Enabling an Inclusive Private Sector in Burundi

Opportunities and Constraints

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This is one of a series of working papers produced by Nathan Associates Inc. on behalf of the Regional Economic Development Services Office for East and Southern Africa (USAID/REDSO) under contract no. GEG-I-00-04-00002-00, task order 2, the Burundi Economic Reform and Financial Transparency Assessment Program, 2005–2006.

The objective of the program is to help USAID/REDSO establish an agenda for promoting economic reform and growth as well as financial transparency in the government of Burundi. The Nathan team has investigated—and developed recommendations to address—major economic issues and opportunities that Burundi is facing, emphasizing the appropriate role of the government in the national economy and anticorruption and transparency initiatives. The assessments and recommendations will be presented to government, civil society, and business actors in Burundi, as well as donor representatives, at a conference in Bujumbura in May 2006, and through related information programs.

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Final reports for the Burundi Economic Reform and Financial Transparency Assessment Program will be made available in both English and French at www.nathaninc.com. For further information or printed copies of these publications, please contact

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Summary

The years of civil strife have had an inevitable impact on business activity in Burundi. The prospects for sustainable growth in Burundi will depend on revitalizing private enterprise activity on an inclusive basis. The country's economic future will be determined by the willingness of Burundians and foreigners to invest in Burundi, and by their ability to identify and achieve productive opportunities.

The private sector faces severe constraints and challenges:

- ***Structural Constraints*** include the unfavorable, landlocked location of the country and corresponding high transport costs, lack of infrastructure and related services, lack of market linkages, and high population density in tandem with low rural productivity.
- ***Policy-induced and Regulatory Constraints*** can be relieved by more supportive policies, a reduction in corruption, and improvements in the fiscal regime and public administration.
- ***Supply-side Constraints*** include low skills, obsolete equipment, limited availability and high cost of imported inputs, lack of financial services, limited access to and high cost of credit, lack of economies of scale, and need for improved administrative and program capacities.

These constraints have challenged other countries, and best practices and lessons learned have been developed around the world to overcome them. Burundi needs to understand and examine these international experiences and adapt them to Burundi's special needs and situation. For example, despite its unfavorable location, Burundi can exploit regional linkages and make platform investments in services and skills, to export and provide services to the region.

The monopoly and monopolistic nature of much of Burundi's formal enterprise restricts entry and competition, and provides little incentive for productivity and quality enhancement by upstream producers. There is need to foster competition in the private sector by reducing state ownership and monopolies, removing barriers to entry—including those arising from social factors — and encouraging investment.

Rural enterprise, including nonfarm enterprise, and productive value and market chain linkages, are key to economic growth in Burundi. Rural enterprises, and producer associations and organizations offer potential for economies of scale and ability to access finance, information, extension, inputs and other factors at reasonable cost. They also offer the opportunity to build professional business management capacities. There is currently little business formation in

Burundi, very restricted access to services and resources, and little experience with business formation and entrepreneurship. Technical and management skills are sorely needed.

Burundi can also move towards facilitating investment as part of its strategy, by focusing on reducing risks and lowering costs to investors. The public sector should play a role through efficient public investment in economic and social infrastructure. Appropriately designed and carefully monitored public–private partnerships can also reduce risks of investment and encourage follow-on private investment. In any such partnership, the opportunities for private investment must be clearly identified and emphasized.

Several directions of improvement should be followed in the short and medium term:

- Improving services and infrastructure
- Entering into regional agreements
- Removing monopolies and opening Burundi's economy to competition
- Legal, regulatory and procedural improvement
- Improving rural productivity
- Ensuring access to finance
- Defining sector strategies and building exports
- Attracting investment
- Building the capacities of appropriate public and private institutions
- Establishing the business "habit"—encouraging enterprise formation
- Building skills needed for business
- Fostering dialogue to develop widespread stake in private sector growth
- Establishing a sound data base on the private sector and business-related issues

From within the above broad areas, the Government must identify clear priorities and targets—and follow-through on its promises, with transparent monitoring, accountability and communication. Investment and improvement will necessarily be incremental because of capacity constraints; so Burundi should focus on priorities and not try to do everything at once. Burundi needs to send a clear message: Open for business, investment is welcome.

1. Introduction, Goals, and Objectives

INTRODUCTION

This paper examines the status of Burundi's private enterprise and the environment in which it operates. This paper considers the priority requirements to jumpstart and maintain sustainable private enterprise activity that is high growth, enables Burundi to achieve high rates of GDP growth over the long term, provides economic benefit throughout the population, and is highly inclusive of Burundi's population.

Many difficult decisions will need to be made regarding Burundi's vision and priorities to encourage economic growth. Market-based, inclusive policies will not necessarily be easily adopted in the face of old economic patterns and vested interests. Civil society may not readily understand the importance of certain uses or resources. Economic success will not come overnight; steps will be incremental. Informed and facilitated public–private dialogue is vital to enable Burundians to achieve widespread agreement on the actions and investments needed to jumpstart and sustain economic growth and to provide guidance and ongoing monitoring of decision making and implementation.

A basic assumption is that a vision for private sector–led economic achievement that is widely shared throughout Burundi and a strategy that is actively implemented and publicly monitored will create long-term inclusiveness in Burundi's economic future that encourages stability and sound institution building, which in turn fosters even greater economic performance.[1]

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[1] Initial action has been taken to enunciate a vision for Burundi's economic growth. A draft economic growth policy/strategy, approved by the Ministry of Commerce and Industry and validated in several roundtables and workshops, states that the "The Vision of the new industrial policy and strategy is to make Burundi a country of productive excellence that positions itself as a strong global competitor that successfully offers quality and competitive products and services in targeted sectors to local, regional and international markets." *(Framework for a New Policy and Strategies for Industrial Development in Burundi*, UNIDO, February 2005; and *Burundi Industrial Development Policy and Implementation Framework*, UNIDO, January 2006) This vision implies progress in several respects, including:

- Burundi produces for export and local markets, with increasing value, quality, and value added.
- Internal markets function efficiently and connect producers with market centers and value chains.

In assessing the challenges and opportunities for private enterprise, this paper regards certain principles as basic:

- Policies, regulation, and actions should encourage private business and investors to invest and to maximize the returns on their assets.
- Political and civil stability, and sound monetary and other macroeconomic policies, will encourage business activity and investment.
- Private business and investment will be encouraged in an economic environment free of monopolies and barriers to entry.
- Business will be encouraged in an economy with transparent, accountable government.
- Regional and global integration will encourage business activity, productivity and competitiveness, and investment.

Burundi is emerging from an extended period of political instability and civil strife, during which the country's economy and business activity were severely damaged. During this period there was little investment and little business formation. Agricultural producers withdrew from the cash economy and lived largely subsistence livelihoods. Prices for Burundi's main export crops declined. Domestic and global market linkages were severed or severely hampered. The policy, service, and infrastructure platform for business and investment became outdated and degraded. The skills of the country's workers and the quality of the country's physical assets, declined. State-owned enterprises originally were established when large levels of investment or significant risk were seen to limit private investment. Commercial economic activity then became increasingly skewed towards State monopolies and a relatively small number of successful businesspeople, or towards the informal sector. In the state-owned sector, vested interests, in large part, prevented subsequent privatization or market-based private investment. Economic power rested with a minority of the population.

Burundi's economic future will be determined by the willingness and effectiveness of Burundi's private business to invest in, identify, and realize market opportunities, and implement productive business strategies and operations. Burundi's economic future will also be determined by the country's ability to attract productive private business investment.

Sustainable economic recovery and equitable GDP growth require a performing, competitive private sector that reaches all participants in society. The private business and productive activities of the Burundi population must find outlets through market linkage. This implies a need

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- Investors are eager to invest in Burundi, recognizing the increasing efficiency and competitiveness of Burundi's business environment.
- SME investors find it easy to form businesses.
- Burundi is regarded as the regional business center of choice and serves as a regional logistics, finance, trade, and information center.
- Burundi achieves significant growth of off-farm and non-farm enterprise in rural areas.
- Informal enterprise increasingly enters into formal business streams while expanding and strengthening the private sector.

for farm-to-market linkage and linkage to regional and global markets and value chains. Sustainable economic growth implies productivity in the sense of value for input, and competitiveness in terms of delivering products and services that are interesting to customers and that offer desirable value–price propositions. Productive enterprise will require a strong vocational and management skills base.

