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REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED DEVELOPMENT CREDIT

OF SDR 64.9 MILLION

TO THE

REPUBLIC OF BURUNDI

FOR A

SECOND STRUCTURAL ADJUSTMENT PROGRAM

May 11, 1988

Currency Equivalents and Units

Currency unit = Burundi Franc (FBu)
Exchange rate = US$ 1.00 = FBu 123.5 (Annual average 1987)
= SDR 1.00 = FBu 159.7 (Annual average 1987)

Standards = Metric system

Fiscal Year - January 1 to December 31

Glossary of Abbreviations and Acronyms

ADF	African Development Fund
AGRIBAL	Societé Agricole du Burundi
BCC	Burundi Coffee Company
BEI	Development Budget
BNDE	National Bank for Economic Development
BO	Ordinary budget
BRB	Bank of the Republic of Burundi (central bank)
CADEBU	Burundi Savings Bank
COOPEC	Rural Cooperative of Credit
COTEBU	Textile Company of Bujumbura
FWA	Fully Washed Arabica (coffee)
IDA	International Development Association
IMF	International Monetary Fund
OCIBU	Industrial Culture Office of Burundi
ONAPHA	National Pharmaceutical Office
ONATEL	Ofice National de Telecomunications
ONL	Ofice National du Logement
OTB	Burundi Tea Office
OTRABU	Transport Company (Freight)
OTRACO	Transport Company (Passengers)
PE	Public Enterprise
PEP/PIP	Public Expenditures Program/ Public Investment Program
PHN	Population, Health and Nutrition
PTA	Preferential Trade Agreement
RDC	Regional Development Companies
REGIDESO	Public Utilities (Water and Electricity)
SAL	Structural Adjustment Lending
SAP	Structural Adjustment Program
SCEP	Service in Charge of Public Enterprises
SJF	Special Joint Financing
SME	Small and Medium Enterprise
SNES	National Service of Statistics
SOBECOV	Societé de Commercialisation de Produits Vivriers
SOGESA	Societé de Gestion des Entrepots et Silos Alimentaires
SOPUBU	Societé de Peche du Burundi
SOSUMO	Sugar Production Enterprise in Mosso
TRC	Tanzania Railway Company
WHO	World Health Organization

BURUNDI

SECOND STRUCTURAL ADJUSTMENT OPERATION

Credit and Program Summary

Borrower:	Republic of Burundi	
Amount:	IDA Credit:	SDR 64.9 million (US$90.0 million equivalent)
Co-financing:	Japanese SJF Grant:	Yen 700 million (US$5.3 million)
	Japanese SJF Loan:	Yen 1.7 billion (US$12.8 million)
	Germany SJF Grant:	DM 10 million (US$6.0 million)
	Saudi SJF Loan:	Riyals 11 million (US$2.9 million)
Terms:	IDA Credit:	Standard IDA Terms
	SJF Grants:	Non-reimbursable contribution
	Japanese SJF Loan:	Maturity: 30 years Grace Period: 10 years Interest Rate: 1.25%.
	Saudi SJF Loan:	Maturity: 50 years Grace Period: 10 years Interest Rate: 1.00%.

Description: The proposed financing is intended to support the next phase of the Government's structural adjustment program initiated under the First Structural Adjustment Operation. The main objective of the program is to accelerate economic growth and increase per capita income and consumption levels, by reorienting the economy towards a path with more reliance on market forces and a greater outward orientation. It consolidates the policies already adopted and reinforces the adjustment process by additional measures. The economic program supported by SAL I emphasized the rationalization of the incentive structure -- to improve resource allocation and remove the bias against exports -- and increasing the efficiency of public resources utilization. Policy performance has been positive and in line with the program. In addition to fiscal and monetary stabilization efforts, most import restrictions have been eliminated, and a major customs tariff reform was initiated. The Government also started an important reform of the public enterprise sector and launched a considerable effort in public expenditure rationalization. Slippages in policy implementation have occurred in the areas of planning and budgetary strengthening due to delays in getting the necessary technical assistance and the recent change in the Government (September 1987).

The new Government's commitment to pursue and strengthen the measures initiated under SAL I has been affirmed in the second PFP which was presented to the Committee of the Whole on April 26, 1988.

The measures to be supported by the proposed credit will strengthen the <u>ongoing</u> policy reforms, notably those aimed at: (i) strengthening incentives for efficient resource allocation, increased private investment and exports, and greater efficiency of the coffee sub-sector; (ii) increasing public savings and improving public expenditure management; (iii) reforming the public enterprise sector; (iv) improving agricultural productivity and sector management. The measures will also address <u>new policy areas</u> to accelerate the supply response to the new market-oriented incentive structure, notably: (v) liberalization of the labor market and amelioration of incentives for employment generation; (vi) deregulation of the financial sector; and (vii) preparation and implementation of targeted actions to address pressing poverty issues, notably related to child nutrition and women's role in development.

The credit, grants and loans would finance all categories of imports with the exception of items financed by other sources, military and para-military items, alcoholic beverages, tobacco, precious metals or stones, and luxury items.

<u>Estimated Disbursements:</u> The proceeds of the proposed IDA credit would be disbursed in three tranches. The first tranche of US$40 million equivalent would be available for disbursement upon credit effectiveness. Disbursement of the second and third tranches (of US$30 million and US$20 million equivalent) would be contingent upon the Government's taking the actions enumerated in paragraph 103 of this report. Performance reviews would be held around March 1989 before the release of the second tranche and around October 1989, before the release of the third tranche. Disbursements of the entire credit are expected to be completed within 24 months after credit effectiveness.

<u>Appraisal Report:</u> Not applicable

<u>Map:</u> IBRD 20649

BURUNDI

SECOND STRUCTURAL ADJUSTMENT OPERATION

Table of Contents

Table of Contents (Continued)

INTERNATIONAL DEVELOPMENT ASSOCIATION
REPORT AND RECOMMENDATION OF THE PRESIDENT
TO THE EXECUTIVE DIRECTORS ON A PROPOSED
SECOND STRUCTURAL ADJUSTMENT CREDIT TO
THE REPUBLIC OF BURUNDI

1. I submit the following report and recommendation on a proposed Second Structural Adjustment Credit (SAL) to the Republic of Burundi for SDR 64.9 million (US$90 million equivalent) on standard IDA terms. In addition, I recommend that IDA administer a proposed Special Joint Financing non-reimbursable contribution of Yen 700 million (about US$5.3 million equivalent) from Japan.

2. The first SAL for Burundi was approved by the Executive Directors in May 1986 for a total of US$50 million with financing from IDA, SFA, and Special Joint Financing from Japan and Switzerland. In parallel, Burundi negotiated a Stand-by arrangement with the IMF (covering the period August 1986 to March 1988) and a SAF loan based on the first Policy Framework Paper (1987-1989) for a total of SDR 20 million, to be disbursed over a three-year period. A Bank mission reviewed the implementation of SAL I in December 1986, and the second tranche was released in April 1987.

3. An economic memorandum on Burundi (Report No. 6754-BU) was distributed to the Executive Directors in January 1988. The Report focused on the policy reform priorities for the next phase of the Government's adjustment program. The Government requested IDA assistance in support of the second phase of the adjustment program in September 1987. This program was appraised during a mission in January/February 1988, the conclusions of which are reflected in this report. Country data are attached as Annex I.

PART I - THE ECONOMY

A. Background

4. Burundi is a small country (27,800 km2) with a population of about 5 million and a per capita GNP of US$240 (1987 Atlas). The country is landlocked, densely populated (the second highest population density in Africa), and with scarce natural resources other than its relatively fertile agricultural land. The society is primarily rural, with only 5 percent of the population living in urban centers. Agriculture (commercialized and subsistence) accounts for approximately 50 percent of GDP and provides employment and income for about 85 percent of the population. Coffee is the main export, generating four-fifths of total export earnings. As a landlocked country, Burundi is quite vulnerable to the transportation conditions in neighboring countries. Progress has been made to improve transport infrastructure and to simplify transit formalities, but transportation costs are very high and passage through neighboring countries is, on the whole, unreliable.

5. After a period of political turmoil which culminated in serious civil disturbances in 1972-73, political stability was restored in 1976.

In early September 1987, President Buyoya took power in a bloodless coup, at the end of a period of political tension, difficult relations with neighboring countries and the Catholic Church, and adverse image in the international press. The change occurred with minimal economic and administrative disruption. The new Government's commitment to the structural adjustment program has been clearly stated in the President's Declaration of Policies pronounced in late September 1987, and demonstrated by the reform measures implemented in the past six months.

B. <u>Recent Policy Reforms and Economic Developments</u>

6. After a period of relatively good performance during the late 1970s, Burundi's economic and financial situation took a turn for the worse in the early 1980s, as a result of a substantial deterioration of the terms of trade, expansionary fiscal and monetary policies and adverse climatic conditions. Real GDP growth, which had averaged 5.1 percent per year during 1978-81, declined to less than one percent per year during 1982-84. In 1984, the external current account deficit reached a record high of 16 percent of GDP and the overall fiscal deficit rose to 12 percent of GDP. Inflation ran at 14 percent a year, leading to a rapid appreciation of the Burundi franc. Moreover, the network of administrative controls aiming at controlling the external deficit and protecting the domestic industry led to distortions in the incentive structure, high rents accruing to monopolist importers, low incentive to invest in the productive sectors, and a slowdown in economic activity. These developments brought into light Burundi's major structural constraints: the extreme dependence on coffee, the weak role of the private sector, and the lack of incentives for a sustained growth of agriculture and industry.

7. <u>Thrust of Adjustment Program</u>. In late 1984, the Government requested Bank and IMF assistance to prepare and finance the first phase of a structural adjustment program with the double objective of re-establishing the basic financial equilibria and initiating medium-term structural adjustment with more reliance on market forces and a greater outward orientation. Particular attention was given to the rationalization of the incentive structure -- to improve resource allocation and remove the bias against exports -- and increasing the efficiency of public resource utilization. Preparation for the first SAL began in mid-1985 and the first measures were implemented in 1986.

8. Policy performance has been positive and in line with the program, as described in detail in Part II. In addition to fiscal and monetary stabilization, most domestic prices have been decontrolled, the exchange rate overvaluation was largely corrected, and a flexible exchange rate policy was adopted. Most import restrictions were eliminated, and a major customs tariff reform was initiated. The Government also started an important reform of the public enterprise sector, adopted a three-year public investment program (PIP) compatible with domestic and external resource availabilities, and initiated the preparation of a comprehensive public expenditure program (PEP) to provide a framework for setting public expenditures priorities. Slippages in policy implementation have occurred in the areas of planning and budgetary strengthening, due to delays in getting the necessary technical assistance and the recent change in the Government and in the financial program, whose objectives could not be attained due to the cascading effects of the coffee revenue shortfall (see

para. 10). The automatic exchange rate adjustment was interrupted in March 1987 but has been resumed since February 1988. The new Government's commitment to pursue and strengthen the measures initiated under SAL I has been affirmed in the second PFP which was presented to the Committee of the Whole on April 26, 1988. The measures to be implemented in the second phase of the adjustment program (to be supported by the proposed operation) are described in Part III.

9. Recent Developments: 1986-87. Although it is too early to perceive the full economic impact of the program -- the first full year under the program was 1987, a year of political change and marked decline in export prices -- the impact has been largely positive. Despite a substantial decline in world coffee prices (much more than what had been anticipated) starting in the second half of 1986 and intensifying through 1987, the program achieved positive results in redressing major financial imbalances, improving domestic competition, and strengthening the competitiveness of Burundi's manufactured exports while containing import demand. During 1986 and 1987, non-traditional exports grew (albeit from a very low base) by about 30 percent a year in real terms. GDP growth reached 4.4 percent in 1986, but fell to 1.7 percent in 1987 due to the marked decline in coffee revenues (GDP growth at factor cost was 4.7 percent). Total investment, which had contracted since 1984, rebounded in 1987. Inflation hit a record low level in 1986 (1.8 percent per year) as a result of increased agricultural output and reduced trader margins, but rose to 7 percent in 1987.

10. The financial situation also improved in 1986. The overall budget deficit was reduced from 7.5 percent of GDP in 1985 to 6.5 percent, and the external current account deficit (excluding transfers) also declined relative to GDP: from 11.2 percent to 10.2 percent (Table 1). Net foreign assets rose to 2.2 months of imports at the end of 1986 (compared with 1.3 months at end-1985). The improvements registered were, however, less than had been anticipated. The impact of the shortfall in coffee exports was of such a magnitude (equivalent to 30 percent of export earnings and budgetary revenues) as to make the targets of the Stand-by program (approved on August 1986) unattainable. Preparation for a new financial program was initiated in March 1987 but was delayed by the change in Government (see para. 109). A second year SAF program was approved by the Executive Directors of the IMF on May 4, 1988.

11. Burundi's financial difficulties were exacerbated in 1987 by the continuing deterioration of coffee export prices. Over the year as a whole, world coffee prices declined by 46 percent to their lowest level during the last 10 years; and Burundi's coffee export earnings contracted by US$40 million. Despite a substantial increase in non-traditional exports (from US$4.8 million in 1985 to US$13.5 million in 1987), export earnings fell to about the 1984 level. These developments, together with a weaker demand management policy and a substantial increase in debt service, led to a deterioration in the external position. The current account deficit (excluding transfers) rose to the equivalent of 13 percent of GDP and, despite the increase in net medium and long-term capital inflows, the balance of payments registered an overall deficit of US$10 million. Net official reserves fell to 1.8 months of imports equivalent. Despite the highly concessional terms of Burundi's external debt, a substantial increase in outstanding foreign debt, together with a bunching of

maturities and the decline in export earnings, pushed the debt service ratio (based on actual payments) above 40 percent in 1987.

Table 1: MAIN ECONOMIC INDICATORS

	1983	1984	1985	1986	1987 (prov.)
As % of GDP:					
Exports	9.8	10.1	10.7	10.4	8.6
Imports	27.7	24.2	19.6	18.2	20.8
Current Account Def. a/	19.7	16.2	11.2	10.2	13.0
External Debt (DOD)	24.8	35.8	34.4	39.7	55.0
Gov't Revenues b/	12.5	14.1	13.9	15.8	12.2
Current Expenditures	12.8	11.2	10.5	11.4	13.1
Capital Expenditure and Net Lending	17.8	14.5	11.0	10.9	11.9
Total Gov't Deficit c/	18.1	11.5	7.5	6.5	12.8
Investment (FGI)	17.8	18.4	14.2	12.7	19.9
External Debt Service					
US$ million	12.2	17.9	28.0	32.6	47.2
As % of Exports (G,NFS)	12.5	16.7	23.2	26.1	43.8
Terms of Trade (1981=100)	118.3	139.9	139.1	171.9	103.3
% change		18.3	-0.5	23.6	-39.9
GDP growth (%)					
Market prices	3.1	-0.1	7.4	4.4	1.7
Factor cost	4.0	-0.3	7.5	3.8	4.7

a/ Excludes public transfers.
b/ Excludes capital grants.
c/ On a commitment basis and excluding official grants.

12. These developments had a significant impact on the fiscal situation. Coffee revenues fell from FBu 5 billion in 1986 to 0.6 billion in 1987, leading to a 20 percent loss in overall fiscal receipts. Overall expenditures, however, rose above the budgeted levels, as the previous Government relaxed its prudent budgetary policy and substantial increases were recorded in the debt service [1] and extra-budgetary expenditures. The new Government had limited scope to take corrective measures in 1987. As a result, the overall fiscal deficit (including foreign-financed investment) rose to 12.8 percent of GDP in 1987, and the Government accumulated domestic arrears. The unexpected size of these deficits necessitated increased recourse to central bank financing.

13. The adjustment program has had a generally positive impact on low and middle-income consumers. Prices of basic commodities -- food, clothing, and basic home construction materials -- have declined or stayed constant since 1985. The devaluation (33 percent in SDR terms between July 1986 and February 1988) has raised prices of some imports, but these have a negligible role in the low and middle-income market baskets. The incomes of the poor (mostly farmers) have also improved, following the increase in producer prices for coffee and tea in 1986 and the elimination, in late 1987, of the sales tax on foodcrops. The urban sector was particularly affected by the slowdown in the growth of public employment and compensation and by the freeze on salaries since 1985. Some forced early

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1/ Total debt service payments, including amortization, increased by 35 percent and accounted for nearly 30 percent of budgetary revenues in 1987.

retirement of civil servants in 1987 contributed to social tensions before the change in Government.

C. Development Constraints and Adjustment Issues

14. Burundi's structural problems will require systematic and sustained attention over several years. The recent deterioration in the terms of trade has highlighted the persistent problems associated with overdependence on coffee. Historically, low savings and investment rates and weak private sector participation have impeded the development of non-coffee economic activities. Reliance on foreign savings has pushed Burundi's external debt to US$650 million, or about 55 percent of GDP, at end-1987. Despite the rather favorable borrowing terms,[2] debt service payments are projected to remain above 30 percent of exports until 1991. The combination of a serious debt burden, overdependence on coffee, and low savings/investment makes it difficult to achieve the necessary structural adjustment quickly. Long-term economic development is also hindered by rapid population growth, limited availability of cultivable land, low education and skill level of human resources, the limited size of the domestic market, and the landlocked situation of the country.

15. Laying the basis for sustained economic growth will require, therefore, a broad approach. The financial program (supported by the IMF) will help the country to reach more sustainable equilibria on both the external and domestic fronts. To address the structural issues, the Government's program -- to be supported by the proposed SAL II -- includes a comprehensive package of both ongoing measures to: (i) strengthen macroeconomic management; (ii) create an incentive framework to stimulate exports and improve private sector confidence; (iii) reform public enterprises; (iv) improve public expenditure management; and new measures to: (v) increase the efficiency of the financial sector; (vi) liberalize the labor market; and (vii) implement well-targeted measures aimed at alleviating poverty. Development programs that address the long-term constraints and are supported by major donors include: an active population policy[3] ; efforts to strengthen agricultural services; promotion of small and medium enterprises; effective management of natural resources; and improvement of the country's human resources through expanded education and health services.

D. Prospects and Financing Requirements

16. The Government's objective is to achieve real per capita GNP growth during the 1988-91 period, while holding the current account deficit at a manageable level. The attainment of this goal will require not only

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2/ 1.5 percent interest rate, 38 years maturity, 9 years of grace period, which correspond to a 72 percent grant element.

3/ The Government's population policy is being supported by the IDA-financed Population/Health Project. The program's objectives include, *inter-alia*, raising the contraceptive prevalence target from 1.6% in 1987 to 14% in 1992, which would contribute to reducing the total fertility rate (from 6.1 in 1987 to a target of 4.1 by the year 2000) and would have a sizeable impact on population size (keeping the growth to 9 million against 12 million by 2015).

the timely implementation of the Government's adjustment program, but also increased import capacity. This will depend on the success in diversifying exports over the medium term and, more immediately, on larger inflows of concessional assistance. Despite the growth of non-traditional exports during the past few years, the bulk of Burundi's export earnings still come from coffee, tea, and cotton (85 percent of total exports). However, the world market prospects for these commodities are not bright. While earnings from non-traditional exports (e.g., manufactures) are projected to increase more rapidly than those from traditional exports -- benefitting from good opportunities to export towards the neighboring countries [4] -- their impact on the balance of payments will remain modest through the end of this decade.

17. Burundi's external financing requirements for 1988-89 have increased because of the decline in coffee prices, which is estimated to lower potential revenues by about US$50 million during the period (equivalent to about 25 percent of exports). To finance the imports associated with the above growth objectives, meet the scheduled amortization payments, and allow for some accumulation of international reserves, Burundi will require external financing totaling about US$480 million during 1988-89, as explained in greater detail in Part IV. Expected disbursements of grants and M&LT concessional loans (including the proposed financing) are estimated at about US$440 million.[5] A meeting of the main donors is planned to be held in Geneva in Summer 1988 to mobilize an additional US$40 million to close the financing gap during the program period.

E. Rationale for Bank's Involvement

18. Supporting the adjustment program is at the center of the Bank's assistance strategy for Burundi. Since 1985, the Bank has been quite active in helping the Government to prepare and implement the first phase of its adjustment program. The Bank's involvement has combined the following three elements: (i) analytical work, leading to the identification of major structural issues and needed reforms; (ii) an intense policy dialogue, to which the Government has been responsive, and which has contributed to an internalization of the Bank's recommendations and to the Government's commitment to the reform program; and (iii) the financing of policy-based operations (SAL I) and technical assistance projects, in direct support of the economic reform program, as well as of investment projects to stimulate a supply response to the new incentives structure. The successful implementation of the subsequent phases of the program will require sustained Bank and IMF support. The IMF is supporting the implementation of a financial program under the second-year SAF to cover the 1988 period. The Bank will be involved through: (i) a series of structural and sector adjustment operations; (ii) continuing technical assistance support to strengthen general economic management; and (iii)

4/ For example, construction materials, textiles, soap, and some metallic products to Zaire, Kenya, Uganda, and Rwanda -- all of them, with the exception of Zaire, members of the Preferential Trade Arrangement Zone.

5/ US$163 million from already committed loans, US$100 from new official transfers, and US$177 million from new loan commitments currently planned in donor programs (including IMF support, and the proposed credit).

complementary operations in productive and social sectors (see Part V). Particular emphasis will be placed on continuing the actions already initiated under the first phase and the implementation of further reforms. The latter would complement the liberalization reforms initiated in the trade and industrial sectors, notably those concerning the liberalization of the labor and financial markets, while addressing the social aspects of adjustment.

PART II - PROGRESS IN THE ADJUSTMENT PROGRAM: THE FIRST SAL

19. The program supported by the first SAL emphasized the stabilization measures aimed at restoring financial equilibria in the short term and initiating medium- and long-term structural change in the economy, based on the rationalization of the incentive system and improving efficiency in the utilization of public sector resources. The following paragraphs summarize the progress made in these areas.

Management of the Balance of Payments

20. The first phase of the adjustment program placed heavy emphasis on export promotion and efficient import-substitution. After an initial exchange rate adjustment of 13 percent in terms of SDRs, the currency was depreciated progressively until March 1987, with a total cumulative depreciation of 24 percent. In February 1988, the FBu was depreciated by an additional 10 percent. Also, in order to stimulate foreign private investment, the limits imposed in 1984 on transfers of foreigner's income were raised. Furthermore, external borrowing was limited to concessional loans, and an interministerial committee was set up to monitor the country's external debt and provide advice on new borrowing.

21. A number of import liberalization reforms were also implemented. Quantitative restrictions were largely eliminated and replaced by import duties. Import licenses are now granted automatically, except for a limited number of luxury goods and three groups of locally-manufactured goods (cotton textiles, glass bottles, and pharmaceuticals) which are subject to temporary quantitative restrictions. The former requirement for importers to specialize in specific products was abolished, leading to increased competition. In order to further reduce the anti-export bias of the trade regime, taxes on manufacturing exports were eliminated.

22. A major reform of the import tariff structure was initiated with a view to reducing high rates of effective protection enjoyed by many import-intensive activities and providing a basic rate of protection for production of intermediate goods based on domestic resources. The number of duty rates was reduced from 57 to 5; and the tax range on non-luxury goods was narrowed from 0-280 percent to 15-50 percent in 1987 and to 15-45 percent in 1988. Luxury goods are taxed at 100 percent, the maximum rate. In a few cases in which higher rates might be necessary to protect industries of national interest (notably infant industries), selected enterprises may be granted temporary relief in the form of either an import surcharge (with a maximum rate of 30 percent, levied for a maximum period of three years) or reduction in custom duties on intermediate goods.

Fiscal Policy and Public Finance

23. Along with the tariff reform, the fiscal measures adopted by the Government included reform of the sales (transaction) tax -- from a "cascade tax" to a single-stage sales tax, at a higher rate, levied on production and imports. Tax collection was improved, and exemptions granted under the Investment Code were revised. The first steps to improve public expenditure management were launched. A three-year public investment program (1987-89) was prepared which was consistent with the macroeconomic framework. The sectoral allocation was also consistent with the development strategy, and priority was given to completing ongoing viable projects and starting high priority projects. The Government initiated the preparation of a three-year public expenditure program. However, implementation delays occurred due to difficulties in recruiting consultants and in establishing an appropriate action program for the concerned ministries. To strengthen the capacity to prepare and appraise projects, an IDA-financed Economic Management and Public Enterprise Project was approved by the Executive Directors in May 1987.

