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THE SMALL AND MEDIUM ENTERPRISE SECTOR IN BURUNDI

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Introduction

In conformity with the terms of reference for PIO/T No. 695-0510-90004, the Policy Environment for Small and Medium Enterprises (SME's), the first portion of this report, "Description of Small and Medium Private Enterprise Sector in Burundi", defines and analyses the characteristics of the SME sector, including micro enterprises, in Burundi.

The second chapter, "Current Policy Framework and Major Constraints to the Formal Small and Medium Enterprise Sector in Burundi", outlines the most recently enunciated Government of Burundi (GRB) objectives and strategies to stimulate SME employment and income growth, and examines the implementation of those policies affecting medium, small and micro enterprises.

The third chapter "Current Policy Framework and Major Micro Enterprise Sector Constraints", describes the GRB's past and current strategies and policy objectives for the micro enterprise sector (artisanal and trade on one hand, and the numerous policies and direct regulatory controls which influence the micro entrepreneur's participation in the economy.

Chapter four evaluates the provisions of the Ministry's of Rural and Artisanal Affairs proposed revised Artisan's Code, "Le Code de l'Artisanat", as the cornerstone of the GRB's artisanal sector policy. Accordingly, this section offers several suggestions on how many of the prospective Code's provisions could be reformulated to provide a more coherent and comprehensive policy for all micro enterprises, including artisanal, commercial and services.

The last section is a summary of the main points in the study and offers policy reform alternatives that USAID/Burundi may wish to incorporate into its African Economic Policy Reform Program, and an outline of the potential benefits and costs of Policy Reform and Enhancement. Each Chapter includes some commentary on non policy constraints and summarized personal observations of the many of those interviewed for this report. However, due to the study's focus on the policy environment, these comments are brief and are meant to demonstrate some of the non policy or subjective factors that can influence the formulation and results of various policies. Additionally, some of the observation and conclusions are by necessity influenced by the author's bias as a businessman and need to draw on experiences in other countries because of his initial and relatively short exposure to Burundi.

Finally, although several individuals graciously expended every effort to help compile an accurate and timely data base, including, GRB officials, AID Mission and World Bank staff, the other AEPRP study teams, and the Ministry of Plan's German technical assistance advisory group; this report is still limited by the paucity of comprehensive and completely reliable data.

I. Description of Industrial/Commercial Enterprise Sectors

A. Scale of Enterprise Definitions and Scope of Work

For the purposes of this analysis, a private sector enterprise is defined as a commercial entity (manufacturing, processing, trade or services (including transport) in the form of a sole proprietorship, partnership, corporation, which is de facto privately managed and controlled. Since the focus is on medium, small and micro scale enterprises, large scale enterprises are only mentioned as they affect smaller scale firms.

There are diverse opinions on the specific size and characteristics of each scale of enterprise, after some research and discussion with knowledgeable local sources, the following general definitions are proposed taking into account the various levels of enterprise entrepreneurial/managerial skills and resources, and the current economic environment:

Relativity of Formal/Informal Status and Scale of Enterprise: In order to facilitate and anchor the discussion, it is important to focus on this study's methodology before proceeding further. Formal and informal can be relative concepts in Burundi because not all legally established firms fully comply with the laws; correspondingly, many informal enterprises are registered for tax purposes and can be compelled to comply other regulations. Secondly, enterprise scale is as much a function of specialization and technical sophistication with a firm as is the amount of its gross assets and the number permanent employees. Therefore, small modern and medium scale enterprises usually have more in common with each other than they do with other enterprises based on their scale of gross assets and permanent employment; the same goes for many other similarly matched firms within each scale of enterprise.

For simplicity, the attached matrix is a synopsis of the definition of each scale of Burundian enterprise (Table 1), described in greater detail in the following sections.

1. Large Scale Enterprises (LSEs)

- Capitalization: Gross Assets (cash, inventory and equipment before depreciation) of between BFu 75 to BFu 300 Million.
- Market: Primarily national upper and middle income; limited exports to Europe and neighboring countries. Little or no competition; high barrier to entry.
- Technology: An emphasis on capital intensive, modern manufacturing, processing, marketing techniques and financial control systems. Moderate innovation.
- Employment: A LSE employs a permanent staff of between 50 to 200 people.
- Management: The largest segment of relatively strong managerial/technical skills (including expatriate advisors) outside of the Government.
- Ownership: The GRB controls 72% of the sector's total capitalization essentially thru seven parastatals; foreigners 24%; and Burundians 4%.

Table I. Scales and Characteristics
of Burundian Enterprises

Characteristic	Large Scale Enterprises (LSEs)	Medium Scale Enterprises (MSEs)	Small Scale Enterprises (SSEs)	Micro Enterprises (Micros)
Capitalization:	Gross Assets BFRU 75 - 200 million	Gross Assets BFRU 15 - 75 million	Gross Assets BFRU 3 - 15 million	Gross Assets BFRU 50,000 to 3 million
Market:	Upper/Middle income Exports to EEC countries	Same as LSEs High entry barriers	Lower/Middle income Medium entry barriers	Local Low to no barriers
Technology:	Modern capital intensive	Modern and Semimodern	Semimodern and traditional	Generally traditional
Employment:	75-200 permanent staff	15-75 permanent staff	3-15 permanent staff	Family members and apprentices
Management:	largest college trained segment	above average skills	limited education/tech skills	weal: lit. legno education
Ownership:	72%: foreign 24%: Burundians 4%:	approx. 50% Burundians	mostly, local rural: some foreign Africans in urban areas	mostly, Burundians rural
Location	mostly in Bujumbura	mostly in Bujumbura	Bujumbura and second ary towns	approx. 85% out-side of Bujumbura

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- Location: Predominately in the Greater Bujumbura area.
- Financing: Full access to principal domestic and foreign financial institutions and investment incentives.

2. Medium Scale Enterprises (MSEs)

- Capitalization: Gross assets of between BFu 15 to BFu 75 Million
- Market: Generally same income and export markets as LSEs. Moderate competition; high barriers to entry.
- Technology: Modern or semi modern or according to degree of state of art of equipment and/or management techniques. Some innovation among a small emerging group of Burundian entrepreneurs.
- Employment: The MSE usually employs a permanent of between 15 to 60 people.
- Management: Manager/entrepreneur with above average managerial/technical skills.
- Ownership: Approximately 60% parastatal and private Burundian; the remainder European, Asian and other African. It is important to note that there may be double counting between medium and small enterprises because some traditional entrepreneurs have subdivided enterprises into small or even micro sub units in order to evade formalization requirements.
- Location: Centered in Bujumbura and secondary cities: Gitega and Ngozi.
- Financing: Generally self financing. However, MSE's have adequate short term financing, but more limited access to local currency term loans and no access to foreign currency facilities.

3. Small Scale Enterprises (SSEs)

- Capitalization: Gross assets of between FBU 3 to FBU 15 Million.
- Market: Primarily regional middle and lower middle income; moderately less competition due to still substantial barriers to entry.
- Technology: Semi modern or traditional
- Employment: SME's employ between 3 to 15 permanent workers depending on the size of firm.
- Management: Majority of manager/entrepreneurs have limited education, but some technical training.
- Ownership: Increasingly Burundian in rural areas, with a large percentage of neighboring African and Asian entrepreneurs in Bujumbura and Gitega.
- Location: Centered in secondary market towns and Bujumbura.
- Financing: Self financing, supplier credits and informal credit market; generally very limited access to the financial sector and investment incentives.

4. Micro Enterprises (Micros)

- Capitalization: Gross assets of between FBU 50,000 and FBU 3 Million (excluding itinerant salespeople).
- Markets: Highly localized, basic need consumer products and simple farm tools for low income market, with the exception of some specialized services in incipient urban markets in Bujumbura and Gitega; supplied by artisans represented by skilled and semi skilled craftsmen, and traders represented by full time merchants and cultivator/vendors. Intense competition with limited viable market access.

- Technology: Generally traditional (nominal amount of semi modern skills, i.e. auto and electrical repairs, in urban areas) based on existing materials and traditional artisanal skills.
- Employment: Primarily family members and apprentices.
- Management: Weak educational skills; little or no specialization or division of labor; and minimal or no financial records.
- Ownership: According to World Bank studies approximately 85% of the sector is outside Bujumbura and more directly involved in farming activities.
- Location: The largest markets are in Bujumbura and secondary towns.
- Financing: Family savings, cash transactions, informal credit markets; limited access to Rural Credit Cooperatives (COOPECs) and supplier credit.

B. Enterprise and Employment Characteristics

Statistical data on formal enterprises is often inconsistent and incomplete because of the reluctance of companies to comply with official reporting requirements; and lack of data coordination among Ministries. Correspondingly, information on the informal sector, particularly rural itinerant and/or intermittent artisans and merchants is largely conjecture. However, statistics supporting the World Bank's Small Enterprise Apex Project Appraisal Report and the Ministry of Labor's 1987 Enterprise Inventory, provide a basic analysis of the formal sector.