To sustainably achieve the virtuous cycle of investing, identifying markets, producing at high quality, and reinvesting, business needs to have access to a sound platform of infrastructure and services and an operating environment that is supportive of competitive business operation and investment. The effectiveness of the platform and business environment are determined largely by public sector performance, but the private sector can (and should) be a strong partner in prioritizing needs, implementing solutions, and monitoring and benchmarking the quality of the platform and environment.

IMPORTANCE OF GIVING PEOPLE A STAKE IN THE ECONOMY

Much of Burundi's economy and significant business have been controlled by the State through State-owned enterprises or by a relatively small circle of business leaders. Business formation, investment, and value added have not been widespread, and hence a significant majority of the population has been largely excluded from direct economic empowerment and from a serious stake in Burundi's economic success.

The issues and suggestions discussed in this paper have a common theme of inclusion and empowerment. Massive involvement of the population in building Burundi's economic fabric and future is essential not only for stability and peace, but also to unleash Burundi's potential productivity. It is by achieving massive and widespread growth in productivity and productive market linkage that Burundi's wealth per capita will grow over the long term. This future will also be one that allows Burundians to be forward looking and to recognize the value of investment in enterprise, and motivate their investment in the future of their enterprises, family, and country.

2. Description of the Private Sector

With an estimated GDP per capita of USD $91 in 2004[2] and 68 percent of its population below the poverty line in 2002,[3] Burundi is one of the poorest countries in the world. It is a landlocked country with few resources and with an underdeveloped manufacturing sector. Coffee and tea exports account for 90 percent of foreign exchange earnings.[4]

Part of the explanation for Burundi's low income per capita is that almost the entire workforce (93 percent) works in agriculture, mostly with low productivity and with more than 90 percent of the population dependent on subsistence agriculture.[5] Accounting for only 49 percent of total GDP,[6] agriculture is performing very poorly.

However, with 90 percent of Burundi's population living in rural areas,[7] there is a great opportunity to improve small farm productivity, expand into nontraditional agricultural (and nonagricultural) products, and continue to improve the banking system.

NATURE OF THE PRIVATE SECTOR

The State plays a major role in the formal sector of the economy, maintaining control of or influence over the production, commercialization, processing and export of the major cash crops, including —coffee, tea, and cotton. The coffee sector includes many small producers, intermediaries, and exporters, but the Coffee Board of Burundi (OCIBU) sets the prices paid to producers. The Tea Board of Burundi (OTB) has a monopoly on converting green leaves to dry tea in its five factories.[8] Cotton is controlled by the state through COGERCO, which collects and

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[2] *Burundi Economic Performance Assessment*, 3.

[3] World Factbook. http://www.cia.gov/cia/publications/factbook/. Feb. 22, 2006

[4] Ibid.

[5] Ibid.

[6] *Burundi Economic Performance Assessment*, VI, 5.

[7] Ibid.

[8] *Burundi: Étude Diagnostique sur l'Intégration Commerciale*. Volume 1, 76.

commercializes cotton; most is sold to COTEBU, the textile factory belonging to the state.[9] In manufacturing, 11 percent of businesses are 100 percent State-owned.[10]

With the exception of State-owned enterprises and a few significant private companies, most of the private sector is comprised of small or very small companies and small farmers. Most private sector business is outside the formal sector.

Informal trade is both internal and export oriented. Burundi's recent history has led to a considerable portion of external trade being unrecorded.[11] Burundi has one of the highest labor force participation rates in the world,[12] and a significant number of workers are not working for registered businesses. A recent survey identified a large percentage of informal workers as seasonal.[13] In the informal sector, the survey identified relatively large numbers of jobs in the wood and paper industry, textiles and leather, and agriculture and foodstuffs.[14] The high levels of labor force participation suggest that there are opportunities to structure enterprise assistance and workforce training programs that will, in particular, lead to increases in productivity.

MAIN PRIVATE SECTOR ACTIVITY

In 2004, value added by each sector as a percent of GDP was

Agriculture	51 percent,
Industry	20 percent, and
Services	29 percent[15]

Coffee is by far the most important export, representing on average 70 percent of all exports during the period 1995–2001.[16] Tea has generally represented 10–15 percent of all exports. The heavy reliance on these two commodities has made Burundi vulnerable to fluctuations in yields and international prices.[17] For example, a worldwide increase in the production of coffee in the 1990s (such as in Brazil and Vietnam) reduced revenues to producers in all areas, including Burundi.[18] The coffee sector has also suffered from climate fluctuations, which contributed to the particularly low production of 6,000 tons in 2003/04 (compared to 36,000 tons the previous

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[9] *Burundi: Étude Diagnostique sur l'Intégration Commerciale*. Volume 1, 77.

[10] 2004 Survey prepared by the Industrial Association of Burundi (*l'Association des Industriels du Burundi* [AIB]), in collaboration with the Minister of Commerce and Industry, 22.

[11] *2006 Index of Economic Freedom*. www.heritage.org. Feb. 22, 2006, referring to the Economist Intelligence Unit.

[12] *Burundi Economic Performance Assessment*, 16–17. The data suggest that many participants in the labor force fall outside the 15–64 age group (i.e., that "there is widespread reliance on child labor as well as the immediate need for all able adults to be working…"). It also highlights the major role that informal industry plays in the economy.

[13] 2004 Industrial Association of Burundi Survey, 47.

[14] Ibid.

[15] *World Development Report 2006: Equity and Development*, 296.

[16] *Burundi: Étude Diagnostique sur l'Intégration Commerciale*. Volume 1, 15.

[17] *Burundi Economic Performance Assessment*, VI.

[18] *Burundi: Étude Diagnostique sur l'Intégration Commerciale*. Volume 1, 19.

year).[19] In addition, the average percentage of world prices paid to Burundian coffee producers has been decreasing since the mid-1980s. The average percentage paid to producers has been only 40 percent since 1996, compared to 85 percent in Kenya and 50 percent in Cameroon.

Although also a major product, there were no official exports of cotton during 1997–2004. Consumption of cotton is primarily domestic, particularly by COTEBU, the State-owned textile company.[20] COGERCO reportedly exported 2,300 tones of cotton in 2005 because COTEBU was unable to pay its bills (COGERCO in turn was unable to pay the small farmers); COTEBU interrupted its operations for several months because of financial difficulties.[21]

Industrial production decreased during the 1997–2001 period.[22] Today, only 2 percent of the workforce is engaged in industry (and yet produces close to 20 percent of GDP).[23]

Most manufactured goods are consumption goods. Some of the main manufactured goods include beer, soft drinks and juices, milk, cotton oil, sugar, cigarettes, insecticides, soap, polyethylene film, matches, pharmaceutical products, batteries, steel tubes, nails, and toilet paper.[24]

Tea and coffee exports go primarily to Europe and Asia. Manufactured products, generally of only marginal quantity, are exported mostly to Rwanda and Democratic Republic of Congo.[25]

Burundi is possibly well endowed in minerals, although little is exploited. Extractive industries account for only 1 percent of all production.[26] Burundi has deposits of nickel, vanadium, cassiterite, colombo-tantalite, and gold. Since 2000 there has been some increase in mineral exports from Burundi.[27] For example, Burundi exported 57 tons of casserite (a tin oxide) in 2005, compared to 39 tons in 2000.[28]

Burundi's services sector accounts for about one-third of GDP.[29] Services increased from 28 percent of GDP in 1996 to 37 percent in 2001.[30] The sector includes telecommunications, transport, and the financial industry, but the entire sector employs only 4 percent of the

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[19] Ibid.

[20] Ibid., 77.

[21] Authors' information. Some of the problems encountered by COTEBU include: low capacity utilization and high fixed costs, poor quality, and high cost compared to imports (many of which are illegally brought into the country).

[22] 2004 Industrial Association of Burundi Survey 28.

[23] *Burundi Economic Performance Assessment*, 5.

[24] Ibid.

[25] Ibid., 31.

[26] *Examen des Politiques Commericiales: Burundi 2003*, 1.

[27] Ibid., 7.

[28] *Note d'Information sur le Secteur de l'Energie au Burundi, 80.*

[29] *Burundi Economic Performance Assessment*, 5.

[30] *Burundi: Étude Diagnostique sur l'Intégration Commerciale*. Volume 2, 19.

workforce. Burundi had US$5.6 million of service exports in 2003. The following figures from the 2005 World Bank Development Indicators show the structure of service exports (percentage of service exports) 1990 and 2003:

	1990	*2003*
Commercial services	7.0	2.0
Transport	38.7	31.6
Travel	51.4	32.2
Insurance and financial services	1.6	0.6
Computer, IT, and communications	8.3	35.6

There are several private sector associations and other organizations in Burundi with a mandate for broad membership, and several sector-specific associations. While interest is in some cases high, none of these associations has the capacity to play a major role in delivering services (e.g., access to finance, training, inputs, market linkage, information) to a large membership, or to participate in informed, effective public–private dialogue.

