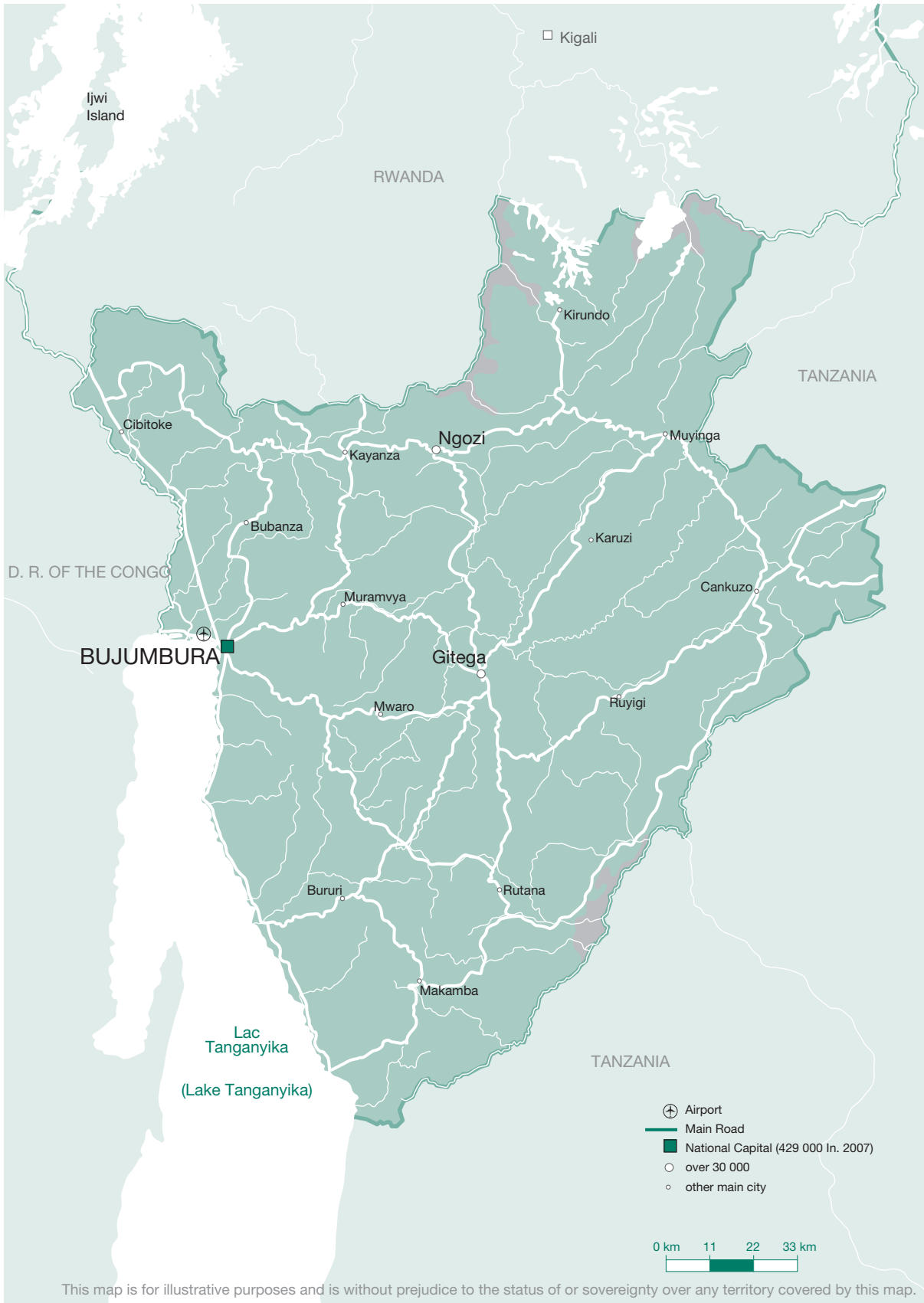


Burundi
2011





Burundi

Overview

Burundi's economy grew by 3.9% in 2010. As in previous years, this rate was below the government's target of 4.5%, mainly as a result of political uncertainty stemming from a series of elections in a politically fractionalised environment, as well as inclement weather. In 2011 and 2012, growth is expected to reach 4.5% and 5.2% respectively. This improvement will be conditional on better weather conditions and a more predictable political environment.

