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REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED IDA CREDIT OF SDR 22 MILLION

TO

THE REPUBLIC OF BURUNDI

IN SUPPORT OF A

THIRD STRUCTURAL ADJUSTMENT PROGRAM

MAY 12, 1992

CURRENCY EQUIVALENTS

Monetary Unit:	Burundi Franc (FBu)
Exchange Rate:	1991 (Average)
	US$ 1.00 = FBu 181.5 SDR 1.00 = FBu 273.1
	March 30, 1992
	US$ 1.00 = FBu 199.3 SDR 1.00 = FBu 273.1
Weight and Measures	Metric System
Fiscal Year:	January 1 - December 31

ABBREVIATIONS AND ACRONYMS

CADEBU	Caisse d'Epargne du Burundi (Burundi savings bank)
COTEBU	Complexe Textile de Bujumbura (textile complex of Bujumbura)
EDF	European Development Fund
ESAF	Enhanced Structural Adjustment Facility
ILO	International Labor Organization
MCSAP	Monitoring Committee for the Structural Adjustment Program
OGL	Open General Licensing
PE	Public Enterprise
PEP	Public Expenditure Program
PER	Public Expenditure Review
PFP	Policy Framework Paper
PIP	Public Investment Program
PPU	Population and Planning Unit
SAC	Structural Adjustment Credit
SAF	Structural Adjustment Facility
SCEP	Service Chargé des Entreprises Publiques (Pulic Enterpises Office)
SECAL	Sectoral Adjustment Loan
SPA	Special Program of Assistance for Sub-Saharan Africa
SOSUMO	Société Sucrière du Moso (Moso Sugar Company)
STABEX	European Community's export stabilization fund

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BURUNDI
THIRD STRUCTURAL ADJUSTMENT CREDIT
TABLE OF CONTENTS

BURUNDI
THIRD STRUCTURAL ADJUSTMENT CREDIT
CREDIT AND PROGRAM SUMMARY

Borrower: Republic of Burundi

Executing Agency: Prime Minister's Office and Ministry of Planning

Credit Amount: SDR 22 million (US$30 million)
Terms: IDA: Standard terms with 40 years maturity

Program Description: The main objectives of the third structural adjustment credit (SAC III) are to help strengthen the economy's supply response to the adjustment process by further reducing the role of the state in the economy and, in conjunction with an IMF-supported ESAF arrangement, by continuing to alleviate policy constraints to private sector development. This operation would also help shield vulnerable groups from the transitional costs of adjustment. The proposed operation will support reforms in three key areas: a reduced and more effective role for the state, elimination of policy and legal/regulatory constraints to private sector development, and improved access to social services, particularly for lower-income groups. The redefined role of the state will focus on reducing the fiscal deficit by accelerating the restructuring of the public enterprise sector and reducing non-developmental expenditure. Private sector development and export diversification will be promoted through further liberalization of external transactions, the agricultural sector and factor markets, and reform of the regulatory, legal and fiscal systems. Finally, a social sector component will promote a more appropriate pattern of public expenditure through the maintenance of a "safety net" of social expenditure and measures to improve the quality of basic health and education services.

Benefits and Risks: This operation is designed to reduce distortions in the goods and services and factor markets, while providing a social safety net for low-income groups. The removal of the remaining institutional and regulatory constraints to employment creation and private enterprise should help to restructure the economy through export-based private sector development and export diversification. Institutional reforms will improve public resource allocation and the efficiency of public investments.

There are three sources of uncertainty which could cause slippages in the implementation of adjustment reforms. First, the political situation remains fragile despite the Government's recent attempts at the reconciliation of the two main ethnic groups. Second, if world prices for coffee -- Burundi's main export -- continue to fall, they will lead to a further decline in public revenues that could have an impact on fiscal performance. Finally, other exogenous factors, such as irregular rainfall or turmoil in neighboring countries leading, among other things, to a disruption in supply routes, could undermine efforts to restore higher growth. The Government has displayed a high sense of ownership for the adjustment program. Its strong commitment to the reform process has led it to play a significant role in the preparation of this operation.

Estimated Disbursements: The proceeds of the proposed IDA credit would be disbursed in two unequal tranches, consistent with the timing of the country's needed financing. The first tranche of SDR 8 million equivalent would be available for disbursement upon credit effectiveness. Release of the second tranche (SDR 14 million), expected in December 1993, would be contingent upon the Government meeting the specific second tranche conditions and maintaining overall satisfactory performance under the adjustment program.

Appraisal Report: There is no separate Staff Appraisal Report.

Map: IBRD 23898

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

1. I submit the following report and recommendation for a proposed third Structural Adjustment Credit to the Republic of Burundi for SDR 22 million (US$30 million) on standard IDA terms with a maturity of 40 years. Parallel financing is expected to be provided for this operation by Belgium, the European Development Fund (EDF), France, Germany, and Japan.

2. The policy measures supported by the proposed Credit would build upon the reforms already undertaken by the Republic of Burundi since 1986 and supported by IDA's first and second Structural Adjustment Credits (SACs I and II), and the Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF) with the IMF. The Government's economic reform program is outlined in the fourth Policy Framework Paper (PFP) for 1991-94, which was discussed by the Committee of the Whole on October 31, 1991.

3. This report is divided into four parts, the first of which provides an overview of Burundi's economic performance since adjustment, the country's medium-term macroeconomic and structural policies, the Bank's assistance strategy in Burundi, and the Bank's criteria for evaluating progress. The proposed Structural Adjustment Credit is outlined in Part II. The specific features of the credit are described in Part III. Finally, the benefits and risks associated with the operation are discussed in Part IV.

Part I: Country Policies and Bank Group Assistance Strategy

A. Background

4. Burundi is a small, landlocked country in Central Africa (27,834 km2). Its per capita GDP was about US$215 in 1991. With a population of just over 5 million and a population growth rate of 3 percent a year, Burundi has the second highest population density in Africa, estimated at 193 persons per square kilometer. Social indicators are comparable to the average for Sub-Saharan Africa. Despite the demographic pressure on already constrained land, rural migration has been limited: only 6 percent of the total population is urban. The country has limited natural resources other than relatively fertile agricultural land. Identified mineral resources include nickel, phosphate, petroleum (shale), vanadium and some alluvial gold, but their exploitation has not yet been proven to be economically viable.

5. Agriculture is the predominant activity, contributing half of GDP and 90 percent of employment and of export earnings. The most important export crop in this largely subsistence sector is coffee, which on average accounts for about 80 percent of total exports. Burundi is one of the few African countries that is self-sufficient in food. Per capita foodcrop production is stable and, at least for the short-term, food security is not an issue. The secondary sector (mining and manufacturing) is still small, accounting for about 14 percent of GDP and 6 percent of exports in 1990. The private sector, whose share of gross fixed investment is about 15 percent (1990), plays a major role in agricultural production (through smallholder farming) and transport. By contrast, the public sector dominates manufacturing, energy and infrastructure and contributes half of the country's formal employment. As a landlocked country, Burundi is vulnerable to transportation problems in neighboring countries. Although progress has been

made in recent years to improve physical infrastructure and to simplify transit formalities, transport costs to and from distant Indian Ocean ports remain high.

6. Burundi's current government is led by President Buyoya, who took power in a military coup in September 1987. In August 1988, Burundi experienced an outburst of ethnic violence, which, according to official figures, resulted in about 5,000 deaths in two of the northern communes. The President responded with the appointment of a national unity government with unprecedented power sharing, i.e., the cabinet was equally divided between the two main ethnic groups, the majority Hutu and the minority but ruling Tutsi. Currently, a process of democratization of political institutions is under way. A new constitution, which introduces a multi-party political system, was adopted in a referendum in March 1992, thus paving the way for national elections expected in early 1993. A major challenge for the Government will be to continue to push forward on the political reform agenda while deepening structural economic reforms and exercising greater budget austerity.

B. Economic Developments Through 1991

7. After a period of high growth during the 1960s and 1970s, Burundi's economic and financial situation took a turn for the worse in the early 1980s due to a sharp deterioration in its terms of trade, expansionary fiscal and monetary policies and adverse weather conditions. During the 1980-84 period, real GDP growth averaged just 0.2 percent a year. By 1984, the external current account deficit (excluding official transfers) rose to 16 percent of GDP, the overall fiscal deficit (on a commitments basis) equaled 18 percent of GDP, the real effective exchange rate of the Burundi franc appreciated significantly, and annual inflation reached a peak of 14 percent. The Government responded with administrative controls aimed at containing the external deficit and protecting domestic industry. The ensuing distortions (e.g., overvalued exchange rate, import controls), however, only served to highlight Burundi's major structural constraints: excessive dependence on coffee exports, dominant role of the public sector, and inadequate incentives for sustained growth. The Government embarked on a comprehensive stabilization-cum-economic reform program in 1985. That program was described in the country's first Policy Framework Paper (PFP) for 1986-88.

8. During the 1986-90 period, stabilization achievements fluctuated with world coffee prices. Burundi's foreign exchange loss in years of falling coffee prices (1987, 1989 and 1990) totaled US$230 million, or 64.4 percent of merchandise exports for those years. World coffee prices also negatively affected the public finance situation due to Burundi's heavy reliance on coffee for budgetary revenue. At the same time, the Government experienced difficulties in containing the growth of expenditures. As a result of both factors, the budget deficit averaged 11.9 percent of GDP over 1986-90 (see Table 1). Nevertheless, GDP growth remained positive in per capita terms with the exception of 1989, when it grew by only 1.5 percent as unfavorable weather conditions sharply cut agricultural production. External financing, including substantial balance of payments support, averaged about 20 percent of GDP over 1986-90. Thus, the Government's external financial situation remained comfortable throughout the period, with gross foreign exchange reserves rising to the equivalent of over 5 months of merchandise imports.

9. Estimates for 1991 indicate that the economy grew by 4.9 percent, an improvement over the scenario envisaged under Burundi's most recent PFP, which covers the 1991-94 period. Owing to an arrest in the deterioration of the terms of trade, gross domestic income per capita also grew modestly. Public savings rose to 3.5 percent of GDP (compared to 0.4 percent realized in 1990). Coffee export earnings increased by 36 percent thanks to earlier plantings and the sale of stocks accumulated the previous year. The overall balance of payments surplus was equivalent to about 2 percent of GDP, aided in part by US$255 million in external assistance. Inflation rose slightly to 8.9 percent, boosted by a

devaluation in August 1991 (15 percent in SDR terms) which restored the country's international competitiveness. The debt service ratio remained high due, in part, to the impact of exchange rate devaluations.

Table 1: Selected Economic Indicators

	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
GROWTH RATES[a]							
GDP (market prices)	11.8	3.3	5.5	4.9	1.5	3.5	4.9
Exports (GNFS)	12.6	-13.1	6.8	10.5	-2.9	1.0	15.9
Imports (GNFS)	-3.8	8.1	6.9	-1.1	-15.1	12.1	5.5
RATIOS (%)[b]							
Debt Service/Exports (GNFS)	22.9	25.6	43.7	34.7	35.6	46.7	39.9
Gross Investment/GDP	13.9	11.6	22.7	15.0	16.7	18.2	17.5
Gross Domestic Savings/GDP	3.8	1.1	6.9	1.6	4.4	-2.2	-1.0
Public Savings/GDP	2.7	2.3	0.3	0.6	3.1	0.4	3.5
Govt Revenue/GDP	13.4	15.3	13.5	15.4	18.2	15.8	16.7
Govt Total Expenditure/GDP	23.4	23.8	30.4	26.6	27.8	28.8	26.5
Overall Budget Deficit/GDP[c]	-10.0	-8.5	-16.7	-11.6	-9.6	-13.0	-9.7
Current Account/GDP[d]	-10.5	-11.7	-17.9	-14.6	-14.2	-20.8	-18.0
INDICES							
Consumer Prices (growth)[e]	3.7	1.8	7.1	4.5	11.7	7.0	8.9
Terms of Trade (1987=100)	131.7	139.6	100.0	119.5	112.0	96.4	99.7
Real Effective Exchange Rate (1987=100)	135.5	116.6	100.0	88.1	90.5	77.7	78.3

a. Based on 1980 constant prices.
b. Based on current prices.
c. Excluding grants and on a commitments basis.
d. Excluding grants.
e. Bujumbura.

C. Performance Under the Adjustment Program

10. Burundi embarked on the path of adjustment in 1985. The first SAC (US$15 million), approved in May 1986, was a two-tranche credit. It became effective in July 1986, and the second tranche was released on schedule in April 1987. The program covered five areas: (a) public expenditure management; (b) public enterprise (PE) reform; (c) trade and industrial policies; (d) credit allocation; and (e) agriculture sector policy. The program began to address the most important policy distortions of that period which were: (i) the restrictive trade regime; (ii) widespread price controls; (iii) the overvalued exchange rate; and (iv) the inflated size and poor quality of the investment program. The identification and sequencing of reforms was in line with the priorities for action, particularly in the trade area, where imports were liberalized simultaneously with the opening-up of imports and the decontrol of import prices. Some of the measures under SAC I which were only partially implemented (e.g., public expenditure programming and PE reforms), due in large part to the delicate socio-political environment, were taken up again in SAC II.

11. The second SAC (approved in June 1988) was a three-tranche credit in the amount of SDR 64.9 million. Although the second program was intended to cover the 18-month period from mid-1988 to end-1989, it eventually extended over three-and-one-half years due to implementation delays (particularly regarding PEs, civil service reform and liberalization of the labor market). The second tranche of SAC II was released in April 1990 (about 15 months behind schedule), and the third tranche was released in January 1992 (with about 24 months' delay).

12. As noted, a number of the reforms introduced under SAC I were continued under SAC II because of their sensitivity and the persistent attention they required. These concerned essentially: (a) continuation of the flexible exchange rate policy and further tariff reform; (b) measures for containing the fiscal deficit and improving the composition and quality of expenditure; and (c) actions to reduce the number of PEs and achieve financial viability in those remaining in the state portfolio. The following new reforms were introduced under SAC II: (i) in the financial sector, the program called for interest rate deregulation, introduction of a treasury certificate auction and introduction of a reserve requirement for commercial banks; (ii) regarding the labor market, measures focussed on eliminating the need for prior approval from the Labor Ministry for hiring new employees and the obligation to register all new vacancies with the Manpower Department in the same ministry; (iii) in civil service reform, an action plan for improving efficiency while limiting expansion in the numbers of civil servants was to be formulated; and (iv) in the social sectors, a social action program for the most vulnerable segments of the population was to be formulated. SAC II was complemented by the second and third years of a 3-year SAF arrangement with the IMF.

13. Despite exogenous shocks (deteriorating terms of trade, irregular rainfall) and internal political instability (ethnic rivalries) during the implementation of SAC II, further progress was achieved in moving towards a competitive exchange rate, reducing effective protection, establishing a unified budget and eliminating most price controls (with the exception of the agricultural sector). In 1991 and early 1992, progress was also achieved in further improving public expenditure management, liberalizing imports and deregulating labor and financial markets. After some initial delays, performance in all these areas was satisfactory. Indeed, in some cases, the Government went farther than envisaged under the program. For example, SAC II had not called for the elimination of compulsory savings (where, in order to promote savings, 5 percent of salaries was withheld and automatically deposited in a public savings institution) nor for the simplification of the legal and regulatory framework for the private sector. Yet, the Government took the decision to do the former and proceeded quickly with the latter. Performance under the major components of the adjustment program is highlighted in greater detail below.

14. *Exchange Rate Policy and Trade Liberalization.* The main purpose of this component was to improve the competitiveness of non-traditional exports and import-substitution activities while providing neutral protection across economic sectors. Under SAC II, the Government effectively utilized exchange rate adjustments to maintain price competitiveness with respect to its major trading partners. Cumulative devaluation of the real effective exchange rate was 32.8 percent between 1986 and 1991. A further devaluation of about 10 percent (in foreign currency terms) is being implemented in small increments over the months of May and June 1992. Tariff reform, initiated under SAC I and continued under SAC II, resulted in a reduction in the number of rates from 57 to 5 and in the tariff spread on non-luxury goods from 4-155 percent to 10-40 percent. A number of distortions attributable to improper classification of products were also corrected. Finally, all quantitative restrictions on imports were abolished in August 1990.

15. *Public Resource Management.* The objective of these reforms was to reduce the budget deficit and to improve the quality of public expenditure with the aim of restoring sustainable economic growth and the viability of Burundi's ext[illegible]al position. The instruments for more effective and transparent budget

execution and public expenditure programming were set in place under SAC II, including a three-year rolling public investment program (PIP), satisfactory public expenditure programs (PEP) for four major sectors (agriculture, education, health, and transport) and a unified budget, combining all central government expenditures, whether financed with domestic or external resources. The quality and coverage of the three-year rolling PIP improved significantly in the 1989-91 period. An action plan, designed to increase the efficiency of the civil service while limiting the creation of new positions to the social sectors, was formulated in June 1991. As a first step, the Government completed an audit of the civil service and limited the number of authorized new positions in the 1992 budget law.

16. Prior to 1991, the Government's record in reducing budget deficits was mixed because it was unable to reduce expenditure commensurately with the revenue shortfalls resulting from the decline in world coffee prices. In 1991, performance improved on both fronts: revenue stability was enhanced significantly by introducing an *ad valorem* tax on coffee exports, and remedial action was taken to contain expenditure. As a result, the budget deficit in 1991 declined to 9.7 percent of GDP from 13 percent in 1990. The Government has taken additional measures in 1992 to reduce the budget deficit further (e.g., it effected reductions in non-developmental expenditure in real terms, limited net recruitment of government employees to 650 and reduced indirect subsidies to public enterprises).

17. *Public Enterprise Reform.* PE reform was the second major area where results under SAC II were mixed. The objectives under the program were to improve the efficiency of PEs, reduce the financial burden of the sector on the government budget and, open up business opportunities for the private sector. The Government approach to PE reform involved the signing of performance contracts following detailed diagnostic studies and audits on a case-by-case basis. However, this approach was not successful because of the considerable time and cost required to undertake detailed studies on a systematic basis. From 1986 to 1991, only four enterprises signed performance contracts with the Government. In recognition of the problems, in January 1991 the Government adopted a more comprehensive approach, classifying PEs into categories depending on whether they were to be rehabilitated, privatized or liquidated, and formulating a specific timetable and action plan for each. Since then, 10 enterprises have been liquidated and 5 have been privatized; bids for privatizing the capital or management of another 4 have been issued and subsidies to the PE sector have declined by 12 percent.

18. *Factor Market Liberalization.* The aim of this component -- to improve the efficiency of factor markets -- was partially achieved. The interest rate structure was liberalized; however, interest rates are not yet fully market determined. More efficient and less discriminatory instruments to manage bank liquidity were introduced (e.g., reserve requirements). The monopoly of the parastatal savings institution, CADEBU, over wage earners' compulsory savings deposits (see paragraph 13) was eliminated. Conditions of employment of foreign labor were liberalized and some fiscal disincentives to employment eliminated. The Government also eliminated the obligation of enterprises to obtain prior approval from the Labor Ministry for any recruitment. Private firms and public enterprises with private capital are now authorized to recruit freely, provided that the person hired is registered with the Ministry of Labor and is a Burundi national. However, dismissal of employees still requires government approval.

19. *Social Program and Poverty Alleviation.* With an annual per capita income of only US $215, Burundi is one of the poorest countries in the world. Yet the negative transitory social effects of the adjustment program on vulnerable groups have been marginal in Burundi, partly because about 90 percent of the population is in the subsistence sector, but also because public social sector spending (health, education) has been protected. Prior to the launching of the adjustment program in 1985, social sector expenditure was 28 percent of total expenditure (excluding debt service). The ratio increased to 33 percent, or 4.4 percent of GDP, by 1991. A first social program was prepared under SAC II; several of its components are being implemented; others, including the poverty monitoring system, are being

redesigned under a proposed IDA-supported social action project, the appraisal of which is expected to take place in June 1992.