Production and Investment Incentives

24. The previous regime of price controls (on both local and imported goods) was eliminated. For only a limited number of strategic products (or products subject to temporary import monopolies) prices can be subject to a ceiling but for no more than four months and only in case of acute shortages. The new price system applies to the public enterprises as well, except in the case where social services and natural monopolies are involved. A set of incentives designed to stimulate investment and production was put in place: (i) the Investment Code was revised to provide automatic incentives to all investors (Burundian and foreign) who meet specified criteria related to, _inter alia_, employment of labor and rate of return; (ii) the previous guarantee of the local market (whereby local enterprises were protected from foreign and domestic competition) has been eliminated; and (iii) a Guarantee Fund is being re-activated to facilitate access of small and medium enterprises to banking credit. Furthermore, in an effort to mobilize domestic savings and encourage efficient utilization of credit, interest rates were raised to real positive levels.

25. In April 1986, the producer prices of key exports, which had declined in real terms since 1984, were increased: by 28 percent for coffee and 20 percent for tea (8 percent and 2 percent in real terms, respectively). As a result, the ratio of coffee producer prices relative to world prices was maintained at 48 percent between 1984 and 1986. In the case of tea, the share increased from 24 percent to 39 percent, and in the case of cotton from 42 percent to 80 percent. The sharp downturn in 1987 in world prices of coffee limited Government's ability to grant further price increases to producers. However, by maintaining nominal producer prices, the producer price share of the world prices reached 70 percent for coffee and 51 percent for tea.

Public Enterprise Reform

26. In the context of a comprehensive parastatal sector reform, the Government has defined the criteria for State participation in the economy and prepared an overall strategy for the sector which includes

rehabilitation, liquidation, and privatization of selected enterprises, and the reinforcement of the central government's capacity to monitor development in the sector. A Service in Charge of Public Enterprises (SCEP) was created in July 1986 to coordinate and monitor the reform program for the sector. The SCEP completed diagnostic studies of four enterprises: CADEBU (savings), OTRACO and OTRABU (transport), and ONAPHA (pharmaceuticals); and a fifth diagnostic study, of Verrundi (glass products), is underway. An intervention fund was created and is available to support the rehabilitation of these or other enterprises which will be the subject of further diagnostic studies (see paras. 47-56). Four enterprises facing serious financial problems were closed down in 1986, and "liquidation commissions" were established to sell their assets and pay their debts. The Government has integrated in the public administration the research department of LAPHAVET (production and research of veterinary products) and decided to continue subsidizing two public enterprises -- ONT (tourism) and CPI (industrial promotion) -- while developing efforts to increase their efficiency.

Agriculture

27. In agriculture, important developments have taken place in terms of definition of a development strategy for the sector, including: the role of Regional Development Companies, whose functions have been streamlined and focussed on directly productive activities; emphasis on agricultural services; and improving the sector's financial management. Concerning the coffee sub-sector, the Government took measures to reduce the moisture content of the "fully washed" coffee, which had eroded its premium in international markets, and complementary efforts are being pursued to improve coffee quality. To improve the marketing capacity of BCC (coffee marketing company), the Government, with Bank assistance, established an action plan to strengthen marketing procedures and training of BCC personnel which will be launched during the proposed operation. Moreover, the study of the financial aspects of the coffee pricing policy was completed, which provides the basis for the proposed review of the coffee pricing mechanism (para. 62).

PART III - CONTINUING THE ADJUSTMENT PROCESS

A. Strategy

28. The reforms that have taken place under the first phase of the adjustment program represent a fundamental change in Burundi's basic economic environment. They have helped to reduce distortions in the incentive structure and should favor a more efficient allocation of resources, in line with the country's resource endowment. They also provide flexibility in the economy by allowing prices to respond to changes in domestic and external supply and demand conditions, and have laid the basis for the continued adjustment which will help restore longer-term viability and sustained growth.

29. The Government's objectives for the second phase of its adjustment program include: a real GDP growth of 4.5-5 percent per year -- allowing for an increase in real per capita incomes and consumption (population growth is projected at 3% per year); maintaining a viable external payment

situation; and reducing the overall fiscal deficit to about 5 percent of GDP by 1991. The thrust of the underlying strategy is the promotion of private sector activities, through the provision of an increasing share of domestic credit to the private sector and of adequate guarantees to facilitate private capital flows. The ongoing tariff reform has already begun to eliminate the major disparities still existing in rates of effective protection. Under the proposed credit, the trade and industrial reforms will be strengthened to improve the incentive structure and promote efficient export-oriented activities. The Government will continue its policy of price liberalization and will extend it to interest rates and labor market. In order to maintain the competitiveness of Burundian exports, the Government will continue to follow a flexible exchange rate policy.

30. With regard to the public sector, the Government's strategy is to rehabilitate the country's basic infrastructure and to improve public sector management and social services in line with the budgetary resources. The Government will continue the reform of the public enterprise sector (paras. 47-56) and seek to increase domestic resource mobilization in both the public and private sectors. Domestic savings are projected to increase from 5.3 percent of GDP in 1983-87 to 8.5 percent in 1990, due primarily to increased savings of the public sector, as a result of additional fiscal reform measures, increased efficiency in the public enterprise sector and continued prudent expenditure policies. To this end, the Government has agreed to a set of budgetary targets within the framework of the approved second-year SAF program..

B. The Government's Short-Term Financial Program

31. The Government's short-term financial program under the second-year SAF program concluded with the IMF is designed to help reduce the overall fiscal deficit, maintain the balance of payments in line with the availability of concessional aid and avoid inflationary pressures. It was prepared in collaboration with the Bank, and there are several areas where the two programs (the IMF's SAF and the IDA's SAL II) overlap and/or are mutually reinforcing.

32. The Government's financial program aims at keeping inflation at about 6 percent a year in 1988 and 5 percent in 1989, while stimulating economic activity by providing the private sector with a significantly larger share of credit. The fiscal objectives are to: (a) reduce the overall central government deficit from 12.8 percent of GDP in 1987 to 9.7 percent in 1988 and 8.1 percent in 1989, with the objective of reaching 5 percent by 1991; (b) eliminate domestic arrears by end-1989; and (c) maintain the external debt service burden at 12 percent of expenditure during 1988-90. The achievement of these objectives will be constrained by the projected heavy debt service burden (nearly 20 percent of average expenditures during 1988-90), therefore making it mandatory for the Government to refrain from external borrowing at non-concessional terms.

33. To achieve these objectives, the 1988 program includes:
(a) measures to increase the fiscal revenues with the objective to increase their share in GDP from 12 percent in 1987 to 14.5 percent in 1988, namely: broadening the transaction tax base to include activities in the service sector, construction work and food processing activities and increasing its

tax rate from 12 to 15 percent; extending the statistical tax to all imports (except those for diplomatic use); and strengthening custom duty administration to improve collection and reduce fraud; (b) restrictive public expenditure (quarterly ceilings will be imposed on ministerial spending) aiming to limit nominal annual growth to about 9 percent in the case of personnel outlays, 11.7 percent in the case of goods and services, and 14.7 percent with respect to transfers and recurrent subsidies; and (c) prudent monetary policy aiming to reduce budgetary financing through the banking system by 32 percent and to expand credit to the private sector by about 9.5 percent. Consistent with the target for an increased level of international reserves, broad money growth is projected to be held at 7 percent a year, significantly below the projected increase in nominal GDP.

PART IV - PROPOSED PROGRAM UNDER SAL II

34. The proposed second SAL will continue Bank support of a sound framework of economic policies during the next phase of the Government's adjustment program. It will consolidate the progress made in a number of areas during the first phase of adjustment but also address new reform areas, namely the operation of the financial and labor markets (both oriented to improve efficiency of resource allocation) and on poverty alleviation. The program is outlined in the Government's Letter of Development Policy (Annex V). The following paragraphs describe the components of the SAL II program which is summarized in the Matrix of Actions in Annex IV.

A. Trade and Industrial Policy

35. The Government's program contains measures to improve the competitiveness of non-traditional exports and import-substitution activities, and to provide more neutral protection across economic sectors. To maintain competitiveness, the currency was adjusted in February 1988 by 10 percent (in local currency terms) to correct the small appreciation which occurred since March 1987. The Government is committed to periodically review its exchange rate policy taking into account the evolution of the real effective exchange rate and developments in its external position.

36. In addition to the fiscal measures mentioned in para. 32-33, the Government will: (a) complete the tariff reform, with the objective of narrowing the tariff range, reducing the average effective protection rate and ensuring consistency with the PTA tariff (condition of second tranche release); (b) pursue the import liberalization program -- the remaining import restrictions on luxury goods have been replaced by custom duties in March 1988, and these will be changed to excise taxes in 1989; (c) agree with the Bank on the timetable for liberalization of imports competing with domestic manufactures by mid-1990 -- the timetable for imports competing with VERRUNDI products (glass bottles), ONAPHA (pharmaceuticals) and COTEBU (cotton textiles) will be defined in the context of the contract programs to be negotiated with VERRUNDI and ONAPHA by December 1988 and the action plan for COTEBU to be finalized by March 1989. Agreement on the timetable for imports competing with VERRUNDI is a condition of second tranche release; and (d) pay interest on the FBu 10 million deposit required from foreign importers and eliminate such deposit when the importer invests in productive activities of at least FBu 20 million.

37. Furthermore, to further improve the export incentives and to increase the neutrality of incentives between import substitution and export activities, an Export Promotion Decree was promulgated in April 1988 to: (i) revise the existing duty drawback system, replacing it with a simplified rebate system for exporters -- who, thereafter, will be able to receive 15 percent of the value of their sales in rebates -- while setting the stage for a later drawback system which will incorporate all indirect taxes; (ii) encourage exports through a concessionary tax rate based on export performance; (iii) allow marketing expenses incurred abroad to be fully tax deductible; and (iv) simplify administrative procedures to make it easier for promoters to travel abroad. In addition, the Government will: (a) provide support to existing or potential exporters in marketing and in financing technical assistance, notably by setting up an Office of Standards and Measures to ensure the quality of Burundi's exports; and (b) complete a study to identify and evaluate Burundi's long-term resource and market potential, thus providing the foundation for identifying viable export activities.

B. Public Expenditures Programming and Policies

38. The Government's public expenditure policy aims at: (a) containing expenditures in line with the available resources; and (b) concentrating public resources on vital activities for the country's economic development. The public expenditure program will focus on strengthening basic services (basic health, education, rural water supply systems, agricultural research and extension), supporting targeted programs of poverty alleviation, and maintaining existing economic and social infrastructure. Public investment will aim to strengthen the human and physical resource base, catalyse a process of urban development, and selectively expand social and economic infrastructure, while leaving to the private sector the task of investing in directly productive activity.

The Public Expenditure Program

39. During the first phase of the adjustment program, the Government focused on the preparation of the PIP as a way to improve the overall allocation of resources. In the context of SAL II, the Government will adopt a rolling three-year PEP (covering recurrent and capital expenditures as well as technical assistance) as the basis for rationalizing public expenditure management. Progress has already been made in preparing detailed PEPs for two sectors -- education and health -- in the context of IDA-supported projects. Further work will be undertaken in 1988 to prepare PEPs in agriculture and transport sectors in the context of IDA-financed projects under preparation.

40. The objective is to prepare comprehensive three-year PEPs, starting with the PEP for 1989-91, and a consolidated formal budget by 1991. In the interim, transitional unified budgets will be prepared for 1989 and 1990. To this end, the Government has agreed with the Bank on the procedures to put in place in order to prepare the first 1989-91 PEP and the first unified budget for 1988. During this process, the Government will identify non-priority programs, assess the resource needs of the priority programs (including project-related recurrent costs), and establish the base for a consolidated budgeting, financial monitoring and control system (see paras. 45-46). Agreement with IDA on the 1989-91 PEP

and the 1989 budget (the 1989 tranche of the PEP) will be a condition of second tranche release; similarly, agreement on the 1990-92 PEP and the 1990 unified budget will be a condition of third tranche release.

41. The Government will also prepare an action plan to improve the efficiency of the civil service in 1988, based on the census already prepared in 1986, and further analysis to be carried out with the assistance of the "Ecole Nationale d'Administration du Québec". Agreement on a medium-term human resource strategy to improve the efficiency of the civil service will be a condition of third tranche release. In addition, a technical assistance survey, being undertaken with the assistance of the UNDP (NATCAP II), will be completed to improve the efficiency of technical assistance and develop a medium-term program concerning such assistance.

The Public Investment Program

42. A review of the preliminary 1988-90 PIP was carried out during negotiations. An agreement will be reached with IDA on the final PIP before effectiveness of the credit. The PIP calls for investments averaging FBu25 billion per year (13 percent of GDP) at current prices. It includes 185 projects. The average project size is small - US$ 5 million - and only 7 projects are larger than US$ 20 million. About 25 percent of the program represents activities undertaken by public utilities. The PIP reviewed with the Bank is a core program composed of high priority projects, either with assured financing or with high probability of securing financial support. A reserve program has also been prepared, consisting of lesser priority projects which may be undertaken, within the overall financial program, if financing is mobilized and/or higher priority projects are delayed. The core PIP is financed at highly concessional terms (20 percent grants), with IDA being the largest expected donor (36 percent of total identified external financing). The reserve projects will be selected according to the criteria adopted by the Government under SAL I (i.e., comprise productive projects with an economic rate of return of at least 10 percent and social projects which meet the least cost solution). The Government intends to convene, with UNDP assistance, a Round Table in late 1988 to present the Five-Year Plan (1988-92)[6] and the 1988-90 PIP to the donors and to secure the remaining financing. A preparatory meeting is scheduled in Summer 1988.

43. The structure of the PIP reflects the Government's evolving investment priorities as well as historical developments. The decline in the share of directly productive activities (see Table 4 in Annex I) is the result of a sharp reduction in direct Government investment in industry. In the infrastructure sectors, investments will be maintained at an average of FBu 6.5 billion per year. While an expansion of the port of Bujumbura is being undertaken, the ambitious road building program of past years is being scaled down, with the emphasis placed on maintenance. This component also integrates an innovative urban development program in an effort to foster the growth of urban employment which the Government considers vital to reduce pressure on scarce land resources and improve linkages between rural and urban activities. The share of social infrastructure investments

6/The Five-Year Plan describes the Government's development strategy for the 1988-92 period. It was prepared in 1987 and is being revised by the new Government to make it consistent with its economic program.

is expected to rise as the Government implements important operations in basic education and health.

44. To correct some distortions in the initially proposed core program, the Government has agreed to: (i) withdraw the construction of a central market in Bujumbura from the public investment program -- the project could raise the cost of marketed goods in the capital; (ii) redesign the sport stadium (20,000 seat capacity) by eliminating ancillary facilities (olympic swimming pool and hotel) in order to reduce operating costs; (iii) abide by the results of the study concerning the extension of the oil palm processing plant; and (iv) abide by the study on the opportunity to continue with SOSUMO -- the expensive sugar production scheme (SOSUMO) whose economic viability is uncertain (para. 64). The study should be completed by end-December, as a basis for an action plan to be agreed with the Bank as condition of second tranche release. Satisfactory implementation of the action program is a condition of third tranche release.

Institutional Strengthening

45. There is a need to institutionalize the process of preparing the three-year rolling PEPs so that they become a permanent feature in the expenditure programming, budgeting and monitoring cycle. To this end, a program of institutional reform will be developed and put in place during 1988-90 aimed at: (a) establishing the three-year rolling PEP framework and integrating it throughout the administration; (b) unifying the preparation of the budget, taking explicitly into account the resource needs of development operations; and (c) preparing transitional unified budgets in 1989 and 1990, while a full-scale budgetary reform and a reform of the public accounting system are being prepared for implementation in 1991.

46. The process of strengthening the Ministries of Plan and Finance and the programming and financial management units of sectoral ministries will be accelerated with the support of ongoing IDA-financed technical assistance operations. The Government will prepare an action plan for strengthening the Ministry of Planning. The French Ministry of Finance will provide advice to help develop the budgetary and public accounting system reforms. An action plan to strengthen the finance and sectoral ministries in programming, budgeting and monitoring will be developed and agreed upon with IDA by end 1988.

C. Public Enterprise Reform

47. Burundi's 57 public enterprises (PEs), most of which date from the seventies, assume a significant role in the economy, particularly in the modern sector, where they absorb around 25 percent of employment. In the early 1980s, a number of these enterprises began to face financial problems and to rely on Governmental subsidies. In 1983, budgetary support was ended, precipitating some of these parastatals into near-bankruptcy.

48. As part of its structural adjustment program, the Government has undertaken to implement a comprehensive reform program of this sector while clarifying the objectives and strategy for its intervention. Government's objectives in this area include: (a) limiting State involvement in the parastatal sector to new activities with projected medium-term economic

viability and to public services which would not interest the private sector; (b) in order to maximize the value added of the sector, all public enterprises should cover their operating costs and at least part of their investment costs; and (c) there must be a net contribution to public finances by the sector, and there should be no subsidies to enterprises of a commercial and industrial nature.

49. The main elements of the operative strategy include: (a) rehabilitation of PEs when justified by diagnostic studies; (b) signature of performance contracts -- defining clearly the mutual responsibilities of PEs and the concerned ministry -- for those PEs which will remain under government control; (c) reduction in the size of the sector by means of rationalization and mergers, liquidations and divestitures; (d) financing by the State budget of social objectives of PEs; (e) establishment of a performance monitoring system for the entire PE sector; (f) limiting all new Government investment to those enterprises satisfying the above criteria; (g) changing the legal framework to increase autonomy and accountability and to require external auditing of public enterprises; and (h) completion of sectoral studies leading to the preparation of action plans concerning key issues, such as prices, tariff policies, incentives for employees and investors, and privatization.

50. In the context of SAL II, the Government will continue the program initiated under SAL I. The Government has already decided on the final steps concerning the liquidation of SUPOBU (fishing) and SOMEBU (studies) -- including transfer of their assets to the Government. The liquidation process of AGRIBAL (which has ceased activities two years ago) has been delayed due to the reluctance of its foreign partner (a foreign government which detains 60 percent of the capital) to liquidate the enterprise. The Government expects to complete the necessary diplomatic procedures by end-1988. The final draft decree to liquidate SOGESA (the enterprise charged with the management of the silos previously managed by the already liquidated SOBECOV) has been agreed with the Bank and will be signed by the President as a condition of credit effectiveness. In addition, based on the diagnostic studies completed for a first group of PEs -- CADEBU (savings institution), OTRABU and OTRACO (transport), ONAPHA (pharmaceuticals), and VERRUNDI (glass bottles) -- performance contracts/ action plans will be prepared according to schedule specified in the action program in Annex IV. The problems of these PEs and their implications for Government action are highlighted below.

51. <u>CADEBU</u>. The Government has agreed to gradually eliminate special advantages enjoyed by the institution, including its monopoly regarding compulsory savings, deregulate the interest rates on its credits, remunerate those savings at market rates, and submit CADEBU to the control of the Central Bank according to a special legislation to be prepared in 1989. Agreement on a calendar spelling out the progressive elimination of CADEBU's monopoly on compulsory savings is a condition of credit effectiveness. Satisfactory progress in the action plan for CADEBU is a condition of third tranche release.

52. <u>OTRACO</u>'s problems stem from poor management and confusion between its public service and commercial roles. Its tariff policies do not permit the enterprise to cover costs, but the extent to which its social responsibilities limit its ability to be profitable has not been clearly defined or reflected in the budget. Government will sign a performance

contract with the enterprise outlining mutual responsibilities. The level of subsidies required will be determined and provision made to include them in the national budget. The rehabilitation program will include tariff reforms and strengthening cost accounting.

53. <u>OTRABU</u> has the potential of becoming a profitable enterprise in the short-term but this will require internal management improvements, changes in fleet composition, and a marketing policy aimed at the most profitable activities and customers. The rehabilitation program will be based on partial privatization of the enterprise, which will include its conversion to a joint venture (SEM, Societe d'Economie Mixte) and the elimination of all Government subsidies.

54. <u>ONAPHA</u>'s cost structure precludes it from competing successfully with imported products. In view of the need to supply the Burundian population with low cost pharmaceuticals, the Government has decided to abolish administrative restrictions and to seek private-sector participation to rehabilitate ONAPHA. Government will provide no further subsidies, investment or loan guarantees to the enterprise. Liquidation will be envisaged by December 1988, if the envisaged investments to modernize the plant are not financial and economically justified, or if private participation is not materialized.

55. <u>VERRUNDI</u>. Upon completion of the second diagnostic study, the Government will be in a position to negotiate a performance contract with the enterprise. On the basis of the first diagnostic study, it is clear that the enterprise requires a consolidation of its external debt which, at present, constitutes a severe obstacle to its competitiveness in the neighboring countries. The second study will provide the basis for preparing action programs concerning marketing, production lines, and required new investment. Signature of a performance contract with the enterprise is a condition of second tranche release.

56. Additional measures to be implemented under the program include: (i) completion, by end-1988, of rehabilitation plans for a second group of enterprises: REGIDESO (water and electricity), COTEBU (textiles), Minoterie (flour mill) and three import PEs --EPIMABU, ONC, and ONIMAC. The signature of a performance contract with REGIDESO will be condition of second tranche release; (ii) completion of reform plans for a third group of PEs -- ONL/SIP (housing), ONATEL (telecommunications) and hotels -- by March 1989; (iii) adoption of a revised legal framework concerning the relation between parastatals and concerned ministries. The draft legislation has been prepared and discussed with the Bank; it is expected to be approved by the Council of Ministers by September 1988; (iv) implementation of the management information system by end-1988; and (v) completion, by December 1988, of several studies concerning tariffs, incentives, and privatization. Agreement on an action plan for privatization will be a condition of third tranche release.

D. <u>Agriculture Policies</u>

57. As a complement to the important investment effort made in the agricultural sector (40 percent of the 1988-90 PIP), the Government intends to take measures to: (i) improve productivity levels (notably of foodcrops) through increased utilization of fertilizers; (ii) prepare pricing policies

in line with the production and export objectives; (iii) strengthen the efficiency of the coffee sector; and (iv) address the economic and financial difficulties of some agro-industrial projects.

58. Fertilizer utilization, limited to one percent of producers, is hindered by insufficient knowledge of fertilizer performance in on-farm conditions, uncertainty about fertilizer demand, and insufficient institutional arrangements for distribution and marketing. The Government intends to: (a) update and extend fertilizer trial programs to crop associations in actual farm conditions; (b) conduct trials on combinations of chemical and organic fertilizer; (c) clarify import and supply policies; and (d) increase the participation of the private sector and producer cooperatives in this activity.

59. Pricing Policies. Although there is little government intervention in foodcrop pricing and marketing, price controls are in place for major export crops (coffee, tea, and cotton) and some imported foodcrops competing with local production (wheat, rice, and palm oil). As mentioned earlier (para. 25) adjustments have been made in producer prices in the past but on an ad hoc basis, leading in certain cases (e.g., tea) to financial difficulties in producing parastatals, to excess production (rice), to reduced Government revenues (coffee), or to large oscillations in production (cotton). As a basis for establishing a rational policy on producer prices, the Government will undertake an agricultural comparative advantage study including an assessment of producer incentives in light of production costs. The study will be completed by June 1989.

60. Coffee Sub-Sector. Programs have been launched to improve quality of production, prices have been increased to improve farmers' incentives, and washing stations have been built to process fully-washed (FW) coffee, which can receive about 15 percent premium in international markets. Important issues to be addressed by the Government during the second phase of its adjustment program concern: (a) rationale for production expansion; (b) improvement in production quality; (c) reform of the pricing structure; and (d) strengthening marketing strategy and capacity. On the basis of past projects and existing plantings, there is a potential for coffee production to double by the end of the century. The exploitation of this potential needs, however, to be analyzed taking into account the poor prospects of the international market, Burundi's vulnerability to transport conditions in the neighboring countries, and the crop's opportunity costs (taking into account the limited availability of cultivable land). In this context, the Government will develop a long-term production strategy (to be discussed with the Bank by September 1989) based on the results of the above-mentioned study, which would also examine Burundi's relative position in the world market for coffee and assess the possibilities for penetrating the markets for best quality arabica coffee.

61. To improve the quality of the Burundian coffee, the Government intends to continue the investments in coffee washing stations to produce FW coffee. Sustained quality improvement requires, however, strengthening the management of these washing stations. To this end, the Government will analyze the advantages of transferring their ownership from the RDCs to the private sector, including producer cooperatives. The management of these

stations will be handled by professional firms paid on the basis of a fee. In this context, the role of OCIBU (in charge of processing large part of the coffee) will be reviewed. To improve coffee export marketing, the Government will also reinforce BCC's marketing and logistic capacity with a view to establishing a policy of aggressive marketing and attenuating the transportation problems arising from the landlocked situation of the country and the unreliable service provided by the Tanzania Railway Company in the past. Support will be provided through a proposed Coffee and Export Crop Policy Operation under preparation for possible IDA financing.