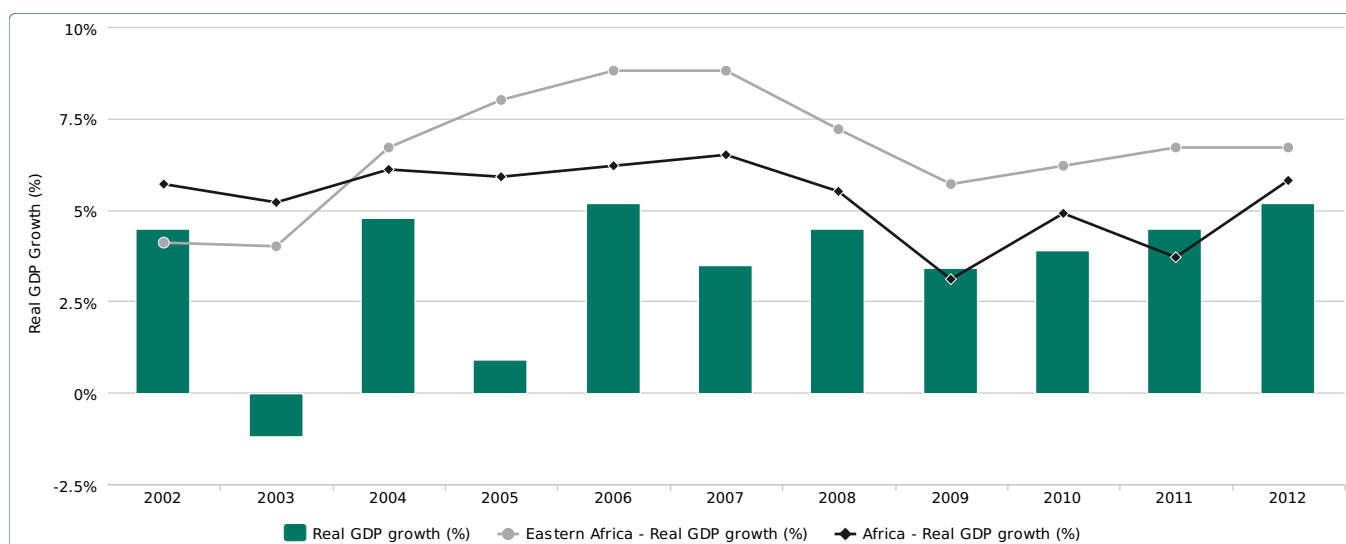
Fiscal policy was neutral, with levels of revenue and expenditure in 2010 similar to those in 2009. Public investment increased by 10%, mostly as a result of the expansion of social sector infrastructure. The rise in public spending combined with a small decline in grants increased the overall deficit from 2% of gross domestic product (GDP) in 2009 to 3.2% in 2010. Large increases in credit to the government drove money supply upwards. The resulting pressure on domestic prices was counterbalanced by higher food production and lower food price inflation. Overall domestic inflation stood at 7.1%, down from 10.7% in 2009. Over the years, the country's chronic trade deficit has been partly absorbed by current transfers, mostly in the form of aid. Owing to the high level of transfers in 2010, the current account balance declined despite a substantial increase in the trade deficit.

Aid transfers to Burundi might decline over the next two years as a result of the economic crisis affecting its traditional partners as well as poor governance in Burundi. Such a decline would impair the government's ability to deliver basic services. Burundi's long-term financial stability requires that the country find new sources of finance, preferably domestic, and increase efficiency in resource allocation and use.

It is inconceivable that Burundi will reach high and sustained levels of growth unless it can stabilise its political environment, strengthen its embryonic private sector and develop its human resources. The insecurity that followed the 2010 elections will have to be addressed in order to achieve the higher levels of investment and aid flows that are needed to raise growth rates. To strengthen the private sector, the second vice-president is leading a drive to improve the business environment. However, the private sector will not thrive unless more is done to modernise the decaying agriculture sector, which sustains the livelihoods of the large majority of Burundians. Efforts to develop human resources by expanding education and health infrastructure and ensuring its efficiency will help to overcome the shortage of skilled labour.

The development of economic relations with new partners has opened up new opportunities that will help Burundi to diversify its markets and sources of assistance. China stands out as the country's key emerging partner. While China benefits from Burundi's diplomatic backing, there is no indication that this co-operation is driven by China's commercial interests in the country. Burundi is still dependent on its traditional partners, which fund a large share of the country's budget, so there does not seem to be competition between Burundi's partners. The country's needs are so immense that more partnerships should be welcome.

Figure 1: Real GDP growth (E)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932403857>

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	3.4	3.9	4.5	5.2
CPI inflation	10.7	7.1	8.3	6.9
Budget balance % GDP	-2	-3.2	-4.5	-3.9
Current account % GDP	-15.5	-9.4	-7.9	-11.7

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink <http://dx.doi.org/10.1787/888932406213>

Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2010
Agriculture, forestry, fishing & hunting	48.6	43.9
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	0.9	0.7
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	6.9	7.1
of which hydrocarbon	-	-
Electricity, gas and water	3.6	4
Electricity, water and sewerage	-	-
Construction	5.1	5.7
Wholesale and retail trade, hotels and restaurants	4.5	4.9
of which hotels and restaurants	-	-
Transport, storage and communication	4.7	5.6
Transport and storage, information and communication	-	-
Finance, real estate and business services	3.2	3.2
Financial intermediation, real estate services, business and other service activities	-	-
General government services	22.5	24.9
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	0	0
Gross domestic product at basic prices / factor cost	100	100

Source: National authorities.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932407182>

Burundi's economy grew by 3.9% of GDP in 2010. Although this growth rate was slightly higher than that

recorded in 2009 (3.4%), it fell short of the target rate of 6.6% adopted in the Poverty Reduction Strategy for 2007-09 and the average target of 4.5% adopted in the Medium-Term Expenditure Framework (MTEF). In fact, unlike most post-conflict countries, Burundi has not experienced a substantial increase in its growth rate since the end of its conflict seven years ago, owing to several factors discussed in this note.

Most of 2010 was characterised by political uncertainty due to the organisation of a series of four elections with no clear indication of who the winner would be. The results of local elections held in May were disputed by much of the opposition, which withdrew from the remaining electoral process. This engendered instability while compounding the existing uncertainty. The presidential election was held in June and legislative elections (for both the National Assembly and the Senate) in July, amid political tensions that undermined economic activity.

The elections affected the economy in three major ways. First, the uncertainty surrounding the electoral process, particularly after the withdrawal of the opposition, hampered economic activity as many investors decided to hold off on their investments until the political environment became clearer. One indication of this was the decline in banking activities: as of 30 September, the average amount of credit disbursed by the banking sector was 40% lower than at the same date in 2009. Tax collection was also lower than usual. The swearing-in of a new government in late August clarified the situation, and economic activity picked up. Second, the elections were held in a politically fractionalised environment, diverting the attention of many people from productive activities to political activism. This was particularly the case in public institutions, and it is not surprising that the output of the public administration fell by 60% in 2010. Third, the elections were partly financed by domestic revenue, taking away important resources that could have been used in the productive sectors.

