sector agree that the Investment Code is obsolete and fails to provide expected incentives to potential domestic and foreign investors. The entire business regulatory framework needs revision.

The World Bank's Foreign Investment Advisory Service (FIAS) has actively promoted best practices, which have evolved greatly in the 25 years since the Code was introduced. A team from the Ministry of Plan, charged with revising the Code, would benefit from FIAS support, technical assistance, and private-sector participation. The Investment Code, the Commercial Code, the Mining Code, the Labor Code, the Energy Code, the Telecommunication Code, and the Foreign Exchange Act all need reform and harmonization with agreed COMESA policies. The reforms should lead to a more effective, simple, transparent, and automatic business regulatory framework.

Technical assistance would also help evaluate the capacity of the Central Bank to assist commercial banks with credit risk assessment ("Centrale des risques") with centralized documentation on repayment failures, and credit risk quality, and to recommend improvements.

Finally, technical assistance will be help to address all the domestic constraints identified in this chapter, including transport infrastructure, physical capital, labor skills and costs, energy, water, telecommunication, credit finance, and foreign-exchange availability. Removal of these constraints will take many years.

Among infrastructure constraints, the weak internal and external transportation infrastructure appears to be the most important. Both domestic and international actions are needed to improve the transportation network. Domestic actions could include: a study to investigate the desirability of making Bujumbura a free port, and of rehabilitating infrastructure at Bujumbura airport; resuscitation of the naval yard project; adaptation of airport equipment to future export requirements; promotion of Burundi's trucking industry, to make it competitive with other truckers in the sub-region; deregulation of air transport; rehabilitation of roads in Burundi; and deregulation of lake transport.

International actions could include improvements to the Central Corridor between Dar es Salaam and Bujumbura, such as: rehabilitating the railway from Dar es Salaam to Kigoma; buying new rail cars; and building a road from Dar es Salaam to Bujumbura. In addition, it would be beneficial to modernize the port at Mpulungu, and to build a railway from Kasama to Mpulungu. A study of alternative access roads could help familiarize economic operators with transit conditions on access roads from Southern Africa, including the length of time required to process shipping documents, the level of port and customs charges, the number of required intermediate reloading, the status of administrative problems, the actual capacity of the port of Mpulungu, and the performance of the port of Kalemie. Finally, establishment of regular air freight links should be given high priority.

With regard to services, improving the efficiency of the financial sector appears to be the highest priority.

CHAPTER 8

REVIEW OF SECTORS WITH HIGH POTENTIAL FOR GROWTH, EXPORTS, AND EMPLOYMENT

8.1 Introduction

Agriculture provides over 94 percent of employment, and more than 50 percent of the gross domestic product of Burundi. In addition, the agriculture sector supplies 95 percent of the nation's food needs and over 90 percent of its export earnings of foreign currency. The agriculture sector is therefore the sector with the natural highest growth potential. This potential exists for both traditional and non-traditional exports[42].

Food crops, primarily for consumption by the rural families that grow them, cover 90 percent of cultivated lands; industrial crops -- coffee, tea, cotton, and sugarcane -- cover 10 percent. However, industrial crops bring in over 80 percent of Burundi's foreign exchange earnings. Livestock farming accounts only for 5 percent of GDP. Section 8.2 describes the agriculture sector. Sections 8.3 and 8.4 analyze traditional and non-traditional exports, respectively.

8.2 Background on the Agricultural Sector

The agricultural sector is dominated by traditional subsistence agriculture: it is barely diversified, and has a non-competitive production structure. The decisive factor of production is land. Access to land is becoming increasingly limited due to intense demographic pressure: household landholdings are progressively decreasing in size, which leads to the over-exploitation and degradation of arable lands. (This is a potential source of internal conflict.) Livestock farming is little integrated into agriculture and remains essentially extensive in nature. The only way to increase production when land is scarce is to adopt intensive stockbreeding methods, and to use efficient inputs, such as improved animal breeds, and mineral and organic fertilizers. The low level of monetization of the rural economy and the small size of rural markets, coupled with the narrowness of agricultural commodity markets, drastically hamper intensive agricultural production and modernization.

Despite these constraints, the agricultural sector has genuine growth potential, which must be realized to maintain real per capita production, and to underpin an active growth and poverty reduction program. Food crop production was increasing before the October 1993 crisis, higher population growth rates prevented growth of per capita income. Domestic food

[42] There is no agreed definition of nontraditional exports. Generally, in Burundi the term includes fruits, vegetables and cut flowers.

production met 95 percent of domestic food needs; the remaining 5 percent came from imports of supplementary products, such as wheat flour, dairy products, and salt.

Agriculture's derives from many factors, including: an abundant labor force; the presence of experienced and properly trained technicians; the receptiveness of farmers to intensive agriculture techniques and to modern technologies; bountiful reclaimable land (including swamps) in certain regions; adequate soil fertility in many regions; favorable rainfall, which allows for two rotational crops in certain areas; and an abundant network of rivers that can be tapped for irrigation. However, population pressures may lead to over-use of land and declining fertility.

The government's overall objective is to revive agricultural production in the near term, and to eventually exceed pre-war production levels. Specific objectives include: reviving and diversifying distribution channels for agricultural inputs; reviving agro-forestry and zoo-technical integration; developing fisheries and fish farming; reviving and diversifying cash crop production, with a view to increasing exports; diversifying the export sectors; reinvigorating coffee sector reforms; reviving the agricultural processing and conservation sector the agricultural machinery sector; assisting the development and improvement of natural resource management; mobilizing financing for activities that increase agricultural production; and monitoring and evaluating the implementation of strategies to revive the agricultural sector.

8.3 Traditional Agricultural Exports

8.3.1 The Coffee Sector: Strengths And Opportunities; Weaknesses; Elements of Revitalization Program

Background. The coffee sector suffers from: the slow pace of reform; declines in coffee quality and production quantities; of unprecedented low world coffee prices; rigid ownership, management, marketing, and processing structures; weak participation of coffee growers in decision-making; the high cost of domestic financing; and failure to tap potential external financing sources.

Burundi produces two types of Arabica coffee: *Washed* (W), using traditional hand pulpers to process cherry, and *Fully Washed* (FW), produced by modern coffee washing stations (CWS), introduced in the 1980s. In both cases, the resultant parchment is decorticated to produce green coffee.[43] The proportion of the lower-quality and unprofitable washed coffee is falling, and production is expected to be phased out by 2005.

Domestic coffee consumption is negligible; close to 100 percent of coffee production is exported. The coffee is grown without irrigation on small plots. Yields are very modest and the majority of households hold between 150 and 300 trees, each producing less than 250 grams. Between 750,000 and 800,000 rural households reportedly maintain coffee trees; however,

[43] The product ex the traditional process really is semi-washed but was always called washed. Introduction of the washing stations meant a new name had to be found, hence the somewhat unusual term "fully washed".

coffee is but one of a number of cash crops in Burundi, and it has lost ground in recent years. There are also a number of larger growers, owning thousands of trees each, but there are no commercial estates producing Arabica.[44] Burundi also produces a small amount of good-quality washed Robusta coffee with a promising market potential. Before the recent decline in international coffee prices, Burundi's coffee exports accounted for about 80 percent of its export earnings. (A fuller analysis of the coffee sector is presented in Volume II.)

Key Players: Coffee processing and exporting were nationalised in the 1970s. In the early 1990s a substantial reform program replaced the state's export monopoly with an open-outcry auction system. The state coffee authority, Office des Cafés du Burundi (OCIBU), was reconstituted and charged with the development and co-ordination of an overall industry strategy, including marketing.

OCIBU's board of directors includes government representatives, growers, processors, financiers and exporters. However, in matters such as sales programming, pricing, liberalization, and privatisation, the views of OCIBU's management (and, indirectly, of the government) usually prevail. The reform program transferred operational responsibility for the 133 government-owned coffee-washing stations to five regional management companies: Sociétés de Gestion des Stations de Lavage (SOGESTALs). Another company, la Société de Déparchage et de Conditionnement (SODECO), was created to operate the two coffee export mills at Gitega and Bujumbura[45]. Despite extensive Government intervention at all stages of processing and marketing, ownership of operating and management companies is mixed. The political crisis beginning in 1993, and the contemporaneous economic collapse, brought this government disengagement process to a halt.

Developments and Prospects. The prospects for Burundian Arabica are uncertain. Market share has been lost in world trade, where Burundi is now a marginal player. Until recently, controls to protect state investments in washing stations and export mills prevented initiatives to enter the growing market for specialty coffees; despite proven potential, Burundi does not feature in this market segment. Rigid sales programming and pricing at the beginning of the 2002-03 auction season appear to have exacerbated an existing decline in demand, causing prices for Burundi coffee to fall more than they should have, even in the current depressed world market conditions.

Burundi also has difficulties with coffee supply. Security problems have contributed to a sharp decline in the effectiveness of extension services. In addition, budgetary problems have brought cutting-edge coffee research to a halt. Finally, despite depreciation of the Burundi franc, the producer price set by government has remained unchanged for three seasons, causing a substantial loss of purchasing power in a period of decreasing coffee yields.

The coffee production and marketing chain has been financed by a consortium of local banks. The state guarantees any shortfall between the official producer price and the net sales value, and provides refinancing through the central bank, at subsidized rates. The financial

[44] One commercial estate, on the lake coast near Bujumbura, produces the washed Robusta.

[45] Following construction of these two mills, the nationalized mills were basically abandoned.

results for the last three harvests have been negative, resulting in a total accumulated deficit of FBu10.5 billion, held in the form of short-term treasury notes by the bank consortium. Arrears on payments of both principal and interest have accumulated, creating serious concern in the banking sector. However, since March 2003 the government has applied some of the funds originating from the World Bank Economic Rehabilitation Credit to help clear arrears with the commercial banks.

Beginning with the 2003-04 harvest, the government refinancing rate will increase from 10.5 percent to 15.5 percent. This is likely to translate into an interest charge of 17 to 18 percent for processors, and perhaps 20 percent for exporters. The industry cannot afford these rates, and will be forced to look for alternative financing abroad.

In reaction to a serious build-up of unsold stocks in late 2002, changes were made to the weekly export auction, to speed up sales and to reduce finance charges. It is now also possible to sell coffee for export without taking it to the auction. However, OCIBU determines when coffee is scheduled for auction and sets the minimum asking prices. When coffee is held back or bids are not accepted, then the processors bear the financial consequences, with no participation in the decision-making process.

Liberalization[46]. The preferred marketing scenario for Burundi is straightforward: individual washing stations should be permitted to market their own products. This will enable them to establish relationships with specialty importers and roasters, to 'tailor' their coffees to the requirements of such buyers, and to enter into longer-term supply contracts. Such contracts should in turn enable them to offer growers more attractive and guaranteed prices.

If there is enough competition, with growers not in debt with the buyers, the present auction system should gradually become an alternative rather than the main sales channel, and OCIBU's current price-setting role should change to a monitoring role.

Removal of state guarantees will change the way that commercial banks finance individual operators. The banks will demand sound balance sheets and adequate collateral to secure advances, as they often have not in the past. Burundi legislation deals with collateral (but not bankruptcy), but does not adequately address the security requirements of banks financing trade in commodities. The new requirements could impede access to reasonably priced credit and indirectly affect farm-gate prices.

A liberalized market also exposes the industry to price risk that is currently assumed by the state. Coffee processors and exporters will need to protect themselves against price risk, because without this protection they may not be able to obtain reasonably-priced credit. If price risks cannot be covered, then processors and exporters will have to increase margins, which will

[46] In this context, liberalization is primarily understood to mean the freeing of the producer price accompanied by the removal of state guarantees, individual freedom to negotiate credit, exposure of all participants to market forces, freedom to invest where investment is considered advantageous, freedom to compete at all levels (farm-gate purchasing, washing station operations, coffee milling, export), and the removal of bureaucratic controls on the setting of export prices.

put further pressure on farm-gate prices. Risk management opportunities do not exist in Burundi, and nor do foreign exchange regulations make provision for such transactions.

Since the late 1990s limited private investment in washing stations and export mills has been permitted, and the government has restated its commitment to liberalization and a gradual withdrawal from the sector. Associated reforms should include: strengthening of the liberalization process; opening up of the sector to new private investment in washing stations; removal of the guaranteed producer price; adapting OCIBU to monitor sales prices and marketing schedules, rather than set them; and creating instruments to address legitimate security concerns of the banking sector and to facilitate access to modern risk management. The government must make a clear statement of its commitment to further liberalization and withdrawal from the sector, and should formalize its commitment in the legal and regulatory framework.

