Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 05-Jan-2022 | Report No: PIDC32735

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Burundi	P177688		Burundi - Jobs and Economic Transformation - JET (P177688)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA EAST	Apr 29, 2022	Sep 30, 2022	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance	Ministry of Finance - Ministere des Finances, du Budget et de la Planification Economique	

Proposed Development Objective(s)

The project development objective is to improve the MSME ecosystem and access to finance to boost productive investments and jobs in the select value chains.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	100.00
Total Financing	100.00
of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	100.00
IDA Grant	100.00

Environmental and Social Risk Classification	Concept Review Decision
Substantial	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Burundi is a low-income country and 87 percent of its 11.9 million people were estimated to live below the poverty line in 2020 (World Bank Macro Poverty Outlook, 2021)[1].** It is the third most densely populated country in Sub-Saharan Africa, with an estimated 463 inhabitants per square kilometer (WDO), who mostly reside in rural areas. Burundi has the seventh highest fertility rate in the world (5.5 children per woman) and its population is expected to double by 2040. If productive jobs can be created by strengthening the formal private sector and adequate upskilling of labor to meet the market demand, then the burgeoning Burundi's youth can become a dynamic force for the economy. However, the political crisis of 2015 halted 11 years of growth, and Burundi's real GDP per capita was only $269 in 2020 and the GDP growth per capita is negative since 2016.

2. **Burundi's multidimensional fragility results in high political, economic, legal, fiscal, operational, and security risks for firms and holds back private investment and productive economic activity.** Burundi ranks high, very high, or severe in all strategic risk areas for private investors. A peaceful change of power to the new government in June 2020 marked a turn toward peace and stability, but many challenges remain. Although the governance situation in Burundi is gradually improving, the country still ranks among the worst performers. Political and security issues persist, and the low rule of law reinforces perceptions of high risk and instability among international investors (CEM, 2021). Economic risks are particularly severe. Burundi ranked 135 out of 164 economies based on the 2020 economic risk rating by Oxford Economics in 2020.

3. **Macro-financial instability is an ongoing challenge**. Burundi has a low level of foreign exchange reserves and selective foreign exchange allocation mechanisms, which led to exchange rate overvaluation and the development of a parallel foreign exchange market.[2] These challenges stem from: (i) official reduction of development aid, external debt, inefficiencies in management of the limited reserves, and (ii) structural issues, notably the weak performance export-oriented and foreign exchange-earning sectors, such as agriculture, mining, and tourism. In addition to fiscal difficulties, the decline in external support triggered difficulties in balance of payment, which translated into acute foreign exchange

[1] Based on an international poverty line of $1.90 per capita per day
[2] The exchange rate moved from fixity to flexibility in the late 1980s, and the foreign exchange market was unified in the early 2000s to address the distortions created by multiple exchange rates that rose during the protracted conflict of the 1990s. The current exchange rate policy is a fallout from foreign exchange shortage.

shortage over the past six years. In response, the central bank tightened its control over the foreign exchange market to reduce capital flight and allocate the available foreign exchange by centralizing all foreign exchange accounts. Burundi's financial system showed some resilience to past crises, but still faces some weaknesses: (a) bank exposure to government securities, (b) deteriorating quality of loans by the banking sector to individuals and private sector, (c) absence of appropriate credit infrastructure, (d) absence of an operational deposit insurance scheme, and (e) lack of an articulated crisis management and resolution framework.

4. **Burundi's trade balance is structurally negative because of limited exports volume and substantial imports of manufactured goods and oil**. The value of merchandise exports from Burundi totaled $160 million in 2020. Burundi consistently records a large trade balance deficit, which in 2019 amounted to $706.3 million. The deficit could be contained by an uptick in exports of mining products (38 percent of the total) and agricultural products (43 percent), particularly coffee. Since 2017, the share of minerals in total exports rose to over 40 percent in 2019, led by gold exports that totaled 37 percent of total goods exports. This induced a decline of the share of coffee and tea, the traditional export leaders.

5. **Burundi's environmental fragility stems from the climate change and ecological challenges related to high population density, slow urbanization, low productivity agriculture, lack of conservation and processing, and land degradation.** The intensity and frequency of natural disasters have already increased in Burundi, such as drought, torrential rains, hail and violent storms, flooding and flash flooding, landslides and mudslides (World Bank 2021b). Poor agricultural practices and pollution have affected soil integrity and fertility and caused the degradation of water resources, including Lake Tanganyika, which is increasingly exposed to pollution.

Sectoral and Institutional Context

6. **Burundi's economy is characterized by low productivity agriculture with an embryonic manufacturing sector and a growing tertiary sector that revolves around information and communication technology (ICT), transport, banks, insurance, and trade.** The tradeable sectors are dominated by state-owned enterprises (SOEs), which need structural reforms to improve governance and management, modernize factories and equipment, improve productivity, and expand production. Formal and informal micro, small and medium enterprises (MSMEs) represent over 90 percent of firms.[3] A near-stagnation of agriculture led to a decline in its share of total GDP, from 53 percent in 1996 to 30 percent in 2020, in favor of the tertiary sector, which now accounts for almost half of GDP.[4] In 2017, 83.5 percent of Burundi's workers were employed in agriculture, primarily relying on informal work and independent farming, while public institutions and SOEs employed more than 75 percent of formal workers and accounted for almost one-third of overall non-farm wage employment. The share of employment in the primary sector is declining since the 2000s and labor has been mostly absorbed by services that now account for about 48 percent of GDP. The small industrial sector represents 17 percent of GDP (CEM, 2021) and consists mainly of construction, agricultural processing, brewing, and energy.