D. Central Development Issues

20. *Development Objectives and Constraints.* Burundi's development objectives, as defined in the 1991-94 PFP, are to achieve sustained growth while reducing poverty and increasing the access of the poor to basic social services. As Burundi's Economic and Social Council recognized in December 1990, the country urgently needs to restore former growth levels (5 percent annual average GDP growth in the late 1970s) and encourage labor-intensive production methods as a means of generating employment for the rapidly growing population. The strategy for improving economic growth focusses on the expansion and diversification of the export base through private sector development. Both expansion and diversification are urgently required, since coffee still represents 80 percent of export proceeds, and the coverage of imports by exports was only 49.7 percent in 1989-91.

21. To achieve these objectives, Burundi must overcome formidable physical, social and economic constraints. Physical constraints, such as mountainous terrain, remoteness and a landlocked position, inhibit economic development and elevate marketing and transportation costs. Environmental issues such as declining soil fertility and increasing pollution in Lake Tanganyika also represent constraints to long-term growth. The lack of natural resources reduces opportunities in the secondary sector. The small size of the domestic market and difficulties in accessing regional markets also undermine growth efforts. Social constraints include: (a) rapid population growth (currently 3 percent a year), which puts pressure on the country's infrastructure and environment, and limited supply of arable land; (b) a low adult literacy rate (34 percent); and (c) a small private sector offering limited employment opportunities. Even with accelerated efforts on the policy front, Burundi's development prospects are limited by these constraints, many of which will require considerable time to overcome.

22. In addition to the physical and social constraints cited above, Burundi's past economic growth has been constrained by policies which have given too great a role to the state in the ownership and management of productive assets as well as in the regulation of the economy. This has resulted in an overdimensioned and inefficient public enterprise sector, in a crowding out of the private sector and in inadequate government attention to those sectors -- e.g., health, education and infrastructure -- where the state has a crucial role to play. The setting in place of sound macroeconomic policies has also suffered as Government resources and attention have been spread thin. Against this background, a major thrust of the Bank- and Fund-supported adjustment program has been to help re-direct the Government's attention to those priority activities which it needs to perform better and, since 1991, there is mounting evidence that the authorities have been moving more rapidly to reduce the role of the state in the economy. The operation recommended in this report would reinforce this shift in emphasis.

E. Medium-Term Macroeconomic and Structural Policies

23. To accelerate growth, the Government is deepening Burundi's adjustment process by further modifying the state's economic role, and diversifying the economy through private sector development and export promotion. The basis was laid in SACs I and II and is being consolidated during the proposed next phase. In particular: (a) the Government is completing the liberalization of current account transactions and has introduced a more automatic system of exchange rate adjustments; (b) it is improving public resource management through an increase in the share of expenditure allocated to developmental uses and a shift in the composition of expenditure from directly productive sectors towards social and economic infrastructure; and (c) it is completing tariff reform and price liberalization. The Government is also accelerating PE restructuring, further liberalizing factor markets, and completing the legal and

regulatory reform. It has, at the same time, virtually completed the liberalization of the agricultural sector. In addition, to ensure sustained long-term growth, the Government is developing programs to reduce population growth, prevent further environmental degradation, and alleviate poverty.

24. The key macroeconomic objectives for the 1991-94 period, as revised during the mid-term review of the IMF-supported ESAF program in April 1992, are to: (i) achieve average annual real GDP growth of 4.6 percent (implying real per capita growth); (ii) achieve an average inflation rate of 7 percent; (iii) reduce the external current account deficit from 20.8 percent of GDP in 1990 to 18.7 percent in 1994; and (iv) lower the fiscal deficit (excluding grants) from 13 percent of GDP in 1990 to 6.8 percent in 1994. The surplus on the Government's current operations, which was 3.5 percent of GDP in 1991, is to increase to 5.7 percent in 1994. For 1994, reflecting an assumed steady improvement in the economy, the objectives are, *inter alia*, a GDP growth rate of 4.7 percent and an inflation rate of 5 percent. Similarly, the investment-to-GDP ratio is projected to improve, averaging 19.1 percent in 1992-94 compared to 17.5 percent in 1989-91.

25. Growth prospects will depend on the ability of the country to shift its pattern of development from one based primarily on subsistence agriculture to one with an increasing role for the secondary and services sectors. This would be vital to generating the necessary employment opportunities for the fast growing population in the face of decreasing availability of arable land. In parallel, scarce land would have to be used increasingly for higher-value crops rather than for traditional crops. Should these critical structural transformations take place, then there is scope for sustained real growth of about 5 percent. In the absence of these changes, real growth, which could increase initially through improved efficiency in agriculture, would begin to drop off in the longer-term as demographic pressures rise.

26. *Private Sector Development*. Success will critically depend on the extent to and speed with which the Government can disengage from directly productive sectors and promote private sector development. With this in mind, the Government is pursuing its economic liberalization program and continuing to improve the legal and regulatory framework, while simplifying administrative procedures linked to enterprise creation and the conduct of general business transactions. To facilitate the entry of the private sector into labor-intensive, export-oriented manufacturing and the traditional agro-industries, the Government has agreed to privatize progressively PEs in terms both of management and ownership. PEs with *de facto* monopolies in key agro-industrial sectors (i.e., coffee, cotton, sugar, tea) are being dismantled or put up for sale. Competition in the financial sector is being addressed further by introducing new deposit and lending instruments, promoting the use of commercial paper, and authorizing the establishment of non-bank factoring operations. The Government is revising its overly strict labor code which discourages the use of hired labor and raises costs.

27. *Public Finance Policy*. Public expenditure is still over 25 percent of GDP and public sector investment accounts for 80 percent of total investment. Under the latest PFP, the Government is committed to reducing the share of public expenditure to 22.5 percent of GDP by 1994. This is to be achieved by decreasing current expenditure in real terms (about 4 percent in 1992 and 1993) through a significant reduction in subsidies to public enterprises and in non-developmental expenditures, and a limit on increases in the size of the civil service. Also, capital expenditure will be stabilized in real terms (at around 12.2 percent of GDP) with a focus on improving the quality of investment. The restructuring of public expenditure will give priority to the financing of recurrent costs of already completed projects and social and economic infrastructure instead of the introduction of new capital investments. On the revenue side, exemptions on import duties are being limited to those provided for under international conventions and the investment code. External donors will continue to play a critical role in reinforcing the Government's efforts to rationalize public expenditure, given that they finance all of public sector investment. The level and composition of external assistance is being progressively adapted to the

redefined role of the Government by phasing out support to public investments in productive activities. Donors are supporting rational public expenditure programming more actively. Efforts are underway to apply more systematically project appraisal criteria and develop a harmonized methodology for calculating projects benefits. Continued improvements in donor coordination are essential to the process.

28. *Public Enterprises.* As mentioned before, in January 1991, the Government adopted a comprehensive approach to reforming the sector. All 86 PEs were classified according to whether they are to be rehabilitated, privatized or liquidated, and a detailed timetable was agreed upon with the Bank. To help PEs improve their performance, quarterly ceilings are set on government, domestic bank and external donor financing. The Government has agreed to refrain from influencing prices charged by PEs, with the exception of monopolies that produce non-tradeables, such as the utility companies. For the latter, a review mechanism is being established to ensure that pricing is based on long-run marginal costs of production. The Government has also agreed to a general moratorium on the creation of public enterprises.

29. *Monetary and Credit Polices.* The Government is committed to pursuing a prudent credit policy, limiting access to credit by PEs while allowing sufficient credit for the private sector. The subsidized lending rate for coffee has been eliminated since July 1991. The competitiveness of the treasury certificate auction is being improved by encouraging increased private sector participation in order to obtain a reliable market-determined interest rate. The smallest denomination offered for sale has been reduced to the equivalent of about US$600; the frequency of auctions has been increased to twice a month; and bearer certificates have been introduced which will be easier to trade in a secondary market, once it has been established.

30. *External Sector Policies.* The Government has fully liberalized access to foreign exchange for merchandise trade and associated transportation and insurance costs. An open general licensing (OGL) system for goods, transportation and insurance was introduced on May 1, 1992. Transfers of profits and dividends have been fully liberalized, and restrictions on all other current transactions have been reduced with a view to obtaining full liberalization of the current account by end-1993. A more automatic system for adjusting the exchange rate was introduced in April 1992, as explained in paragraph 74.

31. *Coffee Sector Policies.* Under the IDA-financed coffee project, the Government is progressively opening up the coffee sector to private sector participation. The legal status of the PEs which have heretofore enjoyed a monopoly in the sector has been modified to allow for private sector participation in their capital. To date, about 20 percent of the shares of management companies that operate coffee washing stations has been purchased by the private sector. A new pricing system which will allow for differential pricing according to quality is being progressively introduced. Since October 1991, the purchase of part of the processed coffee crop for export has been conducted through an auction system with private sector involvement.

32. *Debt Management.* Since 1986, the Government has followed IMF and Bank recommendations to borrow only on highly concessional terms. However, outstanding debt increased rapidly as a percentage of GDP, from 45 percent in 1986 to 86.3 percent in 1991, despite the French and Belgian Governments' decision to cancel approximately US $115 million equivalent in debt (or 13 percent of the total stock of debt owed by the Burundi Government). The increase is partly due to the impact of exchange rate devaluations, but also to an acceleration of concessional borrowing. Seventy-four percent of Burundi's debt is owed to multilateral institutions, of which 44 percent is held by IDA. The average terms of new commitments remained favorable during the adjustment period, with an interest rate of 1.3 percent and 39 years maturity, equivalent to a grant element of about 75 percent. However, the debt service ratio rose from 25.6 percent in 1986 to 39.9 percent in 1991, although it is projected to decline

to 31.8 percent by 1996. This counterperformance was also the result of the unexpected drop in coffee prices. Multilateral institutions account for about half of debt service, while IDA accounts for only about 10 percent. In response to the situation, the Government has decided to set stricter ceilings on borrowing, even on concessional terms. Borrowing for technical assistance is expected to be phased out.

33. *External Financing.* According to the latest projections completed in April 1992, the external situation is likely to strengthen only gradually over the program period of 1992-94. World coffee prices are expected to recover slowly from their current levels, the lowest since World War II in real terms. Despite diversification efforts, dependence on coffee exports will remain high in the short-to-medium term due to necessary lags in the introduction of new exports. External assistance levels are projected to remain roughly unchanged over the next three years, and import growth is to be contained to about 3 to 4 percent through tighter demand management policies. Based on expected disbursements from existing and projected commitments, and assuming that the IMF would provide US$42.7 million and IDA US$30 million in balance of payments support as programmed, the financing gap for 1992-94 is projected at US$67.2 million (see Annex II-c). This gap is expected to be financed under the Special Program of Assistance (SPA) for Africa and STABEX, the European Communities-funded commodity stabilization mechanism.

34. *Reducing Population Growth and Preventing Degradation of the Environment.* Population pressures seriously undermine the country's medium-term development prospects. They have implications not only for per capita income growth, but also for the provision of adequate social services and unemployment. The Government is taking specific measures: family planning services are being expanded and their quality improved; an aggressive multi-media information campaign is underway; and incentives to encourage contraceptive use and smaller family size are being studied. Population pressures have also contributed to environmental degradation which is eroding the country's agricultural potential. To maintain Burundi's current favorable food security position, greater investments are required to arrest soil degradation and increase agricultural productivity. Although efforts have been made to reforest substantial tracts of land, and these have yielded positive results, there is still a need to develop regionally-adapted soil fertility management techniques that are voluntarily implemented at the farm level. The Government is developing an Environmental Action Plan supported by UNDP, the Norwegian Fund, and the Bank.

35. *Mounting Effective Programs to Alleviate Poverty.* While poverty is widespread in Burundi, the Government has made major strides to improve the well-being of the population, especially in rural areas. Access of low-income groups to health, education, and potable water has improved substantially during the 1980s, with over 60 percent of the population now living within 5 km of a health facility, primary enrollment rates reaching 70 percent, and a tripling of the percentage of rural population having access to drinking water (from 10 to 34 percent). The Government's attack on poverty is being conducted through: (a) promotion of income-generating activities; and (b) actions targeted at specific issues (e.g., AIDS and protection of the most vulnerable groups). Policy reforms emphasize a pattern of economic growth conducive to the development of labor-intensive production techniques. As agriculture is the most labor-intensive sector of the economy where the majority of the poor work, policies aim at continuing to improve rural-urban terms of trade and promoting increased growth in this sector. Measures are being taken to improve efficiency, effectiveness and targeting of public expenditures for the poor.

F. Bank Assistance Strategy and Priorities

36. *Composition of Past Bank Assistance.* Since 1966, Burundi has received 41 IDA credits for a total of US$ 622 million, and one investment operation from the IFC totaling US$4.8 million (loan and equity investment). IDA lending operations have financed: (a) infrastructure (31.7 percent), including road

maintenance, a reform program in the transport sector, development of a telecommunications network, rural water supply, and urban development; (b) agriculture and rural development (21.3 percent) with special emphasis on farming systems research, improving extension services, and forestry and fisheries development; (c) the structural adjustment program (19.5 percent); (d) human resources development (13.9 percent), especially primary education, preventive health care and family planning; (e) energy (8.0 percent); (f) industry and finance programs (3.0 percent); and (g) technical assistance programs (2.6 percent). The table below summarized past Bank-Group lending to Burundi.

Table 2: Distribution of Lending to Burundi through FY91
(US$ million)

Sector	*Amount*	*Percentage*	*No. of Projects*
Infrastructure	197.4	31.7	14
Agriculture	132.7	21.3	10
Human Resources	85.8	13.9	5
Energy	50.0	8.0	3
Finance and Industry	18.9	3.0	4
Technical Assistance	16.0	2.6	4
Structural Adjustment	121.2	19.5	2
TOTAL	622.0	100.0	42

37. The current portfolio includes 15 IDA credits. IDA lending increased markedly in the FY87-90 period with the approval of two SACs, two major credits for agriculture and substantial support to the health and education sectors. Annual commitments have averaged US$49.4 million for FY89-91. The disbursement rate is above the average for the Africa region and improving. Physical implementation has been satisfactory, and the impact of IDA-financed projects on institution building has been generally positive.

38. *Objectives and Strategy.* In view of Burundi's low per capita income, the Bank's paramount objective in Burundi is to help promote sustained, export-led growth and to reduce poverty. The main priority of the Bank's assistance strategy is to support the Government's effort to complete the unfinished policy reform agenda while addressing longer-term development issues such as poor social conditions, rapid population growth and environmental degradation. More specifically, in its lending and economic and sector work, the Bank is giving priority to:

- *helping reduce in scope the role of the state and rendering government more effective;*

- *expanding and diversifying the export base* through support for private sector development;

- *alleviating poverty* by promoting economic growth, providing a social safety net for the poorest segments of the population and expanding and strengthening social services; and

- *enhancing the sustainability of the development process* by reinforcing the role of women in development, strengthening family planning, improving environmental management, developing appropriate farming techniques, and maintaining economic infrastructure.

39. The proposed strategy for FY93-95 envisages a reduction of Bank lending from the historically high levels of FY87-90. This is appropriate in view of the generous availability of grants, the need to improve burden sharing between multilateral and bilateral donors, Burundi's adequate level of external reserves, and the planned reduction of public investment's share in GDP to allow more room for private sector involvement. Lending will average about two projects a year. The share of quick-disbursing lending -- which came close to 50 percent of new commitments in the late 1980s -- will be phased down. This level will, however, be kept under review to allow the Bank to respond to unexpected events such as successive years of poor agricultural production.

40. In keeping with the Bank's overarching concern with improving living conditions in Burundi, the lending program over the next three fiscal years will focus on the social sectors with 70 percent of expected commitments expected for a proposed social action project and for follow-up operations in the education and health and population sectors. These social projects will, to the extent possible, involve NGOs and will complement Bank-supported efforts to set in place an adequate social safety net for the poor as part of annual public expenditure reviews. About a fifth of anticipated commitments will be environment-related and about 10 percent will be linked to a high priority telecommunications project, which is needed to support private sector development.

41. *Improving the Efficiency of the State.* Reducing the scope and increasing the effectiveness of the state is a major focus of the proposed SAC III. This is to be accomplished primarily through public expenditure programming and divestiture of government assets in PEs. In addition, support for the formulation of sectoral public expenditure programs is being provided in the context of on-going operations. Special emphasis is being placed on the need for the authorities to internalize public expenditure programming and to prepare alternative expenditure scenarios prior to budget discussions. Conditionality for the proposed SAC III and planned sector investment operations will include agreement on a satisfactory PEP. Similarly, the efficiency of PEs will be addressed through the proposed SAC III, complementing the support by existing and planned investment operations. The agribusiness promotion project, scheduled for presentation to the Executive Directors in mid-1992, will provide consulting services in investment banking and corporate law for the conclusion of private management contracts and for the leasing and sale of assets of PEs in the agro-industrial sector.

42. *Private Sector Development and Export Diversification.* In addition to the macroeconomic reforms covered under the proposed SAC III, the Bank is supporting the private sector through actions at the sectoral and firm levels. A private sector development project, approved by the Executive Directors in April 1992, is designed to improve the business environment by supporting further government deregulation, the granting of enterprise-based free zone status on a pilot basis, the expansion of the range of available banking services, the development of legal services to the private sector, and international promotion efforts. An agribusiness promotion project, currently under preparation, would finance services to: (a) make agro-industries more efficient by breaking-up and privatizing PE monopolies; and (b) support the creation and development of small private agro-businesses through "demand-driven" technical assistance at the enterprise level and the promotion of a private investment and management company. The Association, in collaboration with the IFC and the Foreign Investment Advisory Service (FIAS), intends to use its good offices to facilitate contacts between interested Burundi businessmen and foreign investors. The process will be a gradual one since the Burundi private sector is still small and inexperienced. The Government has also expressed interest in joining MIGA.

43. The IFC has played a limited role in Burundi, given the embryonic nature of the private sector. Aside from a small equity participation and loan in a glass bottle manufacturing company, there has been no direct IFC involvement. Initiatives such as the African Enterprise Fund (AEF) and the African Project Development Facility (APDF), for which a number of requests have been made by potential local investors, appear to be more adapted to the small size of potential projects and private enterprises in Burundi. The Corporation will keep the situation under review and would be prepared to become more active if large and medium scale investment proposals with high potential profitability were to materialize.

44. *Poverty Alleviation.* The proposed SAC III would support economic reforms in favor of a wider use of labor-intensive production techniques, particularly in industry, through the elimination of remaining legal, fiscal and regulatory constraints. Proposed follow-up sector operations in education and health would help with the assessment of the poverty impact of expenditures, the development and monitoring of core poverty programs and the implementation of cost recovery for the social sectors. A proposed social action project would promote the collection and analysis of household level data, poverty mapping and periodic monitoring of the poverty situation. The project would also introduce, as a pilot scheme, an innovative approach to employment generation at the community level through: (a) temporary and flexible mechanisms to finance poverty-oriented actions; (b) training for poorer groups by financing apprenticeships and cofinancing selected costs of more formal training; and (c) helping with start-up costs of micro-enterprises. As part of the next Country Economic Memorandum (FY93), the Bank will be undertaking a poverty assessment.

45. *Population, WID and Environment.* To help address the pressing *population* problem, the Bank is intensifying its support for the development and implementation of a comprehensive population strategy under a proposed second health and population project. The project would support nationwide expansion of family planning services through: (a) training of staff; (b) adequate supply of contraceptives; (c) outreach and community-based activities; and (d) intensified monitoring of family planning activities. Under the on-going health and population project and as part of the preparation of the follow-up operation, the Bank is also: (i) supporting a long-term multi-media information program and the development of an incentive framework aimed at encouraging smaller family size; and (ii) encouraging institutional capacity building in demographic analysis and the integration of population issues into critical sectors such as environment, labor, and social infrastructure development.