1. Enterprise Formation Trends

The World Bank's cross referenced 1986 official statistics and listed in 557 registered companies; approximately 70% of which are in commerce and industry, 20% are in manufacturing, and 60% are located in Bujumbura Annex I.

Correspondingly, the Ministry of Labor's 1987 enterprise census 712 registered establishments; however, some government administrative offices, cooperatives, and multinational subsidiaries are included in the total, Annex II. Moreover, since completing the form is in fact optional, many private enterprises and parastatals are unlisted or are misclassified. Accordingly, in order to place Labor's census on a more comparative basis with the World Bank's survey and the definitions developed in Section A of this chapter, only the following legal incorporations were considered:

- Etablissement de Droit Public à Caractère Commercial
- Etablissement de Droit Public à Caractère Industriel
- Société d'Economie Mixte de Droit Public
- Société d'Economie Mixte de Droit Privé
- Société Anonyme à Responsabilité Limitée (SARL)
- Société en Nom Collectif
- Société de Personnes à Responsabilité Limitée (SPRL)
- Société en Commandite Simple

Therefore, based on these assumptions, incorporated Burundian industrial, commercial and service enterprises are distributed as follows:

Table 2

Distribution of Incorporated Enterprise Activity, 1987			
	Manufacturing	Commerce/Services	Total
Large	26	2	28
Medium	50	46	96
Small	31	160	191
	<u>107</u>	<u>208</u>	<u>315</u>
Located in Bujumbura	99	—	150
Located in Provinces	8		58

Sources: Ministry of Labor

Only 20% of incorporated enterprise activity, within the terms of the more narrow definition, is located in the provinces, mainly G tega, Ngozi, Musinga, Muramvya and Kayanza. Additionally, unincorporated small enterprises are underrepresented, being simply sole proprietorships.

2. Current Formal Enterprise Development

Agro industry, food processing, and textiles accounted for 68% of formal sector industrial revenues in 1986, which is similar to other countries in comparable stages of economic development.

Industrial development began in the early 1970's, and was dominated by larger parastatals and foreign enterprises. It was not until the 1980's that medium and small scale industries were founded in any number by local investors, particularly in the areas of metallic products, furniture and wood products, and plastic materials.

According to the World Bank, the net increase in the amount of registered companies over the period 1973-1986 was 428, which resulted from 4,149 start ups and 3,728 closures. Although the number of start ups indicates a certain entrepreneurial spirit in Burundi, the amount of closures demonstrates that business people tend to base new activities on inadequate feasibility studies, overrate the market's potential (opening too many enterprises for a particular market, e.g. pharmacies), and underestimate operating expenses.

3. Current More Established Informal Enterprise Development

The World Bank has identified approximately 950 small or micro enterprises in the larger provincial towns and Bujumbura as more established informal enterprises where the proprietor earns most of his income from non farm activity in fixed location. Nearly 70% of these enterprises are in trade, the remaining 30% of established informal activity being divided among metal and furniture manufacturing, food processing, electrical and mechanical repairs and refabrication, tailoring, and carpentry.

4. Labor Legislation and Characteristics

Incomplete and conflicting data bases are a major constraint on every policy level in Burundi. The lack of timely and accurate information effectively impedes optimal policy formulation and implementation. Fortunately many key government departments are aware of the problem and are attempting to incorporate modern statistical methods and develop highly competent statistical divisions. For example, the Ministries of Labor and Planning are among the most prominent institutions attempting to upgrade their skills, therefore this study heavily employs material issued by their research departments.

a. Employment Trends

According to the Ministry of Labor, Burundi's population was estimated to be 4.9 Million at the end of 1986, and the active labor force to be 2.9 Million, of which 28,000 or 1% were in the private formal sector; 14,000 were employed by parastatals; and approximately 175,000 derived their principal income from informal sector activity, Annex 3.

The Ministry of Plan's 1987 Annual Statistical Yearbook states formal manufacturing employment increased by 3% per year between 1982 and 1987, with the food/beverage and textile industries as the largest employers, Annex 4. However, the biggest percentage employment gains were in industries better represented by medium and small enterprises: paper products, chemical and metal fabrication firms. Concurrently, commerce reflected a small decline in employment.

Overall, modern sector employment, including government and parastatals, only increased from 47,000 to 50,000 over the six year period, suggesting that most of the 60,000 new entrants in the labor force remain in farm related activity or seek employment in the micro enterprise/informal sector.

Accurate figures on informal sector employment are difficult to pinpoint because of the dispersion and intermittent nature of much of the activity. However, the Ministry of Labor estimates that approximately 175,000 persons derived their principal source of income from the informal sector in 1986, and around 398,000 individuals earned some income from informal non farm activity in the same year, Annex 5.

According to the GRB's Fifth Five-Year Plan, it should be noted that the projected annual 3% increase in informal employment is about the same as the rate of increase in formal sector manufacturing; however, this may be underestimated based on the observations of the Rural Market Study.

b. Workforce Skills

The Ministry of Labor's 1986 inventory of workforce skills shows that 45% of the permanent formal private workforce is manual labor; semi skilled and skilled labor comprise 17%; highly skilled technicians represent 11%; and only 10% of the workforce is considered managerial. Significantly, foreigners are highly represented in the three highest

c. The Employment Contract and Labor Regulations

Private sector and parastatal recruitment and hiring decisions are subject to the approval of the Ministry of Labor's Department of Manpower (DMO). The DMO is the only legal employment service in Burundi and acts as a central clearing house for all private sector and parastatal permanent employment positions. It supervises all tests given to potential employment candidates and must approve all mandatory written employment contracts.

Termination is also highly regulated and allows the employee several levels of appeal before termination and access to the Labor Court after termination, even in cases of well certified cause. Consequently, employee termination tends to result in time consuming procedures and costly settlements even when not contested.

A firm also has the right to challenge the resignation of an employee. Although not an issue at present, it could become a more critical point as new or growing small and medium enterprises compete for scarce highly skilled technicians and managerial talent.

The informal sector is officially subject to the same regulations, however, this has rarely been tested, although there are cases where discharged employees have challenged their informal employers in court based on salary receipts.

II. CURRENT POLICY FRAMEWORK AND MAJOR CONSTRAINTS ON THE SMALL AND MEDIUM ENTERPRISE SECTOR

This Chapter will examine the formal enterprise sector's major operating, legislative and administrative constraints. Concurrently, an evaluation will be made of the GRB's recent structural reforms and their impact in reducing these constraints.

A. Access to the Formal Sector: In conformity with the Commercial Code, any form of business activity must have a business permit (Carte de Commerce) to gain basic access to the legal (formal) sector as a sole proprietorship. Requirements for this permit are:

- Inscription in the Ministry of Justice's Registry of Commerce.
- Establishment of a tax account with the communal and national authorities.
- Establishment of a savings account (minimum deposit FBu 5,000 with the Savings Bank of Burundi (CADEBU).
- Payment of the first annual contribution to the Chamber of Commerce (CCI).
- Proof of a business rental lease or property ownership title.
- Permission to operate from the provincial governor.
- Establishment of detailed inventory and financial records as detailed in the Business Records (Livres de Commerce) Decree of July 31, 1912 as amended on April 20, 1935.
- Conformity with the Labor Laws.

Traditional local enterprises such as small merchants or established artisans could conceivably circumvent these regulations due to Article 37 of the Law which states that its provisions do not apply to the unregistered (informal) indigenous populations which carry out commercial activities in their customary environment. As a sample, all of the 32 small urban and rural merchants (gross assets of between FBu 3 and FBu 13 Million) visited by this investigator, possessed at least the Carte de Commerce, although most admitted minimal compliance with the Commercial Code's labor and financial records provisions. Correspondingly, only 2 (both in Bujumbura) of the 10 the modern artisanal enterprises visited had a business permit. However, all were registered with their local commune or the Mayor's office in Bujumbura and paid local taxes.

Since sole proprietors have all of their personal assets at risk, many new small and medium enterprises are incorporating as limited liability companies, the most common of which is a Limited Personal Responsibility Company (Societe de Personnes a Responsabilites Limites, SPRL). The SPRL can have up to 50 shareholders, although it rarely has more than 5, all of whom hold non negotiable shares, and operates with the same simple corporate and management structure as a very closely held company in Europe or the United States. A Limited Liability Company (Société par Actions à Responsabilités Limitées, or Société Anonyme, SARL), on the other hand, can have an unlimited number of shareholders, but initially must have at least seven, all holding fully negotiable shares. However, a SARL has a more complicated operating structure with a Board of Directors, and a Shareholder Assembly.