The growth rate in the primary sector more than doubled from 1.8% in 2009 to 4.6% in 2010. This relatively high rate had an important effect on the overall rate of economic growth, since the primary sector is the backbone of the economy, accounting for 44% of GDP. Most of this performance was due to growth in the cash crop sector, which is dominated by coffee. The volume of coffee exported increased from 16 000 to 23 000 tonnes as a result of good weather and far-ranging reforms of the coffee sector, particularly improvements in quality. Exports of tea, the second main export crop, stabilised at about 6 000 tonnes.

Adverse climatic conditions during the first farming season detracted from food production, particularly in the northern part of the country. Food output increased in the second farming season, however, as illustrated by the decline of food prices between May and July 2010. Overall, growth in the food sector was 1.5%. The low technological level of the agricultural sector has kept Burundi's economy highly dependent on the vagaries of natural forces, particularly rainfall.

In the secondary sector, overall performance was comparable to that in 2009, although the growth rate fell slightly from 5% to 4%. Growth in industrial production accelerated from 1% to 4%. This increase was led by food industries, where the growth rate rose from -0.8% in 2009 to 4%. In contrast, artisanal production, construction, and mining and energy recorded positive growth, but at lower rates than in 2009. Within the secondary sector, the highest growth was recorded by agricultural industries and construction, which grew by 5%. This growth rate in construction, although high, was the lowest since 2003. Political uncertainty associated with the election cycle prompted many to put their projects on hold until it was clear what direction the country would be taking.

The tertiary sector recorded the lowest rate of growth, whereas in the preceding years it had led the overall growth process on the strength of investments in the telecommunications sector and most particularly in mobile telephony. In 2010, the growth rate was less than half of the average rate over the preceding five years. Again, traditional investors in the sector refrained from investing until the political environment cleared up.

On the demand side, the volume of gross capital formation increased by almost 10% from the relatively high level of 25% of GDP in 2009. This performance was led by public investment as a result of the continuing investment in public infrastructure. The acceleration of investment in the education and health sectors, probably prompted by the elections in 2010, accounted for a large part of this increase. The volume of gross capital formation by the private sector increased by 8% from its low level of 4.8% of GDP in 2009. Total consumption increased by 4.7%, mainly led by private consumption. This was the key contributor to GDP growth. Although coffee exports increased, the external sector's overall contribution to GDP growth was negative (-4.5%), owing to the persistently large trade deficit.

Although the direct effects of the food, economic and international financial crises were limited by Burundi's weak integration into the international economy, these crises affected the Burundian economy through indirect channels in 2010. Delays in aid disbursements due to the crisis in donor countries prevented the government from carrying out its expenditure and investment projects as planned. Moreover, the collapse of interest rates in Europe had a devastating effect on central bank resources. The amount of interest earned on central bank deposits dwindled from 23 billion Burundi francs (BIF) in 2009 to only BIF 13 billion in 2010, affecting the central

bank's overall balance sheet and reducing its transfers to the central government.

The growth rate forecasts for 2011 and 2012 stand at 4.5% and 5.2% of GDP respectively. These forecasts, made before the elections by the Ministry of Planning and Reconstruction and the Ministry of Finance in the context of the preparation of the 2011-13 MTEF, were based on the following hypotheses: *i)* that the elections in 2010 would be transparent and peaceful and their results accepted by all, allowing the pursuit of economic reforms and creating an environment conducive to higher private investment (this hypothesis has already been compromised); *ii)* that the economy would take advantage of the recovery in world demand to increase its exports; *iii)* that the increase in consumer prices would be slow owing to the reduction in international inflationary pressure; *iv)* that rigorous implementation of economic and financial reforms would lead to a rise in coffee exports, while better management of water resources would increase irrigated agriculture, reorientation of budgetary allocations would increase the size and efficiency of public investment, and fiscal efficiency would improve; *v)* that there would be a gradual increase in imports to help the reconstruction effort; and *vi)* that development partners would continue to assist the country's development efforts by providing external financial resources, in the form of grants and concessional loans.

The main risks to the forecasts for 2011 and 2012 are political, weather-related and external. The level of political risk will depend on whether the post-electoral tension abates, leading to a more peaceful political environment that will encourage domestic and foreign investment. Weather-related risks will continue to weigh on the country's economic performance, given Burundi's over-dependence on rain-fed agriculture. One important external risk is the possible reduction of aid disbursements to the country, particularly if there is no strong recovery in western economies.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	2009	2010	2011	2012	2010	2011	2012
Gross capital formation	13.8	25	9.6	17.3	7.2	3.3	6.2	2.9
Public	10.9	20.2	10	19	7	2.7	5.5	2.3
Private	2.9	4.8	8	10	8	0.5	0.7	0.6
Consumption	103.5	108.9	4.7	-1	6.1	5.1	-1.1	6.3
Public	18.4	25.3	2.9	5.8	6	0.6	1.2	1.3
Private	85.1	83.6	5.2	-2.7	6.1	4.5	-2.4	5
External sector	-17.2	-33.9	-	-	-	-4.5	-0.6	-4
Exports	6.1	10	-0.6	10.9	0	-0.1	1	0
Imports	-23.3	-43.9	8.5	3	7.5	-4.4	-1.6	-4
Real GDP growth rate	-	-	-	-	-	3.9	4.5	5.2

Source: Data from Burundi Institute of Statistics and Economic Studies and Bank of the Republic of Burundi; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932408151>

Macroeconomic Policy

If the post-election political tensions are successfully defused, macroeconomic reforms will be consolidated over the next two years. Fiscal policy will be based on the recently adopted MTEF; monetary policy will continue to promote price stability; and the external sector will strive to increase exports and maintain a low level of indebtedness.