46. *Women* play a significant role in the social and economic fabric of Burundi. In addition to collecting fuelwood, fetching water, cooking, and caring for children, women are the primary producers of food crops and contribute to cash crop production, livestock rearing and construction work. The Bank's lending strategy includes: (a) enhancement of women's access to health services and ability to choose the size of their family; (b) expansion of girls' access to education (which is already high by Sub-Saharan African standards at about 45 percent); and (c) targeting of women in poverty-oriented micro-projects, particularly in the rural areas. The Bank is already targeting these objectives in the on-going agricultural services and the health and population projects. Women heads of household have been identified as a specific beneficiary group in the proposed agribusiness promotion and social action projects.

47. The *environment* is becoming an increasing concern in Burundi. An Environment Program is being prepared. Its implementation would be supported by a proposed environment and natural resources management project. The project would focus on: (a) soil fertility management techniques at the farm level; (b) land tenure reform; (c) protection of swampy bottom lands, identification of endangered watersheds; (d) forest conservation and agro-forestry; and (e) development of farming systems research incorporating environmental issues.

48. *Capacity Building*. The Burundi Government, in the context of the UNDP sponsored National Technical Cooperation Appraisal exercise, has been assuming a more active role in defining technical assistance requirements. Technical assistance accounts for almost half of external aid flows but its effectiveness has been limited. A database on in-country technical expertise (both local and foreign) should facilitate a more rational and selected use of experts. Donors have agreed to modify the primarily supply-driven approach to technical assistance and to replace progressively long-term foreign technical assistance with regular short-term missions by foreign experts and greater use of local consultants. The Bank is shifting its approach, too, to place emphasis on capacitv building through greater use of local consultants, seminars, workshops and short-term training for the internalization of economic policy reforms.

49. *Economic and Sector Work*. The objectives of the ESW program are to enhance the policy dialogue, provide the analytical underpinnings of the lending program and strengthen aid coordination. A major element of the ESW strategy will be to reinforce coordination with the Government and other donors in order to avoid duplication and to focus on areas where there are serious information gaps. In the 1990-91 period, the Bank and the cofinanciers of SAC II conducted studies on the impact of the adjustment program. Further studies dealing with adjustment and development in Burundi and the supply response to exchange rate adjustment are under preparation. Industrial and agricultural reports focussing on the role of the private sector were completed in 1991. A review of the financial sector is in progress. A Public Expenditure Review was issued in early 1992. Burundi has been selected as a test case for donor collaboration in Public Expenditure Reviews (PER) in the framework of the SPA. Donors have already been closely associated with past PERs; this association will be continued and strengthened. Besides continuing work on structural adjustment and public expenditures, ESW will place greater emphasis on longer-term development issues through work to begin in FY93 on the mining and irrigation sectors and the export diversification and regional integration studies scheduled for FY94 and FY95 respectively. Work on a Country Economic Memorandum emphasizing poverty assessment and alleviation and a decentralized approach to the delivery of basic social services and on a population strategy will begin shortly.

50. *The Country Dialogue and Aid Coordination*. Bank-country relations have been generally good. The focus of the dialogue has been to convince the Government of the need for far reaching reform efforts, particularly in view of the country's formidable physical constraints. A challenge facing the Bank is to support the Government in its efforts to manage the economic reform agenda, while being sensitive to the political implications of the tough reforms underway.

51. Effective donor coordination is *sine qua non* for the successful implementation of the Bank's assistance strategy, particularly with external donors financing 80 percent of investment. In order to implement this approach, a premium will be placed on improving further donor coordination and the ability of the Bank to use its technical expertise to provide the necessary leadership. In fact, there are already tangible signs of improved coordination among donors since 1990 as evidenced by extensive participation of Burundi's major donors in the preparation of SAC III, particularly on streamlining and improving the transparency of the PIP process. In addition to regular donor meetings under the auspices of the UNDP Round Table process and the SPA, the Bank is supporting annual donor consultations before finalizing the PEP. These efforts complement already established regular meetings of an in-country donor economists' group chaired by the Head of the Bank's Resident Mission.

52. *Country Risks*. There are a number of political and economic factors which could cause slippages in the implementation of reforms and hence the capacity of the Bank to pursue its strategy. First, the political situation remains fragile. Renewed ethnic tensions could lead to a destabilization of the current regime. To deal with these tensions, the Government has embarked on an unprecedented power sharing

arrangement between the two main ethnic groups (the Hutus and the Tutsis) and has enacted a constitution which replaces the previous one-party state by a multi-party system. Elections are expected in early 1993. Second, government commitment to economic reform could weaken if there is widespread discontent among segments of the ruling elite. The Tutsi group still dominates the army and PEs and feels threatened by the shifting balance of power stimulated by economic and political reforms. The probability of this type of back-tracking has declined substantially since the reform program has gained momentum and most of the anti-reform elements have lost key ministerial and civil service positions. Third, reductions in public expenditures and the liquidation or privatization of PEs could lead to a temporary unemployment problem and, in turn, to social unrest. The Government has acted promptly to limit this risk by establishing a reconversion program for public sector employees that lose their employment, introducing a fund to cover health and education costs for individuals (and their immediate families) participating in the reconversion program and intensifying programs to assist people looking to start their own businesses. Finally, there are also risks outside of the Government's control such as the possibility of a further decline in world coffee prices, irregular rainfall or political turmoil in neighboring countries.

G. Criteria for Evaluating Progress

53. Progress in implementing the Bank's strategy will be monitored by tracking seven benchmarks. (i) The ratio of investment -- particularly private investment -- to GDP. While the overall investment ratio has generally been satisfactory and is projected to rise to 20 percent of GDP in the next four years, the share of private investment has remained low and should be increased significantly. (ii) Export growth (in particular, non-traditional exports and the ratio of exports to imports). Because of Burundi's heavy dependence on coffee exports, its capacity to cover imports with export earnings has deteriorated. Although there are some promising signs that certain non-traditional exports (e.g., fruits, vegetables, garments) are growing rapidly there is scope -- and an urgent need -- to do much more. (iii) The ratio of domestic savings to GDP (in particular, public sector savings). Domestics savings has been very low, averaging about 2 percent of GDP in the last five years. Beginning in 1991, the Government has made a concerted effort to increase public savings. This effort should be continued and strengthened. (iv) The ratio of security-related expenditure to total public expenditure. This category of expenditure is relatively high but the Government is committed to reducing its share of GDP. (v) The share of GDP allocated to primary health care. While public expenditure for health care has increased significantly since 1986, a large share of resources continue to be allocated to hospitals. Given the government commitment to improve services to the poor, the share of GDP allocated to primary health needs to be increased. (vi) Primary school enrollment rates (in particular of girls). Burundi's performance in this area is quite good. The Government is aiming at a gross enrollment rate of 100 percent by the year 2000. (vii) The contraceptive prevalence rate (CPR). Current use of contraceptives is statistically insignificant. Considerable efforts are needed to promote more widespread use.

H. Summary Assessment

54. Burundi has a limited natural resource endowment. Nevertheless, the country has a favorable climate for agricultural production and, so far, has been able to feed its growing population despite problems of soil erosion and small farm size. On the whole, Burundi has been successful in implementing most of the policy reform measures recommended by the Bank and the IMF, albeit in some cases with delay. The supply response has been limited to date. In order to maintain the momentum in favor of economic reforms, real per capita growth must be accelerated. The focus will be on obtaining an increased supply response to reforms by completing the liberalization process and concentrating on sector and microeconomic issues.

55. The Bank's main objective in Burundi is to promote sustained export-led growth while reducing poverty. Through its policy advice, lending and ESW, the Bank is concentrating on the development of an incentive structure geared to promoting private sector investment, and on reorienting public expenditure away from asset creation in the productive sectors and towards social and economic infrastructure, the development of human capital and the preservation of the environment. The lending program calls for two operations per year on average. The share of quick-disbursing assistance is expected to decline, but with flexibility maintained through sector adjustment operations in case it is needed. The size of IDA lending will be linked to government performance on adjustment and poverty alleviation. Progress will be assessed on the basis of, *inter alia*, the degree to which imports can be covered by exports and on changes in the volume and the composition of public expenditure consistent with a diminishing role of the state in the productive sectors and improvements in social and poverty indicators. Should the authorities backtrack on the agreed policy agenda and poverty alleviation goals, the Bank would drop policy-sensitive operations, and shift to a smaller program focussing on longer-term development issues, e.g., natural resources management and social sector operations.

Part II: Proposed Third Structural Adjustment Credit

56. The proposed SAC III, which is the cornerstone of the Bank's lending strategy in Burundi, will support policy reform in three key areas: a reduction in the role of the state and improved public resource management; easing of macroeconomic policy constraints to private sector development and export diversification and growth; and improved access to, and quality of, basic social services. These reforms are detailed in the Government's Letter of Development Policies and Policy Matrix (Annex I.a and I.b). Reforms to reduce the role of the state and to render it more efficient include: the reduction of the fiscal deficit, while improving the quality of expenditures and shifting their composition in favor of development objectives through systematic preparation of three-year rolling public expenditure programs and continued civil service reform; an increase in developmental expenditure and accelerated restructuring of the public enterprise sector. Private sector development and export diversification are to be promoted through an improvement in the enabling environment, further liberalization of external transactions, agricultural sector liberalization, factor market liberalization, and the pursuit of a prudent fiscal stance to avoid a "crowding out" effect on the private sector. Social sector reforms are to be pursued as an integral part of SAC III through the maintenance of a "safety net" of social expenditure and measures to improve the quality of basic health and education services. SAC III is intended to complement the Government's on-going ESAF program with the IMF. The proposed operation will provide a small portion (about 5 percent) of Burundi's external financing requirements for 1992-94; however, it is a catalyst for mobilizing grant resources equivalent to about 50 percent of quick-disbursing requirements.

57. The design of SAC III takes into account the main lessons learned under SACs I and II. These are: (i) the importance of internalization of policy reforms by the authorities beyond the small circle of officials who negotiated the programs; (ii) the need to have a more simple design focussing on a limited number of critical actions; (iii) the need for close supervision to prevent slippages that may have to be corrected subsequently; (iv) the need for closer coordination with the IMF to ensure that macroeconomic stabilization takes sufficiently into account the economy's supply side and the social safety net requirements; and (v) the critical importance of measures to remove "second generation" constraints to private sector development (i.e., labor regulation and financial sector constraints) in conjunction with macroeconomic policy actions (e.g., exchange rate adjustment, removal of quantitative restrictions and official price controls). On the basis of experience with SACs I and II, SAC III is designed with substantial up-front conditionality, which has been fully implemented.

58. In view of the projected financing requirements, resource transfers under SAC III are back-loaded with a larger second tranche. The Bank has urged cofinanciers to do the same with their projected

contributions. In what is a sign of internalization of the adjustment program, the Government itself prepared a draft Letter of Development Policies and the accompanying matrix of conditionality prior to the appraisal mission. During the appraisal and post-appraisal missions, the Burundi authorities took the lead role in inviting interested cofinanciers, organizing discussions and producing final documents. Finally, during the preparation and appraisal process, both the authorities and the Bank utilized the services of local consultants, thereby contributing to building local capacity in policy analysis.

A. Reducing the Role of the State and Rendering Government More Efficient

59. The Government's objectives are to reduce significantly the public sector deficit, improve the composition and quality of public expenditures and reduce the role of the state in the economy. SAC III would help achieve these goals by supporting: (i) additional improvement in the quality of programming and monitoring of public expenditures; (ii) restructuring of the composition of expenditure; and (iii) restructuring of the PE portfolio.

Programming and Monitoring of Public Expenditures

60. *Past Adjustment Efforts.* A major constraint to restructuring public expenditure has been the weakness of the country's institutional framework. Although budget reform has progressed well, leading to a unified budget (including a breakdown of current and capital expenditures financed domestically and externally) for 1992, public expenditure program (PEP) formulation has lagged due to ineffective technical assistance and the substantial changes required in the way sectoral ministries program their expenditures. Nevertheless, under SAC II, improvements have been recorded each year. For example, the 1989-91 sectoral PEPs had been prepared mainly at the initiative of the Bank without being integrated into the budgetary process. In 1990, some of the financial implications of the 1990-92 PEPs were taken into account in the budget; and the preparation of the 1991-93 and 1992-94 PEPs included greater government participation and the formulation of a procedural manual for use by sector ministries.

61. Under SAC II especially, the quality of investment expenditures has improved. The number of approved projects was limited to those identified in the Government's 1988-92 Fifth Five Year Plan. In response to falling revenues, investment ceilings were adjusted downward, with minimal disruption, primarily by slowing the introduction of new projects rather than reducing financing of on-going projects. Financing from the domestic investment budget has been available in a timely fashion since 1989, with a disbursement rate close to 100%. The sectoral composition of expenditure has also improved with a gradual shift out of relatively large public investment projects in the productive sectors towards smaller investments designed primarily to improve the quality of social services.

62. *SAC III-Supported Reforms.* As part of up-front conditionality, a number of important measures have been taken. Until 1992, budgetary authority had been divided between the Ministry of Plan (for investment) and Ministry of Finance (for current expenditures). Authority is now consolidated under the Ministry of Finance. Satisfactory 1992-94 PEPs covering agriculture, education, health, and transport, and representing about 80 percent of public expenditure, have been completed. These PEPs were reviewed by Bank staff with the participation of representatives of most of the major donors. Coverage will be extended to the rural, energy and mining sectors for the 1993-95 PEP, and technical assistance will be more fully incorporated with support from the UNDP. The PIP presentation is being improved so as to reveal better the breakdown of financing among loans, grants and public savings. In May 1992 the Government established an inter-ministerial commission to supervise the PIP process and ensure application of the criteria agreed upon between the Government, the Bank and other donors for the appraisal and selection of projects (e.g., 10 percent internal rate of return, poverty alleviation, employment generation). The Government also adopted a revised 1992-94 PIP (including PE investments)

which is satisfactory to IDA and created a unit in the Finance Ministry to participate in the PEP process. Following the revision of key macroeconomic objectives in April 1992, the 1992 budget must be adjusted. Adoption of a revised unified budget for 1992 consistent with the approved 1992-94 PEP and satisfactory to IDA is a condition of *effectiveness*. Adoption of a 1993 unified budget consistent with a 1993-95 PEP, as well as a unified budget for 1994 satisfactory to IDA, will be a *second tranche release condition*.

Restructuring the Composition of Public Expenditures

63. *Past Adjustment Efforts*. The Government has managed to avoid accumulating domestic payment arrears, but at the cost of underfinancing investment-related operating costs. Despite Government efforts to protect spending for maintenance, recurrent costs for already completed investments are underfinanced by at least FBu 1 to 1.5 billion per year, or the equivalent of 15 percent of present expenditure on goods and services. The Government has also been facing the following main problems in the civil service: (a) proliferation in the number of agencies and units within ministries; (b) lack of consistency between the structure of government and its primary objectives as stated in sectoral policies and agreed with donors; and (c) lack of an effective system for evaluating performance and linking performance to salary increases. The size of the civil service (about 31,000 at the end of 1991) is less of an issue than the need for internal restructuring.

64. Under SAC II, growth in the civil service wage bill has been contained to 7.5 percent a year despite rapid expansion of recruitment in the education and health sectors. This has been accomplished by compressing further real wages, which have fallen below their 1980 level. The Government has initiated a civil service reform, with technical support from a UNDP-funded project. A competitive examination system for recruiting civil servants has already been introduced, and a census of civil servants has been completed. The Government has begun using national consultants to undertake certain specialized tasks (e.g., accounting, auditing, computer maintenance, studies) on the basis of service contracts and has prepared a satisfactory action plan for civil service reform. The plan calls for limiting annual gross recruitment in the civil service to 1,000 positions, which is equivalent to about 650 in net terms, exclusively for the education and health sectors.

65. *SAC III-Supported Reforms*. The objectives of the reforms are to increase funding of investment-related recurrent costs and to promote the provision of good quality basic services. Measures will focus on four areas: (i) reducing direct and indirect subsidies to PEs; (ii) reducing non-developmental recurrent expenditure; (iii) reallocating the savings to finance investment-related recurrent costs; and (iv) protecting civil service recruitment for the education and health sectors. In May 1992, the Government submitted a satisfactory plan for reducing *subsidies to PEs* from 19.5 percent of total expenditure in 1991 (including arrears) to 7 percent by 1993. The Government's plan also calls for staying within IMF limits for current expenditure, while containing expenditure on wages and salaries and increasing the share of expenditure on goods and services from 23.8 percent of current expenditure in 1991 to 28 percent by 1993. This ratio will reach 30 percent, or FBu 9.7 billion, by 1994. The targets on subsidies to PEs, non-wage current expenditure on goods and services, and civil service recruitment will be monitored as part of a satisfactory unified budgets for 1993 and 1994 which is a condition of *second tranche release*. The problems of civil service efficiency will be addressed through the Bank's review of sectoral public expenditure programs, which themselves are an important part of SAC III conditionality. The number of administrative units will be reduced in 1993, based on more accurate identification of the priority programs in the PEP. Technical assistance provided in the context of an on-going UNDP project is adequate to ensure that this process is implemented within the proposed time frame.

Table 3: Restructuring of Public Expenditure
(percentage of total expenditure, unless otherwise specified)

	1989	*1990*	*1991 Estimated*	*1992 Projected*	*1993 Projected*
Subsidies to PEs (incld. arrears)	25.6	21.6	19.5	8.8	7.0
Wage Bill	23.2	23.6	24.0	23.4	23.4
Non-wage recurrent expenditure	13.8	14.6	11.9	12.8	14.8
(As % of current expenditure)	(29.6)	(27.3)	(23.8)	(25.0)	(28.0)
Expenditure Index (1989 prices)	100.0	105.2	96.7	96.9	94.0
Current Expenditure as % of Revenue	82.7	97.6	79.1	70.8	69.3
Total Expenditure as % of Revenue (excld. grants)	153.0	188.0	158.3	146.5	140.6
Total expenditure (FBu bn)	48.4	54.5	55.6	60.0	60.4

Restructuring the State's Public Enterprise Portfolio

66. *Past Adjustment Efforts.* In 1990, there were 86 PEs in Burundi. PEs accounted for about 80 percent of total exports, and despite Burundi's comparative advantage in abundant and relatively inexpensive labor, PE investments have been highly capital intensive. Returns to capital have also been disappointing. In 1987, with FBu 19 billion in capital subscriptions to PEs, the sector registered net losses of FBu 100 million. Profitability has been eroded, in part, by the fact that at least 75 percent of PE assets have been loan-financed, of which 35 percent with non-concessional, short-term credit.

67. Past SAC reform has focussed on restoring the financial viability of major PEs through the signing of performance contracts following diagnostic studies and audits, with the disappointing results outlined in paragraph 17. All PEs are now classified into four categories: (i) those whose ownership is to be privatized (36); (ii) those expected to remain in the public portfolio (21), of which twelve are to have their management privatized and nine are to be rehabilitated; (iii) those of an administrative nature that are to be reintegrated into the government structure (19); and (iv) those to be liquidated (10).

68. *SAC III-Supported Reforms.* The objectives of the reforms envisaged under SAC III are to enhance competition in key sectors through private sector entry, thus increasing the probability of a strong supply response, and to reduce the financial burden of PEs on the Government's budget. Reforms will focus on: (i) restructuring the PE sector through rehabilitation, privatization or liquidation; and (ii) a moratorium on new investments in PEs targeted for privatization or liquidation. An official circular from the Prime Minister applying a moratorium on new investments for these PEs was signed in May 1992. As part of the unified budget process, investments of PEs receiving direct or indirect subsidies are included in the PIP and require prior approval from the Minister of Finance. The Government no longer extends its guarantee of lending to the PEs, and, subsidies to commercial and industrial enterprises are being eliminated. Upon completion of the PE privatization program set out in the previous paragraph,

at least 55 percent of the Government's current portfolio (in asset terms) is expected to be under private management, an additional 30.5 percent will be entirely privatized, and 14.5 percent will have been liquidated or reintegrated into the administration.