62. Under the present pricing system, all intermediaries in the coffee production/processing/marketing chain are paid according to a fixed price. This creates distortions in the sector (OCIBU has accumulated substantial surplus in the past few years, at the cost to producers and the Treasury), limits the incentives for increased efficiency at processing and marketing level, and hinders the potential for increases in producer prices. The Government has initiated a review of the present pricing system ("echelle mobile", or sliding scale), on the basis of a recently completed study. The objective is to simplify the pricing structure, to adopt a second sliding scale for the FW coffee, and introduce quality incentives for producers of this type of coffee. As a first step, the sliding scale for the 1988/89 coffee season has been adjusted and revised in consultation with the Bank. The sliding scale for the 1989/90 campaign will be reviewed with the Bank as a condition of second tranche release. The Government will also assess the possibility of remunerating OCIBU and BCC for their processing and marketing services on a fee or consignment basis rather than on a cost-plus basis (to be discussed before the 1989 pricing schedule is announced).

63. The Government has developed agro-industrial complexes to produce some import-substitution foods, notably sugar (SOSUMO), rice (IMBO), palm oil (Rumonge), and wheat (Minoterie de MURAMVYA). These enterprises are facing economic and financial problems, and the Government intends to implement a series of actions to improve their situation, as explained below.

64. The most important enterprise in the above category is the Sugar Complex (SOSUMO), representing an investment of about US$80 million to produce irrigated sugar. The project was prepared at the time when world sugar prices were particularly high; it now faces serious difficulties, as production costs are very elevated and, at border prices, the enterprise would not be able to cover operating costs. The Government will carry out a study of the opportunity cost of pursuing this project, including the option of selling the plant and producing other crops. It will also assess the scope to reduce SOSUMO's operating costs and agree with the Bank on an action plan for the enterprise. Based on the study to be launched shortly, an action program will be agreed with the Bank as a condition of second tranche release. Satisfactory implementation of such a plan is a condition of third tranche release. The Government will liquidate the enterprise if it proves economically unjustified after the first two years in operation.

65. Rice is produced and processed by the RDC of Imbo. Because of inadequate pricing and marketing policies, rice stocks have accumulated to the equivalent of twice the domestic consumption. Ex-factory cost and selling price for Imbo rice are much higher than the price of imported

rice, obviously making it difficult to export it. The main problem stems from an excessively high producer price (fixed by Government at FBu 40/kg, or twice the level of neighboring countries). Before the 1989/90 rice campaign starts (March 1989) the Government will liberalize the paddy rice market and allow the RDC Imbo to set its own prices, as a condition of second tranche release.

66. Oil Palm. Present oil plantations and processing plant are economically viable. Current difficulties stem from shortages of raw materials, due to the young age of the trees, leading to low levels of capacity utilization (about 30%). Plantation production is expected to increase rapidly and expansion of the current plant will be needed in the early 1990s. A planned second plant (six times larger than the present one) has been withdrawn from the 1988-90 PIP. The extension of the present plant will be decided upon based on the results of the economic feasibility study.

E. Employment Policies

67. For 60,000 new entrants into the labor force every year, the modern sector creates at most 3,000 permanent jobs (less than 5 percent). Currently, the public sector absorbs two-thirds of modern employment (39 percent in the civil service and 27 percent in parastatals). Past policies, including exonerations of custom duties on imported equipment, price controls, and an overvalued exchange rate, have hindered growth in modern sector employment. Although the reforms initiated under SAL I have eliminated some of the distortions, further measures are needed to improve incentives for more intensive labor utilization. The Government has already taken some actions in this direction: the payroll tax ("tax forfaitaire") was abolished; the Investment Code has been revised; and some previous administrative constraints to labor and population mobility have been removed. In particular, the settlement permit required for non-residents has been abolished, the restrictions on itinerant traders ("commercants ambulants") were eliminated, and a new urban policy to stimulate development of small/informal activities in urban centers has been adopted in the context of the IDA-financed Second Urban Project.

68. Under SAL II, the Government objectives are to further liberalize the labor market by revising the legislation on domestic and foreign labor, strengthen the role of the Ministry of Labor (as promoter of employment), put in place a series of measures aimed at reducing unnecessary costs (to employers) associated with employment (notably medical costs), and stimulate the development of artisanal and informal activities.

69. To achieve these objectives, the Government will: (a) revise the labor legislation in order to allow private sector employers to recruit directly, without prior mandatory consultation/approval by the Labor Department (DMO); (b) redefine the role of the Placement Commission (in charge of reviewing all labor recruitment) so as to make it primarily one of supervision of DMO technical staff and monitoring the impact of employment policies; and (c) strengthen the capacity of DMO to perform its functions of evaluating employers' specific skills needs, maintaining rosters of qualified applicants, and compiling relevant statistics. Revised legislation has been agreed with the Bank and will be submitted for approval to the National Labor Council, as a condition of credit effectiveness. In a second phase, to be agreed with IDA prior to third

tranche release, the Government will extend the reforms to the parastatal sector.

70. At the same time, the Government will revise the legislation concerning foreign labor with the following objectives: (a) the relevant Placement Committee will include representatives of the employers; (b) the working and residence permits for certain categories of foreign workers will be issued for the same period; (c) foreign workers who lose their jobs will be allowed to seek another job without having their working permits automatically revoked; and (d) the current tax on foreign workers' earnings will be used for training local labor. The draft legislation has been agreed with the Bank and will be submitted to the National Council of Labor for approval as condition of credit effectiveness.

71. The Government will also undertake to strengthen the capacity of the Ministry of Labor to promote employment, relying on improved information on the informal sector and on training and marketing needs. A national job classification will be prepared, and the DMO services will be strengthened with ILO assistance. Submission of an action plan to strengthen the Ministry of Labor is a condition of second tranche release.

72. The Government has already revised both the ban on imports of second-hand technology, provided they are accompanied by performance guarantee certificates, as well as the structure of Bujumbura municipal taxes on informal and small enterprises, which were strongly biased against employment generation. As a complement to the above measures, the Government will complete the ongoing study on private sector salary structure and study alternatives to the medical insurance scheme currently available to the private sector, so that the medical costs now totally borne by the private sector employers will be shared by the employees, improving equity and reducing excess demand for medical services.

F. Financial Markets

73. The Government and the public sector have a dominant position in the financial system. Public ownership accounts for close to 50 percent of the capital of banks. With one exception (CADEBU), financial institutions are in fairly sound condition. Capital funds are adequate, rates of return are reasonable, and the problem of non-performing loans is manageable. Efficiency has, however, been undermined by a heavy regulatory environment which prevents competition among financial institutions. Among the factors hindering an efficient allocation of financial resources are the aforementioned monopoly of CADEBU regarding compulsory savings; the ban on public enterprises to deposit their liquid assests in banks of their choice; the heavy regulation of interest rates; and the discretionary policy on Treasury Bills.

74. In the framework of the proposed SAL II, the Government's objective is to liberalize the interest rate structure and to replace the regulatory system by more efficient instruments to manage credit and liquidity. The present system of multiple interest rates will be replaced by a simplified system of two rediscount rates -- one preferential and one non-preferential -- whereby the Central Bank would regularly adjust the discount rate, while letting all the other interest rates be market determined. In parallel, the credit regulations will be simplified.

75. The above described reform has been launched in April 1988 and will be completed by July 1989. In the <u>first phase</u>, the Government has: (a) established a public auction system for Treasury bills to rationalize the market for Treasury bills which were subject to arbitrary measures, and to provide a basic market-determined interest rate to be used as reference for determining the rediscount rate; (b) established a system of compulsory reserves, as an instrument to control overall credit expansion; (c) eliminated the prior authorization system of credit provided by commercial banks; and (d) eliminated the ceilings on interest rates for non-rediscountable credits and the minimum interest rates on sight deposits.

76. Moreover, public enterprises are now allowed to reduce their deposits in the Central Bank and invest their excess liquidity in alternative financial assets which will yield greater profitability. The system of compulsory savings will remain for the moment, but depositors will gradually be free to place them in the institution of their choice at market-determined rates. The current monopoly enjoyed by CADEBU will be gradually eliminated, as noted earlier (para. 51). The internal procedures for the Guarantee Fund (to stimulate credit to small and medium enterprises) will be adopted before credit effectiveness.

77. In the <u>second phase</u> (starting September 1988), the Government will reduce the number of rediscount rates from seven to three. Rediscount rates will be determined on the basis of the market rate for Treasury Bonds. The interest rates on rediscountable credits will be determined as follows: a maximum spread of 1 percentage point for the preferential rediscount rate and of 4 percentage points for the other two rediscount rates. The Government will also abolish the minimum interest rates on time and saving deposits with the exception of that on passbook deposits (to protect in this transitory phase the savings of small depositors) and adjust the "medium term coefficient" according to which financial institutions are required to hold a certain portion of their assets in term credits, by allowing financial institutions to subscribe to Treasury bills to meet that requirement and by applying a unified calculation method to all financial institutions.

78. In the <u>third phase</u> (starting December 1988), the Government will: (a) issue Treasury Bonds at progressive rates oriented to small savings; (b) reduce the number of rediscount rates to two; and (c) reduce the number of maximum interest rates on credits to two as well. Total liberalization of interest rates will be achieved by July 1989. The above reforms complement the measures supported by the Small Enterprise APEX Project approved in March 1988.

G. <u>Social Programs and Poverty Alleviation</u>

79. With a per capita income of about US$240, Burundi is among the poorest countries in the world. Poverty is also apparent in the low literacy rate of the adult population (less than 30%), the high infant mortality rate (120 per thousand live births), and the severe cases of malnutrition detected among rural children. Most of the low income population is concentrated in the rural sector. Only 6% of the population is urban, with a median annual income of about US$2,600, which compares with a farm income of US$400 (for a family of five). Economic conditions during 1980-85 were particularly unfavorable to the poor. The average

inflation rate of 15% per year eroded rural incomes, while inadequate macroeconomic policies and constraints on population mobility hindered employment generation and development of non-agricultural activities.

80. Programs with social objectives have long figured in most of Government's development plans. Projects have been launched with the support of major donors, including the Bank, to improve coverage of social services and ameliorate rural economic conditions. As a result, health facilities are now available to most of the population; full vaccination coverage for infants is attainable by 1990; potable water is now available to 34 percent of the population (compared with only 10 percent only eight years ago); and substantial improvement has been made in school enrollment: almost all 7-year old children have been enrolled during the 1987/88 school year. Moreover, a comprehensive program of family planning and maternal and child care is being implemented with Bank assistance; increased attention has been given to foodcrop research and extension; and cooperative rural savings were established in 1985.

81. Generally, the impact of the first SAL has been beneficial for the low and middle-income consumers, although some urban dwellers have been adversely affected by devaluations and by tight public sector wage policies (para. 13). The proposed second SAL is expected to have a positive social impact through increased economic activity and employment as well as through specific measures aimed at alleviating poverty. The policies which most directly affect low-income families are the liberalization of the labor market, a tax reform to stimulate informal (traditional) sector activities, and measures to improve agricultural productivity. They complement the positive impact expected from other programs implemented under several IDA-financed projects -- Education Sector, Health and Population, Small and Medium Enterprises, Urban II and Agricultural Services -- all of which address selected social issues and the generation of incomes for the poor.

82. Nonetheless more is needed to address the social issues that Burundi faces, as a poor country which suffered economic decline in the 1980's. An action plan is to be implemented under SAL II; it is described in the Letter of Development Policy (Annex V). During preparation of the proposed credit, the urban household survey of 1978 was updated, providing the basis for analyzing income trends of key vulnerable groups and for identifying poverty alleviation measures which need to be addressed. The Government has also requested to participate in the UNDP/Bank/ADF Social Dimension of Adjustment Project (SDA). The latter will provide technical assistance to strengthen the Government's social monitoring capacity and help formulate the components of a medium-term action program which would be implemented with the support of the Bank and other donors.

83. The criteria which have been adopted to guide social action programs are: (i) targeting of activities to specific low-income groups; (ii) transparent budgeting of relevant programs; (iii) least-cost solutions in the design of programs; and (iv) specific implementation calendar for each activity and its regular monitoring/evaluation before any extension beyond the agreed time frame in the Public Expenditure Program.

84. The Government has undertaken to apply these guidelines in preparing a social action program to be reviewed by the Bank before second tranche release. Priority will be given to the following activities:

(i) Nutritional complements for malnourished children. This would include services to support the diagnosis of malnourishment and food preparation activities, notably of weaning food carried out by women cooperatives. A young-child malnutrition diagnosis program has been prepared and is being implemented by the Ministry of Health. Targeted nutritional interventions will be prepared to address the most severe cases when detected. Concerning infant food production, a pilot program has been initiated, supported by UNICEF, and will begin production of infant cereal through three cooperative mills during 1988. The program will be extended nationwide.

(ii) Special programs targeted to women participation in development have been launched on a pilot basis, with the objective of helping them invest in productive assets. Three provinces are now covered with these projects, with financing from regional branches of the National Development Bank. These actions will be reviewed and expanded.

85. The Government will also undertake preparatory work to identify specific programs in the following areas: (a) labor-intensive components in public investments, including the possible re-programming of envisaged operations; (b) development or extension of small productive projects to be supported by public and private donors, in line with ongoing pilot projects undertaken by NGOs in small-scale fish farming and small livestock; (c) a viable rural housing credit program -- which has already reached 18,000 families with US$200-275 loans -- following an evaluation of the existing program; and (d) technology improvement in small-scale construction activities, including training in construction skills and artisanal manufacture of construction materials.

86. The Government has already started an active program to address the AIDS problem, with financing from major donors, including IDA (under the Population and Health Project). It will now ensure that the national program to combat AIDS (under preparation with WHO assistance) will be well integrated into the national health services. Based on the studies already prepared on the agricultural and nutritional sectors, the Government will elaborate a food security strategy with the objective of clarifying food aid policy and establishing an early warning system.

87. An action plan and preparation calendar for each sub-component noted above will be agreed before release of second tranche. Coordination will be provided by the Ministry of Plan which will be responsible for the implementation of the SDA Project and coordination among various Government agencies and public and private donors and will ensure that criteria for the design and implementation of social action programs are adhered to.

H. Impact of the Adjustment Program

88. Burundi's economic prospects will depend heavily on the evolution of the world coffee market, the continued implementation of the adjustment program, the performance of neighboring countries (notably in the areas of trade liberalization), and the availability of external assistance on concessional terms. With a stable external environment, the SAL II program, the policy actions being implemented in the context of major

development projects (aimed at increasing agricultural output and medium-scale industrial production and at improving transport and commercial circuits), GDP growth rates of 4.5 to 5 percent a year over the medium-term are well within reach, provided adequate financial support is available. Such rates are in line with past performance: real GDP expanded by 5.1 percent a year in 1978-81 (para.6) and by 4.5 percent, on average, in 1984-87 (Table 2).

89. Two scenarios have been prepared (and included in the second PFP): a base scenario, built on most likely levels of aid -- estimated, however, without taking into account potential additional assistance that could be mobilized under the Special Program of Assistance for the low-income debt-distressed countries in Sub-Saharan Africa -- and an alternative scenario which includes the funds potentially available under the Debt Initiative. Both scenarios assume that the program described in the preceding pages is fully implemented. The base scenario is predicated upon an annual average growth rate of 4 percent at market prices, which would allow real consumption per capita to grow at just about 1 percent annually (Table 2). The alternative scenario postulates an average GDP growth of about 5 percent per year at market prices, which would allow real consumption per capita to improve at 2 percent annually. The following paragraphs focus on the base case.

90. Coffee prices are projected to recover by 6.5 percent a year in nominal terms, in line with the Bank's latest commodity projections; by 1993, however, they will still be lower (in real terms) than those of the last ten years. In the short term, prices may increase more rapidly due to unexpected market developments (e.g, impact of adverse weather conditions in major producer countries such as Brazil), but it seems likely that the underlying long-term trends of declining elasticity of coffee consumption with respect to income in developed countries will make these increases temporary.

Table 2: BURUNDI - RECENT PERFORMANCE AND GROWTH PROSPECTS
(Percent Annual Average Real Growth Rates)

	Actual		Projected 1988-93	
	1981-1984	1984-1987	Base Case	Alternative
GDP, m.p.	0.5	4.5	4.0	5.1
GDP, f.c.	0.3	5.3	3.8	4.8
GNY per capita	-0.3	0.0	1.1	2.4
Consumption per capita	0.0	-1.0	0.9	2.1
Total Investment	1.9	4.3	2.0	4.7
Exports	3.6	9.3	6.5	7.6
Coffee	2.3	4.8	3.1	3.1
Noncoffee Goods	8.4	25.4	16.0	16.3
Imports	7.6	-1.4	4.1	5.7

91. The projected growth would originate from the agricultural and industrial sectors. The potential of agricultural resources -- already positive due to the country's favorable climate (two rainy seasons a year) and ingenious farmers -- would be harnessed through the public investment program under implementation in the sector, complemented with policy actions concerning extension and research, fertilizers and pesticides, pricing and marketing, and resource management. Agricultural value added would grow at 3.2 percent per year during the first half of the next

decade, accelerating to 3.4 percent during the second half, reflecting the progress anticipated in the foodcrop subsector as well as in the diversification of agricultural exports away from coffee. Secondary production would expand at 5.7 percent a year and the tertiary sector at about 5 percent.

92. The projections assume a moderate increase in coffee exports -- 3.1 percent a year -- in line with the production potential. They also assume an improvement in the quality of Burundian coffee to assure it a stable share in the international market. Tea exports would grow by 7.3 percent a year, in line with the conclusions of a recently prepared study, and cotton by 10 percent a year. These rates are consistent with past trends and are likely to materialize provided the exchange rate policy is such as to maintain the competitiveness of these products. Manufactured exports would grow at a rate of 13 percent a year (a conservative assumption compared with the 34 percent registered in the last two years) as a result of increased capacity utilization, and the effect of the new investments expected in response to the program. Non-coffee exports as a whole would grow at about 10 percent per year and the share of coffee exports would decline from 72 percent in 1987 to 60 percent by 1992.

93. This export performance, together with the estimated foreign aid resources, would permit an import growth of about 4 percent a year, which is consistent with the projected GDP growth. Nonetheless, slightly improved terms of trade (a 7.6 percent increase between 1987-89, which would still keep them 20 percent below the 1984-85 level), and a declining debt service/GDP burden imply that the current account deficit would decline from its 13 percent of GDP in 1987 (excluding transfers and in constant effective exchange rate terms) to 9.2 percent in 1992.

94. Taking into account the resource availabilities and the weak possibility of increasing public savings by a large amount, gross investment would grow at about 2 percent a year. The ratio of investment to GDP would be under 19 percent during the projection period which is less than in 1987 (20 percent) and in line with the average for 1983-84 (Table 1). Financing would have to occur primarily through increased savings. Domestic savings would need to grow to about 7 percent of GDP -- compared with 4.5 percent during 1981-86. Public sector savings (after interest payments) would have to increase gradually from a negative value in 1987 to 3.5 percent of GDP by 1992, which is feasible taking into account the financial program to be implemented.

95. Alternative Scenario. While the base scenario illustrates a situation which is quite favorable relative to the past seven years, further improvement could be achieve if additional efforts were made to increase the flows of external assistance to Burundi and if market conditions (especially in neighboring countries) were favorable. The alternative scenario corresponds to the Government's objective of achieving an average GDP growth rate of about 5 percent which would enable higher levels of per capita income and consumption levels. It also assumes that in response to the Government's active export promotion policy as a result of increased regional trade (notably in the context of PTA and CEPGL countries), non-coffee exports could grow faster than in the base case (averaging 16 percent per year). To support such growth in GDP and exports, investment would need to grow at 4.7 percent per year. The role

of private investment in sectors where Burundi seems to have a comparative advantage (agro-processing, fruits, some manufacturing) would raise the ratio of private investment to GDP to about 6 percent at the end of the period, compared with less than 2.5 percent during 1981-86. To finance the necessary import growth (5.7 percent a year) additional foreign resources will be needed. Additional investment, together with increased import capacity, would allow for higher growth rates: agricultural value added would grow at 3.4 percent per year during the first half of the next decade, accelerating to 3.6 percent during the second half; secondary production at 7.5 percent and the tertiary sector by 6 percent.

96. Medium-Term Financing Requirements, 1988-92. Table 3 summarizes the financial requirements associated with the alternative high growth scenario in order to highlight the financial support required to achieve a more meaningful improvement in per capita consumption, in line with Government's own objectives. Based on the above assumptions for export and import growth, the current account deficit (excluding public transfers) is projected to increase from US$225 million in 1988 to US$275 million in 1992. Over the five-year period, the current account deficit would average about US$250 million, of which $20 million comprise interest payment on medium- and long-term debt. Amortization is projected at $32 million a year. A projected reserve build up of US$24 million a year would enable an average net reserve coverage of 3 1/2 months in 1988 and 4 months afterwards to provide a solid basis for the liberalization program. Total external capital requirements during the period would average about $310 million, a year, which would have to be met from disbursements of public medium and long-term (MLT) loans, official transfers (recurrent and capital grants), and private direct investment.

Table 3: SUMMARY OF EXTERNAL CAPITAL REQUIREMENTS AND SOURCES
1988-92
(million US dollars)

	1987	1988-92	Per Year
Capital Requirements	238.9	1555.0	311.0
Current account deficit	214.4	1240.0	248.0
of which interest	18.2	(100.0)	(20.0)
Amortization	29.0	161.0	32.0
Increase in reserves	-9.3	119.0	24.0
Other capital n.e.i.	4.6	35.0	7.0
Sources:			
M&LT disburs.: existing commitments	211.0	225.0	45.0
Grants	90.6		
Bilateral Sources	34.4	57.0	12.0
Multilateral Sources	83.0	166.0	33.0
Private loans	3.0	3.0	0.6
Disb'ts. from expected new commitments:		1021.0	204.0
Private Investment		13.0	3.0
Official Transfers		580.0	116.0
New M&LT loans		428.0	86.0
Bilateral Sources		150.0	30.0
Multilateral Sources		280.0	56.0
Total Financing	211.0	1246.0	249.0
Financing gap	27.9	309.0	62.0
Sources: Adjustment IDA (incl. SJF)	27.9	186.0	37.0
IMF SAF (Excluding ESAF)		25.0	5.0
Identified Gap		97.0	20.0

97. About US$45 million a year is expected to be available from disbursements of previously contracted loans (up to mid-1987); US$115 million from public transfers (of which, US$60 in the form of capital grants, assuming that they remain constant in real terms at their recent trend level) and US$3 million from direct investment. On the basis of the major donors' current lending programs, or intentions, the disbursement flows from new commitments would average US$86 million a year (excluding quick-disbursing funds). The remaining financing requirement would amount to about US$60 million a year. Assuming a quick-disbursing operation by IDA every two years, and taking into account the proposed SAL II (including the SJF co-financing) and the current SAF funds (excluding ESAF), an additional US$20 million per year would have to be mobilized under the Debt Initiative to fill the gap (see Table 3 above). Due to the average favorable terms of the outstanding debt (para. 14), rescheduling would not be a useful alternative to cope with the burden of the external debt service. This will, however, continue to hinder the development potential of the country. In order to assist the Government growth efforts, continued assistance at highly concessional terms will be necessary. The share of total debt (DOD) owed to preferred creditors (including the IMF) is projected to rise from 71 percent in 1987 to 76 percent in 1992.

I. Risks

98. Despite the Government's commitment to the program, there are some risks which may hinder its successful outcome. The most important concerns the volatility of the world coffee market: for example, a decline of US$0.10 in the nominal price of coffee would cost Burundi US$4 million dollars per year and a decline of US$0.20 would erase the entire improvement in the trade balance achieved by the projected increase in nontraditional exports. The projected expansion of non-traditional exports, which in the short term is oriented to the neighboring countries, can also be hindered by protectionist policies and payment problems in major trading partners like Kenya, Zaire, Zambia, and Uganda. The political situation also poses some risks, as the new Government is rightly concerned with the need to consolidate its position and may feel compelled to soften some adjustment measures, if these appear to have excessive and enduring social costs. Finally, the weak institutional capacity of Burundi may hinder the rapid implementation of some reforms, notably those concerning the reinforcement of public sector management.