In view of the number of households involved in coffee growing (see next paragraph), success in revitalizing and reforming the coffee sector would have an immediate positive effect on poverty reduction.

Privatization. Privatization of washing stations and coffee mills should be considered as a possible option. The debate over liberalization gives rise to the question of how the growers will share in the privatization of the state-owned coffee washing stations and coffee mills. Should the Government opt for privatization, the recommended way for growers to participate in the privatization would be through shareholdings in the companies that acquire the assets. To ensure adequate representation of growers, one attractive reform instrument is the "empowerment contract," through which the government and potential investors wishing to purchase washing stations or mills could reserve shares in the enterprise for qualifying grower organizations.

Quality Control, Promotion, and Research. The quality of Burundi coffee is good, although pests and diseases require constant attention.[47] However, because of the loss of trained staff and inadequate funding for the training of coffee professionals such as liquorers or tasters, the industry lacks the technical and marketing ability to translate high quality into increased market value.

In addition, coffee-importing countries are increasingly focusing food quality control on health and hygiene. Importers are urging producing countries to manage potential contamination risks more effectively.

Burundi has the potential to develop niche products. However, specialty coffee, even of high quality, is not immune to market forces. If there is too much quality coffee, or organic coffee, the premium for quality erodes. Part of Burundi's existing production can qualify for the specialty market if it is correctly presented and promoted. To be successful in this, Burundi's coffee sector must be able to assure continuity of supply.

[47] Antestiopsis or antestia, and Coffee Berry Disease (CBD--anthracnose). Another problem is the intermittent occurrence of potato flavor (Gout de Pomme de Terre – GPDT) that appears irregularly in coffees from the Great Lakes region.

Technical assistance recommendations. Liberalization of coffee processing should be accompanied by technical assistance to improve performance in five areas:

a. **Credit Risk management:** Technical assistance can help revise or draft legislation covering bankruptcy law, the status of collateral for bank credit, and collateral management. This should bring Burundi's legislation into line with international banking norms and standards, including the provision of necessary expertise to the responsible jurisdictions, for completion and implementation by 31 December 2004.

b. **Price Risk management**: Help create the regulatory and financial environment necessary to enable the coffee sector to use price protection and modern risk management instruments, including the development of local counterpart capacity within the Burundi financial system, for completion and implementation by 31 December 2004.

c. **Quality control:** Help develop a three-year training program for candidate coffee liquorers, headed by an internationally recruited expert liquorer to be based at the Gitega laboratory, providing courses in analytical liquoring and quality management, as well as familiarization with the functioning of the coffee trade and coffee markets, and the links between quality and value in particular. The expert liquorer would also help bring Burundi's coffee quality control service to the level of competence, in terms of human resources and equipment, necessary to deal with modern quality control issues.

d. **Promotion:** Help design carefully structured promotion activities under the leadership of a new Trade Promotion Organization. Specialty-coffee public relations representatives should be appointed in the United States and Japan, to assist the industry with the promotion of niche products, and to find coffee merchants who will facilitate entry into these specialty markets that, unlike Europe, are new to Burundi. The promotion effort should last three or four years.

e. **Research and extension:** Technical assistance is urgently needed to help prepare a long-term assistance project, as soon as security conditions permit, with a focus on extension and producer support to help obtain inputs.

8.3.2. Tea Sector

Background. Tea is Burundi's second export product, and accounts for 10 to 15 percent of export earnings. Green leaf production rose from 20,700 tons in 1997 to 44,000 tons in 2001, partly because of favourable weather, and partly because of reconstruction of the tea sector after the crisis. Production of dry tea also rose from 1997 to 2001. Developments in this sector are directly linked to poverty concerns: almost three-quarters of tea production comes from family holdings. The remaining tea production comes from plantations belonging, in part, to industrial units of the state-owned tea agency, Office du Thé du Burundi (OTB). OTB has a monopoly on the processing of green leaf into dry tea in its five factories. OTB is also responsible for supporting the tea planters to whom it supplies seeds free of charge and sells inputs such as fertilizers and herbicides on credit and cost.

Prospects. The tea sector is still entirely under state control. Tea exports, of good quality, have increased regularly in recent years, in contrast to other export sectors. Tea is marketed through auctions in Mombassa and direct sales in Dar-es-Salaam. The government intends to privatize the sector. This would require some technical assistance, to help Burundi introduce a “Burundi tea” quality label that advertises Burundi's compliance with export quality standards.

8.3.3 Cotton Sector

Background. Cotton was once the third export product, after coffee and tea. However, since 1996 virtually no cotton has been exported, and all production has been sold in the domestic market. Production has been particularly damaged by poor security and bad weather, in particular the droughts in 1998 and 2001. From 1993 to 1999, the planted area declined almost continuously, with plantations being abandoned as a result of population displacement. These developments have impacted unfavourably on poverty profiles.

The cotton sector is under state control. COGERCO, a state-owned company, is responsible for collecting and marketing raw cotton, and COTEBU, a state-owned weaving factory, sells grey and colored fabrics.

Prospects. The key issue confronting the sector is declining raw cotton production.

Burundi’s cotton is of high quality, but producer prices are low, partly because US cotton subsidies help depress international prices. In addition, excess operating capacity at COGERCO and COTEBU has increased the share of their fixed costs; to cover these costs, the companies offer prices to producers that are too low, while sales prices to domestic garment factories are too high. The most viable remedy, already considered by government, is to privatise and liberalize the cotton sector and to modernize COTEBU equipment.

Technical assistance could be contemplated at a later stage if conditions for international marketing are met. However, prospect for cotton sales are bleak. The price of cotton has declined steadily for decades, from US$ 5 per kg in 1950, to only about US$ 1 per kg in 2002. In addition, world demand for cotton has declined drastically: cotton’s share in total fiber consumption declined from 70 percent in 1960 to less than nearly 40 percent in 2002. Burundi should explore diversification options, including transformation of cotton into higher value added cotton products.

8.4 Non-Traditional Agricultural Exports

Fruits, vegetables and flowers. Burundi has climatic and geographical advantages in the production of high-quality fruits and vegetables. The production of fresh fruits and vegetables, as well as cut flowers and ornamental plants, started in the 1980s and reached 1,076 tons in 1993. These products were sold in Europe. Exports declined thereafter, to reach the insignificant level of 35 tons in 2002.

Key reasons for the decline in exports were the interruption of direct air traffic between Bujumbura and European markets, resulting in the unavailability of air freight space and longer transport times to the end consumers; and domestic security problems that made it difficult to access regional markets and ensure a regular supply of fresh products to exporters. Other reasons include: the lack of refrigerated facilities at the Bujumbura airport; the high cost of commercial credit; and the lack of quality control, trade information, and support services to exporters. However, the sub-sector has the potential to become a dynamic non-traditional export sector. Technical assistance will be required to identify solutions to the sector's problems, and to help resume regular exports to Europe, particularly out of season.

Processed agricultural products and other manufactured products. Burundi has some agro industries, such as fruits juices and beer, vegetable and fish preserves, tropical oils, essential oils, sugar, and confectionery. It also has other light manufacturing industries such as textiles, garments, leather goods, batteries, packaging (cardboard, plastics), and matches. The equipment in most industries is obsolete and factories are operating below capacity. Before the political crisis, the industrial infrastructure, primarily concentrated around Bujumbura, catered primarily to the needs of the domestic market and of neighboring areas of the Democratic Republic of Congo, Rwanda and Tanzania. Before 1993, Burundi had started exports of some cotton products to Europe but was forced to stop during the crisis. In 2002 UNIDO reviewed the possibility of restarting Burundi's industrial activities and prepared a technical assistance program for production and technology.

8.5 High Priority Actions to Promote Sectors With High Potential

Reform of the coffee sector, the pillar of the Burundian economy, is clearly the priority, starting with: introduction of modern risk management tools; privatization of processing; and liberalization of credit, investment, pricing, and marketing. The government is still heavily involved in cotton and tea production;, privatization and liberalization in these sectors, following the example of other countries in similar conditions, should be primary priorities. At the same time, the Government should actively promote diversification through support of non-traditional exports.

CHAPTER 9

INTERNATIONAL TRADE AND POVERTY LINKAGES

9.1 Introduction

Trade can help Burundi grow faster overall, while also increasing the incomes of poor households. Relationship between trade and growth has long been recognized. However, distributional issues can undermine its potential for national development. It is therefore essential to design a trade strategy that addresses both growth and poverty reduction to achieve overall development.

This chapter analyses the implications of trade for poverty reduction in Burundi. In doing so, we start by presenting a profile of the poor in Burundi: where they live, where they work, what their economic activities are and so forth. We then discuss the poverty implications of the current trade profile and path of global integration in Burundi. To help Burundi use trade to reduce poverty, we conclude our analysis with some recommendations.

9.2 Poverty Profile, PRSP Targets, and Trade

With a per-capita GDP of about US$100, Burundi is practically the poorest country in the world. Even before the conflict erupted in 1993, Burundi ranked 166 out of 174 countries with its then income per-capita of US$200. Since then, income per capita has declined to levels about one fifth of Sub-Saharan Africa average of US$450 in 2002. In 1999, over two-thirds of the Burundi population was living below the poverty line (Table 1). The incidence of poverty varies by natural region. The highest incidence of poverty is observed in the plains, followed by the eastern plateaus. In the city of Bujumbura—the main urban area in the country, poverty incidence was reported as 67 percent in 1999, compared to about 33 percent in 1992.[48]

Table 9-1: Burundi, Incidence of Absolute Poverty, by natural region, 1999.

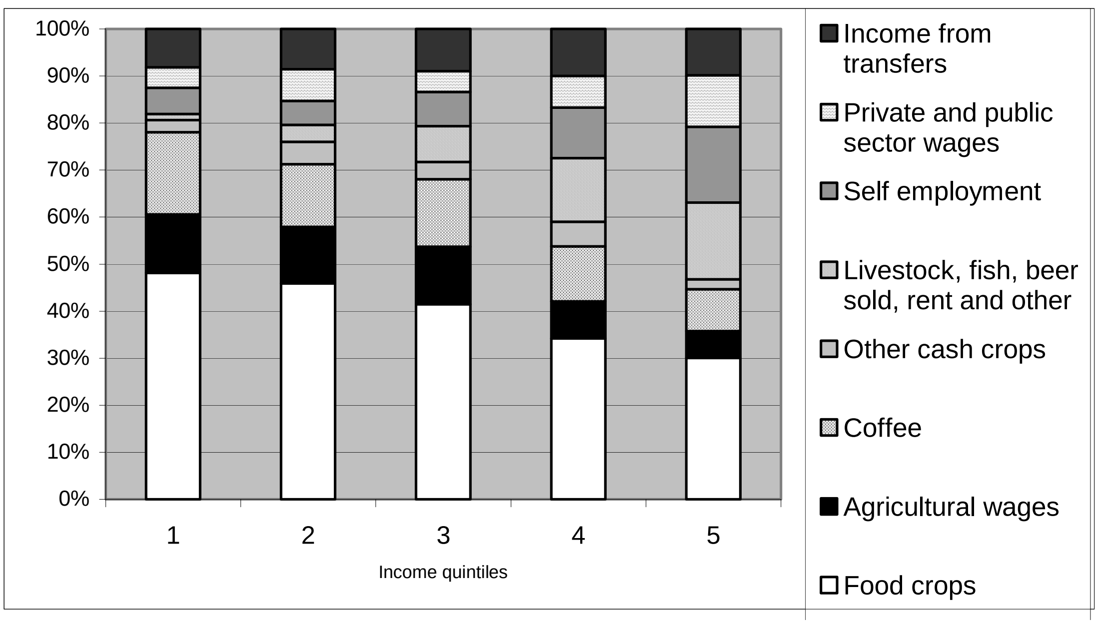
Region	Absolute poverty line in BF	Incidence of poverty
Total	**107,994**	**68.7**
Bujumbura city	410,499	67.0
Plains	91,947	75.0
Mountains and transition	91,947	66.0
Western Plateaus	91,947	65.0
Eastern Plateaus	91,947	72.0

Source: Burundi, priority survey 1998-2000, as reported in Republic of Burundi (2002).
Note: Absolute poverty is defined as the minimum cost of basic food needs and non-food essentials, for an individual for one year.

[48] Republic of Burundi (2002).