69. Given the scope of the Government's privatization plan and the disappointing performance of the unit piloting PE reform (SCEP) in the past, the authorities have agreed to strengthen it. As a *condition of effectiveness*, the SCEP will be restructured in accordance with agreements reached during negotiations, a mechanism will be established in the Finance Ministry for monitoring the financial status of PEs slated for privatization or liquidation, and the Intervention Fund, created in 1988 and administered by the SCEP to subsidize PEs, will be liquidated.

70. Decrees dissolving PEs equivalent to 4 percent of total assets have been issued. The Government has issued invitations to bid for half of the firms slated for privatization in 1992 and signed private management contracts for half of the firms to be placed under private management. *Prior to effectiveness*, the Government will complete the launching of invitations to bid and signatures of private management contracts (equivalent to 14 percent of PE assets) and agree on a timetable of actions satisfactory to IDA for 26 PEs which have been recently classified. As a *condition of second tranche release*, the Government will privatize the ownership of the equivalent of at least 6 percent of public assets, take further appropriate action on all unsuccessful cases of privatization (e.g., decisions on privatization of management, leasing or liquidation satisfactory to IDA), complete all liquidations, conclude the remaining private management contracts, and complete the bidding process for the rest of the privatization program.

B. Incentives for Private Sector Development

71. Non-industrial private sector activities outside the agricultural sector are found principally in the informal sector, in international trade (where some 350 firms, mostly importers, currently operate) and in a growing but limited service industry. The Burundi Chamber of Commerce is comprised of industrial, agricultural and trade associations, with a total membership of 2,000 businesses and individuals operating in both the formal and the informal sectors. The formal private sector is primarily composed of small and medium-scale enterprises, generating, on average, annual value added of about US$200,000 per enterprise.

72. To promote efficient private sector development and export diversification, the Government has already implemented or will be introducing reforms in seven major areas, of which five would be monitored under SAC III and two are already being monitored under the IMF's ESAF. These measures are: (i) introduction of a more automatic system for adjusting the exchange rate (ESAF); (ii) full current account liberalization and some capital account liberalization (ESAF); (iii) revision of the labor code to promote employment generation through more flexible hiring and firing regulations; (iv) reform of the tax system to improve incentives for private sector investment; (v) adoption of a coherent business law; (vi) completion of the tariff reform to reduce effective protection; and (vii) opening-up of agriculture to greater private sector involvement. A combination of additional macroeconomic reforms under SAC III and sectoral and microeconomic reforms to be pursued under the private sector development and proposed agribusiness promotion projects is expected to create the critical mass needed to stimulate a supply response. Total private sector investment is projected to surpass US$50 million per year within the next two to three years, compared to an average of US$34.4 million in 1986-90.

A Flexible Exchange Rate System

73. *Past Adjustment Efforts.* Regular exchange rate adjustments from 1986 to early 1991 resulted in a nominal effective devaluation of 40.1 percent and a real effective devaluation of about 33 percent vis-à-vis the SDR. Although these adjustments improved the competitiveness of some traditional (hides and skins) and non-traditional exports (e.g., fruits and vegetables, garments, rice), they did not fully reflect the terms of trade loss incurred as a result of a sharp decline in world coffee prices during 1989-90. Exchange rate adjustment has also been linked more to pressure from the Bretton Woods institutions than to the Government's own response to economic and financial developments.

74. *Recent Reforms.* The objective is to obtain an exchange rate system that balances the supply of and demand for foreign exchange and which allows open access to foreign exchange for current account transactions. Consistent with advice given by both Bretton Woods institutions, but formally included in the ESAF program, a system of more automatic exchange rate adjustments was established in April 1992. A decision was also made to devalue by an additional 10 percent as explained in paragraph 14. Under the reform: (i) the Burundi franc has been pegged to a basket of currencies that closely reflects Burundi's pattern of trade, replacing the former peg to the SDR; (ii) the exchange rate is being reviewed daily and adjusted flexibly, based on movements in key financial and economic indicators (e.g., evolution of monetary and credit aggregates, foreign exchange reserves, trends in inflation, trends in nominal and real effective exchange rates, the parallel exchange rate, and international coffee prices); and (iii) all export proceeds are to be surrendered to the commercial banks, which have been accorded more autonomy in holding and managing foreign exchange, including the authority to set their buying and selling rates within the limits established by the central bank. The foreign exchange proceeds from foreign grants and loans to the public sector will continue to be surrendered through the central bank. The central bank's flexibility to modify the exchange rate is enhanced since the basket can also be varied. This provides the same degree of flexibility as a floating arrangement, but does not require major changes in the organization of Burundi's foreign exchange market. The arrangement takes into account the structural imbalance in the payments and receipts of foreign exchange (e.g., while receipts are concentrated in the hands of the public sector, the private sector accounts for about two-thirds of all foreign exchange payments) and the oligopolistic structure of the commercial banking system, which precludes the introduction of an inter-bank market at this juncture.

Current and Capital Account Liberalization

75. *Past Adjustment Efforts.* Access to foreign exchange for transfer of profits and dividends abroad and overseas remittances for foreign workers has been fully liberalized. The limit on automatic remittances of expatriate salaries has been increased to 70 percent with the exception of exporting firms where up to 80 percent of salaries may be remitted. Access to exchange by Burundi citizens for business travel and tourism has also been relaxed.

76. *Recent Reforms.* The objective of the reforms is to liberalize fully current account transactions by end-1993, to encourage direct foreign investment and, in particular, to stimulate foreign interest in privatization of some of the PEs by establishing more transparent and flexible rules for repatriation of capital. Consistent with advice provided by the Bank and the Fund as part of ESAF conditionality, an OGL for goods, transportation and insurance managed by commercial banks was established in May 1992. It is based on full delegation of authority to commercial banks to issue import licenses and provide the necessary foreign exchange. Licensing for export shipments has also been delegated to commercial banks. Limits on other service account transfers are being progressively eliminated. Commercial banks are authorized to trade in foreign currencies, and engage in all commercial foreign exchange transactions. Regulations have been amended to allow for payment of letters of credit with an *ex post* verification of

imports and to allow banks to issue licenses without payment. Responsibility for following-up on compliance with exchange control regulations, by checking the customs documents against import and export licenses, has been delegated to commercial banks.

Labor Market Liberalization

77. *Past Adjustment Efforts.* Past efforts are described in paragraph 18 dealing with the experience under SACs I and II (e.g., liberalization of conditions of employment of foreign labor, authorization for enterprises to recruit freely without government approval). Independently of these operations, the Government authorized the establishment of private placement offices and approved, in January 1992, the creation of a national confederation of labor unions, unattached to any political party.

78. *SAC III-supported Reforms.* The objective of the reforms is to reduce the costs of using labor, thus promoting techniques in the modern sector that more accurately reflect Burundi's comparative advantage in abundant and relatively inexpensive labor. This is to be pursued through a revision of the labor code and related regulations. The Government drafted a new labor code which was reviewed by a Bank mission in February 1992. It incorporates a number of improvements over the existing code: (i) it attempts to deregulate the formal sector while dealing with the informal sector as a means of reducing the disparity between the two; (ii) sets out general principles without attempting to regulate all possible eventualities, leaving room for collective bargaining; and (iii) eliminates many regulations that would discourage employment. However, the draft labor code remains restrictive or unclear in several respects: (a) procedures for dismissing employees are overly complicated and leave too much discretion to the Government, thus opening the way for frequent recourse to an already saturated court system; (b) the definition of temporary employment is too narrow, thus penalizing sectors requiring seasonal labor or piece-work; and (c) non-wage costs implicit in the legislation for social protection of labor are still excessive. The draft provides for partial employer coverage of the costs of health care for employees who are part of a health insurance system, but requires full coverage by employers for employees not affiliated with a medical insurance scheme. This could unduly penalize small- and medium-scale enterprises.

79. The labor code will be revised further to introduce flexibility for non-disciplinary lay-offs and for temporary employment and apprenticeships. Given the time required to reach a consensus among the employers' association and labor unions, adoption of a revised labor code is expected in late 1993. Prior to *second tranche release*, the Government will have: (i) submitted to the national legislature for approval a revised labor code satisfactory to IDA, including replacement of regulations requiring private employers to cover 100% of costs of medical care for employees by a cost sharing arrangement; and (ii) eased regulations on dismissal and eliminated mandatory wages for various professional groups, with the exception of a minimum wage for unskilled labor.

Tax Reform

80. *Past Adjustment Efforts.* Tax reform measures to date have focussed almost exclusively on revenue enhancement rather than on providing incentives for private sector development. The tax code is unclear and ambiguous. Arbitrary application of excessively high tax rates (one of the highest in Africa, 57 percent with a flat 45 percent plus 20 percent dividend tax) is a major complaint registered by the business community, and the situation has deteriorated with increasing pressure to increase tax revenues to reduce the government deficit. Tax administration is weak, particularly regarding verification of tax returns and transaction tax credits. The uneven distribution of the tax burden has also been a constraint to private sector investment, particularly foreign investment. The current tax system favors debt financing over equity financing. In theory, all registered enterprises, including PEs, are subject to the

same tax system. In practice, many locally-owned private and most public enterprises either do not pay taxes or enjoy tax holidays which have been granted on an *ad hoc* basis outside of investment code provisions. The Government is improving tax enforcement for PEs as part of the PE reform process.

81. *SAC III-supported Reforms*. The objective of reforms will be to reduce tax rates sufficiently to eliminate disincentives to production, while improving tax collection to ensure that the impact of reduced rates is revenue-neutral. Tax laws also need to be more transparent so that firms can estimate their tax liabilities and make the necessary provisions. Reforms will focus on: (i) reducing corporate income tax rates while increasing the number of firms that actually pay the tax; (ii) reducing the cascading effect of the current transactions tax while paving the way for the introduction of a full-fledged value-added tax in the medium term; (iii) clarifying regulations (e.g., for depreciation allowances) and increasing the length of time over which losses can be carried over; (iv) harmonizing the provisions of the general tax code with those of the investment code; and (v) authorizing commercial banks to deduct provisioning against bad loans from their earnings, and harmonizing taxation of financial instruments. In addition, personal income tax reform proposals already drafted by the Government will introduce a zero tax bracket for incomes up to the equivalent of US$450 per year, and brackets will be revised to take into account the impact of inflation. Submission to the legislature of a revised general tax code and adoption of other related regulations satisfactory to IDA is a *condition for second tranche release.*

Revision of Legal Framework for Businesses

82. *Past Adjustment Efforts*. Although not part of SAC II conditionality, the Government has moved quickly to simplify the regulatory framework for businesses along the lines recommended by a Bank industrial sector mission in May 1990. In October 1990, procedures for establishing a business were simplified. A law which gave the Ministry of Finance priority creditor status (even on unregistered claims) has been amended to the satisfaction of the banking community. Now tax claims must be registered within a calendar year following bankruptcy in order to receive priority. Limited changes in the legal framework governing PEs to provide for greater management autonomy and to introduce a basis for the Government to collect dividends were made in September 1988. A decree providing the legal basis for the Government's program to privatize PEs was issued in July 1991.

83. *SAC III-supported Reforms*. The objective of the reforms is to facilitate general business activity and provide the means of enforcing business contracts and property rights. The legal framework and many of the existing business laws date from Burundi's pre-independence era. There has also been an accumulation of *ad hoc* legal texts in the absence of any single codified set of legal provisions on business, real estate, fiscal and related matters. While regulatory reform is well underway, a good deal more effort is required in the area of legal reform. The present situation impedes rapid and equitable resolution of disputes. Hence, institutional support and technical assistance for legal reform will be provided by the Bank and other donors. SAC III will support revision in current business laws (specifically the commercial code) in order to: (i) eliminate inconsistencies and loopholes in existing legal texts; (ii) more clearly define the legal status of various types of firms (e.g., corporations, partnerships, limited partnerships); and (iii) simplify and extend (to cover PEs) bankruptcy laws, thus facilitating exit of firms. Submission of a revised commercial code to the legislature which is satisfactory to IDA and includes provisions pertaining to accounting of companies and foreign exchange transactions will be a *condition of second tranche release.*

Completion of Tariff Reform

84. *Past Adjustment Efforts*. Tariff reform, initiated with SAC I and continued under SAC II, has resulted in a reduction in the number of rates, elimination of quantitative restrictions and lowering of

effective protection as explained in paragraph 14. The Government, in an effort to improve tariff administration, has adopted the Harmonized System tariff nomenclature and is introducing a computerized customs administration package (SYDONIA). Efforts are also underway to strengthen tariff collection by granting fewer exemptions.

85. *SAC III-supported Reforms.* The objective of further reform will be to improve tariff administration, and continue to reduce effective protection and anti-export bias. Assuming that the exchange rate is maintained at an appropriate level, a further reduction in the number of exemptions from customs duties and of average tariffs rates would improve the effectiveness of tariffs as an instrument of industrial policy. Under SAC III, the Government would undertake another reduction in the tariff spread. The objective is to cut maximum tariff rates from 40 to 30 percent for non-luxury goods, and from 100 to 70 percent for luxury goods. In order to make the reform revenue-neutral, exemptions will be reduced substantially, and an excise tax will be introduced on certain goods (e.g., alcohol and tobacco). Tariff rates, within broad sectors, are also to be harmonized. As a condition of *second tranche release*, the Government will in accordance with the recommendations of the on-going joint Bank/Fund fiscal study: (i) reduce the custom's tariff spread on non-luxury goods; (ii) reduce the number of goods in the luxury category; and (iii) reduce the tariff on luxury goods, all in a manner satisfactory to IDA. Upon completion of the reform, Burundi will have one of Sub-Saharan Africa's most liberal trade regimes.

Agricultural Sector Liberalization

86. The Government's system, in effect through April 1992, of subsidized inputs and administered prices for traditional export crops, encouraged inefficient use of inputs while discouraging higher and better quality output. Restrictions requiring cotton cultivation in certain areas and prohibiting the uprooting of coffee and tea plants on marginally productive land have promoted inefficient input utilization and poor production incentives. The recent expansion of rice and non-traditional exports underscores the potential gains from liberalizing marketing and production. Agricultural extension and research services need to change their top-down structure to incorporate feedback from users, in particular women, who are largely responsible for agricultural production. This is being supported by the on-going agricultural services project, approved in May 1989.

87. *Past Adjustment Efforts.* Reforms supported under SAC I were aimed at introducing an automatic system for adjusting producer prices for cash crops in order to provide incentives for improving product quality and expanding production. This was not implemented. SAC II included measures to improve efficiency in the coffee sub-sector, reduce subsidies on fertilizers, encourage higher producer prices in agriculture, rehabilitate the sugar complex (SOSUMO), undertake a study of Burundi's comparative advantages, and liberalize the rice sector. Although measures to improve the quality of certain export crops and increase their production (coffee, tea, cotton) were partially successful, progress in improving international marketing arrangements and maintaining competitive producer prices has not been satisfactory. A long-term fertilizer policy was not formulated, but is now being corrected as part of the agricultural services project. Measures to liberalize the rice sector and restructure the sugar complex were implemented.

88. *SAC III-supported Reforms.* Successful liberalization of the agricultural sector is critical to the development of Burundi in the short- to medium-term. Reforms, which were fully implemented as part of up-front conditionality in May 1992, focus on four critical areas: (i) simplification of the regulatory framework for smallholders, including the elimination of government constraints concerning mandatory crops and quantities and types of inputs to be applied; (ii) elimination of government-administered producer prices for traditional export crops and agricultural inputs; (iii) elimination of monopoly rights for PEs for purchasing, marketing and processing agricultural products; (iv) imposition of a moratorium

on all new public sector investment in the tea, rice and palm oil sectors; and (v) establishment of transparent criteria for allocating available public lands and resolving land-ownership disputes.

89. Now that the agricultural sector has been fully liberalized, the producer is in a better position to respond to market signals and improve returns to the use of land. Producers can react to developments in export markets by shifting the pattern of crops they produce, their use of modern inputs and the time spent in maintaining crops. The elimination of monopoly rights of PEs on the purchase, processing and marketing of export crops along with the moratorium on new public investments in these sectors should promote greater competition, open the way for more private sector involvement and improve the bargaining power of producers, thus ensuring them a higher share of the world market price.

C. Social Aspects of the Program

90. General access to health, education and potable water has improved substantially during the 1980s as described in paragraph 35. However, in the education sector higher enrollment rates were achieved by introducing split sessions and increasing class sizes, resulting in deteriorating quality. Similarly, in the health sector a considerable improvement in primary health care infrastructure has not been accompanied by appropriate personnel assignments and recurrent cost allocations. In 1987, the hospital sub-sector absorbed 80 percent of total resources, with only 20 percent available for primary health services. Burundi's social indicators are about average for sub-Saharan Africa (see Table 4). While the level of government expenditure on the social sectors is adequate, there is a need to reorient public expenditures in the social sectors further, specifically towards quality improvements in basic services which benefit the poor.

91. *Past Adjustment Efforts.* SAC II included the formulation of a social action and poverty alleviation program. The program targeted child nutrition, the role of women in development, support for small productive projects, a food security strategy, and the setting-up of a monitoring system for social indicators.

Table 4: Burundi: Comparative Social Indicators

	Burundi	Low Income Economies	Sub-Saharan Africa
Life expectancy in years (1988)	49	54	51
Population/physician (1984)	21,120	13,910	23,850
Population/nursing person (1984)	3,040	3,250	2,460
Daily caloric supply/capita (1986)	2,343	2,226	2,096
Access to safe water			
--% of total population	30	--	36
Primary School Net Enrollment Ratio	46	67	47

92. *SAC III-supported Reforms.* The objective of the reforms is to improve the provision of essential services to the poor through greater cost recovery from high-income users and increased private and NGO participation in the provision of essential services. In addition, SAC III will address the *transitional costs of adjustment* through: (i) a core expenditure program providing a "safety net" for the poor; and (ii) a reconversion program for employees who are laid off in the process of the PE restructuring or civil service reform. The SAC III program will be complemented by a proposed social action project.

Social Safety Net for Low-Income Groups

93. A safety net of social expenditure is to be identified and monitored in the context of the PEPs, concentrating on primary health and education services. To operationalize this concept, major improvements in the public expenditure programming system will be sought beginning with the 1993-95 PEP: (i) a restricted target group will be identified (at present most of the population could be considered poor); (ii) a regional breakdown of expenditure will be introduced; and (iii) expenditure financed from sources other than the central government (e.g., local governments, users, NGOs) will be progressively included. However, given the relatively low institutional capacity in Burundi, fully operationalizing such a system is necessarily a medium-term objective. The Government has initiated the process of strengthening the Statistics Institute (ISTEEBU) and mobilizing technical assistance to put in place a priority household survey. A basic statistical capacity is expected to be in place by September 1992, allowing the authorities to have access to: (i) an initial poverty mapping of the country; and (ii) an assessment of the capacity of various income groups/regions to pay for social services.

94. The Government has already earmarked, in the 1992-94 PEPs for the education and health sectors, priority expenditures for the social safety net. Additional resources will be allocated to the social sectors to ensure that the quality and quantity of basic services for low-income users are not eroded by rapid population growth. As a condition of *second tranche release*, the Government will improve the quality of the social safety net incorporated in the 1993-95 PEP, in a manner satisfactory to IDA.

Formulation of a Financing Strategy for the Social Sectors

95. Government policy in the education sector has changed significantly in recent years. Although priority is still given to primary education, the objective of achieving universal primary education has been postponed from 1992 to 2000 with an intermediate target enrollment rate of 86 percent in 1993. Based on the latest PEP, the share of education in overall current expenditure (excluding interest payments) will rise from 28 percent to about 30 percent, among the highest in sub-Saharan Africa. Cost recovery is a critical issue for the education sector. Equity considerations are being addressed, albeit progressively; secondary school fees were increased by 100 percent in September 1991, although the fee structure is not differentiated according to family income level or the capacity of local government to contribute through its tax revenues.