99. There are, however, some features which reduce the above risks. First, further substantial decline in the world coffee price could be mitigated by a concerted action of the International Coffee Agreement. Second, the reforms implemented during the first phase of the program helped to internalize among the economic agents the advantages of increased competition and progressive deregulation of the economy. Third, the commitment of the new Government and the technical assistance provided by IDA (in consultation with other donors, such as UNDP) are likely to help reinforce the institutional basis. The Government has already strengthen its monitoring capacity by appointing a high level Committee (at ministerial level) to follow-up on the implementation of the adjustment program. Fourth, the major foreign donors have followed up with interest the progress made by Burundi in the past two years and can be expected to provide additional support if the effects of the program proved slower to materialize or extraordinary circumstances occurred which jeopardized the success of the program.

J. Credit Amount and Tranching

100. The second phase of the Government adjustment program described above would be supported by a proposed Development Credit of US$90 million on standard IDA terms. The credit will be disbursed in three tranches. The first tranche in the amount of US$40 million would be released upon effectiveness, which is expected in July 1988. The second and third tranche of US$30 million and US$20 million, respectively, would become available following performance reviews (around March 1989, and October 1989) to establish that the Government has made significant and satisfactory progress in implementing the adjustment program, notably in complying with the specific actions listed in para. 103 and in Annex III, Sections IV and V.

K. Disbursement, Procurement, Administration and Auditing

101. Procurement would be in accordance with the Bank's Procurement Guidelines. Except for a few exclusions such as tobacco, alcohol, and defense items, any imports would be eligible for financing, but no more than US$22.5 million would be used for petroleum and food imports. All purchases, both public and private, under contracts amounting to US$1 million or more would be procured through ICB in accordance with Bank guidelines using a standard bidding document cleared with IDA. Imports for contracts of less than US$1 million equivalent would be in accordance with the usual practices of the purchaser and, for imports from public agencies, would include as a minimum the submission of at least three quotations unless the purchase necessarily involves proprietary equipment. Expenditures for goods procured under contracts of less than US$10,000 equivalent would not be eligible for IDA financing.

102. To facilitate the disbursement of the credit, a special account of US$15 million will be open at the Central Bank (BRB). The credit would reimburse 100 percent of the CIF cost of eligible imports. Disbursements will be based on statement of expenditures (SOE) for contracts of less or equal to US$500,000 equivalent. Full documentation will be required for all other disbursements. Retroactive financing will be permitted for those eligible imports made before the date of agreement but not before April 1, 1988, up to an amount equal to US$18 million. Public and private sector imports would be eligible, except for military equipment and luxury consumer goods. Imports financed by other sources would not be eligible for IDA financing. The Central Bank would be responsible for assembling requested supporting documentation collected from the commercial banks, to be provided as mentioned in Annex VI. The closing date of the credit will be December 31, 1990.

L. Monitoring

103. Monitoring of performance under the SAL will be carried out through regular supervision missions and monthly meetings of the Resident Representative with the "Comité de Suivi". The following reflects the actions which the Government has already taken under the program, the agreements reached with the Government concerning the actions it will have to take before credit effectiveness as well as the specific conditions for the release of the second and third tranches.

<u>Actions already taken by the Government under the proposed program:</u>

a. Promulgation of Export Promotion Decree (para. 37);

b. Elimination of import restrictions on luxury goods (para. 36);

c. Agreement on the process and launching the preparation of the 1989-91 public expenditure program and the transitional unified budget for 1989 (para. 40);

d. Agreement on action program for CABEDU (para. 51), completion of liquidation procedures for SOMEBU and SOPEBU, and preparation of the liquidation decree for SOGESA (para. 50); and

e. Adoption of revised municipal taxes structure (para. 72).

<u>Effectiveness conditions:</u>

a. Agreement on the definitive PIP for 1988-90, including reserve projects (para.42);

b. Agreement on calendar for progressive elimination of CADEBU's monopoly on compulsory savings (para. 51);

c. Promulgation of the decree liquidating SOGESA (para. 50);

d. Submission of the revised labor legislation for approval of the National Labor Council (para. 69-70); and

e. Adoption of internal procedures for the Guarantee Fund (para. 76).

<u>Second Tranche Release Conditions:</u>

a. Agreement on macroeconomic framework including fiscal deficit, 1989-91 PEP, and 1989 transitional unified budget (para.40);

b. Implementation of third phase of tariff reform, including revision of nomenclature (para. 36);

c. Signature of performance contracts with VERRUNDI and REGIDESO (para. 55-56); agreement on timetable for liberalization of imports competing with VERRUNDI production (para.36); and agreement on action program for SOSUMO to be implemented during 1989 (para. 64);

d. Agreement of coffee pricing structure for 1989/90 season (para. 62);

e. Liberalization of rice marketing (para. 65);

f. Reduction of rediscount rates from 3 to 2 and implementation of all other measures included in the second and third stages of credit reform (para. 77-78);

g. Agreement on action plan for poverty alleviation (para. 84); and

h. Agreement on action plan to reinforce the Ministry of Labor and its agencies in charge of employment promotion (para. 71).

Third Tranche Release Conditions:

a. Agreement on macroeconomic framework for 1990-92, including fiscal deficit, and 1990 transitional unified budget (para.40);

b. Satisfactory implementation of action plan for SOSUMO (para. 64);

c. Completion of first phase of elimination of CADEBU's monopoly on compulsory savings (para. 51);

d. Agreement on action plan to improve civil service efficiency (para.41);

e. Agreement on action plan for privatization/liquidation of the public enterprise sector on the basis of studies to be carried out during 1988/1989 (para. 56); and

f. Launching second phase of labor market liberalization and extending it to the parastatal sector (para. 69).

PART V - BANK GROUP OPERATIONS AND STRATEGY

104. The Bank has made 32 credits to Burundi amounting to US$278 million of which US$89 million has not been disbursed. Of total IDA lending to Burundi, 42 percent has been for agriculture, 34 percent for infrastructure (water, power, transportation) and the balance (24 percent) for social sectors (education, health) and technical assistance. Annex II contains a summary statement of IDA credits, and IFC investments.

105. Historically, the volume of IDA lending to Burundi has fluctuated depending on policy performance and political and economic evolution. During 1962-72, which coincided with internal political difficulties, Bank involvement was limited to operations on coffee production, highways and water supply. After 1976, IDA operations increased rapidly, with projects in agriculture and highways as well as for new sectors: fisheries, forestry, education, industry, rural development, telecommunications, power, technical assistance and housing and urban development. IDA lending increased markedly in FY85-87 with the approval of the first SAL, two major credits in agriculture and industry and support to health and education.

106. The Bank Group lending strategy is to support the Government's medium-term economic adjustment program by focusing on; (i) maintenance of external trade policies intended to accelerate export growth and efficient import substitution; (ii) improvements in policies affecting the social sectors; (iii) public sector management and fiscal policies to maintain economic growth and strengthen public savings; (iv) financial policies to stimulate domestic savings and to allocate funds more efficiently; (v) policy incentives to expand productive employment; and (vi) investment

operations (outlined in the next paragraph) which complement the growth strategy of the Government and address the longer-term structural constraints through active population policies, investments to strengthen agricultural production and stimulate SME creation, effective natural resource management, enhanced food security, expanded human resource potential, and targeted poverty-alleviation programs. In addition to the proposed credit, a third SAL is envisaged in the early 1990's.

107. Several other projects already approved or under consideration complement the adjustment lending and reinforce the effort to meet the objective of the Government's structural adjustment program. In the productive sectors, the Bank is assisting the Government to improve and diversify the production base and to stimulate the participation of the private sector, hence facilitating the economic response to the policy reforms underway. In agriculture, the focus is to help reinforce basic agricultural services and improve efficiency in use of public expenditures (Agricultural Services Project, FY89) and improve efficiency of the coffee sector (Coffee Export Adjustment Operation planned for FY89). In industry, the Bank is supporting the development of small and medium enterprises to encourage the emergence of a Burundian entrepreneurial class and increase employment opportunities (Small and Medium Enterprise Project, approved in March 1988). In the social sectors, assistance is being provided to expand coverage of social services within the financial limits of the public sector, ensuring adequate cost recovery and adequate allocation to priority actions. The Population and Health project (approved in December 1987), supports the Government's efforts to control population growth, increase health coverage, address the AIDS issue, and improve the financing and efficiency of health services. The Education Sector project (approved in February 1988) is assisting the Government in extending universal primary education within feasible budgetary limits through improved planning, investment, cost recovery, and policy actions to control costs of secondary and higher education. In the urban/water supply sector, the Bank is helping to develop opportunities in artisanal activities and foster development of secondary urban centers (Second Urban project under preparation) and to improve rural living conditions through access to safe drinking water. In infrastructure (transport and energy), the objective is to assist the Government to allocate its limited resources to developmental priorities and to improve management of relevant parastatals. Expenditures on transport should maintain a proper balance between road construction and maintenance, while developing a transport investment planning capability and improving efficiency of road transport. The Fifth Highway Project planned for FY90 is designed with this objective.

108. In support of the above strategy, the economic and sector work program will focus primarily on assessing the impact of the structural adjustment process and strengthening the Government's public expenditure programming. To mobilize the external resources required to support the structural adjustment program, the Bank will continue to play a key role in aid coordination. It will collaborate with the UNDP in a special co-financing meeting planned for the Summer to present the objectives and scope of the second phase of the Government's adjustment program and mobilize the resources needed to finance the identified gap for 1988-89, discuss the TA program and review the documents to be presented at the Round Table planned for the Fall.

PART VI - RELATIONS WITH THE IMF

109. Burundi negotiated a Stand-by arrangement with the IMF in 1986 in order to get the IMF's endorsement to the financial program. No purchases were planned and none were made. In early 1987, the first review of the program was not concluded because of the failure to meet the performance criteria due to the shortfall in coffee revenues and, consequently, the much larger than anticipated public sector borrowing from the domestic banking system. Burundi requested assistance in implementing another financial program in early March 1987. Discussions were initiated in July 1987, in the context of the preparation of the second Policy Framework Paper, and pursued with the new Government in January 1988. A second year SAF program was approved by the Executive Directors of the IMF on May 4, 1988. The contents of the new financial program are described in paras. 32-33. Given the nature of the proposed adjustment program and the need for fiscal and balance of payments policies to support structural reforms at the sector level, there has been close collaboration between the staff of the Bank and the IMF in the preparation of the first SAL, two Policy Framework Papers, and the proposed second SAL.

PART VII - RECOMMENDATION

110. I am satisfied that the proposed Credit would comply with the Articles of Agreement of the Association.

111. I recommend that the Executive Directors approve the proposed Development Credit and that the Association would act as Administrator of the proposed Special Joint Financing non-reimbursable contribution from Japan.

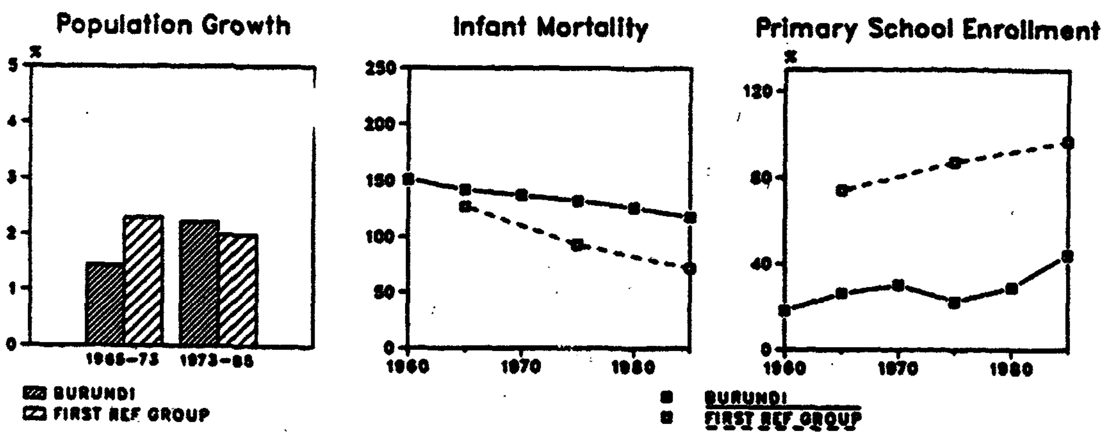
Barber B. Conable
President

Washington, D.C.
May 11, 1988

1987 SOCIAL INDICATOR DATA SHEET

BURUNDI

	1965	1973	Most Recent Estimate	Reference Groups (MRE) Low-income	Lower mid income
AREA					
Total land area (thou sq km)	27.8	27.8	27.8		
Agricultural (% of total)	58.4	71.9	79.7		
GNP PER CAPITA (current US$)	70	80	240	260	820
POPULATION AND VITAL STATISTICS					
Total population (thou)	3,131	3,576	4,573		
Urban pop. (% of total)	2	2	3	22	36
Population growth rate(%):					
Total		1.4	2.2	2.1	2.5
Urban		1.4	2.3	3.8	4.2
Life expect. at birth (yrs)	44	45	48	60	58
Population projections:					
Pop. in 2000 (thou)			7,370		
Stationary pop. (thou)			23,600		
Population density per sq km of agricultural land	193	179	206	349	284
Pop. age structure (%):					
0-14 yrs	44	44	44	37	39
15-64 yrs	53	53	52	59	55
65 and above	3	3	4	4	6
Crude birth rate (per thou)	47	46	47	29	36
Crude death rate (per thou)	24	24	19	10	11
Total fertility rate	6.4	6.4	6.5	3.2	3.6
Infant mort. rate (per thou)	143	135	120	72	82
Child death rate (per thou)	38	34	24	9	11
Family planning:					
Acceptors, annual (thou)	..	..	..	..	..
Users (% of married women)	..	..	..	..	..
FOOD, HEALTH AND NUTRITION					
Index of food production per capita (1979-81 = 100)	..	92	98	115	108
Per capita supply of:					
Calories (per day)	2,391	2,275	2,116	2,339	2,514
Proteins (grams per day)	82	83	78	55	56
Pop. per physician (thou)	..	45.4	..	8.9	6.9
Pop. per nurse (thou)	..	..	..	2.4	1.4
Pop. per hospital bed (thou)	..	0.9	..	1.1	0.8
Access to safe water (% of population): Total	..	..	24	..	..
Urban	..	77	90	..	..
Rural	..	..	20	..	..



1987 SOCIAL INDICATOR DATA SHEET

BURUNDI

	1965	1973	Most Recent Estimate	Reference Groups (MRE) Low-income	Lower mid income
LABOR FORCE					
Total Labor Force (thou)	1,592	1,753	2,113		
Female (%)	46	45	45	31	29
Agriculture (%)	94	93	93	72	55
Industry (%)	2	2	2	13	16
Participation rate (%):					
Total	51	49	46	41	35
Male	56	55	52	54	49
Female	46	44	41	28	20
Age dependency ratio	0.9	0.9	0.9	0.7	0.8
HOUSING					
Average size of household:					
Total	..	..	..	..	..
Urban	..	..	6 a	..	..
Rural	..	..	4 a	..	..
Percentage of dwellings with electricity:					
Total	..	..	.. a	..	..
Urban	..	..	23 a	..	..
Rural	..	..	..	..	..
EDUCATION					
Enrollment rates:					
Primary: Total	26	30	45	97	103
Male	36	42	55	109	110
Female	15	20	36	84	97
Secondary: Total	1	2	4	32	40
Male	2	3	5	41	48
Female	1	1	3	25	39
Pupil-Teacher ratio:					
Primary	40	32	56	36	32
Secondary	11	12	..	18	20
Pupils reaching grade 6 (%)	..	32	66	49	71
INCOME, CONSUMPTION, AND POVERTY					
Energy consumption per cap. (kg of oil equivalent)	5	7	26	310	345
Percentage of private income received by:					
Highest 10% of households	..	..	..	..	..
Highest 20%	..	..	..	..	..
Lowest 20%	..	..	..	..	..
Lowest 40%	..	..	..	..	..
Est. absolute poverty income level (US$ per capita):					
Urban	..	..	213 b	..	..
Rural	..	..	136 b	..	..
Est. pop. below absolute poverty income level (%)					
Urban	..	..	55 b	..	..
Rural	..	..	85 b	..	..
Passenger cars/thou pop.	0.7	1.0	..	0.3	4.0
Newspaper circulation (per thousand population)	..	0.1	..	16.0	14.0

IECSE August 1987

.. Not available. Note: Most recent estimates of population and GNP per capita are for 1986 unless otherwise noted.
Group averages are population weighted. Country coverage depends on data availability and is not uniform. Unless otherwise noted, 1965 refers to any year between 1962 and 1966; 1973 between 1970 and 1975; and most recent estimate between 1980 and 1986.
a. 1979. b. 1978.

Definitions of Social Indicators

The definition of a particular social indicator may vary among countries or within one country over time. For instance, different countries define "urban area" or "safe water" in different ways. For more detailed definitions, see the technical notes to the World Development Indicators.

AREA (thousand square kilometers)
Total - Total surface area comprising land area and inland waters.
Agricultural (percentage of total) - Estimate of agricultural area used for crops, pastures, market and kitchen gardens or lying fallow, as a percentage of total.

GNP PER CAPITA (US$) - 1986 GNP per capita estimates at current market prices, calculated by the conversion method used for the *World Bank Atlas*.

POPULATION AND VITAL STATISTICS
Total population - mid-year (millions), 1986 data.
Urban population (percentage of total) - Different countries follow different definitions of urban population which may affect comparability of data among countries.
Population growth rate (percent) - total and urban - Annual growth rates of total and of urban populations.
Life expectancy at birth (years) - Number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life.
Population projections
Population in 2000 - Projections of population given total population by age and sex, fertility and the demographic parameters of mortality rates, and migration in the base year 1980.
Stationary population - Projected population level when zero population growth is achieved: i.e., the birth rate is constant and is equal to the death rate, the age structure is stable, and the growth rate is zero.
Population density, agricultural land - Population per square kilometer (100 hectares) of agricultural area.
Population age structure (percent) - Children 0–14 years, working age group 15–64 years, and people of 65 years and over as percentages of population.
Crude birth rate - Annual live births per thousand population.
Crude death rate - Annual deaths per thousand population.
Total fertility rate - Average number of children that would be born alive to a woman during her lifetime, if during her childbearing years she were to bear children at each age in accordance with prevailing age-specific fertility rates.
Infant (aged 0-1) mortality rate - Number of infants per thousand live births, in a given year, who die before reaching one year of age.
Child (aged 1-4) mortality rate - Number of deaths of children, aged 1–4, per thousand children in the same age group, in a given year.
Family planning - acceptors, (thousands) - Annual number of acceptors of birth-control measures received under the auspices of a national family planning program.
Family planning - users (percentage of married women) - Percentage of married women of child-bearing age who are practicing, or whose husbands are practicing, any form of contraception. Child-bearing age is generally 15 to 44, although for some countries contraceptive usage is measured for other age groups.

FOOD, HEALTH AND NUTRITION
Index of food production per capita (1979–81 = 100) - Index of per capita annual production of all food commodities. *Production* excludes animal feed and seed for agriculture. *Food commodities* include primary commodities (for example, sugarcane instead of sugar) which are edible and which contain nutrients (for example, tea and coffee are excluded). They include nuts, fruits, pulses, cereals, vegetables, oil seeds, sugarcane and sugar beets, livestock, and livestock products. Aggregate production of each country is based on national average producer price weights.
Per capita supply of calories - Computed from energy equivalent of net food supplies available in a country, per capita, per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds for use in agriculture, quantities used in food processing, and losses in distribution.
Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries, established by United States Department of Agriculture, provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal or pulse protein.
Population per physician - Population divided by the

number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by the number of practicing graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.

Population per hospital bed - Population divided by the number of hospital beds available in public and private, general and specialized hospitals, and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician.

Access to safe water (percentage of population) - total, urban, and rural - People (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from springs, sanitary wells, and protected boreholes). In an urban area this may be a public fountain or standpost located not more than 200 meters away. In rural areas this implies that members of the household do not have to spend a disproportionate part of the day fetching water.

LABOR FORCE

Total labor force (millions) - Economically active, including armed forces and unemployed but excluding housewives and students.

Female (percent) - Female labor force as a percentage of total labor force.

Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as a percentage of total labor force.

Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as a percentage of total labor force.

Participation rate (percent) - total, male, and female - Participation rates are the percentage of population of all ages in the labor force. These are based on ILO data on the age-sex structure of the population.

Age dependency ratio - Ratio of population under 15, and 65 and over, to the working age population (age 15–64).

HOUSING

Average size of household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and main meals.

Percentage of dwellings with electricity - total, urban, and rural - Conventional dwellings with electricity in living quarters, as a percentage of all dwellings.

EDUCATION

Enrollment rates

Primary school enrollment - total, male and female - Gross enrollment of all ages at primary level as a percentage of school-age children as defined by each country, and reported to Unesco. While many countries consider primary school age to be 6–11 years, others use different age groups. For some countries with universal education, gross enrollment may exceed 100 percent since some pupils are younger or older than the country's own standard primary school age.

Secondary school enrollment - total, male and female - Computed in a similar manner, but including pupils enrolled in vocational, or teacher training secondary schools. The age group is usually 12 to 17.

Pupil-teacher ratio - primary, and secondary - Total students enrolled in school divided by the total number of teachers.

Percentage pupils reaching grade six - The percentage of children starting primary school, that continue until grade six.

INCOME, CONSUMPTION, AND POVERTY

Energy consumption per capita (kilograms of oil equivalent) - Annual consumption of commercial primary energy (coal, lignite, petroleum, natural gas, and hydro, nuclear and geothermal electricity).

Income distribution - Income (both in cash and kind) accruing to percentile groups of households ranked by total household income.

Passenger cars (per thousand population) - Includes motor cars seating fewer than eight persons.

Newspaper circulation (per thousand population) - Average circulation of a "daily, general interest newspaper," defined as a news periodical published at least four times a week.

Estimated absolute poverty income level (US$ per capita) - urban and rural - Absolute poverty income level is that below which a minimal nutritionally adequate diet plus essential nonfood requirements are not affordable.

Estimated population below absolute poverty income level (percent) - Percentage of urban and rural populations who live in "absolute poverty."