Fiscal Policy

Both revenue and expenditure in 2010 stood at levels similar to those in 2009. Revenue was 30.5% of GDP (31% in 2009), while expenditures increased slightly to 33.7% of GDP (33% in 2009). In fact, the levels of revenue and expenditures in 2010 reflected a declining trend that started in 2008 from the high values recorded in 2007. Whereas domestic resources increased slightly from 17.2% of GDP in 2007 to 18.5% in 2010, grants were halved from 20.4% of GDP to 10.4% over the same period. The negative effect of the crisis on traditional donors and poor management of public resources, including aid, are two of the key factors explaining the drop in grants. The overall deficit increased from 2% of GDP in 2009 to 3.2% of GDP in 2010.

For 2011 and 2012, total revenue will not change substantially. Even if the government increases tax collection as a result of the fiscal reforms introduced in 2010, grants will most probably continue to decline. In early 2011, some donors withheld resources in reaction to major cases of misappropriation of public funds by high-ranking government officials. In addition, some donors have announced aid cuts due to their own financial problems resulting from the international crisis. Burundi needs to reduce its dependence on external aid by mobilising more domestic resources and using them efficiently. External assistance is often not disbursed until late in the year or even in the following year, which compromises the implementation of the budget and development projects. In this regard, the government reformed its tax administration in 2010 by establishing the Office burundais des recettes (Burundi Revenue Authority - OBR), an autonomous institution that is expected to be more efficient than the old revenue service housed in the Ministry of Finance. If OBR is to be effective, however, it will need to improve its technical capacity, devise ways of stemming corruption and pervasive tax evasion, and bring at least part of the large informal sector into the tax net.

Expenditure in 2011 is projected to be at the same level as in 2010, while in 2012 it should increase marginally because of the rising trend in wages and salaries as the government honours its pledge to increase civil servants' wages. In view of the country's reliance on donor support, however, these projections are dependent on the amount of external inflows. If the latter decline, as early indications suggest they will, then spending will decline as well. For example, the preparation of the 2011 budget was delayed by several months because many donors could not commit to maintaining aid at the levels they had been allocating to the country.

Burundi reached an important milestone in January 2009 when it reached the completion point of the Heavily Indebted Poor Countries initiative. The resulting debt cancellation amounted to 833 million US dollars (USD), accounting for most of the country's external debt. Burundi now has a sustainable level of indebtedness. Interest on external debt was only 1.2% of GDP in 2010, and this ratio is expected to decline to 0.8% and 0.7% of GDP in 2011 and 2012 respectively. To avoid re-accumulating unsustainable levels of debt, Burundi has decided to accept only grants and highly concessional loans in the future and has made it illegal to contract short-term public debt.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	24.3	39	36.2	31	30.5	29.1	30.8
Tax revenue	17.7	17.2	16.9	18.1	18.5	17.4	17.6
Oil revenue	-	-	-	-	-	-	-
Grants	4.2	20.4	17.2	11.2	10.4	10.1	11.5
Other revenues	-	-	-	-	-	-	-
Total expenditure and net lending (a)	25.6	38.5	35.5	33	33.7	33.7	34.7
Current expenditure	20.2	25.8	26.4	27	27.3	27	27.9
Excluding interest	17	23	24.4	25.3	26.1	26.2	27.2
Wages and salaries	7.8	10.8	11.4	12	12.7	13.8	15
Goods and services	6.5	6.7	6.9	6.8	7	6.2	6.2
Interest	3.2	2.8	2	1.7	1.2	0.8	0.7
Capital expenditure	5.6	12.7	9.2	6.1	6.4	6.6	6.8
Primary balance	1.8	3.4	2.6	-0.3	-2	-3.7	-3.3
Overall balance	-1.3	0.5	0.6	-2	-3.2	-4.5	-3.9

a. Only major items are reported.

Source: Data from Burundi Institute of Statistics and Economic Studies and Bank of the Republic of Burundi; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

Burundi is a member of the East African Community's customs union, but since this has not yet evolved into a monetary union, the country has its own monetary policy. The main objective of this policy is price stability, with a target of keeping inflation to single digits, but this has been a challenge. Over the last ten years, the country has recorded double-digit inflation rates five times, including in 2008 and 2009. Inflation in 2010 was 7.1%, which was higher than the East African Community's target rate of 5%.

Controlling the money supply and stabilising the exchange rate of the Burundi franc have been the main instruments used by the central bank to keep inflation in check. However, the money supply has been growing much faster than the economy. In 2008 and 2009, it increased by 34% and 20% respectively, with corresponding inflation rates of 24.5% and 10.5%. Money supply also increased faster than GDP in 2010. Credit to the government increased by 17.2% in 2009, as against 10.2% for credit to the economy, which partly explains the large increase in money supply. Increases in government domestic borrowing have often been due to the difference between expected and actual aid levels, as well as to the delays in donors' aid disbursements. In 2009, actual budgetary aid totalled only 74% of the expected amount, and 97% of it was disbursed by donors in December 2009 and in 2010.

As a result, monetary policy has not been able to control the money supply, which is one source of high inflation. In contrast, the exchange rate has been stabilised at BIF 1 230 for USD 1. This stability is due to reforms in exchange rate policy over the years and a high level of international reserves.

Inflation is also determined by movements in prices, particularly those of agricultural food products. Food items make up 51.9% of the consumer price index (CPI), and rain-fed agriculture provides almost all the food consumed in Burundi. The strong inflation of 2008, for example, resulted not only from high money supply but

also from food price inflation, with prices jumping by 32.7% following a drought that reduced food production. The single-digit inflation rate in 2010 can be attributed to a low increase in domestic prices. The food price index declined between May and July 2010 following good harvests in the second farming season. Between July 2009 and July 2010, food price inflation was 7.3%, as against 13% for non-food inflation. Core inflation rose by 20%, driven by increases in housing and household energy consumption prices.

