



COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN BURUNDI

Leveraging Private Investment for Inclusive Growth

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ABBREVIATIONS AND ACRONYMS

AfCFTA	African Continental Free Trade Area
ATM	automated teller machine
BBN	Bureau Burundais de Normalisation et Contrôle de la Qualité (Burundi Bureau of Standards and Quality Control)
BIF	Burundian francs
BRB	Bank of the Republic of Burundi
CPSD	Country Private Sector Diagnostic
EAC	East African Community
EITI	Extractive Industries Transparency Initiative
FDI	foreign direct investment
GDP	gross domestic product
ICT	information and communications technology
IFC	International Finance Corporation
IMF	International Monetary Fund
MSME	micro, small, and medium enterprise
OECD	Organisation for Economic Co-operation and Development
OHADA	Organisation pour l’Harmonisation en Afrique du Droit des Affaires (Organization for the Harmonization of Business Law in Africa)
PNCP-SS-PCE	Programme National de Capitalisation de la Paix, Stabilité Sociale et Promotion de la Croissance Economique (National Program for the Capitalization of Peace, Social Stability, and Promotion of Economic Growth)
PND	Plan National de Développement du Burundi (National Development Plan of Burundi)
PNIA	Plan National d’Investissement Agricole (National Investment Plan in Agriculture)
PPP	public-private partnership

RECTS	Regional Electronic Cargo Tracking System
SAM	social accountability matrix
SCEP	Service Charge des Entreprises Publiques (Department for Public Enterprises)
SME	small and medium enterprise
SOE	state-owned enterprise
WSME	women-led small and medium enterprise

All currency is in U.S. dollars unless otherwise noted.

EXECUTIVE SUMMARY

ENDING THE POVERTY AND FRAGILITY CYCLE THROUGH ECONOMIC TRANSFORMATION

The purpose of the Burundi Country Private Sector Diagnostic (CPSD) is to identify market opportunities that are most likely to materialize in the short to medium term, and reforms that could remove the binding constraints to private sector growth and drive economic transformation. By identifying sector-specific areas for action that can be jointly addressed by the government, donors, and the private sector, the Burundi CPSD hopes to support the development of high-value and competitive sectors. Demonstrating that change is possible, and that markets and jobs can be created in two to five years, will not only give momentum but can provide “proof of concept” that economic transformation can happen in Burundi.

The new government put in place in June 2020 by the newly elected president offers an opportunity for a new growth model, fueled by the private sector. To exit a long period of crises that halted its economic and social growth, Burundi needs to tackle the causes of its multidimensional economic, political, and environmental fragility and build private sector fundamentals for a sustained and inclusive growth (World Bank 2021a). Burundi has shown in the past that it is capable of advancing reforms for economic transformation. In its national development plan (Plan National de Développement du Burundi 2018–27), the government recognizes the crucial role of a dynamic, innovative, and productive private sector that can compete in international markets and support domestic job creation and sustained economic growth.

Although unemployment is a major social and economic challenge, especially among youth and women, Burundi’s strong market demand for skilled labor represents an opportunity. Skilled labor earns 2.5 times more for male workers and 4.5 times more for females compared to manual labor (ECVMB 2013–14). If productive jobs can be created by strengthening the formal private sector and adequate upskilling of labor to meet the market demand, then the burgeoning Burundi youth can become a dynamic force for economic growth.

As demonstrated by successful business climate reforms in the past, Burundi is capable of transformations. The country has a renewed opportunity to pursue structural reforms to improve its macro-financial stability and foreign exchange management, and reduce constraints that prevent firms and investors from realizing market opportunities. Foreign exchange shortages stand out as a binding constraint to private investments in addition to other systemic challenges. On October 7, 2022, the central bank took measures to modernize its monetary policy by recalibrating its exchange rate policy, yet another example of authorities’ commitment to create the conditions for renewed growth. Development partners institutions’ growing portfolios could mobilize sufficient resources to tackle the unfavorable business climate, low-quality transport and logistics, unreliable and expensive energy, and lack of access to land.

By reforming state-owned enterprises (SOEs), fostering entrepreneurship, and attracting foreign direct investment (FDI), Burundi could more efficiently use its natural resources to transform the economy and provide quality employment for the abundant labor force. Agribusiness value chains, such as for tea, coffee, palm oil, and cotton, have distinctive advantages and potential for growth, but they currently contribute less than 5 percent of gross domestic product (GDP) and face increasing pressure from competitors. In 2019, the mining industry overtook the tea and coffee sectors as the leading source of foreign currency, producing mainly gold, niobium, tin, and tungsten. To further this huge potential, the mining industry needs to attract significant investments, including environmentally conscious FDI, and adopt a responsible management framework to ensure that this industry does not further fragility in the country. The tradeable sectors are dominated by SOEs, which need structural reforms to improve governance and management, modernize factories and equipment, improve productivity, and expand production.

Burundi's economy could undergo a transformation to a private sector-led growth model, and this report explores how targeted structural reforms to unlock sector-specific opportunities could ignite private investments and growth. A targeted approach could generate a virtuous cycle of reforms through demonstration effects and learning-by-doing and help shift Burundi's economic and social trajectory by escaping poverty and fragility. There are indications of government commitment to reforms and re-engagement of development finance institutions to support the implementation of the national development plan. Much will depend on the government's ability to continuously strengthen its macroeconomic foundations and restore investors' confidence, which will require the following reforms as pre-conditions for a more equitable and inclusive growth:

- Revisit the exchange rate policy to gradually converge the official and parallel rates and implement market-based mechanisms to allocate foreign currency, in particular through commercial banks.
- Operationalize the e-governance strategy to improve access to information and the efficiency of public administration and develop a national biometric identification.
- Enhance legal security and transparency in land tenure management and secure land rights in rural areas to boost private sector investments and enhance food security.

ENABLING PRIVATE SECTOR GROWTH

Three sources of growth could contribute to positive private sector dynamics in Burundi: well-performing SOEs, FDI integrated in the local economy, and dynamic startups and small and medium enterprises (SMEs). Combined with financial sector reforms that improve inclusive access to finance, these sources of growth could generate a positive ripple effect on the economy and provide “proof of concept” that transformation can happen. Modernized and competitive private firms, integrated in local and international value chains, could drive an increase in productivity, diversification, foreign exchange supplies, and ultimately job creation and economic transformation:

- The liberalization and reform of SOEs could increase the competitiveness of productive sectors (through allocative efficiency, innovation, and value chain development), enhance competition and trade, and improve public service provision.

- New FDI and better links between existing FDI and the local economy could create new markets and formal jobs, increase exports, and promote spillover of new technologies and business practices.
- Dynamic entrepreneurs and micro, small, and medium enterprises (MSMEs) could expand the private sector base, create new markets, strengthen supply chains, capture spillover from FDI, increase the creation of startups, force the exit of underperforming firms, and promote resilience.

ADDRESSING CROSS-CUTTING CONSTRAINTS

In addition to macro-financial stability and exchange rate reforms, the government will need to create enabling framework conditions to support these sources of growth. Key priorities include:

- A favorable and transparent business environment that encourages competition, enables private investment, facilitates dispute resolutions, and supports regional trade.
- Technology adoption to boost the modernization of productive sectors, especially adoption of digital technologies across all sectors of economic activities.
- Affordable and reliable infrastructure and efficient logistics and transport service, essential for reducing production costs and linking firms and entrepreneurs to markets.

MARKET OPPORTUNITIES FOR TRANSFORMATION

The Burundi CPSD identifies two business sectors—inclusive finance and agribusiness—that offer short- to medium-term opportunities for market creation and development impact. These selected sectors account for almost half of Burundi’s GDP and can mitigate some of the fragility factors related to inclusion, job creation, food security, and foreign exchange resources. Financial services and agribusiness have potential for job creation in the next three to five years, in both urban and rural settings, with a particularly strong impact on the economic empowerment of women and youth. The sector selection aligns with the government of Burundi’s top development priorities.

The strengthening and expansion of Burundi’s financial sector could have a positive ripple effect on the entire economy. The financial sector is dominated by a banking system characterized by significant exposure to government securities. The financial system is shallow, although capital adequacy levels are (nominally) high. In 2020, domestic credit to the private sector represented only 22 percent of GDP, while the average for Sub-Saharan Africa was about 38 percent, according to World Bank data. The financial sector demonstrated resilience during the crises despite the worsening quality of loans. The Bank of the Republic of Burundi (BRB) records a financial inclusion rate of 21 percent, indicating the enormous need and potential for improving financial inclusion of the general population. There is also a need and potential for: (a) developing the capital and microfinance markets, (b) expanding digital financial services, and (c) improving access to long-term financing for the agribusiness sector.

The Burundi agribusiness sector has untapped potential. Burundi’s unique climate and rich soil offer opportunities to grow and process higher value-added goods to meet domestic demand and export to regional and global markets. Agriculture and agribusiness dominate

the economy, but they face the same constraints to productivity and value addition as the rest of the economy. Agriculture is dominated by smallholders operating on subsistence principles and large, noncompetitive SOEs; it is attracting limited FDI to processing. Private sector activity is increasing, as observed during the CPSD consultations, and with appropriate conditions, including private sector investment, could improve all nodes of the value chains and increase the productivity and profits of farmers, traders, processors, and exporters. However, this would require undertaking reforms to improve the competitiveness of SOEs operating in these sectors, leveling the playing field to facilitate private sector market entry and activity, and increasing private sector participation through public-private partnerships (PPPs).

Private investment in the upgrading, diversification, and expansion of the agribusiness sector offers the opportunity to compete in international markets, provided that the government supports the private sector’s efforts with SOE reforms; strong national branding; internationally trusted food safety institutions and regulations; quality infrastructure; and competition, investment, and trade policies. The Burundi economy needs private sector investments in food processing, fertilizer production, biodegradable packaging, and waste recycling to transform agriculture and household waste. Additional opportunities exist in import substitution value chains. By improving these value chains, Burundi could significantly deepen and formalize its trade with Eastern Africa—a large market with an established demand, including significant cross-border trade with Democratic Republic of Congo—and beyond, notably Western Africa and Europe. Although the number of jobs in agriculture may decline during this transformation, more and better jobs will be created in the agribusiness segments of the value chain, where productivity is expected to increase because of technology adoption, improved access to capital, and labor upskilling.

KEY RECOMMENDATIONS

The reform agenda for private sector development is extensive and ambitious, but given the current momentum in government commitment, donor re-engagements, and renewed interest from private investors, there are grounds for optimism. The report’s recommendations focus on *structural reforms* that build sustainable foundations for the three drivers of private sector growth (SOEs, FDI, and SMEs), and *sectoral reforms* in financial services and agribusiness that can create positive spillover in other sectors. The report identifies investment opportunities in several agribusiness value chains, especially in cash crops (coffee, tea, cotton, and palm oil), horticulture, cereals, sugar cane, and animal proteins. The report synthesizes overall recommendations for the agribusiness sector and uses the example of two value chains—tea and horticulture for food security and nutrition—to illustrate the types of specific reforms and investments that will be needed at the sub-sector level.

TABLE ES.1. PRIORITY RECOMMENDATIONS

Build sustainable foundations for the expansion and growth of the formal private sector.

COMPETITIVENESS AND INVESTMENT



Improve the competitiveness and efficiency of SOEs and private sector participation in tradeable sectors, mobilize FDI in the post-COVID-19 world, and promote entrepreneurship and MSME development.

- Assess SOEs' performance and efficiency and revise the strategy for private sector participation.
- Liberalize tradeable sectors and open them up for more private investors through privatization and increased use of PPPs, including concessions.
- Revive investment climate reforms to introduce competitive neutrality principles and improve competition, trade, contract enforcement, property registration, and credit access.
- Build the entrepreneurship ecosystem, including increasing investments in shared infrastructure (such as cold storage and test and certification centers) and strengthening services to SMEs.

TECHNOLOGY AND LOGISTICS



Promote technology adoption to modernize the economy, leverage digital technologies, and improve the logistics systems and infrastructure for trade and transportation.