A SARL Incorporation could be an excellent vehicle for a dynamic medium sized company that will eventually need to raise capital beyond its current shareholders' capacity, or for the privatization of a parastatal. For instance, it could be the equivalent of widely held public stock companies in the United States and Europe that issue many types of financial instruments. The SARL form is now employed by the commercial banks and a few larger privately owned enterprises. However, there are serious limitations as the law is now written, because the Royal Edit of June 22, 1926, authorizing this type of incorporation in then Belgian Congo and Rwanda-Burundi, did not fully develop the statutes governing organization, modification and dissolution. Consequently, many of the Law's clauses are imprecise, leaving it statues to legal challenge.

This is important because under a common law system employed in the United States, the United Kingdom, and some of the African Commonwealth nations, case precedents are the major guide in legal proceedings. However, in continental Europe, statutory regulations under the law determine the direction of a legal deliberation. Therefore, the SARL law as it now stands, limits the potential for privatizing parastatels into widely held ownership enterprises, and proves an obstacle to SPRL's that may wish to expand their ownership and their operations.

Additionally, according to lawyers interviewed, the administrative procedures for incorporation is antiquated and needs to be streamlined. Currently, these procedures can take up to four months whereby some lawyers believe they could be reduced to no more than six weeks by simply shortening the lengthy documentation and the number of Ministerial offices that must be consulted. Finally, it was pointed out by some would be entrepreneurs that although the BFu 100,000 to BFu 150,000 in legal expenses for incorporating were not necessarily onerous for a medium sized business, they represented a more substantial burden for small businesses.

- Observations:

1. All the laws pertaining to incorporation dating from colonial times should be carefully reviewed and modified if necessary, in light of the Burundi's need to develop modernized and flexible corporate structures for privatization and the larger capital needs of modern technology.
2. Concurrently, administrative procedures need to be simplified in order to speed up the incorporation process, and fees reviewed in order to allow greater access for new entrepreneurs.

B. The Costs of Remaining in the Formal Sector: Although access to the formal sector is not perceived as especially difficult by medium scale and modernized small enterprises that are owned and managed by relatively well educated and affluent people, Chapter III will demonstrate that the access fees and institutional barriers are formidable constraints for some traditional small entrepreneurs and micro enterprises. In fact, the June 1988 Sectorial Policy Statement of the MCI states in reference to both the costs of access and operating in the formal sector: "Burundian administration is characterized by the exaggerated length of time required to process documents. This situation constitutes an important restraint to private initiative because most

entrepreneurs abandon their ideas because of overly lengthy formalities. Additionally, the industrial and commercial promoter is subjected to a series of constricting procedures along with substantial expenses."

While these institutional and legal requirements and procedures constitute a formidable barrier to micro/informal entrepreneurs who lack the educational skills and financial backing of their more advantaged colleagues, they can also pose some major constraints to the formal sector as the costs of remaining formal. These costs may be classified as direct costs such as taxes, salaries and benefits and compliance with bureaucratic procedures; correspondingly, there are indirect, non tax costs, and the inefficiency of the judicial system in settling disputes or collecting debts and insecurity over property rights as they relate to collateral. Paradoxically, the perceived burden of some of these costs, like transaction taxes for instance, are sometimes the unintended consequences of policies designed to address macro economic issues connected with policy reform.

Accordingly, to facilitate the analysis of the ongoing costs of remaining in the formal sector, tax policies and labor costs will be dealt with in this section (b). Subsequently, export-import promotion procedures will be dealt with in the next section on markets (c). Finally, deficiencies in the judicial system will be outlined in the credit section (e).

1. Tax Issues: Most of those interviewed underscored the recent broadening and increase in the transaction tax rate from 12 to 15% as the outstanding formal sector policy issue. These businessmen perceive that the Government has not properly thought out the full consequences of these changes because in their opinion the taxes will penalize the consumer through higher prices and a prepayment requirement will seriously deplete businesses' working capital. Additionally, the importers claim to be especially hard pressed because of the lag between the time they receive their merchandise and their ability to identify specific markets and deliver the goods. This claim will be explored further in the next section, however, it is worth discussing the background of the transaction tax in order to understand how policies do not operate in a void, but can sometimes have unintended impacts on each other.

The transaction tax was one of the major fiscal reforms under the World Bank's first Structural Adjustment Lending Program (SAL I) in 1987. The GRB changed its value added cascade tax to a higher rate single stage sales tax on imports and industrial production. Subsequently, the Government committed itself to the World Bank's SAL II and the IMF's Structural Adjustment Program (SAP) to keep inflation low and stimulate the private sector through the provision of more bank credit. It planned to meet these goals through the reduction in the budget deficit, elimination of domestic arrears, and, maintenance of the debt service burden at 12% of the total external debt during 1988-90.

Consequently, in order to compensate for the revenue lost under the Structural Reform Program, the Government broadened the transaction tax base which had been simplified under the Program to include the service, construction and food processing sectors, and raised the tax rate from 12% to 15%, in order to partially compensate for these measures. However, this has not been fully communicated and justified to the business community evidently, and the tax is widely viewed as a measure running at cross purposes with the Government's intent to support the private sector.

Since the tax must be paid each month in advance and there are penalties for underestimating the tax, it can cause a potentially serious cash flow problem if sales do not materialize as anticipated. Additionally, since the tax is so widely viewed as too high, it can lead to widespread evasion of the law.

The fact that much of Burundi's tax legislation dates from before independence, and that the provisions of the present Code are not readily apparent to the formal sector contributes to some of the misunderstandings. In addition, many businessmen interviewed pointed out that the authorities often use confrontational administrative tactics in tax disputes instead of clarification and dialogue on the tax regulations. The most common complaints were: lengthy audits and open liability for up to three years; and concurrently, a too short time span to rectify or appeal an adverse judgement before the tax authorities can resort to the consignment of bank deposits and receivables, or even the closure of an enterprise.

Another point of disagreement between the Government and the formal private sector is the revision of the Tax Code's deductible business expense provisions. At present, the Code severely limits or disallows travel expenses within Burundi and overseas, marketing expenses, technical fees, pensions and leases.

The Chamber of Commerce is the business community's leading advocate on all of the above points of contention, and maintains an ongoing dialogue with all levels of the Government. On the other hand, the response of some government officials queried on these points was while there is room for further discussion on business deductions that can be verified as necessary and actual business expenses, there is often a need for lengthy audits in order to verify many firm's operations due to poor accounting practices and occasional intentional violations of the tax laws.

The resolution of differences over tax legislation is at the forefront of many countries agendas. It has a certain priority in Burundi, however, because the transaction tax and the limits of current tax legislation are considered by the formal business community to be its most burdensome ongoing cost.

-Observations:

1. In reviewing the GRB fiscal options, it is not readily apparent that the transaction tax is a heavy burden on every business. However, because of its widespread unpopularity, greater effort should be made to verify its burden on small and less well capitalized enterprises, and make modifications if necessary.
2. Administrative measures should be modified to stress clarification and dialogue in tax collections and disputes, unless an enterprise has a record of non compliance with the law.
3. The Tax Code should be completely reviewed and revised when necessary to allow the Burundian businesses competitive tax advantages extended by rapidly growing economies, such as tax deductions for marketing studies and export related overseas travel.
4. The GRB and the business community at large should promote as a high priority, substantial improvement in accounting standards and financial analysis.

2. Labor Legislation: As noted in Chapter 1, the increase in permanent private sector employment was substantially below the Forth Development Plan's (1983-1987) projections. The main reasons for this shortfall is attributed to policies dating from the early 1970's which encouraged capital intensive investments at the expense of labor intensive activities. These policies included: tax exemptions on imported equipment; low (often negative) interest rates; relatively inexpensive energy and high social charges in the form of employment benefits.

Although the minimum wage is relatively low by African standards, with the exception of Rwanda, the private employer is burdened with employment benefits that range from 30% to 50% of total compensation. These charges include a monthly housing allowance; spouse and child allowances; social security (INSS) covering pensions, death and survival, and, health benefits.

Additionally, the private sector's labor costs are substantially increased by the regulation of the labor market by the Ministry of Labor's Department of Manpower (DMO). While private employers now have a greater option in indentifying desirable employment candidates, formal enterprises are still subject to time consuming and complicated administrative procedures which include the compulsory registration of job seekers; control of the employment tests by the Ministry of Labor; prohibition of private enterprise placement offices and, a compulsory written employment contract subject to Ministry approval.

Finally, current employment legislation continues to make it extremely costly and time consuming to terminate an employee. Consequently, employers are forced to spend considerable sums on contingency legal fees in order to protect themselves from frequent lawsuits and employee harassment through the Labor Court.