96. The Government's objectives in the health sector are to give priority to preventive medicine and the expansion of primary health care, particularly in rural areas. The speed with which these objectives can be reached will be a function of resource availability. The share of health in current expenditure (excluding interest payments) is 6.5 percent and is expected to rise to about 7.0 percent by 1993. However, adequate resources will not be available to cover the costs of hiring new medical and paramedical graduates unless cost recovery is increased through the sale of medical insurance cards and by raising the rate schedules for medical and hospital care. Based on 1987 data, users' fees covered only 14 percent of current expenditure in the sector. If insurance cards and payment of users' fees had been made obligatory, approximately three and a half times more revenue would have been mobilized.

97. SAC III will support the formulation and implementation of a comprehensive strategy for financing of services in the education and health sectors. The Bank and the Government have already reached agreement on the general principles of this strategy. As a condition of *second tranche release*, the Government will implement its comprehensive financing strategy in a manner satisfactory to IDA. Specific cost recovery measures will be reviewed annually in the context of on-going sector investment operations and as part of the PEP review process.

Reconversion Program for Redundant Public Sector Employees

98. As part of the preparation of SAC III, the Government has established a program to facilitate the integration of redundant public sector employees into the private sector. One to two thousand public sector employees, or 5 to 10 percent of the modern sector work force (primarily PE employees), could be laid-off over the next two to three years. Based on experience to date, skilled workers are most likely to find employment in the private sector; however, other categories of personnel may require some support to acquire the skills needed in the private sector. The reconversion program is structured around three basic options for individuals: (i) attending subsidized retraining programs at existing training institutions; (ii) creating their own businesses using existing programs targeting small and medium-scale enterprises; or (iii) participating in public works programs. Technical assistance for establishing the reconversion program is available through grant funding from the EDF and the UNDP.

Development of a National Family Planning Policy

99. By the year 2000, Burundi's population is expected to reach 7.3 million, even if an effective family planning program is implemented. If there is a rapid decline in the fertility rate (a fall from 6.8 to 3.1 by 2015), the population growth can be significantly decelerated. The objective is within reach, but priority must be given to operationalizing population objectives through the development of a national family planning policy. The SAC III dialogue has included discussions on how to accelerate awareness of the population constraint.

100. The Government is committed to increasing the contraceptive prevalence rate from 2-3 percent to 10 percent by 1996 and has included this in its Letter of Development Policies. Specific actions for the formulation and implementation of a comprehensive family planning program are being monitored under the Bank-financed health and population project and will be fully integrated into a follow-up Health and Population operation currently under preparation.

Part III: Main Features of the Proposed Credit

A. Credit Amount and Tranching

101. The Borrower will be the Government of the Republic of Burundi. The proposed credit of SDR 22 million will cover about 6 percent of the projected financing requirements during 1992-93. This amount is to serve largely as a catalyst for mobilizing cofinancing on grant terms. Parallel financing is to be provided by Belgium, the European Development Fund (EDF), France, Germany and Japan. The proposed credit amount would be sufficient to close the financing gap in conjunction with resources from the IMF and the cofinanciers under SPA.

102. The proposed credit will be disbursed in two unequal tranches, consistent with Burundi's external financing needs. The first tranche of SDR 8 million will be released upon effectiveness, which is expected in September 1992. The second tranche of SDR 14 million will be disbursed upon the meeting of specific conditions and of satisfactory implementation of the program in general. Second tranche release is expected in December 1993.

B. Management and Monitoring of the Program

103. The program will be implemented by the various agencies involved in the reform process, under the overall responsibility of the Prime Minister. The Ministry of Finance will take a leadership role for

the public resource management component; the Ministry of Commerce and Industry will have primary responsibility for the private sector development component; and the Ministry of Planning will coordinate the implementation of the social aspects of the program and the PIP.

104. A ministerial level Monitoring Committee for the Structural Adjustment Program (MCSAP), chaired by the Prime Minister, has been in place since 1988. The MCSAP is comprised of all the economic ministers, with other ministers being invited as the need may arise. A permanent secretariat to the MCSAP was established in 1988 to coordinate work at the technical level and to provide the secretariat function. The Permanent Secretary reports directly to the Prime Minister. The Government will provide quarterly progress reports to IDA one month after the end of each quarter, starting in October 1992 for the period ending September 1992.

105. The Government's implementation capacity has improved considerably since the beginning of SAC II in 1988; however, implementation still requires close monitoring by Bank staff and continued technical assistance, where possible from local consulting firms. The supervision of the SAC III-supported program will be ensured by regular missions from headquarters and by monthly meetings between the Permanent Secretariat to the MCSAP and the Resident Mission. The Resident Mission will continue to work closely with the Government and the cofinanciers of SAC III to monitor the program's implementation. Bank staff will continue to coordinate closely with IMF staff on the monitoring of implementation of macroeconomic policies and on common areas of interest, especially where the Fund is providing on-going technical assistance, such as the budgetary, tax and exchange rate areas. IDA and other donors, in particular the UNDP, already have technical assistance resources in place to reinforce the Government's economic management capacity. In addition, IDA has allocated resources through a Project Preparation Facility under the private sector development project to support implementation of regulatory and legal reforms.

C. Procurement and Disbursements

106. The credit will reimburse 100 percent of the foreign exchange cost of general imports not contained in the negative list (e.g., excluding luxury goods, military equipment and environmentally hazardous products). The appraisal mission reviewed the laws and decrees pertaining to government procurement and found them to be in accordance with the World Bank's Procurement Guidelines.

107. Imports contracts above US$ 2 million would be procured in accordance with simplified ICB. This threshold is consistent with the anticipated sizes of contracts and the experience of the borrower with Bank procedures. Existing procedures used by the public sector will be acceptable for all procurement below the ICB threshold. A Bank survey of public importers shows that direct contact with a limited number of suppliers occurs mainly on the basis of vendor lists that are reviewed and updated regularly. Discussions with the Chamber of Commerce, the commercial banks and a few private importers indicated that the private sector does follow established commercial practices and, whenever possible, uses competitive bidding or comparative assessment of cost. For amounts between US$250,000 and US$2,000,000, public sector agencies will seek at least three quotations from eligible suppliers with the exception of proprietary equipment, spare parts and standardized equipment for reasons of compatibility. The private sector, with the same exceptions as the public sector, will follow standard commercial practices.

108. The Bank is satisfied with the Government's decision to continue its current contract with the preshipment inspection firm, Société Générale de Surveillance S.A.. Procurement will be coordinated by the central bank of Burundi under arrangements satisfactory to the Bank. The central bank will provide quarterly progress reports on procurement activities to the Bank. Imports shipped before January

1, 1992, as well as contracts below US$ 10,000, would not be eligible for Bank financing. The latter threshold is consistent with satisfactory access by small- and medium-size importers, and would still be manageable to administer. Retroactive financing would be acceptable up to US$6 million (or 20 percent of the total credit amount) for eligible imports paid during the four-month period preceding credit signing.

109. Disbursements for contracts under US$500,000 would be made against statements of expenditures, with the disbursement/procurement documentation retained in the field and made available to auditors. The audit's terms of reference would require the auditor to verify that procurement conforms with procedures outlined in the Credit Agreement. The Government will establish a new special account at the central bank to facilitate disbursements.

D. SAC III Conditionality

Up-Front Action:

110. Much of the key conditionality associated with the program supported by the third SAC has already been implemented. As part of an effort to limit the scope and improve the effectiveness of the role of the state agreement has been reached on the parameters of a revised 1992 budget and on a 1992-94 PEP, both satisfactory to IDA. Agreement has also been reached on a plan for reducing non-developmental expenditures and for increasing spending on goods and services to cover investment-related recurrent costs. Liquidation decrees have been issued for 10 PEs, bids for half of the enterprises slated for privatization in 1992 have been issued; and a moratorium has been declared on all new investments in PEs to be privatized or liquidated. In order to improve incentives for private sector development a more flexible exchange rate system and an OGL have been introduced; transfer of profits and dividends abroad has been fully liberalized; and overseas remittances of foreign workers has been significantly liberalized. In the agricultural sector, the practice of having mandatory crops, government-administered prices for inputs and producer prices for export crops, and monopoly rights of PEs for purchasing, marketing or processing agricultural products have been eliminated. Moreover, criteria for allocating public lands have been established. In the social sectors, expenditures constituting a social safety net have been identified, and agreement has been reached on the general principles of a comprehensive financing strategy for the education and health sectors.

Effectiveness:

111. - In the *public resource management area*: adoption of a revised unified budget for 1992 consistent with the approved 1992-94 PEP, including civil service recruitment ceilings;

- In the *public enterprise reform area*: (i) issuance of invitations to bid for the privatization of the capital of PEs slated for privatization in 1992, signature of private management contracts for PEs representing 14 percent of the Borrower's assets portfolio, and adoption of a timetable satisfactory to IDA for the restructuring of 26 newly classified PEs; and (ii) strengthening of institutional capacity through adoption of a restructuring plan for SCEP, a surveillance mechanism for PEs to be privatized or liquidated, and liquidation of the SCEP's Intervention Fund.

Second Tranche Release:

112. In addition to the specific conditions identified below, second tranche release will be contingent upon satisfactory completion of a general performance review of the program and of Burundi's economic management. The specific conditions for second tranche release are:

- In the *public resource management* area, adoption of: (a) a 1993 unified budget consistent with: (i) a satisfactory 1993-95 PEP; (ii) a 1993 civil service recruitment ceilings of 1000 individuals (in gross terms); (iii) a reduction of direct and indirect subsidies to PEs to 7 percent of total expenditure or FBu 4.2 billion, whichever is lower; and (iv) a social safety net, satisfactory to IDA, which covers priority expenditure for education and health; and (b) adoption of the 1994 unified budget satisfactory to IDA consistent with an increase in non-wage current expenditure for goods and services to 30 percent of current expenditure, or FBu 9.7 billion whichever is higher;

- In the *public enterprise reform* area: (i) completion of all agreed liquidations (equivalent to 3 percent of public assets) and the privatization of the equivalent of at least 6 percent of the state's portfolio (in asset terms); (ii) completion of bidding for the remaining enterprises slated for privatization; and (iii) conclusion of the remaining private management contracts (equivalent to 49 percent of public assets); assets of enterprises for which timetables will be received prior to effectiveness will be added to these amounts;

- In the *regulatory* area: (i) submission to the legislature of a revised labor code satisfactory to IDA, including replacement of regulations requiring private sector employers to provide all of the costs of medical care for employees and their families with a cost-sharing arrangement, and the lifting of excessive constraints on dismissal; (ii) elimination of wage fixing for various professional groups with the exception of a minimum wage for unskilled labor; and (iii) submission to the legislature of a revised commercial code, satisfactory to IDA;

- In the *customs tariff reform* area: (i) reduction in the tariff spread on non-luxury goods; (ii) reduction of the customs tariff on luxury goods; and (iii) revision of the list of luxury goods, all satisfactory to IDA;

- Submission to the legislature of the General Tax Code and adoption of other related regulations, satisfactory to IDA, in order to eliminate existing intersectoral distortions and to promote private sector development;

- Implementation of the financing strategy for education and health (including cost recovery), satisfactory to IDA, including the definition of the respective roles of the Borrower, the non-governmental organizations, the private sector and users in the health and education sectors.

E. Coordination and Cofinancing of the Program

113. Coordination with other donors and the IMF has improved markedly since 1990. As sectoral PEPs improve in quality they should increasingly provide the basis for budgetary targets agreed with the IMF. The Bank is working closely with the IMF to ensure that demand management measures focus on reducing certain types of public consumption while taking fully into account private sector requirements and the social safety net. The Bank is also working closely with IFC's Africa Enterprise Fund (AEF) and the Africa Project Development Facility (APDF) on private sector issues. As explained in paragraph 51 of the strategy section, the Bank has moved to improve its coordination with other donors particularly in connection with the assessment of the impact of SACs I and II and the preparation of SAC III. Much of the technical assistance needed to implement the proposed SAC III is being provided by other donors.

114. The proposed SAC III would be complemented by the IMF's ESAF program. The ESAF arrangement for US$42.7 million (100 percent of quota) was approved by the IMF's Executive Directors in November 1991 and is to be disbursed over a three-year period in the context of separate annual

arrangements. The second semi-annual disbursement of US$11.5 million is expected to be disbursed in June 1992.

115. Since 1986, Burundi's adjustment program has received financing from a large number of bilateral and multilateral donors within the framework of the SPA for Africa. Financing has been provided by Austria, Belgium, Germany, Japan, Saudi Arabia, the United States, the African Development Fund, the European Community and the OPEC Fund. Belgium and France have contributed by providing significant debt relief. Representatives from the African Development Bank, Belgium, Germany, EDF, UNICEF, UNDP and USAID participated in the appraisal of the proposed credit, including the review of public expenditure.

Part IV: Benefits and Risks

116. *Benefits*. The proposed SAC III, along with the already approved private sector development project and the proposed agribusiness promotion and social action projects, is designed to accelerate and deepen reforms to increase exports and reduce distortions in the goods, services and factor markets while providing an adequate social safety net for the poor. By improving the coherence of macro, sectoral and micro reforms, the program is expected to help stimulate a stronger supply response. Institutional reforms will improve public resource allocation and the efficiency of public investments. The removal of the remaining institutional and regulatory constraints to employment creation and an enabling business environment should help to restructure the economy towards private sector development. The reforms proposed for the agricultural sector will increase the farmer's capacity to respond to incentives. A reconversion program for civil servants and redundant PE employees will limit the transitional social costs of the adjustment program, while a "safety net" of social expenditure supported under the SAC III would ensure that vulnerable groups are given greater priority in public expenditure allocation.

117. *Risks*. First, the political situation remains fragile although, as noted in paragraph 52, the Government is addressing this through political reforms and attempts at national reconciliation of the two main ethnic groups. Second, some members of the Government might be tempted to slow the pace of adjustment in the face of social pressure against unpopular measures, or the administrative machinery might resist the liberalization process. However, up-front action under SAC III and the Government's success in redynamizing the program attest to Burundi's commitment to adjustment. In addition, the Government has taken steps to limit the social costs of adjustment as outlined in the previous paragraph. Third, the projections and financing scenario depend on a modest recovery of coffee prices in 1993 which may not materialize. However, the comfortable level of foreign exchange reserves and good prospects for mobilizing additional external financing, if necessary, guarantee that the Government will be able to weather continued low coffee prices, at least in the short run. Finally, factors such as irregular rainfall or turmoil in neighboring countries, leading to a disruption in supply routes, could interfere with efforts to restore higher growth, postponing some of the intended benefits of the program. These factors, however, are outside of the Government's control.

Part V: Recommendation

118. I am satisfied that the proposed credit would comply with the Articles of Agreement of the Association. I recommend that the Executive Directors approve the proposed IDA credit.

Lewis Preston
President

Washington, D.C.
May 12, 1992

Attachments

ANNEXES

GOVERNMENT LETTER OF DEVELOPMENT POLICIES

1. The Government of Burundi has pursued an economic reform program since 1986 designed to restore economic and financial equilibrium and create an environment conducive to sustainable economic growth. It has been supported in these endeavors by the Structural Adjustment Facility (SAF) of the International Monetary Fund (IMF), two structural adjustment credits (SALs) from the World Bank, and financial assistance from other donors.

2. The impetus for reform came from a determination to accelerate economic growth, curb inflation, reduce the disequilibrium in public finances, strengthen the balance of payments, restore flexibility in the economy and achieve equitable resource allocation.

3. In order to reduce the budget deficit, a series of actions were taken to increase resource flows and ensure rational management of expenditures. Fiscal measures included, in particular, reform of the customs tariff, cutbacks in exemptions from customs duties, and strengthening of both the customs and tax services in the interests of combating fraud and expediting revenue collection.

4. With a view to improving public resource management, the Government has improved planning by using public expenditure programs (PEPs), a public investment program (PIP) and unified budgets. Measures were also taken to stabilize the civil service wage bill, and to cut back direct and indirect subsidies to public enterprises (PEs) by instituting programs to rehabilitate PEs of a strategic nature, liquidating non-viable PEs, and by privatization.

5. In order to create an environment conducive to the promotion of economic activities and improvement in the balance of payments, adjustment efforts were focused on the pursuit of flexible policies in the external sector, and in the credit and price sectors. Exchange rate policy consisted of adopting a flexible exchange rate, the gradual loosening of restrictions on the size of exchange transactions and current international transaction payments, and stronger tax incentives to promote exports.

6. To improve credit allocation and mobilize domestic savings, monetary policy was eased by decentralizing credit availability at the commercial bank level, liberalizing interest rates, and introducing a system of treasury bill auctions.

7. Despite these efforts, financial disequilibrium worsened. The economy remained vulnerable to external shocks as the terms of trade deteriorated and efforts to promote exports were unsuccessful due to deep-seated structural problems.

8. Given the persistence of these problems and the national determination to meet the challenge of development, the Burundi authorities have confirmed their commitment to the structural reform program by expanding on the measures taken during the first and second phases, and by adopting new measures to restore macroeconomic equilibrium to ensure sound and balanced growth.

9. The Government is intent on strengthening its adjustment program by drawing on the lessons of the recent past. The policy of national reconciliation has the potential to guarantee a favorable climate for long-term investment and growth. Experience gained in the area of public resource management during the reform period, as well as the readiness of economic agents to participate in formulating strategies and shaping development programs, are additional assets that should be used to greater advantage. The newly strengthened program is expected to improve the ability of the economy to absorb external shocks, stimulate growth, and create the conditions for eventual diversification of the productive base.

10. In the short term, however, there will be no clear progress towards diversification because of the anticipated increase in coffee production stemming from recent large-scale investment in the sector. Still, financial imbalances should become less marked and help assure the relative stability of domestic prices and a tenable balance of payments position over the medium term.

11. As the economy continues to grow, primarily due to agriculture, two factors are expected to limit long-term growth: elevated population density that is among the highest in Africa, and intensive utilization of arable land. The success of the program will depend on the extent and speed of public sector withdrawal from productive activities. The quality of public investments must be improved and the share of private sector in total investment must be increased. This presupposes that the public sector, in addition to transferring certain activities to the private sector, will perform more efficiently in those activities for which it continues to be responsible.

12. Nevertheless, in order to promote a level of overall investment that assures an acceptable level of economic growth, the rate of government withdrawal from productive sectors must be commensurate with the ability of the private sector to assume its responsibilities.

13. The development strategy pursued by the authorities will be to liberalize the economy by enabling farmers to maximize their output in response to market signals, and by providing them with the right kind of support infrastructure. By lessening the preeminence of coffee, this strategy should serve to encourage the diversification of the agricultural sector and the promotion of labor-intensive, high value-added crops (e.g., fruits, vegetables and flowers), as well as products of animal origin.

14. The Government will also encourage industrial production, but success in this sector will depend on promoting private initiative as well as improving Burundi's competitiveness abroad. It is the Government's intention to take full advantage of the increasingly numerous outlets afforded by inter-regional trade, particularly within the East Africa preferential trade zone, and to broaden the range of products the country exports beyond Africa. Beginning in the first year of the program, a concerted effort will be made to reform the exchange and payments system, restructure both the coffee and public enterprise sectors, and revise instruments of monetary policy. Throughout the program period, the Government will pursue prudent demand management strategies and institute policies that promote greater supply response.

15. The key goals of the third phase of the structural adjustment program are to: (i) achieve an annual average real growth of 4% of GDP; (ii) bring down inflation from 9% in 1990 to 4% in 1994; (iii) reduce the balance of payments deficit (excluding official transfers) to 14% in 1994; (iv) increase the surplus on current budget operations from 3.5% of GDP in 1991 to 5% in 1994; (v) gradually reduce the overall budget deficit (excluding grants) from 9% of GDP in 1990 to 6% in 1994.