POSSIBLE NEW PRIVATE SECTOR ACTIVITY

There have been many suggestions for expanding private sector activity. Investment and expansion will naturally develop as constraints are removed. In the traditional sectors, privatization and liberalization will open the way to private investment and operation. Other products and value chains commonly discussed include high-value fruits and vegetables, manufactured food products, farmed fish, essential oils, cut flowers, medicinal plants, packaging materials, hides and skins, milk and dairy products, and oilseeds (production and processing). Many of these would compete against production in neighboring countries, and so proper market and feasibility analysis is important. Improved exploitation of mineral deposits would open opportunities; Burundi needs to enable investigation of viable extraction and put legislative, regulatory, and other arrangements in place to encourage investment. Tourism will remain a small industry in the near future but could nonetheless offer some opportunity. Transport and logistics, serving the region, should also be a growth area.

3. Constraints on Private Economic Activity (Challenges)

The years of civil strife in Burundi have had inevitable impacts on business activity. This section examines the main constraints and issues that must be dealt with to provide business with improved opportunities for recovery and growth through private sector initiative and investment. In discussing these constraints, we identify a number of the courses of action that will be appropriate to alleviate constraints and to overcome the challenges that are posed by these issues. The constraints and issues are described in terms of structural, policy-induced, regulatory, and supply-side constraints. Issues related to economies of scale and organizational and program capacities are discussed separately.

Few of these constraints are unique to Burundi; other countries have faced the same or similar challenges. Development partners can do a great deal to help Burundians examine the experiences of other countries, consider best practices and lessons learned, and adapt approaches to the special requirements of their country.

STRUCTURAL CONSTRAINTS

Unfavorable Location and High Transport Costs

Burundi is landlocked and far from international gateway ports such as Dar es Salaam, Mombassa, and more southern ports. It is dependent on its neighbors for land transport—the costs and efficiencies of its logistics in large part depend on other countries' transport costs and efficiencies, and on cross-border customs and other administrative procedures.

The costs and barriers imposed by Burundi's geographic situation are undoubtedly part of the reason for Burundi's poor performance in trade openness and levels of trade. Between 2000 and 2004, Burundi's trade ratio averaged only 35.7, far below the 59.7 average for low-income African countries, but comparable to landlocked Uganda (38.7) and Rwanda (36.2).[31]

The length of time required to import or export goods through ports has many infrastructural and ministrative causes, both within Burundi and outside Burundi.[32] Actual travel time for a truck to

[31] *Burundi Economic Performance Assessment*, 11.

[32] *Doing Business in 2006, Creating Jobs*, 116.

travel between Bujumbura and Mombassa is 7 days, or 10–12 days when the truck is loaded with a heavy product, and 3 days when it is empty. However, a survey among truckers showed that the trip to Mombassa required anywhere between 13 and 44 days, with the longest wait at the Rwanda border (12.7 days on average).[33] Transport companies estimate that a round trip for a truck is about a month, taking into account all constraints.[34] Via the central route to Dar es Salaam, there are four bridges and may cost up to US$300 to cross in each direction.

This situation has several implications. Burundi's geographic situation imposes high land-based transport, communications, and logistics costs compared to costs in countries with more advantageous locations. To the extent that Burundi can avoid these constraints by avoiding land-based logistics, Burundi will have more control over its own destiny. Avoiding land-based logistics implies that Burundi offer high-value and low-volume or low-weight products that can be shipped by air, or services that do not require transport (e.g., ICT-based services) or that are not dependent on international land transport (e.g., tourism). The latter two alternatives are probably not viable objectives in the short or medium term. The goal of high-value, air-shipped exports may be achievable if sufficiently high-value agribusiness exports are possible.

Another option is for Burundi to become effective in serving regional markets. Burundi has the advantage of proximity in serving the needs of markets and customers in neighboring countries. Such a strategy would require Burundi to achieve quality and cost superiority over other sources of supply, which implies supply-chain strategies and attention to improving regional transport, logistics, communications, and administrative linkages. It also implies making effective use of participation in regional trade bodies, such as COMESA.

Although Burundi's businesses will always bear higher international transport costs than businesses in many of neighboring countries, Burundi can do much to minimize the disadvantage of this structural constraint. Burundi can improve and streamline its in-country infrastructure, market linkages, and procedures to minimize domestic service and transaction costs. This will, at least, minimize the in-country component of logistics costs—something that its neighboring countries are manifestly not yet doing effectively. It will also facilitate farm–market linkages, which are vital to enabling the rural populations to contribute to Burundi's economic growth and share in its rewards. If Burundi's enterprises can offer products of a quality that can earn good prices in international markets (specialty coffees, perhaps), then perhaps the extra transport costs will not prohibit Burundi from achieving a productive and profitable overseas export sector.

None of Burundi's neighbors is an unassailable powerhouse of a production or service center for Burundi and its neighboring markets. This role has fallen to countries such as Tanzania and Kenya because of their geographic advantage, not because of unmatchable strengths in service or quality. There are strategies that would enable Burundi to take a first-mover advantage, by attracting businesses that can serve regional markets with high quality and competitive costs.

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[33] *Burundi: Étude Diagnostique sur l'Intégration Commerciale,* Volume 2, 47.

[34] Ibid.

Burundi should actively pursue bilateral and multilateral arrangements and agreements to maximize efficiency and minimize the costs imposed by its landlocked location. Burundi would also do well to continue to ensure sound multiple transport routes so as not to be hostage to disruptions or monopsony pricing along single routes.

Within Burundi, transport costs should be minimized and market linkage maximized through infrastructure improvement and sustained maintenance, the assurance of regular air service, and improvement of communications as an alternative to transport.

Lack of Infrastructure or Services

Burundi suffers from incomplete, degraded, and unmaintained infrastructure in virtually all respects. Services that depend on infrastructure are thus absent; those that are provided also lack delivery efficiencies and capacities. Infrastructure is a vital part of the platform for private sector investment and operations. Business will not invest and will not be able to operate without access to key infrastructure and services.

Water supply, energy generation and transmission, transportation networks, and communication systems are constrained. Burundi has only 14,480 km of roadways, of which 1,028 km are paved,[35] and most of the network is in poor condition. Passenger and cargo air connectivity is insufficiently low. Regular air freight service between Burundi and its external markets Available service is irregular, with transit required in Kenya or Uganda.[36] The Bujumbura airport lacks refrigeration equipment and only has only two refrigerated containers of about 20 feet. Cold chain is generally lacking.[37]

Power supply, especially rural electrification, is meager, preventing many investments, decreasing access to proper storage, and causing spoilage.[38] The country has important hydroelectric potential, and in spite of large public investments, the level of electrification is very low.[39] The energy deficit is estimated at almost 10 MW.[40] This deficit implies that investors cannot be sure of power continuity and that supply is unavailable in many locations. Investors must either bear the costs of private generation or the risks of outages or decide to forego the investment opportunity altogether.

Burundi's phone density is low, only 12.4 lines per 1,000 people in 2003, one-third the average for low-income Africa, despite a four-fold increase since the peace agreement was signed. Cell phone density is very low, even by regional standards (see Table A-1). There seems, therefore, to be considerable opportunity to expand cell phone use (rather than land line), and at the same time provide related private investment opportunity.

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[35] *World Factbook*. http://www.cia.gov/cia/publications/factbook/. Feb. 22, 2006

[36] *CSLP – Complet sur le Commerce et le Secteur Privé*, 17

[37] Ibid.

[38] *Burundi Economic Performance Assessment*, 13.

[39] *Note d'Information sur le Secteur de l'Energie au Burundi*, 1.

[40] Ibid., 4.

There are only two Internet users per 1,000 people, but usage is steadily rising.[41] International telephone costs are not high by regional standards (see Table A-1) but are high by global standards. Internet usage costs are very high.

Burundi needs concerted efforts to improve access to infrastructure and services. The goal will be to provide access to services that are efficient, streamlined, and functional at reasonable cost. Internal services must be of top quality to minimize the impacts of Burundi's landlocked situation. Burundi's services will need to compare well in availability, quality, and cost to those of neighboring countries. But Burundi should go beyond comparisons to its neighbors that perform poorly against international standards. Burundi should set its service goals to match or exceed global best practices. Of course, this level of service will not be achieved overnight.