Interest rates do not seem to be a strong channel for the transmission of monetary policy, not only because the government has been an important consumer of central bank credit but also because of credit rationing and the concentration of banking activity on a narrow group of economic agents. Less than 2% of Burundi's population has a bank account. The policy interest rate was set at 9.6% in July 2010, a level only slightly below the rate of 10% applied in July 2009. This seems to have had no effect on lending and deposit interest rates, which have been declining over the last five years: the lending rate has fallen by 22% over the period, from 20.6% in 2005 to 16.5% in 2009 and 16% in 2010, while the deposit rate has declined slightly faster, from 9.6% in 2005 to 7.6% in 2009 and 7.1% in 2010, for an overall decline of 26%. With the inflation rate at 7.1%, the real lending rate was 8.9% in 2010. The decline in interest rates is associated with increased competition in the banking industry, particularly the recent entry of regional banks. As the domestic banking sector is obsolete, the entry of more efficient banks could lead to even lower lending rates over the medium term, benefiting the economy as a whole.

The decline in nominal lending rates had only a marginal effect on credit markets because the interest rate is weakly related to credit demand. The low level of credit extended is due more to the challenging business environment, which reduces investment and hence the demand for credit. In 2011 and 2012, if the structural measures under way to improve the business environment bear fruit and if interest rates continue to decline, the private sector will benefit from increased lending. Indeed, if the rates of inflation are as forecast, real interest rates will remain positive even if nominal lending rates decline further.

External Position

Burundi has been characterised by a chronic trade deficit over the years. The dependence of the export sector on a single commodity, coffee, has made the economy vulnerable to upswings in coffee prices on the international market. Even when prices are high, however, Burundi does not benefit much because it exports small quantities. In 2009, for example, only 16 000 tonnes were exported. In 2010, which is considered a good year in terms of coffee production, 23 000 tonnes were exported. The trade balance has therefore been dominated by imports. In 2010, imports and exports represented 24.1 % and 4.7% of GDP respectively. The exports/GDP ratio has remained consistently low over the years, indicating that unlike many African countries, Burundi has not been able to generate export-led growth.

In 2011 and 2012, exports and imports are expected to remain at much the same levels as in 2010, which implies that the trade balance will not change substantially. Even if the volume of coffee exports increases as a result of the reforms under way in the coffee sector – the doubling of producer prices in just two years and the privatisation of coffee processing are expected to boost both output and better quality – international prices are not expected to remain at their 2010 level. As a result, the country will need to sell more coffee to maintain the same level of export revenue, which is unlikely given that coffee plants take three to four years to mature. In the short term, investing in the production of speciality coffees through better processing of coffee beans before they are exported could generate higher revenue, since speciality coffees sell for higher than average prices. More attention should also be given to tea, which has consistently increased its share in export revenue over the last few years.

The high trade and services deficits were to some degree counterbalanced by high transfers (27.5% of GDP), which helped to reduce the current account deficit from 15.5% of GDP in 2009 to 9.4% in 2010. The components of the current account should not change substantially in 2011-12, which implies that the current account deficit will also be relatively stable. Should Burundi's economic partners reduce their aid, however, the current account deficit could increase. In the short and medium terms, the country has little possibility of increasing its exports in any significant way. Therefore, if aid transfers diminish, Burundi will have no choice but to reduce its import bill in order to keep the current account deficit at a manageable level. The central bank could use the exchange rate as the instrument for reducing imports, but this would exert upward pressure on prices.

Table 5: Current account (percentage of GDP)

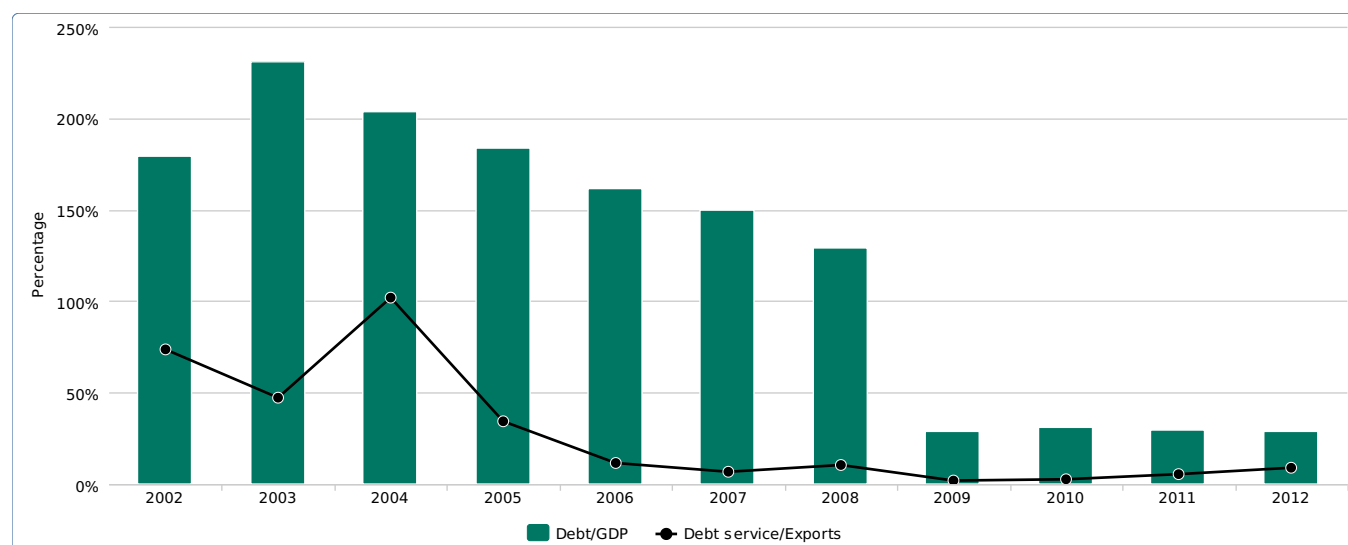
	2002	2007	2008	2009	2010	2011	2012
Trade balance	-12	-24.7	-24.2	-15.6	-19.3	-15.9	-18.1
Exports of goods (f.o.b.)	4.9	5.4	5.2	5.9	4.7	5.6	4.4
Imports of goods (f.o.b.)	16.9	30.1	29.4	21.6	24.1	21.5	22.5
Services	-4	-14.9	-16	-17.2	-17	-14.9	-13.8
Factor income	-2.2	-0.6	-0.4	0.5	-0.5	-0.4	-0.5
Current transfers	14.6	24.5	28.3	16.8	27.5	23.4	20.8
Current account balance	-3.5	-15.7	-12.3	-15.5	-9.4	-7.9	-11.7