Sources of household income figure (Figure 9-1) highlight the importance of trade for the poor in Burundi. Food crops and other agricultural activities dominate as the major sources of household income, with a significant share of the tradables sector. Coffee, alone, provides up to about 20 percent of household income, especially for the poor. Though public and private sector wages also contribute about 7–8 percent of household income on average, one can easily say that the income from tradables sector comprises a major source of income in Burundi, and especially so for the poor: Taking into account the agricultural wages and income from other cash-crops, tradable agriculture sector income contributes over 30 percent of household income. This role of tradables sector as an important contributor to household income is true even when broken down across regions. Though economic activities vary across different parts of the country, the households in the poor regions, such as the eastern plateau, heavily depend on coffee, tea, and other cash crops. In the mountains, non-agricultural wages, which one can assume is from tradable agriculture production, cover an important part of the household income, especially when compared to other areas. (Table A.1)

Figure 9- 1: Burundi, Sources of household Income by Expenditure quintiles



Source: Burundi, Priority survey 1998-2000.

The key role played by the tradables sector is also evident in the employment statistics across sectors. Around 93.5 percent of the workforce is employed in agriculture, 2 percent in industry, and 4.5 percent in services and government. The coffee sector alone supports nearly half the farming population. The formal sector with 68,000 workers (in 2001), most of who are employed in the government, is fairly insignificant. [49]

In other words, trade is imperative especially for the poor in Burundi as majority of the poor derive their incomes from the tradables sector. The main economic activities outside

[49] EIU (2003).

subsistence farming and the main source of cash income are production of coffee, tea, and cotton—export agriculture. Therefore, the achievement of the poverty targets outlined in the I-PRSP will crucially depend on the performance of the tradables sector.[50]

9.3 Current Path of Global Integration and its Implications for Poverty Reduction in Burundi

Changes in trade policy and profile have clear implications for poverty. They affect not only overall growth and exports, but also the prices paid and received by the poor, the returns to the factors of production that the poor have to offer, and the resources available to the government for welfare programs.

This impact is even more significant in Burundi given the importance of the tradables sector as a livelihood source for many of the poor, as shown in the previous section. Primary sector is the largest employer contributing about 50 percent of GDP and 88 percent of exports. Furthermore, nearly 90 percent of the poor live in rural areas and active in the rural sector. Because, tradable agriculture, and coffee and tea in particular, dominate the economic activities of the poor, growth in agricultural exports is expected to have a disproportionately larger effect on poverty.

The developments during the trade embargo in 1998 and 1999 provide one general example through which international trade can affect the lives of the poor. The decreases in the demand for Burundi's exports lowered commodity prices and hence incomes of the cash crop producers. Furthermore, the embargo raised the price of non-food goods in rural areas because of the increases in import prices and the rise the price of petroleum. The high food share in the budgets of the poor rural households has cushioned the effect on the rural poor in this sense. However, in urban areas, many of the unskilled labor lost their jobs, both in the formal and the informal sector, as it became difficult to obtain supply of materials from abroad. Rapidly increasing urban prices with inflation reaching 28 percent in 1997 further eroded the real incomes of the urban poor.[51]

Another important development, Burundi's participation in the COMESA is expected to be completed soon. One of the main implications of this is future revenue loss for the government. (Chapter 6) Though this might imply a reduction in the resources available for welfare and poverty programs, the direct effects of COMESA on the poor could be quite positive on the contrary. The most important benefit, already received, is the removal of export taxes on cash crops associated with COMESA reforms. This suggests an increase in producer prices and hence an increase in incomes of the poor. After all, these taxes were on the order of 31 percent in the case of coffee alone. Furthermore, expansion of intra-COMESA trade has a potential trade

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[50] The Burundi government's I-PRSP sets its poverty reduction targets. One of the six broad strategic themes identified in the I-PRSP is "stabilizing the macroeconomic framework, and promoting faster, high quality growth to reduce poverty." To achieve this broad goal, the role of trade is highlighted at various stages during the I_PRSP. The importance of the development and promotion of exports in general, and removal of foreign trade restrictions that were reintroduced during the crisis and the embargo years, further action to reform the exchange rate policy, and liberalization of the external trade and payments system in particular, are some examples of important trade-related recommendations outlined in the I-PRSP.

[51] World Bank (1999).

and market creation impact. It would help overcome the issues implied by the small domestic market, help achieve economies of scale, while also facilitating trans-border investment.

The dominance of the role of tradables in providing the livelihoods of the poor and therefore the poverty implications of developments in this sector are even more evident when analyzed at the sectoral level. Coffee is Burundi's leading export commodity; it represented about 70 percent of all exports during the 1995–2001 period.[52] Furthermore, about half of the farming population's livelihood depends on coffee. Tea is Burundi's second export product, and accounts for 10 to 15 percent of export earnings. Its production has expanded significantly between 1997 and 2001, as shown in Chapter 3. Like coffee, developments in this sector affect the lives of the poor as about three-quarters of tea production comes from small family holdings. Cotton, the third important cash crop in Burundi economy was once the third export product, after coffee and tea. However, production declined drastically between 1993 and 1999 in this sector and virtually no exports have been reported since 1996. These declines have been caused by falling cotton prices, poor security, and bad weather conditions, in particular the droughts in 1998 and 2001. These developments as well have impacted the poor unfavorably as plantations became abandoned and population displaced.

The major policy issues in these sectors from a poverty perspective can be summarized as follows: Declining commodity prices and their volatile nature, heavy involvement of the state in marketing and pricing of the cash crops, the distortions in the world cotton prices, an overvalued domestic currency, and high transportation costs caused by the landlocked nature of Burundi as well as the problems in Burundi's transport corridors outlined in Chapter 5.

The decreases in the word coffee prices, shown in Chapter 3, not only lead to a reduction in the coffee production and exports, but also translate into lower incomes to coffee growers, majority of whom are poor. Furthermore, the volatility in the world commodity prices worsens the situation of these poor producers. Volatility not only decreases the expected level of earnings but also creates an uncertain environment, which clearly has a negative impact on welfare. However, on this latter point of volatility, it should be noted that the volatility in the prices faced by the domestic producers have been small compared to the world markets. (Figures (a) in Box 3.1 and (b) in Box 3.2 in Chapter 3) This is a result of the government policies that control the producer prices, as discussed further below.

One solution that would help smallholders facing falling commodity prices would be creating niche markets. This could be achieved through production of specialty coffee, such as organic and fair-trade coffee. Though it is unrealistic to hope that this would help all producers in this sector, it is not unrealistic to suggest that it could help at least some of them. The current premium of these niche products over regular coffee in the world markets is between 25 percent to over 100 percent, for organic and fair trade coffee respectively.[53] A simple simulation exercise show that the poor would be the major beneficiaries of an increase in returns[54] associated with

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[52] Chapter 3.

[53] Giovannuchi (2003).

[54] The rate of return increase is assumed here as 60 percent. It is based on the average premium of these specialty coffees in world markets.

switching to specialty coffee: a random switch by one fourth of the population to specialty coffee increases the cash incomes of the poor households by about 5.4 percent on average. (Table 9-2) Such a switch could decrease poverty incidence by bout 3.4 percentage points, helping as much as 140,000 people, across Burundi.

Table 9- 2: Burundi, Changes in cash income by expenditure deciles and poverty, 60% Fair-trade premium applied to 25% of the coffee growers

	1	2	3	4	5
Changes in cash income for coffee growers	8.0%	5.0%	4.8%	4.9%	4.4%
Changes in cash income across all rural households	1.8%	1.8%	2.2%	2.0%	1.8%
	Plains	Mountains	West Plateau	East Plateau	All regions
Percentage decrease in incidence of poverty	3.3%	1.5%	5.4%	4.5%	3.4%
No. of people who escape poverty	26,357	18,547	58,973	35,543	139,892

Source: Authors' calculation using the Burundi, Priority survey 1998-2000.

The heavy involvement of the state in marketing and pricing of both the coffee and the tea sectors also has its implications for poverty. Though the government controlled prices have the potential to buffer producers from falling commodity prices and their volatility, this potential looks bleak in the case of Burundi. Rigid sales programming and pricing by the parastatals at the beginning of the 2002-03, is argued to have exacerbated the decline in demand: prices for Burundi coffee fell more than the decrease in the world coffee prices. Moreover, the ratio of the controlled coffee producer prices to the world prices have been decreasing in Burundi, and currently is at about 40 percent.[55] This is quite contrary to trends in Mali, for example another Sub-Saharan economy. There, following the liberalization of domestic markets, share of producer prices domestic prices have risen from about 30 percent to over 60 percent over the last few years.

The budget problems of the government make the sustainability of government price controls more questionable. For instance, despite the devaluation of the Burundi franc in 2000, the producer prices set by government has remained unchanged for three seasons. What this meant for the poor was a substantial loss in incomes, and really, of purchasing power.

As discussed in detail in Chapter 8, IMF (2003) and (2002), liberalization in these markets seem necessary. On the one hand, liberalizing prices would help increase the share of producer prices. Furthermore, allowing individual producers to market their own products would help them establish relationships with specialty importers and roasters. This in turn would help build longer-term supply contracts offering growers more attractive and guaranteed prices. On the other hand, liberalization of these markets might hurt the poor, as it would expose them to increased price risk that is currently assumed by the state. This risk would then affect the availability of reasonably priced credit and may increase the margins of processors and exporters

[55] Chapter 3.

further pressuring the producer prices. Accordingly, the liberalization of these markets should be accompanied by creation of price protection and risk management instruments. When this counter affect can be minimized, the returns from such liberalization would be significant. Table 3 shows the results from a simple simulation exercise where producer prices are increased as a result of liberalization by 20 percent for all coffee producers. Once again, the impact on poverty and the incomes of the poor is significant. The cash incomes of the coffee farmers could increase by 7.8 percent on average, while over 63,000 people could escape poverty.

Table 9- 3: Burundi, Changes in cash income by expenditure deciles and poverty, 20% increase in Coffee Producer Prices applied to all coffee growers

	Rural				
	1	2	3	4	5
Changes in cash income for coffee growers	11.0%	7.9%	7.0%	7.2%	5.9%
Changes in cash income across all rural households	2.4%	2.8%	3.2%	3.1%	2.5%
	Plains	**Mountains**	**West Plateau**	**East Plateau**	**All regions**
Percentage decrease in incidence of poverty	2.1%	0.4%	2.6%	1.6%	1.5%
No. of people who escape poverty	17,230	5,351	27,785	12,734	63,100

Source: Authors' calculation using the Burundi, Priority survey 1998-2000

Another example on how growth in traditional exports, such as coffee can help the poor is given by the recent Ugandan experience. Changes in relative prices following exchange rate devaluations and opening markets have benefited directly the producers of tradable goods, and mostly exportable. In Uganda, between 1992 and 2000, poverty fell among both the food and the cash crop producers. However, the declines were much bigger among the latter, the export crop producers. (Table 9- 4).

Table 9- 4: Uganda, Poverty incidence by rural activity, the 1990s.

	Population share (2000)	1992	2000	Percent Reduction
Food crop	45.9	63.3	45.7	-27.8
Cash crop	21.3	62.7	29.7	-52.6

Source: World Bank, Poverty Dynamics studies as reported in Christiansen et al. (2002).

In the cotton sector, the major issue faced by the producers is the distortions in world cotton markets. While Burundi's cotton is of high quality, the cotton subsidies in the U.S. and other developed countries depress the international prices.[56] Unfortunately, these are precisely the prices that hurt those whose livelihoods depend on this sector whom also happen to be among

[56] See Chapter 6 for a detailed discussion on market access issues.

the poor in this country. World Bank (2003) shows that the world cotton prices are depressed by 20–40 percent as a result of agricultural support policies of the developed countries. A simulation exercise is carried out to looks at the effects of an increase in the producer returns by 20 percent. Unlike coffee, the overall effect is small mainly because fewer households are cotton producers. The effect on the cash incomes, however, of those who do produce cotton is still significant at about 11 percent on average. (Table 9- 5).

Table 9- 5: Burundi, Changes in cash income by expenditure deciles and poverty, 20% increase in Cotton Producer Prices applied to all cotton growers.

	1	2	3	4	5
Changes in cash income for cotton growers	6.2%	13.0%	19.2%	9.4%	6.2%
Changes in cash income across all rural households	0.0%	0.1%	0.0%	0.1%	0.0%
	Plains	Mountains	West Plateau	East Plateau	All regions
Percentage decrease in incidence of poverty	0.0%	0.2%	0.2%	0.0%	0.1%
No. of people who escape poverty	0	2,518	2,027	0	4,545

Source: Authors' calculation using the Burundi, Priority survey 1998-2000.