7. **The young and growing population, natural endowments, and international demand for Burundi's agribusiness products represent untapped potential sources of growth**. Although unemployment is a major social and economic challenge, especially among youth and women, Burundi's strong market demand for skilled labor, by comparison with

[3] According to a firm survey conducted in 2015 by the Chamber of Commerce, 58.9 percent of firms in the formal sector have 1 to 5 employees, 16.2 percent have 6 to 10 employees, and 17.5 percent have 11 to 50 employees.
[4] Demographic and Health Survey 2013.

unskilled labor, represents an opportunity. Burundi's geographical location provides an opportunity for economic agglomeration and regional integration through development of infrastructure and logistics, and trade facilitation. Cash crops and presence of international investors, albeit limited, create space for value chain development with links to domestic, regional and international markets. Although FDIs in Burundi have been historically low, there are a few positive examples of FDI impact on value chain development. New FDI and better links to existing FDI could create new markets and formal jobs, increase exports, and promote spillover of new technologies and business practices.

8. **Capturing these opportunities will require a shift in Burundi's approach to private sector development.** The government has a limited fiscal space to address skills and infrastructure gap. Private investment in the upgrading, diversification, and expansion of strategic sectors like agribusiness offers the opportunity to compete in international markets, provided that the government levels the playing field through the liberalization of SOEs, strong national branding, internationally trusted food safety institutions and regulations, quality infrastructure, and enabling competition, investment, and trade policies. By improving conditions for private sector competitiveness and value chain integration, Burundi could deepen and formalize its trade with the rest of Eastern Africa—a large market where there is an established demand and an already significant cross-border trade with Burundi—and beyond, notably Western Africa and Europe. Although the number of jobs in agriculture may decline during this transformation, more and better jobs will be created in the agribusiness segments of the value chain, where productivity is expected to increase because of technology adoption, improved access to capital, and labor upskilling. The success of Burundi's private sector will depend on positive entrepreneurship dynamics, improvements in MSME productivity, expansion of access to markets, and integration of local entrepreneurs into local, regional, and global value chains. Opportunities for private sector growth were identified by recent WB reports (CEM 2021, CPSD 2021).

9. **The government of Burundi acknowledges the structural challenges faced by the private sector and included a plan for reforms in the PND 2018–27.** The ongoing reforms include (i) simplifying the tax system for small businesses; facilitating business registration, construction permits, and property registration; (ii) improving the institutional framework and capacity to reform SOEs; and (iii) reinforcing investor protection. The government recognizes the importance of effective implementation and the need for strengthening the institutional capacity, public-private dialogue and government accountability in order to reap full benefits from the ongoing and planned reforms.

Lack of effective implementation of business regulations limits competition and deters private investments

10. **The Burundian domestic sector shows positive dynamics, but its growth is hampered by a challenging business environment**. The concentration of ownership of economic assets, weak competition, and a high degree of informality erode the confidence of private investors, which is already low after years of political instability and institutional weaknesses. Private returns to investments are generally low and vulnerable to economic and political risks. Incentives for domestic firms are that they remain small and unproductive rather than upgrade to modern and sophisticated methods of production. This is aggravated by poor access to and the high cost of financing, a low level of supply of technical and entrepreneurial skills, infrastructure gaps, high transport costs, and limited access to land, especially for women[5] (World Bank 2019b; World Bank 2021a). Despite the efforts of the government to improve business climate, it still faces many

[5] Of the 80.2 percent of the population that owns land, 62.5 percent are men and 17.7 percent are women. Women face discrimination in customary inheritance laws and challenges in accessing formal lines of credit due to lack of collateral.

challenges that stem from ineffective implementation and limited institutional capacity notably in terms of protection of property rights (including intellectual property rights and consumer rights) and contract enforcement.

Restricted access to finance reduces resilience of MSMEs

11. **Limited access to finance hinders the development and growth of the private sector at every stage and in every sector of the economy.** Both short term and long-term financing are very scarce and expensive. According to BRB statistics, private credit constituted 19 percent of GDP in 2020 and the average effective interest rates were 15.3 percent. Long-term investment capital comes, at best, as a 7-year loan and a 20 percent interest rate, about 12 percent real interest rate[6], with high collateral and down-payment requirements, which is an important constraint to the development of larger investments, like those needed in the agro-processing sector.

12. **Lending to the SME sector is particularly challenging.** The financing gap for SMEs was estimated at almost US$ 500 million in 2017.[7] Registration of mortgages is expensive, and the realization of guarantees is long and cumbersome due to challenges with the judiciary system. Banks in Burundi do not have any unit or department specifically devoted to SMEs, and diversification of financial products offered by banks is extremely low. Burundian SMEs face multiple difficulties accessing financing, mostly because they are unable to provide tangible collateral and because of the absence of reliable credit infrastructure providing information on borrowers (for example, a credit bureau). The microfinance sector plays an increasing role in providing access to financial services to SMEs and households. Total assets of microfinance institutions nearly quadrupled from 106 billion BIF in 2011 to 416 billion BIF in 2019. Despite this rapid growth, microfinance institutions mostly offer basic services (savings and micro credits) and lack institutional capacity.