BURUNDI
ECONOMIC INDICATORS

BASE SCENARIO

	Actual					Prelim	Projection				
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
GDP (market price) growth rate	-0.4%	3.1%	-0.1%	7.4%	4.4%	1.7%	4.1%	3.9%	4.0%	4.1%	4.2%
GDP (factor cost) growth rate	-2.0%	4.0%	-0.3%	7.5%	3.8%	4.7%	3.7%	3.6%	4.0%	4.2%	4.3%
GDY growth rate 1/	-3.4%	3.6%	2.9%	3.1%	7.0%	-2.4%	4.7%	4.2%	4.1%	4.1%	4.2%
GDY/ capita growth rate 1/	-6.0%	0.8%	0.0%	0.2%	4.0%	-5.2%	1.6%	1.1%	1.0%	1.0%	1.1%
Consumption per capita growth rate	0.9%	-6.1%	4.9%	2.7%	0.3%	-6.8%	2.1%	0.3%	0.9%	0.9%	0.7%
Debt service (US$)	11.2	12.2	17.9	28.0	32.6	47.2	49.3	50.4	50.9	53.7	56.5
Debt service/XGS	10.7%	12.5%	16.7%	23.2%	26.1%	43.6%	38.2%	34.7%	31.4%	29.9%	28.4%
Debt Service/GDP	1.1%	1.1%	1.8%	2.5%	2.7%	3.8%	4.1%	3.9%	3.6%	3.5%	3.4%
Gross Investment/GDP 2/	13.9%	17.8%	18.4%	13.6%	13.6%	19.9%	19.0%	19.2%	19.0%	18.9%	18.9%
Domestic savings/GDP	-1.4%	.0%	4.1%	4.7%	5.8%	7.7%	6.2%	6.3%	6.6%	7.0%	7.5%
National savings/GDP	5.3%	6.4%	9.9%	9.3%	10.1%	10.0%	10.0%	10.3%	10.6%	11.0%	11.5%
Marginal savings Rate	..	104.0	-19.1	-84.3	21.6	6.2	9.8	14.0	14.6	16.5	18.1
Public investment/GDP	13.5%	17.8%	14.5%	11.7%	13.4%	15.7%	14.3%	14.1%	13.7%	13.3%	13.0%
Public savings/GDP	0.6%	-0.4%	3.0%	3.4%	4.4%	-1.4%	2.1%	3.2%	3.2%	3.5%	3.5%
Private investment/GDP	1.2%	1.1%	2.7%	2.4%	2.4%	2.4%	2.7%	3.2%	3.4%	3.5%	3.9%
Private savings/GDP	4.5%	6.8%	6.9%	5.9%	5.7%	11.4%	7.9%	7.1%	7.4%	7.5%	8.0%
Ratio of Public/Private Invest.	11.5	..	5.3	4.9	5.6	6.6	5.4	4.4	4.0	3.8	3.3
Government Revenues/GDP 3/	14.9%	12.5%	14.1%	13.9%	15.8%	12.2%	14.5%	15.5%	15.3%	15.2%	16.4%
Government Expenditures/GDP 4/	27.6%	30.6%	25.7%	21.5%	22.3%	25.0%	24.2%	23.6%	21.8%	20.2%	21.4%
Deficit (-)/GDP	-12.7%	-18.1%	-11.5%	-7.5%	-6.5%	-12.8%	-9.7%	-8.1%	-6.5%	-5.0%	-5.0%
Export (GNFS) Growth Rate	7.9%	-15.6%	-7.9%	32.3%	-12.6%	12.3%	4.7%	6.8%	7.3%	7.8%	8.2%
Exports/GDP	9.5%	9.8%	10.1%	10.7%	10.4%	8.6%	10.6%	11.2%	11.6%	11.8%	12.2%
Import (GNFS) Growth Rate	32.4%	-7.3%	9.1%	-2.5%	2.4%	-4.5%	4.2%	4.1%	4.0%	4.1%	4.1%
Imports/GDP	24.8%	27.7%	24.2%	19.6%	18.2%	20.8%	23.3%	24.6%	24.4%	24.2%	24.0%
Current Account (in mn.US$)	-174.3	-179.4	-163.2	-128.2	-151.3	-214.4	-216.1	-221.6	-229.5	-237.2	-243.5
Cur. Account/GDP	-8.6%	-12.0%	-8.5%	-4.3%	-3.5%	-9.6%	-9.0%	-8.9%	-8.4%	-7.9%	-7.3%
excl. Official Transfers	-17.1%	-19.7%	-16.2%	-11.0%	-11.5%	-17.0%	-17.6%	-17.7%	-16.9%	-16.2%	-15.4%
adj. for exchange rate	-17.0%	-19.9%	-16.2%	-11.2%	-10.2%	-13.0%	-11.9%	-10.8%	-10.4%	-10.0%	-9.2%

1/ GDY per capita = GDP per capita adjusted for changes in the terms of trade.
2/ Includes variation of stocks
3/ Excluding public tran fers
4/ On a commitment basis. Includes investment expenditures and on-lending to public enterprises.

BURUNDI
ECONOMIC INDICATORS

ALTERNATIVE SCENARIO

	Actual					Prelim	Projection				
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
GDP (market price) growth rate	-0.4%	3.1%	-0.1%	7.4%	4.4%	1.7%	5.6%	5.4%	5.6%	4.8%	5.1%
GDP (factor cost) growth rate	-2.0%	4.0%	-0.3%	7.5%	3.6%	4.7%	4.6%	4.0%	4.7%	4.8%	4.9%
GDY growth rate 1/	-3.4%	3.6%	2.9%	3.1%	7.0%	-2.4%	6.1%	5.5%	5.7%	4.8%	5.0%
GDY/ capita growth rate 1/	-6.0%	0.6%	0.0%	0.2%	4.0%	-5.2%	3.0%	2.5%	2.6%	1.7%	2.0%
Consumption per capita growth rate	0.9%	-6.1%	4.9%	2.7%	0.3%	-6.8%	2.3%	2.2%	2.5%	1.6%	1.7%
Debt service (US$)	11.2	12.2	17.9	26.0	32.6	47.2	49.3	50.4	50.9	53.7	56.5
Debt service/XGS	10.7%	12.5%	16.7%	23.2%	26.1%	43.6%	38.0%	34.0%	30.4%	29.5%	26.9%
Debt Service/GDP	1.1%	1.1%	1.8%	2.5%	2.7%	3.8%	3.9%	3.7%	3.4%	3.3%	3.2%
Gross Investment/GDP 2/	13.9%	17.8%	18.4%	13.6%	15.6%	19.9%	20.0%	19.8%	19.6%	19.6%	19.6%
Domestic savings/GDP	-1.4%	.0%	4.1%	4.7%	5.8%	7.6%	8.3%	8.5%	8.6%	8.8%	9.0%
National savings/GDP	5.3%	6.4%	9.9%	9.3%	10.1%	10.0%	11.4%	11.9%	11.9%	12.1%	12.4%
Marginal savings Rate	..	104.0	-19.1	-64.3	21.6	6.2	20.2	13.4	10.0	12.2	14.1
Public investment/GDP	13.5%	17.8%	14.5%	11.7%	13.4%	15.7%	15.0%	14.3%	13.8%	13.6%	11.9%
Public savings/GDP	0.8%	-0.4%	3.0%	3.4%	4.4%	-1.4%	1.4%	2.5%	3.8%	5.3%	4.2%
Private investment/GDP	1.2%	1.1%	2.7%	2.4%	2.4%	2.4%	3.0%	3.5%	3.8%	4.0%	5.7%
Private savings/GDP	4.5%	6.8%	6.9%	5.9%	5.7%	11.4%	9.9%	9.3%	8.2%	6.8%	8.2%
Ratio of Public/Private Invest.	11.5	..	5.3	4.9	5.6	6.6	5.0	4.1	3.6	3.4	2.1
Government Revenues/GDP 3/	14.9%	12.8%	14.1%	13.9%	15.8%	12.2%	14.5%	15.5%	15.3%	15.2%	16.4%
Government Expenditures/GDP 4/	27.6%	30.6%	25.7%	21.5%	22.3%	25.0%	24.2%	23.6%	21.8%	20.0%	21.1%
Deficit (-)/GDP	-12.7%	-18.1%	-11.5%	-7.5%	-6.5%	-12.8%	-9.7%	-8.0%	-6.4%	-4.8%	-4.6%
Export (GNFS) Growth Rate	7.9%	-15.8%	-7.9%	32.3%	-12.6%	12.3%	7.4%	9.1%	8.8%	8.8%	9.0%
Exports/GDP	9.5%	9.8%	10.1%	10.7%	10.4%	8.6%	10.4%	10.8%	11.1%	11.4%	11.8%
Import (GNFS) Growth Rate	32.4%	-7.3%	9.1%	-2.5%	2.4%	-4.5%	5.6%	5.3%	5.7%	5.5%	5.5%
Imports/GDP	24.8%	27.7%	24.2%	19.6%	18.2%	20.8%	23.6%	23.6%	23.5%	20.5%	23.7%
Current Account (in mn.US$)	-174.3	-179.4	-163.2	-128.2	-151.3	-214.4	-226.6	-232.4	-244.6	-256.2	-271.3
Cur. Account/GDP	-8.6%	-12.0%	-8.5%	-4.3%	-3.5%	-9.8%	-9.7%	-8.9%	-8.6%	-8.3%	-8.1%
excl. Official Transfers	-17.1%	-19.7%	-16.9%	-11.0%	-11.5%	-17.0%	-18.1%	-17.0%	-16.3%	-15.7%	-15.3%
adj. for exchange rate	-17.0%	-19.9%	-16.2%	-11.2%	-10.2%	-13.0%	-10.9%	-9.8%	-9.5%	-9.3%	-9.1%

1/ GDY per capita = GDP per capita adjusted for changes in the terms of trade.
2/ Includes variation of stocks
3/ Excluding public transfers
4/ On a commitment basis. Includes investment expenditures and on-lending to public enterprises.

Table 2: BALANCE OF PAYMENTS, ACTUAL AND PROJECTIONS
(in millions of dollars at current prices)

	1984	1985	1986	1987	1988	1989	1990	1991
Exports f.o.b	88	112	126	96	115	130	145	162
(coffee)	73	95	106	69	76	81	84	93
Imports c.i.f	184	171	185	219	245	268	292	319
Services (net)	-78	-77	-83	-96	-103	-105	-110	-115
(Interest)	(8)	(10)	(14)	(18)	(18)	(18)	(18)	(19)
Current transfers	38	38	62	58	79	76	76	82
Current Account	-125	-90	-89	-157	-153	-166	-181	-190
(Excl. public transfers)	-163	-128	-151	-215	-225	-233	-247	-282
Direct Investment	1	1	3	2	2	2	3	3
Capital grants	40	40	43	37	40	43	50	50
MLT Loans (net)	81	56	67	118	157	143	149	133
Disbursements a/	90	73	88	147	187	174	180	166
Repayments	-9	-17	-22	-29	-30	-31	-31	-33
Other capital n.e.	-5	2	-2	- 5	-8	-8	-9	-14
Overall balance	-2	9	22	-9	64	25	9	10
Financing gap					32	12	-	28
Memorandum items:								
Net reserves as months of imports	0.8	1.1	2.5	1.5	3.5	4.0	4.0	4.0
Debt Service ratio	16.7	23.2	26.1	43.8	38.0	34.0	30.4	29.5
Coffee exports								
Volume ('000 tons)	25.4	33.8	28.3	29.8	30.5	31.4	32.4	33.3
Price (US$/kg)	2.86	2.81	3.73	2.32	2.63	2.78	2.88	2.96
Current Account/GDP								
Excluding transfers (%)	16.2	11.0	11.5	17.0	18.1	17.0	16.3	15.7
(adjusted) b/	16.2	11.2	10.2	13.0	10.9	9.8	9.5	9.3

a/ Includes SJF financing and IMF SAF resources in 1988 and 1989, and the third tranche of the proposed IDA credit in 1990.
b/ In terms of constant effective exchange rate using 1982 as the base year.

Table 8: FISCAL IMPACT OF STABILIZATION PROGRAM
(FBu billions in current prices)

	1985	1986	1987	1988	1989	1990	1991	1992
Receipts and Grants	24.5	29.0	24.3	30.4	34.7	36.9	39.3	42.0
Receipts	19.7	23.9	18.9	24.3	28.0	29.5	31.3	34.5
Tax Revenues	18.2	21.2	17.3	21.7	25.4	27.1	28.9	31.0
o/w coffee	3.7	5.0	0.6	1.5	2.6	2.7	2.8	2.9
Non tax revenues	1.5	2.6	1.6	2.6	2.8	3.0	3.3	3.5
Grants	4.8	5.2	5.4	6.0	6.5	6.8	7.1	7.4
Current expenditures	14.8	17.3	20.4	21.4	22.6	23.7	24.5	25.4
Wages and Salaries	7.1	7.8	8.7	9.4	10.0	10.5	10.9	11.3
Goods and Services	3.8	4.3	4.5	4.9	5.3	5.7	6.0	6.3
Transfers and Subsidies	1.8	2.1	2.2	2.5	2.6	2.8	2.9	3.0
Interest on Public Debt	2.0	2.2	3.0	3.7	3.8	3.9	3.7	3.7
(external debt)	1.2	1.4	1.9	2.5	2.4	2.5	2.6	2.6
(domestic)	0.8	0.8	1.1	2.2	2.6	1.4	1.1	1.1
Others 1/	0.2	0.9	2.0	0.9	0.9	1.0	1.0	1.0
Government Savings	9.7	11.7	2.9	9.0	12.1	13.2	14.8	16.6
Capital Expenditure and Net lending	15.5	16.4	18.5	19.3	20.4	19.2	18.3	18.1
(Locally financed:BEI)	2.9	2.9	4.5	4.0	4.2	4.1	4.1	4.1
(Foreign financed)	12.6	13.5	14.0	15.3	16.2	15.1	14.2	14.0
Overall Deficit (Commit.)	-5.8	-4.7	-14.6	-10.3	-8.3	-6.1	-3.5	-1.6
(Excluding grants)	-10.6	-9.9	-19.9	-16.3	-14.7	-12.9	-10.6	-9.0
Change in arrears	-1.6	-1.4	2.3	-1.6	-1.1	0.0	0.0	0.3
Overall Deficit (Cash Basis)	-7.4	-6.1	-12.2	-12.0	-9.4	-6.1	-3.5	-1.6
Net Financing								
Foreign Borrowing	5.3	6.5	8.8	9.5	10.1	8.7	7.7	7.0
Disbursements	6.7	8.4	11.0	12.0	12.9	11.5	10.7	10.2
(of which SAL)	(..)	(..)	(1.7)	(2.3)	(3.2)	(3.2)	(3.6)	(3.6)
Amortization	-1.4	-2.0	-2.3	-2.6	-2.8	-2.8	-3.0	-3.2
Domestic (net)	2.1	-0.4	3.5	2.4	-0.7	-2.6	-4.2	-5.4
Banking system	1.6	-1.7	1.2	0.8	-0.7	-2.6	-4.2	-5.4.
Other	0.5	1.3	2.3	1.6	..	..	..	..
Memorandum items				(in percent of GDP)				
Tax Revenue and Grants	17.3	19.2	15.6	18.1	19.0	18.7	18.5	18.4
Non-coffee tax revenue	10.3	10.8	10.8	12.1	12.5	12.4	12.3	12.3
Total expenditure	21.5	22.3	25.0	24.2	23.6	21.8	20.1	19.0
Government deficit								
Excluding grants	-7.5	-6.5	-12.8	-9.7	-8.1	-6.5	-5.0	-3.9
Including grants	-4.1	-3.1	-9.4	-6.1	-4.6	-3.1	-1.6	-0.7

1/ Includes global adjustment to deficit related to extrabudgetary operations on other government accounts.

Table 4: PUBLIC INVESTMENT PROGRAM 1988-90
(In billions of current Fbu and percentages)

	PIP 1988-90	Core PIP	----- Structure ------ (In %)		
	Blns FBu	(%)	1988	1989	1990
Agriculture	30.3	89	41	40	42
Indust./Mining/Energy	10.5	91	18	15	10
Services	2.2	47	1	4	4
Sub-Total productive	43.0		63	59	56
Transport/Telecoms	15.4	83	22	20	20
Urban/Housing	1.8	66	1	3	4
Sub-Total Economic Inf.	17.2		23	23	24
Education	8.2	89	10	11	12
Health	4.0	88	5	5	6
Other Social	1.5	60	2	2	2
Sub-Total Social Inf.	13.7		17	18	20
Total	73.9	85	100	100	100
US$ million	527				
Memo Item: Parastatal projects and private contributions	8.9				

ANNEX II

STATUS OF BANK GROUP OPERATIONS IN BURUNDI

A. SUMMARY STATEMENT OF BANK LOANS AND IDA CREDITS EXPRESSED IN US DOLLARS

(As of December 30, 1987)

LOAN CREDIT #	YEAR	BORROWER	PROJECT NAME	AMOUNT LESS CANCELLATIONS (US$ MILLIONS)	UNDIS-BURSED	CLOSING DATE
1 LOAN AND 17 CREDITS CLOSED				113.24		
CREDITS						
C10490	1980	GOVERNMENT/MUNICIPALITY	URBAN I	15.00	.83	12/31/87
C11650	1981	GOVERNMENT OF BURUNDI	KIRIMIRO R/D	19.30	1.51	06/30/88
C11920	1982	BURUNDI	INT. R/D NGOZI III	16.00	6.73	03/31/88
C13580	1983	REPUBLIC OF BURUNDI	EDUC. III	15.80	.57	06/30/88
C14560	1984	GOVERNMENT OF BURUNDI	THIRD TAS CREDIT	5.10	3.11	03/31/88
C15830	1985	MINISTRY OF PW/DGR	HHYS. IV	18.10	15.12	06/30/89
C15930	1985	GOB/REGIDESO	TRANS & DISTR.SYSTM.	12.30	9.85	12/31/89
C16200	1986	GOVT OF BURUNDI	FORESTRY II	12.80	9.40	09/30/91
C16250	1986	GOVERNMENT	WATER SUPPL.II	9.50	6.94	12/31/91
C17050	1986	GOVERNMENT OF BURUNDI	SAC	15.00	.01	06/30/88
C17950	1987	BURUNDI	ECO.MGT./PUB.ENTR.	7.50	7.50	12/31/92
C18050	1987	GOV'T/ONATEL	TELECOM II	4.80	4.80	12/31/93
C18570	1988	GOVERNMENT OF BURUNI	AGRIC.MUYINGA	10.00	10.00	
C18620	1988	GOVERNMENT OF BURUNDI	HEALTH/POP.I	14.53	14.53	06/30/93
TOTAL NUMBER CREDITS = 14				175.73	89.40	

TOTAL (NET APPROVED)	288.97	
OF WHICH HAS BEEN REPAID TO THE BANK (AMOR.& INTEREST)	10.86	
TOTAL NOW OUTSTANDING	278.11	
TOTAL UNDISBURSED		89.40

B. STATEMENT OF IFC INVESTMENTS IN BURUNDI EXPRESSED IN US$

(December 31, 1987)

1981	Verreries du Burundi	Glass container	4.7	0.8	5.5
	Total gross commitments less cancellations, terminations, repayments and sales		4.7	0.8	5.2
	Total commitments now held by IFC		0.08	1.03	1.1

The IFC loan was fully disbursed and all but US$80,000 repaid.
In 1986, IFC capitalized US$250,000 interest for 1986.

1/ Extended in 1957 to the Belgian Trust Territory of Ruanda-Urundi for the improvement of the Bujumbura-Muramvya road and the expansion of the lake port of Bujumbura. The loan, which was guaranteed by the Kingdom of Belgium, has been fully repaid.

BURUNDI

SECOND STRUCTURAL ADJUSTMENT CREDIT

SUPPLEMENTARY PROJECT DATA SHEET

SECTION I: TIMETABLE OF KEY EVENTS

(a)	Identification:	July 1987
(b)	Preparation Mission:	October/November 1987
(c)	Appraisal Mission:	January/February 1988
(d)	Completion of Negotiations:	April 26, 1988
(e)	Planned Date of Effectiveness:	July 1988

SECTION II: SPECIAL IDA IMPLEMENTATION ACTION

None.

SECTION III: CONDITIONS OF EFFECTIVENESS

(a) Agreement on the definitive PIP for 1988-89, including reserve projects;

(b) Agreement on calendar for progressive elimination of CADEBU's monopoly on compulsory savings;

(c) Promulgation of the decree liquidating SOGESA;

(d) Submission of the revised labor legislation for approval of the National Labor Council; and

(e) Adoption of internal procedures for the Guarantee Fund.

SECTION IV: CONDITIONS OF DISBURSEMENT OF THE SECOND TRANCHE

(a) Agreement on macroeconomic framework including fiscal deficit, 1989-91 PEP, and 1989 transitional unified budget;

(b) Implementation of third phase of tariff reform, including revision of nomenclature;

(c) Signature of performance contracts with VERRUNDI and REGIDESO; agreement on timetable for liberalization of imports competing with VERRUNDI production; and agreement on action program for SOSUMO during 1989.

(d) Agreement of coffee pricing structure for 1989/90 season;

(e) Liberalization of rice marketing and allowing RDC Imbo to fix paddy producer prices for 1989/90 campaign;

(f) Reduction of rediscount rates from 3 to 2 and implementation of all other measures included in the second and third stages of credit reform;

(g) Agreement on action plan for poverty alleviation; and

(h) Agreement on action plan to reinforce the Ministry of Labor and its agencies in charge of employment promotion.

SECTION V: CONDITIONS OF DISBURSEMENT OF THE THIRD TRANCHE

(a) Agreement on macroeconomic framework for 1990-92, including fiscal deficit, and 1990 transitional unified budget;

(b) Satisfactory implementation of action plan for SOSUMO (para. 64);

(c) Completion of first phase of elimination of CADEBU's monopoly on compulsory savings (para. 51);

(d) Agreement on action plan for improving civil service efficiency;

(e) Agreement on action plan for privatization/liquidation of the public enterprise sector on the basis of studies to be carried out during 1988/1989; and

(f) Launching second phase of labor market liberalization and extending it to the parastatal sector.

BURUNDI - STRUCTURAL REFORM PROGRAM (SAL II)

POLICY AREA AND OBJECTIVES	ACTIONS TAKEN BY GOVERNMENT	ACTIONS TO BE TAKEN BY GOVERNMENT	TIMETABLE	RELATED PROGRAM/PROJECT	PARA. REPORT
1. MACROECONOMIC MANAGEMENT	Agreement on macroeconomic framework for 1988-90 including exchange rate adjustment BOP and public finance objectives.	Prepare and agree on macroeconomic framework including overall budgetary deficit: - for 1989-91 - for 1990-92	 December 1988 (2nd tranche release) December 1989 (3rd tranche release)		
1.1 Exchange rate					
Increase/maintain competitiveness of Burundi's exports, eliminate bias against traded goods, achieve structural improvement in BOP.	Adoption of a flexible exchange rate. Cumulative adjustment of 23% in foreign currency terms between July 1986 and March 1987. 10% adjustment in Feb. 88.	Additional exchange rate adjustment as needed taking into account competitiveness of Burundi's exports and level of net reserves.	During program period.	IMF/IBRD program envisages the real effective exchange rate to be maintained.	35
1.2 Monetary policies					
Issues related to size of budget deficit, credit allocation, efficiency of the credit system.	Review financial system and first measures implemented in the context of APEX credit (FY88).	Liberalization of interest rates and policy reform (See actions in para. 7 of Matrix)	During program	IMF/IBRD agreed on the package described in para.7 of Policy Matrix.	
1.3 Budgetary policies				IMF/IBRD agreed:	
Overall public spending should be adjusted to resource availabilities and medium-term financial equilibrium. Priorities should be defined in the context of reinforced three-year PEP.	Tax measures: reform of the transaction tax (Oct. 86); reduction of import duty exemptions and reform of import tariff structure (July 86/January 88).	Revenue Measures: - Enlarge basis of the transaction tax and increase excise tax on beer and soft drinks. - Strengthen monitoring and control of customs duty exemptions and import valuation system; extend statistical tax of 4% on all imports. - Study to simplify the income tax system. - Strengthen custom administration to reduce fraud and improve collection of tax revenues.	 May 1988 June 1988 End 1988 During program	- Stabilization of Gov't recurrent expenditures in 1988 to FBu 21 billion and payment of arrears; - Capital expenditures and net lending to about FBu 19 billion in 1988. - Annual review of PEP with the Bank	32-33
Control and rationalization of expenditures	Increase participation of public enterprises in their debt servicing in 1987. Elimination of arrears in Dec. 1986. Elimination of transfers to public enterprises of a commercial character.	- Further increase participation by public enterprises in their debt servicing; eliminate arrears on domestic payments and avoid new arrears; adjust global expenditure to revenue shortfall.	During program	- Gov't deficit (excl. grants) to be limited to 9.7% of GDP in 1988, 8.1% in 1989, and 5% in 1991.	32
		- Introduce selective recruitment system for civil service and rationalize the civil service.	January 1989		41
		- Prepare annual budget based on the relevant annual tranche of the PEP.	Starting with 1989 budget		40
2. TRADE AND INDUSTRIAL POLICY					
2.1 Import Liberalization					
Remove distortions caused by quantitative import restrict-	Automatic import licences for all products, except glass, textiles and pharmaceuticals, and a few	- Increase the ceiling below which commercial banks are allowed to grant automatic licenses from FBu 1 million to FBu 10 mn .	April 1988		36

BURUNDI - STRUCTURAL REFORM PROGRAM (SAL II)