The lack of skilled labor has been and will become a more important labor constraint as Burundian industry is increasingly forced to compete in an increasingly competitive market among the developing, and in particular, Southern and Central African nations. However, there have been relatively limited efforts between the GRB and the private sector to coordinate their efforts to define specific skill needs and direct potential employees toward effective job training programs or on the job apprenticeship programs where they can develop the kind of skills that will produce world class products and services.

The net result is, even with new investment incentives for labor intensive projects, managers still attempt to contain labor costs which are the second largest operating expense (20%) after the cost of materials used (64%). Therefore, formal enterprises resort to minimal permanent employee hiring practices and training (with the exception of scarce skilled workers), and maximum use of temporary staff which can be given no or few benefits and terminated at will.

The October 1988 Robert Nathan Report "Policies, Procedures, and Institutions Affecting Employment in Burundi" by Sylvie Chantal gives an extensive and complete treatment of the regulations affecting the demand for labor, the supply of labor and institutions playing a role

- Observations:

1. Wage and benefit legislation should be studied to verify that it is competitive with successful developing nations like Mauritius, and that the quality and cost of labor will attract foreign investment to proposed future projects like a trade zone.
2. The Ministry of Labor's Department of Manpower (DMO) administrative procedures for hiring employees date from a time when formal enterprise employment was modest and centralized in Bujumbura. As per previous recommendations of USAID and the World Bank, they should be reviewed and eliminated to the largest extent possible since many are not conducive to increased employment.
3. Legislation should be modified to allow employers to terminate employees with cause without having to pay exorbitant termination pay or incur legal fees in harassment suits.
4. The GRB and private enterprise need to coordinate their efforts and resources to define specific skill and personnel requirements in light of Burundi's current and future need for qualified and properly trained workers.

C. Markets

This section focuses on the major domestic and international market constraints facing Burundi's medium and small industrial, commercial and service enterprises. Correspondingly, an assessment will be made of the GRB's policy initiatives within the past two years to alleviate these constraints.

While there is some agreement among government officials, businessmen and foreign observers on some of these constrictions such as narrow markets, landlocked dependance on foreign sourced raw and intermediate industrial materials, and lack of economic linkages between regions; there are differences of opinion as to the degree that market constraints exist because of poor distribution (wholesale and retail commerce and transportation), low purchasing power, or the decline of the traditional regional commercial centers.

The writer believes that these disagreements over the nature and degree of various constraints stems from the absence of comprehensive data referred to in Chapter 1, concerning reflect income and consumption trends, particularly in rural areas. Also, benefits from deregulation of the economy under the Structural Adjustment Program in the areas of import licensing, liberal price determination and tariff reform are not reflected in current statistical reports. National statistics since 1986 are still provisional.

1. Internal Market Constraints:

- a. Low Purchasing Power: Although most economic analyses of Burundi highlight the general population's weak purchasing power as the major market constraint, there is a relative scarcity of hard data upon which to base a firm market profile. Some of the most pertinent studies are the World Bank's 1988 "Burundi Poverty Profile" and its Burundi Mission's research reports for the Small Enterprise Apex and Second Urban Development Project.

Using these sources to derive an approximation of the national purchasing power, it is estimated that a weighted average of 80% of the total population lives near or below the unofficial poverty level proposed by the University of Burundi's research institute, CURDES, see Table below.

Table III: Income Distribution of Rural and Non Rural Households

Income Range per yr. in FBu	Percentage of Rural Households	Percentage of Non Rural Households Under
20,000	5	0
20-49,999	29	21
50-99,999	44	31
100-199,999	20	33
200,000 and over	2	16

Source: World Bank Studies

This estimate is based on the above data and Curdes assumption of a rural income poverty level of BFu 102,000 per year and an average income poverty level of BFu 174,000 per year in Bujumbura.

According to a World Bank survey, the distribution of rural household monetary expenditures was roughly 67% for necessities including food staples, clothing, medical bills and housing expenses; 19% for farm operating expenses, including tools and implements; 2% for transportation; 3% for education; 3% for family events; 4% for taxes, and the 2% balance for relative luxury items such as household articles and leisure items (radios, cassettes). However, it should be noted that another World Bank urban project study, Etude Des Echanges Régionaux, 1988, found that previous income estimates in some Center North regional commercial centers (Gitega, Ngozi) could have been substantially underestimated. Consequently, the hypothesis in the Bank's other studies may have to be modified. The currently ongoing AID funded Rural Markets Study and Rural-Urban Household Survey should produce more conclusive updated information on purchasing power constraints and patterns, and provide for better focused SME policy based the current reality.

b. The Decline of Regional Commercial and Trading Centers: One of the GRB's major goals under the Fifth Development Plan will be the redevelopment of regional primary and secondary commercial centers, and the stimulation of tertiary trading points.

Commercial activity became centralized in Bujumbura after Independence as a consequence of the centralization of the Government's activities, and capital intensive industrialization policies that favored the over concentration of commercial and industrial infrastructure. As a consequence, entire regions experienced economic stagnation or decline, especially the Northeast (Kirundo and Muyinga) and the deep South (Makamba). In contrast, portions of provinces closer to Bujumbura, (Bubanza Muramvya and Gitega) enjoyed relative prosperity due to their ties with the capital city. However, this prosperity is very limited, according to a MCI 1988 Policy Pronouncement: its surveys have found only 10 of the formerly 190 primary and secondary commercial centers enjoy constant, non seasonal commercial activity.

CURDES, under the sponsorship of the Chamber of Commerce produced one of the most recent studies on the decay of provincial commercial centers. Although it concentrates on the province of Ngozi, it provides an overview and some background data on the effects of the decline of most of the major trade centers and the current state of provincial market activity and infrastructure. Its central theme is that the concentration of economic activity in Bujumbura and a few secondary towns, accelerated the outflow of established merchants from these areas and aggravated serious problems in supply, markets, credit, and transportation and lead to the decline and stagnation of once thriving commercial centers.

In contrast, the Rural Market Study team study in progress indicates that there is very active market activity in most of the primary, secondary and even tertiary markets surveyed. The team's interviews and survey samples indicate strongest growth and activity is among micro traders; in contrast, while some established small enterprises are experiencing lower, but still profitable margins due to increasing competition. (Please refer to the completed report for a full discussion of the data and findings).

c. Distribution/Wholesale Channels: The centralization of economic activity in Bujumbura also led to wholesale concentration among approximately 185 licensed importers who, as shown in Chapter 1, comprise a large percentage of the medium and modern small scale enterprises. Until import liberalization in 1986/1987, many of the better established importers enjoyed a virtual monopoly in several commodity areas.

Import liberalization substantially, but not completely, reduced import regulatory constraints, and increased the variety of goods and price competitiveness in the markets. However, most government officials, businessmen, and bankers interviewed agreed that with the exception of the well structured distribution networks for industrial materials, petroleum and pharmaceutical products, the wholesale network for durable (including capital equipment) and consumer non durable goods lack specific distribution channels. Thus, supply depends on a series of small middle men between the wholesale outlet and the ultimate vendor that in periods of shortages has opened the market to speculators, but left vendors without dependable supplies of goods.

The Rural Marketing Team's early samples provisionally indicate that while wholesale dealers and their agents (small merchants acting as semi wholesale dealers or affiliated brokers) determine the basic prices for imported goods and have a major price influence on the transshipment of main foodcrops to other regions, most markets tested currently have an adequate supply of foodstuffs and essential durable and non durable items at relatively uniform prices factoring in small agent commissions and modest transportation fees.

Independently, this writer made a very limited informal market test and tracked the price and availability of the most commonly used farm tool in Burundi, an imported Chinese hoe. Starting with the C.I.F. import price of approximately BFu 262 for a hoe on an exporters invoice, the price is marked up 40 to 45% to BFu 451-464 wholesale, and eventually sold retail at BFu 550 in the Central Bujumbura Market and BFu 600 in the Rumonge (a major Southern agricultural town) market. It is assumed that the Fbu 50 differential consists of a small agent's commission and the price of a micro bus fare from Bujumbura.

- Observations : Several indicators show that many regional commercial and trading centers are currently more active than anticipated on the micro enterprise level, and more attention needs to be given to policies that sustain this activity, at the same addressing the constraints of larger enterprises which require bigger inventories and sell to larger markets.

d. Internal Transportation : Industrialized and developing nations alike face the problem of justifying the social need of providing efficient and reasonably priced passenger and transport services along with allowing private operators to make what they deem a satisfactory profit. This problem is aggravated in Burundi because of the nation's mountainous terrain and land-locked geographical position.

First of all, Burundi has a well maintained hard surfaced main road system, but its secondary roads are generally unpaved and have difficult access during the rainy seasons. Consequently, the GRB's major dilemma is often the choice between constructing new roads or maintaining the existing ones.