13. **Digital finance is expanding but still faces many challenges, especially with regards to access to network and mobile devices, capacity and digital literacy.** Recent improvements in the regulatory environment allowed for the proliferation of mobile money, but the expansion of the digital financial services (DFS) will require (i) improvements in interoperability and (ii) adoption of a national ID to allow providers to attribute transactions appropriately to the customer in question or to meet customer due diligence requirements in accordance with the anti-money laundering regulations.

Technology Adoption Opportunities

14. **Despite numerous obstacles to innovation, the potential for progress in technology adoption has been shown by the few Burundian firms that have successfully adopted and use modern technologies, with a clear focus on technology imports.** Burundi's economy has a long heritage of traditional industries and low levels of productivity and technological diffusion. However, relative to GDP, the country performs above its expected level of development and there is strong demand for technology services and modern equipment across all sectors and types of firms (CPSD, 2021). For example, the use of mobile money scaled up rapidly in Burundi because it fills the gap in formal banking, is simple to use, works on inexpensive cell phones, and answers the market demand.

15. **Burundian firms, especially those led by women, use technology in a limited way because of energy access challenges and frequent power cuts, lack of equipment, limited ICT penetration, and lack of digital skills (World Bank**

[6] According to BRB's yearly average inflation rate over the last 10 years
[7] https://www.smefinanceforum.org/data-sites/msme-finance-gap

2018). SOEs and SMEs report the lack of modern equipment and technology as a constraint to productivity. For instance, agro-processing firms do not have storage capacity and must struggle with an inefficient and costly transport system. There is a large age and gender gap in the use of technology: consultations with business associations for women and some women cooperatives reported that they do not know how to make use of technology. Much fewer male respondents reported the same difficulties (CPSD, 2021).

16. **Technology adoption is critical for catching up to more productive countries in Sub-Saharan Africa and beyond.** In the short and medium term, transfer of existing technologies is one of the drivers for productivity upgrading and market links in traditional industries. Bottom-up upgrading by local firms, including in traditional industries like agribusiness, is essential to successfully capture these spillovers and adopt and adapt modern technologies to local needs and challenges. Entrepreneurship ecosystem, including investments in shared infrastructure (e.g. cold storage and test and certification centers) and strengthened technology and business development services to SMEs will be critical to facilitate this process.

17. **Climate change represents another imperative for Burundi to adopt "climate-smart" technologies and to build local green industries that can drive sustainable economic growth as well as environmental benefits**. For example, renewable energy, lower carbon transport, waste and water recycling provide economic, environmental and social co-benefits. Clean energy is spreading across sub-Saharan Africa, buoyed by policy incentives, donor-backed auction schemes and derisking mechanisms (BloombergNEF, 2020)[8]. Burundi is also adopting measures for encouraging import of clean technologies, like solar energy equipment that has zero VAT rate. Burundian firms face several challenges in adoption and adaptation of clean technologies including high capital requirements, longer payback periods for investors, reliance on government policy, and lack of technical and commercial capacity.

COVID-19 Impact

18. **COVID-19 will likely exert long-lasting impact and affect future growth. Although the expansion of COVID-19 was initially slow, the global crisis hit early through trade that contracted due to lower global demand of its commodity exports, combined with logistics and transport constraints.** Restricted export growth exacerbated foreign exchange shortages. The limited availability of imported items increased the prices of imported consumer products and slowed down industrial production. Although the industry still grew by 11.8 percent in 2020, growth is down from 2.1 percent in 2019. The tertiary sector contracted by 1.7 percent due to COVID-19 related mobility restrictions. Higher public debt levels exacerbate the risk of debt distress and negatively affect private investment prospects. The central bank highlighted the shocks from COVID-19 on export sectors and increases in the fiscal deficit as major risks for financial stability. Most businesses experienced declining sales, difficulty accessing inputs, and cash flow difficulties (ISTEEBU 2020). A large proportion of firms expressed the need for emergency support, including tax reduction or deferral, detail in loan payments, and access to new credit at discounted rates.

19. **The impact from COVID-19 varies across sectors and types of firms.** Similar to the 2015 crisis, some sectors are more vulnerable to a surge in non-performing loans, such as construction, trade, tourism and accommodation, agriculture, and equipment. All these sectors are again exposed to a contraction of their activities due to COVID-19. The fallout of the pandemic is further amplified for women entrepreneurs and women-led small and medium enterprises (WSMEs). Female entrepreneurs are concentrated in consumer-facing sectors, namely retail trade, hospitality, and services, where the demand shock was heaviest. WSMEs have systematically lower levels of business capital relative to their male peers. In

[8] https://global-climatescope.org/assets/data/docs/updates/2020-02-06-sub-saharan-africa-market-outlook-2020.pdf

addition, women entrepreneurs face increased demands for household labor due to greater needs for childcare or health care. In sum, WSMEs face greater economic disruption and have fewer resources to weather the storm.