- Reform tax policy and import duties to encourage imports of technology and equipment for productive sectors, such as agribusiness, energy, and manufacturing.
- Strengthen the monitoring and oversight systems for trade facilitation and regional integration (African Continental Free Trade Area, East African Community).
- Improve the regulatory framework for the transport, information and communications technology (ICT), and logistics sectors, leveraging recent improvements in infrastructure, such as for road, rail, digital, and water.
- Construct and operate One-Stop Border Posts at key borders, eventually under PPPs.

Focus sectoral reforms to generate a positive ripple effect on the economy and provide "proof of concept" that transformation can happen.

FINANCE



Expand financial inclusion and increase private sector efficiencies, support SMEs' access to finance, and expand digital financial services.

- Improve the functioning and reach of tribunals of commerce and alternative dispute resolution mechanisms (mediation and arbitration) to address the challenge of debt recovery in the judicial system.
- Strengthen credit infrastructure by creating a movable collateral registry and a credit reporting system.
- Support the uptake of digital financial services by setting up a National Payment Council to assure interoperability and supporting the development of Bi-Switch.
- Develop shared core banking and digital financial services platforms, especially for nonbank financial institutions (microfinance and savings and loans cooperatives).
- Support financial stability and integrity by: (a) modernizing the public credit registry, (b) developing a crisis management and resolution framework, (c) adopting a unique digital financial identifier, and (d) supporting the operationalization of the deposit insurance fund.
- Strengthen the insurance sector, particularly to support the agriculture sector.
- Develop instruments for SME finance, such as leasing and factoring, long-term financing, refinancing facilities, and risk-sharing mechanisms (such as the SME guarantee fund).

Focus sectoral reforms to generate a positive ripple effect on the economy and provide “proof of concept” that transformation can happen.

AGRIBUSINESS



Gradually liberalize, modernize, and diversify selected value chains to improve the competitiveness of tradeable sectors and food security.

- Adopt innovative de-risking strategies and risk insurance and financial products designed for farmers and the overall agriculture and agribusiness value chains.
- Support agricultural processing onsite or in nearby locations (such as secondary towns) and transformation through improved packaging, labeling, and recycling. This would require prior feasibility studies to better assess the viability and profitability of such investments.
- Adopt sustainable practices, pollution management systems and incentives, and climate risk mitigation and adaptation measures.
- Strengthen research and development and agribusiness innovation systems and establish facilities to support the implementation of certification protocols and phytosanitary standards.
- Support producer groups (crops, livestock, and fisheries) to help them mobilize more members and increase their bargaining power for government services and pricing of their produce from off-takers and individual aggregators.
- Support the Burundi Chamber of Commerce and Industry’s programs to improve local branding and expand access to information on international markets.

1. COUNTRY CONTEXT

1.1. LOW ECONOMIC GROWTH AND POVERTY

Burundi is a low-income country of 11.6 million people whose monetary poverty is estimated to reach 86.2 percent in 2020, based on the international poverty line of \$1.90 per capita per day, in 2011 purchasing power parity. The Integrated Survey on Household Living Conditions (EICVM) 2019/20 shows a poverty rate of 62.8 percent in 2020 using the national poverty line based on the basic needs cost method, which is Burundian francs (BIF) 576,753 per year.¹ It is the third most densely populated country in Sub-Saharan Africa, with an estimated 426 inhabitants per square kilometer, who mostly reside in rural areas.² Burundi's development is characterized by low and volatile GDP growth patterns combined with high natality rates, which created a “poverty trap” for large segments of the population.

Burundi falls to the bottom of the low-income category, with GDP per capita of only \$274 in 2020 according to World Bank data³ and negative GDP growth per capita since 2016. The suspension of external budget support following the 2015 crisis heightened the need to enhance domestic resource mobilization while containing spending. The new government put in place in June 2020 by the newly elected president offers the opportunity for a new growth model driven by the private sector, but many challenges remain.

The COVID-19 outbreak interrupted the fragile economic recovery, which faces enormous challenges, including a foreign exchange shortage, financial sector vulnerabilities, large external imbalances, fiscal pressure, and high domestic debt crowding out private sector credit. The account deficit remained large in 2020 at 11.9 percent of GDP, and public debt rapidly increased to 62.2 percent of GDP in 2020 from 58.5 percent in 2019 and 33 percent in 2014. These economic difficulties result from structural weaknesses, which include: a dependence on low-productivity agriculture, limited economic diversification, limited fiscal space for public investment,⁴ low capital accumulation, weak productivity, and massive human capital challenges compounded by high population growth (3.3 percent per year over the past two decades).

Burundi's national development plan, Plan National de Développement du Burundi (PND) 2018–27, calls for a structural transformation to create decent jobs for all. In April 2021, the new government introduced a National Program for the Capitalization of Peace, Social Stability, and Promotion of Economic Growth (Programme National de Capitalisation de la Paix, Stabilité Sociale et Promotion de la Croissance Economique, or PNCP-SS-PCE), which aims to operationalize the PND. This new program aligns with the PND and reflects the

priorities set by the government for 2021–27. Through the PNCP-SS-PCE, the government is committed to providing support to producers, farmers, and the private sector by undertaking reforms to promote an attractive business environment. This support will help stimulate economic growth and thus improve living conditions to ensure that “Every mouth has food and every pocket has money.”⁵

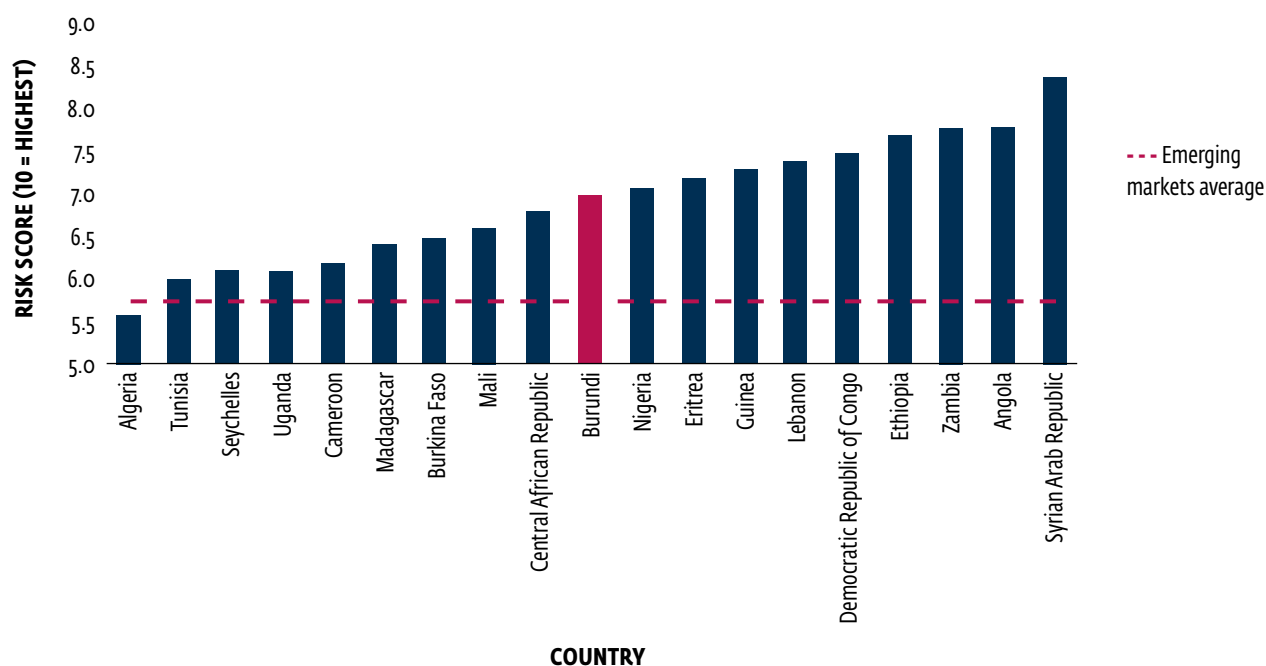
Burundi’s ambitious development goals are attainable if the country’s growth shifts to a stable upward trajectory. Although growth accelerated during the politically stable period of 2004–14, it declined sharply in 2015, and the recovery has been modest and uneven. The gross fixed capital formation remains structurally low: it averaged 15.4 percent of GDP in 2006–14, fueled by external aid that supported public investment, and then fell to 10.8 percent of GDP over 2015–19 in the aftermath of the 2015 crisis. The decline in investments and high population growth resulted in low GDP growth, insufficient to make up for the losses suffered during reversals (IFC 2016). As a result, the average annual 1960–2019 growth rate of GDP per capita in Burundi was one of the lowest in Sub-Saharan Africa, and the volatility of economic growth was one of the highest (World Bank 2021a).

1.2. MULTIDIMENSIONAL FRAGILITY AS A SYSTEMIC CONSTRAINT TO GROWTH

Burundi is caught in a multidimensional fragility trap that results in high political, economic, legal, fiscal, operational, and security risks for firms and holds back private investment and productive economic activity. Although the governance situation in Burundi has improved since the end of the civil war, the country still ranks among the worst performers. Following the 2015 political crisis and unrest that ensued, overall violence decreased in Burundi. As outlined in this report, further efforts on trade reforms and regional integration can contribute to building resilience and enhancing social capital between groups in cross-border areas that are prone to conflict. Similarly, capitalizing on youth and women entrepreneurship could incentivize peace through more inclusive economic growth.

Economic risks are particularly severe. In October 2020, Burundi ranked 135 out of 164 economies based on the economic risk rating by Oxford Economics (figure 1.1). Its economic risk score remains higher (7) than the Sub-Saharan Africa average (6.7). The low performance relates to the large current account deficit (11.9 percent of GDP in 2020) that poses a risk of destabilizing the economy, and the elevated public debt level (estimated at 62.3 percent of GDP in 2020) that aggravates the risk of debt distress, especially due to the limited external financing.

Weak institutions and governance deter investments and affect private sector growth. Decades of civil war, only briefly interrupted by intervals of peace, limited the extent to which civilian institutions could be developed. Burundi ranks below the regional average of all Worldwide Governance Indicators, especially the rule of law and control of corruption indicators, where they fall under the 5th percentile of all countries in 2019. In turn, poor governance negatively affects the state’s ability to provide security, deliver social services, manage public investments, or encourage private sector growth. The main governance weaknesses are corruption, discretionary enforcement of laws and regulations, and poor provision of public service. Lack of transparency and judicial independence and separation of powers in formal courts limit the population’s trust in the legal system. The lack of appropriability of investment returns, rent seeking of public officials, and predatory behavior of other investors may prevent new investments.

FIGURE 1.1. ECONOMIC RISK OF BURUNDI VERSUS EMERGING MARKETS

Source: Oxford Economics 2020.

1.3. FINANCIAL INSTABILITY AND FOREIGN EXCHANGE CONTROL AS DETERRENTS TO PRIVATE INVESTORS

Financial instability is an ongoing challenge and a binding constraint to private investment. During the last 25 years, four banking institutions have gone into liquidation, with the average realization of liabilities at 46.5 percent.⁶ The state was forced to urgently inject funds, resulting in a shortfall of funds that could have been allocated to other projects of public interest. In the microfinance sector, since the implementation of Decree No. 100/203 of July 22, 2006 regulating microfinance activities, 10 microfinance institutions went bankrupt and five had their licenses withdrawn by the central bank (BRB). Of the 10 bankrupt institutions, only three are in the process of liquidation. The depositors cannot be reimbursed quickly and suffer large losses—they cannot rely on the financial safety nets that remain underdeveloped in Burundi because of the lack of an efficient deposit insurance scheme or an articulated crisis management and resolution framework. CPSD consultations indicate that the government is willing to improve the situation. The BRB started to set up a deposit insurance scheme. The government asked for World Bank assistance to build a robust financial safety net and improve overall financial stability, by providing support for policy reforms to resolve shortages in foreign reserves, developing a Regulatory Framework for Deposit Insurance and Bank Resolution, and building capacity.