Secondly, until cargo transport fee deregulation under the Structural Reform Program, cargo transport was highly regulated and the beneficiary of unrealistically high rates. After deregulation, many large agro business and manufacturing firms started their own transport fleets in response to many shipping companies insistence on using the former rates as a base point of reference. However, several medium sized and small truck owners were forced out of business because the new and stronger competition, however, the result has been a decrease in available to supply larger quantities of goods to small and medium sized merchants in rural areas.

-Observations : Transport fee deregulation has to be carried through and the GRB should adopt policies to ensure that free markets prevail in most areas of the economy, meaning any attempts of price collusion are open to criminal action. Correspondingly, special incentives might be formulated to promote the reentry of small transport operators in to the market.

2. External Constrains : The most important variable factor in the Burundi economy is the exposure of its dominant cash crop, coffee, to wide fluctuations in output and export pricing. Coffee earnings account for approximately 20% of the GRB's revenues and 80% of its export earnings. While the diversification and promotion of non traditional exports has been a central theme of both the Fourth and Fifth Five-Year Plans, the Government particularly stresses the important role of medium and small enterprises under the current plan.

As mentioned above, the Government began to implement a series of major reforms in mid 1986. These reforms included the deregulation of import licences and price controls; production incentives such as tax incentives for all investors, both Burundian and foreign, who can meet specific criteria under the new tax code; and the elimination of export taxes on manufactured products; the reactivation of the drawback system; and an increase in producer prices for major export crops.

The GRR also restructured and rationalized import tariffs with a view towards reforming the inefficiencies in import-intensive industries and the confusion engendered by the existence of 57 duty rates. Consequently, the number of rates was reduced to 5; non-luxury goods are now taxed in a range of 20-50%; and the maximum luxury tax is 100%. Significantly, infant industries can receive temporary protection against imports in the form of a maximum three year surcharge of 30% which is gradually phased out over the period.

From an export viewpoint, the Structural Adjustment reforms have pressured local industry into becoming more efficient, however, some of the bias in favor of capital intensive import substitution remains in the form of high rates of tariff protection for parastatals. Secondly, positive results from the duty drawback scheme have been limited because of uneven administration of the program's eligibility procedures and excessive delays in exporter reimbursements.

Currently, Burundi's major external market constraints are:

- Landlocked Geographical Position and Dependence on Long Distance Access to markets: In contrast to the relatively efficient road and transport system within Burundi, the country is faced with severe external constraints because of excessive distances from international transit ports; poor transport infrastructure in neighboring countries; cumbersome transit procedures; and the inefficiency of the dominant international parastatal transporter, OTRABU.
- Limited Trade with African Nations: Although Burundi increased its share of industrial exports as a percentage of total exports from 2.4% in 1981 to 13% in 1987, its main market remains exports of raw materials to the EEC (50%). Its four African neighbors, Rwanda, Zaire, Tanzania and Uganda absorb approximately 90% of its manufactured exports, but represent less than only 12% of its total exports. Rwanda and Eastern Zaire are currently the most important markets because of adequate transport links and Rwanda's relatively underdeveloped manufacturing sector. These latter two trading partners are also part of the Great Lakes Economic Community (CEPGL) economic and trade union. However, their mutual commerce seems to have developed despite this pact which has effectively been inactive for the past few years principally due to the instability of Zaire's currency.
- Lack of a Coherent Export Policy: Although there have been a number of analyses of Burundi's external and internal export constraints in the past few years, including relatively low product quality by international standards and the lack of export marketing expertise (particularly in small and medium sized enterprises), neither the Government nor any private organization has developed a focused and effective short, medium and long term export policy.

D. Managerial/Entrepreneurial: The single most important managerial characteristic of medium and small enterprises in Burundi is the dominance of an owner/entrepreneur who still controls all levels of the firm's operations with little or no delegation of managerial authority.

The degree of specialization and span of managerial control is a function of the size and type of enterprise, and the proprietor's managerial abilities.

A report for AID done by HSI on Burundi's private sector training needs assessment for 1988-1992 profiled the average urban owner/entrepreneur as having a secondary education and deriving 76% of his skills through direct work experience as opposed to higher business education or vocational training. Correspondingly, MSI profile the small rural entrepreneur as generally possessing no more than a primary education and obtaining all of his skills within his family business or as an apprentice to someone else.

Interviews for this study indicated that there was some upgrading in the educational level of entrepreneurs entering the modern MSE sectors from parastatal or ministerial positions. However, they all indicated the need for more training and expertise in long range planning, financial analysis and management, marketing and export promotion, inventory control and in the case of manufacturing, production and quality control.

The diversity in activities and locations of medium and small enterprises require a more focused analysis of the managerial capabilities within each sector or even within each firm. However, the current situation demonstrates that Burundi needs to upgrade its managerial skills along with the supply of skilled and semi skilled labor if it hopes to be competitive in the international marketplace.

Finally, most intangible of all, the MCI's study recognizes that despite all of the discussion of initiating or expanding training capabilities in the University or through special programs, there has to be a modification in the educated young Burundian's negative perception of business and risk assumption in favor of a more clearly defined and currently prestigious career in government.

E. Availability of Credit:

This section will make a brief analysis of the current and prospective availability of commercial and development bank financing for SME's. Chapter III of this study has a similar section surveying the credit availability environment for micro/informal enterprises. A separate indepth Financial Sector Study is being prepared concurrently with this report; it examines the structure of the financial system; bank lending policies in detail; and the impact of public sector policies on credit.

Prior to the establishment of the Meridien Bank Burundi in 1988, the formal enterprise sector was financed by three commercial banks (the BCB, BANCOBU, and BBA) and two development banks, the BNDE and SBF. Until recently, the commercial banks were subsidiaries of major Belgian financial institutions which continue to maintain substantial ownership interest and management contracts. Accordingly, the banks are heavily influenced by conservative lending policies and operating procedures which stress profitability, short term loans (largely seasonal credit for harvesting, processing and cash crop export financing) and substantial guarantees (usually mortgages on property).

The collateral requirements are a particular problem for SMEs because the legal process is time consuming and difficult (not made any easier by the fact

that much rural property is owned by tradition rather than being certified in a communal land registry), and the courts have consistently favored the borrower, even when an obligation has clearly not been honored.

To further complicate matters, the revised mortgage law (Code Foncier, 1987) gives the Government unlimited prior claim on any Property as collateral there is a tax or other dispute between the Government and a bank client.

As a consequence, considering the Government's aggressive stance on tax collection, commercial banks consider this potential prior claim as a virtually complete erosion of their collateral rights. Therefore, with the exception of short term loans, commercial bank credit has been relatively unavailable to SME's with the exception of a handful of well established modern medium and small enterprises, even with the Central Bank's instruction to the commercial banks to hold at least eight percent of their outstanding portfolio in medium term (2-7 years) and long term (over 7 years) loans.

The Meridien Bank, which is managed by an international financial group holding 25% of the ownership, claims to take a more active interest in SMEs, and visits to two of its startup customers a modern medium scale toothpaste factory and a small traditional soap producer demonstrated an entrepreneurial banking flair. However, the bank's overall effect on SME lending has been limited to date because it only has one office and its total outstanding loan portfolio in all sectors does not represent more than 10% of the other commercial bank's outstanding loans to the private sector.

In light of the commercial bank's conservative stance, the National Economic Development Bank (BNDE) and the Burundian Finance Company were founded by the GRB, the international donor agencies and the private sector to provide term loan and equity financing to agriculture, industry/commerce/artisans, tourism and housing. As of calendar year 1988, 15% of the loan portfolio was medium term and 9% was long term. However, it is doubtful the BNDE can be a source of enterprise financing in the near future because of its agreement with the donor organizations to restructure its operations and reduce its non performing loans, which in the case of the Industry, Trade and Artisanal credits totaled over 40% of the loans to those sectors. The Burundian Finance Company (SBF) was started in 1982 and provides medium and long term financing for commercial and transport equipment, housing and to a limited extent agriculture. In addition, it takes equity or funding positions in 12 mixed ownership enterprises and the National Guarantee Fund, totaling approximately 14% of its equity. The SBF's management admitted that because of additional lending to parastatals and mixed enterprises, loans to SMEs declined from 60% of the portfolio to about 40% of the BFu 3 Billion portfolio.

As part of the GRB current policy to support SMEs, the formation of the National Guarantee Fund (FNG) was decreed in 1987. The purpose of the Fund is to provide guarantee insurance for loans to SMEs which are unable to furnish sufficient collateral. Firms with fixed assets not greater than BFu 30 Million are eligible for guarantees up to 70% of a fixed asset loan or a maximum of BFu 10 Million, and 60% of a working capital loan or a maximum of BFu 5 Million.