Decisions will need to be made about budget allocations and relative priorities for investment in infrastructure and services. Experience suggests that a focused approach to improving service will yield more results in terms of investment and business performance than will a generalized approach that averages investment in infrastructure throughout a country.

Lack of Market Linkage

Although few data are available, interviews, observation, and other anecdotal evidence describe a situation in which the rural economy is very poorly linked to markets or downstream market and value chains. In structural terms, the missing linkages include passable roads and telecommunications networks. Other missing links are market information and intermediation.

Such links are vital if Burundi is to increase the productivity of its rural population—and this is essential for significant and widespread improvement in incomes and participation in the economy. Rwanda's experience is instructive: Rwanda has had success in developing some core exports (tea and coffee principally), but this has not enabled it to meet its growth objectives for these sectors or for the overall economy.[42] Rwanda's lack of emphasis on linking its rural population to markets and value chains, and the continued subsistence economy, are recognized as barriers to more substantial growth and recovery.

Population Density and Rural Productivity

Burundi has one of the highest population densities in the world, and one of the most rural.[43] The vast majority of this population is marginalized in terms of commercial market chains. Agricultural productivity is low, and there is little rural enterprise. The productivity level per agricultural worker is one of the world's lowest (an average of $103.1 over the five years to 2003) and overall worker productivity declined in the 10 years to 2000-02.[44]

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[41] *Burundi Economic Performance Assessment*, 13.

[42] J.E. Austin Associates, Rwanda Export Promotion Action Plan, Technical Notes, 2005

[43] *2005 World Development Indicators*, 22 and 130.

[44] *Burundi Economic Performance Assessment*, 17.

This is an untenable situation, and one that will absolutely inhibit economic growth and inclusiveness if not addressed. As discussed below, improving market linkages and access to services and increasing economies of scale will be vital to unleashing this population's productive potential. Encouraging nonfarm rural enterprise needs to be part of this emphasis—such enterprise could certainly initially include logistics and transport, business services, inputs supply, processing and other value-added activities, packaging, testing and inspection, and other activities.

POLICY-INDUCED AND REGULATORY CONSTRAINTS

Supportive Policies

Burundi is only now beginning to look at its overarching policies and implementing strategies related to business formation and operation and other economic matters. The 2006 Heritage Index ranks Burundi 132nd out of 157 countries, similar to Ethiopia and Guinea Bissau.[45] In many cases, policy dialogue is encumbered by earlier poor policies and lack of perspective on global best practices. Stakeholders will need to engage in open and informed dialogue to identify the scenarios, policies, and strategies that will facilitate dynamic private sector performance.

Incidence of Corruption

An economy that is encumbered by rent-seeking, bribe-taking, and unethical behavior in systems and institutions will inevitably underperform. Much of the country's enterprise will tend to remain in the informal economy, legitimate tax collection will be hampered (and therefore public investment and resultant private investment as well), public sector decision making will be skewed, and investment will tend to be short term. Long conventional wisdom, the link between corruption and economic underachievement and exclusion has been confirmed by recent studies and data.

The Burundi Economic Performance Assessment cites corruption as Burundi's biggest business-environment problem.[46] Burundi ranks in the sixth percentile on the World Bank Institute's Control of Corruption Index.[47] Burundi also scores low on the World Bank's Rule of Law Index: -1.5 on a –2.5 to 2.5 scale, and well below regional benchmark countries such as Uganda (-0.8) and Rwanda (-0.9).[48]

The incidence and impact of corruption show up in many of Burundi's performance benchmarks. Lurking behind Burundi's poor administrative systems and enforcement is the opportunity for and incidence of bribery, rent-seeking, and other forms of petty, pervasive, and even massive, corruption.

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[45] 2006 Heritage Foundation Index of Economic Freedom Rated "mostly unfree," with an index score of 3.69 out of 5, where 5 is the least free.

[46] *Burundi Economic Performance Assessment*, 9.

[47] Ibid.

[48] Ibid.

With wise leadership and open public–private discussion, it is possible to see opportunities in Burundi's current situation. Now, at the beginning of a new economic era and, with a supportive social compact, Burundi is a time in which expectations can be set, performance monitored, and systems designed and implemented in a manner that minimizes opportunities and expectations for unethical behavior.

Fiscal Regime

Burundi's top income tax rate is 35 percent.[49] The top corporate tax rate is also 35 percent.[50] Doing Business 2006 reports that total tax payable (as percent of gross profit) is much higher than (the still very high levels of) other countries in the region (e.g. Uganda; Rwanda; Kenya; Tanzania), and is of course an invitation to corruption, including underreporting.[51] The AIB survey report states that Burundi's tariffs are too high and "condemn the competitiveness of its producers."[52]

Tariff reductions were introduced in September 2005 to bring Burundi's rates in line with COMESA's rates (which are still being finalized in some cases). Imports are now taxed in four categories:

- 0 rate for basic products
- 10 percent, applied generally to equipment and construction material and production inputs (to be reduced to 5 percent in 2007)
- 15 percent, applied to intermediate imports (semifinished products) and mass-transportation vehicles
- 30 percent applied consumption imports

In addition to import duties, imports may be subject to other types of duties and taxes:

- A transaction tax of 17–20 percent applied to all imports
- A service tax of 6 percent—an internal tax collected at the border
- Taxes levied on certain categories of imports—tariff surcharge (for textile imports), excise duties, consumption tax

What fiscal policies will be advantageous for Burundi? The public sector needs tax revenues—and too often in many countries, the tax burden falls repeatedly, inappropriately, and inefficiently on high-visibility investors.

But there is little to tax. Revenues are small. So the government will give up little by putting in place an efficient and inclusive yet moderate income tax and tariff regime. Recent experience in the Baltics and Central Europe and earlier experience in Ireland demonstrate that fair, predictable,

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[49] IMF

[50] *2006 Index of Economic Freedom*. www.heritage.org. Feb. 22, 2006.

[51] *Doing Business in 2006*, Creating Jobs, 116, 133, 148, 154, 157.

[52] 2004 Industrial Association of Burundi Survey , 35.

and moderate levels of taxation encourage domestic and private investment. For a country with little efficient, competing, domestic production, there is little use in heavily taxing imports for investment or that form part of items or services to be re-exported. Moderate levels of taxation, aggressive tax allowances for investment, and selected special advantages for key investments or growth industries should all be considered.

Administrative Context

A legal and regulatory environment that provides streamlined and transparent systems that are impartially and quickly applied is also basic to a sound environment for investment, business formation, and business operation. The world is littered with assessments of legal and administrative procedures that provide long lists of improvements needed for legal, regulatory, and administrative systems. The challenge everywhere is to follow through and implement the needed systems.

Burundi's legal, regulatory, and procedural frameworks are outdated, inefficient, open to misuse, and poorly implemented by a civil service that lacks the capacity to improve or properly implement or enforce systems. As with many other countries, if and when procedures are followed, their inefficiency tends to impose large transaction costs and delays on business. This is the antithesis of an enabling environment that is facilitating and minimizes costs imposed on business.

Doing Business 2006 ranked Burundi ranked 143rd of 155 countries in "overall ease of doing business."[53] Numerous indices, averages, and anecdotes demonstrate Burundi's extensive and pervasive administrative underperformance. For example, starting a business in Burundi requires 11 procedures and 43 days, compared to best practice of 2 procedures (in Canada) and 2 days (in Australia).[54]

Contract enforcement requires 47 procedures (Australia's 11 is best practice), an average of 433 days (27 days in Tunisia), and a cost of 32.5 percent of the amount of the debt (4.2 percent in Norway).[55]

As cited, truck travel time between Bujumbura and Mombassa is far longer than actual driving time, with long waits especially at the Rwanda border.[56]

Job creation is hindered by institutional impediments to hiring and firing. Burundi's score in the 2006 Rigidity of Employment Index, was 69 (100 is the best). [57]

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[53] *Doing Business in 2006*, 116.

[54] Ibid., 11.

[55] Ibid., 63.

[56] *Burundi: Étude Diagnostique sur l'Intégration Commerciale*. Volume 2, 47.

[57] *Doing Business in 2006*, 57,116.

Burundi requires a wholesale review of its legal and regulatory systems. This review should be public-private, focused on agreed priorities, and informed by best international practice. Systems need to be properly implemented and thus must fit with the budget and skills capacities of the implementing authorities. Where important systems are beyond available capacities, they should be outsourced. Indeed, regular consideration should be given to implementing systems or procedures through private sector delivery.