POLICY AREA AND OBJECTIVES	ACTIONS TAKEN BY GOVERNMENT	ACTIONS TO BE TAKEN BY GOVERNMENT	TIMETABLE	RELATED PROGRAM/PROJECT	PARA. REPORT
ions; improve competition among domestic producers and importers; eliminate the anti-export bias.	luxury items (August 1986). First group of restrictions on imports of luxury were eliminated in January 1988. Period of licenses validation has increased from 4 to 8 months; time required to validate licenses was reduced to 10-15 days (January 1988)	Eliminate remaining import restrictions: - on imports of luxury goods - on imports competing with production of ONAPHA, VERRUNDI, COTEBU within the framework of rehabilitation of these enterprises. . Agreement on liberalization calendar: ONAPHA COTEBU VERRUNDI	 April 1988 Before end-1990 End-1988 March 1989 End-1988 (2nd tranche release)	The Economic and Public Enterprises Management Project supports the diagnostic and reform program	36
2.2 Price liberalization					
Avoid distortions in the price structure, and allow enterprises to establish financial equilibrium.	Liberalization of price of all products except eight strategic products, for which price ceilings can be imposed in case of acute shortages (for a maximum of 4 months); petroleum and cement; and export crops in July 1986. Adjustment of tariffs for water and electricity (Feb. 88).	- Review and adjust water and electricity tariffs (to strengthen REGIDESO financial position) and petroleum products prices, as needed.	1988-1989		
		- Liberalize prices of certain agro-industrial products (rice, wheat, palm-oil, sugar) in the context of the program to be prepared for concerned enterprises.	During program	Program to be prepared under SAL II based on work carried out by Gov't under the Economic and PE Management	
2.3 Tariff reform					
Reduce progressively the average high level of tariff protection, narrow the range of tariffs, homogenize protection among sectors.	Consolidation of fiscal and import duties and tariff reform. Number of duties reduced from 57 to 5. Range of duties fixed at 15-50%, except for luxury goods (100%) (July 1986). 2nd phase of the tariff reform: range reduced to between 45% for manufactured products and 15% for intermediate goods. Capital and essential goods remain at 15%. (Jan. 88)	Implement third phase of tariff reform, based on study to clarify nomenclature between final and intermediate goods, take into account ZEP tariff, and review level of tariffs on intermediate goods while maintaining fiscal revenues (study to be completed in Sept. 88).	December 1988 (2nd tranche release)	In the context of ESW to be carried out by IBRD	38
2.4 Export Promotion					
Support to potential and established enterprises to expand sales toward neighboring countries and prepare the basis for long-term plan for export-oriented industries based on the comparative advantage of Burundi.	SAL I reforms included FBu depreciation, import liberalization, price deregulation, re-activation of draw-back system, elimination of taxes on non-traditional exports. Agreements with CEPGL and ZEP countries have been pursued by new Gov't.	- Promulgate decree on export promotion, introducing simplified duty drawback, preferential profit taxes for exporters, allowing marketing expenses to be deductible from taxed profits; and simplifying emigration procedures for industrialists to visit foreign markets.	April 1988		37
		- Set up Office of Standards and Measures	December 1988		37
		- Complete study to identify Burundi's long-term resource and market potential, and viable export activities.	December 1988		37

POLICY AREA AND OBJECTIVES	ACTIONS TAKEN BY GOVERNMENT	ACTIONS TO BE TAKEN BY GOVERNMENT	TIMETABLE	RELATED PROGRAM/PROJECT	PARA. REPORT
2.5 Investment Incentives					
Improve the access of small and medium enterprises to banking credit in order to stimulate their contribution to production and exports.	. Implementation of revised Investment Code and re-activation of the Guarantee Fund (July 1986).	- Inform general public of program's objectives and measures to increase private sector confidence.	April 1988		
	. Increase on limits on outward foreign remittances. (May 1986, Jan. 1987)	- Implement internal procedures to ensure efficient use of the Fund.	June 1988 (Effectiv)	Support in the context of the SME/APEX project.	
	. Liberalization of the profession of importer (July 86).	- Eliminate compulsory deposit required from foreign importers when they have invested in productive sectors at least FBu 20 mn.	June 1988		36
		- Remunerate compulsory deposits			36
		- Announce measure	June 1988		
		- Actual implementation	Beginning Jan. 1988		
3. PUBLIC EXPENDITURES MANAGEMENT					
Improve efficiency of public expenditures; increase coordination between capital and recurrent expenditures; ensure implementation of high priority investment projects	Preparation of 3 year PIP for 1986-89 and identification of co[illegible] program taking into account available resources and fiscal policy objectives (Sept. 1985/ Sept. 1986). First guidelines and parameters to be used in project evaluation (May 1986).	- Full agreement on 1988-90 PIP, including reserve projects.	June 1988 (Effectiveness)	Bank support provided by Technical Assistance III and Economic and PE Management	44
		- Agree on action plan to strengthen MINPLAN.	June 1988		45
		- Agree on action plan to strengthen MINFIN and core ministries.	December 1988		40
					41
Public Expenditures Program	First report prepared in May 1987. Report on need for restructuring and strengthening of planning system (Jan. 1987)	- Launch preparation of public expenditures program for 1989-91.	May 1988		
				With French Assistance	40
		- Complete and agree with IDA on PEP for 1989-91 and transitional unified budget for 1989 based on sector PEPs (education, health, agriculture, transport).	December 1988 (2nd tranche release)		
		- Preparation of PEP for 1989-92 and unified budget for 1989.	October 1989 (3rd tranche release)		
				In collaboration with UNDP	41
		- Complete TA survey.	December 1988	With assistance from the Canadian Gov't.	41
		- Agree on action program to improve civil service efficiency.	October 1989 (3rd tranche release)		
					45
		- Reform of budget/programming system; adopt double entry public accounting system and system of defining priorities; move into budget by priorities.	Before end-1990		
4. PUBLIC ENTERPRISES					
Rehabilitation of the sector and improving system of follow-up on performance	Creation of the service in charge of public enterprises (SCEP). (June 1986)	Reinforce SCEP and implement training programs.	During program	Program linked and supported with Economic and Public Enterprises Project	

BURUNDI - STRUCTURAL REFORM PROGRAM (SAL II)

POLICY AREA AND OBJECTIVES	ACTIONS TAKEN BY GOVERNMENT	ACTIONS TO BE TAKEN BY GOVERNMENT	TIMETABLE	RELATED PROGRAM/PROJECT	PARA. REPORT
Legal Framework	Draft decree (January 1988)	- Adoption of decree on PE legal framework.	September 1988		56
Liquidation	Closure of four enterprises (Aug. 1986)	- Final steps to liquidate PEs already closed: SUPOBU, SOMEBU (disposition on assets/debts) AGRIBAL SOGESA: draft decree : promulgation of liquidation decree	 May 1988 December 1988 May 1988 June 1988 (Credit effectiveness)		50
First Phase of Rehabilitation:	Rehabilitation Programs for OTRACO (Oct. 87), CADEBU, OTRABU (March 88), ONAPHA, EPIMABU, ONC, ONIMAC (April 1988).	- Signature of performance contracts: OTRACO CADEBU, OTRABU ONAPHA (action plan) EPIMABU, ONC, ONIMAC VERRUNDI	 June 1988 September 1988 December 1988 December 1988 December 1988 (2nd tranche)		50-55
Second Phase of Rehabilitation:		- Completion of rehabilitation programs for: REGIDESO Minoterie de MURAMVYA, milk plant, and COTEBU	 July 1988 November 1988		56
		- Signature of performance contracts: REGIDESO Minoterie de MURAMVYA, Milk plant, and COTEBU	 January 1989 (2nd tranche) May 1989		56
Third Phase of Rehabilitation:	The Government decided to rehabilitate two housing offices (ONL and SIP), ONATEL (telecommunications) and three public-owned hotels.	ONL/SIP, ONATEL, Hotels: - Rehabilitation programs - Signature of performance contracts:	 March 1989 September 1989		56
Sector Studies		- Launch sector studies as basis for policy reforms: (a) price/tariffs and incentive system; (b) privatization; (c) crossed debts and monitoring of financial flows between State and PEs. - Complete sector studies. - Agree on privatization program based on the above studies.	May 1988 December 1988 October 1989 (3rd tranche release)		56
Management Information System	Preliminary Project	- Agree with IDA on definitive project - Implement MIS	April 1988 December 1988		56

BURUNDI - STRUCTURAL REFORM PROGRAM (SAL II)

POLICY AREA AND OBJECTIVES	ACTIONS TAKEN BY GOVERNMENT	ACTIONS TO BE TAKEN BY GOVERNMENT	TIMETABLE	RELATED PROGRAM/PROJECT	PARA. REPORT
5. AGRICULTURE					
5.1 Coffee/Agricultural exports	Measures to reduce humidity levels of fully washed coffee. (Feb. 1986) Launching census (OCIBU) of coffee trees to assess potential of coffee production (1986)	- Elaborate long-term strategy for coffee production based on study to define: (i) the production potential in terms of opportunity costs with respect to other crops/activities; and (ii) perspectives of export potential for Burundi coffee.	September 1989	Complementary actions to be supported by the Coffee Export Adjustment Operation (FY89).	60
		- Implement research program to eliminate coffee "potato" taste.	During program	Support to this action program addressed under Coffee Export Adjustment Operation (FY89).	61
		- Study to define efficient structure of management for washing stations.	November 1988		
		- Revise coffee pricing system (echelle mobile):			
		. introduce sliding scale for fully-washed coffee;	April 1988		61
		. annual revision taking into account preliminary studies	March 1989 (2nd tranche release)		
		- Put in place technical assistance to BCC to improve its marketing capability .	May 1988		61
		- Put in place information system to follow up on the world coffee prices.	During program		
		- Complete study of comparative advantage of Burundi's export crops.	June 1989		59
5.2 Fertilizer Policy		- Elaborate long-term policy on fertilizers; evaluate economic utilization of chemical fertilizers; implement national program of improved seeds; improve participation of private sector.	During program	Actions to be supported by the Agricultural Service Project (FY89).	58
5.3 Agro-industrial Projects					
SOSUMO (sugar)	Government has agreed to: not subsidize SOSUMO sugar production; assess possibilities to reduce operating costs; and liquidate enterprise if it proves economically unjustified after one or two years of operation.	- Launch study on opportunity to continue with the project.	June 1988	Follow-up envisaged under the PE management project.	64
		- Agree with IDA on action plan for 1989 based on above study.	December 1988 (2nd tranche release)		
		- Satisfactory implementation of action plan .	October 1989 (3rd tranche release)		
Rice (Imbo RDC)	Government agreed to liberalize the paddy market for the	- Liberalize the paddy market and allow the Imbo RDC to fix producer prices, beginning	December 1988 (2nd tranche release)		65

POLICY AREA AND OBJECTIVES	ACTIONS TAKEN BY GOVERNMENT	ACTIONS TO BE TAKEN BY GOVERNMENT	TIMETABLE	RELATED PROGRAM/PROJECT	PARA. REPORT
	1989/1990 campaign (beginning in March 1989)	with 1989//90 campaign.			
Palm oil	Gov't agreed to withdraw a new large investment to process palm oil and to abide by the results of the study on extension of existing processing plant.	- Complete feasibility study on extension of existing processing plant.	December 1988		68
6. EMPLOYMENT POLICIES					
Promote employment creation to absorb the 60,000 new entrants in the modern sector, through policy measures.	In addition to macroeconomic measures under SAL I, Gov't has abolished the progressive labor tax, relaxed former administrative restrictions on urban settlement and on itinerant traders.	- Liberalize system of recruitment; private firms will be allowed to recruit Burundian labor without mandatory consultation/approval of Ministry of Labor. Revise Placement Committee's functions and law on foreign labor.			70
		. Submit revised legislation to the National Labor Council for approval.	June 1988 (effectiveness)		70
		. Agree on second phase of liberalization extending program to parastatals.	December 1989 (3rd tranche release)		70
		- Strengthen services of Ministry of Labor			
		. Launch UNDP/ILO project to assist DMO	June 1988	ILO will continue its assistance.	71
		. Put in place program to improve data on informal sector accepted by the Ministry of Trade and Industry and the Labor Union.	December 1988		71
		. Strengthen services of Labor Ministry responsible for employment promotion.	December 1988 (2nd tranche release)		
		- Authorize imports of second-hand technology when accompanied by performance guarantee certificates.	April 1988		72
		- Adopt revised Bujumbura municipal tax code to remove anti-labor bias.	April 1988		72
		- Study of health insurance system for private employees.		Based on health finance study being financed by Bank PHN project.	72
		. TOR accepted by Government, labor union, and Health Ministry.	June 1988		
		. Proposition of new system.	December 1988		

POLICY AREA AND OBJECTIVES	ACTIONS TAKEN BY GOVERNMENT	ACTIONS TO BE TAKEN BY GOVERNMENT	TIMETABLE	RELATED PROGRAM/PROJECT	PARA. REPORT
7. MONETARY AND CREDIT POLICIES					
Improve the system of allocation credit and mobilization of domestic savings	Increase of real interest rates to positive levels (Aug. 1986). Increase of 5 percentage points in rate on 12 months savings deposits and revision of interest rate policy (July 1986) *Revision of interest rates in May 1987.*	First phase: - Eliminate a priori authorization from BRB on individual credits above FBu 10mn. - Allow PEs to deposit their liquidities in the most profitable fashion. - First issue of Treasury Bills by public auction (open to all financial institutions); calendar of issues for the 2nd Quarter 1988. - Deregulate interest rates on non-rediscountable loans and eliminate minimum interest rates on cash deposits. - Implement compulsory reserves system.	April 1988	Action program identified and to be supported in parallel by the SME/Apex project. Policy measures also supported by the 2nd-year IMF SAF program.	75
		Second phase: - Issue of Treasury Bills with progressive rate ("our formula"). - Reduce number of rediscount rates from 7 to 3. - Reduce number of maximum interest rates on rediscountable credits from 8 to 3. - Eliminate all minimum interest rates on deposits except for passbook deposits. - Revise use of medium-term liquidity ratios.	September 1988		77
		Third Phase: - Reduce number of rediscount rates to 2 (normal and preferential rates). - Eliminate maximum interest rates on credits and of minimum rates on deposits.	December 1988		78
		Fourth Phase: Liberalization of all interest rates.	July 1989		
National Guarantee Fund	Procedures and status have been prepared in consultation with IDA (1987)	- Adopt procedures of National Guarantee Fund.	June 1988 (Effectiveness)	In parallel with SME/APEX credit.	78
Real State Law (Code Foncier)		- Revise disposition granting to Treasury prior claims on collateral property.	June 1988		

BURUNDI - STRUCTURAL REFORM PROGRAM (SAL II)

POLICY AREA AND OBJECTIVES	ACTIONS TAKEN BY GOVERNMENT	ACTIONS TO BE TAKEN BY GOVERNMENT	TIMETABLE	RELATED PROGRAM/PROJECT	PARA. REPORT
8. SOCIAL AND POVERTY ALLEVIATION PROGRAMS		- Join the UNDP-financed/Bank executed project on "Social Dimensions of Adjustment".	April 1988		82
		- Define program of well targetted poverty alleviation actions focused on (a) nutrition programs for children; (b) support to women in development; (c) support to small scale productive projects; (d) food security strategy; and (e) coordination of donors assistance in AIDS programs.	December 1988 (2nd tranche release)	These actions will be prepared in the context of the SDA project. Assessment of ongoing programs will be made to evaluate viability to extend them at national scale. Collaboration envisaged with UNICEF, IDA-PHN project, UNDP.	84-87
		- Prepare monitoring system focused on social and income variables.	During program		87
9. FOLLOW-UP ON ADJUSTMENT PROGRAM					
	Creation of comite de suivi at ministerial level and of permanent secretariat (Feb. 88).	- Reinforce Comite de Suivi with permanent secretariat and prepare system of indicators.	April 1988	Bank support to be provided through the Economic and PE Management Project and close relation with Resident Mission.	103
		- Coordinate closely with Resident Mission	During program.		

GOVERNMENT OF BURUNDI

GOVERNMENT STATEMENT ON DEVELOPMENT POLICIES

1. In 1986 the Government of Burundi launched an economic policy program with the dual objective of correcting economic and financial disequilibria and of promoting a medium- and long-term restructuring of the economy by stimulating productive sectors and private investment. The first phase of this program (initiated in mid-1986), supported by a Structural Adjustment Credit (SAC I), resulted, inter alia, in: a) a 23% devaluation of the Burundi franc with respect to the SDR (between July 1986 and March 1987) and a 9% devaluation in February 1988; b) a revised tariff structure that reduced most of the excessively high protection accorded domestic industries while equalizing protection across sectors of the economy; c) a lifting of most price and import controls; d) a revised Investment Code; and e) an increase in producer prices for coffee and tea. In the context of a public enterprise (PE) reform program, four PEs were closed down, and five others are being rehabilitated. Efforts have been made to rationalize the public investment program and to begin preparation of a three-year public expenditure program. In the fiscal area, the structure of indirect taxation has improved and tax revenue collection strengthened. A commission was established to manage the external public debt and to ensure that external loans are contracted on highly concessional terms.

2. The Government of Burundi is committed to the pursuit of its structural adjustment program (SAP) and has requested support from the Bank and the IMF for the second phase. During this period (covering 1988-89) the policy adjustments undertaken under SAC I will be reinforced and new economic measures will be introduced.

3. Implementation of the SAP outlined below should lead to average real annual GDP growth of about 5.0%. The new incentive structure should boost private investment, allowing gross fixed capital formation to be sustained at about 20% of GDP. The current account deficit of the balance of payments should be held at under 10% of GDP (corrected for exchange rate adjustments) and foreign exchange reserves should increase to the equivalent of approximately four months of imports. The overall budget deficit should decline from 12.8% of GDP in 1987 to 5% in 1991. A detailed timetable for the Government action program is appended.

A. Trade and Industrial Policies

4. Under the first phase of the adjustment program, the following measures were implemented: (a) the adoption of a flexible exchange rate policy; (b) elimination of most import and price controls; (c) reform of customs tariffs; (d) revision of the Investment Code; (e) increase in producer prices of coffee and cotton; and (f) abolition of export taxes on manufactured products. These measures will be strengthened during the second phase of the SAP.

5. The Government proposes to strengthen industrial incentives and to promote efficient manufacturing for export. This requires reducing the

anti-export bias and strengthening the institutional framework. The Government undertakes to pursue the maintenance of a realistic and flexible exchange rate, particularly with respect to neighboring trading partners. The Government recently enacted legislation offering exporters of manufactured products a simplified drawback scheme (compensation for customs duties paid on imported raw materials), reducing the tax on profits derived from exports of these products and abolishing the export taxes still in force. The prior licensing of exports has been maintained but becomes automatic.

6. As part of the Government's reform of trade and industrial policies the following measures are being implemented:

a) The Government adjusted the value of the FBu with respect to the SDR to correct the appreciation of the currency since March 1987. In February 1988, the FBu was devalued by 10% in local currency terms which more than compensated for the appreciation that had occurred since March 1987. The exchange rate policy will continue to take into account the trend in the real effective exchange rate, balance of payments objectives, the need to promote non-traditional exports and improvements in incentives to certain producers of export crops.

b) Restrictions on imports of luxury goods (which had been maintained during the first phase of import liberalization) have been abolished. The value of licenses that can be issued by commercial banks without BRB authorization has been raised from FBu 1 million to 10 million and the period of validity of the licenses has been extended from four to eight months. Restrictions on three groups of imports that compete with locally manufactured goods (glass bottles, pharmaceuticals and textiles) will be abolished by 1990, at the latest, as part of recovery programs being prepared for VERRUNDI and ONAPHA and of the action plan to be prepared for COTEBU.

c) Foreign importers who have invested at least FBu 20 million in a productive sector will not be subject to a compulsory deposit. The other will continue to make compulsory depositis which will earn interest beginning in January 1989.

d) Remaining price controls on certain products (rice, wheat) will be progressively abolished.

e) The second phase of the tariff reform which was implemented in January 1988 reduced the spread in tariffs from 15-50% to 15-45% with the exception of luxury goods that continue to be subject to a 100% tariff. The third phase (to be implemented in January 1989) has the objective of increasing industrial production and lowering the average tariff rate without increasing the tariff spread. It will be based on recommendations of a study on: harmonizing the Burundian tariff structure with that of other PTA member countries, improving the trade nomenclature to better differentiate intermediate from final products, and assessing the scope for lowering current rates on intermediate goods. The target is to reduce the effective protection-rate differential from between -68% and 773% in 1985 to between 46% and 145% in 1990 without lowering budget revenues.

7. In the context of institutional reforms, the Government will strengthen the Chamber of Commerce and its capacity to dialogue with relevant ministries and the private sector through the creation of an export marketing unit. A standards agency within the Ministry of Industry and Commerce will be established with the technical support of the University of Burundi, to ensure that Burundi's exports conform to international standards. The Government has taken steps to simplify the travel procedures for exporters. A study of Burundi's medium-term industrial and export potential which will serve as the basis for prefeasibility studies and a program of investment promotion (domestic and foreign) is also underway and will be completed by end-1988.

B. Public Finance

8. An abrupt decline in coffee revenues increased the budget deficit from 6.5% of GDP in 1986 to 12.8% of GDP in 1987. In the context of the Policy Framework Paper for 1988-90 and of the second SAL, the Government is committed to reducing the fiscal deficit to 9.7% of GDP in 1988, to 8.1% in 1989, and to 5.0% in 1991 by strengthening revenue collection, including the phasing-out of custom duty exemptions, by improving the fiscal system and by maintaining a prudent public expenditures policy, including the rationalization of expenditure priorities.

9. In 1988 the Government foresees an expenditure level of FBu 40.7 billion, comprising current expenditures of FBu 21.4 billion and capital expenditures (including on-lending) of FBu 19.3 billion. About 80% of the investment program will be financed by external aid and the remainder by domestic financing. For the period 1988-90 the Government has decided to maintain an annual global level of public expenditure of FBu 43 billion and capital expenditures (including on-lending to public enterprises) of FBu 20 billion which is compatible with the objectives of its macroeconomic and financial program. Priority has been assigned to agriculture, which accounts for about 40% of total investment expenditure. The share of transportation investment is expected to decline in view of substantial past efforts to build a road network which meets foreseeable requirements. Resources will therefore be concentrated on the construction of secondary and feeder roads and the maintenance of existing infrastructure.

10. The ability to strengthen public finance performance is, however, subject to a number of constraints. On the revenue side, current efforts to improve tax and customs revenues is limited owing largely to the limited monetization of the economy. Fiscal pressure is already very high on the monetized economy (about 30% of modern sector GDP), which limits further increases in tax levels. Budgetary revenues are also very sensitive to variations in the international price of coffee. There are, however, possibilities to strengthen tax collection and these possibilities will be exploited in the short-term.

11. On the expenditure side, savings will most likely be realized as subsidies to parastatals are reduced, expenditure controls are tightened and as certain programs which are not consistent with the Government's adjustment program are reoriented. Nevertheless, the flexibility to operate large adjustments in the level and structure of Government

expenditures will remain limited in the short run, given the importance of non-compressible expenditures (e.g., central administration, security and defense and debt service) and the need to ensure the financing of recurrent costs associated with public investments which are currently underfinanced.

12. The public debt service represents about 30% of the public resources and constitutes the most important constraint to an adjustment in the level and structure of public expenditures. The Government maintains its commitment to borrow from external sources only on highly concessional terms. It has also initiated a program to reinforce its external debt management with support from UNCTAD and is exploring the possibility of reducing its external debt burden, notably by means of an eventual debt forgiveness, for which it requests the support of the World Bank.

Program of Reform and Improved Expenditure Management

13. The reform program under the SAL II includes the following components:

a) Implementation of a Three-year Public Expenditure Program (PEP) for 1989-91 and a transitional unified budget for 1989;

b) improving the three-year rolling public investment program (PIP);

c) launching a comprehensive budget reform;

d) strengthening institutions responsible for managing the public sector's project cycle and for managing public finances; and

e) implementing an action program to reinforce the efficiency of the civil service and of technical assistance.

14. In order to improve the public expenditure management, the Government will adopt a three-year Public Expenditures Programming process (PEP). The objectives of such a system are to: (a) provide a clear view of the objectives of proposed government actions and their relative priorities; (b) prevent priority programs from being underfinanced while eliminating lesser-priority expenditures; (c) enable resource allocation decisions to be made in light of their opportunity costs; and (d) allow decision-makers to take into account resource allocation decisions taken in earlier years and the impact of resource allocation decisions for public finances in future years.

15. In 1988, a first PEP (1989-91) will be prepared in the context of the 1989 budget preparation. The PEP will include government recurrent expenditures (including the domestic and foreign debt service, public subsidies and general expenditures which cannot be allocated between sectors), detailed PEPs (including recurrent costs associated with investment projects) for the agriculture, education, health and transport sectors and PEP outlines for the remaining sectors. The 1989-91 PIP will be integrated into the PEP for the same period. Sectoral financial limits will be establised to orient the preparation of sectoral PEPs.

The sectoral PEPs will identify the financing needs to cover the recurrent costs associated with projects in the PIP, whenever the necessary information is available or can be collected, even if their financing is not secured. The PEP will be refined during the following years in order to allow the Government to have a truly analytical tool to support its decision making on public expenditure priorities. An agreement with the World Bank will be reached on the content of the 1989-91 PEP and on the unified budget for 1989, as a condition of second tranche release.