Another important constraint faced in the cotton sector is the monopsonist nature of the domestic market. This allow the buyer—the state, not only to decrease the price offered to producers but also to increase the sale price charged to domestic garment factories. Once again, it seems that to help increase producer prices and therefore to increase returns to poor household, liberalization becomes vital.

Two remaining core issues that pertain to the tradables sector in general are the overvalued foreign exchange rate, and the high transportation costs. Burundi has been moving towards a more flexible exchange rate regime. However, the exchange rate differential between the official and the market rates remain significant—20 percent as of July 2002.[57] The people who are most affected by this gap are those whose livelihoods depend on the tradables sector. In other words, the poor. Narrowing of this differential by improving the supply is therefore crucial for increasing producer prices. In this regard, another important element would be to liberalize the current foreign exchange repatriation system. Currently, the exporters are allowed to keep only 30 percent of the foreign exchange receipts. Given the misalignment between the official and the markets rates, this in turn means lower producer prices, hurting once again the poor. The impact of the devaluation on consumers of imported goods would be minimal given the relatively small role of imports—manufactured goods and fuel, in the consumption baskets of the poor.

Transportation costs significantly raises the prices of transported goods, affecting not only the competitiveness of Burundi but also taxing the producers and consumers: transportation costs increase the price paid by the consumers, and increase the price received by producers.

[57] IMF (2002).

Table 9- 6: Burundi, Ratio of Transportation and Insurance to Value of Exports

Southern Africa		Eastern Africa	
Swaziland	0.02	Kenya	0.13
Angola	0.08	Tanzania	0.18
South Africa	0.08	Djibouti	0.21
Nambia	0.09	Ethiopia	0.29
Lesotho	0.12	Sudan	0.29
Zimbabwe	0.15	Burundi	0.31
Botswana	0.16	Uganda	0.35
Zambia	0.17	Rwanda	0.51
Mozambique	0.28	Eritrea	.
Malawi	0.55	Somalia	.
Average over maritime	0.13	Average over maritime	0.20
Average over landlocked	0.20	Average over landlocked	0.36

Source: Faye et al. (2003). Landlocked countries are those that are highlighted.

In the case of Burundi, the significance of high transportation costs can be seen in Table 6. The ratio of transportation costs to the total value of exports is about 31 percent in Burundi compared to about 15 percent in South Africa's land-locked countries. Table 7 presents the results from a simple simulation exercise, where producer prices are increased by 15 percent following a reduction in transportation costs. The results show that potential gains from such a reduction are significant. The cash incomes of coffee producers alone could increase by as much as 8 percent, on average, and over 50,000 individuals could escape poverty.

Table 9-7: Burundi, Changes in cash income and poverty, 15% increase in Producer Prices due to a decrease in transportation costs, applied to coffee growers.

	1	2	3	4	5
Changes in cash income for coffee growers	8.2%	5.9%	5.3%	5.4%	4.4%
Changes in cash income across all rural households	1.8%	2.1%	2.4%	2.3%	1.9%
	Plains	Mountains	West Plateau	East Plateau	All regions
Percentage decrease in incidence of poverty	1.8%	0.4%	2.0%	1.4%	1.3%
No. of people who escape poverty	14,876	5,351	21,377	10,970	52,574

Source: Authors' calculation using the Burundi, Priority survey 1998-2000.

Finally, we would like to note that all of the simulation results presented here offer only a lower bound. This follows because of two main reasons: First, poverty is extreme in Burundi for many people—about 40 percent of the population. Even if the policies discussed above may not move them out of poverty, it will definitely reduce the severity of poverty. Second, an implicit assumption of the framework used for the simulations is that there is no supply response. In other words, households are assumed not to be able to change their activities in response to a price change in the short run. Therefore, this basic methodology overestimate the losses and underestimate the gains. The details of the methodology are given in Annex 2.

9.4 Concluding Remarks and Policy Recommendations

Trade is important for the poor in Burundi, and can be used as a poverty reduction tool. As discussed above, a vast majority of the coffee, tea, and cotton producers are poor. In other words, many poor households depend on the tradable sector. The income structure of the poor, the trade profile of the country, and the developments during the embargo years show that policies aimed at increasing exports are also good for the poor. If the government wants to achieve the poverty goals established in the I-PRSP, it is crucial to improve the performance of tradables sector. This improvement is also necessary to help Burundi government generate the resources needed to pay down its high debt, while working to become eligible for the HIPC initiative.

To exploit this potential of trade as a poverty reduction tool, the following policy recommendations arise:

General recommendations

- The liberalization of the foreign exchange rate markets and the correct alignment of the official rate with the world markets are important. This would not only help increase the competitiveness of Burundi in export markets, but also increase producer prices and consequently the incomes of the rural poor.
- Improvements in trade facilitation and reductions in transportation costs are vital to increase competitiveness, while also increasing producer prices and decreasing consumer prices.
- While helping Burundi's farmers diversify, it is also crucial to help generate price and risk-management instruments to buffer against volatility caused by external shocks. While government fixed prices may help in general, financial problems of the government itself make this option less sustainable as observed during the last few years.
- Burundi has an untapped potential in non-traditional horticulture exports and textiles. However, its exports in these areas presently face various constraints in Western markets. Furthermore, transportation constraints in these areas significantly demolish the viability of diversifying into horticulture exports. Though diversification is important from a risk-management perspective, focusing on traditional export growth must be a medium-term goal while looking into other areas' potential for the longer run. In this regard, the Ugandan example—discussed above provides a good benchmark.

Sectoral Recommendations

- Agriculture is the dominant activity in Burundi. However, land has been over-farmed for more than a century, which greatly diminished yields. Some environmentalists predict that arable farming will become impossible in 20 years if current trend continue.[58] Increasing yields and value-added of products by facilitating access to equipment and inputs, and implementing methods to maintain soil fertility are among the primary issues that need to be addressed. Integration and utilization of wetlands remains another important tool in this regard.
- Organic and fair trade coffee could be promoted and implemented in parts of Burundi to help smallholders facing falling commodity prices by creating a niche market. To help in this area, training programs will be necessary to inform the farmers on the details of such production and certification processes. It will also be important help generate link between producers in Burundi and buyers in developed country markets, where the demand for these commodities is increasing rapidly. The liberalization of the coffee sector is also important since the current system does not provide the necessary incentives to switch to such products as discussed at length in Chapter 8.
- Experience in other parts of the world suggests that market research for other organic products might also be useful. It could help generate income and increase economic activity. Besides, it would help maintain soil fertility by creating ways to make crop rotation feasible.
- Supporting of livestock activities and fisheries would also help generate incomes for the poor while also helping the diversification of incomes of the poor. In line with FAO recommendations, lack of preservation and system for maintenance in fishing remains the main obstacle that needs to be addresses: most of the caught fish spoilt during the rainy season due to lack of proper infrastructure.
- Development and growth in agro-processing industries and other manufactured goods, including textiles will also be crucial, especially in the medium to long term to support unskilled labor, especially in urban areas.

[58] EIU (2003).

CHAPTER 10

STRATEGY AND ACTION PROGRAM FOR MAINSTREAMING TRADE

10.1 Introduction

Burundi confronts enormous challenges. The need for reform, technical assistance, and financial assistance is large. However, corrective actions cannot all be taken at once, owing to limited international support, scarce domestic resources, and low absorptive capacity in the economy. It is critical to establish realistic priorities, beginning with actions that will quickly reduce poverty, and upon which future initiatives can be built. The proposed Action Plan presents these priorities. Implementation of proposed policy reforms as well as measures to strengthen institutional capacity are requisites to the mainstreaming of trade policy into Burundi's poverty reduction and growth strategy

Section 10.2 builds on the Action Plan matrix and summarizes the main findings and recommendations of this study. Section 10.3 highlights basic prerequisites for successful implementation of an integrated strategy. Section 10.4 suggests next steps. Section 10.5 proposes a system for monitoring and evaluating progress of the implementation of the Action Plan and the PRSP.

10.2 Key Messages

Capacity enhancement of key institutions. The following institutions should be first to be reformed or established: the Ministry of Trade and Industry, the customs administration (Ministry of Finance), a National Export Council and a Trade Promotion Organization (TPO), and the state coffee agency and other coffee-sector institutions.

The Ministry of Trade and Industry. The Ministry faces a shortage of qualified personnel and necessary equipment. Staff training is urgently needed, so that personnel will have the skills and knowledge required for participation in international trade negotiations, and in trade policy formulation, implementation, and monitoring. Moreover, trained staff will need computers and other equipment to apply their skills.

Customs administration. Reform of the customs administration should be undertaken without delay, following a thorough diagnostic study.

The installation of ASYCUDA++ (automated customs data system) should begin immediately after a thorough review and simplification of import procedures. In addition, it is important to strengthen customs operation, monitoring and control. These reforms would bring a smoother supply of imports, and would strengthen the Treasury.

Export-support institutions. Burundi's institutional capacity to support exports is inadequate. The government should build a dedicated export promotion and support structure, including the creation of a National Export Council and Trade Promotion Organization (TPO), to identify export markets (especially for non-traditional exports), inform exporters about standards and practices required in foreign markets, and provide a wide array of information about world trade developments.

Reform of the coffee sector and promotion of non-traditional exports. Coffee is the backbone of the economy, but the quantity and quality of domestic production have declined recently, and international prices are low. Institutional reforms are needed, including a renewed commitment to the liberalization of the sector and a reduction in the state's role.

Burundi needs to increase support for producers of traditional agricultural products. OCIBU should switch from price-setting to effective monitoring. The government should permit private investors to set up washing stations, more closely tailored to the needs of individual producers, that would reduce costs throughout the production chain, and strengthen the competitiveness of the sector.

To enhance and sustain coffee quality, there is a need for expertise in quality control.

In addition, the sector needs access to short-term external trade financing. This will entail reform of the legal structure, to clarify the status of collateral financial instruments, and to make provision for bankruptcies.

The huge potential for non-traditional exports, especially of fruits, vegetables, and flowers, can be realized with adequate technical assistance, financial support, and infrastructure improvement.

Reform of the business regulatory environment. The entire incentive system for business, including the Investment Code, the Commercial Code, the Labor Code, import duty exemptions and drawback provisions, requires reform. The various incentives were instituted to achieve legitimate goals, but they are not integrated into a comprehensive, simple, manageable system. They are out-dated, opaque, and generally ineffective. Reforms in this area will entail simplification, reduction of government discretionary authority, introduction of automaticity, and strengthening of institutional capacity throughout the government.

Acceleration of trade policy reforms. Burundi needs to shape policies, institutions, laws and regulations, participate fully in COMESA. COMESA can expand the market where each member's firms produce and trade. It will stimulate competition and offer economies of scale.

Simplification of the tariff structure, elimination of exemptions, and establishment of a uniformly low tariff schedule will strengthen trade and enhance government revenues.

Compliance with WTO agreements. Full adoption and implementation of the WTO agreements could help strengthen the economy and increase Burundi's competitiveness in global markets.

10.3. Areas in Need of Trade-Related Technical Assistance

Trade-related technical assistance is urgently needed for:

a. **The coffee sector**. The sector needs help with drafting legislation to cover bankruptcy law, and the role of collateral management; opening access to modern risk-management instruments; and strengthening of quality control systems.

b. **Export promotion**. Technical assistance is needed to: elaborate an export support and promotion strategy and establish an institutional structure for its implementation, such as a National Export Council and the Trade Promotion Organization (TPO); revive the sub-sector producing fruit, fresh vegetables, and cut flowers; study market openings in COMESA and the Middle East, for processed agricultural products and manufactured products; provide support for standards and quality control; and re-establish regular air freight service with Europe.

c. **Fuller implementation of WTO agreements.** The government needs help to set priorities among the recommendations, identified during the Trade Policy Review of Burundi, for Burundi's fuller participation in WTO.

d. **Customs reform**. The government needs to install the UNCTAD-developed ASYCUDA++ data system. There is also a need to: develop an integrated tariff structure; create mobile customs surveillance units; elaborate and install a system of unique enterprise identification; install an electronic system for the exchange of information among commercial banks, clients, the central bank, and concerned services; and transfer to the Chamber of Commerce the mandate of issuing certificates of origin and temporary admission carnets.

e. **Domestic investment environment.** Technical assistance can help the government modernize the Investment Code and the Commercial Code, and draft bankruptcy legislation. Any revision of the codes should insure greater consistency across codes as well as harmonization with COMESA codes, and more automatic access to provisions granted. In addition, technical assistance is needed to prepare an assessment of training needs for labor and technicians.

f. **Capacity development in the Ministry of Trade and Industry.** The ministry needs training in: modern methods and techniques of monitoring and evaluating projects and activities; modern methods of collecting, processing and analyzing industrial and technology-related information; participation in regional and multilateral trade negotiations; maintenance of production facilities; and establishing frameworks for micro-enterprises and industries. The Ministry also needs equipment and logistics.