To date, approximately BFu 16 Million in guarantees have been made to small and medium scale enterprises nationwide, including two cited loans from the Meridien Bank. However, the facility is limited by the short term nature of the guarantees and the relative inexperience of its staff. The Financial Sector Study should be consulted for a detailed analysis of the FNG's operations.

The World Bank's APEX project signed with the GRB in early 1989, is the most recent initiative to alleviate the unavailability of term financing for SMEs. The facility's components include a US\$7.2 Million equivalent 30 year loan to the Central Bank (BRB) which would onlend local currency to eligible participating financial institutions who would in turn make subloans for fixed assets and to a limited extent working capital to SMEs (defined as have a maximum of US\$300,000 in net fixed assets) at prevailing market rates.

The US\$800,000 balance would be channeled from the BRB to the Chamber of Commerce and Industry to provide training to participating intermediaries and to establish a SME promotion unit in the CCI. To date the CCI has received 318 applications for the APEX facility and assisted in the analysis and financial packaging of 130 dossiers averaging between BFu 3-12 Million per loan. However, no loans have been approved as yet because the commercial and development banks are proceeding cautiously due to the unfamiliar nature of the procedures and the fact they must bear the full credit risk.

Local comments made during the interviews indicated that the commercial bank's would opt as much as possible for loans toward the facility's upper limit, while the development banks would be constrained from financing too many loans in the US\$80,000 or less category (that do not require extensive credit analysis under the Project's provisions) because of their lower credit risk profile.

In sum, the general climate for reputable urban formal SMEs has improved in the past few years. However, lending institutions, under pressure to maintain and improve profitability, will still be reluctant to initiate loans or investments in less well established SMEs such as startups or small formal rural enterprises without substantial guarantees until they feel more comfortable with the business and legal climate or there are more environmental incentives to lend downmarket such as substantially increased competition, sustained high growth in the SME sector or long term excess liquidity in the banking system.

- Observations:

1. The Code Foncier should be modified as soon as possible to provide lenders with a more secure collateral position.
2. The GRB should adjust its policies to ensure that both lenders and borrowers are protected under the law. Therefore, all loan disputes should be regularly reviewed by the Ministry of Justice to ensure that the law is equally applied to all parties in a dispute.
3. The amount and term of the National Guarantee Fund insurance facilities should be increased and lengthened and its staff given proper training.

III. CURRENT POLICY FRAMEWORK AND MICRO ENTERPRISE CONSTRAINTS

This chapter will focus on the constraints to micro (and mostly informal) enterprise policies which should optimally stimulate on the job training for unskilled workers, expand the use of appropriate technology and local materials; and create new markets through entrepreneurs channeling modest grass roots capital to expand or start new enterprises in productive areas unencumbered by the formal sector's legal/regulatory burdens.

The framework for this chapter is set by the MOCI's Sectorial Policy Statement and the 1989 Donor's Roundtable that viewed the artisanal sector underperforming its potential despite the largely wasted abundance of material and human resources. Likewise, much of micro entrepreneurial commerce is seen lacking structure and suffering wide price fluctuations because of its intermittent and itinerant nature, despite the activity of a large number of micro enterprises. In contrast, as mentioned, the rural marketing study team has tracked substantive and defined informal market activity in commerce, and to some extent among artisans in most parts of Burundi (Please refer to the Rural Market Study).

This study will be unable to completely resolve the issue, but will attempt to point out the most important impediments that micro enterprises face and clarify some different perceptions of the nature of these obstacles.

A. Difficulty In Becoming A Formal Enterprise: As mentioned, it is illegal to operate a commercial enterprise in Burundi without an authorization document or business permit (Carte de Commerçant) issued by the MCI. Therefore, acquiring the document requires registration at an office of the Ministry of Justice; a minimum BFu 5,000 deposit with CADEBU; opening a tax account; providing a title of business premises ownership or a rental contract; and written permission to operate from the provincial governor.

This makes the formal sector relatively inaccessible to a micro entrepreneur who must hire a lawyer for about BFu 50,000 to assist in filling out the forms in largely incomprehensible legalistic French and processing the papers through a bureaucratic maze of several official entities. Consequently, for the entrepreneur whose average initial investment is between BFu 150,000 and BFu 450,000, the barriers posed by the relatively high cost of registration and legal fees; the complexity of handling the registration process with minimal educational skills, social connections and institutional knowledge; the payment of the obligatory savings deposit; and proof of a rental contract or property title, make formalization unfeasible.

The only viable alternative is a relatively simple BFu 3,000 compulsory registration with the local commune, which is the provincial administrative sub district (in the case of Bujumbura, the Mayor's office), and subjects the enterprise to municipal taxes without clearly corresponding formal rights such as the enforcement of a contract through the Commercial Court (Tribunal de Commerce) or obtaining an import permit. Correspondingly, World Bank sample surveys and verification by this report in the major markets of Bujumbura, Gitega, Ngozi and Rumonge found over half of the micro entrepreneurs who possessed permanent shelters or rented market stalls claimed to have registered with their communale authorities.

There is a segment of the micro entrepreneurial population, that would prefer to remain informal, particularly farmers who are parttime traders, in order to avoid the fees and obligations of formality. However, most full micro entrepreneurs who earn the majority of their income from non farm enterprise activity want access to the formal sector because without it they are non entities without rights and access to the legal vehicles that would assist in their continued viability, yet still must pay taxes in the case of established micro enterprises.

Therefore, it clear that most established entrepreneurs want into the formal sector, but simply cannot maneuver through the legal formalities nor sustain the existing costs of being formal.

- Observations:

-The commercial permit's registration forms need to be simplified and written in Kirundi. Additionally, the administrative process could be simplified along the following lines:

-The registration form should only ask basic questions;

-The entrepreneur should be given the choice of opening a minimum BFu 2,000 account in the CADEBU or the COOPEC;

-The entrepreneur should be able to set wages at market (which is often above the minimum wage) and be responsible for a simplified benefit package that costs no more than 10% of the employees base salary. The Government can induce additional benefits by allowing the entrepreneur to fully deduct the cost of an augmented benefit package;

-The entrepreneur should be encouraged, but not forced to join the proposed Chamber of Crafts or an enlarged Chamber of Commerce;

-The entrepreneur should be able to register for the tax office at the same time and place as the business permit. Additionally, he should be given a clearly written or verbal in Kirundi explaining the basis of his tax obligation.

B. Tax Constraints: Taxes for the Municipality of Bujumbura and the communes are adjusted each year based on each districts particular needs. The annual tax criteria for an informal enterprises is based on a tax collector's sometimes visual assessment of a mix of location, nature of product, type of equipment and number of employees. This assessment can be subjective, since micro enterprises rarely keep any type of financial records aside from tax receipts. However, the Mayor's Office in Bujumbura claims that informal enterprises are charged modest and appropriate taxes based on historical records of their estimated annual revenues stored on a computerized data base of merchants and artisans in fixed locations. The provincial communes also keep extensive records, although they are not always computerized.

Accordingly, the smaller merchants and artisans in or near major market places queried for this study and by the rural marketing team, seemed to accept the annual business tax (impot a la forfaitaire) of between BFu 3,000 and BFu 5,000. However, larger merchants and artisans selling more discretionary items, possessing some electrical equipment, having three or more employees (including non family apprentices), or simply being in a desirable location were less content with their tax bills.

Many believed that arbitrary evaluations were made on the value of their business and the authorities rarely inform on which are the principal criteria they are being assessed. Along this line of reasoning, a study was made two in 1987 by an international donor agency, which indicated sharply progressive tax rates on artisanal enterprises according to the number of employees considered along with location as a strong indicator of an enterprise's worth:

Table IV

Activity	Annual Tax According to the Number of employees		
	1 person	2-3 people	more than 3 people
tailors	2,500 BFu	5,500 BFu	12,000 BFu
furniture	2,500 BFu	6,000 BFu	10,500 BFu
metal shops	7,200 BFu	20,000 BFu	40,000 BFu

This table demonstrates that the tax laws can not only be inconsistent, but also act as a disincentive to adding new workers.

Although there is anecdotal evidence that some informal enterprises are able to mitigate their tax burden most persons interviewed in both the informal and formal sectors believed that larger enterprises carried a heavy tax burden. The problem was pinpointing accurate information because of confusion among informal taxpayers on the above mentioned specific criteria their taxes are based upon. This widespread lack of understanding and the perception that taxes are a heavy burden for more established micro enterprises have acted as a constraint on creating additional employment; upgrading equipment and products; or improving business premises in fear of a tax assessment.