Source: Data from Burundi Institute of Statistics and Economic Studies and Bank of the Republic of Burundi; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932410089>

Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932403857>

Structural Issues

Private Sector Development

Burundi has a small and weak private sector, mainly because of a difficult business climate that discourages investment. According to the latest edition of *Doing Business*, Burundi ranked 180th out of 183 countries surveyed in 2010 – a clear indication of the challenges facing the development of the private sector. According to Burundi's Federal Chamber of Commerce, the most pressing barriers to the development of the private sector fall into three groups.

First, there is a financial constraint, particularly a lack of the medium- and long-term loans that are essential to building a vibrant private sector. Commercial banking is dominated by three banks, whose activities are mostly limited to urban centres and large enterprises. The country has no stock market. With less than 2% of the population having a bank account, Burundi has one of the lowest levels of bank penetration in the world. There are important structural constraints that prevent banks from contributing to the country's long-term growth and development. These include the small size of banks and credit allocation that favours short-term activities with the highest returns, leaving the most important economic sectors out of the credit market. Over the 2003-08 period, two-thirds of total credit was allocated to commerce, 2% to industry and only 0.75% to agriculture, the most important sector of the economy.

Recent developments are expected to improve the financial sector. First, the opening of the economy to foreign banks is going to increase competition while at the same time introducing new products and new technologies. This has already started with the recent introduction of automated telling machines and of telephone and Internet banking. Second, the central bank has been raising the minimum capital requirement of all commercial banks in order to reduce their vulnerability. This requirement has been gradually raised from BIF 300 million ten years ago to BIF 10 billion as of 31 December 2010. With respect to long-term funding, discussions are under way on the creation of a credit guarantee fund that will help investors to mobilise long-term funding. The state and its institutions are expected to participate alongside the private sector in financing this fund.

The second obstacle to private sector development in Burundi is the weakness of the justice system. The private sector needs a predictable and relatively fast justice system that investors can turn to in case of business disputes. As the country's general justice system cannot be relied on in the short term, it has been decided to revive the Centre burundais d'arbitrage et de conciliation, an arbitration authority specifically designed to adjudicate business disputes.

The third key problem concerns access to factors of production. Burundi suffers from a chronic lack of skilled labour that has been worsened by the massive departure of trained professionals as a result of the country's political instability over the last two decades. Moreover, land is very expensive, while electricity and transport are not only expensive but also highly unreliable, which further increases production costs. It will be difficult to address these constraints in the short term.

The realisation that Burundi had one of the worst business environments in the world shocked many Burundians, prompting the political leadership at the highest level to act. The second vice-president has established several groups and committees to come up with detailed plans for improving the business environment. For the first three months, the focus was on three of the nine *Doing Business* indicators, namely starting a business, registering property and protecting investors; the other six indicators will be covered in the following months. In close collaboration with the International Finance Corporation, which produces these indicators, the three groups involved have been busy crafting strategies that will allow Burundi to make visible improvements in the business climate rankings before the next edition of the *Doing Business* report.

The Burundi Investment Promotion Authority was established in October 2009 to analyse all investment requests and issue investment authorisations to both local and foreign investors. The objective was to streamline the investment analysis process, as the old system was too inefficient and too bureaucratic. One year after its establishment, the new agency had issued investment authorisations for 60 projects totalling BIF 203 billion – an unprecedented level of activity. The main investments were in food industries and in information and communication technology (ICT). According to the Authority, investments could double in 2011-12 if economic and political conditions improve. The most promising sectors are energy production, mining, tourism and food processing. China and Qatar are among the potential investors that have expressed interest in investing in tourism, fishing, mining and industrial farming.

Other Recent Developments

The government initiated several reforms to make the civil service more efficient. One important step was to undertake a census of the civil service. Moreover, for the first time in its history, the Ministry of Public Service and Social Security has acquired human resource management software, which is an integral part of the

modernisation process. The ministry is also putting in place a National Pension and Occupational Risk Authority (ONPR) with an initial endowment of BIF 2 billion. ONPR's key objective is to overhaul the country's pension and social protection system, which dates back to the colonial period. The ministry also has a plan to strengthen provincial civil service offices in order to improve service to its clients in under-served regions.

Agriculture development has been included in government development priorities alongside social sectors. This step was overdue. Although 95% of the poor live in rural areas and agriculture provides 44% of GDP and 95% of export revenue, agriculture had long been one of the sectors receiving the lowest budgetary allocations and the lowest amount of aid. In 2006, the share of agriculture in executed budget expenditures was 1.5% but this share increased to 5.3% in 2010. Moreover, the share of productive sectors (mainly agriculture) in foreign aid allocations increased from 6.9% in 2007 to 11% in 2009. Budget allocations to agriculture will continue to rise, with a target of reaching a budget share of 13% by 2012. As the country stabilises its political environment, resources allocated to non-productive uses, such as security-related expenditures, are to be redirected to agriculture and social sectors.