10.4. Priority Policy Reform Programs Needed to Mainstream Trade Policy into Burundi Poverty Reduction Strategy

The priority actions needed to mainstream trade policy into Burundi's poverty reduction strategy include:

a. full implementation of the COMESA Free-Trade Area (FTA) protocol, and full alignment of Burundi's MFN tariffs with COMESA's Common External Tariff (CET);

b. better use of the potential afforded by the opening of markets, including recourse to preferential schemes in: Everything-But-Arms (EBA) in the EU; and the United States's African Growth Opportunities Act (AGOA)).

c. elimination of tariff exemptions on imports and progress towards lower , more uniform customs duties in line with COMESA CET, and implementation of related measures including: reform of the indirect transaction tax, improvement of customs and tax revenue collection capacities; and better use of special treasury checks;

d. implementation of WTO's customs valuation code;

e. removal of import surcharges, especially for textiles, termination of trade prohibitions such as those for sugar, and elimination of internal tax discrimination between imports and domestically produced goods;.

f. modernization of various business regulatory codes, including the Investment Code, the Commercial Code, the Mining Code, the Labor Code, the Telecommunication Code, and the Energy Code;

g. simplification and streamlining of the drawback scheme;

h. provision of more incentives to nontraditional exports;

i. liberalization in the key traditional agricultural export sectors of coffee, cotton, and tea;

j. continuation of the privatization process across the board with a priority on key services sectors such as: telecommunications, energy, transport, banking and financial services; and

k. elimination of all unnecessary administrative bottlenecks for trade facilitation.

10.5 Prerequisite for Success

The analysis of this Diagnostic Trade Integration Study draws on and complements on-going work in formulating an effective poverty-reduction and growth strategy. Implementing such a strategy, including an action plan for policy reform and elimination of obstacles to Burundi's integration into the global economy, will require:

a) **Consolidation in the national peace and internal and regional security situation**. Any success in meeting the challenges faced by Burundi is conditional on further progress towards peace, internal and regional security.

b) **Government ownership and shared vision of stakeholders.** Government ownership of the reform process is a second absolute condition for success. Successful implementation of reforms requires that all stakeholders, including Government institutions, the private sector, civil society, and donors, accept and support the process. This requires coordination and sustained dialogue among the various private and public actors. A series of trade-specific workshops bringing together all concerned parties to raise trade issues in the context of the PRSP will contribute to that aim.

c) **Political commitment to progress in reducing economic and financial imbalances**, through appropriate monetary, fiscal, and exchange rate policies. The Government of Burundi will need to show a sustained high level of commitment, in words and deeds, to trade and economic reforms abandoned in the last decade because of war.

d) **Enhanced coordination of implementation and monitoring of reforms**. Given the wide range of reforms envisaged in the proposed Action Plan, an effective institutional framework needs to be developed to oversee implementation. As part of the PRS, this coordination strategy should be closely linked to the PRSP Secretariat. Quarterly review of progress of ongoing actions will be essential, with priorities re-evaluated and adjusted as needed.

e) **Prioritization of Actions** will be key to maximize the returns to the overall economy.

10.6 Implementation and Progress Monitoring

Successful implementation of the proposed strategy and Action Plan will depend on the effectiveness of coordination and monitoring arrangements. The development of monitoring indicators for the economic impact of this strategy is the first step toward ensuring sustainability. The Action Plan provides action-specific monitoring indicators that will enable stakeholders to monitor progress in fulfilling each of the strategy components. In addition to these micro-level indicators, effective impact measurement will require the monitoring of a range of macro-level, socioeconomic non-oil sector indicators. Possible macro-indicators are summarized in Box 9.

Box 10-1: Checklist of Macroeconomic Indicators

Possible indicators include:

- Export of high-quality coffee, cotton, and tea
- Non-traditional export flows (exports, re-exports)
- Foreign and local direct investment
- Number of new enterprises in traditional and non-traditional sectors (gross receipts, wages and salaries, imported inputs, local expenditures)
- SME investments (value and number of enterprises) and exports
- Value-added in non-traditional sectors
- Employment in non-traditional sectors
- Greater domestic integration
- Poverty levels in rural and urban areas
- Public expenditures implemented as per agreed programs

10.5 Next Steps

This strategy and Action Plan is only the first step of the proposed reform process. Next steps toward mainstreaming trade reform include a national workshop to present findings, the Government of Burundi's endorsement, integration into the CAS and the PRSP, presentation to donors for funding, and increasing public awareness. The intent of the government is to implement reform measures as soon as possible, but timing will be linked to the availability of appropriate external financial and technical-assistance support. The next steps toward bringing this plan to fruition include:

National Workshop. Participants at a national workshop will review the findings, policy recommendations, and Action Plan of this study. Prior to the workshop, thematic pre-workshops will be organized. The purpose of the workshops is to inform stakeholders, build support, and reach consensus. The workshops should include representatives from key Government ministries and agencies, private sector business leaders (both local and foreign), the civil society, relevant NGOs, and the donor community.

Government endorsement. High-level endorsement and approval of the strategy outlined in this report will launch implementation. Endorsement of the initiatives by the government and private sector leaders -- and announcement of the initial priority projects -- will generate momentum and demonstrate the government's ownership of and commitment to the trade agenda. A public awareness-building campaign will

Presentation to donors. Burundi cannot achieve its social and economic objectives without the support of the international community. This report has identified urgent needs for trade-related technical assistance to the government. Effective communication of the strategy and its rationale will encourage donors and multilateral institutions to respond quickly and generously to these needs. Full implementation of this strategy will require substantial financial resources.

Public-awareness campaign. The campaign, using radio, TV, press, and pamphlets, will enlist the support of the populace.

Integration into the CAS and final PRSP. Following government endorsement of the strategy and action plan, it should be integrated into the PRSP as a full-fledged pillar of Burundi's Poverty Reduction Strategy, and its implementation reflected in the Bank's CAS.

Table 10-1: Strategy Endorsement And Launch

Key Event	Timeframe	Responsibility
National workshop to present findings and recommendations	November/December 2003	Ministry of Trade and Industry (MTI), Min. of Finance (MOF)
Endorsement of the strategy and agreement on priority actions	December 2003	President, PRSP, MTI MOF, MOP, & key inst.
Presentation to donors and other stakeholders	December 2003	MTI, MOF,MOP
Public awareness campaign	January 2004 forward	MTI, Min. of Communi.
Integration in CAS and PRSP	January 2004 forward	MTI, MOF,MOP

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Annexes

Annex: 1 - Burundi - Selected Economic Indicators, 1998-200

[GBT6]

	1998	1999	2000	2001	2002 Est.	2003 Prog. 1/
	(Annual percentage change, unless otherwise indicated)					
National income and prices						
Real GDP growth	4.8	-1.0	-0.9	2.1	4.5	1.1
GDP deflator	11.4	14.9	13.2	5.4	1.0	10.4
Consumer prices (period average)	12.5	3.4	24.3	9.3	-1.4	9.9
Consumer prices (end of period)	-1.0	20.7	14.1	3.9	3.3	7.5
External sector						
Export, f.o.b. (in U.S. dollars)	-26.9	-14.0	-10.7	-20.2	-23.8	63.1
Imports, f.o.b. (in U.S. dollars)	28.5	-21.3	10.8	0.5	-2.3	12.5
Export volume	-26.1	7.4	5.5	4.9	-20.7	55.7
Import volume	55.2	-1.4	1.7	4.3	-1.2	5.3
Terms of trade (deterioration -)	19.4	0.3	-22.3	-21.0	-2.8	-1.9
Real effective exchange rate (annual average; depreciation -)	-9.8	-17.0	4.0	-4.9	-15.1	...
Central government						
Revenue and grants	27.0	18.3	33.8	6.3	15.8	2.1
Revenue	47.3	8.1	32.9	12.0	7.5	6.0
Total expenditure and net lending (commitment basis)	26.8	21.6	7.0	21.3	-1.0	28.8
Noninterest current expenditure	8.6	22.7	12.1	22.5	0.8	12.9
Money and credit						
Net foreign assets 2/	-23.3	3.3	0.8	-14.0	13.9	-4.1
Domestic credit 2/	34.6	44.2	15.4	37.9	13.5	36.9
Government 2/	8.6	23.7	-18.3	22.9	-15.3	17.2
Private sector 2/	22.8	22.9	36.3	13.1	33.4	15.2
Public enterprises 2/	2.1	1.1	-1.4	1.5	1.8	-0.4
Money and quasi money (M2)	0.1	45.5	4.3	15.0	28.5	14.0
Income velocity (ratio of GDP to M2; end of period)	6.3	5.0	5.3	5.0	4.1	4.0
Central bank refinancing rate (in percent; end of period)	12.0	12.0	14.0	14.0	15.5	...
Lending rate (medium-term composite; period average; in percent)	17.6	15.2	15.8	16.8	19.4	...
	(In percent of GDP, unless otherwise indicated)					
External sector						
Current account balance 3/	-7.5	-6.1	-10.0	-6.8	-5.7	-8.1
Debt-service ratio (scheduled) 4/	76.3	76.3	83.5	104.2	162.2	96.7
Central government						

	1998	1999	2000	2001	2002	2003
					Est.	Prog. 1/
Revenue (excluding grants)	17.1	16.2	19.2	20.0	20.4	19.4
Total expenditure and net lending	23.7	25.3	24.2	27.2	25.6	29.5
Primary budget balance (excluding foreign-financed projects)	0.7	-0.8	2.2	-0.8	2.2	-1.5
Overall balance (commitment basis)						
Excluding grants	-6.6	-9.1	-4.9	-7.2	-5.2	-10.1
Including grants	-5.7	-6.6	-1.8	-5.2	-1.4	-7.3
Gross investment	9.5	8.5	8.4	8.6	8.1	11.7
Public	6.4	6.9	6.1	6.4	5.2	8.7
Private	3.1	1.6	2.3	2.2	2.8	3.0
Gross national savings	1.9	2.4	-1.6	1.8	2.4	3.6
Public	-0.1	-2.6	0.5	-1.5	-0.2	-1.8
Private	2.0	4.9	-2.1	3.3	2.6	5.3
	(In millions of U.S. dollars, unless otherwise indicated)					
External sector						
Current account	-67.5	-49.2	-70.9	-44.9	-35.4	-48.3
Overall balance of payments	-58.0	-37.2	-28.8	-37.6	-22.3	-63.2
Gross official reserves (end of period)	70.5	49.2	39.4	23.6	59.8	52.9
Gross official reserves (in months of imports, c.i.f.)	5.6	5.3	3.7	2.2	5.8	4.6
Net official reserves (in months of imports, c.i.f.)	3.4	3.3	2.5	1.6	4.2	3.1
External payments arrears	71.0	86.1	92.6	115.7	148.5	...
Memorandum items:						
Exchange rate (Burundi francs per U.S. dollar; average)	447.8	563.6	720.5	830.4	930.7	...
Exchange rate (Burundi francs per U.S. dollar; end of period)	505.2	628.6	778.2	864.2	1,071.2	...
GDP at current market prices (in billions of Burundi francs)	400.2	455.5	511.1	550.0	580.2	647.4

Sources: IMF 2003. Burundi : Use of Fund Resources- Request for Post-Conflict Emergency Assistance, Country Report No. 3/135, May 2003

1/ Financial program for 2003, as set out in IMF 2003.

2/ In percent of broad money at the beginning of the period.

3/ Includes current transfers, but excludes capital transfers.

4/ In percent of exports of goods and services.

Annex: 2 - Ongoing Trade Related Activities in Burundi
(under preparation by Kadede)

Donors	Project	Starting Date	Completion Date

Annex: 3 Basic Trade Statistics, Tables, Graphs and Charts

Table 1 **Burundi's structure of merchandise exports, 1995-2001, by destination and product**

(In thousand of US dollars and percent)

Destination	Annual Average	Percentage of Total
European Union	35,535.00	44.1
United States	3,222.25	4.0
Switzerland	10,766.28	13.4
COMESA	5,229.00	6.5
Tanzania	1,561.88	2.0
Others	24,163.59	30.0
Unspecified	17,552.50	21.1
World	80,478.00	100
Product/Commodity		
Coffee (071)	55,531.10	69
Tea (0741)	2,773.80	3.4
Cotton (263)	287.5	0.3
Ores and concentrat.	934	1.1
Gold, non-monetary	16,126	20
TOTAL of above products	75,652.40	94

Source: UN Comtrade data base

The product groups are classified by SITC Revision 2 as:

Ores and Concentrated (2879), Gold, non-monetary (9710).