SUPPLY-SIDE CONSTRAINTS

Supply-side constraints exist in both the private and public sectors. To the extent that the public sector is constrained in its ability to deliver needed or desirable services or to implement legal and regulatory procedures or systems, business will suffer from unnecessary costs and lack of access to services. To the extent that the private sector lacks capacity, it will be unable to develop and properly implement competitive strategies or operations.

Skills, Training and Education

Basic Skills and Education

As the platform for learning core knowledge that is important to employers and entrepreneurship, basic education is important to the private sector. Burundi's basic education is deficient. The literacy rate was only 50.4 percent in 2002, low by all standards.[58] Only 77 percent of children enroll in primary school, 11 percent in secondary school, and 2 percent in tertiary school.[59] The AIB study cited lack of education as a significant constraint to small business.

Technical Skills

Burundi's businesses suffer from a severe lack of access to people with technical skills. Data are lacking, but surveys, interviews, and anecdotal evidence point to the difficulties that business has in obtaining personnel with needed skills. There are few technical, vocational, and tertiary sources of education and training.

A good supply of well-trained personnel is vital to any country's economic growth. This is even more so in Burundi's case—aspiring to high levels of productivity, and with a need to absorb large quantities of rural labor into the nonagricultural workforce.

Stakeholders should pay particular attention to needs in likely priority sectors and ensure that curricula are responsive to the needs of the private sector. The public and private sectors should work together in partnership to ensure that curricula are properly focused, educators and trainers are of high caliber, and students have adequate opportunities to learn through apprenticeships and internships.

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[58] *Burundi Economic Performance Assessment*, 6.

[59] *2005 World Development Indicators*, 88.

Management Weaknesses

Management skills and marketing and business analytical skills are sorely lacking in Burundi. Similarly, experience with global business and value chains is lacking. Burundi has few businesspeople and professionals who are at home in the international network of business leaders.

There is no quick fix for this situation, but the need is absolute. Schools need to be established that provide a high-quality, practical curriculum that prepares students for competitive business needs in Burundi. This secondary and tertiary education can be supplemented with short courses and training opportunities to upgrade the skills of the workforce. Foreign investors should also be encouraged to provide training and internship opportunities. Practical training through technical assistance and outsourcing will also contribute to Burundi's stock in management capability.

Few people in the workforce have experience with sophisticated, market-based enterprise. One of the most effective actions will be to encourage business formation and entrepreneurship so that businesspeople learn by doing. Attitudes will also change enormously when formal business, even small and microbusiness, becomes commonplace.

Obsolete Equipment

Despite some responses collected during the AIB survey,[60] most observers cite very low levels of investment in equipment in recent years. Equipment and technology are out of date, so a great deal of investment is needed. There is no quick fix for this.

For much of Burundi's enterprise there is a need for access to small-scale credit to finance incremental investment. For more significant investment in the agricultural and basic value-added agribusiness sector, economies of scale will be needed at the producer level. These economies of scale will permit groups like farmers' cooperatives to use capital equipment effectively, borrow credibly from financial institutions, and develop the professional capacities to use the investment well and to continue to upgrade and invest.

State-owned enterprise similarly suffers from obsolete equipment and processes (and lack of technical and management capability). Like many other countries, Burundi may be tempted to invest in its state-owned companies in the hope of reviving them and operating them profitably, or with the goal of obtaining better purchase prices from an investor when the enterprise is privatized.

The public sector can rarely invest and revive State-owned enterprises rapidly, and often makes poor choices as to the type of investment that is put in place. A private investor will know exactly the type of capital investment that is desirable and that will render the enterprise profitable and competitive, and when capital investment is included, there is rarely any sales cost advantage to a country that delays privatization. The case of Rwanda is instructive. In the tea sector, for example, delaying privatization has cost the country dearly in terms of wasted expenditure, less-than-optimum performance, and opportunity cost. Investment by sound, reputable private sector

[60] 2004 Industrial Association of Burundi Survey.

owners will almost always be much more efficient and market focused than continued public ownership and management.

Availability and Cost of Imported Inputs

Limited foreign exchange, high transport costs, monopolistic purchasing, small domestic markets, and many other factors contribute to the limited availability and high cost of imported inputs.

As in other countries (again Rwanda is an example), there is the temptation to provide certain inputs (e.g., fertilizer, pesticides, and even extension services) through government procurement or marketing monopolies. This is probably inadvisable—experience shows that procurement and distribution of agricultural inputs are inefficient and not responsive to specific user needs. Economies of scale offered through cooperatives and other forms of producer organization should be encouraged as a means to negotiate lower costs (for bulk purchases) while ensuring that proper inputs are promptly procured.

Participation in liberalized supply and value chains can provide another means to access inputs, when downstream buyers provide embedded services or contract services. Such arrangements should be encouraged. Foreign investors can also be instrumental in ensuring the supply of inputs.

Availability of Financial Services and Credit

The availability of finance for investment and working capital plays a substantial role in determining a business' ability to access inputs.

The CAS found Burundi's financial sector to be surprisingly robust, considering the low level of development, and is a strength to be built on. However, the cost to create collateral is high, and Burundi's country credit rating is below benchmarks.[61]

There are nine commercial banks in Burundi, of which four have private capital (IBB, BCD,[62] BGF, and Finalease).[63] Between 1990 and 2001, commercial banks dominated the financial sector, especially regarding the distribution of credit. In 2001 for example, commercial banks distributed 82.3 percent of financing.[64] Nonetheless, the banking sector is oligopolistic in many respects. Lending rates are high, and costs of transactions, and even bank costs related to savings, are also high.[65] Doing Business 2006 rates Burundi a 3 on the Depth of Credit Information Index (0-6), like Nigeria, also with a score of 3. Best practice is the UK with 6.[66]

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[61] *Burundi Economic Performance Assessment*, 10.

[62] BCD has recently failed, and reportedly is being liquidated.

[63] *Burundi: Étude Diagnostique sur l'Intégration Commerciale* Volume 2, 21.

[64] Ibid., 23.

[65] *CSLP – Complet sur le Commerce et le Secteur Privé*, 17.

[66] *Doing Business in 2006, Creating Jobs*, 33.

Small enterprises face problems obtaining credit because banks require significant guarantees.[67] Current systems of land tenure and land markets preclude widespread use of land as collateral, restricting access to credit and reducing potential investment. Insecure land title, a related issue, restricts the producer's willingness to invest in productivity enhancements.

Downstream buyers and foreign investors will provide some capital access. But more widespread access to financial services, and affordable cost of capital, will be hugely important. A broad offering of financial services—such as banking, insurance, and leasing, along with remittances, microfinance, and equity—will provide innovative and market-based resources to business; they will have to be incrementally established, of course. Microfinance, buyer credit, producer organizations, and land reform will be essential for the large mass of the population to achieve increases in production and invest in rural or other small enterprise.

In many countries remittances have provided an important source of investment and working capital for small business. Remittances also augment families' purchasing power, which in turn increases market opportunities for business. Burundi would do well to encourage the flow of remittances through low-cost transfer procedures and minimal levies.

Effective macroeconomic performance will contribute to lowering the cost of capital; however, guarantee arrangements are likely to be very important in the short-medium term. Credit risk monitoring and information sharing (through credit bureaus) will be needed. The skills and capabilities of the financial sector will certainly need reinforcing. The banking system will also benefit from developing financial instruments and loan evaluation skills that enable it to meet the needs of small investors, especially in agribusiness pursuits, who lack collateral. Entrepreneurs will benefit from assistance and training to develop business plans, maintain accurate accounts, and other elements that will encourage bank lending.

A pattern of corrupt behavior presents clear risks to the creation and growth of a robust financial services sector.

Lack of Economies of Scale—Producer Organizations

A problem common to many countries is the low productivity and high costs of the small-scale producer and business, especially in the rural economy. Small-scale producers cannot afford many services or investments, and when extension services are otherwise unavailable, cannot afford these either. The small scale and poverty of individual producers prevent them from developing or investing in professional technical or management skills. The productivity of Burundi's agricultural workers is one of lowest in the world—an average of $103.10 per worker over the five years to 2003.[68] Limited monetization of the rural economy, combined with tightness of rural food markets, hinder intensive agricultural production and the modernization of the sector.[69]

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[67] *Burundi: Étude Diagnostique sur l'Intégration Commerciale* Volume 2, 6.

[68] *Burundi Economic Performance Assessment*, 17.

[69] *Burundi: Étude Diagnostique sur l'Intégration Commerciale* Volume 2, 12.