- Observations:

1. Taxpayers should be given a written and oral definition of their specific tax criteria at the beginning of the fiscal year, and a detailed written explanation and right to appeal when taxes are collected. Additionally, an employee should be available at the commune or the Mayor's office to clarify any questions the taxpayer may have during the fiscal year.
2. The current tax regulations for micro enterprises should be revised to stimulate the formation of new jobs and working capital formation within the enterprise. Consequently, progressive head taxes on the number of employees should no longer be employed as a tax criteria, and, when possible, tax abatements should be given for funds kept within the business for working capital purposes.

C. Access to Markets: As mentioned, one of the major characteristics of Burundi is the low level of urban development with only approximately 8% of the population permanently resident in major towns. Until recently, migration between regions and settlement in towns was restricted partially for economic reasons. At independence, the GRB adopted a basic strategy emphasizing a two tract agricultural program to earn foreign exchange with cash crops, at the same time feeding the growing local population with basic food crops. The implementation of this policy entailed restrictive migratory regulations, and the adoption of capital intensive import substitution policies in the early 1970's. As a result of these policies, Bujumbura enjoyed relatively steady

prosperity and growth due to the concentration of industry, whole/import enterprises and larger commercial firms within its boundaries or immediately adjacent zones. At the same time, many secondary and tertiary rural markets suffered stagnation and in some instances decline.

A recent World Bank numeric analysis of Burundian gross domestic between 1977 and 1986 partially illustrates these trends. In that time period modern (formal) manufacturing and commerce grew by an average of 11% p.a. and 5% p.a. respectively; whereas traditional (informal) and largely provincial manufacturing enterprises and commercial enterprises grew by 2% p.a. and 3% p.a. respectively, Annex VI.

The GRB acknowledged the problem in formulation of the Fourth and Fifth Five Year Plans which focus on the rebuilding of rural commercial markets through decentralization, remodeling market centers, maximum use of primary materials and the promotion of medium, small and artisanal enterprises. At the same time, the Government began the implementation of a World Bank Structural Adjustment Program in 1986 and signed a Second Urban Development Project with the Bank in 1988.

Important progress has been made under these programs in liberalizing prices and imports; allowing unlimited market days in principal market centers (Bujumbura, Gitega and Ngozi) and increasing market days in secondary cities; and loosening rural migration restrictions where security conditions permit.

However, major market access constraints remain:

- Weak Linkages with other Sectors : The informal sector's principal market is individual households. Nominal sales to formal enterprises are mainly limited to more modern urban micro enterprises who may be sub contracted, and exports are limited mainly to handicrafts or immediate local trading across frontiers with neighboring countries. Concurrently, in the case of artisans, backward linkages are also limited with the exception of more modern urban enterprises (garage and repair subsector, metalwork). Most raw materials are obtained from local stores or from micro vendors in the market place. The implication for micros is limited growth prospects because of a lack of specialization and dependance on narrow low purchase power markets.

- Isolation from Central Marketplaces: There is a serious lack of available workspace for artisans near central market places. Most must operate in the periphery of towns and cities which increases the cost of reaching their clientele because of the poor transportation. This constraint is partially due to the lack of available rentable space or unaffordable rents for micro enterprises.

The World Bank's Urban II Project sets aside financing to provide for the development of artisanal zones, however, the Government has only recently become aware of the problem.

- Dispersion of Official Responsibility: Government initiatives towards the micro enterprise sector are weakened by the dispersion of the responsibility for micro enterprises among several Government Ministries and offices, (see Annex VII for program outlines). The lack of coordination can often result in a duplication of effort and a lack of focus on training, appropriate technology, and marketing and credit

- Observations:

1. The GRB should adopt a concrete overall strategy towards micro enterprises and the informal sector that facilitates and encourages the integration of the informal sector through better access to government and private sector promotional mechanisms and marketing assistance.
2. Every effort should be made to provide more centralized working space and selling space for artisans and merchants.
3. A more unified and better focused coordination of micro enterprise policies and programs, should be a near term priority.

D. Managerial: Micro entrepreneurs are at a greater disadvantage to small or medium scale business people in being adversely affected by policy constraints because their generally limited educational background and apprenticeship training, the main vehicle for the transfer of managerial and technical knowledge, does not provide them with proper organizational skills (in part because of the lack of linkages with larger enterprises). For example, several studies and interviews carried out during this study revealed that few micro entrepreneurs keep any sort of financial record; larger businessmen limiting their database to perhaps a notebook containing larger orders and drawer full of receipts and bills. Additionally, this study only found one micro entrepreneur with a bank account out of the 50 interviewed.

Consequently, the entrepreneur is particularly vulnerable to the tax authorities without proper financial records, because they have the power to seize any of his assets without recourse since he has no legal status outside of tax registration in the commune.

E. Availability of Credit: As is generally the case worldwide, micro entrepreneurs are the least advantaged segment of the population in being able to access credit through formal institutions because of their low and often unpredictable income, and lack of qualified collateral. Although a high percentage of rural entrepreneurs possess some land, most of it is owned by right of tradition and not properly surveyed and registered.

Women entrepreneurs are especially disadvantaged because traditional land tenure and matrimonial laws currently do not allow them title to land by right of inheritance.

Aside from these considerations, the micro entrepreneur's limited educational abilities and training severely constrain their ability to provide adequate financial and operational data, or fully understand loan terms and repayment obligations. Consequently, the formal banking sector does not find lending to micro enterprises profitable and cost effective commensurate with the manpower needed to administer these loans and the perceived high risk.

In the 1980's, a few larger urban artisans and more modern micro enterprises were able to obtain equipment loans averaging FBu 20,000 through the BNDE from funding provided by the FENU, a United Nations organisation. However, loan documentation procedures were cumbersome reflecting the BNDE's discomforture with this type of client. Unfortunately, the loan repayment experience on these loans has been poor with over 50% classified as non performing.

Consequently, micro enterprises both in Bujumbura and rural market centers have depended on family funds for their financing needs. Supplier credit is rarely extended, and an informal money lender's rate averages 40% per year compared with institutional lending rates of 11% to 14%.

Fortunately, this constraint has been somewhat alleviated by the spread of the Savings and Credit Cooperative System (COOPEC). The system now numbers approximately 55 branches throughout the country, having 1,000 to 1,500 members each.

A phenomenal average increase in deposits of 250% a year since the system establishment in 1984 with French assistance, reflects sound management and the perceived advantage for farmers and micro businesses to keep their savings in a well organized and secure institution. Although the COOPECS are not currently recognized by the Central Bank as financial institutions, plans are in place in incorporating them by the end of 1989.

The maximum credit to a member borrower is FBu 50,000, although the Central Office in Bujumbura can extend loans up to FBu 500,000. Loans are generally made for up to 36 months at rates of between 11% to 14%. Since loans are on a mutually guaranteed basis, being each COOPEC functions as a sort of a club, borrowers are not required to put up collateral. However, serious violators can expect to be expelled and have legal action taken against them.

To date, loans extended to artisans and merchants amounts to approximately 10% of the total portfolio, roughly the same amount of their deposits, however, loan activity is expected to substantially increase as the system expands, and the lending experience remains relatively favorable. The COOPECS remain only a partial solution to micro entrepreneur's financing needs because of the finite number of memberships for micro entrepreneurs within the COOPEC system that plans to limit the number of affiliates to 200 with a maximum of 1,500 members each. However, the GRB should encourage the formation of other mutual credit societies based on the success of the COOPECS.

- Observations:

1. The COOPEC should be recognized by the GRB as a bonafide financial system as an important means of extending the Fonds National de Garantie to micro enterprises.
2. To the extent the COOPEC system cannot be expanded, the GRB should encourage the formation of other mutual credit societies.

IV. MICRO ENTERPRISE LEGISLATION

A. Background

Although the GRB did not begin to focus on micro enterprise constraints as integral to its economic policy framework until the early 1980's, it became apparent by the late 1970's that smaller enterprises in general were disadvantaged. For instance, unlike large and some medium sized firms, they were unable to access such government incentive programs as the Investment Code because the minimum investment level was several times higher than any small scale enterprise could afford. Accordingly, the Government's first specific initiative to benefit smaller enterprises was the drafting of the Small and Medium Enterprise Code, Crafts Section.

The Ministry of Commerce and Industry was mandated to establish an Artisanal Department responsible for coordinating and promoting micro/informal sector activities. Although the Department successfully set up five rural training and production centers; three rural management programs; two specialized agro enterprise processing projects in Bujumbura; and conducted several feasibility studies, it was never able to operate at full potential because of a shortage of staff in critical legal and survey technique staff skills and lack of a clear definition of its role within the Ministry and vis a vis other official entities.

Since the Ministry of Commerce and Industry's orientation is toward the formal sector, it was disinclined to make a delineation between formal and informal enterprises. Additionally, since the Ministry had no authority over other ministries' programs, it could not make modifications in urban planning, migration and communal tax policies that discouraged the development of micro/informal enterprises and until recently were perceived as being unrelated to the micro enterprise sector's problems. As a consequence, the development of micro/artisanal/informal enterprises has drifted, particularly outside of Bujumbura. For example, a 1987 Presidential Commission's analysis calculated that new artisanal employment generated under the 1983-1987 Plan, attained only 60% of the projected goal from 1983 to 1988.