One challenge facing the agriculture sector is the scarcity of cultivated land, due to population pressure. The average plot farmed by a household covers less than one hectare, forcing farmers to practise intensive methods of production. Even marginal land and protected areas such as natural parks and forests are being encroached on for farming purposes, with devastating effects on the environment. Land has become so scarce that disputes over ownership are overwhelming the legal system. It is estimated that up to 70% of court cases, particularly in the lower courts, are related to disputes over land ownership.

Privatisation of the coffee sector was a key measure to rationalise the production and marketing of coffee, a strategic commodity. It was undertaken in the expectation that stakeholders in the sector would have better incentives to produce more and improve the quality of the product. Moreover, as a result of increasing competition in the sector and the elimination of some intermediaries between producers and consumers in export markets, producer prices were expected to increase and to converge with those found elsewhere in the region. In fact, owing to these reforms and high international prices in 2010, producer prices increased by 150% between 2008 and 2010. It is not yet clear, however, whether the reforms have induced producers to plant new trees, which would increase overall production once they reach maturity in three to four years.

Emerging Economic Partnerships

The document spelling out the policy of the Ministry of External Relations and International Co-operation identifies Burundi's traditional partners and potential new partners. The traditional partners include African countries; developed European countries, as well as Russia, Romania and Cyprus; developed countries in the Americas, as well as Cuba; and a number of Asian countries: Japan, China, India, Saudi Arabia, Democratic People's Republic of Korea, Kuwait and United Arab Emirates. New partnerships are being considered or developed with countries on every continent; where there is already an active engagement, these partnerships are in the early stages of development. Burundi is considering opening a diplomatic representation in Iran and strengthening its co-operation with the country, with a focus on the medical sector.

There is limited co-operation with several other countries, including Thailand in education and health; Israel, Australia and New Zealand in education; and Qatar in air transport services. Burundi has also been in negotiations with the United Arab Emirates to delocalise part of Dubai World to Burundi.

Among the key non-traditional partners, Burundi has relatively strong co-operation with India and very strong co-operation with China dating back to the early 1960s. Burundi has recently opened a diplomatic mission in New Delhi to strengthen co-operation in four main areas: on the economic front, Burundi has submitted to India a project for the construction of a dam on Kaburantwa river, and feasibility studies are under way; in education, Burundi has been sending 11 candidates per year to India for short-term training; in the medical sector, India has installed a facility for tele-medicine at Roi Khaled Hospital; and in ICT, India has opened an ICT development centre at the University of Burundi.

The most developed co-operative relationship with an emerging partner is that with China. Burundi and China have been co-operating in several areas since 1963, and this relationship has recently become stronger as China has gained more economic and political clout. The relationship benefits China in terms of diplomatic support (Burundi has no diplomatic ties with Chinese Taipei), whereas Burundi benefits from China's aid. Motives such as trade, investment or access to natural resources do not seem to be driving China's involvement with Burundi.

As recent examples show, China's aid has been delivered in various forms. First, China has built and equipped important infrastructure, including the Ecole normale supérieure, an institution that trains upper secondary school teachers; Mpanda Hospital, inaugurated on 19 January 2011, a modern 100-bed hospital with state-of-the-art facilities; and three primary schools. Negotiations are in progress on the construction of an export processing zone in Burundi. Second, China has a tradition of offering scholarships to Burundians to pursue higher education as well as short-term training in China. Third, since 1987 China has been sending equipment and maintaining a presence of about 30 doctors to help in Burundi's hospitals in Muramvya, Gitega and Bujumbura provinces. It has also sent agricultural engineers to help with the development of agriculture. Fourth, China has been active in more commercial projects, such as road and building construction. A Chinese company won a recent international tender to construct a building that will house the Ministry of Finance. Chinese investors have also started prospecting the market, and some have established businesses and joint ventures with Burundians. To date, they have targeted the services sector, including distribution and broadcasting (StarTimes, a digital television channel, has started broadcasting in the country on a commercial basis).

Emerging and traditional partners appear to prefer different forms of co-operation in Burundi. China has been delivering in-kind aid, a form that is preferred when financial aid might be wasted or not be used for the intended purpose. Traditional partners have long abandoned this type of aid, preferring budget and project assistance. The last time Burundi benefited from a major infrastructure project financed by a Western country was more than three decades ago. China also views the relationship differently. The language used by Chinese officials contrasts with that of traditional partners. China uses terms such as friendship, equality, mutual benefits and non-interference in internal affairs, which go down well with Burundians and Africans in general, while the discourse of traditional partners revolves around conditionality. Moreover, whereas traditional partners tend to consider aid, trade and investment separately, China tends to combine them. China appears to disburse its aid more quickly. For example, in November 2006 China made a pledge to build 30 hospitals in Africa. Burundi submitted its request, and work on the construction of the first hospital started on 14 May 2009 in Mpanda. The work was completed in 18 months, and the hospital is now operational.

Despite the importance of co-operation with China, Burundi remains dependent on its traditional partners, which still fund a large part of the budget and many development projects. The two types of partners are thus not in competition. There is no doubt, however, that new partners such as China have given Burundi more flexibility in its interaction with donors. For example, when most traditional partners stopped their co-operation and repatriated their representatives during the war, China stayed on, giving Burundi some much-appreciated breathing space during this difficult period.