Burundi's low level of foreign exchange reserves and selective foreign exchange allocation mechanisms led to the development of a parallel foreign exchange market and an overvaluation of the local currency on the official market.⁷ The foreign exchange challenges are the outcome of multiple factors, including: (a) the dry out of official development aid

and high external debt, (b) structural issues resulting from the inefficient reserves management, (c) and weak performance of export-oriented and foreign exchange-earning sectors, such as agriculture, mining, and tourism. In addition to fiscal difficulties, the decline in external support triggered difficulties in balance of payment, which translated into a foreign exchange shortage over the past six years. International reserves covered only 1.2 months of imports at the end of 2020. In response, the central bank tightened its control over the foreign exchange market to reduce capital flight and allocate the available foreign exchange by centralizing all foreign exchange accounts (appendix A). These interventions and controls led to the emergence of a parallel market with a market premium averaging 70 percent at the end of 2020.⁸ Foreign exchange bureaus became illegal in 2020, but CPSD consultations indicate that the parallel market continues widely. To address the foreign exchange challenge, and specifically the large parallel market premium, it is important to consider how to unlock constraints on both the supply and demand sides of the market. The recent measures taken by the central bank to recalibrate its exchange rate policy (October 7, 2022)⁹ is a first step toward improving the foreign exchange situation and shows the commitment of the country to reform and modernize its monetary policy. The selective foreign exchange allocation also impacts the production and competitiveness of most SMEs that are unable to import necessary inputs,¹⁰ and it could be a source of price distortion that sometimes benefits the most privileged.

1.4. AGRICULTURE-DOMINATED ECONOMY IN NEED OF DIVERSIFICATION

Burundi's economy is characterized by low productivity agriculture with an embryonic secondary sector and a growing tertiary sector that revolves around ICT, transport, banks, insurance, and trade. A near-stagnation of agriculture in recent years led to a decline in the sector's share of total GDP, from 53 percent in 1996 to nearly 30 percent in 2020 in favor of the tertiary sector, which gained increased weight and now accounts for almost half of GDP. The secondary sector's contribution remains relatively low and represents 17 percent of GDP (World Bank 2021a). Burundi's small industrial sector consists mainly of construction, agricultural processing, brewing, and energy. Despite the decline of agricultural activities as a share of GDP, smallholder farming still provides almost 85 percent of the population with income and employment and is responsible for 95 percent of the local food supply.

Although commercial agricultural production of tea, coffee, palm oil, and cotton contributes less than 5 percent of GDP, agricultural exports play a critical role in Burundi's economy, driving revenues, employment, and foreign exchange. This dependency bears risks related to the fluctuation in global market prices and unstable local production, which is highly vulnerable to climate shocks. Despite these challenges, food exports have increased steadily in Burundi while goods and services exports have fluctuated more widely. Exports rely on cash crops, mainly coffee (23 percent of 2018 exports), tea (15 percent), and wheat and meslin flour (5 percent).

Coffee attracted national and international investors following its liberalization in 2006, but the re-engagement of the government in 2019 generated uncertainty. Production has declined in recent years, with coffee export earnings falling below the level of 20 years ago: \$42 million in 1999, \$70 million in 2012, and less than \$40 million in 2019. Production decline mostly relates to low cherry prices,¹¹ which have eroded Burundian farmers' incentives to invest in their coffee plantations. In 2016, the government and donors, including the World Bank, attempted to address the situation through the \$72.25 million World Bank

Coffee Sector Competitiveness Project. The project was abandoned due to the government's decision to stop the privatization process, which combined public and private financing to substantially increase the productivity of coffee production in five regions in the country.

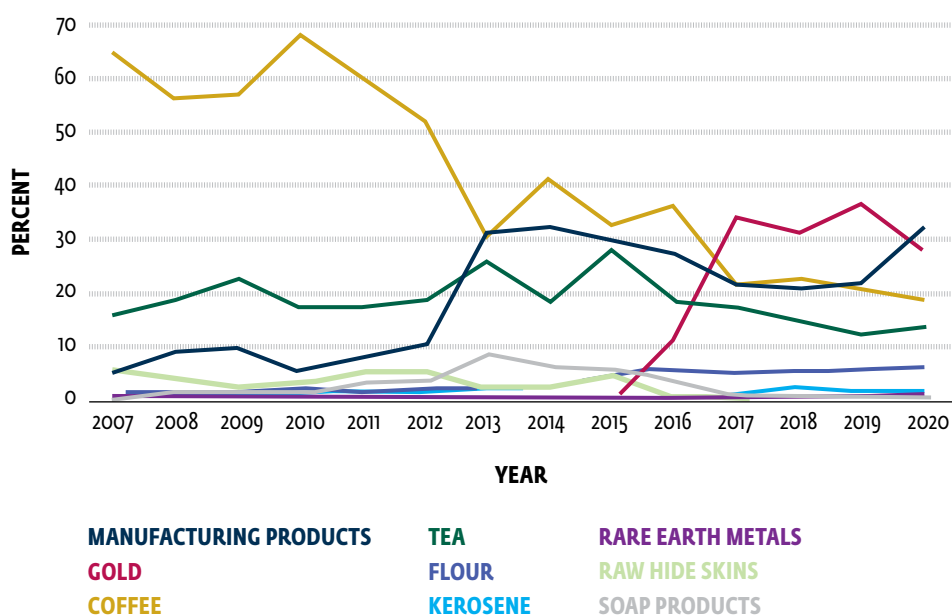
Food security is a key development priority for Burundi,¹² and the government recognizes the importance of a market-based approach to improve the productivity, value addition, and competitiveness of agribusiness. Burundi developed the 2018–22 National Investment Plan in Agriculture (Plan National d'Investissement Agricole, or PNIA) to strengthen the agriculture sector, which is supported by the Comprehensive Africa Agriculture Development Programme and Common Market for Eastern and Southern Africa.¹³

1.5. NEGATIVE TRADE BALANCE

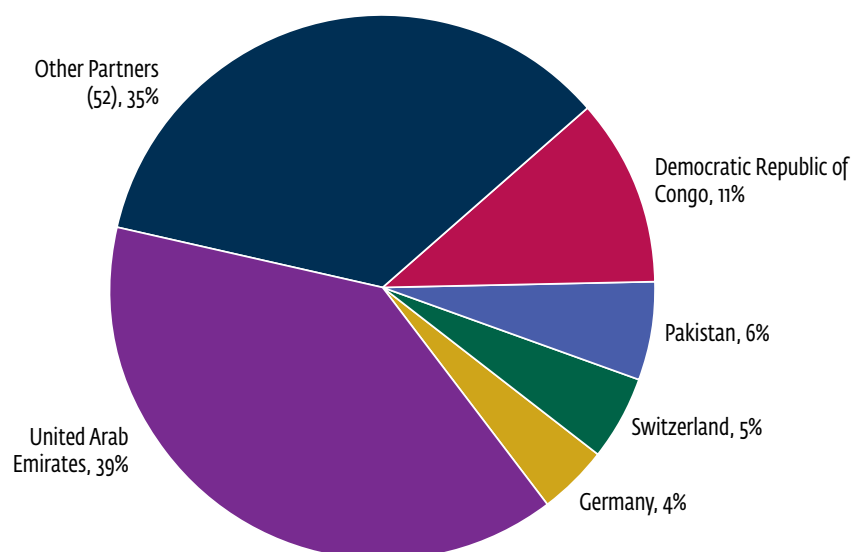
Burundi's trade balance is structurally negative because of its low volume of exports and substantial imports of manufactured goods and oil. The value of merchandise exports from Burundi totaled \$160 million in 2020. Burundi consistently records a large trade balance deficit, which in 2019 amounted to \$706.3 million. The deficit could be contained by an uptick in exports of mining products (38 percent of the total) and agricultural products (43 percent), particularly coffee. Since 2017, the share of minerals in total exports rose to over 40 percent in 2019, led by gold exports that totaled 37 percent of total goods exports. This induced a decline of the share of coffee and tea, the traditional export leaders (figure 1.2).

Although Burundi has limited presence in global trade, it engages in significant small-scale cross-border trade. The share of exports in regional trade is at 64 percent, while imports are

FIGURE 1.2. SHARE OF BURUNDI'S MAIN EXPORTS BY PRODUCT



Source: Bank of the Republic of Burundi.

FIGURE 1.3. SHARE OF BURUNDI'S TOP EXPORT MARKETS

Source: WITS 2019.

low at just 3 percent. Between 2015 and 2019, the trade with Democratic Republic of Congo grew by 2,500 percent, signaling the growing importance of improving and maintaining this trade relationship. Burundi maintains a trade surplus with Democratic Republic of Congo, which attracts 11 percent of Burundi's exports (figure 1.3). The trade balance with Rwanda is even (8 percent), while the balance is negative with Kenya and Uganda.

Neighboring countries exchange a considerable amount of goods with Burundi. Regional markets are important, especially for food and small-scale cross-border trade. In 2018, small-scale cross-border trade exchanges amounted to \$47.4 million.¹⁴ Over 56 percent of exports go to Democratic Republic of Congo, and more than 95 percent of imported products come from Tanzania (Republic of Burundi 2021a). Top exports are beers malt (29 percent), soft drinks (8 percent), and soaps and detergents (6 percent). Burundi is a net exporter of cotton, palm oil, and sugar to Rwanda. Top imports are live animals (36 percent), and corn and dried or smoked fish (6 percent). At Democratic Republic of Congo borders, women are major economic actors, particularly for sales and distribution, but they remain at intermediary role levels with low-income earnings.¹⁵ However, the recent admission of Democratic Republic of Congo to the EAC is likely to be a game changer to the bloc's trade performance, given its natural resources base and a huge consumer market of 90 million people (almost half the population of the EAC).

Burundi could leverage regional initiatives and trade agreements, such as the Organization for the Harmonization of Business Law in Africa (OHADA) and African Continental Free Trade Area (AfCFTA) to lock-in necessary reforms and boost regional trade. Burundi ratified AfCFTA and will now need a complete and effective implementation and improvement in competitiveness of its exports to reap the benefits of regional cooperation. By increasing regional trade, lowering trade costs, and streamlining border

procedures, full implementation of AfCFTA would help Burundi increase its resiliency to future economic shocks and help usher in the kinds of deep reforms that are necessary to enhance long-term growth.

1.6. OPPORTUNITIES AND CHALLENGES OF URBANIZATION

Burundi is one of the least urbanized countries in Sub-Saharan Africa, with rapidly growing cities that face considerable challenges. While most of the population still resides in rural areas (87 percent according to UN Habitat and World Food Programme 2020), the 5.7 percent urban growth rate was one of the highest in East Africa between 2000–19. According to 2010–50 demographic projections at the national and provincial level of the Institut de Statistiques et d'Études Économiques du Burundi (ISTEEBU), Bujumbura's population in 2050 is estimated between 2.5 million and 4.2 million, which is three to five times its 2015 population. Fast urban growth is the result of natural population growth, migration and displacements resulting from natural disasters and conflicts, and changes in administrative boundaries.

The link between urbanization and GDP growth in Burundi is tenuous because capital investments have not kept pace with cities' growth, and urban inefficiencies undermine the effective provision of services and increase the cost of doing business. Service delivery is hindered by the lack of resources and local governments' lack of capabilities to develop and implement urban plans and invest in urban infrastructure. Another critical constraint to private sector development is the poor maintenance of existing public infrastructure, especially in the transport sector (roads). Markets for factor inputs, goods, and services are neither flexible nor well-regulated to drive the efficient location of firms and households. The risk is that only households are attracted to cities, but firms do not simultaneously invest and expand their activities due to the lack of efficient factor markets and infrastructure, reducing the benefits of agglomeration. Cities and towns in Burundi will need to move to more productive activities to trigger economic growth and, at the same time, to accelerate urbanization. These activities should strengthen the link between rural and urban production to trigger a virtuous cycle and achieve a faster spread of the benefits of economic growth between urban and rural areas, especially since a large share of the population in Bujumbura, Gitega, Kayanza, Rumonge, and Rutana will continue to depend on rural activities (World Bank 2021c).