After much discussion on ways to improve the 1988-1992 Plan, including the drafting of a new Artisanal Code, a Presidential decision was made in October 1988 to transfer the Artisanal Department from the Ministry of Commerce and Industry to a newly restructured and empowered Ministry of Rural Development in Gitega in order to formulate and implement artisanal activities in an environment closer to the problems of the sector's activities.

B. Evaluation of the Proposed Code's Response to Micro/Artisanal/Informal Sector Constraints

The current draft Artisanal Code (Code de l'Artisanat) Annex VII, originally conceived by the Ministry of Commerce and Industry's staff, is divided into 5 chapters and 29 articles. This section will summarize each chapter's most important ideas and discuss their relevance to the current rural and urban micro enterprise environment in Burundi:

1. Chapter I, Entrepreneurial Enterprises and Artisans: This section states that the purpose of the decree-law is to regulate and protect economic activity defined as artisanal. Artisanal activity is defined as individual artisan/ proprietors, working and selling for their own account based on manual skills, with the possible assistance of artisan/ employees, in the areas of in production, transformation, repairs or the provision of services (Article 5).

An artisanal enterprise (Article 3) is described as generally having capital less or equal to FBu 30 Million and 20 or less employees with minimal equipment. However, any activity concerned with commerce, leasing, agricultural enterprises, commission brokers, or consultants (business offices and any work of an intellectual character with the special exception of artistic type endeavors) is excluded.

- Analysis: Chapter I could be modified to reflect the GRB pronouncement enunciated by the Minister of Commerce and Industry at the Donor's Roundtable Conference in April 1989. In a speech and accompanying handout outlining each economic sector's outstanding problems, the Minister pointed out that the problems of the artisanal and commerce sectors are interrelated, and that they must be reinvigorated to increase the value of Burundi's basic commodities, including agricultural products. In addition, several other recent GRB and World Bank studies have pointed out that Burundi's economic growth has been hindered by the lack of commercial interchanges between economic sectors.

Focusing on specific clauses, Article 3 might be modified to reflect a more realistic measure of micro enterprise financial assets and labor force; and the definition of a artisan in Article 5 might be broadened to include modernized micro entrepreneurs who employ substantive mechanical as well as manual skills.

Naturally, Article 7 of a Micro Enterprise Code would drop the exclusion of micro commerce and include very small agricultural enterprises involved in both processing and marketing in the draft Code's definition of micro enterprises, but have separate sections dealing with the specific problems of each sector.

Additionally, the inclusion of micro business offices might be considered in that they could provide valuable assistance in assisting micro enterprises keep their books, and negotiate with potential lenders such as the COOPEC.

2. Chapter II, The Crafts Register: All artisanal enterprises must register with the Ministry of Rural Development and Crafts. However, registration does not exempt micro enterprises from fully complying with the requirements of the commercial code (and by definition the formal sector).

Analysis: Chapter II, Articles 9-10, makes formalization mandatory and without solving micro entrepreneurs ongoing difficulties operating as a formal enterprise. It may be simpler and more acceptable if reluctant micro entrepreneurs could complete a simple redesigned registration form from the Ministry of Rural Development when they register annually at the commune or Major's office in Bujumbura. Micro enterprises would be given

the option of making a small deposit with a local COOPEC, but would be exempt from the full requirements of the wage and benefit laws.

Naturally, both Ministries of Rural Development and Commerce and Industry would have to monitor these new enterprises to make sure that larger businessmen are not dividing their companies into smaller units in order to evade the commercial code's regulations for larger businesses.

3. Chapter III, The Chamber of Crafts: The Chamber would be a non profit voluntary association representing the interests of both traditional and modern artisans with regard to third parties, including official entities (Article 12).

Articles 13 and 14 define the Chamber's potential powers and duties including:

- assistance in the acquisition of equipment and tools.
- assistance in the preparation of loan portfolios.
- provision of managerial and technical assistance.
- coordination of product standardization and commercialization with Burundi and overseas.
- occasional direct sales of micro enterprise products.
- depository of trade marks, industrial designs and dies that can be provided to members under the Chamber's supervision.

Analysis: Article 12 needs to be reworded to stress the Chamber's positive and active leadership in the promotion of artisanal and micro commerce activities rather than leading the sentence with a rather negative phrase that stresses defend and protect.

All of the proposed Chamber's goals are laudable, however, the Government may wish to reexamine whether such an organization is needed at the present time considering the effort and expense required to establish a viable entity. It may sense to consolidate and focus on existing Government and donor organization programs.

4. Chapter IV, Sector Benefits: This section outlines various government incentive programs that could potentially benefit artisanal enterprises:

- Chapter IV. Section 1.: A special artisanal credit facility, with the Ministry of Rural Development and the Ministry of Finance as advisors is proposed, and would be funded by the GKB and international organizations.
- The National Guarantee Fund will provide credit insurance as needed in support of the artisanal credit facility (Article 15).

Analysis: The World Bank purposely avoided placing the Apex Fund in the hands of Ministries inexperienced in banking skills. Accordingly, the Apex Fund will be domiciled and channeled through the Central Bank to commercial and development bank, which in turn will grant loans to small scale enterprises.

A similar approach may be a micro enterprise fund that is also channeled through the Apex mechanism to institutions such as the COOPEC (assuming it is

recognized as an accredited financial institution) which has expanding micro enterprise loan portfolios. Additionally, technical assistance could be provided to devise a micro enterprise loan mechanism similar to the successful ADEMI Project in the Dominican Republic (Annex IX) within the participating institution.

ADEMI's unique feature is that it has provided small loans (upper limit of \$ 5,000) with high payback rates, to established and selected new entrepreneurs with minimal collateral requirements.

5. Chapter IV, Section 2.: Access To The Investment Code:

-As per Article 2 of the Investment Code, artisanal enterprises are to have the following privileges:

- Free land sites in the Greater Bujumbura area.
- Credit and inventory facilities.
- Preferential water and electricity rates.
- An automatic 3 year tax exemption on investments in equipment, spare parts and related income taxes (Articles 19-20).

Analysis: These benefits could be quite beneficial to a new or expanding micro enterprise, however, they do not exist under the present Code. Article 2, Section B, (Le Régime de l'Agrément), Annex X, and are only partially offered to enterprises established outside of Bujumbura, (Le Régime des Entreprises Décentralisées), however, it is essentially a decentralization incentive for medium and larger scale enterprises.

Although the Investment Code might be amended to better assist micro enterprises, in reality, more modern urban micro enterprises would probably be the only firms within the micro enterprise sector to take advantage of the Code's provisions.

Finally, the Code should offer free land or working premises to micro entrepreneur anywhere in Burundi, not just Bujumbura.

6. Chapter IV, Section 3: Granting and Protection of the Titles of Artisan and Master Artisan:

This section is worded in general terms to provide legislation and provisions to maintain minimal standards for artisans and apprentice training programs.

Analysis: This section has been shortened in comparison to earlier drafts that had rather exacting and inflexible qualification criteria. The present wording is probably sufficient, however, implementation of these clauses, as well as clauses throughout the Code should stress promotion and assistance rather than control.

Also, training is an area for potentially beneficial collaboration among the international development agencies, responsible Ministries and private representative micro enterprise organizations.

7. Chapter IV, Section 4.: Projects Reserved for Artisanal Enterprises: This section also uses general language concerning provision for special projects, government contracts and protection against foreign competition. A potential problem is that Articles 23-24 use the verb "peuvent", can, instead of a more active phrase like "doivent être préférentiellement", must preferentially be, when discussing micro enterprises eligibility for government and communal procurement and public work projects. Adopting an active phrase would signify greater commitment to micro enterprises on the part of the Government.

Analysis: If the wording in the Articles is changed, this benefit could be of special importance to micro enterprises if the GRB would break up the required quantity requirements in its procurement orders, and if representative organizations would assist micro entrepreneur groups in meeting these requirements.

8. Finally, Article 25 gives the local authorities the de facto right to alter any of the Code's provisions at their discretion. While the intention is probably to allow adjustment to particular local conditions and circumstances, this section should be carefully worded to prevent any infringement on the benefits and the spirit of the Code.

C. Summary: The draft Artisanal Code is a good start, but needs to be modified, perhaps taking some of the above observations and suggestions into consideration. An initial Code might be adopted relatively soon to demonstrate the Government's commitment, with the rejoinder that it would be modified and enhanced after further study and dialogue with the beneficiaries, the micro entrepreneurs themselves.