16. The Three-Year Rolling Public Investment Program. The preliminary PIP for 1988-90 was reviewed with the World Bank. The definitive PIP will be submitted for the Bank's review and approval prior to credit effectiveness. Meanwhile, the Government is committed to excluding from the 1988 PIP all new projects which would lead to a level of capital expenditures in excess of the level provided for in the 1988 financial program (FBu 19.3 billion for the projects included in the central government budget, and a maximum of FBu 25 billion for the PIP as a whole). For the 1989-90 PIP, the financial envelope is fixed at an average of FBU 26 billion, which corresponds to the objectives of the Government's financial program during this period.

17. As for specific projects on which the Bank had some concerns, the Government will: (a) postpone the implementation of the Central Market of Bujumbura and exclude it from the 1988-90 PIP; (b) reduce the dimension of the sport stadium project by eliminating the proposed olympic swimming pool and hotel; and (c) invest in the extension of the oil palm processing plant if the technical and economic study demonstrates its economic justification.

18. The preparation of the PIP for 1989-91 will take place in the context of the preparation of the PEP for 1989-91. The content of the PIP will be rationalized and will include: (a) a core program, consisting of high-priority on-going projects for which financing is assured and of new projects of demonstrated social and economic viability which can be implemented during that period; and (b) a reserve program (which is not included in the core PIP) consisting of projects of lesser priority which could be implemented within the global financial envelope without diverting financial resources from the core program. Finally, a monitoring system will be established to permit the follow-up of the PIP project-by-project.

19. The introduction of new projects in the PIP will satisfy the following criteria: (a) for directly productive investments and economic infrastructure, an internal rate of return of at least 10%; and (b) for social projects, cost-efficiency criteria.

20. Budget Reform. The objective is to introduce a management tool for the public expenditure program in 1989 and to evolve towards a unified budget which would be introduced in 1991 and whose contents will be consistent with the IMF's presentation of government operations. In this context, a transitional unified budget will be prepared in 1989 and 1990 and will include:

(a) the "Budget Ordinaire" (BO) and the "Budget Extraordinaire d'Investissement" (BEI), as provided for under existing budget law; and (b) a "Budget Annexe" (not included in the existing budget law) but which will include those PEP resources and expenditures not contained in the BO and the BEI and for which monitoring will be done ex post. The reform of the budget system will include changes in the procedures concerning preparation, monitoring and control of the budget as well as of the public accounting system. An action program will be defined by the Government with the assistance of the French Ministry of Finance and will be agreed with the World Bank before the release of the second tranche of SAL II. At that time, the details and calendar of the action program will be finalized.

21. Institutional Strengthening. A program designed to strengthen the agencies responsible for the preparation, budgetization, programming and monitoring of the public expenditure program will be launched in the context of the SAC II with the support of the Third Technical Assistance Project and the Economic and Public Enterprise Management Project financed by IDA. To this end, the Government will prepare an action plan aimed at, in the first instance, reinforcing the Ministry of Plan.

22. As part of the SAL II public expenditure component, the Government will maintain the level of the civil servants in line with available resources. With the objective of improving the efficiency of human resources in the public sector, the Government will launch, in the context of the SAL II, preparatory work to reinforce the planning and programming of its human resources, including technical assistance, permitting, therefore the establishment of its employment policy on a new basis.

C. The Public Enterprises

23. Burundi's 57 public enterprises (PEs), most of which date from the seventies, were set up to carry out a range of tasks: provide public services, remedy the lack of private investment (which caused the public sector to expand), and coordinate the various sectors of the economy. These PEs currently assume a significant role in the economy, particularly in the modern sector; they employ approximately 10,000 people and generate approximately 5 percent of the country's GDP. However, as a result of the small size of the domestic market and distortions in the incentive structure, together with the lack of experience in commercial management, certain enterprises face severe difficulties.

24. The Government's objectives and strategy in the PE sector remain basically the same as for the first phase of the adjustment program. A program of public enterprise restructuring and revitalization is being implemented in accordance with the following general principles:

(a) Cost-effective participation by the Government in those sectors that require public investment (e.g., involving new activities or public services that cannot be provided by the private sector);

(b) Maximization of value added to the national economy. Public enterprises will be financially and economically viable, with each required to cover, from its own resources, all operating expenses and at least part of investment expenditure. These enterprises will be subject to the same fiscal legislation as private enterprises.

(c) The PE sector must generate profits for the Government commensurate with its investments. Commercial or industrial operations of PEs will not be subsidized. The Government will continue its policy of more equal incentives for the public and private sectors.

25. Public enterprise pricing will, whenever possible, reflect actual costs or be determined by market forces. If certain public services are provided below cost, then offsetting measures will be taken in the performance contract or necessary funds will be included in the Government's current budget.

26. To assist with PE restructuring the Government established in 1987 a "Service Chargé des Entreprises Publiques (SCEP)". The SCEP will assure that the PE sector is being restructured through privatization of activities of interest to private investors and liquidation of those activities that are neither of strategic importance to the Government nor potentially profitable in the medium term. Those public enterprises that are deemed essential will be rehabilitated on the basis of diagnostic studies which will culminate in the negotiation of performance contracts with the Government. The legal charters of PEs will be revised to provide greater management autonomy to these enterprises.

27. New PEs will be created only provided that clear public interest can be established that the activity is not attractive to private investors, and that a reasonable rate of return can be assured over the medium-term. Government loan guarantees will be limited to PE investments of demonstrable public utility and economic viability and in cases where a performance contract is in effect.

28. The Government will restructure selected enterprises according to their specific needs to ensure financial viability over the medium-term. The Government will proceed, where appropriate, with the cancellation of reciprocal debts between itself and the enterprises and among public enterprises.

29. <u>Strengthening PE management</u>. The Government has established a "Fonds d'Intervention" to help finance the rehabilitation of selected public enterprises. This Fund is supplied by counterpart funds generated under the IDA-financed structural adjustment credits. Disbursements are to be made based on performance contracts prepared by each eligible enterprise. The Fund may be used to finance rehabilitation investments, purchases of spare parts or raw materials, staff training or re-training, technical assistance, and the replenishment of working capital. The Fund will provide equity capital or loans.

30. The respective roles of supervisory ministries, managing directors, boards of directors and management committees for each enterprise are to be reviewed, in order to: (i) avoid any overlapping or conflict of authority; (ii) decentralize decision-making powers to the greatest possible extent, and (iii) give managers maximum responsibility.

The new legal framework, which allows for changes in salary policies, hiring and firing practices, while complying with the current Labor Laws, will be implemented in 1988. Several sector studies, concerning tariffs, incentives, privatization and financial flows will be completed before the end of 1988.

31. A Management Information System (MIS) is being established to collect data on PE production, personnel, sales, inventories and finances. The system, which will be refined and in place by end-1988, will reinforce senior management's capacity to analyze their firms' performance. Periodic performance charts will be prepared to monitor the impact of the sector on public finances and on such key economic indicators as the balance of payments and the stock of domestic and external debt.

32. Specific measures for individual enterprises. SCEP is carrying out detailed studies on enterprises to determine the types of reforms required. A second phase will cover finalization of the reform program and preparation of an action plan.

33. A number of measures have already taken place or are currently underway:

(a) The laboratory component of LAPHAVET (Laboratoire Pharmaceutique et Vétérinaire) has been incorporated as part of the central government and a decision has been made to subsidize ONT (Office National du Tourisme) and CPI (Centre de Promotion Industrielle) in view of their social and economic importance.

(b) Four loss-making enterprises of lesser priority -- AGRIBAL (agricultural development), SUPOBU (fisheries), SOMEBU (studies), SOBECOV (storage and marketing of agricultural products) -- have been closed down, and committees have been established to oversee their legal dissolution. The Government has also decided to liquidate SOGESA (which administers ex-SOBECOV's capital) before the release of the second tranche of SAL II, and its capital will be absorbed by the Central Government.

(c) Reform programs will be implemented for the following five enterprises as follows:

- CADEBU: This enterprise has benefited in the past from its monopoly on compulsory-savings deposits. In the context of the liberalization of the financial sector, the Government will abolish progressively CADEBU's monopoly on compulsory savings according to the performance contract to be initiated in September 1988. Given CADEBU's difficult financial situation, the Government has decided as part of the company's performance contract to limit its medium- and long-term activities and to place CADEBU under the BRB's supervision in line with a special set of regulations to be prepared during 1989.

- ONAPHA's cost structure precludes it from competing successfully with imported products even if its plant were modernized. In view of the need to supply the Burundian population with low cost pharmaceuticals, the Government has decided to abolish administrative restrictions and to seek private sector participation to rehabilitate ONAPHA. The Government will provide no further subsidies or loan guarantees to the enterprise. Liquidation will be envisaged, if planned investments are not financially and economically justified, or if private participation does not materialize. ONAPHA's laboratory will be incorporated in the Central Government.

- OTRABU: With improvements in management, a restructuring of its vehicle fleet and the adoption of a marketing policy geared to lucrative markets, OTRABU could become profitable in the short term. The rehabilitation program to be initiated before end-December 1988 will eliminate subsidies and will involve partial privatization (i.e., conversion from an EPIC (Public Enterprise) to a SEM, (Enterprise of Mixed Economy). The privatization study for the PE sector which will be completed before end-December 1988 will specifically examine OTRABU's case.

- OTRACO: Issues are: the weakness of its internal management and efficiency, and its dual role as a public service and a commercial enterprise. The performance contract (to be signed in June 1988) will seek to define and quantify the respective responsibilities of the State and OTRACO and will include a tariff adjustment, to ensure that OTRACO maximizes cost recovery. A subsidy will be granted, based on detailed cost estimates of the company's public service function, and will be explicitly identified in the national budget.

- VERRUNDI: The first phase of the diagnostic study emphasized the company's severe debt problem, which is linked, in part, to the devaluation of the currency. Improvements in the accounting system have been proposed. A second phase of the study will examine the overall operations and the economic position of VERRUNDI, and will allow the formulation of a comprehensive recovery program. The negotiation of a performance contract with the enterprise is planned for end-1988.

34. Reform programs for another 10 enterprises will be formulated in 1988/89. Rehabilitation programs for a second group of enterprises will be completed by end-1988. These include: REGIDESO (water and electricity supply and distribution), MINOTERIE DE MURAMVYA (flour milling), three import parastatals (EPIMABU, ONC, ONIMAC), and the LAITERIE CENTRALE DE BUJUMBURA (milk production). The performance contract for REGIDESO is planned to be negotiated and signed by January 1989. Reform programs for a third group of enterprises -- COTEBU (textile production), ONL, SIP (housing), and three state-owned hotels and ONATEL (telecommunications) -- will be prepared during 1989.

D. Monetary and Credit Policies

35. Burundi's monetary and credit policies have been determined on the basis of annual agreements between the Government and the Bank of the Republic of Burundi (BRB) regarding the amount and terms of Central Bank advances to Government. Other credit policy instruments have included ceilings on credit expansion, managed through prior authorizations for

loans in excess of a given amount, restrictive regulation of interest rates, and liquidity coefficients and sectoral allocations for rediscountable medium-term loans. While some of these monetary and credit instruments may be maintained, new instruments will be introduced in order to facilitate effective control of overall credit while deregulating the economy.

36. Interest rates will be progressively decontroled leaving a greater role for market forces and competition among commercial banks and financial institutions will be encouraged. Efficiency of the financial sector has been impaired by monopoly rights enjoyed by CADEBU (Caisse d'Epargne), the savings fund, on compulsory-savings deposits, by the inability of public enterprises to deposit funds in the institutions of their choice, and by the practice of consortium financing for the coffee campaign. Moreover, the discriminatory policy which has characterized the issue of Treasury Bonds has hindered rational resource allocation. Aware of these deficiencies, the Government has decided to undertake reforms under the second structural adjustment credit (SAL II). Reforms will: a) promote market determination of interest rates; b) simplify an unwieldy interest rate structure; c) liberalize Treasury bond (bons du Trésor) allocations among financial institutions, through the introduction of an auction system; and d) encourage the introduction of more flexible instruments of credit control.

37. Deregulation of interest rates. The Government recognizes that competition among financial institutions is reduced as a combination of minimum deposit rates and maximum lending rates places a ceiling on profit margins. The ceiling may be counterproductive since it precludes financing of higher-risk activities and is discriminatory with respect to both savers and financial establishments. The Government is abolishing CADEBU's compulsory-savings monopoly, leaving to the market the role of setting deposit interest rates on all forms of savings.

38. In order to correct the current discrimination in interest-rate determination and the allocation of treasury bonds, the Government has decided to introduce an auction system, open to all financial institutions. The auction should facilitate the development of a domestic money market which will provide a flexible mechanism for determining interest rates on short-term funds. To promote small savers, progressive-rate treasury bonds will be issued starting in September 1988.

39. The process of interest-rate deregulation will take place in four stages and by July 1, 1989, at the latest, financial institutions will be permitted to set their rates (including commissions) for loans and deposits. The Central Bank (BRB) will maintain two rediscount rates: a normal rate and a preferential rate (i.e. to promote credit to export sectors).

(a) At end-March 1988, the regulation of interest rates for non-rediscountable loans was abolished and the minimum interest rate on demand deposits in excess of FBu 100,000 was eliminated.

(b) Before end-September 1988, deposit interest rates will be deregulated with the exception of a minimum rate (currently 7 percent) on passbook savings deposits. The number of discount rates and interest rates on rediscountable loans will be reduced to three. Maximum commercial bank margins will be increased; however, the differential between lending and discount rates will continue to be regulated.

(c) Before December 1988 the number of discount rates will be reduced to two.

(d) Before July 1989 interest rates will be fully liberalized with the exception of the two discount rates.

40. Reform of money and credit control instruments. To facilitate credit control the Government has decided to introduce a reserve requirement for banks and other financial institutions. Reserves can be held in the form of treasury bonds purchased through competitive bidding thus limiting potential detrimental effects of this requirement on bank profitability and promoting demand for treasury bonds.

41. The system whereby banks were required to obtain prior authorization from the Central Bank before extending a loan which would increase their exposure to a given borrower to FBu 10 million or more has been eliminated at end-March 1988. The Government is aware that such a system is not an effective instrument of control over the volume of credit because: a) part of the small loans are not covered; b) the centralization of information on bank exposure occurs with considerable time delay; and c) the amount of outstanding prior authorizations always greatly exceeds actual outstanding loans. Moreover, its use as an instrument of selective control largely duplicates other instruments such as rediscounting and liquidity coefficients.

42. Institutional measures. The Government will ensure that all banking institutions are subject to the same degree of regulation and that competition will be promoted. However, the COOPEC (Credit Cooperatives) will be subject to special regulations to be put in place before 1989. The system of compulsory savings will also be progressively liberalized. This process will be launched at the time of the signature of the performance contract for CADEBU (planned for September 1988) and will be carried out during the SAC II period. The compulsory savings interest rates will be set by the market. Over time the compulsory savings system which has already been abolished in the rural areas, will be made optional.

E. Employment Policy

43. Most of the population is employed in the rural subsistence sector where labor productivity and incomes are low and available arable land is declining. Based on an annual population growth rate of 3 percent, an estimated 60,000 persons enter the labor market every year; however, the modern sector provides only 3,000 full-time jobs. The Government has already introduced a number of reforms during the first phase of its SAP to eliminate previous bias against employment generation. Measures to reorganize and strengthen agricultural services, to reduce taxation of

traded food products and to eliminate compulsory savings by small farmers have been effective. Other reforms have promoted the development of inter-regional trade and employment in the informal urban sector.

44. In the context of the second phase of its SAP, the Government will introduce additional measures to strengthen incentives for small- and medium-scale enterprise development and for employment generation. The Government's objectives are to liberalize the labor market, revise the legislation on foreign labor, strengthen the role of the Ministry of Labor in employment promotion, introduce measures to reduce the costs to employers associated with employment and stimulate the development of artisanal and informal activities. Unnecessary regulation of employment will be abolished in order to progressively reduce recruitment costs. Information on the employment market and voluntary placement services available to workers and employers will be improved. The tax system and regulations on commercial, industrial and artisanal activities will be reviewed and revised, where necessary, to promote small enterprise development in the modern and informal sectors.

45. In particular, the Government will:

a) revise the labor legislation and recruitment procedures to allow employers greater freedom to select employees without prior mandatory consultation/approval by the Labor Department (DMO). The present recruitment procedures, which are costly, will be improved. In return, employers will be required to conform to national labor standards, to protect the well-being of their employees and to give priority, given equivalent qualifications, to the employment of Burundian nationals. The revised regulations will also simplify and clarify the procedures for promoting the "Burundization" of employment and for providing support to employers who take the initiative to provide training programs;

b) revise the role of the Placement Committee so as to give it a supervisory role over placement activities. The Commission will also, where necessary, notify the competent authorities of its views regarding employment problems; and

c)strengthen the capacity of DMO to perform the functions of evaluating employers' specific skills needs.

46. The legislation on the employment of foreign labor will be improved with a view to reaffirming on the one hand, the priority to be accorded nationals, and on the other hand, the need to protect enterprises' right to use foreign expertise when it is not available in the country. In this respect, the following measures will be adopted: a) the Foreign Employment Committee will be broadened to include employers and will establish precise criteria for the granting of work permits to aliens; b) whenever possible, working and residence permits will be issued for the same duration; c) foreign workers who lose their jobs will be allowed to seek another job without having their working permits automatically revoked; and d) the tax on foreign workers' earnings will be used for training local labor.

47. The Ministry of Labor will strengthen its activities concerning: (a) the formulation and implementation of employment promotion policies; (b) the evaluation of the impact of the revised investment code on employment generation; and (c) the analysis of annual labor statistics to determine recent employment and wage-structure developments. The Ministry of Labor (in particular, its Studies Office and Manpower Department) will be strengthened under a project financed by UNDP and executed by the ILO.

48. The Ministry of Labor will redefine the roles of its various departments accordingly to strengthen planning and statistical functions, to introduce computerization and training activities and, finally, to reallocate personnel to employment promotion activities. It will also improve its collaboration with other ministries interested in employment issues, such as the Interior, Trade and Industry, Civil Service and Health Ministries and the Chamber of Commerce. Emphasis will be placed on social dialogue and consultation in the context of the National Labor Council -- or in any other tripartite commission, with representatives from the Government, the Burundi Workers Union, and the employers. The sub-committee for Human Resources Planning will be reinforced.

49. The Manpower Department (DMO) will continue to play an important role in employment promotion, notably in the exchange of information between job seekers and employers. To improve the DMO efficiency, the Government will implement, in a progressive fashion, the following activities:

a) establishment of a job-seekers' data bank, classified by occupation and skill level;
b) computerization of placement operations;
c) creation of a section specializing in the placement of managers, supervisors and foremen;
d) development of an occupational classification;
e) establishment of a Counselling and Guidance Office to foster mini-business employment and self-employment; and
f) creation of a unit to provide liaison between services demanded by the modern sector and services supplied by the informal sector.

50. These reforms of labor legislation and reglementation will be implemented in two phases. During the first phase, which will be completed by December 1989, the Government will take the necessary steps to liberalize the recruitment procedures in the private sector. Before December 1989, the impact of this first phase will be assessed, based on surveys covering the views of all social partners. The second phase, based on the results of the assessment, will envisage the extension of liberalization to the parastatal sector.

51. <u>Other Employment-Related Issues</u>. In consultation with a commission composed of representatives of the Ministry of Health, the Ministry of Labor, the Burundi Workers Union and the Employers Association, the Government will study alternative ways of improving the efficiency of medical coverage of private-sector employees (currently 100% of expenses are paid by employers). The principle of a "deductible" (where part of the cost is borne by the employee) will be adopted in order to reduce the costs to employers. To ensure that this reform is consistent with the existing

systems and takes into account equity questions, the Government will undertake this study in the context of the studies already in progress on health service financing in Burundi (Health and Population Project). Available options such as: (i) extending insurance coverage under the civil service mutual insurance scheme (mutuelle) to private-sector employees; (ii) creating a health insurance fund administered by the private sector; and (iii) setting up a single, universal system, with employee contributions administered by a health insurance department (such as the civil service mutuelle) will be clarified. Recommendations will be presented to the Commission at the end of 1988.

52. The Government will revise the Central Bank practice prohibiting the importation of second hand technology in order to improve access by small enterprises to capital goods. Such imports will have to be accompanied either by minimum performance warranties or by a certificate from a competent international organization attesting to the quality of the equipment.

53. To promote job creation in small and medium enterprises, including those in the informal sector, the structure of municipal taxes on businesses in Bujumbura will be revised to improve equity and also to provide greater incentives to job creation. Municipal taxes are currently set on a flat-rate basis and change every year. They also discourage job creation. (For example, a carpentry workshop employing three workers pays a tax of FBu 10,000 a year whereas a workshop with one employee more pays FBu 30,000). The reform will take into account the need to ensure adequate tax revenue to keep pace with the foreseeable development of the city of Bujumbura and increasing costs that the Municipality of Bujumbura will have to meet. The Government has also prepared tax collection and management reforms designed to ensure greater equity and to maximize tax revenue and accounting reliability.

F. Agricultural Policy

54. The agricultural sector constitutes the base of Burundi's economy, accounting for more than 50 percent of GDP and contributing more than 80 percent of export earnings. However, the agricultural sector faces major structural problems. Although output has kept pace with population growth, the sector continues to be geared to subsistence farming and yields remain low. Land availability is limited and likely to be exhausted shortly. Cultivation of increasingly marginal land, progressive deforestation and reduction in fallow acreage and failure to use fertilizer are among the major factors responsible for declining land potential. Marketing of produce is difficult with fluctuations in agricultural production frequently resulting in a sharp fall in prices when surpluses cannot be marketed.

55. Nevertheless, Burundi's agricultural sector offers opportunities for growth on a larger scale than in many other African countries. The Burundian farmer has shown extraordinary ability to adapt to farming conditions. The pressure on arable land has prompted farmers to adopt new technologies in order to increase yields. Attention to applied research on these new technologies is necessary and difficulties in marketing foodcrops in the face of limited domestic demand present serious obstacles to the promotion of higher-yield techniques.

56. The Government's broad objectives are as follows: a) meet the food needs of a rapidly growing population; b) expand production and exports of agricultural products; and c) increase farm incomes to enable the rural sector to modernize and become a market for production from the industrial sector. The strategy for the sector is based on: a) rational development and utilization of the remaining available hill-slope and marsh land; b) intensification of production by small farmers through development of agricultural research (with a view to introducing new technologies), of production (where economically justified) and distribution of inputs, and of production support structures, including extension, credit and marketing channels; and c) regional specialization with a view to maximizing production by ecological zone.

57. Increasing Production of Export and Foodcrops. The Government is fully aware of the critical role of agricultural exports in the balancing of the country's external accounts. It will continue to concentrate efforts on increasing production and marketing of traditional exports as well as on diversifying the range of non-traditional agricultural exports. Targets for non-traditional products will be set based on a study of Burundi's comparative advantage. Products with a high unit value in relation to transportation costs (essential oils, spices, exotic fruits, horticulture, and medicinal plants) will also be considered. The cost of farm inputs will progressively be transferred to farmers whose production decisions will be adjusted to price signals for various crops.

58. Although there is little government intervention in foodcrop pricing and marketing, price controls are in place for major export crops (coffee, tea, and cotton). As a basis for refining Government's policy regarding export crops, the Government will undertake an agricultural comparative advantage study including an assessment of producer incentives in light of production costs and world prices of those crops.

59. Concerning coffee, the objective is to increase production substantially. The feasibility of this target will be examined taking into account poor demand prospects on international markets, Burundi's vulnerability to transport conditions in its neighboring countries, and the crop's opportunity costs (given limited availability of arable land). Burundi's relative position in the world market for coffee will also be assessed as well as the possibilities for penetrating markets for best quality arabica coffee. In this context, the Government will develop (before September 1989) a long-term production strategy, based on the results of the above-mentioned study.

60. An action program will be introduced to improve quality of production and the efficiency of the coffee sub-sector. It will include: (a) continued investment in coffee washing stations; (b) identification of structures to ensure effective management of washing stations (producing fully washed coffee); (c) strengthening of BCC's management capabilities and establishing a marketing and transportation strategy; (d) resolving the problem of the "potato" taste which would upgrade the market image of Burundian coffee; (e) increasing the effectiveness of pricing policy

through the introduction of a sliding scale for "fully washed coffee", and assessing the possibility of introducing quality bonuses for producers; and (f) exploring the feasibility of placing OCIBU and BCC on a fee basis for their processing and marketing services.