Improvements in land management, urban planning, and enforcement of property rights will be critical for Burundi's urban development. According to the Burundi Urbanization Review (World Bank 2021c), several factors hold back urbanization's potential in Burundi. Inefficiencies relating to land—access, markets, rights, and planning—deter productive investments within the city, leading to less opportunities for densification and exacerbating urban fragmentation. Specifically, Burundi will need to strengthen property rights, reducing obstacles for land registration and finding effective mechanisms to resolve land disputes.

1.7. UNTAPPED DEMOGRAPHIC POTENTIAL

With approximately 19 percent of its population between the ages of 15 and 24, Burundi's youth could become an asset for the economy. Burundi has the seventh highest fertility rate in the world (5.5 children per woman), and its population is expected to double by 2040. Almost half of the population is below the age of 15, and there are 9 children for every 10 working adults. Youth represent over 35 percent of the workforce (age 15 and over)

and has the potential to ensure higher growth. About 150,000 youth enter the labor market each year, and most work informally as family helpers, independent workers, or manual labor. The National Youth Policy 2016–26 states that rural youth have no land at all or no productive land, and only a small number of urban youths have access to employment. Fewer youth than older cohorts work in agriculture, but elsewhere they are still relegated to lower forms of employment, particularly unpaid jobs. Few young agricultural workers are paid, and fewer youth earn a wage in nonagricultural occupations. These structural barriers warrant youth-specific education and employment policies.

To realize the potential of its human capital, Burundi needs to close the large gender gap. High fertility limits girls' education and their workforce participation, leaving most women in informal jobs that are low-productivity, low-wage, and low-skilled. While women account for 52.7 percent of the workforce, more women than men work in subsistence farming (61 percent) and informal trade (estimated 70 percent).¹⁶ The overall unemployment for women is four points higher than for men, and this difference is more pronounced for young women at five points higher. Despite legislative changes, including the adoption of the National Gender Policy in 2003, legal and regulatory barriers exist to the economic empowerment of women, especially in equal pay,¹⁷ entrepreneurship, and access to assets.¹⁸ According to the Women, Business and the Law 2021 assessment, Burundi made consistent progress on gender equality in the past decades and scores 73.1 overall (World Bank 2021d). The indicators that hold Burundi back refer to family duties (including the burden of childcaring), social and cultural factors, and lack of access to assets. The trade unions' density of female membership is estimated at 16 percent. Women, Business and the Law 2021 points to considerable inequalities in inheritance rights between women and men in Burundi. According to Department of Health Services data from 2017, only 5 percent of women report owning land alone, compared to 22 percent of men. Outside of this category, most women declaring "ownership," did so stating "jointly with spouse/partner," which legally does not entitle women to the land when the husband dies.

1.8. UNCERTAINTIES AROUND LONG-TERM COVID-19 IMPACT

COVID-19 will likely exert long-lasting impact and affect future growth. Although the expansion of COVID-19 was initially slow, the global crisis hit early through trade that contracted due to lower global demand of its commodity exports, combined with logistics and transport constraints. Restricted export growth exacerbated foreign exchange shortages. The limited availability of imported items increased the prices of imported consumer products and slowed down industrial production. Although the industry still grew by 11.8 percent in 2020, growth is down from 2.1 percent in 2019. The tertiary sector contracted by 1.7 percent due to COVID-19 related mobility restrictions. Higher public debt levels¹⁹ exacerbate the risk of debt distress and negatively affect private investment prospects. The central bank highlighted the shocks from COVID-19 on export sectors and increases in the fiscal deficit as major risks for financial stability. Most businesses experienced declining sales, difficulty accessing inputs, and cash flow difficulties (ISTEEBU 2020). A large proportion of firms expressed the need for emergency support, including tax reduction or deferral, detail in loan payments, and access to new credit at discounted rates.

The impact from the pandemic varies across sectors and types of firms. Similar to the 2015 crisis, some sectors are more vulnerable to a surge in non-performing loans, such as construction, trade, tourism and accommodation, agriculture, and equipment. All these sectors are again exposed to a contraction of their activities due to COVID-19. The fallout

of the pandemic is further amplified for women entrepreneurs and women-led small and medium enterprises (WSMEs). Female entrepreneurs are concentrated in consumer-facing sectors, namely retail trade, hospitality, and services, where the demand shock was heaviest. WSMEs have systematically lower levels of business capital relative to their male peers. In addition, women entrepreneurs face increased demands for household labor due to greater needs for childcare or health care. In sum, WSMEs face greater economic disruption and have fewer resources to weather the storm.

The COVID-19 pandemic presented additional risks to livelihoods, through both direct and indirect effects. COVID-19 affected domestic fundamentals for growth and increased macroeconomic vulnerability. A household-level survey (ISTEEBU 2020) conducted in October to November 2020, showed that seven out of ten households experienced a decline in their earnings, 55 percent were at risk of not getting enough food, 46 percent missed meals, and 16 percent went hungry for a day because they lacked the resources to buy food.

The outlook is moderate and remains vulnerable to the continuing economic fallout from the pandemic, the availability and distribution of vaccines, fiscal slippages, foreign exchange pressures, and climatic shocks. Real GDP growth is projected to be 2 to 3 percent in 2021–23, assuming that the pandemic is brought under control. However, any meaningful acceleration of growth will depend on reforms, especially those that address key weaknesses in macroeconomic and public financial management.

1.9. PRECONDITIONS FOR PRIVATE SECTOR INVESTMENT AND GROWTH

Structural reforms, including a solid monetary policy, foreign exchange reforms, and improved governance, are the sine qua non conditions for restoring the confidence of investors and enabling sustainable private sector growth.

CPSD consultations highlight two essential conditions for increasing investors' confidence in Burundi's economy: stable monetary policy, including revisions of the foreign exchange controls, and improved governance and security. Structural reforms that align with the PND 2018–27 and reflect commitments from the government are needed to create the pre-conditions for private investment in the country. In particular the government should: (a) revisit the exchange rate policy and implement market-based mechanisms to allocate foreign currency, in particular through commercial banks, and (b) operationalize the e-governance strategy to improve access to information and efficiency of public administration. However, addressing the foreign exchange challenge, and specifically the large parallel market premium, must be considered in the context of a broad approach on how to unlock constraints on both sides of the market.

2. STATE OF THE PRIVATE SECTOR

2.1. UNFINISHED BUSINESS CLIMATE REFORMS

The domestic private sector shows positive dynamics, but its growth is hampered by a **challenging business environment**. The concentration of ownership of economic assets, weak competition, and high degree of informality (World Bank 2008) did not promote the efficient, productive use of resources, and private returns to investments are low and vulnerable to economic and political risks. Social returns to private investments are also low, particularly for the large informal sector. The plurality of administrative procedures for managing investors and the lack of means for proactively promoting investments also curb the commitment of investors. Domestic firms are incentivized to remain small and unproductive rather than upgrade to modern and sophisticated methods of production. This is aggravated by poor access to and the high cost of financing, a low level of supply of technical and entrepreneurial skills, infrastructure gaps, high transport costs, and limited access to land (World Bank 2019b; World Bank 2021a).

Rapid progress is possible in Burundi, as demonstrated by significant improvements in business regulations. The government implemented a number of reforms: in 2007, Burundi joined the East African Community (EAC) and harmonized with its commercial laws; in 2009, the Investment Promotion Agency, now the Burundi Development Agency (Agence de Développement du Burundi) was established; in 2012, a single window was created to facilitate business registration, construction permit release, transfer and registration of property, and simplified tax procedures, including digitalization, for SMEs; and in 2015, an electronic single window for business registration was created. Some of the ongoing reforms include tax relief for investing in job-generating productive investments;²⁰ simplification of the tax system for small businesses; and improved investor protection. As part of the reforms, the government engages in policy dialogue on accession to OHADA, which offers an opportunity for comprehensive and in-depth reforms around the business climate. An International Finance Corporation (IFC) impact assessment of OHADA reforms in Sub-Saharan Africa demonstrated that access to OHADA offers an opportunity to reach businesses of all sizes and sectors, entrepreneurs, and small businesses that are typically microcredit customers, with large infrastructure projects (Vellutin et al 2018). A feasibility study and an assessment of the potential impact of OHADA accession are planned for 2021 to inform the government on opportunities and options. During CPSD consultations, various private stakeholders supported OHADA accession, if it is accompanied by a sensitization campaign.

The government is committed to renew the reform effort and improve the implementation of adopted policies. Securing property and contract rights in Burundi remains a challenge, even if some progress is being made in terms of property registration. Despite the existence of a legal and regulatory framework for property rights, contract enforcement through formal mechanisms is not accessible to all and is often unreliable because of low institutional capacity, corruption, and information gaps regarding the rights of business owners and investors. Property rights and rule-based government policies are among the lowest in the world: according to the Property Rights Alliance, Burundi ranks 108 out of 121 countries on the international property rights index. The limited rule of law²¹ and the lack of asset security are among the largest bottlenecks to growth in Burundi, preventing entrepreneurs from appropriating the fruits of their efforts and reducing confidence in the government's actions. Other rankings are consistent with these findings. Burundi also ranks 135 out of 141 in the World Economic Forum *Global Competitiveness Report 2019* and 128 out of the 129 economies featured in the *Global Innovation Index 2019*.

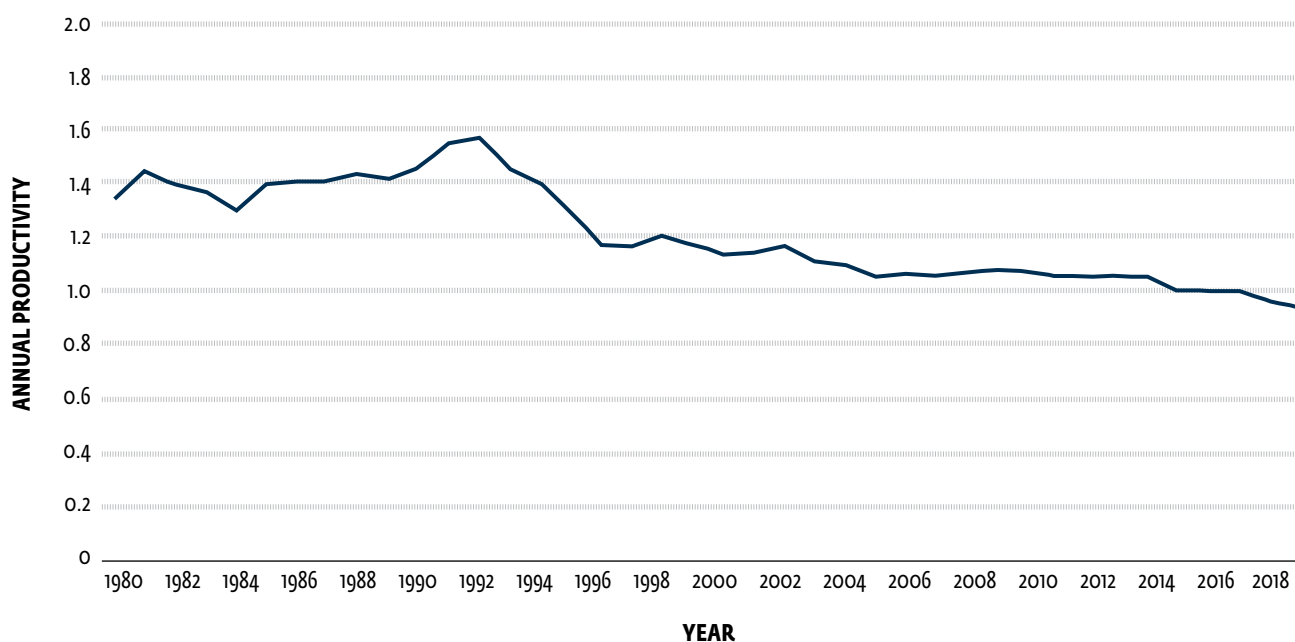
The legal system in general and the investment code in particular aim to protect and facilitate the acquisition and disposition of property rights, including intellectual property and consumer rights, but enforcement of these laws is limited. Burundi adopted the 1995 World Trade Organization Agreement on Trade-Related Aspects of International Property Rights, which introduced global minimum standards for the protection and enforcement of virtually all intellectual property rights. The law also guarantees protection for patents, copyrights, and trademarks. However, there is no record of enforcement action on violations. No intellectual property rights-related law was enacted, and no bills are pending. The Burundi Bureau of Standards and Quality Control (Bureau Burundais de Normalisation et Contrôle de la Qualité, or BBN) is the state authority responsible for monitoring the quality of consumer products on the market. However, the BBN needs to be modernized and an autonomous competent body must be created and given the necessary means to meet the market's needs in terms of certification, standardization, and quality. Private firms expressed views that the bureau lacks the necessary expertise and resources to be effective.