Various forms of organization can help producers meet the scale requirement. Cooperatives, business associations, farmer associations, and service companies can provide needed scale, and such forms of organization should be encouraged in Burundi. With combined resources and demand, entrepreneurs and producers can begin to invest in productive equipment, in developing skills, in training and extension, in skilled management, and much more. They can combine their purchases of inputs to obtain more advantageous prices. Such organizations make it easier to obtain loans from banks and other financial services providers. They also provide a means for the participants to invest in downstream added value. They provide hands-on business experience and make it more likely that individuals will subsequently establish their own enterprises. Rwanda came late to such forms of rural enterprise—one catalyst was producers' experience with investment in coffee-washing stations (assisted by USAID)[70].

With greater scale economies and rural organization, intermediaries such as transporters and processors will find it attractive to invest locally and serve small enterprises and producers.

Administrative and Program Capacities

With a limited budget, degraded and low stock of physical assets, and limited personnel capacities, Burundi's public sector is not prepared to provide the private sector with significant services. As discussed above, the public sector will even be limited in its ability to plan effectively and to properly implement basic legal and regulatory systems.

It may be best for the public sector to target what is vital. Rather than trying to build capacity in every respect (and likely delivering in that case on very few), it may be best to target priority services and functions and invest the government's limited resources in doing those key things well. If a service or function is important and government lacks the capacity, then that service can be outsourced to a contractor or provided by private sector constituencies. Many customs and standards testing functions can be outsourced. Private sector associations or cluster organizations can carry out product inspections and grading activities, and much of the business registration and statistical activity can similarly be performed by business organizations such as chambers of commerce. If extension services are not delivered effectively, there is a real question as to whether government organizations should be charged with developing that capacity.

This raises the question of who will provide the extension services. Without purchasing power, farmers will not be able to pay for such services. Part of the answer lies in the development of scale economy through local organization. Embedded services (such as extension services, technical and business advice, credit, and inputs provided by a buyer or processor), an approach that is used effectively in many countries in the region, may also offer important assistance, advice, and resources. International organizations might also provide assistance to jump-start the extension process.

[70] For example, the ADAR project, implemented by Chemonics with J.E. Austin Associates and Prime International.

4. Fostering Competition in the Private Sector

Burundi will strive to open its economy to competitive market principles. This will not be easy, coming from a situation of heavy State involvement in the economy, well-connected businesses having unusual control over key imports and exports, administrative and legal systems demonstrating favoritism and unethical behavior, a lack of information and public debate, and the population's lack of familiarity with market processes.

STATE OWNERSHIP AND MONOPOLY

Nearly 11 percent of businesses in the manufacturing sector are 100 percent state-owned.[71] According to the IMF, the government affects prices through its state-run monopolies in telecommunications and cotton and directly influences the price of coffee.[72] Examples of State involvement in key sectors include:

- The tea industry is very controlled by the State. The Tea Board (OTB) has a monopoly on converting green leaves to dry tea in its five factories.[73]
- Cotton is controlled by the State through COGERCO. This organization collects and commercializes cotton while COTEBU, a State-owned factory, makes fabric.[74]
- In the coffee sector a major reform program in the 1990s replaced the export monopoly with a more open system. In this system, private exporters buy and export the green coffee. The Coffee Board was put in charge of preparing and coordinating the overall sector strategy sector. The board usually dictates terms of sale, prices, liberalization, and privatization.
- The reform program transferred management of operations for 133 State-owned washing stations to five regional washing station management companies (SOGESTAL). Other

[71] 2004 Industrial Association of Burundi Survey, 22.

[72] *2006 Index of Economic Freedom.* www.heritage.org. Feb. 22, 2006.

[73] *Burundi: Étude Diagnostique sur l'Intégration Commerciale* Volume 1, 76.

[74] Ibid., 77.

companies include dehulling and conditioning (SODECO). These are businesses with varying levels of mixed public–private ownership.[75]

- REGIDESO is the public establishment that controls management of energy and water in urban areas.[76]
- The telecommunications sector enjoys considerable competition. The national telecommunications office (ONATEL) was a monopoly until 1996, when competition was allowed into the sector. Three mobile telecommunication companies operate in Burundi. Three additional operators later entered and are commercializing the Internet. The telecommunications sector is regulated by l'Agence de Regulation et de Controle des Télécommunications (ARCT).[77]

REMOVING BARRIERS TO ENTRY AND ENCOURAGING COMPETITION

A competitive market economy offers a level playing field, which encourages more investment, lowering risk in the long term, and provides a basis for pursuing competitive business strategies. Competition lowers input prices, hones skills, and encourages innovation. Therefore, some basic principles should be encouraged: transparent systems and administration, market-based economic decisions, and avoidance of formal and informal monopolies. Open and transparent government procurement procedures will foster competition.

Monopoly state organizations (and also private sector monopolists) interfere with competition. Generally, such structures, as well as State-owned commercial enterprises, should be quickly (and prudently) privatized. Adjustment costs will certainly need to be planned and mitigated, probably with international assistance.

Unless justified by the temporary need to jumpstart investment in a sector, there should be no artificial barriers to entry into established areas of production. In some cases it may in fact be useful to actively facilitate the start-up of new entrants.

The competitive functioning of markets can also be improved by facilitating access to information and other countervailing mechanisms. Providing producers with information about market chains and market prices offers a means to negotiate with buyers. Similarly, facilitating the formation of producer organization and business associations provides a means to negotiate bulk purchases and challenge intermediaries through forward integration if they believe that they can mount competitive services or enterprises. Actions that foster commercial market linkage also tend to promote competition. Producers will have greater choice of intermediation and more information about prices, customer preferences, and other factors.

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[75] If washing stations were liberalized, the washing station operators would demand direct access to the markets. This would allow them to establish relationships with specialized importers. (*Burundi: Étude Diagnostique sur l'Intégration Commerciale* Volume 1, 2 and 4)

[76] *Note d'Information sur le Secteur de l'Energie au Burundi*, 8.

[77] *Burundi: Étude Diagnostique sur l'Intégration Commerciale* Volume 2, 39.

JUMPSTARTING INVESTMENT: SOME PRINCIPLES FOR GOVERNMENT INTERVENTION

Are there appropriate forms of intervention to jumpstart investment and even affirmative action? Aggressive fiscal incentives will also be useful to encourage investment, but except in priority cases, these should not be directed to specific investors. It will likely be much more effective to generally offer good tax advantages to all investors, rather than to favor special cases.

Many countries promote small and microenterprises through platform and supportive programs focused on access to services, improvement of skills and capacities, and other subsidized advantages. This is laudable, and probably appropriate as long as there is competition for access, and as long as there is a clear exit from providing these resources within a relatively short timeframe. Lines of credit and cost-sharing grants, supported by international lenders or donors, are frequently used mechanisms for providing small doses of investment finance to small enterprise.

Also, the government should not be denied a role in helping to jumpstart investment in new sectors or subsectors. If initial experimentation and investment are perceived as being so risky as to prevent initial private entrants, the public sector has a legitimate role in putting programs in place to encourage investment or demonstrate the investment's potential success. This active role is adopted in many countries.[78] Funding for such efforts is generally provided through government budgets or bilateral and multilateral programs. Approaches that involve public–private partnership or providing advantageous framework for private investment are also certainly plausible. Uganda is known for innovative approaches to encouraging rural telephony access through private investment, for example.

The private sector may in many cases be unable to immediately assume responsibility for investment or service elements. The exit strategies will need to be carefully managed, but should be implemented according to a strict timetable consistent with the private sector assuming responsibility.

The principles in these cases are also straightforward:

- When the work can be contracted to private firms, it should be.
- All plans should be market-based.
- When a new capacity is to be established, it should be established in the private sector unless there is clear reason to involve the public sector.
- No plan should be implemented without a clear, and clearly enunciated, exit strategy for the public sector.

For a poor and small country, the best sources of competition are often external. The learning and competitive pressures obtained from competing in export markets will provide important experience for Burundi companies. Structuring its export sectors to remove monopolies and

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[78] Chile (*Fundación*) and South Africa (Blue IQ) are examples of successful programs to jumpstart private investment through initial public sector action.

encourage market entry will enable Burundi businesses to interact with strong international competitors.

5. Facilitating Investment

Foreign direct investment fosters competition at the same time that it generates needed capital inflows, facilitates the transfer of technology and skills, and provides insight into international best practice. In the short term, possibilities may be few, limited perhaps in local value added, or to traditional export industries such as coffee and tea. But it is important to begin now to put the conditions in place to enable foreign investors to see Burundi as a secure and investor-friendly environment that offers profitable business opportunities.