Table 2 **Burundi's structure of Merchandise Imports, 1995-2001, by origin and product**
(In thousand of US dollars and percent)

Origin	Annual Average	Percentage of Total
Switzerland	1,079.40	0.68
European Union	55,362.63	34.6
United States	4,798.25	3.0
Canada	464.18	0.4
COMESA	21,149.19	13.2
Tanzania	8,042.80	5.2
Japan	7,128.41	4.5
Others	61,137.04	38.4
World	159,161.90	100.0
Product/Commodity		
Chemicals	23332.0	14.7
Machinery & transport equip.	41925.2	26.3
Fuels	20068.6	12.6
Textiles and Clothing	4851.5	3.0
TOTAL of above products	90177.3	56.7

Source: UN Comtrade data base
The product groups are classified by SITC Revision 2 as:
Chemicals (5), Textiles and Clothing (65+84), Machinery and transport equipments (7),
Fuels (3).

Table 3 **Burundi's structure of merchandise exports, 1976, 1993, 1996, 2001. By destination and product (In thousand of US dollars and percent)**

	Yearly export value, $000				Annual percentages			
Destination	**1976**	**1993**	**1996**	**2001**	**1976**	**1993**	**1996**	**2001**
EU	16,871.81	26,646.96	10,393.28	20,554.39	31.50	16.84	12.71	48.76
USA	23,746.70	263.85	48.26	46.35	44.33	0.17	0.06	0.11
COMESA	676.14	12,395.99	5,322.46	8,028.62	1.26	7.83	6.51	19.05
Tanzania	72.97	512.3	2,694.63	2,812.20	0.14	0.32	3.30	6.67
Switzerland	0	34,855.70	6,642.70	10,227.77	0.00	22.02	8.12	24.26
Others	12,195.99	83588	56675	486	22.77	53	69	1
World	53,563.61	158,263.00	81,775.83	42,155.49	100.00	100.00	100.00	100.00
Product/Commodity								
Coffee (071)	48,839.61	39,099.59	47,816.59	21,147.07	91.18	24.71	58.47	50.16
Tea (0741)	812.15	3,454.07	1,936.67	6,811.64	1.52	2.18	2.37	16.16
Cotton (263)	919.52	6,770.14	281.58	0.56	1.72	4.28	0.34	0.00
Ores and Concentrat.	7.35	655.18	606.14	3,020.42	0.01	0.41	0.74	7.16
Gold, non-monetary	0	92,294.04	24,704.28	6,291.54	0.00	58.32	30.21	14.92
Other	2985	15,990	6,431	4,884	6	10	8	12
Total of above product	53,563.61	158,263.00	81,775.83	42,155.49	100.00	100.00	100.00	100.00

Table 4 **Burundi's structure of merchandise imports, 1976, 1993, 1996 and 2001, by origin and product (In thousand of US dollars and percent)**

	Yearly import value, $000				**Annual percentages**			
Origin	1976	1993	1996	2001	1976	1993	1996	2001
Canada	595.51	562.27	248.32	373.88	1.03	0.25	0.18	0.27
USA	2,812.43	4,488.83	6,187.69	4,369.77	4.85	2.03	4.43	3.15
COMESA	4,029.82	28,717.46	13,034.76	16,574.76	6.95	12.98	9.32	11.93
Tanzania	840.72	12,792.16	3,853.37	11,336.07	1.45	5.78	2.76	8.16
Switzerland	529.34	1,656.63	401.19	751.21	0.91	0.75	0.29	0.54
EU	24,332.46	63,022.06	50,376.75	49,995.85	41.98	28.49	36.03	36.00
Japan	2,529.39	22,085.92	8,358.14	6,157.25	4.36	9.98	5.98	4.43
Others	22,292.32	87,887.10	57,343.76	49,335.89				
World	57,961.99	221,212.42	139,803.97	138,894.67	100	100	100.00	100.00
Product/Commodity								
Chemicals	4,076.99	29,514.26	17,492.18	25,130.86	7.03	13.34	12.51	18.09
Machinery and transport Equipments	16,513.75	59,540.07	39,087.29	32,474.52	28.49	26.92	27.96	23.38
Fuels	5,086.28	27,117.61	19,512.80	17,400.42	8.78	12.26	13.96	12.53
Textiles and Clothing	4,688.77	3,836.95	2,444.88	4,289.22	8.09	1.73	1.75	3.09
Total of above product	30,365.78	120,008.89	78,537.15	79,295.03	52.39	54.25	56.18	57.09

Table 5

Burundi's Structure of Merchandise Exports, 1993- 1996- 2001

Partner	Product	Export Value $'000			Export Share in %		
		1993	1996	2001	1993	1996	2001
World	All goods	158263	81776	42155	100	100	100
	Foods and Feeds	47823	54267	31500	30.22	66.30	74.72
	Sugar, sugar prep. Honey	462	3299	1210	0.29	4.03	2.87
	Coffee,tea,cocoa,spices manufactures	42561	49756	27959	26.89	60.84	66.32
	Beverages	368	290	1331	0.23	0.35	3.16
	Tobacco,tobacco manfact	3032	107	790	1.92	0.13	1.87
	Non-metallic mineral manufactures,n	1743	524	93	1.10	0.64	0.22
	Crude materials	8799	2044	3993	5.56	2.50	9.47
	Chemicals and related pd	952	1	19	0.60	0.00	0.05
	Manufactured goods	4189	582	99	2.65	0.71	0.23
EU	All goods	26647	10393	20554	16.84	12.7	48.75
	Foods and Feeds	21149	9425	10291	13.36	11.52	24.41
	Coffee,tea,cocoa,spices manufactures	20526	9343	10154	12.97	11.43	24.09
	Manufactured goods	458	5	2	0.29	0.00	0.00
	Commodities and transac tions not elsewhere clas.	4	1	6313	0.00	0.00	14.98
	Crude materials	5057	958	3939	3.20	1.17	9.34
	Crude animals and veg.	244	174	198	0.15	0.21	0.47
	Textile fibres(except wool)	4474	282	0	2.83	0.34	0.00
COMESA	All goods	12396	5322	8029	7.83	6.51	19.04
	Foods and Feeds	6406	4384	7741	4.04	5.36	18.36
	Sugar, sugar prep. Honey	454	3299	1116	0.29	4.03	2.65
	Coffee,tea,cocoa,spices manufactures	2787	422	4607	1.76	0.52	10.93
	Beverages	107	187	1254	0.07	0.23	2.97
	Tobacco,tobacco manfact	3007	107	745	1.90	0.13	1.77
	Non-metallic mineral manufactures,n	1674	521	41	1.06	0.64	0.10
	Crude materials	1412	264	52	0.89	0.32	0.12
	Chemicals/rel.products	952	1	19	0.60	0.00	0.05
	Manufactured goods	3535	559	44	2.23	0.68	0.10
	Textile yarn,fabrics	1653	26	0	1.04	0.03	0.00

Table 6

Burundi's Structure of Merchandise Imports, 1993, 1996, 2001

		Import Value ($'000)			**Import share in %**		
Partner	**Product**	**1993**	**1996**	**2001**	**1993**	**1996**	**2001**
World	All goods	221212	139804	138895	100.00	100.00	100.00
	Food and Feeds	33268	22172	18195	15.00	16.00	13.00
	Agricultural raw materials	4621	2354	3517	2.00	0.10	2.50
	Ores and Metals	3898	1822	2383	1.76	1.30	1.72
	Fuels	27118	19513	17400	12.20	14.00	12.00
	All manufacturers	149213	93617	96814	67.40	67.00	69.00
	Chemicals	29514	17492	25131	13.00	12.50	18.00
	Textiles and Clothing	3837	2445	4289	1.70	1.70	3.00
	Other Manufactures	35390	13988	19378	16.00	10.00	14.00
	Machinery and Transport Eq.	59540	39087	32475	27.00	28.00	23.30
	Misc. Manufactures	11978	17685	9996	5.40	12.60	7.20
E.U	All goods	63022	50377	49996	28.48	36.03	36.00
	Food and Feeds	9474	8552	6514	4.28	6.12	4.69
	Agricultural raw materials	1207	1589	1667	0.55	1.14	1.20
	Ores and Metals	255	113	190	0.12	0.08	0.14
	Fuels	119	44	293	0.05	0.03	0.21
	All manufacturers	51514	39947	40969	23.29	28.57	29.50
	Chemicals	12069	8477	11993	5.46	6.06	8.63
	Textiles and Clothing	665	339	468	0.30	0.24	0.34
	Other Manufactures	9093	3103	3923	4.11	2.22	2.82
	Machinery and Transport Eq.	23058	14583	17182	10.42	10.43	12.37
	Misc. Manufactures	4955	13027	6026	2.24	9.32	4.34
COMESA	All goods	28717	13035	16575	12.98	9.32	11.93
	Food and Feeds	12759	2940	3070	5.77	2.10	2.21
	Iron and Steel	2581	569	1977	1.17	0.41	1.42
	Ores and Metals	539	275	603	0.24	0.20	0.43
	Cereals and cereals prep	10942	1470	1819	4.95	1.05	1.31
	All manufacturers	11868	8874	10822	5.36	6.35	7.79
	Chemicals	2264	2681	2105	1.02	1.92	1.52
	Fuels	2065	924	1650	0.93	0.66	1.19
	Other Manufactures	5803	4102	4466	2.62	2.93	3.22
	Misc. Manufactures	592	658	720	0.27	0.47	0.52

Table 7

	Table 7 Burundi's Export Shares and Annual growth Rates for Major Merchandise Exports, 1993-1996-2001							
		Export Value ($'000)			Export Share		Annual Growth Rate %	
SITC-4	**Product**	**1993**	**1996**	**2001**	**1993**	**2001**	**1993-1996**	**1996-2001**	**1993-2001**
0341	Fish,fresh(live/dead)or chilled,exc	242.3	122	181	0.1	0.4	-20.4	8.2	-3.5
0545	Other Fresh or Chilled Vegetables	435	48	1.2	0.2	0	-52	-52.1	-52.1
0579	Fruit, fresh or dried, n.e.s	401	137	3.5	0.2	0	-30	-52	-44.7
0611	Sugars, beet and cane, raw solid	284	3200	1168	0.1	2.7	122.3	-18.2	19.3
0620	Sugar, confectionary and others	177	0	0	0.1	0	0	0	0
0711	Coffee	39100	47817	21147	24.7	50.1	6.2	-15	-7.4
0741	Tea	3454	1937	6812	2.1	16.1	-16	35.6	8.86
1123	Beer made from malt	368	290	1331	0.2	3.1	-6.89	35.6	8.86
1211	Tobacco not stripped	838	107	245	0.5	0.6	-46	18	-14.2
1212	Tobacco wholly or partly stripped	508	0	0	0.3	0	0	0	0
1222	Cigarettes	1686	0	545	1	1.3	0	0	-13.1
2112	Calf skins, raw (fresh, salted, dried	216	209	42.6	0.1	0.1	-0.9	-27.2	-18.36
2114	Goat& Kid skins,raw (fresh, salted	263	471	11	0.1	0.02	19.1	-52.8	-32.7
2631	Cotton	6770	282	0	4.2	0	-61.4	0	0
2879	Ores& concentrat.of other non-ferr	655	606	3020	0.4	7.1	-2.3	37.8	21
5541	Soap;organic surface-active prod.	951	1	0.4	0.6	0	-87.2	-16.7	-62.1
6521	Cotton fabrics, woven, unbleached	599	0	0	0.3	0	0	0	0
6522	Cotton fabrics, woven, bleached	1540	26	0.4	0.9	0	-70.6	-56.6	-64
6651	Containers/glass used for convey	1553	521	54	1	0.1	-28	-36.4	-34.2
2924	Plants, seeds fruit used in perfums	247	203	70	0.1	0.1	-5.71	-19.1	-14.5
2926	Bulbs,tubers & rhizomes of flowerin	202	26	60	0.1	0.1	-46	18.2	-14
0573	Bananas, fresh or dried	80	40	0.7	0.05	0	-18.77	-55.4	-44.7
2238	Oil seeds and oleaginous fruit.n.e	89	0	0	0.05	0	0	0	0
2771	Industrial diamonds, sorted	90	0	0	0.05	0	0	0	0
6658	Articles made of glass	154	0	0	0.09	0	0	0	0
6974	Art.commonly used for dom.purpo	144	0	0	0.09	0	0	0	0
9710	Gold, non-monetary	96294	24704	6292	61	15	-33.5	-24	-28.8
	All above products	157340.3	80747	40985	99	97	-18.1	-12.6	-15.4
0 to 9	**All goods**	158236	81776	42155	100	100	-18	-12.4	-15.2

Source: UN COMTRADE Statistics.