Relationship to CPF

20. **The proposed operation is directly aligned with the World Bank's Africa Regional Strategy, which specifically lays out economic transformation as a mechanism for creating sustainable and inclusive growth in the region.** The project is also consistent with the Maximizing Finance for Development (MFD) approach and will strengthen investment frameworks, enhance private sector involvement, and leverage private sector funds. The renewal of liberalization efforts, the implementation of competition policy reforms in the SOEs sectors, and the mobilization of FDIs can create new markets and formal jobs, increase exports, and promote spillover of new technologies and business practices. The investments in economic transformation under this project contribute to the World Bank Group (WBG) twin goals by supporting opportunities for business growth and job creation.

21. **The proposed project is consistent and aligned with the Bank's Country Partnership Framework (CPF) and its two governing focus areas: (i) Building Human Capital and Inclusion and (ii) Strengthening Foundations for Economic and Social Resilience.** It will also contribute to strengthening the cross-cutting foundations defined in the CPF of macroeconomic stability, structural reforms and governance. The project will facilitate public-private dialogue to improve the country's investment climate for private sector development and to foster trade and investment as well as to strengthen the macroeconomic and fiscal policy dialogue as defined in the CPF. It will contribute directly to objective 2.1 "Build sustainable food for nutrition and jobs through the investment in productive infrastructure of selected agribusiness value chains" and indirectly to objective 2.1 "Improve access to quality education and youth employability through the smart incentives for local firms to invest in upgrading, training and hiring of young talents". In addition, the design of this operation is directly informed by the Country Economic Memorandum (CEM) and the Country Private Sector Diagnostic (CPSD), that identifies three identified sources of growth (reform SOEs, mobilize FDI and enable growth-oriented entrepreneurs and SMEs) and two priority sectors for interventions (agribusiness, inclusive finance). The proposed project is aligned with the theory of change for the World Bank support to Finance, Competitiveness and Innovation agenda in Burundi. The project's design builds on the recommendations of the CPSD and the ASA on Sustainable FOREX management and connects with the action plan for IFC re-engagement in Burundi.

22. **This project is a part of the Burundi portfolio response to COVID-19 and a concerted drive for Burundi's economic transformation**. It builds on the Local Development for Jobs Project (P155060), closing in July 2022, which creates income generating opportunities and improves access to basic services through support to SMEs. The project will have synergies with (i) the Great Lakes Trade Facilitation and Integration Project (P174814) under preparation that aims improving the environment for cross border trade in the border regions of the Great Lake Region (eastern Democratic Republic of Congo (DRC) and Burundi); (ii) the Burundi Skills for Jobs Project (P164416) that improves access to and quality of market-driven skills development training to expand employability of youth; and (iii) the pipeline Burundi Digital Economy Acceleration Foundations Project (P176396) that will strengthen the digital infrastructure and support e-government reforms. In parallel, technical assistance (TA) on financial stability will assess the financial sector in Burundi and the Harnessing Innovation for Financial Inclusion ASA will identify reforms to support the development of the digital financial services.

23. **The project supports the Jobs and Economic Transformation (JET) agenda, a diversified, competitive, and inclusive private sector creates jobs and opportunity, including for women and in disadvantaged regions.** The IDA19 Special Theme Paper on JET (Report No. 139725) provides the policy framework with a focus on two pillars: “creating and connecting to markets” and “building capabilities and connecting workers”. Under the first pillar, the project’s approach will support three of the four policy priorities, namely: (i) Strengthening the enabling environment to provide incentives to invest, notably under the project’s component 1; (ii) Supporting enabling sectors to raise productivity and directly help connect firms to larger markets, under the project’s components 1 and 3; and (iii) Adopting new technologies to raise productivity under the project’s component 2 and 3. It will also support the second JET pillar, on improvements in human capital to improve worker productivity, in all three of the project’s components.

24. **The project is aligned with the WBG’s “Maximizing Finance for Development” (MFD) approach. The project will help facilitate the government’s plan to develop the private sector and leverage private sector investment for job creation in the agribusiness sector.** Project support to improving the investment climate and business environment will enhance the incentives for companies to invest in the country by providing more clarity and predictability to the investment legal framework, and by making interactions with the government less onerous and more transparent. Financial and non-financial support to SMEs and entrepreneurs will help to de-risk new business opportunities, making these firms more “investment ready”, including for potential downstream International Finance Corporation (IFC) investments. Financing for productive infrastructure, will be used to leverage private investments.

25. **The project will support a Green, Resilient, and Inclusive Development (GRID) approach for a more resilient and sustainable private sector growth.** Given the current context for implementation, the project’s immediate support to SMEs and entrepreneurs in the target value chains will specifically aim to support their recovery from the pandemic impact, increase their resilience, while also promoting climate sustainability. In practice this will mean a focus on, among other things, building backward linkages with larger companies, capacity building and increasing sustainability and traceability in agribusiness value chains (using digital tools), increasing digitalization of operations and services, and diversification of suppliers. In addition, project interventions and investments will aim to improve resilience of SMEs.