61. Government policies to increase food crop production include: (a) Land settlement and development programs in the eastern part of the country. In order to reduce risks of environmental deterioration, vulnerable areas will be set aside for other uses (forests, rangeland, etc.). (b) A National Extension Unit (Service National de Vulgarisation) will be established to coordinate provincial agricultural services and serve as a link between ISABU (research) and farmers, to disseminate the results of adaptive research and to provide farmers' feedback to ISABU. Extension services will be strengthened and efforts will be made to develop technical packages adapted to specific ecological zones. (c) Production of selected seed is based on a large number of small seed multiplication centers using ISABU's foundation seed. The system has resulted in quality discrepancies of multiplied seed and in yield increases of only between 10-15 percent. In view of the selected seed's greater vulnerability to disease and weather, farmers prefer to use traditional seed. The Government plans to improve the program of seed production. (d) Fertilizer use is an important step toward improving yields, even before the introduction of selected seed. Research on least-cost production is needed to determine the cost-effectiveness of fertilizer use according to crop and ecological zone. The Government intends to: (i) update and extend fertilizer trial programs to mixed cropping typical of actual farm conditions; (ii) conduct trials on combinations of chemical and organic fertilizer; and (iii) clarify import and supply policies. Fertilizer marketing will be gradually entrusted to cooperatives or private individuals, and financing could be provided by COOPECs (savings and loan cooperatives). The Government will also examine the economic feasibility of developing the Matongo phosphate deposits and of using lime. (e) The use of pesticides, phytosanitary controls and improved on-farm storage facilities is well within the grasp of the average farmer and could lead to substantial increases in production. This technology has not been widely disseminated due to a lack of funding; however, as part of the Fifth Development Plan, a national phytosanitary service will be created in ISABU. The above actions will be implemented in the context of the IDA-financed Agricultural Services Project.

62. Forestry Production and Environmental Protection. The Government intends to plant 300,000 ha of woodlots to meet construction timber and fuelwood requirements. The following principles will be applied: (a) promotion of tree planting by private individuals. Tree planting will become an integral part of the farming system and a special program will identify suitable species. The Department of Water and Forestry Resources will produce the seedlings for sale to the private sector. Pricing for wood products will be reviewed and rationalized to provide adequate incentives for wood production. (b) Planting of protective woodland on mountain ridges and other areas exposed to severe risk of erosion will be continued. (c) Training of technical staff at all levels will be encouraged.

63. Until recently, efforts to protect soils have been restricted to erosion control and the planting of protective woodlots, and have met with only limited success. The Government's new policy will be based on an ecosystem approach and on a better understanding of the watersheds under development. Implementation of these programs will, wherever possible, be entrusted to the local population, with the public authorities providing only technical assistance.

64. Restructuring of the RDCs. RDCs currently have high administrative costs that are unsustainable once foreign assistance has been phased out. In addition, high overhead reduces the amount available to assist project target groups. The Government will restructure the RDCs as follows: a) streamlining administrative structures; b) improving cost recovery; c) transferring certain commercial functions to the private sector; and d) making substantial improvements in organizational efficiency enabling more resources to be transferred to producers. This restructuring will include measures to strengthen the Central Government services which must assume some of the tasks currently performed by the RDCs.

65. Rationalizing Agroindustrial Projects. Burundi has undertaken four major projects (rice, edible oils, wheat and sugar), each of which faces serious financial problems. The Government has implemented a system of high-yield rice which has been well assimilated by farmers. Yields are high but an excessively high producer price has led to a unit cost considerably above the import price. The Government will deregulate the rice paddy market for the Imbo RDC no later than the 1989/90 crop year in order to reduce imbalances in the sector and to promote exports.

66. The Government is currently looking into the feasibility of extending processing capacity for oil palm. The choice of technology will be based upon its economic return. In the event that economic and financial profitability cannot be ensured the Government will not undertake the investment.

67. SOSUMO (Société Sucrière du Mosso) currently produces sugar cane and a processing plant is in place with refining operations scheduled to begin in June. However, a brief analysis of the domestic cost of sugar production based on actual variable costs indicates that SOSUMO's sugar would most probably not be competitive with imported sugar in a deregulated market. The Government will maintain its commitment (made under SAL I) not to subsidize SOSUMO's operations. The company's working capital requirements including losses incurred during the start-up phase will be included in the financing plan under negotiation with the project's financiers. This financing plan will be submitted to the World Bank. An in-depth study will be undertaken to determine the opportunity cost of pursuing this project, including the identification of additional investments with an economic rate of return above 10 percent. The study will also assess the scope of reducing SOSUMO's operating costs. The consultant will be recruited prior to the effectiveness of the credit. The conclusions of the study will be converted into an action program to be prepared before December 1988. The Bank's approval of this action plan will be a condition of second tranche release. In any case, the

Government will undertake to liquidate the enterprise if it is unable to demonstrate that the project is economically viable in the longer term following the first two years of operation.

G. Social Sector Policy

68. Despite economic and financial constraints the Government achieved virtually all of its Five-Year Plan (1983-87) objectives for the health and education sectors. Health care facilities are now available to roughly 70 percent of the population, an expanded program to immunize every child by 1990 appears feasible, one-third of the population has access to clean water (compared with 10 percent in 1980) and practically all seven-year olds were enrolled in school this year.

69. Nevertheless studies show that certain groups remain vulnerable. Infant mortality is still one of the highest in Africa with roughly one-third of children between one and three years of age suffering from moderate to severe malnutrition. Lack of sufficient spacing of pregnancies exposes mothers to caloric deficiencies while a new health problem, AIDS, has potentially severe consequences for both mothers and children. Only 32 percent of the rural population has access to safe drinking water, and sanitation and hygiene still require attention.

70. The Government's social action program seeks to complement and expand upon the existing national programs while addressing specific poverty problems. The main components are:

a) the provision of nutritional complements for malnourished children;

b) strengthening primary health care and supply of low cost drugs;

c) special programs targeted to women;

d) specific studies and programs aimed at improving job creation;

e) the development of a food security strategy; and

f) institutional measures aimed at improving the monitoring of the social sectors and at strengthening coordination of social programs within the Government.

71. The following criteria will be applied in developing these programs: (a) efforts will be targeted to reach beneficiaries without overlapping with existing programs; (b) expenditures will be explicitly budgeted to enable costs to be closely monitored; (c) in preparing these targeted programs, least-cost solutions will be favored; and (d) these programs will be designed to run for a limited duration and will be subject to a thorough evaluation to ascertain whether they should be continued.

72. Improving Nutrition of Vulnerable Groups. Monitoring of young children to detect those who are undernourished or vulnerable will be generalized in every health center throughout the country. Nutritional instruction will be aimed at mothers, taking into account the local

availability of foodstuffs and dietary habits. Food supplements will be available at every health center and adequate nutrition for pregnant women and nursing mothers will be included in maternal monitoring.

73. Priority will be given to the following activities: (a) The Ministry of Health is currently studying the nutritional status of young children. A program to supply nutritional supplements to severely affected children will be prepared. (b) In conjunction with UNICEF, a program for manufacturing infant cereal is under way in three processing plants owned by cooperatives. This program will be subject to a mid-term review and, if results are favorable, will be extended to the rest of the country. (c) A school health program to supply nutritional supplements to children of primary school age and to disseminate relevant nutritional information will be prepared.

74. Expanding Health Services and Access to Essential Drugs. The Government will step up its efforts to improve maternal and child health and family planning services, including an expanded program on immunization. The availability of consulting services for infants and maternal monitoring will be enhanced. The Government will give priority to expanding the network of primary health care centers and providing them with qualified staff and sufficient equipment and supplies to enable them to operate effectively. A national AIDS program which is being prepared will be integrated into health services. The system for financing health care services will be revised to improve accessibility of the poorest segments of society. Health insurance cards will be distributed to the entire population thus spreading the costs of services. Other health insurance schemes currently in existence will be harmonized.

75. The Government's efforts to improve access to essential drugs have focused on providing the Ministry of Health with additional funds to buy drugs, increasing the number of private pharmacies partially financed by the Government through the Mutuelle system, and investments in ONAPHA. Efforts of recent years have, however, been partially offset by price increases. To reduce the cost of basic drugs and make them more readily accessible, the Government will liberalize the importation of generic drugs, while reducing customs tariffs of basic drugs. A treatment guide for major diseases will be introduced to reduce unnecessary prescription of drugs, and the Government will promote the use of generic drugs whenever feasible.

76. The Government plans to distribute essential drugs through the basic health care network. Inventory control in health centers will be strengthened to prevent depletion of supplies or the accumulation of excessive or outdated stocks. A cost-benefit analysis of the current system for distributing medicines should examine the option of a more decentralized system.

77. Special programs for women. A pilot "Women-Credit-Production" program is being implemented in three provinces. The program will be evaluated with a view to extending its coverage nation-wide.

78. Employment creation. The Government will undertake preparatory work to identify and prepare specific programs in the following areas: (a)

labor-intensive components of public investments, including the possible reprogramming of identified operations; (b) the development or extension of small productive projects to be supported by public and private donors (e.g., small handicrafts, fish farming and livestock operations); (c) a viable rural housing credit scheme as a follow-up to a pilot project which has already reached 18,000 rural families; and (d) technology improvements in artisanal construction and the production of construction materials.

79. Food security strategy. The Government will formulate a food security strategy taking into account the studies already available and ongoing in the agriculture and nutritional sectors, which address in particular the issues of food security and policy and will explore available options to reduce the risk of food shortages in cases of drought (early warning system, contingency plans, storage policy).

80. Institutional Strengthening. The Ministry of Plan will ensure the coordination, preparation and implementation of the above mentioned actions, which will be specified in the context of the UNDP/Bank Social Dimension Project. This project will identify also the additional needs for coordinating the preparation and implementation of the Government's social action programs initiated by other government agencies or by various public or private donors.

April 26, 1988

S.E. Gerard NIBIGIRA
Minister of Planning

S.E. Pierre BINOBA
Minister of Finance

BURUNDI - STRUCTURAL REFORM PROGRAM (SAL II)

POLICY AREA	ACTIONS TO BE TAKEN BY GOVERNMENT	TIMETABLE
1. MACROECONOMIC MANAGEMENT		
	a. Agree on macroeconomic framework for 1989-91, including overall budgetary deficit, PEP and pilot consolidated budget for 1989.	December 1988 (2nd tranche release)
	b. Agree on macroeconomic framework for 1990-92, including overall budgetary deficit, PEP and pilot consolidated budget for 1990.	October 1989 (3rd tranche release)
	c. Adjust exchange rate as needed to maintain external equilibrium	During program
	d. Monetary and credit reform (see para.7 below)	During program
	e. Adoption of financial program supported by SAF and strengthen PEP preparation (para. 8 below) .	During program
2. TRADE AND INDUSTRIAL POLICY		
Import Liberalization:		
	a. Increase the ceiling below which banks are allowed to grant automatic licenses from FBu 1 million to FBu 10 mn .	April 1988
	b. Eliminate remaining import restrictions:	
	- on imports of luxury goods	April 1988
	- on imports competing with production of ONAPHA, COTEBU and VERRUNDI.	Before end-1990
	Agreement on calendar of liberalization:	
	ONAPHA	End-1988
	COTEBU	March 1989
	VERRUNDI	December 1988 (2nd tranche release)
Price liberalization:		
	c. Review and adjust water and electricity tariffs	During program
Tariff Reform:		
	d. Implement 3rd phase of tariff reform, with the objective to reduce average tariff, while maintaining a neutral effect on budgetary and balance of payment levels.	December 1988 (2nd tranche release)
Export Promotion:		
	e. Promulgate decree on export promotion.	April 1988
	f. Set up Office of Standards and Measures	December 1988
	g. Complete study of Burundi's long-term export potential in manufacturing and services.	December 1988
Investment Incentives:		
	h. Guarantee Fund internal procedures:	
	Preparation and approval of internal procedures	April 1988
	Implementation	June 1988 (Effectiveness)

BURUNDI - STRUCTURAL REFORM PROGRAM (SAL II)

POLICY AREA	ACTIONS TO BE TAKEN BY GOVERNMENT	TIMETABLE
	i. Eliminate compulsory deposit required from foreign importers when they have invested at least FBu 20 million in productive sectors.	June 1988
	j. Remunerate compulsory deposits.	
	Announce measure	June 1988
	Actual remuneration	January 1989
	k. Announce objectives and measures of SAP to inform economic agents and the general public and instill confidence in the private sector.	May 1988
3. PUBLIC EXPENDITURES MANAGEMENT		
	a. Agreement on the PIP:	
	Agreement on 1988 PIP (size and structure)	April 1988
	Agreement on 1988-90 PIP based on detailed information	June 1988 (Effectiveness)
	b. Agree on action plan to strengthen MINPLAN	June 1988
	c. Agree on action plan to strengthen capacity in Finance and sectoral ministries in support of budget reform.	December 1988
	d. Launch public expenditures review	May 1988
	e. Agree on PEP for 1989-91 and pilot unified budget for 1989 (see 1.a above)	December 1988
	f. Complete TA survey	December 1988
	g. Strengthen Civil Service Efficiency:	
	Define action program, including recruitment procedures	September 1988
	Launch action program	Dec. 1988 (2nd tranche)
	h. Reform of budget/programming system and adopt effective public accounting system.	Before end-1990
4. PUBLIC ENTERPRISES		
	a. Adoption of decree on PE legal framework.	September 1988
	b. Liquidations:	
	SUPOBU, SOMEBU (documents)	May 1988 (Board)
	SOGESA (decree)	June 1988 (Effectiveness
	AGRIBAL	Dec. 1988
	c. Signature of performance contracts:	
	OTRACO	June 1988
	CADEBU, OTRABU	September 1988
	ONAPHA	December 1988
	VERRUNDI	Dec. 1988 (2nd tranche)
	EPIMABU, ONC, ONIMAC	December 1988
	d. Rehabilitation Programs for	
	REGIDESO	July 1988
	Minoterie de MURANVYA, Milk plant, and COTEBU	November 1988
	e. Signature of performance contracts:	
	REGIDESO	Jan. 1989 (2nd tranche)
	Minoterie de MURANVYA, Milk plant, and COTEBU	May 1989

BURUNDI - STRUCTURAL REFORM PROGRAM (SAL II)

POLICY AREA	ACTIONS TO BE TAKEN BY GOVERNMENT	TIMETABLE
	f. ONL/SIP, ONATEL, Hotels:	
	Rehabilitation programs	March 1989
	Signature of performance contracts:	September 1989
	g. Launching sector studies as basis for policy reforms:	
	Price/tariffs and incentive system	May 1988
	Privatization	May 1988
	Reciprocal debts/ financial flows State/PE	May 1988
	h. Implementation of Management Information System (MIS)	December 1988
5. AGRICULTURE		
Coffee and Agricultural Exports:		
	a. Revision of pricing system (echelle mobile):	
	- introduce sliding scale for fully-washed coffee.	April 1988
	- annual revision taking into account preliminary studies	March 1989 (2nd tranche)
	b. Put in place technical assistance program to strengthen BCC marketing capacity	May 1988
	c. Study of comparative advantage of Burundi export crops. Elaborate long-term strategy for coffee production based on coffee opportunity cost and the analysis of the prospects for Burundi coffee on international markets.	September 1989
	d. Implement research program to eliminate coffee potato taste.	During program
	e. Study efficient structure of management for washing stations.	November 1988
Inputs Policy:		
	f. Elaborate long-term policy on agricultural inputs; evaluate economic utilization of chemical fertilizers; implement national program of improved seeds; improve participation of private sector.	During program in the context of the Agric. Service Project.
Agricultural Sector PIP:		
	g. Sugar: Study on long-term feasibility of SOSUMO and agreement on action plan.	December 1988 (2nd tranche)
	: Implementation of the above action plan	September 1989 (3rd tranche)
	i. Rice: Liberalization of rice marketing for the 1989/90 crop year.	December 1988 (2nd tranche)
	j. Palm Oil: Study of the projet to extend existing processing capacity.	December 1988

BURUNDI - STRUCTURAL REFORM PROGRAM (SAL II)

POLICY AREA	ACTIONS TO BE TAKEN BY GOVERNMENT	TIMETABLE
6. EMPLOYMENT POLICIES		
	a. Liberalize system of recruitment: private sector enterprises will be able to recruit freely Burundian labor. Revise role and functions of Placement Committee. Revise law on foreign labor.	
	- Submission of revised legislation acceptable to IDA to the National Labor Council for approval.	June 1988 (Effectiveness)
	- Agreement on 2nd phase prepared after assessment of first phase reform.	December 1989 (3rd trancho release)
	b. Strengthening of services of Ministry of Labor:	
	- Launching UNDP/ILO project to assist DMO	June 1988
	- Program to strengthen the statistics on the informal sector accepted by the Labor and Trade and Industry Ministries.	December 1988
	- Strengthening the services in the Labor Ministry responsible for employment promotion.	December 1988 (2nd tranche release)
	c. Authorize imports of second-hand technology when accompanied by performance guarantee certificates.	April 1988
	d. Adopt revised structure of municipal taxes on small and medium enterprises.	April 1988
	e. Study of health insurance system for private employees:	
	- TOR accepted by Govt, Labor Union and Employers and Health Ministry.	June 1988
	- Proposition of new system	December 1989
7. MONETARY AND CREDIT POLICIES		
First phase:		
	a. Eliminate a priori credit authorization	April 1988
	b. First auction of Treasury Bills (subscription open to all financial institutions); calendar of issues for the 2nd Quarter 1988.	May 1988
	c. Deregulate interest rates on non-rediscoutable loans and eliminate minimum interest rates on sight deposits.	April 1988
	d. Implement Compulsory Reserves System.	April 1988
Second phase:		
	f. Issue of Tresu~y Bonds with progressive rate .	September 1988
	g. Reduce number of rediscount rates from 5 to 3.	September 1988
	h. Reduce number of maximum interest rates on rediscountable credits from 8 to 3.	September 1988
	i. Revise use of medium term liquidity ratios.	September 1988

BURUNDI - STRUCTURAL REFORM PROGRAM (SAL II)

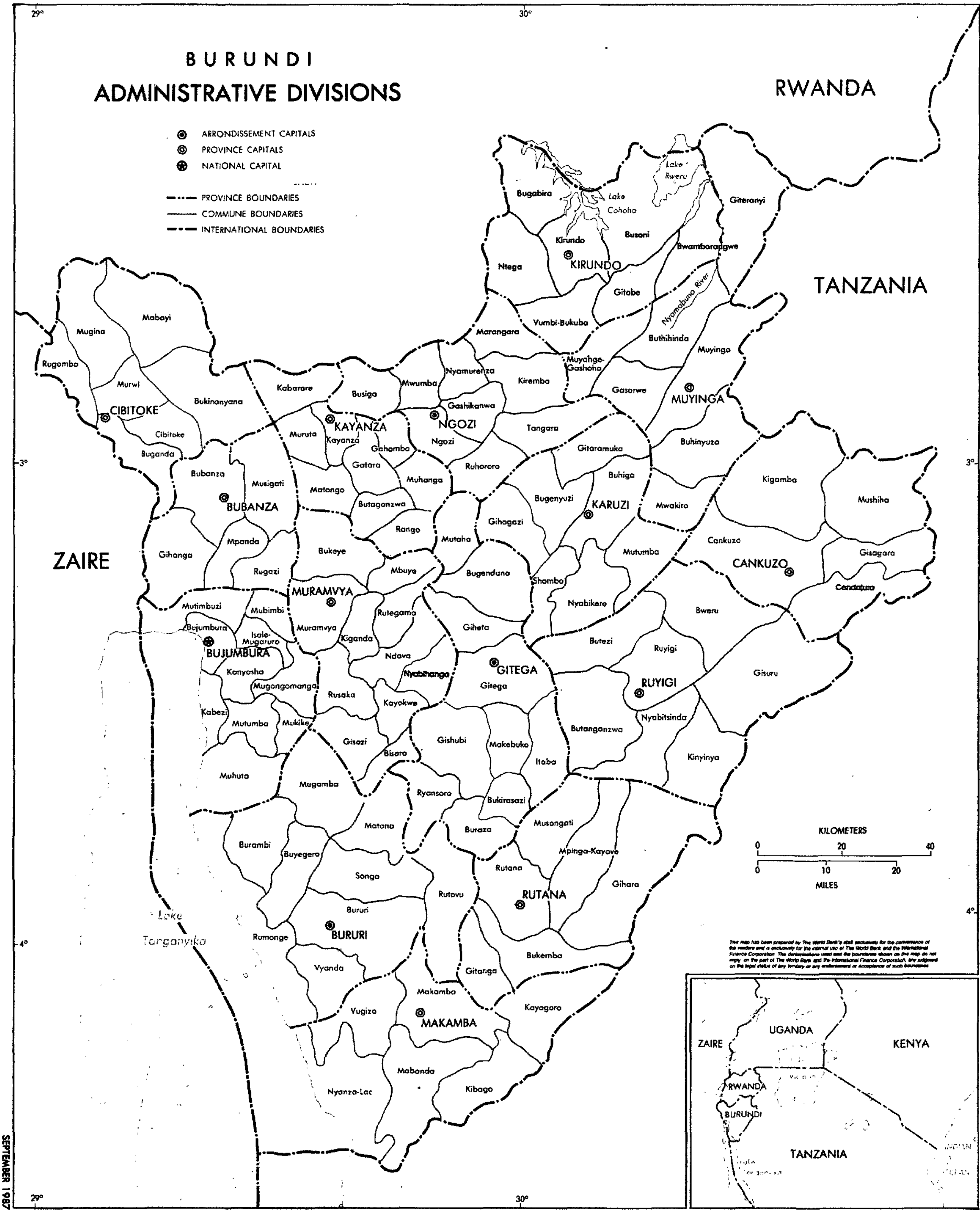
POLICY AREA	ACTIONS TO BE TAKEN BY GOVERNMENT	TIMETABLE
Third phase:		
	j. Reduce number of rediscount rates to 2 (normal and preferential rates).	December 1988 (2nd tranche release)
Fourth phase:		
	k. Liberalization of the 3 maximum lending interest rates and of the minimum deposit rate on savings deposits.	July 1989
Other actions:		
	l. Agreement with IDA on action program for CADEBU	May 1988 (Board)
	m. Completion of first phase of liberalization of compulsory savings.	October 1989 (3rd tranche release)
	n. Adopt procedures for the National Garantee Fund.	June 1988 (Effectiveness)
	o. Revise the real estate code provisiong granting the Treasury an absolute priority on collateral property to the detriment of all other lien holders.	June 1988
8. SOCIAL AND POVERTY ALLEVIATION PROGRAMS		
	a. Request to join the Social Dimension of Adjustment project financed by UNDP and executed by the Bank.	April 1988
	b. Define and agree on program of well targetted poverty alleviation actions.	December 88 (2nd tranche release)
	c. Preparation of a monitoring system	During program
9. FOLLOW-UP ON SAL		
	a. Reinforce Comite de Suivi with permanent secretariat and adoption of system of indicators.	April 1988
	b. Coordinate closely with Resident Mission	During program.

DISBURSEMENT, PROCUREMENT, ADMINISTRATION AND AUDITING

1. The credit would reimburse 100 percent of the CIF cost of eligible imports, subject to documentary evidence that they have been paid for on or after credit signing. However, retroactive financing will be permitted for those eligible imports made before the date of agreement but not before April 1, 1988, up to an amount equal to US$18 million. Public and private sector imports would be eligible, except for military equipment and luxury consumer goods. Imports financed by other sources would not be eligible for IDA financing. The Central Bank would be responsible for assembling requested supporting documentation collected from the commercial banks, to be provided as follows: for small contracts between US$10,000 and US$500,000 equivalent, statements of expenditures will be used. All documentation including invoices will be retained by the Central Bank for periodic examination by Bank staff. The statement of expenditures would be signed by the Central Bank and would include the country of origin, a description of goods, the date of payment, the currency in which the payment was effected, the exchange rate used and the US dollar equivalent charged to the Special Account, and the name and address of the final beneficiary. For all contracts above US$500,000, full documentation would accompany withdrawal applications. In order to facilitate disbursements, two special accounts, one for IDA funds and one for the SJF Japanese grant would be established in the Central Bank in its name into which the IDA would make two initial deposits. The initial deposits into the special accounts will be US$15 million for IDA funds and US$5 million for Japanese grant funds. The special accounts would be replenished at regular intervals against withdrawal applications, for a minimum of US$500,000 each.

2. To facilitate the monitoring of the use of funds under the Credit, expenditures would be subject to verification by a reputable inspection firm of quantities and of quality, and except in cases of ICB, prices. The audit report would include a qualified opinion on these verifications. Special Accounts and the statement of expenditures would also be audited by an independent auditor.

MAP SECTION



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