The public procurement framework in Burundi should be strengthened to guarantee a more competitive and transparent market environment conducive to private sector participation.

2.2. PRODUCTIVITY CHALLENGES

Burundi's productivity growth was negative between 2006 and 2019 (figure 2.1). Labor accumulation accounted for almost 80 percent of GDP growth in the context of limited capital accumulation and poor gains in productivity (World Bank 2021a). Capital stock contributed to about one-fifth, while total factor productivity contribution to growth was negative. During the sub-period of 2006–14, the growth of output was relatively high, averaging 4.5 percent, with a higher contribution from physical capital and gains in productivity despite remaining modest. During the second sub-period, the growth of output was poor at less than 1 percent on average, with a strong negative contribution from total factor productivity, while the growth of physical capital hovered at about zero. Agricultural productivity has been low and declining since the early 1990s—by 2019, the value added fell to less than \$200 per worker in constant 2010 dollars (World Bank 2020e).

Limited resources have moved toward firms that are more productive. Although the share of employment in the primary sector remains the highest, it has been declining since the 2000s, and labor has been mostly absorbed by services that now account for about 48 percent

FIGURE 2.1. TOTAL FACTOR PRODUCTIVITY AT CONSTANT NATIONAL PRICES FOR BURUNDI

Source: Feenstra, Inklaar, and Timmer 2015. For more information, see <http://www.rug.nl/research/ggdc/data/pwt/>.

of GDP. In 2006–14, labor moved from agriculture, the least productive sector, into other activities, such as trade and community services. Both intersectoral and within-sector labor shifts contributed to higher productivity in 2006–14 and reflect the increase in the value added of the industrial and services sectors and potentially improvements in firms’ managerial skills, or their internal capabilities more broadly, in the context of political and economic stability. The positive contribution of intersectoral growth suggests that the reallocation of resources among favored firms that contributed the most to overall productivity growth gained in value added, while some of the least productive firms disappeared. However, since 2015, this movement has reversed, illustrating a deteriorating economy where productivity and employment have declined.

Productivity remains low across all sectors of the economy. Although service sectors are more productive than agriculture, their productivity remains relatively low because of the high level of informality, and their productivity growth has been limited. More than half of the total value added generated in the informal sector comes from trading activities (wholesale, retail, and so on) and the rest from agribusiness (22 percent) and hospitality (13 percent). Productivity in the informal transportation and construction sectors is low, and both sectors are mainly informal with only 10 to 12 percent public or formal private employment (ISTEEBU 2014).

2.3. LIMITED USE OF TECHNOLOGY

Burundi stands at the bottom of the global innovation rankings and lags in innovation and technology adoption compared to its Sub-Saharan Africa peers. According to the Global Innovation Index 2019, Burundi ranks 128 out of the 129 economies²² and ranks 26 out

of the 26 economies covered in Sub-Saharan Africa. Relative to GDP, Burundi performs above its expected level of development, but there is no upward trend on any innovation parameters: in 2019, it ranked worse compared to 2017 in both innovation inputs and outputs. The country produces less innovation outputs relative to its level of innovation investments. With regard to innovation pillars, it is near the bottom on five out of seven rankings, including innovation infrastructure and market sophistication (129 out of 129), knowledge and technology outputs (127), creative outputs (125), and institutions (123). Burundi's performance in human capital and research is better and reflects government reforms in the education sector (103). Burundi is significantly better than its Sub-Saharan Africa peers in business sophistication (74). UNCTAD's *Technology and Innovation Report 2021* ranks Burundi 145 out of 158 economies, with its lowest rankings in the industry and research and development (R&D) categories and better scores in ICT, skills, and finance.

Despite numerous obstacles to innovation, some Burundian firms have proved they can successfully adopt and use modern technologies. CPSD consultations build on the Global Innovation Index analysis of Burundi's strengths and weaknesses and explore the firms' approaches to establishing innovation links (30 out of 129 economies, which puts Burundi in the top 20 percent globally) and promoting knowledge absorption (65 out of 129, which is a global average and well above the Sub-Saharan Africa average). On these two indicators, firms (especially larger firms) report that they maintain a good degree of collaboration with higher education institutions in Burundi and abroad, for example, for research on seed varieties adopted to local conditions. Firms report that the two most pursued knowledge absorption strategies relate to high-tech imports and recruitment of international talent. Medium and large firms, both domestic and foreign-owned, offer formal training to their employees, often in collaboration with Technical and Vocational Education and Training or donor-funded programs and rely on imports of ICT services for adaptation of digital technologies to the local context. Consultations with MSMEs report that the areas where technological research shows promise are agro-processing, engineering and technology, and traditional medicine.

Digital technology usage in traditional sectors remains low. The main sector using digital technology is financial services, which consists almost exclusively of mobile money services. The adoption of digital tools and systems in the agriculture sector is low, but there is room for growth given the right foundation and incentives are in place. Stakeholder consultations suggest that few micro and small firms leverage technology to support their business, due to lack of affordability, readiness, and digital literacy (World Bank 2021c). Burundi remains the weakest performer of all 120 countries in the 2021 Inclusive Internet Index. The country ranks in the bottom third in Sub-Saharan Africa across all underlying categories, with only three countries in the region performing worse. Lack of electricity and domestic digital entrepreneurship are key barriers. This limits opportunities for related productive gains for developing business-to-business digital solutions. Nascent agriculture technology has encouraging examples, and there is scope for further scale-up.

Burundian MSMEs find it particularly challenging to absorb modern technologies, including digital. CPSD consultations reveal that the uptake and diffusion of digital technologies and activities are much lower among SMEs than among large firms, because of lack of access to modern equipment, lack of experience with and knowledge of digital technologies, and lack of incentives to change traditional working methods. Strengthening business capabilities, in particular in SMEs, and adopting modern technologies are key challenges preventing Burundi's economic transformation.

Being a latecomer to technological innovation has some advantages if Burundi strengthens its technology absorption capabilities for leapfrogging. Burundi's economy has a long heritage of traditional industries and low levels of productivity and technological diffusion. Adoption will be critical for catching up to more productive countries in Sub-Saharan Africa and beyond. In the short and medium term, transfer of existing technologies is one of the drivers for productivity upgrading and market links in traditional industries. Framework conditions and attraction of FDI could enable spillover effects and boost knowledge inflows. Bottom-up upgrading is essential to successfully capture this spillover and adopt and adapt modern technologies to local needs and challenges. Technologies must be accessible in cost and the skills required to use it available and meeting a widespread need. For example, the use of mobile money scaled up rapidly in Burundi because it fills the gap in formal banking, is simple to use, works on inexpensive basic cell phones, and answers the need for a safe way to transfer money.

2.4. LABOR MARKET AND POTENTIAL EMPLOYMENT MULTIPLIERS

In 2017, 83.5 percent of Burundi's workers were employed in agriculture, relying on informal work (51 percent) and independent farming (46.2 percent). The increasing urban employment is more diversified than rural: 10.7 percent of urban workers are employed in services, 3.9 percent in trade, and 1.9 percent in industry. Public institutions and SOEs employ more than 75 percent of formal workers, and account for almost one-third of overall nonfarm wage employment. Although the service sector represents less than 6 percent of total employment, over 40 percent of the urban labor force works in services. The main service sub-sectors, in terms of their contribution to GDP, are telecommunications, transport, tourism, and financial services, including banking. The increased contribution of services results from: (a) the move to informal urban work, given land availability, (b) better provision of public services in cities, including security, and (c) productivity increases in the service sector relative to the rest of the economy and other factors.

The informal economy is the key source of employment, represented by informal work and independent farming with different levels of productivity across sectors. The informal and formal private sector account for 96 percent and 0.6 percent of total employment respectively, while the remaining 3.4 percent is in the public and para-public sectors. In 2014, subsistence farming represented 89 percent of private sector employment. Of the remaining 11 percent, almost half of employment was in retail, construction, and transport. Both farm and nonfarm employment in Burundi is overwhelmingly concentrated in informal activities. According to the Survey of Household Living Conditions in Burundi, formal private sector employment in nonfarm activities is 3 percent, and the public sector accounts for 23 percent (ECVMB 2013–14). However, informal jobs proliferate even in non-agricultural activities. Excluding subsistence agriculture, informality still accounts for 73.8 percent of nonfarm employment and 70 percent of urban employment.

Almost 5 percent of Burundians live abroad, many of them attracted to do so by the prospect of greater professional and business opportunities. The majority of the 466,962 Burundians who lived abroad in 2017 migrated to neighboring countries, including Tanzania (50 percent), Rwanda (14 percent), Uganda (14 percent), and Democratic Republic of Congo (9 percent). Developed Organisation for Economic Co-operation and Development (OECD) countries host a smaller but highly skilled share of the Burundian diaspora.

TABLE 2.1. BURUNDI EMPLOYMENT STATUS, 2017 (PERCENT)

	Female	Male	Age 15–30	Age 30+
Agriculture	90.1	76.2	81.8	84.9
Farm employer	0.2	0.7	0.7	0.2
Independent farmer	19.8	44.8	17.5	43.3
Farm wage worker	3.9	6.8	6.3	4.4
Farm unpaid worker	66.2	23.9	57.3	37.1
Non-agriculture	10.0	23.8	18.2	15.1
Nonfarm employer	0.1	0.4	0.2	0.3
Nonfarm self-employed	1.6	7.1	3.7	4.6
Nonfarm wage worker	3.3	11.8	6.3	8.2
Nonfarm unpaid worker	5.0	4.6	8.1	2.1

Source: ECVMB 2017.

Unemployment is a major social challenge, especially among youth and women. The national unrestricted unemployment rate, which includes individuals not actively seeking a job, rose from 2.4 to 7.8 percent in 2014–17. Bujumbura was most severely hit: its unemployment increased from 20.0 to 32.9 percent (World Bank 2019a). The country needs more private sector investment to create jobs and break out of the poverty and fragility cycle. An astounding 87 percent of Burundians are trapped in unproductive, non-wage jobs and have no access to a sustained source of income. Of the working age population (15–64), 23 percent are inactive, including 40 percent underemployed or inactive youth ages 15–24.²³

Gender inequalities persist in the labor market. Women account for 52.7 percent of the workforce, but more women than men work in farming and few women have non-agricultural jobs (ECVMB 2017). For those who are employed, the quality of employment is often low, as most jobs are informal, low-skilled, and without social protection—two-thirds of employees do not have a formal contract with their employer. Moreover, women tend to have more unpaid work than men. More men than women are independent farmers, self-employed, or employers (table 2.1). Wage employment is thus largely the domain of men. The lack of skills and quality jobs for women affect women’s family choices and reinforce the cultural gender bias.

Private investment in Burundi could generate jobs, but its impact on the economy is sector-dependent. The analysis of historic data using a social accountability matrix (SAM) multiplier approach shows that agribusiness is among the industries with the highest GDP multipliers, driven by large direct and induced effects despite weak backward links with other sectors.²⁴ Most agribusiness and light manufacturing sectors exhibit higher employment multipliers compared to services and manufacturing in Burundi (appendix C). This was a factor for selecting these value chains as sectoral focus areas in the agribusiness chapter of this report.²⁵

2.5. OPPORTUNITIES FOR A RESPONSIBLE EXPLOITATION OF NATURAL RESOURCES

Burundi needs to take full advantage of its natural resource endowments and has a potential to develop the mining and tourism industries, in addition to agriculture. However, both industries are underdeveloped, and there is limited current interest from private investors, especially in the tourism industry that was heavily affected by COVID-19.