Table 8

		Import Value ($'000)			Import Share		Annual Growth Rate %		
SITC-4	**Product**	1993	1996	2001	1993	2001	1993-1996	1996-2001	1993-2001
0224	Milk and Cream, preserved	1,866.0	798.0	1,850.0	0.8	1.3	-22.0	32.0	-0.1
0411	Durum wheat, unmilled	1,105.0	0.0	67.0	0.5	0.0	0.0	0.0	-29.0
0422	Rice semi-milled or wholly milled	739.0	324.0	616.0	0.3	0.4	-24.0	24.0	-2.0
0460	Meal and flour of wheat and flour	4,076.0	2,063.0	1,516.0	1.8	1.0	-20.0	-9.7	-11.6
0470	Other cereal meals and flours	10,094.0	315.0	2,346.0	4.5	2.0	-68.0	95.0	-16.0
0482	Malt, roasted or not	5,835.0	6,707.0	2,811.0	2.6	2.0	4.2	-25.0	-8.7
0612	Refined sugars and others prod.	1,279.0	1,234.0	481.0	0.5	0.3	-1.1	-27.0	-11.0
0980	Edible products and preparations	2,887.0	1,925.0	2,021.0	1.3	1.5	-12.5	1.6	-4.0
2690	Old Clothing and other textiles	2,280.0	1,144.0	2,008.0	1.0	1.4	-20.3	20.6	-1.5
2783	Common salt;rock sat;sea salt;	1,155.0	923.0	1,742.0	0.5	1.2	-7.1	23.0	5.2
2929	Other materials of veg. Origin	1,457.0	687.0	241.5	0.6	0.1	-22.0	-29.0	-20.0
3341	Motor Spirit and other light oils	12,998.0	6,930.0	0.0	6.0	0.0	-19.0	0.0	0.0
3343	Gas oils	9,848.0	9,134.0	0.0	4.4	0.0	-2.4	0.0	0.0
5417	Medicaments inc. veterinary med	8,321.0	6,376.0	9,764.0	4.0	7.0	-8.4	15.0	2.0
5911	Insecticides packed for sale etc.	3,031.0	1,927.0	1,224.0	1.3	1.0	-14.0	-14.0	-10.0
6252	Tyres,pneumat.,new/used	3,483.0	1,079.0	1,246.0	1.5	1.0	-32.0	5.0	-12.0
6612	Portland cement,ciment fondu,	8,280.0	3,990.0	6,688.0	3.7	4.8	-19.0	18.7	-2.6
7111	Steam and other vapour generat	2,738.0	0.0	115.0	1.2	0.0	0.0	0.0	-32.7
7731	Insulated,elect.wire,cable,bars,st	3,948.0	1,726.0	950.0	1.7	0.6	-24.0	-18.0	-16.0
7821	Motor vehicles for transport of gds	8,811.0	6,830.0	5,323.0	4.0	4.0	-8.0	-8.0	-6.0
7849	Other parts& accessories of motor	4,698.0	3,061.0	2,285.0	2.1	1.6	-13.0	-9.0	-8.6
7810	Passenger motor cars for transp.	5,250.0	3,220.0	2,973.0	2.3	2.1	-15.0	-2.0	-6.8
8939	Misc.art.of materials of domestic	2,382.0	1,541.0	849.0	1.0	0.6	-13.0	-18.0	-12.0
5629	Fertilizers	1,780.0	1,298.0	842.7	1.0	0.6	-10.0	-13.0	-9.0
6412	Printing paper& writing paper, in r	1,605.0	922.0	280.0	1.0	0.2	-16.8	-32.0	-19.0
6783	Other tubes and pipes, of iron	2,351.0	481.0	166.0	1.0	0.1	-41.0	-30.0	-28.0
3345	Lubricating petrol.oils&other hea	2,710.0	1,530.0	0.0	1.2	0.0	-17.0	0.0	0.0
	All above products	115,007	66,165	48,405	52.0	34.8	-17.0	-9.0	-10.0
0 to 9	**All goods**	221,212	139,804	138,895	100.0	100.0	-14.0	-0.2	-5.6

Table 8 Burundi's Import Shares and Annual growth Rates for Major Merchandise Imports, 1993-1996-2001

Source: UN COMTRADE Statistics.

Table 9

Table 9 Burundi's Exports to COMESA and Export Shares for Major Merchandise Products, 1993-1996-2001

		Exports to COMESA ($'000)			COMESA Exports Sh, %		World's exports Sh	
SITC-4	**Product**	1993	1996	2001	1993	2001	1993	2001
0611	Sugars, beet and cane, raw solid	284	3200	1076	2	13.4	0.1	2.7
0741	Tea	2787	422	4567	22.5	57	2	16.1
1123	Beer made from malt	107	187	1254	0.8	15.6	0.2	3.1
1211	Tobacco, not stripped	838	107	245	6.7	3	0.5	0.6
1222	Cigarettes	1661	0	500	13.4	6.2	1	1.3
2631	Cotton	1153	0	0	9.3	0	4.3	0
5541	Soap;organic surface-active	950	1	0	7.7	0	1	0
6522	Cotton fabrics,woven,bleach.mer	1533	26	0	12.3	0	1	0
6651	Containers of glass, used for con.	1493	521	2	12	0	1	0.1
2111	Bovine& equine hides (not c	39	9	0	0.3	0	0	0
2114	Goat& kid skins,raw fresh salted	95	178	0	0.7	0	0.1	0
4242	Palm Oil	38	289	1	0.3	0	0	0
6521	Cotton fab.woven,unbleached,not	30	0	0	0.3	0	0.4	0
6583	Travellings rugs and blankets	76	0	0	0.6	0	0	0
6658	Articles made of glass,n.e.s	154	0	0	1.2	0	0	0
6911	Structures and parts of struc.;iron	37	0	0	0.3	0	0	0
6974	Art.commonly used for dom.purp.	144	0	0	1.1	0	0	0
	All above products	11419	4940	7645	92	95	12	24
0 to 9	**All goods exports to COMESA**	12396	5322	8029	100	100	7.8	19
0 to 9	**All goods exports to World**	158263	81776	42155	..	..	100	100

Source: UN COMTRADE Statistics.

Table 10

Table 10 Burundi's Imports from COMESA and Imports Shares for Major Merchandise Products, 1993-1996-2001.

SITC-4	Product	Imports from COMESA ($'000) 1993	1996	2001	COMESA Import Share (%) 1993	2001
0460	Meal and Flour of wheat and flour	509.00	527.00	414.00	1.77	2.50
0470	Other Cereals meals and flours	10,066.00	24.00	654.00	35.05	3.95
0482	Malt, roasted or not	346.00	788.00	163.00	1.20	0.98
0612	Refined sugars and other prod. Of r	1,121.00	1,051.00	444.00	3.90	2.68
3345	Lubricating petrol.oils & other hea	1,445.00	714.00	0.00	5.03	0.00
5232	Metallic salts and peroxysalts of I	238.00	269.00	9.00	0.83	0.00
5417	Medicaments (inc. veterinary medicines)	364.00	930.00	838.00	1.27	5.06
5542	Organic surface-active agents,n.e.s	351.00	420.00	272.00	1.22	1.64
5621	Mineral or chemical fertilizers, nit	416.00	0.00	21.00	1.45	0.13
5629	Fertilizers,n.e.s	287.00	644.00	13.00	1.00	0.00
6421	Boxes and bags & oth. Containers	234.00	48.00	67.00	0.81	0.40
6612	Portland cement, ciment fondu,slag	4,867.00	3,560.00	3,096.00	16.95	18.68
6732	Bars & rods of iron/steel;hollow mi	503.00	27.00	3.00	1.75	0.00
6745	Sheets & plates,rld.thickns.3mm	409.00	0.00	57.00	1.42	0.34
6749	Other Sheets and plates, of iron	709.00	242.00	957.00	2.47	5.77
6861	Zinc	249.00	0.00	3.00	0.87	0.00
7415	Air conditioning mach.self-containe	205.00	0.00	36.00	0.71	0.22
8510	Footwear	107.00	20.00	60.00	0.37	0.36
8939	Misc. art of materials of d	287.00	283.00	309.00	1.00	1.86
9310	UN Special Code	1,458.00	20.00	68.00	5.08	0.41
	All above products	24,171.00	9,567.00	7,484.00	84.17	45.15
0 to 9	**All goods imports from COMESA**	28,717.00	13,035.00	16,575.00	100.00	100.00
0 to 9	All goods imports from the World	221,212.00	139,804.00	138,895.00	..	..

Source: UN COMTRADE Statistics.

Major imports are such that total value exceeds $100 000 in 1993

Table 11

Table 11 Burundi's Direction of Trade by Major Export in 2001								
	Export Value ($'000)				Export Share in %			
	All Good	Food	Chemicals	Tobacco	All Good	Food	Chemicals	Tobacco
Partner Country/Region/Group	SITC 0-9	SITC 0	SITC 5	SITC 12	SITC 0-9	SITC 0	SITC 5	SITC 12
World	42155	29376	19	790	100	70	0.05	1.87
EU	20554	10291	0	0	49	24.41	0	0
COMESA	8029	5738	19	745	19	13.61	0.05	1.7
ECCAS	2804	1191	18	70	6.65	2.82	0.04	0.16

Source: UN COMTRADE Statistics.

Annex: 4 - Sources of Household Income, by natural regionAnnex 4: Sources of Household Income, by natural region

Urban	1	2	3	4	5
Income from food crops	5%	3%	3%	6%	5%
Income from coffee	0%	0%	0%	0%	0%
Income from other cash crops	0%	0%	0%	0%	0%
Income from fish, beer sold, rent and other sources	3%	6%	5%	7%	12%
Income from livestock and products	0%	0%	0%	2%	4%
Income from agricultural wages	7%	4%	3%	3%	4%
Income from other wage employment	46%	51%	52%	47%	34%
Income from self employment	22%	21%	25%	24%	30%
Income from transfers	16%	14%	11%	11%	11%

Rural	1	2	3	4	5
Income from food crops	48%	48%	43%	37%	37%
Income from coffee	17%	14%	16%	13%	12%
Income from other cash crops	2%	5%	4%	6%	3%
Income from fish, beer sold, rent and other sources	1%	3%	7%	12%	15%
Income from livestock and products	0%	0%	0%	0%	1%
Income from agricultural wages	13%	12%	12%	9%	7%
Income from other wage employment	4%	6%	2%	3%	3%
Income from self employment	5%	4%	8%	9%	13%
Income from transfers	8%	8%	9%	10%	9%

Plains	1	2	3	4	5
Income from food crops	61%	56%	58%	57%	54%
Income from coffee	10%	13%	17%	14%	12%
Income from other cash crops	0%	3%	3%	4%	2%
Income from fish, beer sold, rent and other sources	0%	3%	4%	6%	10%
Income from livestock and products	1%	0%	1%	0%	1%
Income from agricultural wages	12%	13%	6%	10%	5%
Income from other wage employment	3%	3%	1%	2%	2%
Income from self employment	3%	3%	5%	4%	9%
Income from transfers	10%	5%	6%	3%	4%

Mountains	1	2	3	4	5
Income from food crops	36%	47%	35%	26%	27%
Income from coffee	8%	5%	7%	3%	3%
Income from other cash crops	8%	9%	8%	9%	5%
Income from fish, beer sold, rent and other sources	1%	6%	9%	20%	24%
Income from livestock and products	0%	0%	0%	0%	0%
Income from agricultural wages	17%	10%	17%	13%	8%
Income from other wage employment	16%	6%	3%	4%	4%
Income from self employment	5%	4%	6%	10%	13%
Income from transfers	10%	13%	13%	14%	16%

West Plateau	1	2	3	4	5
Income from food crops	39%	44%	43%	34%	34%
Income from coffee	30%	28%	22%	26%	21%
Income from other cash crops	1%	1%	1%	2%	1%
Income from fish, beer sold, rent and other sources	1%	3%	5%	9%	13%
Income from livestock and products	0%	0%	1%	0%	1%
Income from agricultural wages	11%	12%	12%	7%	6%
Income from other wage employment	1%	3%	2%	2%	1%
Income from self employment	7%	4%	8%	10%	13%
Income from transfers	9%	4%	6%	10%	10%

East Plateau	1	2	3	4	5
Income from food crops	41%	44%	40%	43%	47%
Income from coffee	10%	11%	12%	21%	25%
Income from other cash crops	0%	1%	1%	1%	1%
Income from fish, beer sold, rent and other sources	2%	2%	6%	12%	13%
Income from livestock and products	0%	0%	0%	0%	0%
Income from agricultural wages	10%	10%	9%	3%	2%
Income from other wage employment	5%	3%	1%	5%	7%
Income from self employment	8%	5%	3%	10%	21%
Income from transfers	5%	10%	3%	4%	6%

Source: Authors' calculation based on Burundi, Priority survey 1998-2000.