26. **The project will contribute to improve the quality of women’s economic participation and its design will address the identified gaps between men and women with respect to their participation in economic activity in the country.** Project will seek activities that will incorporate a gender angle including, for example, the creation of tailored financial services that will increase access to finance to WSMEs using innovative processes to cope with the lack of collaterals, cash flow collaterals or psychometrics, training sessions for public servants, organizations, and the private sector, as well as activities to support SMEs and entrepreneurs. The latter will include specific calls for proposals for women entrepreneurs, and the provision of tailored technical support. This specific training will include, for example, personal initiative (PI) training, which focuses on developing non-cognitive skills and successful entrepreneurial behavior that has been demonstrated to be an effective psychology-based training for entrepreneurs, particularly for women.

27. **The project has a strong focus on the Digital Sector and is well aligned with and supports the WBG’s Digital Economy for Africa (DE4A) Initiative.** This initiative aims to ensure that every individual, business, and government in Africa will be digitally enabled by 2030 in support of the African Union’s “Digital Transformation Strategy for Africa”. The project will develop and utilize digital solutions for SMEs to improve access to finance, create productivity gains or facilitate operations. Examples include the use of digital financial services along agri-business value chains, or the use of digital

platforms for production management and traceability. It will also focus on creating a favorable environment for the provision of digital financial services by bank and non-banking financial institutions.

C. Proposed Development Objective(s)

28. **The project development objective is** *to increase productive investments in MSMEs and job creation including in select value chains and for women* . The project is expected to achieve the PDO by addressing three critical constraints to private sector jobs and economic transformation:

- Reduce regulatory and administrative barriers to firms, foster competition and encourage private sector investments.
- Strengthen financial sector capacity and support development of inclusive and innovative financial services to improve access to finance for MSMEs, including long-term finance.
- Build capabilities of MSMEs and support value chain development and productive use of technologies to improve value added activities and access to local, regional and global markets.

Key Results (From PCN)

29. **Success in achieving the PDO will be measured by the PDO-level outcome indicators.** Particular efforts will be made to track the project impact on women. Baseline data will be collected by the client during project preparation.

- Increased access to finance by local MSMEs (number of outstanding loans to MSMEs), of which female owned MSMEs (percentage);
- Net full-time equivalent formal jobs created by beneficiary MSMEs in the targeted sectors (number of full-time jobs equivalent), of which jobs for women (percentage);
- Increase in the aggregate firm-level Technology Adoption Index (intensive margin) for firms, of which female-owned MSMES (percentage).

30. **Analysis of World Bank lending concludes that for a meaningful design of support systems, targeted MSMEs should encompass firms that are differentiated by the way they experience policy, institutional, or market failures or the way they benefit the economy or the poor.** Because there is no unified definition for an MSME in Burundi, and the WBG definitions are not consistent, this project will align with the World Bank's enterprise survey that considers the following categories: 5–19 (small), 20–99 (medium), and more than 100 employees (large-sized firms). We will not include the firm revenue as a parameter because of the data limitations (availability and reliability). The project will focus on small and medium enterprises (SMEs) but will also benefit micro and large firms through cross-cutting improvements of business environment, support to value chain integration and better access to quality infrastructure. The key beneficiaries will include MSMEs who participate in the tradeable value chains and whose contribution to FOREX earnings (amount) will increase because of the project's interventions. The project will customize its approach to ensure of which female owned MSMEs (percentage).

D. Concept Description

31. **The proposed project will stimulate private investments in value adding sectors that meet local demand, create quality jobs and where Burundi has potential to compete in regional and international markets**. Increased

domestic and foreign investment could stimulate diversification, technology upgrading and productivity gains that will drive economic transformation and job creation. The project will strengthen the key elements of the private sector ecosystem to address the binding constraints identified by the CPSD consultations (CPSD, 2021) including access to finance, and will target specific value chains in agribusiness sector and associated value chains including value-adding services (excluding trade). These sectors account for half of Burundi's GDP and can mitigate some of the fragility factors related to inclusion, job creation, food security, and foreign exchange resources. Inclusive financial services and agribusiness sectors have the potential for job creation in both urban and rural settings with a particularly strong impact on the economic empowerment of women and youth. The sector selection aligns with the government of Burundi's top development priorities, and specific value chains will be selected in consultations with the government and private sector stakeholder based on the following criteria:

- Strategic alignment with national priorities (e.g. with the National Development Plan), the World Bank Group's strategies (SCD/CPF/CEM/CPSD) and government commitment to reforms including liberalization;
- Economic transformation potential (e.g. value added, job creation, diversification, import substitution and increased export revenues);
- Implications for poverty reduction (e.g. nutrition, livelihoods, resilience);
- Economic empowerment of women (e.g. share of women-owned or led MSMEs in the sector);
- Opportunity to address climate change issues and introduce climate-smart practices.