If natural resources are well-managed, mining riches could be a game-changer for Burundi's development. The country has significant known nickel deposits²⁵ and other metals used in the steel and stainless-steel industry, including high-grade magnetic rare earths (including neodymium and praseodymium). While mining does not form a major part of Burundi's economic activity, it is a major part of the country's exports and a large source of foreign currency. In 2019, the mining industry overtook the tea and coffee sector in Burundi as the leading source of foreign earnings, producing mainly gold, niobium, tin, and tungsten. Preliminary estimates indicate that mining could generate about \$30 million per year to the economy for the next 20 years.

In recent years, the government has started to grant new mining licenses. As of March 2019, four mining companies and 160 cooperatives operate legally in the mining sector. In 2020, a new coltan mine launched, and a foreign company started rare earth mining operations in the vicinity of Bujumbura (World Bank 2021a). Reforms of the mining sector need to include provisions for the responsible management of mining resources, including fragility and environment risk prevention measures around new mines (IFC 2012). For example, Burundi should consider becoming an implementing member of the Extractive Industries Transparency Initiative (EITI), which is a global standard in open and accountable management and governance of oil, gas, and mineral resources. In addition, it is important for Burundi to update the environmental laws and regulations applicable to the mining sector to ensure a sustainable and responsible use of natural resources. Large-scale mining projects will require significantly improved access to transport, water, and power infrastructure. Further, it is critical to invest in capacity building for the government to gain control over the management of the mining sector, so they can ensure that contracts signed with mining companies are fair and a win-win for those involved (appendix C).

The tourism sector could also drive job creation and generate foreign exchange revenue, but its development was negatively affected by the economic and political crises, and COVID-19. Tourism faces structural constraints and a significant drop in demand. Tourism accounted for 3 percent of GDP and 2.6 percent of jobs in 2014, but it has experienced a strongly negative growth since then. In the context of COVID-19, the global decline in the tourism industry is unlikely to recover in the short term. Nevertheless, tourism has strong potential in the medium term, especially since Burundi's natural attractions could make the country a popular tourist location at the regional level.

The experience of neighboring countries demonstrates the potential of tourism sector development. Burundi could capitalize on its natural resources, such as diversity of landscapes, natural parks, and wildlife, but it still lags in terms of foreign exchange revenues from tourism: in 2019, it stood at 4.3 percent of GDP compared to 9.7 percent for Rwanda, 9.7 percent for Kenya, and 9 percent for Tanzania.

In the longer term, tourism could become an engine of inclusive growth and job creation. In Burundi's Vision 2025, tourism is a key sector for economic development. Tourism is one of the 11 pillars for the structural transformation of the Burundian economy in the PND 2018–27. Urban areas, in particular, can play an important role in developing tourism and, conversely, tourism can create jobs and develop urban areas. Burundi's Vision 2025 states, “Urbanization will be the source of the creation of non-agricultural jobs, particularly in the service, mining and tourism sectors.” Although the majority of tourist attractions are located in rural areas, its cities, and particularly Bujumbura, are centers of access, accommodation, and services for the growth of tourism and its value chains. The agglomeration of tourism and its related sub-sectors in urban areas can increase links between sectors, and increasing urbanization centralizes more services, businesses, and infrastructure, which accentuates the multiplier effect of tourism. To reach its potential, the tourism sector will need to overcome and remove long-standing challenges to its development through a number of reforms and investments, especially in the private sector.

Sustainable forest management is critical for the country's future. Forest and agro-forest resources contribute about 3 percent to Burundi's GDP and 6 percent to national employment. Burundi's forests could also be developed for eco-tourism purposes. However, during the conflict period of the 1990s, Burundi may have experienced a deforestation rate as high as 9 percent. Today, Burundi's forest cover is 6.6 percent, compared with the Sub-Saharan Africa average of 27.7 percent. Approximately 152,000 to 183,700 hectares of forest remain in the country, none of which are considered intact forest (World Bank 2018).

2.6. STATE-OWNED ENTERPRISES IN NEED OF REFORM

SOEs play a key role in the economy and are used by the government to achieve economic, social, and political objectives. SOEs are legally defined in Burundi as industrial, financial, or agricultural enterprises created in the form of a joint stock company where the state and/or a municipal or legal person governed by public law owns all or part of the share capital. Their role includes delivering and extending access to public services, filling gaps in markets, developing key sectors and regions, and providing employment. In Burundi, public enterprises provide basic services, including telecommunication, water, energy, transport, agricultural supervision, and production of essential goods (such as nutritious food and affordable clothing). Yet, they hold enormous potential for private sector participation if markets are more open for competition. A handful of public enterprises dominate the exports of the country: coffee, tea, cotton, and sugar.

Data on SOEs are limited and outdated, which contribute to information gaps. Many public enterprises were created in the 1970s, but the list of SOEs needs to be updated and publicly released. The European Union and IDEC 2018 evaluation report indicates 35 public companies: 12 with 100 percent government ownership, 15 with government ownership between 50 and less than 100 percent, and 8 with less than 50 percent ownership (appendix C). According to this data, the majority of SOEs are in food and beverage industries (22) and associated value chains (3 fertilizer producers and distributors, 2 in palm oil derivatives and cosmetics, 2 in agritextile, and 1 in leather). The wood and furniture industry has 5 SOEs, and the remainder of SOEs are in plastic and paper products.

National regulations on competition have weaknesses in sectors with public engagement. SOEs in Burundi are governed by a set of laws that are poorly or inadequately implemented (European Union and IDEC 2018). They enjoy substantial market power over Burundi's

small and poorly developed domestic markets, weak regulations, poor oversight of competition, and weak policies and enforcement of regulations governing the ownership and treatment of SOEs. In tradeable sectors, SOEs are regulated at the regional level under the EAC Competition Act, which deals with all competition issues having cross-border effects. However, Burundi has not notified these SOEs at the World Trade Organization, which is required for transparency reasons at the multilateral level. Burundi does not have a competition authority to oversee domestic competition.

SOEs face significant financial difficulties. The current governance of SOEs distorts competition and lacks compliance with regulations (European Union and IDEC 2018), with implications for private sector performance and competitiveness, since it affects the quality and reliability of service delivery and leads to a misallocation of public resources. There are some exceptions, such as the sugar producer SOSUMO, which has a positive balance sheet and plans to modernize and increase production capacity and exports. Estimates of SOEs' debt amount to 2 percent of the GDP, including wage arrears (IMF 2021). CPSD consultations report that several SOEs seem to be on the verge of bankruptcy, including COGERCO, which faces serious financial difficulties, lacks working capital, and is unable to pay its debts, and the Burundi National Telecommunications Office (ONATEL), which registers large debts, exploding wage bills, and is not profitable.

Poor governance and management, aging factories and equipment, and declining production and high production costs caused SOEs' precarious financial situation. State arrears of payment for goods and services received also contribute to the inefficiency of SOEs and reduce their competitiveness in domestic and international markets (Nikwigize 2021). The most critical areas for reform that were raised during CPSD consultations are similar to the conclusions of the 2015 and 2018 Department for Public Enterprises (Service Charge des Entreprises Publiques, or SCEP) evaluation reports:

- *Poor governance and management of SOEs.* Burundi does not adhere to the OECD guidelines on corporate governance for SOEs. According to the 2015 SCEP annual report, and contrary to what is prescribed by the law,²⁷ the management standards least respected by SOEs are wage bills, account certification, and implementation of internal control systems. CPSD consultations also report that several ministries directly intervene in SOEs' management, including personnel appointments.
- *Aging factories and equipment.* SOEs greatly need technological upgrading and modernization of production technique and equipment, particularly for the Office du Thé Burundais and REGIDESO (Régie de Production et de Distribution d'eau et d'électricité du Burundi), the public utility in charge of the water and electricity sector. REGIDESO has limited electricity production capacity, with only 12 percent of the national coverage, which leaves a large unmet demand. REGIDESO operates with outdated equipment and production units that were designed in the 1990s. Most of its expansion plans have not been operationalized.
- *Declining production and high production costs.* For example, the Office du Thé Burundais reported a declining tea production over the past years because of high production costs linked to wages and increasing input costs.

The government recognized SOEs' challenges and introduced policy measures to solve debt issues, reduce subsidies, modernize production, and improve management performance. Since 1990, the government has attempted to stimulate recovery through advisory assistance and structural reforms, including privatization and liberalization (AERC and IDEC 2015).

- *Privatization.* In 1991–94, the privatization of 12 SOEs with a small share of government participation was driven by the need for modernization. In 1994–2004, other SOEs were added to the privatization pipeline, such as Office du Thé Burundais, ONATEL, and REGIDESO. Political and economic crises and the interministerial privatization committee's lack of capacity slowed down the privatization program. After the 2015 crisis, the government suspended the program, except for the coffee sector, which was set to be privatized and modernized. But in late 2019, the government retook control of the coffee sector, citing mismanagement and lack of accountability issues on the part of the private companies operating in the sector during 2015–19. The authorities also abolished several agencies in charge of privatization, including the SCEP.
- *Liberalization.* After the 2005 elections, the government opened several SOEs in different sectors to private investment. The 2015 and 2018 SCEP evaluations indicated that some SOEs are outdated, and their dominant role negatively affects market competitiveness, which could be improved with private sector participation.

The prevalence of SOEs in Burundi's tradeable economy causes significant market distortions that undermine the performance and competitiveness of the private sector and overall economy. During CPSD consultations, several private actors reported that SOEs contribute to market distortions, barriers to entry, and limited access to inputs, especially in the cash crops value chains. Other market distortions include the role of the state as both a market player and a regulator and the lack of neutrality principles.

While some degree of government participation in the markets could be justified, it should focus on value chain facilitation in areas where there is a need for consolidation and support to entrepreneurs, smallholder farmers, MSMEs, and cooperatives. Market failures could justify government interventions under some conditions, where SOEs could fill the gaps in the value chains without monopolizing the entire value chain. For example, ODECA, the central coffee marketing authority, helps in consolidating inputs, ensuring timely payment to farmers, and coordinating maintenance and replanting. Where government interventions are not necessary, its withdrawal from the SOE will free the public resources needed to support the development of more critical sectors impacted by a long period of crisis, such as public infrastructure, education, health, and so on. This in turn will help improve the productivity of the private sector. An in-depth assessment of each SOE is needed to identify necessary reforms.

PPPs offer an effective and potentially profitable alternative for reforms of the public enterprise sector. In the PND 2018–27, the government identifies PPPs as one of the solutions to infrastructure financing and job creation. The PPP legal framework includes the 2015 law on the general regime of PPP contracts (updated in 2019), and the 2016 decree that establishes the statutes of the Support Agency for the Implementation of Public-Private Partnership Contracts (World Bank 2020d). According to PPP benchmarking data (IFC 2017), the country scores well by comparison to its regional and income group peers, especially in terms of dealing with unsolicited proposal, contract management, and procurement of PPPs, but it scores relatively low in terms of preparation of PPP projects.

BOX 2.1. PUBLIC-PRIVATE PARTNERSHIP EXAMPLE IN ENERGY PRODUCTION

Ruzizi III Hydropower Plant Project is the first regional PPP power project in East Africa, which is being developed on the Ruzizi River that flows along the borders of Burundi, Democratic Republic of Congo, and Rwanda. With an estimated project cost of up to \$700 million, Ruzizi III is expected to double Burundi's current energy capacity. International financial institutions, including the World Bank, will fund 60 percent of the project, which is expected to become operational in 2025/26. The PPP is based on a build, own, operate, and transfer concession, where the project company will operate the plant as an independent power producer. The three governments have a stake of 10 percent with an equal offtake share in the project, through the energy affiliate Energie des Grands Lacs. The affiliate competitively selected a private consortium of Sithe Global Power Ventures LLC (United States) and Industrial Promotion Services Ltd (Kenya) that will own the remaining 70 percent stake and oversee the financing, design, construction, and 25-year operation of the project.