Political Context

The series of elections in 2010 (local, presidential and legislative) was expected to cement the democratic gains achieved since the 2005 elections, which ended a decade-long civil war and brought to power the current ruling party, Conseil national pour la défense de la démocratie/Forces pour la défense de la démocratie (CNDD/FDD). The local elections in 2010 were won by CNDD/FDD, but the results were contested by most of the opposition, whose leaders withdrew from the remaining electoral process. As the opposition continued to complain openly about the results and press for fresh local elections, the government cracked down on its leaders. Most of those targeted, including Agathon Rwasa, Leonard Nyangoma and Alexis Sinduhije, three prominent opposition leaders, went into hiding and fled the country fearing for their lives. A large number of opposition members, particularly those from Rwasa's Front national de libération, were killed in circumstances that official reports referred to as cases of banditry.

From a fairly good security situation before and during the electoral process, the country thus entered a period of insecurity characterised by killings and other crimes such as widespread theft. The government acknowledged that some of these problems were caused by members of the state security apparatus, as a number of them were caught red-handed. A reform of the police is under way and is expected to make the force more professional. What is not clear – there is some debate on the subject – is whether some of this violence should be attributed to a new rebellion by those who consider that they were robbed of victory in the elections. If the poor security situation persists, the chances of achieving higher growth rates or even the rates projected for 2011 and 2012 will be compromised. As of early March 2011, the government and the political opposition did not seem to have agreed on any platform for dialogue. The security situation remains fluid and could worsen if the ruling political leadership and opposition do not settle their differences through negotiations.

In terms of governance, President Pierre Nkurunziza has recently declared zero tolerance for corruption. Indeed, two senior public officials were fired. However, corruption is rife and so ingrained that it will take more than this symbolic act to root it out. Demonstrations have been held calling for the leadership to do more to eradicate corruption, but they have met with little response. Some journalists who denounced the role of public officials in corruption and other criminal acts have been jailed. The government also threatened to close down some newspapers, although it never executed the threat.

Social Context and Human Resource Development

The level of human development is very low in Burundi. The United Nations Development Programme's Human Development Index for 2010 ranked Burundi fourth from the bottom out of 169 countries. This poor ranking reflects the challenges that face Burundi's social sector. Prominent among them are the high level of poverty, problems in the education sector despite noteworthy progress in recent years, HIV/AIDS prevalence and poor health. The country's political and economic trajectory over the last two decades has deepened poverty, making a large number of people destitute. Before the war in 1993, 35% of the population lived below the monetary poverty line. The latest estimate reported that the poverty rate had increased to 67% in 2006, and there are no indications that it has declined since then. On the contrary, if post-electoral political insecurity persists, there is a strong possibility that poverty will worsen.

With respect to education, although the net enrolment ratio reached 90% in 2009, only 46% of pupils starting grade 1 reached the last grade of primary school. Enrolments in secondary and tertiary education are much lower. HIV/AIDS infection accelerated during the war as a result of population displacements, army and rebel movements, and promiscuity in displacement camps. About 3.5% of pregnant women were infected in 2007. HIV/AIDS is more prevalent in urban than in rural areas, with prevalence rates of 4.6% and 2.8% respectively in 2008. As only a small fraction of Burundians live in urban areas, however, there are many more persons infected with HIV/AIDS in rural areas. These rates would have been higher without the efforts of the government and non-government organisations to contain the spread of HIV/AIDS and assist those infected in gaining access to drugs. Other health indicators, such as under-5 mortality rates, maternal health and the prevalence of malaria and other diseases, show no substantial improvement.

When the current president came to power in 2005, he declared that primary education would be provided free of charge. As a result, in 2006, the net enrolment ratio in primary education jumped to 72.4% from 60% in 2005. Free education particularly helped poor families that had previously been unable to send their children to school. However, the policy had not been well prepared in terms of increasing the capacity of the education system to cope with the new influx of pupils. Between 2005 and 2006, the number of pupils per teacher increased from 49 to 55 and the number of pupils per classroom from 76 to 86, and the quality of education declined. To address the situation, the government increased its education budget and allocated one-third of external aid to the construction of new schools, renovation of old ones and acquisition of books and furniture. Local communities also participated in the construction of both primary and secondary schools. By the 2009/10 school year, the ratio of girls to boys was 0.99. At the secondary level, progress has been limited, particularly for poor families. At the tertiary level, the number of universities reached 21, of which 15 are private. The number of university students increased from 15 000 in 2006 to 24 000 in 2009, but the quality of provision fell as the demand for education increased. The government is currently working on legal instruments that will establish a quality control process in the education sector.

In the health sector, the government announced in 2005 that children under 5 years of age and pregnant women would have access to health services at no charge. This measure increased the proportion of children and pregnant mothers accessing medical services from about 28% in 2006 to 69% in 2009. In order to achieve these results, the government raised the budget share of the health sector from about 3% of the total budget in 2005 to 11.6% in 2010. A large proportion of foreign aid has also been allocated to health. Since 2006, these resources have made it possible for the government and the private sector to build 75 new health centres and renovate 53 more, in addition to building several hospitals across the country. Currently, Burundi has 56 hospitals and 685 health centres. One key challenge is to provide the necessary medical equipment to all these facilities and hire enough qualified personnel.

Finally, unemployment remains a major challenge. Although there are no reliable statistics on unemployment, it is clear that economic growth rates over the last few years have not been high enough to create opportunities for the increasing number of job-seekers emerging from the expanding education system and for people living in rural areas. Moreover, unemployment has been worsened by the mismatch between the education system and the needs of the economy. For example, there is considerable demand for more doctors and health professionals to work in the new hospitals and health centres, but the education system has not been producing them in large enough numbers. Instead of producing university graduates who remain unemployed, it would probably pay to create more technical schools at the secondary level with a curriculum better matched to the needs of the economy. If the security situation improves, it is expected that higher investment levels will create more job opportunities, particularly in urban centres, while the recent attention given to agricultural development will generate such opportunities in rural areas.