16. Achievement of these goals will depend fundamentally on reforms in two key areas: public resource management and promotion of the private sector and exports. SAC III will also encourage a public expenditure policy geared to reducing poverty and cushioning the adverse consequences resulting from enterprise reform.

A. Management of Public Resources

17. The country's macroeconomic disequilibrium has been largely due to imbalances in public finances associated with frequent fluctuations in coffee export revenues, increases in public expenditure and inefficient monitoring and administration.

18. As part of its 1991-94 macroeconomic framework program, the Government is committed to gradually reducing the overall budget deficit from 9% of GDP in 1991 to 7.5% in 1992, 6.5% in 1993 and 6% in 1994, as well as to increasing current savings from 3.5% of GDP in 1991 to 5% in 1994. In order to achieve these goals, the Government will pay strict attention to reinforcing revenue collection measures and to following a prudent public expenditure policy.

19. The Government's strategy is to rationalize the management of public resources through better expenditure programming and strict adherence to the principle of a unified budget, to continue its withdrawal from productive activities by restructuring public enterprises and eliminating their subsidies, and to strengthen control over expenditure through civil service reform. In addition, an institutional mechanism in each ministry will be developed to allow both the PIP and PEPs to be incorporated into the budget cycle. Sub-committees will be created in the Ministries of Plan and Finance to coordinate this process.

A.1 Programming and monitoring of public expenditure

20. The Government has adopted new programming and budgeting instruments to clarify its policy on the allocation of public resources (PIP, PEPs, unified budget). The PIP, PEP and TCP (technical cooperation program) are based on a three-year rolling program and are reviewed each year. Beginning with the 1993 budget cycle, the Government will approve the PIP, TCPs and PEPs prior to determining the budgetary envelopes within the context of the Finance Law.

21. The methodology for preparing PEPs calls for resources to be allocated among individual programs. Their formulation will be the responsibility of the sectoral ministries, and their supervision and coordination will be a function of the Ministries of Plan and Finance. This is to ensure that (i) they comply with the guidelines of the Five-Year Social and Economic Development Plan and the Economic Policy Framework Paper; (ii) the coherence between the financial and physical aspects of the unified budget of the preceding year and the preparation of the current year's budget; (iii) the physical and financial elaboration of the PIP-PEP-TCP of the preceding year. In addition to the four sector ministries

(Education, Health, Agriculture, and Transport and Roads) that currently operate under PEPs, the Government will require that the Ministries of Rural Development and of Energy and Mining prepare PEPs for 1993-95.

22. The PIP is an essential component of the PEPs and is an instrument the Government relies on in deciding public capital expenditure priorities. PIP operating expenses and other recurrent costs will be evaluated and incorporated into the unified budget as current expenditure. Recurrent costs, however, will not be incorporated into current expenditure until the PEP process covers all sectors.

23. Incorporation of a project in the PIP will depend on a feasibility study that justifies a potential economic rate of return of at least 10% for economic investments or, in the case of social projects, that it satisfies cost-effectiveness criteria.

24. In addition to these overall eligibility criteria for projects in the PIP, other specific requirements connected with the project cycle and the PIP itself will apply. In this way, third-year projects must conform with Five-Year Plan guidelines and with sectoral policies for which financing is available. All second-year projects, in addition to meeting the criteria for third-year projects, must be backed by a feasibility study, an appraisal report and identification of the sources from which its recurrent costs will be financed, and must be able to command financing on concessional terms. A project will be selected for execution during the first year of the PIP if, besides meeting the criteria for second-year projects, it is also backed by an implementation study and is assured of external and counterpart financing.

25. As far as PIP financing is concerned, the Government will either fund projects with grants or borrow on concessional terms, keeping to a level commensurate with debt-service ratio caps. In addition, the Government will be careful to generate public savings through the general budget to be allocated preferentially to financing public investment projects. Should public savings be insufficient, the domestic financing shortfall will be covered from counterpart funds generated by balance of payments aid.

26. The PIP will be mainly prepared by the Ministry of Plan and will benefit from consultations with sectoral ministries and donors. The Ministry of Plan will issue administrative orders prescribing the selection and appraisal criteria that all PIP projects must meet as a condition for incorporation in the unified budget.

27. The Government will use the project data base as a means of verifying compliance with all eligibility and appraisal criteria on which depends incorporation of projects into the PIP. This tool will be further improved so that it provides a standardized method of evaluating the extent to which any project is consistent with sector policies and strategies.

28. Beginning in 1992, public resources have been allocated under the unified budget. All public expenditure by the central government, together with public enterprise investments financed from subsidies and funds onlent by the Treasury, have been included in a unified budget under the heading of capital expenditure. In addition, all counterpart fund accounts have been clearly identified as central government deposits and placed with the Central Bank. All public expenditure disbursements from these accounts have been reflected in the budget.

29. Prior to preparation of the Government's general budget, the Ministry of Plan will submit the proposed macroeconomic framework to the Government for approval. This framework will be developed by a technical committee chaired by the Ministry of Plan and consist of representatives from the Ministry of Finance and Central Bank.

30. The Ministry of Finance and the Ministry of Plan will be jointly responsible for drafting the annual Finance Law. An inter-ministerial committee will be established to prepare the PIP and the integration of the PEPs, TCPs and PIP into the budgetary process and their annual budgetized tranche into the Finance Law. This budget process will respect a timetable that outlines the sequence of actions to be undertaken from January 1 to December 31 of each year, and which identifies the respective responsibilities of each technical group from the Ministries of Plan and Finance and the Central Bank (BRB).

31. The Minister of Finance will oversee budget execution. The Government will ensure through the unified budget that public savings, prior to the imposition of new and/or higher taxes, are first generated by reducing subsidies to public enterprises, rationalizing resources in the PEPs, administrative reform, cost recovery policies, and reducing the number of import duty exemptions (except for those outlined in Vienna Convention and the investment code). These savings, which will enable the Treasury to pay down its debt to the domestic banking system, will also help finance public investments.

32. Finally, the Government, with World Bank support, proposes to introduce a national accounting framework that will ensure the complete transparency of all financial operations and pave the way for adoption of regulations designed to improve budget execution.

A.2 Restructuring of current expenditure

33. An analysis of the structure of expenditures has revealed a growing imbalance between wage expenditures and current expenditures on goods and services. Given the objectives of the program, the level of expenditures on goods and services will increase its ratio to current expenditure from 24.9% in 1992 to 30% in 1994, equivalent to an increase of FBu 9.7 billion.

34. The Government has decided to improve the structure of expenditures by limiting wage costs and direct and indirect subsidies to public enterprises. This will help increase savings to maintain economic and social infrastructure.

35. In the context of reducing wage expenditures, although the objective is to stabilize the wage bill in real terms within the short term, it will be reviewed following the reform of the civil service.

36. Stabilization of most ministerial manning tables has already been achieved as recruitment is currently limited to replacing only vacant budgeted posts. The policy is to maintain recruitment to approximately 1,000 units per annum overall with preference given to the social ministries.

37. On completion of the current exercise to evaluate the matching of skills with job requirements, the Government will be able to identify civil service staff who should be redeployed or encouraged to find jobs in the private sector. Inducements to leave will be necessary only in cases where the individual

cannot be employed usefully in some other government position. The number of persons affected will be very low, since the civil service in Burundi is not overstaffed.

38. Since 1991 all government workers with regular and fixed-term contracts who have reached retirement age have been invited to leave the civil service. These efforts will be continued in 1992 and 1993 by ensuring that prolongations of service or replacements are allowed only in cases where they are absolutely indispensable to the proper functioning of government departments.

39. The Government has begun a revision of the Civil Service Staff Rules and intends to align them with current policy aims and, in particular, to add legal provisions that will facilitate: (i) improved management of the civil service; (ii) insistence on efficient performance by civil servants; (iii) motivation of civil servants, in particular through better organization of career development channels.

40. In addition, an ongoing UNDP-supported study designed to provide a census of civil servants and descriptions of their job positions will clarify the tasks and skills in the various units of the civil service. The study will also provide a means of determining which functions the authorities could hand over to the private sector, local communities or private entities (for example, NGOs). This would, in turn, reduce other current expenditures, particularly in the form of allowances and transfer payments.

41. Simultaneously, the Government will encourage local communities and NGOs to take on an increasing share of the responsibility for development. As part of this move, it will redouble efforts to recover costs in the health, education and other public sectors.

42. As far as subsidies are concerned, the Government is committed to reducing them by a significant amount and, more particularly, to eliminating direct and indirect subsidies to public enterprises by 8.8% of the total budget in 1992 and to 7% in 1993. Moreover, enterprises to be liquidated will no longer be authorized to obtain new loans or undertake new investment projects.

A.3 Reform of public enterprises

43. Since 1986 the Government has gone to considerable lengths to reform PEs in order to lessen their burden on the budget and to improve their performance. The responsibility of monitoring and supervising this sector was entrusted to SCEP, an agency created in 1986. Its chief task has been to draw up appropriate instruments setting out a clear management and monitoring strategy, the main elements of which are: (i) definition of the sector through classification of PEs by type of activity and legal status; (ii) revision of the framework within which the PEs fit so as to strengthen their autonomy of management and clarify the institutional links between them and the Government; (iii) introduction of a management information system; (iv) formulation of rehabilitation plans and the signing of performance contracts with the principal PEs (OTRACO, REGIDESO, SOSUMO and VERRUNDI); and (v) adoption of a system for external auditing of the financial statements for all PEs.

44. So far, there has been no improvement in the net financial flows from the PEs to the Government: investment returns in the sector remain low, borrowing by the PEs has reached untenable levels, PEs have consistently been granted indirect subsidies, and their tax and arrears have accumulated.

45. The Government's policy towards the PE sector adopted in January 1991 focuses on making it cost-effective. To this end, more far-reaching reforms have been instituted to reduce the Government's role in the productive sectors of the economy by creating conditions that will attract private investors, and to lighten the financial drain on the Treasury created by the PEs. Ceilings on domestic credit to PEs (in which the Government holds over 50% of capital) have been agreed to with the International Monetary Fund, with provision for the issuance of periodic reports. The Government will no longer extend its guarantee to PEs, and a Ministry of Finance circular was issued in February 1991 to all commercial and industrial PEs advising them that indirect government subsidies were virtually eliminated. A study has been carried out to identify strategic or profitable PEs and to allow decisions to be taken regarding their future (rehabilitation, privatization or closing down). The Government has also approved a regulatory and judicial framework for the privatization of PEs, in addition to adopting a Privatization Law and setting up monitoring entities.

46. Based on the findings from the above study, the Government has adopted a detailed action plan to implement PE reform, which includes:

(a) Classification of public enterprises by type of reform. The total assets of PEs slated for reform amount to FBu 130 billion as of December 31 1990. According to the classification, the State will: (i) liquidate ten (10) PEs equivalent to 4% of the State portfolio; (ii) privatize their capital equivalent to 4% of the State portfolio in PEs; (iii) privatize the management of PEs through contracts for management-leasing or other appropriate means equivalent to 55% of the State's capital portfolio of PEs.

(b) An implementation calendar: (i) prior to end-1992: the liquidation of ten (10) PEs, privatization of capital equivalent of 2% of assets; privatization of management equivalent to 12% of assets; an implementation calendar for reforms of PEs newly classified will be adopted prior to August 1992 (Annex II.c); (ii) prior to end-1993: the privatization of capital equivalent to 4% of assets; the privatization of management equivalent to 37% of assets; (iii) prior to end-1994: the privatization of capital equivalent to 8% of assets; the privatization of management of PEs equivalent to 6% of assets. The deadlines outlined in sections (a) and (b) above are the final dates by when final decisions must be made for those enterprises that will not have been privatized.

(c) The privatization strategy for each PE which spells out the shares for nationals and foreigners.

47. PEs earmarked for rehabilitation will be required to enter into performance contracts which will contain provisions for semi-annual evaluations. The Government will continue to eliminate from its portfolio any PEs that are not economically and financially viable. The Government will refrain from creating new PEs except for those approved in the context of the PIP or on-going PE reform efforts.

48. In addition, the Government has recently completed a sector study on Government/PE financial flows and on cross-indebtedness among PEs from which an action plan to reduce PE financial dependence on the Treasury has been formulated. According to the plan, net deficit of State-PE financial flows will be reduced to FBu 5.1 billion in 1992, FBu 4.2 Billion in 1993, and FBu 3.8 billion in 1994, equivalent to 8.8% of total expenditures of the unified budget in 1992, 7% in 1993 and 6% in 1994.

49. PEs remaining in the Government's portfolio will be managed as profit-making concerns. To this end, they will be free to set the prices of the goods and services they produce, and will be entitled to compensation when prices are to be administered and kept below their real level. Requests for compensatory and provisional subsidies will have to be filed with the Government promptly enough to enable it to examine the merits of each case and, where applicable, to include funding in the budgetary cycle. The PEs will be expected to continue investing their cash resources for the highest yield, finance their own investments and meet their obligations to public- or private-sector third parties. In the interests of sound management, the Government will require PEs remaining in its portfolio to follow private-sector management methods.

50. In addition, the Government will set limits on both direct and indirect subsidies to the PEs. In this regard, all import duty exemptions were abolished in April 1991. In order to ensure rational investment decisions, those PEs in which the Government holds over 50% of capital will be required to submit their investment plans to the Ministry of Finance for approval. Moreover, they will not be authorized to invest in other PEs earmarked for privatization or to take up equity holdings in public- or private-sector enterprises regardless of whether these are already in operation or to be created.

B. Supply Response

51. The economic reforms for enterprises are expected to boost economic productivity with a view to achieving average growth of 4% during the program period and maintaining inflation at moderate levels. The attainment of these objectives will be supported by the establishment of an environment that encourages entrepreneurship, competition, savings and investment. The Government will seek to eliminate distortions and constraints that interfere with the normal interplay of market forces, to strengthen incentives for exports and investments, and to improve institutional capacity for providing support and advisory services of the private sector.

B.1 Commercial and industrial policy

52. The reforms in this sector will be centered on eliminating regulatory bottlenecks and improving bureaucratic incentives with a view to making the economy more dynamic and competitive.

53. The Government has undertaken a review of the investment code with the goal of achieving automatic and transparent access to the recommended benefits and the investment code's utilization as a true marketing tool.

54. The Government also plans to review the overall commercial and business code to create an environment conducive to private initiative. This reform, in the context of a review of current legislation, will seek to conceive new statutes in areas where a lack of legislation has been identified, and will seek to simplify administrative procedures. To this end, reform and modernization of the Commercial Code in the scope of private sector reform will be considered a priority.

55. In order to make Burundi exports more competitive, the Government is committed to liberalizing trade and exchange controls. To that end, administrative procedures that still hamper the establishment of new businesses will be made less cumbersome.

56. In addition, the Government plans to completely liberalize foreign commerce with the adoption in May 1992 of an OGL. At the same time, the Central Bank will surrender its duties in this matter to commercial banks.

57. With the assistance of the IMF, an appropriate legal and regulatory framework for the management of a less centralized exchange system will be put into place.

58. In tandem with the liberalization of foreign trade, a new system of exchange rate management by the BRB was implemented in April 1992. The FBu, no longer tied to the SDR, is now tied to a basket of foreign currencies which better reflect the composition of Burundi's international trade. Furthermore, commercial banks have been authorized to establish their domestic exchange rates within a spread determined by the BRB and to carry out exchange transactions for their own account or for clients. These reforms will be supported by the adoption of appropriate pricing policies aimed at the optimal allocation and utilization of resources. The Government will completely abolish price controls, with the exception of those affecting monopolies, which will be administered by tripartite commissions, economic agents, government agencies and consumers. Electricity, water and mass transportation rates were revised upwards to enable PEs in those sectors to recover all costs and thereby improve their financial situation. As regards agricultural prices, the objective is to continue liberalization. A floor price will be put into effect for coffee, cotton and tea, since for all other products' prices are fully deregulated.

59. Moreover, the Government is planning to improve taxation to make it more likely to improve economic productivity. In this respect, tax reforms will be introduced with the joint support of the IMF and the World Bank, and the results will permit the reduction of the customs tariff spread for non-luxury products to a minimum of 5% and a maximum of 30%, and to reduce to a maximum of 70% the tariff for luxury products. A review of the list of this last group will also be made.

60. In the meantime, the Government adopted a policy of eliminating exemptions from import duties except for those stipulated in the investment code. It also made the administrative procedures for drawbacks and the preferential system of taxation for export benefits more operational and flexible.

61. Lastly, to improve the institutional capacity to support private sector development, the Government will assist the CCIB and the APEE in seeking technical and financial assistance from donors for carrying out its task. Measures will be taken to strengthen training in management, technology and industrial maintenance. The program has already been formulated for industrial maintenance, and the need for expertise in industrial management training will be identified in 1992. These measures will receive support from the private sector technical assistance project.

62. Additional measures will be taken to encourage the emergence of a dynamic and competitive manufacturing sector, including: (i) the development of serviced industrial lots for small and medium industry; (ii) establishment of "free trade" status for enterprises oriented totally or primarily toward exports.

B.2 Agricultural policy

63. Because the agriculture sector is the keystone of Burundi's economy, it will receive special attention. The Government will establish structures and mechanisms to: (i) increase production of the

main crops, in particular food crops, to improve the diet of the population; (ii) increase the productivity of cash crops, particularly through the deregulation of prices and privatization of management; (iii) promote greater diversification and increase production of exportables. At the cash crop level, a series of measures will be introduced to increase their rate of growth during the program.

64. Because of their importance to the food production sector, special attention will be given to the following programs: (i) understanding and implementing of erosion-control techniques to stop soil degradation and protect the work already done; (ii) rational use of fertilizers and selected seed; (iii) increase research financing and focusing it on research and development; (iv) promotion of appropriate rural extension methods; (v) formulation and updating of agricultural statistics and strengthening of the "Food Information Rapid Alert and Management System."

65. As regards production and seed, an appropriate strategy for the production and distribution of selected seed will continue in accordance with the national seed plan adopted in 1988. In regards to fertilization during the program, the Government will carry out applied research on the types of lime enrichment appropriate for agricultural usage. Likewise, appropriate handling techniques will be researched and made known to the private sector. In addition, the marketing and pricing of fertilizers has been totally deregulated.

66. With a view to improving competitiveness and the return on cash crops, the Government will introduce a price policy that responds to market forces and have agents in the private sector manage the entire cycle, in particular, processing and marketing. For its part, the Government will concentrate on providing advisory assistance and conducting research, including rural extension, regulation and quality control. This action has already begun for the coffee sector and will be gradually expanded to tea, cotton and vegetable oils.

67. As regards stockraising, the Government will make greater headway in the gradual privatization of state farms. This action is under way and will continue throughout the program. Wherever possible, a budget line will be allocated to stockraising under the projects. The integration of farming and stockraising will remain a priority. The Government will consequently eliminate by June 1992 disparities in customs and tax rates between inputs for agriculture and stockraising and between the private and public sectors.

68. Cropping techniques that conserve water and protect the soil will be improved, and legislative and land tenure constraints will be studied. In addition, means for improving cooperation between the Ministry of Agriculture and Stockraising and the Ministry of Development, Tourism and the Environment will be determined and put into practice for the design and implementation of programs in the field.

69. As regards research, closely linked programs will be coordinated. In supplementing those programs, network-based research, such as that used for small livestock, will be encouraged. Efficient mechanisms for cooperation with farmer/stockraisers and rural extension personnel will be developed by improving research workshops. Research will focus on animal breeds best adapted to more intensive exploitation systems, and the integration of stockraising activities and protection of soil fertility.

70. The allocation of resources among the various research programs will be improved. The funds will come from both the Government and foreign donors, including mixed and private companies.

71. With a view to further improving the performance of agricultural production, a private collection and distribution network will be organized to facilitate trade. Animal traction will be introduced in rural areas as an efficient means of transporting products to the main roads.