This PPP experience highlights the importance of reforms of Burundi's REGIDESO to sustain private investments in generation and regional projects. Since REGIDESO will be a purchaser for the electricity produced by private generation projects (including Ruzizi III), its financial performance is key to underpinning the viability of such development. Financial and operational performance is a prerequisite for REGIDESO to become a credible partner for future private investors.

Although PPPs are still rare in Burundi, their uptake has been more common in the agriculture, health care, and education sectors under the auspices of corporate social responsibility and other social and solidarity economy organizations (Niyizonkiza and Yamamoto 2013). For example, under the USAID Integrated Health Project in Burundi, two PPPs were initiated with a leading Burundian mobile phone company to support malaria prevention. Projects that have been implemented in the energy sector include the Lake Kivu project, where Burundi, Democratic Republic of Congo, and Rwanda are implementing a hydropower PPP project that will double Burundi's current electricity generation capacity (box 2.1) and the Mubuga solar photovoltaic plant. The government has expressed interest in exploring opportunities for PPPs in energy, ICT, tourism, transport, port management services, education, and health care (Republic of Burundi 2014). In addition, as Burundi looks to engage in more PPPs, the management of fiscal commitments and contingent liabilities will gradually become an important topic that will need attention from authorities.

Market liberalization and competition reforms could increase private sector participation and investments in sectors, where the private sector has a comparative advantage. The government needs to minimize state participation in sectors where the private sector has a comparative advantage and could generate greater development outcomes. Enhanced competition will improve the performance of Burundi's enterprises, whether private or public. Strengthening transparency and regulation in SOE markets would level the playing field among SOEs and potential private competitors. A framework for increased private sector participation and competition with SOEs should be combined with efficient management and governance of existing SOEs.

The state ownership strategy should define the sectors where the government has strategic reasons for remaining engaged. In some areas, the public sector could help address development failures and close market gaps when the private sector is not interested in participating. The rationale for government participation should refer to sectors where market solutions are not available and where there is a strong public good benefit (for example, public services, such as water and sanitation). Well-performing SOEs could be a source of

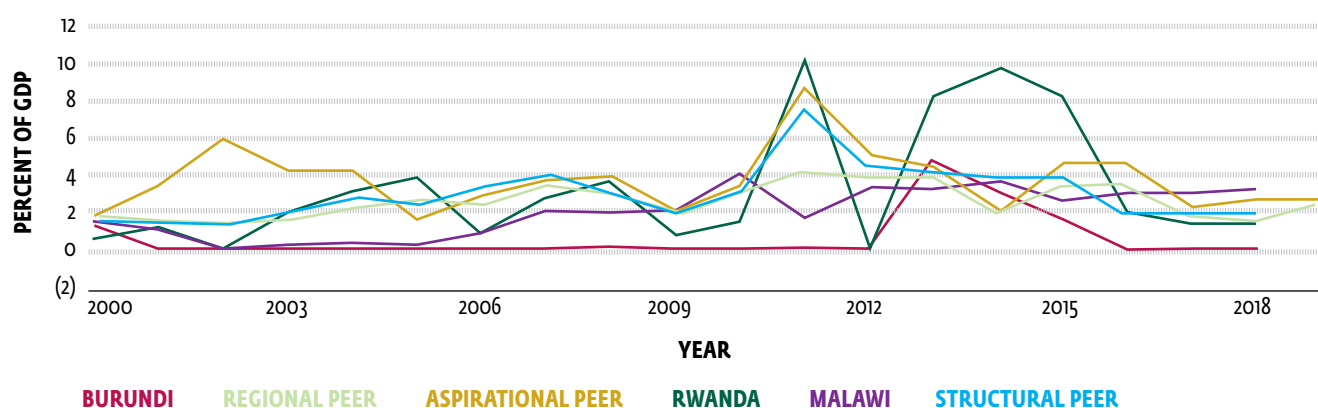
income and foreign exchange resources for the government, with an understanding that it is the private sector that brings the bulk of tax revenues. To engage with private investors, it is essential to have clarity and consistency regarding the sectors where the government plans to adopt an exit strategy, including full (privatization) or partial exits, and sectors that are to remain under state ownership. Reducing the domination of SOEs in tradeable sectors would create more efficiency as well as improve the business environment and competitiveness and create more decent jobs. Increasing private sector participation in public service sectors, including through PPPs, would free up public resources and improve the quality and quantity of goods and services.

An in-depth assessment of each SOE is needed to understand its current financial and management status and undertake necessary reforms. The following SOE categories should be considered for further action: (a) well-performing SOEs that need improvement in management or other dimensions, (b) SOEs that need deep reforms but can stay in the public sector, especially in the provision of strategic public goods and services, where the private sector has no incentive, (c) SOEs that need to be privatized due to their inefficiency and weak financial performance, and because of the “crowding-out” effect on private investments, and (d) SOEs to be closed. For SOEs in the first two categories, it is important to implement effective regulatory reforms to expose them to more competition while opening the market for more private sector participation. Further, introducing competitive neutrality principles and adopting corporate governance principles is crucial to increase transparency and accountability. Competitive neutrality principles ensure that any remaining commercial SOEs compete with private firms on a level playing field.

2.7. MOBILIZING FOREIGN DIRECT INVESTMENT IN THE POST-COVID-19 WORLD

In recent years, the government has made progress in improving the investment climate, notably through the adoption of a new investment law that grants potential fiscal and customs benefits to investors. Foreign investors enjoy the same rights as domestic ones, including for land ownership,²⁸ and can engage in all forms of activities. Foreign ownership or control, except in the mining sector,²⁹ has no limits and foreign investment is not subject to any screening mechanism. Additional potential benefits stipulated by the investment code include: (a) five years of tax-free operation, and up to 10 years for specific sectors; (b) exemption from charges on the transfer of ownership; (c) exemption from the value-added tax and/or customs duties on the importation of construction materials, equipment, and production inputs; (d) a corporate tax rate of 30 percent, with a reduction of 5 percent in the first year, 10 percent in the second year, 15 percent in the third year, 20 percent in the fourth year, and 25 percent in the fifth year; and (e) free transfer of foreign assets and income after payment of taxes due. The government does not issue guarantees, but does co-finance FDI projects, albeit typically on an in-kind basis, such as by granting land for facilities. Burundian law does allow the government to expropriate property for exceptional and state-approved reasons, but the government is then committed to provide a legal prior fair compensation allowance based on the fair market value. No recent cases involve expropriation of foreign investments nor do any foreign firms have active pending complaints in Burundian courts.

The establishment of the Burundi Investment Promotion Agency (renamed the Burundi Development Agency, or Agence de Développement du Burundi, in November 2021 by presidential decree) supported the implementation of important reforms. But the agency’s

FIGURE 2.2. FOREIGN DIRECT INVESTMENT IN BURUNDI, NET INFLOWS

Source: World Development Indicators.

institutional capacity needs strengthening to pursue an active and effective investment promotion strategy, and there is need to design an investment support program that helps capture the positive spillover from FDI in Burundi, as indicated during consultations with private investors. The agency was established in 2009 based on the Burundi Investment Code enacted in 2009, with the main objective to boost local investment and attract FDI, especially for projects serving long-term development goals and improving competitiveness. The agency offers a one-stop shop for company registration, access to common regime benefits and customs and tax benefits, and assistance to investors in obtaining certificates, licenses, and other documents required for investment activities. In 2014, the agency created a monitoring mechanism to ensure that investors implement the projects for which they benefited from tax exemptions and other benefits provided for by the investment code. Since 2010, the United Nations Conference on Trade and Development (UNCTAD) has no investment policy review available. The promulgation of a new corporate code reduced the procedures for establishing a foreign subsidiary in Burundi from 11 to 2.

The positive progress in investment climate reforms did not translate into a notable increase in FDI. FDI in Burundi has historically been extremely low, except for 2013, which showed an exceptional spike, mostly in transport, communication, and banking. The small size of its domestic economy might deter FDI seeking efficiency despite the opportunity that Burundi's geographical position offers to become a regional commercial hub (figure 2.2). The country needs to address structural weaknesses to realize this opportunity, notably in trade policy and infrastructure trade logistics. According to UNCTAD's *World Investment Report 2020*, FDI inflows to Burundi were only \$1 million per year in 2017 and 2018 and were all directed toward the mining sector, including gold. The mining and agriculture sectors capture most of the investment, while France and Japan are the main investors in the country (UNCTAD 2020). Burundi also has large, untapped deposits of copper, cobalt, and nickel. Political instability, the high cost of public services, ambiguous trade policies, poor infrastructure, corruption, low skilled labor, and the truncated privatization program limit the influx of FDI into the country.

The diaspora network and savings abroad offer an opportunity to attract more investment, especially in areas that traditional FDI consider too risky. Diaspora members could be catalysts for the development of the private sector in Burundi. They can contribute to the development of the capital market by diversifying the investor base and injecting hard currency into the economy. Conservative estimates of Burundi's diaspora savings range from \$481 million to \$651 million (EUDiF 2020). International experience demonstrates that countries can attract a diaspora's financial and non-financial resources, such as market links and know-how, to support the private sector and economy at large. For example, Nigeria successfully launched \$300 million diaspora bonds in 2017.

Since 2008, members of the executive branch have granted large discretionary exemptions to private foreign companies by presidential decree or ministerial ordinance to attract FDI.³⁰ These direct government-to-company agreements undermine the Burundian tax law and investment code. In addition to reducing revenues for the state, these exemptions disadvantage private companies already operating in Burundi by granting advantages to select competitors. The corporate tax rate is 30 percent, with reductions for companies that employ certain numbers of Burundian nationals.

International investors impact value chain development, but they remain rare. Lead firms can play a positive role in productivity upgrading, development of local and international markets, and the creation of sustainable jobs. The multiplier effect resulting from FDI could reach thousands of households, with employment resulting from strengthening the local supplier base, value chain development, and additional spending by households. However, in the absence of consolidated efforts to coordinate smallholders' activities, market integration remains limited. International investors (such as in tea) indicate the lack of a consolidated input market impedes the expansion of investments. Investors are not required to source from local sources and the government does not offer a formal supply chain development support program. The government should strengthen the enforcement of the performance conditions required of investors for the establishment, maintenance, or expansion of their investments or for access to tax and investment incentives.

In a global landscape deeply impacted by COVID-19, yet still subject to rapid technological change and political uncertainty, Burundi must refine its value propositions as an investment location. This will require rethinking the investment promotion strategy and strengthening the institutional capacity to attract and retain investments and reap the spillover benefits. However, the government also needs to target investments that are likely to create inter-firm links and productivity spillover. This will require a sophisticated investment promotion strategy that targets those FDI that are prone to creating links and have the potential to generate performance improvements among domestic suppliers. The investment promotion strategy should include initiatives that address market failures in the local input market. To lower the costs associated with identifying (potential) demand and supply of inputs, the Burundi Development Agency can create databases containing sector-specific information about local firms that want to become suppliers to lead firms. Matchmaking and networking events can also facilitate the creation of backward links and bring potential investors and domestic firms into direct contact, allowing them to share information about input demand and supply and explore the possibilities for business relationships. The Burundian diaspora can play a positive role in facilitating that outreach or through direct investment in local firms.

2.8. GROWTH CONSTRAINTS TO ENTREPRENEURS AND SMALL AND MEDIUM ENTERPRISES

Formal and informal MSMEs represent over 90 percent of firms and could become engines of inclusive job creation and economic transformation.³⁰ The success of Burundi's private sector will depend on positive entrepreneurship dynamics, improvements in MSME productivity, expansion of access to markets, and integration of local entrepreneurs into local, regional, and global value chains.

CPSD consultations with MSMEs report a positive trend in revenue growth during the past three to four years, despite the pandemic. This increase links to growth in domestic and regional demand. Micro enterprises are the most prevalent MSME and more likely to have young owners (ages 18–35) who report growth plans and ambition. For the majority of MSMEs, offering high-quality products and services at a competitive price constitutes their key competitive advantage. The most dynamic sectors are community and social services in urban settings, followed by the primary sector.