32. **The guiding principle of this project is to promote and strengthen a development model that is conducive to economic transformation, to achieve higher rates of investment and productivity growth across the economy, especially in the targeted value chains.** Economic transformation entails a shift in the overall sector mix both in terms of contribution to GDP as well as in labor force. For Burundi, this means diversification, technology adoption and adaptation, leading to the eventual growth of existing firms, creation of new firms, and exit of underperforming firms. The project's impact on poverty reduction will come from contribution to overall economic growth and increased productivity in key sectors of the economy, in particular agribusiness and financial sector, which can help to (i) decrease macro-volatility and its impact on equity in the country, (ii) create more and better employment opportunities that can raise incomes, and (iii) increase Government revenue through increased economic activity, Forex revenues and subsequent tax receipts.

33. **The project will address the key binding constrains to the private sector growth: a weak business environment, further distorted by heavy involvement of SOEs and informality, hinders private investment and access to markets for firms in Burundi.** The primary beneficiaries of this project are local entrepreneurs, MSMEs, and private investors, in addition to the line agencies whose capacity to execute their sub-programs will be strengthened. The premise of the design is based on the following assumptions:

- Regulations and their enforcement will promote MSMEs entry and competition within sectors, including licensing and public procurement, pressure on SOEs to improve their performance or exit the market, formalization of MSMEs, and foreign trade for sectors where Burundi has comparative advantages.
- Increased capacity of partner financial institutions, de-risking of capital investment and expansion of digital financial services will reduce costs related to MSME finance and increase lending to MSMEs.
- Improved access to quality infrastructure and increased capacity of MSMEs to adopt and use modern technologies will improve productivity, value addition and competitiveness of existing and new MSMEs.

1. Description

34. **In order to support the government's effort to deploy this economic transformation model, the project will support implementation of cross-cutting reforms for enabling environment (Component 1), financial infrastructure, stability and inclusive access to finance (Component 2), and targeted reforms in value chains (Component 3).** The activities will be organized under three complementary and mutually reinforcing components, along with a CERC component (*Figure 1*).

Figure 1 Project Components

Components	**Indicative Allocation (US$ million)**
1. Creating an enabling environment - *Focused on improving legal and regulatory environment for domestic and foreign private investors and financial markets*	**$25m**
1.1: Support investment climate reforms and investment promotion 1.2: Institutional capacity building and project management	7.5 7.5 10.0
2. Banking sector support and MSME finance - *Focused on improving access to finance to MSMEs including through digital solutions*	**$35m**
2.1: Strengthen financial infrastructure 2.2: Support access to finance for MSMEs	16.0 19.0
3. **Access to markets and value chain development –** *Focused on value chain integration, MSME capabilities and access to markets*	**$40m**
3.1: Expand access to sustainable quality infrastructure 3.2: Develop MSME upgrading capabilities 3.3: Supplier development and linkages programs	20.0 10.0 10.0
4. CERC	
TOTAL	**100.0**

Component 1. Creating an enabling environment (indicative amount US$25 million equivalent)

35. **This component will strengthen the legal and regulatory environment for domestic and international investors and businesses to facilitate private investment in high-potential value-chains.** The activities of this component will improve existing regulations and administrative procedures to enable private sector investments and competitiveness in the selected value chains. As such, this component will finance economy-wide and sector-specific reforms including: (i) policy, regulatory and administrative frameworks to reduce legal and regulatory barriers for MSMEs, (ii) implementation of competitive public procurement principles that creates opportunities for participation of local SMEs (including women and refugees-led MSMEs) and social entrepreneurs;[9] and (iii) digital social marketing campaigns to promote socio-cultural changes and assure equal-rights implementation of business rules and regulations for women entrepreneurs. The component will finance technical assistance, goods, training and capacity building programs, and recurrent expenditures, including operating costs.

[9] The CPSD report found that market distortions caused by the absence of level playing field in public procurement undermines Burundi's private sector productivity and growth. In particular, lack of transparency, restricted access to information and complexity of procurement rules creates barriers for MSME participation in public procurement markets.

36. **A particular emphasis will be on effective implementation and this component will include provisions for institutional capacity building of line agencies and project management and evaluation**. The key focus will be on effective implementation of ongoing reforms including improving data availability and government accountability for reforms, public-private dialogue, capacity building of existing institutions including line ministries and key agencies responsible for reforms. For example, this sub-component will provide technical assistance to BBN to help monitor quality and standards and enforce consumer rights, and to the Investment Promotion Agency to implement an effective investment promotion strategy. The component will also assess and address some specific regulatory barriers and gender gaps through for example tailored trainings on how to win large procurement contracts which can help increase MSME growth and employment.[10]

Component 2. Support the resilience of the banking sector and enhance access to MSME finance (indicative amount US$35 million equivalent)

37. **This component will help to improve access to finance for entrepreneurs and MSMEs by strengthening the supply side of financial markets.** This component would finance activities to support access to MSME finance by (i) reform of the credit infrastructure (credit bureau and/or reform to the "centrale des risques", movables collateral registry); (ii) develop the framework for micro-finance and agrifinance, with the gender angle (iii) improve and develop new instruments for MSME access to finance, including credit lines and digital financial services; (iv) develop value chain financing that will support MSMEs targeted by Component 3 (such as warehouse receipts or lead firm financing). Details of the financial access reforms will be further refined during project preparation based on the ongoing analytical work and technical assistance on financial sector reforms. This component will be implemented in close coordination with the Component 3 and will have a focus on the value chains targeted by the project. The preparation of this component will be supported through the GIIF Trust Fund.