72. Lastly, the Government will develop and disseminate through rural extensions appropriate means of processing and conservation so as to avoid post-harvest losses and shortages. This action will be carried out through development projects and agricultural extension services in the rural areas with the support of the National Food Technology Center.

73. As regards the regulatory framework, the Government plans to analyze the following measures during the program: (i) new means of cost recovery for *paysannat* land development relative to the level of intensification realized by the farmer; (ii) establishment of other environmental protection regulations; (iii) policy for leasing state-owned land, which could be based on the development potential of the land in question; and (iv) involvement in promoting producer associations with a view to increasing their negotiating power vis-à-vis the suppliers of production inputs or purchasers of their products and providing their members with the services they need.

B.3 Employment policy

74. In seeking to match employment supply to demand and to stimulate the creation of new jobs, the Government will introduce strategies that reconcile the gradual hiring of available manpower and the establishment of a legislative environment suited to the country's socioeconomic development. To that end, current revisions to the Labor Code will seek to: lighten non-wage costs shouldered by companies, make administrative procedures more flexible, deregulate recruitment and bring about broad involvement in the formulation of working conditions through collective bargaining. The new Labor Code should be finished in the second quarter of 1992.

75. Specific actions have already been envisaged and include: (i) liberalization of employment conditions for expatriate manpower. The Government will replace the double work authorization permit required for foreign residents in Burundi with a simple work permit; (ii) a feasibility study for the establishment of a private health insurance system with a view to having employees contribute to social costs beginning in 1992.

76. Furthermore, the Government will establish an institutional framework to promote employment in the business sector. In this respect, private placement companies that match up job seekers with employers has been authorized since November 1991. The Government will introduce additional measures to identify and eliminate all legislative and regulatory constraints on the ability of investors to create and promote employment.

77. The Government will further develop with the assistance of various economic sectors a strategy for promoting and implementing employment programs in both the modern and informal sectors. In this regard, the Government will implement measures likely to: (i) promote labor-intensive investments (road maintenance, construction of public buildings with local materials, etc.); (ii) foster the structuring of the informal sector by focusing on young school dropouts and women; (iii) promote the mobility of workers among various economic sectors.

78. Lastly, an effective vocational training policy will be formulated with a view to adapting curricula to the needs of the marketplace and focusing teaching methods on encouraging private initiative.

B.4 Money and credit policy

79. In order to bring about a more effective supply response, the Government will implement monetary policies capable of stimulating savings and investment, and containing inflation and pressure on the balance of payments.

80. In order to attain these objectives, the Government has established several measures since July 1991: a system for indirect control of credit based on reserve requirements; an improvement in the rediscount rate; and unification of the refinancing rate since May 1991, which is adjusted for changes in Treasury bill rates and other macroeconomic indicators. Similarly, automatic recourse to refinancing from commercial banks has been eliminated and the amount of refinancing will be determined based on monetary growth targets.

81. In order to safeguard healthy competition between banks, the Government has prohibited the concerted setting of lending terms by credit institutions.

82. The market for Treasury bills is a principal instrument for managing liquidity in the economy. Since July, the Government has sought to continue increasing their efficiency and heighten their role in monetary policy. The minimum amount of each subscription was reduced from FBu 100,000 as of July 1991 in order to increase the number of participants. Likewise, as of January 1992, the Government began issuing bearer Treasury bills and increased the frequency of auctions to twice a month, and these are sold with rebates. Furthermore, in the effort to create an active secondary money market, the authorities have identified four financial institutions to act as primary go-betweens.

83. Looking to organize an active money market, the Central Bank will seek to develop a secondary market in which it will act as intermediary between financial institutions with excess liquidity and those in need of liquidity, with participants freely responding to quantity and interest rates.

84. Lastly, with the assistance of donors, the Government will undertake financial reforms to better determine monetary and credit policy and to improve the institutional framework, particularly in terms of oversight procedures and bank supervision.

C. Social Dimensions of Structural Adjustment

85. The structural adjustment program also includes actions designed to involve all segments of the population in the development effort and to offset any adverse effects that may arise from the macroeconomic reforms.

86. During the SAC III program, the Government's concern as regards the social dimensions of structural adjustment will be centered primarily around the following three issues: (i) vocational retraining; (ii) studies and surveys; (iii) financing for the education and health sectors.

87. The vocational retraining program will be targeted towards employees of public and parapublic enterprises, government workers who are and/or will be affected by the reforms adopted under the program, and young graduates in search of their first job.

88. To implement the process, certain actions have been taken since the beginning of 1992: the creation of a retraining unit, implementation of an institutional program (specifically, a retraining and supervisory unit), and an evaluation and search for required financing. The program will focus on: (i) an improved diagnostic component regarding human resources in all audits of those enterprises to be reorganized; (ii) the elimination of taxation on termination allowances (15%); (iii) the establishment of a system whereby those laid off would receive social services pending their retraining; (iv) implementation of an information system designed to track the existence and the progress of the retraining program.

89. The objective of the "studies and surveys" program will be to identify vulnerable groups and their indicators, as well as appropriate ways of improving the monitoring of those adversely affected by the structural adjustment program.

90. The main indicators will involve the following: (i) employment statistics; (ii) household income and expenditure; (iii) health and nutrition statistics; (iv) education statistics; (v) statistics on type of housing and related infrastructure; (vi) agricultural statistics (including those for agricultural enterprises).

91. To carry out the program, the Government has already enacted the following actions: (i) strengthened ISTEEBU's ability to analyze and process data from the budget and consumption surveys of 1986-91; and (ii) establishment of a system for targeting vulnerable groups based on existing data for the various sectors. Furthermore, the Government plans to enact the following complementary actions: (i) establishment of a permanent system for collecting and processing data on household living conditions to make up for gaps in information and as an aid in constructing macroeconomic and socioeconomic indicators; and (ii) establishment of a studies fund to strengthen the capacity of social sectors in analyzing statistics.

92. The studies and surveys program will be designed primarily to assist the Government in formulating an effective strategy for financing social services, particularly the education and health sectors. The strategy will seek to redefine the role of Government and other parties involved in financing education and health services.

93. The Government has already identified the main policies that will allow a financing strategy in these sectors to be implemented. In the area of basic education, the goal is to achieve universal education by the year 2000 by increasing the average number of students per classroom. Improving the quality of education will be achieved by better training of teachers and through school inspections, and by access to textbooks. Primary education will remain the responsibility of the State, although the participation of non-governmental organizations, religious organizations and the private sector will be encouraged. Local units will have primary responsibility for the construction and maintenance of schools.

94. Similar to efforts at the primary level, efforts will be made to improve secondary education and attendance levels. The main elements of the strategy are: (i) the gradual decentralizing of financing

beginning in 1992 from community day schools to public boarding schools; and (ii) encouraging greater community and user participation.

95. Similarly, the quality of education will be achieved by increasing the availability of textbooks. When available resources are deemed insufficient, recourse to foreign assistance will be considered. Given that private sector involvement at the secondary level is increasing, a review system will be required to ensure that the quality of education remains adequate.

96. Policies to develop educational opportunities at the informal and technical level will need to be elaborated in close collaboration with the business sector.

97. At the superior level, the goals are to improve the quality of education by matching the growth of students to the needs of the market and the capacities of schools. A commission has been created to study the transition from secondary to superior level and the disbursement of new grants. Efforts to reduce the costs of superior education by national means will be pursued.

98. An analysis of financing costs in the health sector reveal three major problems: (i) the increasing need of financing for basic operations; (ii) inequitable allocation of public resources for primary health care compared to other health services; and (iii) inefficiency of programming, budgetization and follow-up of public expenditures in the sector. The Government has taken the decision to tackle these problems that could, unless rectified, lead to increasing deterioration of the quality and coverage of health services.

99. The Government, in collaboration with international agencies that help finance the sector, will elaborate a strategy to improve the quality and quantity of health services, of which the two main goals are: (i) increasing self-management of health centers, beginning with the hospital sector; and (ii) decentralizing administrative services now under the Ministry of Health. Two results are expected from the first approach: greater efficiency in health centers due to private management, and the hope that the public health ministry (MSP) will devote more resources to priority public health programs, provide basic medicines to health centers and referral services, and personnel training and review. The second goal seeks to decentralize the administration of the MSP, adapting it to the needs of primary health care, and to specialize the role of the MSP in areas of policy and planning. To ensure the success of the reform, it is crucial that the sector's programming and financing strategies adapt to the new sectoral approaches.

C.1 Population

100. The Government of Burundi and the Economic and Social Council (CES), set up in March 1990, have acknowledged that the problem of rapid population growth was a national priority second only to national unity. Indeed, the annual population growth rate (3 percent) could jeopardize efforts undertaken by the Government in favor of the country's economic and social development. Faced with this situation, the Government has clearly identified birth control as the main solution to Burundi's population problem. In order to institute a successful birth control program, the Government has recently decided to create a National Population Commission (CONAPO) made up of representatives from the country's different socio-economic sectors, and an Inter-Ministerial Technical Group on Population (GTIP). The council's main tasks will be to develop and implement a national population policy. The Population and Planification Unit (UPP) will be the technical secretariat of the Commission, with the latter directly

attached to the Office of the Prime Minister. The GTIP will be made up of technicians from different ministries and will serve as technical adviser to the UPP. The UPP's role will be to coordinate and assess population strategy within the scope of the country's socio-economic planning. Terms of references are currently being reviewed and a decree establishing the existence of these structures will be promulgated shortly. These organizations, particularly the UPP, will establish a national population policy prior to end-1992 and will help ensure that demographic variables are introduced in sectoral development plans.

101. The Government has also set up a Bureau of Coordination for the Family Planning Program (BCPF) within the Ministry of Health, which has recently drawn up a medium-term family planning action plan (1992-1996) to become operational in late 1992.

102. Finally, the Government will undertake an analysis of the factors affecting family size in Burundi. The conclusions of this study will help identify, within the context of population policy, programs that will in the long term reduce fertility in Burundi. It is obvious that individual liberty and respect for human rights will be the two fundamental principles that guide such programs.

103. It is projected that modern contraceptive methods will be employed by 10 percent of potential users by the end of 1996 (as opposed to 2 to 3 percent currently in use). The Government will guarantee that national resources are available for the operation of these new institutions. The Government will also mobilize the support of donors to ensure the success of its national family planning program.

BURUNDI: Structural Adjustment Credit Policy Matrix

Reform Area and Objectives	*Past Adjustment Effort*	*SAC III Action Program*	*Monitorable Actions and Schedule*
I. *PUBLIC RESOURCE MANAGEMENT* Rationalization of expenditure and fiscal adjustment. 1. *Programming and Monitoring of Public Expenditures.*	Two partially unified budgets prepared for 1990 and 1991 consistent with PEPs on agriculture, health and transport. Preparation of PEPs for agriculture, education, health, and transport in 1989, 1990, 1991 and 1992. Preparation of 3-year rolling PIP since 1988. Integration of all PE investments in the PIP. Collective management of all donors' counterpart funds by the Central Bank.	Institutionalize donor consultations prior to finalization of the PIP. Preparation of a final consolidated 1992-94 PIP. Creation of a unit in the Ministry of Finance charged with financial programming and monitoring of the budget process. Adoption of a revised unified budget for 1992. Adoption of a unified budget for 1993, consistent with the (1993-95) public expenditure program, including civil service recruitment ceilings. Reduction of direct and indirect subsidies to PEs from 8.8% to 7% Adoption of the 1994 unified budget consistent with an increase in non-wage current expenditure on goods and services to 30 percent of current expenditure or FBu 9.7 billion, whichever is higher.	April 1992 May 1992 May 1992 August 1992 January 1993 December 1993
2. *Restructuring of Public Expenditures.*	Agreement on an action plan for civil service reform. Adoption of a transparent selection system for recruitment in civil service. Agreement on limitation of civil service recruitment to 1000 in gross terms for 1992 and 1993.	Plan for reducing direct and indirect subsidies to PEs to 7% of total expenditures and increase funding of non-wage current expenditures to 28% of total expenditures by 1993 and 30% in 1994. Financing of the social "safety net" to cover priority expenditures in the education and health sectors in the 1993-95 PEP.	May 1992 January 1993

BURUNDI: Structural Adjustment Credit Policy Matrix

Reform Area and Objectives	*Past Adjustment Effort*	*SAC III Action Program*	*Monitorable Actions and Schedule*
3. ***Public Enterprise Reform.***			
Reduce fiscal burden of PEs and the role of the state in the productive sectors to enhance economic efficiency through competition.	Creation of the service in charge of public enterprises (SCEP). Decree on the legal framework for PEs. Completion of the study on cross-debts. Privatization of four agro-industries.	Signature of liquidation decrees for 6 PEs: CADEBU, OCIBU, OPHAVET, ONAMA, FERME DE KARUZI, and CDL KIRYAMA.	May 1992
	Privatization of 4 agro-industries.	Signature of the Circular Letter applying a moratorium on new investments in non-financial PEs to be privatized.	May 1992
	Closure of 7 enterprises. Agreement on a privatization program. Signature of performance contracts for OTRACO, VERRUNDI, REGIDESO, SOSUMO.	Issue invitations to bids for the privatization of the capital of all PEs slated for privatization in 1992 and signature of private management contracts for those PEs whose management is slated to be privatized in 1992 equivalent to 14% of assets in the state's portfolio. Timetable for reform of the 26 PEs recently classified.	August 1992
	Establishment of technical valuation committees for PEs slated for privatization in 1992 equivalent to 4% of assets in the state's portfolio. Issuance of liquidation decrees and establishment of liquidation commissions for the remaining 10 PEs to be liquidated.	Restructuring of SCEP and putting in place of the Monitoring Mechanism for those PEs to be privatized or liquidated. Finalization of the liquidation of SCEP's Intervention Fund.	August 1992
		Completion of all liquidations.	December 1993
	Classification of 26 enterprises currently non-classified.	Completion of the privatization of the equivalent of 6% of the state's portfolio (in asset terms) for those PEs whose capital will be privatized and the equivalent of 49% of the state's portfolio for those PEs whose management will be privatized. Taking of government decisions regarding the next steps for unsuccessful cases of PE privatization (e.g., restructuring, liquidation, private management or leasing). Completion of bidding for the rest of the privatization program.	December 1993

BURUNDI: Structural Adjustment Credit Policy Matrix

Reform Area and Objectives	*Past Adjustment Effort*	*SAC III Action Program*	*Monitorable Actions and Schedule*
II. *INCENTIVES FOR PRIVATE SECTOR DEVELOPMENT*			
1. *Exchange Rate System*	Regular exchange rate adjustments through February 1990.	Introduction of a more flexible exchange rate system based on monitoring of key indicators.	April 1992 (ESAF)
2. *Current Account and Some Capital Account Liberalization*	Full liberalization of transfers for repatriation of profits, dividends and 50 percent of salaries of foreign workers.	Introduction of an OGL for goods, transportation and insurance.	May 1992 (ESAF)
	Decentralization of export and import licensing to commercial banks.	Replacement of export licensing by export declarations.	May 1992 (ESAF)
	Unlimited transfers of dividends abroad for exporting firms.	Revised rules for repatriation of capital.	May 1992 (ESAF)
	Clarification of rules for businessmen travelling abroad.		

BURUNDI: Structural Adjustment Credit Policy Matrix

Reform Area and Objectives	Past Adjustment Effort	SAC III Action Program	Monitorable Actions and Schedule
3. *Labor Market.* Introduce flexibility in the market to foster employment generation.	Removal of progressive tax on labor. Relaxation of regulations on street vendors in cities. Liberalization of the recruiting system (*elimination of the need for prior approval from the Manpower Department*). Revision of the law on foreign workers. Opportunity offered to private employers to establish, if they so choose, a private health insurance scheme for their employees involving employee contributions.	Submission to the legislature of a draft revised labor code, including the elimination of regulations requiring employers to provide 100% of costs of medical care for their employees and the lifting of constraints on dismissal. Elimination of the practice of mandatory wage fixing for various professional categories with the exception of a minimum wage for unskilled labor.	December 1993 December 1993
4. *Tax Reform.* Reducing the distortions to private sector development implicit in the income tax.		Submission to the legislature of a draft revision of the General Tax Code and adoption of other regulations to eliminate existing intersectoral distortions and to promote private sector development.	December 1993
5. *Legal Framework.* Rationalize and simplify the legal business environment.		Presentation to the legislature of a draft revised commercial code.	December 1993
6. *Tariff Reform.* Reduce the effective rate of protection.	Replacement of all quantitative restrictions by tariffs. Reduction in number of tariffs from 57 to 5. Reduction of the spread to 15-40% except for luxury products (100%)	The customs tariff spread is to be reduced to a maximum of 30% and a minimum of 5%. Setting of a maximum custom tariff of 70% on luxury goods and revision of the list of luxury goods in light of the results of a joint World Bank/IMF study of the fiscal system which will include simulations of the impact on receipts.	December 1993

BURUNDI: Structural Adjustment Credit Policy Matrix

Reform Area and Objectives	*Past Adjustment Effort*	*SAC III Action Program*	*Monitorable Actions and Schedule*
7. Agricultural Sector.			
Liberalize sector in order to stimulate production according to comparative advantages.	Rationalize SOSUMO management and production system.	Circular letter confirming the contractual and voluntary character of cotton farming for smallholders.	May 1992
	Reduction of the humidity content for fully washed coffee.	Circular letter specifying the modalities of the reconversion of tea and coffee plantations carried out with public funds.	May 1992
	Census of coffee trees.		
	Research program to eliminate "potato taste" in coffee.	Policy note on the programming and financing of new coffee and tea plantations.	May 1992
	Study to change management system of washing stations.	Producer price liberalization for agro-industries while respecting the price ceilings currently in place.	May 1992
	Revision of the sliding scale price system for fully washed coffee.	Price liberalization of inputs.	May 1992
	Improving the marketing capacity of the coffee marketing board (BBC).	Liberalization of the purchasing, marketing and processing of agricultural products including coffee, cotton, tea, palm oil, sugar.	May 1992
	Liberalization of the rice market.	Dissemination of the land law for allocating pasture, irrigated and swamp lands to smallholders and agro-businesses.	May 1992

BURUNDI: Structural Adjustment Credit Policy Matrix

Reform Area and Objectives	*Past Adjustment Effort*	*SAC III Action Program*	*Monitorable Actions and Schedule*
III. ***SOCIAL ASPECTS OF THE PROGRAM.***			
Foster equity in development. Reduce the rapid growth of the population.	Formulation of an action program including child nutrition, women in development, assistance to small productive projects, strategy for food securities.	Issuance of invitations to bid for recruitment of an executing agency for the reconversion program.	April 1992
		Suppression of the 15% tax on severance pay.	May 1992
	Identification of problems in financing of health services and education by carrying out of selected studies.	Agreement on the major principles of a financing strategy for the education and health sectors.	May 1992
	Establishment of a global financing strategy for health and education sectors.	Elaboration of reconversion program for personnel that will be affected by public enterprise and civil service reform, including retraining and arrangements for health care costs.	June 1992
	Social "safety net" for the health and education sectors in the 1992-94 PEP.	Put in place a targeting and monitoring system for those laid off from import-substituting private enterprises and recent graduates in search of their first job.	June 1992
	Submission of a draft financing strategy for education and health including the respective roles of the Government, NGOs and the private sector.	Implementation of the financing strategy for the education and health sectors (including cost recovery).	December 1993

-BURUNDI-
KEY MACROECONOMIC INDICATORS

(In percent, unless otherwise indicated)