Annex: 5 - Methodology used in the simulation exercises

Our general framework follows from Nicita et al. (2002).[59] The household is the unit of analysis. Each household has different endowments (for example, land of different qualities, number of skilled and unskilled laborers) that generate income (for example, from cash crops, food crops, from labor). The income of a household is defined as the sum of three components: i. self-employment income, which includes both the value-added from farming as well as the value-added from any other enterprises owned by the households (e.g. small enterprises engaged in trading or the provision of services); ii. wage employment, which includes all payments made by those outside the household for the labor services of members of the household, such as payments for working on someone else's farm, or the payment resulting from a non-farm job; and iii. Transfers, which refer to the net payments from the government (pensions, grants and other transfers minus any fees or taxes) as well as net transfers from other households, such as remittances.

Given income and production activities of a household, a first order approximation of the effects of a relative price change are then given simply by the change in the price times the quantity of the good originally produced. The simulation exercise results presented above show in this regard the changes in cash incomes caused by the imposed changes in producer prices. The changes in poverty numbers and incidence, are then computed using the absolute poverty lines, that are adjusted to reflect cash income levels.

Implicit in this analysis is that in the short run households cannot change their activities in response to a price change. Therefore, this basic methodology presents us with a "worst case" analysis, where we overestimate the losses and underestimate the gains because quantity response is assumed away. In reality, households are able to substitute towards the production of such goods whose price has risen, hence take better advantage of given price changes.

[59] See McCulloch (2002) for a summary and detailed discussion of this methodology.

Chart 1

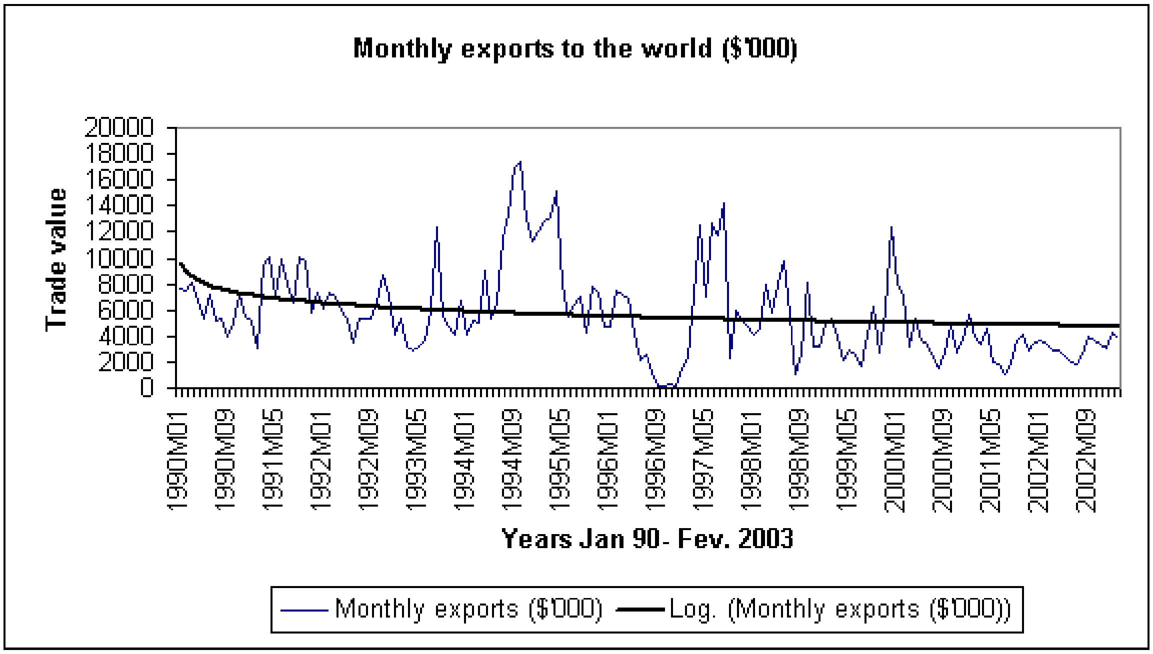
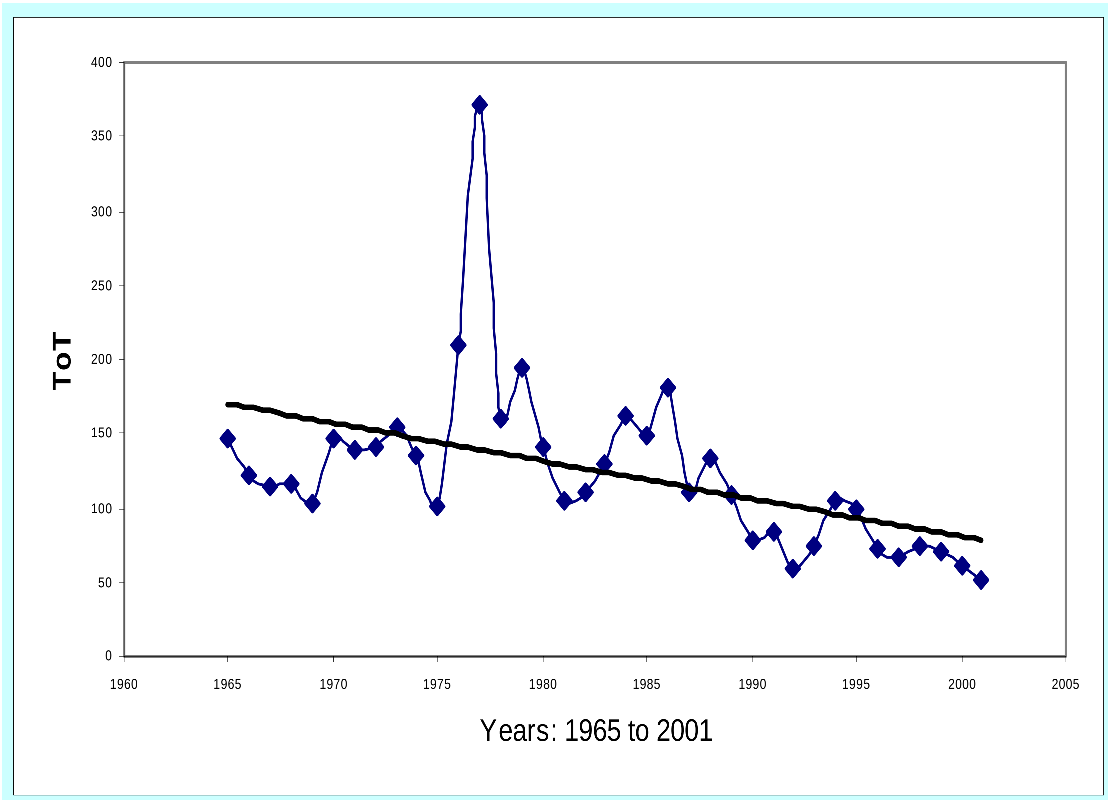


Chart 2

D

Chart 3

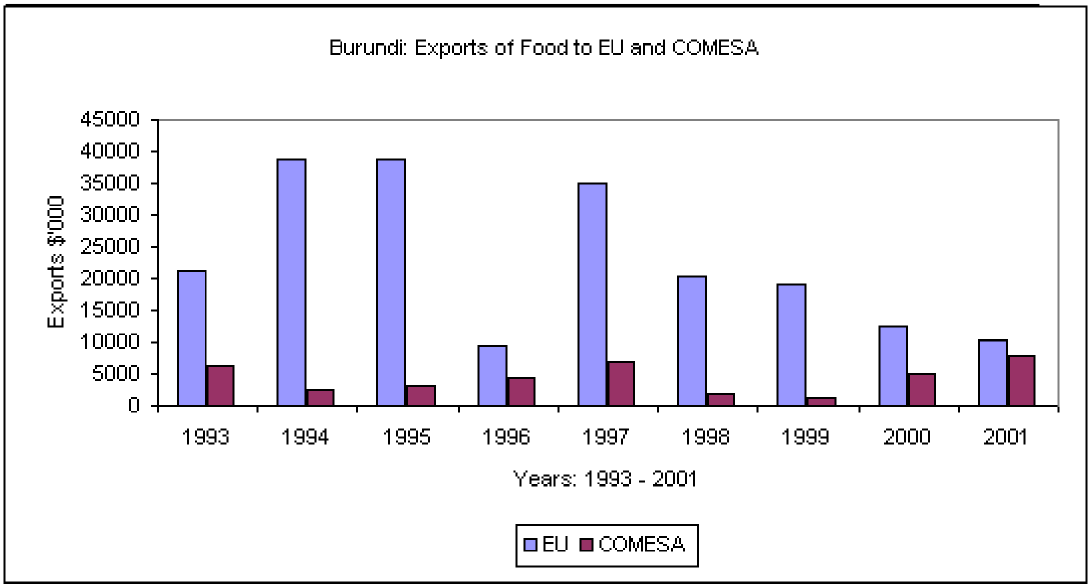
Terms of Trade



Source of Data: SIMA

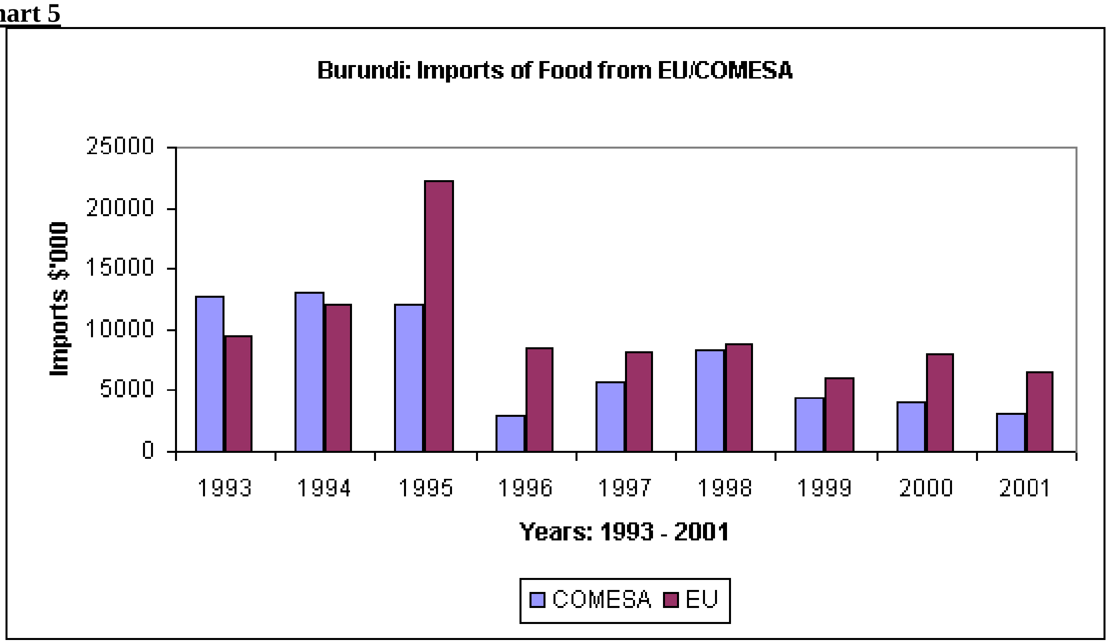
Source: SIMA Database

Chart 4



Source: ***COMTRADE Database CMT*** ***Food (0+1+22+4)*** ***SITC Revision 2***

Chart 5



Source: ***COMTRADE Database CMT*** ***Food (0+1+22+4)*** ***SITC Revision 2***