38. **These activities will also support the resilience of the banking sector.** Strengthening of the credit infrastructure will improve resilience of the banking system, including MFIs that work in rural, more fragile areas. Inclusion of risk-mitigation instruments, e.g. agricultural insurance in the value chain financing will hedge financial institution against specific value chain related risk. Finally, financial instruments customized to the needs of disadvantaged and vulnerable groups, in particular women will be developed to increase their access to finance and their ability to resist to economic shocks.

39. **This component will have a particular focus on women-led MSME finance and will be supporting selected financial institutions with technical assistance for designing, testing and piloting financial products for women entrepreneurs drawing from successful examples of World Bank projects in addressing existing gender gaps in financial access.** Such examples include women-focused windows offering partial credit guarantees (Financial Inclusion Support project in Burkina Faso), in-kind grants (Making Cash Grants Work for Small-Scale Women Entrepreneurs in Ghana), medium-sized loans that do not rely on collateral (e.g., using psychometrics as in WDEP project in Ethiopia or cash flows as in WE-Fi project in Nigeria), and access to free savings accounts at a location close to the business of the woman (tested already in Kenya with large positive effects) or mobile money.

[10] An RCT In Liberia showed that small firms that participated in a training program on how to market their products to larger buyers won about three times more contracts than those that did not receive training. However, the effects were only positive for firms with ICT access (most contracts were published online). Encouraging women to participate in these auction opportunities and expand their access to digital tools could be a powerful means to improve access to markets for women-led businesses.

Component 3. Access to markets and value chain development (indicative amount US$40 million equivalent)

40. **This component will strengthen MSMEs capabilities and improve their access to quality infrastructure in targeted sectors to increase productivity, value added and competitiveness in regional and international markets.** The objective of the component is to support development and upgrading of value adding MSMEs, link them to domestic, regional and international markets, and foster value chain integration and technology transfer. The selection of the sectors will be based on the following criteria: (i) strategic alignment (e.g. with the NDP, the SCD/CPF/CEM/CPSD) and government commitment to reforms including Foreign exchange reforms; (ii) economic transformation potential (e.g. value added, job creation, diversification, import substitution and export revenues); (iii) implications for poverty reduction (e.g. nutrition, livelihoods, resilience); (iv) economic empowerment of women (e.g. share of women entrepreneurs in the sector); and (v) opportunity to address climate change issues and introduce climate-smart practices.

41. This component will finance a range of activities to support the development and competitiveness of the selected value chains. These activities will include:

- Targeted studies of value chains with potential of adding value, creating jobs and contributing to growth. The studies will be conducted to identify value chain-specific challenges and recommend interventions to enhance competitiveness of the value chain actors. Value chains will be selected in strategic sectors like agribusiness (e.g. horticulture, meat, dairy) and services (e.g. digital).
- Development of critical quality infrastructure that is missing or underdeveloped. This type of infrastructure is needed to enhance the competitiveness of to support quality enhancement and labelling for export competitiveness. Examples include test centers, cold storage facilities, labs, certification centers and other public infrastructure to be identified by the studies conducted under this component.
- Smart incentives and capacity development for MSMEs to invest in diversification. The focus will be on exportable agribusiness products with a high value per unit (kg/litre). Capacity development will include upgrading, training, standards compliance, and certification.
- Assistance to supplier development programs that link MSMEs to lead firms. Technical assistance to MSME will help them to meet the qualifications to be value chain participants to take advantage of tender opportunities. And incentives to lead firms will help to reduce their cost and risks of local subcontracting.
- Support MSME participation in public markets. This will include capacity development for the public officials engaged in social public procurement and technical support to MSMEs for preparation of public tenders. These activities will be customized to the value chains in the service sectors that will be selected by the project.

42. **To ensure sustainability, the component will rely as much as possible on private sector solutions**. In particular, the project will build capacity of ecosystem enablers to support establishment and management of the quality infrastructure and business development services (BDS) to MSMEs. The project will provide technical assistance to ensure that efficient management (including cost-recovery) systems are in place for public infrastructure, including through concessions to specialized private-sector operators or through infrastructure maintenance mechanisms.

43. **This component will include customized solutions to support women entrepreneurs and WMSMEs.** The component will support at least one sector where most participants are women. Examples of interventions could include gender-centered behavioral training (e.g. Personal Initiative training), accelerator programs and investor networks that

help address social and cultural barriers to women entrepreneurship. Additional interventions could include tailored assistance to develop export-oriented value chains like export-readiness services, virtual trade missions, networking, cluster development. Targeted communication campaigns and information sessions will encourage female entrepreneurs to enroll in training programs (including digital). The campaigns will provide information on potential returns and connect potential participants to create peer groups with safe space for female participants to have discussions, cultivate socioemotional skills, and build their networks.