	1989	1990	1991 est.	1992	1993	1994 proj.	1995	1996
REAL GROWTH:								
Gross Domestic Product (GDP) 1/	1.5	3.5	4.9	4.4	4.5	4.5	4.6	4.7
Gross Domestic Income (GDY)	-0.5	1.9	6.2	2.9	5.2	4.9	5.0	5.1
Exports (GNFS)	-2.9	1.0	15.9	1.4	2.0	6.3	5.5	6.0
--coffee	-7.9	-0.3	23.6	-4.5	-4.5	3.5	3.5	4.3
Imports (GNFS)	-15.1	12.1	5.5	1.3	3.4	3.4	3.5	3.5
REAL PER CAPITA GROWTH:								
GDP	-3.2	0.2	1.8	1.3	1.4	1.4	1.5	1.6
GDY	-5.0	-1.1	3.0	-0.1	2.1	1.8	1.9	2.0
Consumption	-7.5	3.5	1.8	-0.4	0.6	0.7	1.1	0.5
DEBT: 2/								
1. Debt Service, total ($US M)	38.6	41.6	45.8	49.5	52.3	52.0	52.3	54.6
-DS/Exports (GNFS)	35.6	46.7	39.9	48.1	44.7	39.2	34.7	31.8
-DS/GDP	3.5	3.8	3.9	4.2	4.2	3.9	3.6	3.5
2. Interest, total ($US M)	15.0	14.1	16.2	15.9	16.1	16.0	15.7	15.6
3. DOD, total ($US M)	832.6	898.7	1017.1	1126.5	1211.8	1292.7	1375.5	1456.9
-DOD/GDP	75.7	81.4	86.3	96.1	98.3	96.7	94.7	92.3
RATIOS:								
Gross Investment/GDP 3/	16.7	18.2	17.5	18.6	19.3	19.5	19.6	20.2
Domestic Savings/GDP	4.4	-2.2	-1.0	-0.7	0.7	1.7	2.6	4.0
Exports (gnfs)/GDP	9.6	8.1	9.7	8.8	9.5	9.9	10.4	10.9
Imports (gnfs)/GDP	22.2	28.5	27.6	28.7	29.3	28.8	28.3	27.9
GOVERNMENT BUDGET								
Revenue/GDP	18.2	15.8	16.7	18.6	17.8	17.5	..	..
Total Expenditure/GDP	27.8	28.8	26.5	26.1	25.1	24.4	..	..
Current Balance/GDP 4/	3.1	0.4	3.5	5.4	5.5	5.7	..	..
Deficit/GDP 5/	-9.6	-13.0	-9.7	-7.5	-7.2	-6.8	..	..
BALANCE OF PAYMENTS:								
1. Trade Balance (US$ M)	-58.2	-116.5	-102.3	-117.6	-121.4	-124.6	-124.0	-126.2
2. Resource Balance (US$ M)	-135.4	-225.3	-210.0	-234.0	-244.3	-251.9	-260.5	-268.2
--% of GDP	-12.3	-20.4	-17.8	-20.0	-19.8	-18.8	-17.9	-17.0
3. Current Account (US$ M) 6/	-156.0	-229.7	-211.9	-234.3	-243.6	-250.6	-258.6	-263.7
--% of GDP	-14.2	-20.8	-18.0	-20.0	-19.8	-18.7	-17.8	-16.7

1/ At market prices.
2/ World Bank DRS data.
3/ Includes changes in stocks.
4/ Public savings (excluding grants).
5/ On a commitment basis and excluding grants.
6/ Excluding official transfers and capital grants.

Sources: Government of Burundi (unless otherwise indicated).

- BURUNDI -
BALANCE of PAYMENTS

(US$ millions, current prices)

	1989	1990	1991	1992	1993	1994	1995	1996
A. Exports of GNFS	106.00	89.2	114.8	102.8	117.0	132.7	150.9	172.0
1. Merchandise (FOB)	93.2	72.6	89.3	82.3	95.0	109.0	129.9	149.7
2. Non-factor Services	12.8	16.6	25.5	20.5	22.0	23.7	21.0	22.3
B. Imports of GNFS	253.0	314.4	324.8	336.8	361.2	384.6	411.5	440.3
1. Merchandise (FOB)	151.4	189.0	191.6	199.9	216.4	233.7	254.0	275.9
2. Non-factor Services	101.6	125.4	133.2	136.9	144.9	151.0	157.5	164.3
C. Resource Balance	-147.0	-225.3	-210.0	-234.0	-244.3	-251.9	-260.5	-268.2
D. Net Factor Income	-17.6	-14.5	-13.2	-11.6	-11.8	-12.2	-13.8	-12.4
1. Factor Receipts	8.9	8.2	9.7	11.4	11.8	11.6	13.3	15.3
2. Factor Payments	26.5	22.7	22.9	23.0	23.6	23.8	27.1	27.7
a. Total Interest	19.3	14.1	16.2	15.9	16.1	16.0	15.7	15.6
b. Other Factor Payments	7.2	8.6	6.7	7.1	7.5	7.8	11.4	12.1
E. Net Private Transfers	8.6	10.1	11.3	11.3	12.4	13.5	15.6	16.9
1. Current Receipts	9.8	10.9	12.4	12.4	13.6	14.7	16.9	18.2
2. Current Payments	1.2	0.8	1.1	1.1	1.2	1.2	1.3	1.3
F. Current Account Balance								
1. Before off. transfers 1/	-156.0	-229.7	-211.9	-234.3	-243.6	-250.6	-258.6	-263.7
2. Official transfers 2/	88.4	104.9	111.9	107.8	112.8	116.4	113.0	117.4
3. After off. transfers	-67.6	-124.8	-100.0	-126.5	-130.8	-134.2	-145.6	-146.3
G. LT Capital Inflow	108.0	125.7	159.4	147.9	129.2	140.9	156.1	157.3
1. Direct Investment	0.5	1.3	0.9	2.9	4.0	4.6	5.2	5.5
2. Official Capital Grants	44.0	58.7	62.3	53.8	56.2	61.3	62.0	64.5
3. Net LT Borrwing	65.4	66.8	97.3	91.3	69.0	75.1	88.9	87.3
a. Disbursements	96.3	94.3	126.9	122.5	101.2	105.2	119.5	120.4
b. Repayments	30.9	27.5	29.6	31.3	32.1	30.1	30.7	33.0
4. Other LT Inflows (net)	-1.9	-1.0	-1.1	0.0	0.0	0.0	0.0	0.0
H. Total Other Items (net)	-20.0	-4.8	-39.3	-16.7	0.0	0.0	0.0	0.0
1. Net S-T Capital	0.4	7.1	15.6	0.0	0.0	0.0	0.0	0.0
2. Capital Flows n.e.i. 3/	0.0	-5.1	-41.4	-16.7	0.0	0.0	0.0	0.0
3. Errors & Omissions	-20.4	-6.8	-13.5	0.0	0.0	0.0	0.0	0.0
I. Changes in Net Reserves	-20.4	3.9	-20.1	-4.8	1.6	-6.7	-10.5	-11.0
1. Net Credit From IMF	10.9	0.0	5.6	18.1	16.3	5.8	-6.0	-6.0
2. Reserve Changes n.e.i.	-31.3	3.9	-25.7	-22.9	-14.7	-12.5	-4.5	-5.0

1/ Includes only private transfers.
2/ Not including capital grants.
3/ Also includes adjustments to reconcile earlier DRS projections with recent estimates.

- BURUNDI -
EXTERNAL FINANCING REQUIREMENTS AND SOURCES

(US$ millions)

	1989	1990	1991 est.	1992	1993	1994	1995	1996
				- - - - -	- - - - -	proj.	- - - - -	- - - - -
Current Account 1/	156.0	229.7	211.9	234.3	243.6	250.6	258.6	263.4
Amortization	30.9	27.5	29.6	31.3	32.1	30.1	30.7	33.0
Change in Net Reserves	20.4	-3.9	25.7	22.9	14.7	12.5	4.5	5.0
Repurchases (IMF)	11.0	0.0	0.1	2.3	4.1	5.9	6.0	6.0
Total Financing Requirements:	218.2	253.3	267.3	290.7	294.5	299.1	299.8	307.4
Grants	132.4	163.6	174.2	..	..	..	..	..
Loans	96.3	94.3	126.8	87.6	69.3	53.2	42.1	24.1
Bilateral creditors	24.1	30.2	30.0	24.8	15.5	8.9	5.2	2.9
Multilateral creditors	74.1	65.0	96.8	62.8	53.8	44.2	36.9	21.2
--of which: IDA projects	29.5	26.8	58.6	26.9	29.8	27.4	25.4	14.0
--of which: IDA adj.	15.0	22.0	7.5	20.0	4.5	4.9	..	..
Private creditors	-1.9	-1.0	..	..	..	..	..	..
IMF	11.0	0.0	5.7	..	..	..	..	..
Direct Foreign Investment	0.5	1.3	0.9	..	..	..	..	..
Capital n.e.i. 2/	-21.9	-5.8	-40.4	..	..	..	..	..
Disbursements from existing commitments:	218.2	253.3	267.2	87.6	69.3	53.2	42.1	24.1
Grants	..	..	..	161.6	138.2	148.3	175.0	181.9
Loans	..	..	..	35.0	25.3	51.5	36.6	48.2
Bilateral creditors	..	..	..	0.0	0.0	0.0	0.0	0.0
Multilateral creditors	..	..	..	35.0	25.3	51.5	36.6	48.2
--of which: IDA projects	..	..	..	5.0	20.8	26.6	36.6	48.2
--of which: IDA adj.	..	..	..	10.0	..	20.0	..	..
Private creditors	..	..	..	..	..	..	..	..
IMF	..	..	..	20.4	20.4	11.7	..	..
Direct Foreign Investment	..	..	..	2.9	4.0	4.6	5.2	5.5
Capital n.e.i. 2/	..	..	..	-16.7	0.0	0.0	0.0	0.0
Disbursements from expected commitments:	..	..	..	203.2	187.9	216.1	216.8	235.6
Total Identified financing	218.2	253.3	267.2	290.7	257.2	269.2	258.9	259.7
Financing Gap	0.0	0.0	0.0	0.0	-37.3	-29.9	-40.9	-47.7

1/ Excluding official transfers.
2/ Includes errors and omissions.

SUPPLEMENTARY DATA SHEET
STRUCTURAL ADJUSTMENT CREDIT III

Section I: Timetable of Key Events

(a)	Time taken to prepare:	22 months
(b)	Operation prepared by:	Prime Minister's Office and Ministry of Planning
(c)	Project Identification:	July 1990
(d)	Appraisal Missions:	November 1991, March 1992
(e)	Negotiations:	April 1992
(f)	Planned Date of Effectiveness:	September 1992

Section II: Special IDA Implementation Actions

None

Section III: Policy Action and Conditions of Second Tranche of SAC

In addition to the specific conditions identified below, second tranche release will be contingent upon satisfactory completion of a general performance review of the program and of Burundi's economic management. The specific conditions for second tranche release are:

- In the *public resource management* area, adoption of: (a) a 1993 unified budget consistent with: (i) a satisfactory 1993-95 PEP; (ii) a 1993 civil service recruitment ceilings of 1000 individuals (in gross terms); (iii) a reduction of direct and indirect subsidies to PEs to 7 percent of total expenditure or FBu 4.2 billion, whichever is lower; and (iv) a social safety net, satisfactory to IDA, which covers priority expenditure for education and health; and (b) adoption of the 1994 unified budget satisfactory to IDA consistent with an increase in non-wage current expenditure for goods and services to 30 percent of current expenditure, or FBu 9.7 billion whichever is higher;

- In the *public enterprise reform* area: (i) completion of all agreed liquidations (equivalent to 3 percent of public assets) and the privatization of the equivalent of at least 6 percent of the state's portfolio (in asset terms); (ii) completion of bidding for the remaining enterprises slated for privatization; and (iii) conclusion of the remaining private management contracts (equivalent to 49 percent of public assets); assets of enterprises for which timetables will be received prior to effectiveness will be added to these amounts;

- In the *regulatory* area: (i) submission to the legislature of a revised labor code satisfactory to IDA, including replacement of regulations requiring private sector employers to provide all of the costs of medical care for employees and their families with a cost-sharing arrangement, and the lifting of excessive constraints on dismissal; (ii) elimination of wage fixing for various professional groups with the exception of a minimum wage for unskilled labor; and (iii) submission to the legislature of a revised commercial code, satisfactory to IDA;

- In the *customs tariff reform* area: (i) reduction in the tariff spread on non-luxury goods; (ii) reduction of the customs tariff on luxury goods; and (iii) revision of the list of luxury goods, all satisfactory to IDA;

- Submission to the legislature of the General Tax Code and adoption of other related regulations, satisfactory to IDA, in order to eliminate existing intersectoral distortions and to promote private sector development;

- Implementation of the financing strategy for education and health (including cost recovery), satisfactory to IDA, including the definition of the respective roles of the Borrower, the non-governmental organizations, the private sector and users in the health and education sectors.

Section IV: Import Items for Financing Under SAC

The proceeds of the credit are to be used for the reasonable cost of any and all goods required during the execution of the Adjustment Program with the following exceptions:

(a) expenditures for goods included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

Group	Sub-Group	Descriptions of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitute)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semi-precious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
728.43	-	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

(b) expenditures in the currency of the Borrower or for goods and services supplied from the territory of Borrower;

(c) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of SDR 4.4 million may be made on account of payments made for such expenditures during the four months preceding that date;

(d) expenditures for goods procured under contracts costing less than $10,000 equivalent;

(e) expenditures for goods shipped prior to January 1, 1992;

(f) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Association shall have financed or agreed to finance;

(g) expenditures for goods intended for military or para-military purpose or for luxury consumption.

"THE STATUS OF BANK GROUP OPERATIONS IN BURUNDI"

1. Statement of Bank Loans and IDA Credits
(As of April 30, 1992)

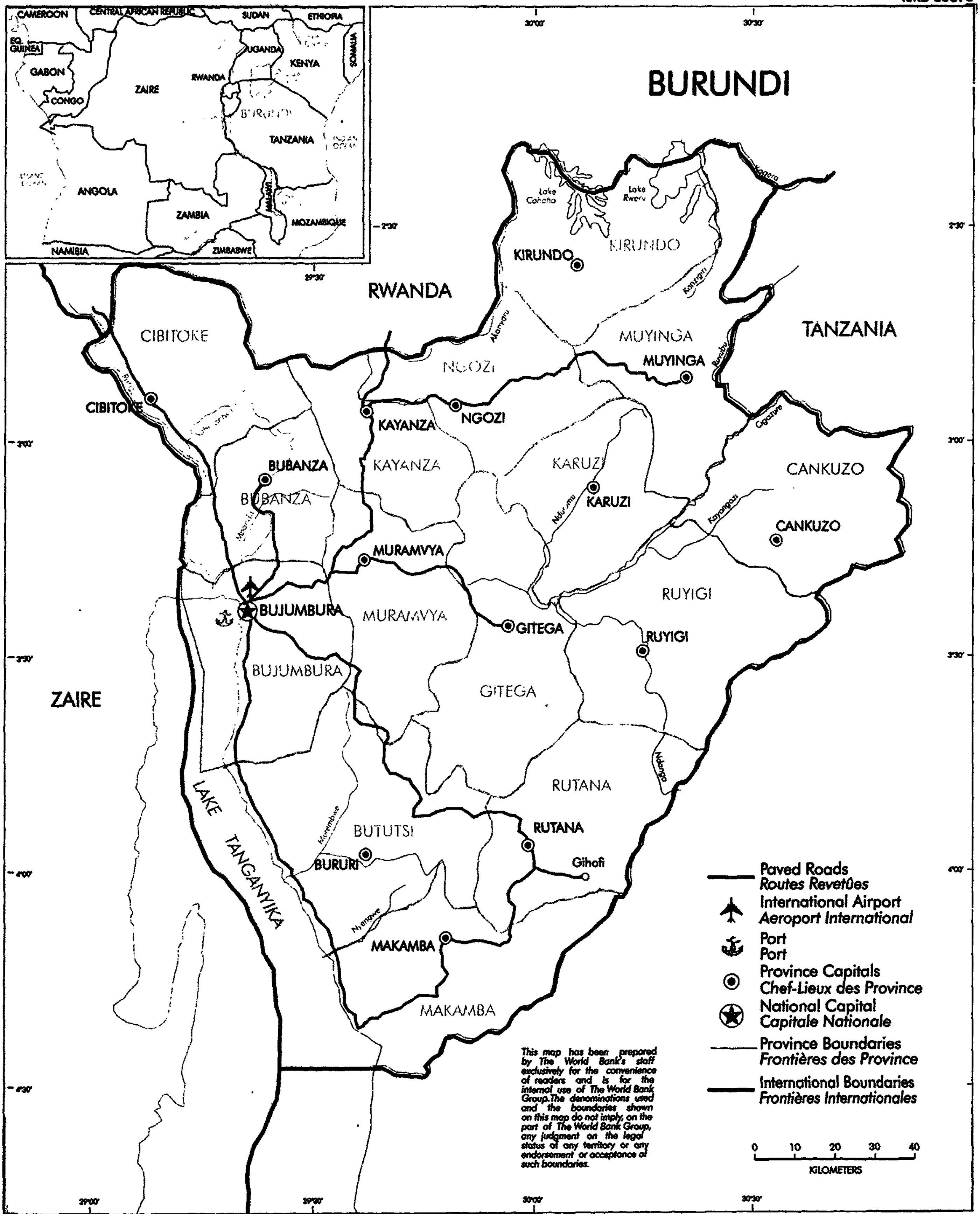
Loan or Credit Number	Fiscal Year	Borrower	Purpose	Bank (original)	IDA 1/ (original)	Undisbursed (original)
(A) Fully Disbursed						
Ln. 0165	1957	Burundi		4.80		
27 credits	1966-1992	Burundi			322.67	
--of which:						
Cr. A017	1986	Burundi	SFA		16.20	
Cr. 1705	1986	Burundi	SAL I		15.00	
Cr. 1919	1988	Burundi	SAL II		90.00	
(B) Disbursing Credits						
Cr. 1583	1985	Burundi	Fourth Highway		18.10	0.51
Cr. 1593	1985	Burundi	Power Transmission & Distrib.		12.30	5.89
Cr. 1620	1986	Burundi	Second Forestry		12.80	4.81
Cr. 1795	1987	Burundi	Eco. & Publ. Ent Mgmt.		7.50	3.57
Cr. 1805	1987	Burundi	Second Telecommunications		4.80	3.96
Cr. 1857	1988	Burundi	Muyinga Agric. Develop.		10.00	8.07
Cr. 1862	1988	Burundi	Population & Health		14.00	5.06
Cr. 1881	1988	Burundi	Education Sector Develop.		31.02	12.26
Cr. 1889	1988	Burundi	Small Enterprise/APEX		8.00	5.73
Cr. 1968	1989	Burundi	Second Urban Develop.		21.00	16.48
Cr. 2024	1989	Burundi	Agricultural Services Sector		33.10	30.56
Cr. 2105	1990	Burundi	Transport Sector		43.20	41.59
Cr. 2123	1990	Burundi	Coffee Sector		28.00	20.30
Cr. 2230	1991	Burundi	Energy Sector Rehab.		22.80	21.64
Cr. 2288	1991	Burundi	Water Supply Sector		32.70	31.40
Sub-total of active projects					299.32	211.83
Total outstanding (less cancellations)				4.80	621.99	
--of which Repaid				4.80	5.49	
Total due (held by Bank and IDA)				0.00	446.89	
Total undisbursed				0.00	211.83	
Credits held					658.72 2/	

1/ In US$ millions, and less cancellations.
2/ Sum of "Total due" and "Total undisbursed" is higher than "Total outstanding" because of depreciation of US$.

2. Statement of IFC Investments
(As of April 30, 1992)

Invest. Number	Date	Borrower	Type of Business	Loan	Equity	Total
571 BU	1981	Verreries du Burundi	Glass containers	4.8	1.00	5.80
Total gross commitment --less cancellations, terminations, repayments and sales					1.00	1.00
Total commitments held by IFC				0.00	1.00	1.00
Total undisbursed				0.00	0.00	0.00

IBRD 23898



MAY 1992