The EIU reports that Burundi has never been a significant destination for FDI.[79] Gross fixed investment was estimated at 11.6 percent of GDP in 2003; in 2002, it was only 2.5 percent of GDP.[80] To sustain moderate growth, however, a minimum of 20 percent gross fixed investment and 15 percent private investment are needed.[81] Investment productivity has been poor. The five-year average incremental capital-output ratio for 2003 shows that $8.8 of gross investment has been needed per dollar of extra output, nearly triple the investment requirement that is needed in Uganda and Rwanda.[82]

Ultimately, domestic investment will be more important to sustainable growth than FDI. But there is a great deal to accomplish to overcome the riskiness of domestic investment—and small-scale investors tend to invest at a small scale. A priority is to encourage entrepreneurial behavior, new enterprise formation, and the type of producer organizations that we have already talked about. Many of the successful ones will reinvest and spin off new businesses.

What is important to investors? Competitive FDI will be attracted to credible, competitive strategies (see below). FDI promotion can be targeted—to invest in privatized enterprises, to provide outsourced services, and to participate in priority sectors for which there is a credible, market-oriented sector strategy. From a business and market perspective it should be fairly easy, for example, to put in place a competitiveness strategy for the tea and coffee sectors (and less easy from a political perspective, perhaps); these could certainly be beacons for attracting foreign investors. Other export sectors could also offer potential. In the longer term, an active strategy to prepare Burundi to serve as a competitive logistics, processing, and service center for the region would certainly attract investors who would view Burundi as a hub to participate in regional

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[79] *2006 Index of Economic Freedom*. www.heritage.org. Feb. 22, 2006.

[80] *Burundi Economic Performance Assessment*, 3.

[81] Ibid.

[82] Ibid..

markets and value chains. The small size of Burundi's domestic market is undoubtedly a deterrent to many investors but possibly an advantage to companies that win a large market share.

What should be the government's role in promoting investment? Africa offers many examples of investment promotion agencies, authorities, and similar organizations, few of which are effective, and few of which can demonstrate their accomplishments. The resources available to these organizations tend to be feeble, with little programmatic funds to be used by the personnel. The personnel are too often without real business experience and severely lack capacity. Given available skills, the priorities of an investment promotion agency will be to help interested investors arrange visits, quickly obtain information on doing business in Burundi, obtain initial logistic services, and meet the formal requirements for establishing an investment. A public organization should also promote Burundi as a place that welcomes investors and has sound sectoral priorities and strategies in place.

6. Overarching Sector Strategies

Private sector activity and momentum can be accelerated through targeted focus on increasing the competitiveness of specific sectors or collections of value chains. A targeted focus implies coincident areas of emphasis: developing and implementing a strategy for the sector, identifying the transaction costs and other constraints that can be removed by concerted policy action, and actively promoting the sector in target markets.

Strategy setting and action planning should be carried out with a high degree of stakeholder involvement and, ideally, leadership to maximize enthusiasm, buy-in and ownership, and the learning that is involved in setting sound strategies.

Choices will need to be made about which sectors to actively promote. It’s likely that initial priorities will emphasize exports—as they earn FX, help to build Burundi’s image for investment, expose entrepreneurs to global markets and lessons, etc. Regional logistics, coffee and tea are obvious candidates sectors; and there are undoubtedly others.

But a strategy is not enough—stakeholders have to actually implement in a concerted way. Providing focus on good value chain analysis and development, economies of scale and skills development, sound strategies can be a powerful force for economic growth, private sector development, and improving the business environment.

Sound sector strategies with private “ownership” and leadership also help to move sectors away from government monopolies. Commitment to globally competitive strategies implemented by the private sector at a minimum typically requires removal of monopoly buyers and exporters, and configuration of an appropriate body or bodies to provide needed regulation, inspection, quality grading and so on—all functions that ideally require a sharing of responsibility between public and private sector.

7. Conclusions and Recommendations

This paper has examined the status of the private sector in Burundi. In particular it has looked at the constraints—the challenges that must be dealt with for Burundi's private sector to develop and thrive—and suggested courses of actions and decisions that should be made to address these constraints and challenges. The paper has also considered the specific issues of ensuring competition, attracting investment, and developing leading sector strategies—each will be very important for the growth of Burundi's private sector.

This section discusses several actions or program elements that should be emphasized in the short-medium term, particularly with multilateral or bilateral assistance.

It is probable that almost all of these recommended actions will require mobilizing technical assistance, advisory services, and financial resources through international assistance. More than anything else, Burundi's partnership will need to include active implementation and follow-through, transparency, and accountability.

Most of these recommendations will be implemented incrementally. Of absolute priority are actions to

- Improve services and infrastructure,
- Cement regional agreements,
- Open the market to competition,
- Remove legal, regulatory and procedural barriers,
- Improve rural productivity,
- Provide small investors and producers with access to finance,
- Build technical, managerial, and basic skills, and
- Establish inclusive national dialogue to develop the shared vision for Burundi's economic growth and competitiveness.

It is one thing for observers (such as the authors) to recommend priorities, another for the nation's stakeholders to understand the issues and play an integral role in exploring issues and prioritizing actions. It is this process that we refer to in Recommendation 12: Dialogue to develop widespread stake in private sector growth.

1. *Improving Services and infrastructure*

Identify key infrastructure investments and jumpstart these. In the transport sector, regional connectors, internal farm–market linkages, and supporting logistics systems will be priorities. Access to power, water, and communications will be other priorities. Although undoubtedly improvement is needed throughout the country, particular attention should be paid to dramatically improving infrastructure and services in specific locations that will be key to market linkage, export industries, and attracting incoming investment. Assistance programs should be targeted to prioritizing, planning, and realizing the needed infrastructure and associated services provision.

2. *Entering into Regional agreements*

Burundi should place great emphasis on regional integration, and in particular in gaining ready access for its goods and services, at a low transaction cost, to neighboring markets. This implies playing an active role in regional organizations, reducing the complexities, costs, and time requirements of cross-border procedures, and attracting investment from within the region. It should also include rapid handling and transit of goods to and from Burundi through gateway ports and transit countries.

3. *Removing monopolies—opening Burundi to competition*

Burundi should, as quickly as prudent, privatize or wind up most State-owned enterprise, and remove or adjust any laws or regulations that restrict competition. Development partners should provide assistance in defining privatization strategies and associated sectoral adjustments, implementing privatization, reviewing legal and regulatory systems, and designing and implementing new legislation and regulation. Associated training will also be needed.

4. *Improving legal, regulatory, and procedural systems*

More generally, Burundi's legal, regulatory, and procedural framework should be reviewed and improved to remove archaic restrictions and unnecessary complications, ensure low transaction costs, and maximize service to investors and business operations. Actions should be prioritized, unless vast resources are available to implement new systems and to support widespread training, business and government should agree on targeting elements that will have the highest impact.

5. *Improving rural productivity*

A large number of actions are important to improving rural productivity and farm–market linkage. This is vital to integrate large sections of the population into the economy, to give them a stake in Burundi's economic future. Development partners should assist Burundi with the following initiatives:

- Upgrading farm–market infrastructure.
- Developing communications and business–business linkages that ensure access to market and price information throughout the market chains.
- Assisting in the formation of farmer organizations, cooperatives, and companies to develop the basis for economies of scale. Associated assistance will target training, resource mobilization, sound business and management systems, associated corporate governance, and other production factors through them. Assist these organizations in operating on a sound business and market basis as interest and opportunity are available for entrepreneurial expansion (e.g., investing in additional services, investing in

processing operations and so on, assisting in the planning and establishment of commercially viable lines of business).

- Assisting in investment in intermediation, such as processing and transport.
- Assisting in access to market-based business services and work with BDS providers to ensure professionalism, targeting services to demand, etc.

6. *Ensuring access to finance*

New enterprise formation and investment require access to financial services on market-based principles. Development partners can help to introduce microfinance services. They can also help financial service providers to develop the skills and products that can appropriately serve small and other investors, especially in rural areas. At the same time, business will need assistance in learning to prepare business plans effectively, in properly managing and stewarding borrowed funds, and otherwise meeting the needs of the financial institutions. There is opportunity to help business services providers to provide these skills on a market basis. Also, there is scope to introduce risk management institutions, such as credit bureaus, to assist financial services providers in mitigating risks, and to engender proper repayment behavior by their customers. In all cases, initiatives must be designed that take into account the risks of lending and the fiduciary responsibilities of financial institutions.