Component 4. Contingency Emergency Response Component ($0M)

44. **A Contingency Emergency Response Component (CERC) with zero allocation will be created to allow the Government to respond quickly in case of an eligible emergency.** Particular attention would be paid to ensuring the best possible alignment of the approaches and instruments used under CERC with those rolled out by the Project, and especially in coordination with the Support to MSME Access to Finance (component 2.2) which aims to support the agricultural insurance programs and access to finance to agribusiness MSMEs, and support to MSME Capabilities (Component 3.3). Should an eligible emergency occur, the inclusion of this component would provide a conduit for the use of uncommitted funds from the unallocated expenditure category and/or allow the government to request the World Bank to re-categorize and reallocate financing from other Project components to partially cover emergency response via implementation of key activities by the appropriate agencies to respond to the emergency. The CERC could also be used to channel additional funds should they become available because of an eligible emergency.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

The environmental risk rating of the project is rated as Substantial at this stage. The social risk has been determined to be substantial. The Project will support policy development and coordination of linkages (Component 1), access to finance for entrepreneurs and SMEs (Component 2), as wells as a range of capacity building initiatives for SMEs, technological support measures, small scale infrastructure (Component 3). In all components, the risk of exclusion of potential SMEs, or young entrepreneurs, or stakeholders in the targeted sector linked to a lack of transparency and communication must be considered. Indeed, although financial services and agribusiness have potential for job creation, in both urban and rural settings, potential environmental and social impacts of policy, regulatory, and administrative framework reforms (Component 1) must further be assessed to evaluate whether or to what degree such structural changes can lead to significant unemployment, favour certain groups or generate other social and environmental risks and impacts. Access to finance and capacity building interventions also need to be undertaken in an inclusive and transparent manner so that small firms, especially those located in remote areas are not bypassed. Training and capacity building within firms must also be available to both male and female employees including those who may not have permanent contracts. Furthermore, such investments may also lead to issues related to data privacy and security with respect to interventions in the digital sector/access expansion, which the project will need to address. Infrastructure interventions under Component 3 (test centres, cold storage facilities, labs and certification centres) may include upgrading of small roads, water supply, electricity, communications, sites-and-services, and depending on environmental and social impacts, on waste management. There are also risks to community health and safety related to increased air emissions from more industrial activities, as well as from wastewater management, the storage of chemicals, and the generation of hazardous waste all associated with the manufacturing sector. Moreover, overall risks across project components include health risks due to COVID-19 pandemic that are expected in crowded situations during civil works as well as training and labour influx that poses another social risk as the project will rely on both unskilled labour and technical expertise in providing advisory services to firms and in small infrastructure works. There will be a need to ensure that working conditions are aligned with legal provisions and ESF requirements on labour both for training activities and for infrastructure works. Based on experiences in the agricultural sector, there is also the potential risk of the use of child labour in the horticulture supply chains. Types and numbers of workers have yet to be determined, so the magnitude of the risk is currently not known. As the activities foreseen as part of this project are not yet fully identified and analysed but could include possible land acquisitions, and subsequent resettlement, physical and economic displacement. While no large-scale resettlement is foreseen, impacts on livelihoods are expected, the extent of which can be determined based on a detailed social analysis to be performed during preparation.

45. **The social risk has been determined to be substantial.** The Project will support policy development and coordination of linkages (Component 1), access to finance for entrepreneurs and SMEs (Component 2), as wells as a range of capacity building initiatives for SMEs, technological support measures, small scale infrastructure (Component 3). In all components, the risk of exclusion of potential SMEs, or young entrepreneurs, or stakeholders in the targeted sector linked to a lack of transparency and communication must be considered. Indeed, although financial services and agribusiness have potential for job creation, in both urban and rural settings, potential environmental and social impacts of policy, regulatory, and administrative framework reforms (Component 1) must further be assessed to evaluate whether or to what degree such structural changes can lead to significant unemployment, favor certain groups or generate other social and environmental risks and impacts. Access to finance and capacity building interventions also need to be undertaken in an inclusive and transparent manner so that small firms, especially those located in remote areas are not bypassed. Training and capacity building within firms must also be available to both male and female employees including those who may not have permanent contracts. Furthermore, such investments may also lead to issues related to data privacy and security with respect to interventions in the digital sector/access expansion, which the project will need to address. Infrastructure interventions under Component 3 (test centers, cold storage facilities, labs and certification centers) may include upgrading of small roads, water supply, electricity, communications, sites-and-services, and depending on environmental and social impacts, on waste management. There are also risks to community health and safety related to increased air emissions from more industrial activities, as well as from wastewater management, the storage of chemicals, and the generation of hazardous waste all associated with the manufacturing sector. Moreover, overall risks across project components include health risks due to COVID-19 pandemic that are expected in crowded situations during civil works as well as training and labor influx that poses another social risk as the project will rely on both unskilled labor and technical expertise in providing advisory services to firms and in small infrastructure works. There will be a need to ensure that working conditions are aligned with legal provisions and ESF requirements on labor both for training activities and for infrastructure works. Based on experiences in the agricultural sector, there is also the potential risk of the use of child labor in the horticulture supply chains. Types and numbers of workers have yet to be determined, so the magnitude of the risk is currently not known. As the activities foreseen as part of this project are not yet fully identified and analyzed but could include possible land acquisitions, and subsequent resettlement, physical and economic displacement. While no large-scale resettlement is foreseen, impacts on livelihoods are expected, the extent of which can be determined based on a detailed social analysis to be performed during preparation.

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