7. *Establishing Sector strategies and building exports*

Starting with key export sectors, Burundi's producers, business, and public sector should be assisted in developing sector competitiveness strategies. These strategies should increasingly target high-quality markets, improve access to market information, increase investment, improve the volume and quality of production, improve services to the industry, ensure appropriate sectoral institutions, and reduce transaction costs. They should be developed as much as possible by and with the industry stakeholders and implemented by them.

The prices offered to producers (and the mechanisms for setting the process) for coffee and other export crops need to be urgently and carefully reviewed, and perhaps liberalized. Higher prices, and standard-based pricing, would presumably offer an incentive for increased production and investment in higher quality and might encourage enterprise formation and active produce associations.

8. *Attracting investment*

Although many of the other actions discussed will contribute to attracting investment, development partners can assist in other important ways:

- Examine laws, regulations, and procedures to identify anti-investment elements and put in place a pro-investment framework.
- Develop a program of fiscal policy, and possibly incentives, that will be attractive to investors
- Provide assistance to foreign and domestic investors to quickly establish their operations and commence their business activity
- Promote Burundi as a place that welcomes and offers advantages to investors

- Provide training to public and private sector leadership so that it shares Burundi's pro-investor vision and contributes to its realization.

9. Building the capacities of appropriate public and private institutions

Public sector and private sector organizations will need the personnel, skills and material resources to achieve their mandates. This will undoubtedly require institutional restructuring and planning. In a more focused manner as pertains to working with targeted public and private organizations to develop their delivery capabilities, develop staff's technical and management skills, and outsource and commercialize appropriate services or service elements.

Development partners should also provide assistance in creating new associations and other private sector organizations—on a location, sector, or other basis as appropriate—to provide services to their constituencies, to provide a basis for dialogue within the private sector, and to represent the interests of their membership. These organizations will require a variety of early support—management systems, service delivery, governance, material resources, and more.

Development partners should also help skills providers and business service providers develop services to provide training and skills development for public and private organizations. Also, business and government should be assisted to work together to revise and develop the general educational system—starting from primary and secondary education, but also tertiary, vocational and technical education.

10. Establishing the business habit—encouraging enterprise formation

Burundians need to look to forming and engaging in business as their chief means to economic growth, and this expectation should be widely publicized and encouraged. Actions relating to rural productivity, BDS and financial services provision, and supporting new investment will all encourage this trend. Nongovernmental organizations and international agency programs can support entrepreneurship training. Successes should be widely publicized and discussed.

11. Building skills needed for business

Individual businesses will need access to technical, financial, marketing, management, and other skills. A rich offering of training programs should be fostered. These training programs should be developed using proven models from other countries, ideally incorporating Burundi-specific cases. The training programs should be offered to the greatest degree possible through BDS providers, including business associations.

12. Encouraging dialogue to develop widespread stake in private sector growth

Helping Burundians to develop a shared vision of the basis for their growing economic future, understanding of market opportunities, and the role of the private sector are all basic requirements. This shared vision and commitment should be fostered in part by a national dialogue supported by USAID and other development partners. The dialogue should go beyond standard public–private forums and should extend to numerous community and other forums. The dialogue and public information should be informed by international experience and best practice[83] but should be customized as much as possible to the specific Burundi situation. Well-informed forums are also needed for effective public–private dialogue and decision making.

This discussion and information must be combined with visible action and opportunity.

All of the recommendations in this paper have been made with a view to encouraging economic linkage and inclusiveness.

13. Establishing a sound database on the private sector and business-related issues

The current lack of data inhibits planning and decision making and increases the likelihood of disagreement among business, government, and other stakeholders. Burundi should be assisted to implement ongoing data collection about the private sector, its constraints, and its performance.

14. Promising, following through, monitoring, and communicating

The public sector and partner private sector organizations should clearly set out their principles and commitments to action, with a time schedule that can be monitored, and clear statements of expected results. This action plan should be reviewed periodically (at least quarterly) by a neutral think tank or a public–private body. The results of the review should be made public, easily available, and open to discussion. USAID and other agencies should assist in putting this ongoing system in place.

15. Being aggressive, but reasonable - Don't try to do everything at once

It is tempting to try to do everything at once, but capacities and understanding are simply not in place to enable this to take place. To jumpstart activity, the government, private and civil society stakeholders, and international development partners should rapidly agree on principles and initial priorities. Further prioritization should be the outcome of a process of intensive dialogue and awareness building quickly put in place.

16. Sending a clear message—open for business, investment is welcome

This message should be prominent in everyone's minds and actions. Every decision and action should be considered in terms of its impact on business, investment, and competitiveness. Part of this message is a commitment to build capacities in the private sector, rather than a priori in the public sector.

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[83] The recent Growth Learning Workshop in Tanzania is one example of a successful format.

8. Final Thoughts

In a recent Center for Global Development brief, How Countries Get Rich,[84] Peter Timmer analyzes the role that investments in education, technology and trade have made in the rapid progress of countries. He suggests that the "miracle" of getting rich lies in creating a durable set of institutions—some public, some private—that encourage the "Smithian conditions" of "peace, low taxes, and good government," as well as economic openness for long periods of time.

The action plan outlined in this paper is very much based on these principles. It reflects lessons from many other countries, and from numerous practitioners and researchers.

Few people think of Burundi as being in a position of business or economic advantage. However, Burundi does have opportunities and can have a sound plan of action. Burundi's opportunities lie in quickly implementing the global best practices that international experience has demonstrated lead to economic recovery and growth. Not unrelated, Burundi's opportunities also lie in doing things better than its regional neighbors—being more efficient, implementing better services, offering better quality, and implementing business strategies and operations that meet the requirements of regional and international markets and value chains. Burundi has vast, potentially productive human resources.

Wise decisions, programming, and implementation are essential. Shared commitment and informed and committed leadership are also essential.

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[84] Timmer, C. Peter. *How Countries Get Rich*, Center for Global Development, February 2006.

Appendix A. Acronyms and Abbreviations

GDP	Gross Domestic Product
USD	United States Dollars
OCIBU	Office of Burundi Coffee
OTB	Office of Tea of Burundi
COGERCO	Cotton Management Company (of Burundi)
COTEBU	State-Owned Textile Company (of Burundi)
AIB	Industrial Association of Burundi
DRC	Democratic Republic of Congo
IT	Information Technology
COMESA	Common Market for Eastern and Southern Africa
SoE	State-Owned Enterprise
FX	Foreign Exchange
CAS	Country Analytical Study
UK	United Kingdom
IMF	International Monetary Fund
ARCT	Agency for the Regulation and Control of Telecommunications
EIU	Economist Intelligence Unit
FDI	Foreign Direct Investment
BDS	Business Development Services

NGO	Non-Government Organization
SBA	Small Business Administration
USAID	United States Agency for International Development
GLW	Growth Learning Workshop
GoB	Government of Burundi
CGD	Center for Global Development

Appendix B. Data Tables

Table A-1

Cost and Availability of Services

Service	Burundi	Uganda	Rwanda	Tanzania	Kenya	USA	France	Japan	Canada
Internet users per 1,000 people	2	5	3	7	13	551	366	483	513
Monthly Internet price ($ per 20 hours of use)	81	97	67	117	46	15	14	21	13
Monthly Internet price (percent of monthly GNI per capita)	971	464	348	501	152	0.5	0.8	0.8	0.7
Number of secure servers	2	2	..	1	8	198,098	3,855	20,465	15,441
Telephone mainlines per 1,000 people	3	2	3	4	10	621	566	472	629
Telephone mainlines, waiting list (thousands)	4.7	..	..	8	134	..	0	0	0
Average cost of telephone call to US (US$ per 3 minutes)	3.7	3.51	..	5.28	4.36	..	..	..	..
Average cost of telephone call locally (US$ per 3 minutes)	0.07	0.21	0.09	0.12	0.07	0	0.15	0.07	0
Mobile phones per 1,000 people	9	30	16	25	50	543	696	679	417

SOURCE: *2005 World Development Indicators*

Table A-2

Indicators of Economic Growth

Indicator	Average Annual Growth (%)	
	1980–1990	1990–2003
GDP	4.4	-1.5
Agriculture	3.1	-0.4
Industry	4.5	-2.6
Manufacturing	5.7	-8
Services	5.6	-1
Gross capital formation	6.9	1.2
Indicator	**Share of GDP**	
	1990	**2003**
GDP (US$ million)	1,132	595
Agriculture	56	49
Industry	19	19
Manufacturing	13	0
Services	25	32
Domestic credit to private sector	13.7	28.1
Foreign direct investment	0.1	0
Gross private capital flows	3.7	6.2

SOURCE: *2005 World Development Indicators*