At the same time, MSMEs report systemic constraints that limit market access (World Bank 2019b). Outside of a lack of access to finance, entrepreneurs stress the poor quality and cost of inputs as one of the most limiting factors for growth (World Bank Group 2015). The poor quality of infrastructure further limits access to markets and increases production costs. The complexity of procurement rules restricts MSME participation in public procurement. There is low integration into national markets and value chains, and MSMEs also stress the weight of foreign competition on the local market, especially from more developed neighbors, such as Kenya and Rwanda. There is a lack of strong farmers organizations and a limited number of private actors in the value chains. MSMEs operate at every stage of the value chain in rural and urban areas and across different sectors of the economy: input supplies; agricultural tools and machinery; irrigation equipment; services, such as handling, storage, processing, packaging, and distribution; and other elements, such as power generation and logistics. However, most of these organizations lack capacity and negotiation power, and rarely reach the economies of scale necessary to connect their clients to larger markets.

Market distortions caused by the absence of a level playing field in public procurement undermines Burundi's private sector productivity and growth. CPSD consultations reveal that unfair competition can happen. The 2020 elections present an opportunity to improve transparency in public procurement and create a more competitive environment for the private sector if the conditions for a competitive market are effectively implemented.

MSMEs face internal constraints related to information gaps and low managerial and technical capabilities. For 70 percent of MSMEs, the lack of qualified human resources is one of the key factors stunting growth (World Bank 2016). Lack of market information further worsens the challenge of managing stock, diversifying production, and expanding to new markets, for example, regional markets not affected by the crisis. In agribusiness value chains, seasonality has implications for the capacity of MSMEs to shift to various sources of information and attract and retain talent. The ecosystem analysis identifies a strong demand for a wide range of business development services that could help MSMEs address these challenges. Some solutions are being piloted through donor-funded programs, such as the digital platform Auxfin. The ecosystem enablers report that their key challenge is to develop a market for business development services that will not depend on donors in the long run.

MSMEs use technology in a limited way because of energy access challenges and frequent power cuts, lack of equipment, limited ICT penetration, and lack of digital skills (World Bank 2018). MSMEs also lack access to technical know-how and equipment. The majority of MSMEs identify the lack of modern equipment and technology as a constraint to productivity. For instance, agro-processing firms do not have storage capacity and must struggle with an inefficient and costly transport system. There is a large age and gender gap in the use of technology: consultations with business associations for women and some women cooperatives report that they do not know how to make use of technology. Much fewer male respondents report the same difficulties, and only a fraction of young entrepreneurs in urban areas do not use technology at all.

While women increasingly engage in entrepreneurship, they report more internal and external constraints. WSMEs are more present in sectors with low profit margins, such as retail, and are particularly affected by limited access to markets and production costs. Women mostly see entrepreneurship as a necessity—a source of livelihood due to lack of alternative sources of income and employment. Youth drive the growth of opportunity entrepreneurship in Burundi.

Most entrepreneurs in Burundi are necessity entrepreneurs who start a business because they do not have another means of generating income. Many startups face challenges, including poor management, lack of capital, and limited access to customers. Most of these entrepreneurs lack managerial and technical skills, have limited access to productive assets and capital, have low productivity and innovation, and their ventures are largely informal, micro firms that add little value to the economy and are unlikely to expand or employ many people beside the entrepreneur and immediate family (Girukwishaka 2016). In rural areas, entrepreneurial strategies rely on diversifying crops and processing food for sale. The country must move away from the mindset of necessity entrepreneurship and enable a new type of opportunity entrepreneurs who are willing to take risks, drive, and tap into spare resources, capacity, and opportunities. These entrepreneurs are likely to grow their business faster, employ more people, and introduce innovations that could help fill important gaps in the market while boosting productivity in the economy.

Entrepreneurs cite access to capital as a key constraint, but fostering the supply of startup capital is not enough. The investment readiness or quality of the demand is also crucial. Young entrepreneurs in Burundi and elsewhere often have innovative ideas, but they do not fine-tune them to the stage where they can attract funding to develop a minimum viable product or service and commercialize it. As international experiences show, the solution will require a mix of instruments that simultaneously addresses several entrepreneurial barriers. Ecosystem intermediaries, such as business development services, can play a significant role in supporting transformational entrepreneurs and addressing the supply and demand gap.

Female youth face greater constraints in accessing capital to build a business. Women have fewer assets than men—per the 2008 General Population and Housing Census, of the 80.2 percent of the population that owns land, 62.5 percent are men and 17.7 percent are women (Ndikumana 2015). In the absence of a formal inheritance law, women often are subject to discrimination enshrined in customary norms. Consequently, women also face challenges in accessing formal lines of credit due to a lack of collateral. USAID (2018) reports that although Burundian women traditionally have access to informal credit through community-based savings and lending groups, they rarely control the use of the

credit at the household level. As a result, though female entrepreneurship has important impacts on economic development, female-owned businesses often have slower growth and lower profits than male-owned businesses.

3. CROSS-CUTTING CONSTRAINTS TO PRIVATE SECTOR GROWTH

Burundi's growth and economic recovery will need to rely on framework conditions that allow the private sector to grow and attract investments. Private sector consultations identified priorities, including a favorable, more transparent business environment that will facilitate dispute resolution and support regional trade, create a better skilled workforce that will gradually join the formal economy in higher value-added jobs, and provide affordable and reliable productivity infrastructure and efficient logistics services and transports. While the business climate is previously described, this chapter analyzes the cross-cutting constraints related to infrastructure, land management issues, and transport and logistics. Access to finance is highlighted in the next chapter; labor market and skills recommendations are not addressed in this CPSD since they are already covered in the World Bank Burundi Skills for Jobs: Women and Youth Project. The latter addresses critical areas of labor market development, including: (a) building strong foundational skills and a balanced technical and professional skills development system; (b) combining training at universities and at technical and vocational education and training institutions with flexible, non-formal skills development options; (c) recognizing informal skills development; and (d) equipping youth, including refugees, with the necessary knowledge and skills to design, finance, and manage startup businesses.

3.1. LACK OF INFRASTRUCTURE

Burundi's poor and inadequate productivity infrastructure, mainly energy and ICT, constrains the modernization of domestic firms and inhibits private sector-led growth. Burundi has significant infrastructure deficits, particularly in access to electricity and ICT. Poor coverage and low-quality infrastructure increase costs, and lower the return on capital and work, discourage domestic and foreign investment, and constrain economic growth.

Access to affordable and reliable energy is the most important priority for private sector development. Poor electricity access and reliability was identified as major barriers to investment by 22 percent of firms in Burundi, compared to an average 15 percent across Sub-Saharan Africa (World Bank 2014). Electricity costs are high by the regional standard.³²

Despite progressive electricity tariffs, a huge cost divide exists between urban and rural coverage because the minigrids operated by private companies in rural areas are not subsidized like the electricity provided by REGIDESO in cities. In addition, the power transmission system is poorly maintained, leading to rolling blackouts. During CPSD consultations, most firms indicated the access to, high cost, and reliability of electricity as major daily challenges. Recurrent power outages and associated costs negatively impact production.

With support from private investors, Burundi can take advantage of its abundant hydro-electric potential to address the deficit in generation and transmission capacity. Burundi's average per capita consumption of electricity, at 23 kilowatt-hour per year, is among the lowest in Sub-Saharan Africa, where the regional average is 480 kilowatt-hour per year.³³ Most access estimates put overall access to electricity below 10 percent of the population, much lower than the regional average of 44 percent.³⁴ Because few service providers exist, prices may be double or triple those in other countries. Currently, the electricity shortage is met in part through imports from Democratic Republic of Congo, but this is not enough to satisfy demand at current prices. Key issues identified as barriers are:

- *Lack of a conducive procurement framework.* Issues with procurement, slow implementation, and lack of a bankable power purchase agreement template limited interest from private investors.
- *Poor credit standing of REGIDESO.* The offtaker is financially and operationally weak, with high losses due to the poor state of the electricity grid.
- *Poor regulatory setup around off-grid investments.* Off-grid investment is an area of opportunity, especially considering the population density and lack of land.

Some ongoing projects could reduce the infrastructure gaps and open up opportunities for private sector development, but they face delays in implementation. A new special economic zone was initiated in 2017 in the proximity of the Bujumbura airport and port under a PPP scheme with a private company from the United Arab Emirates. However, the project is not operational yet and faces difficulties and delays in its implementation related to COVID-19, climate hazards, and lack of a framework and detailed guidelines from the government on the nature of the convention with the private actor in charge of developing the special economic zone. Bujumbura Port is being renovated and expanded with Japanese funding. In addition, the ongoing construction of national and regional electricity dams should enable industrial projects in cities due to the generation of an estimated additional 10.65 megawatts for the local electricity grid and reduced losses of energy due to technical causes during transmission.

Lack of digital connectivity limits the opportunities for using modern technologies and limits the connectivity and competitiveness of domestic firms. Burundi ranks 171 out of 175 countries in the ICT Development Index, and just 6.9 percent of its adults have mobile money accounts, one of the lowest penetrations in Sub-Saharan Africa (appendix G). Weak skills are another cross-cutting barrier to the expansion of digital finance. Some regulation on digital licensing services exists, but the absence of a comprehensive regulatory framework at the highest institutional level is a major cross-cutting constraint to the development of the digital economy in Burundi. Some key regulations (World Bank 2020b) have been adopted, for example, the authorization of payment service providers in 2017 and digital platforms in 2014. However, regulations are still lacking on cybersecurity, data protection,

and access to information or interoperability, which complicates the design and implementation of a national strategy for the digital economy.

3.2. SKILLS CONSTRAINTS

One of the main reasons for unemployment and low quality of jobs is the lack of technical and professional skills that are required by the private sector. Private firms report that the lack of low- and medium-level technical and professional skills in agriculture, agro-processing, or electricity hinders productivity gains, market development, and enhancement of employment opportunities. Data shows that skills are rewarded in Burundi's labor market. Burundians who report receiving technical or vocational training or apprenticeships earn 3 times more than those who report not receiving skill training (ECVMB 2013–14). Among the workforce who earn salaries, being semi-skilled or skilled leads to a salary that is 2.5 times higher for male workers, and more than 4 times higher for females, compared to manual labor. Recognizing this potential, the government undertook a reform agenda to improve access to quality education and youth employability and expand economic opportunities for vulnerable groups, such as the poor, women, and refugee and host communities (World Bank 2019a).³⁵

The lack of specialized and advanced digital skills constrains the transformation of Burundi's economy. Low digital literacy hampers the adoption of digital solutions that can bring improvements and productivity gains to the economy, especially in agribusiness. New skillsets—from basic digital literacy to advanced, specialized digital skills and professional competencies for ICT professions—are needed in different sectors of the economy to increase Burundi's competitiveness.

Nurturing entrepreneurship skills and culture will also be important for private sector growth. Entrepreneurial capability, often related to the ability of the entrepreneur to manage information, learn from experimentation, and internalize what she or he has learned to produce a better outcome in the future, is a key aspect of human capital development. For new ventures to be successful, entrepreneurs need to be equipped with the necessary knowledge and skills to design, finance, and manage startup businesses. Critical skills include cognitive skills, such as literacy and numeracy, that are needed to understand complex ideas, adapt to the environment, and learn from experience; technical skills, which encompass acquired knowledge, expertise, and interactions (such as mastery of tools and digital and other technologies) needed to perform a specific job; and socioemotional skills to navigate interpersonal and social situations, such as leadership, teamwork, self-control, and grit. Female entrepreneurs face social and cultural barriers and will need to overcome social gender roles and an aversion to risk, and to develop an “entrepreneurial mindset.”

The government of Burundi has supported several initiatives to strengthen the links between educational institutions and the labor market in Burundi and foster market-based skills. For example, in cooperation with communes, the government launched Banque de Jeunes in January 2021 to provide youth with capital and entrepreneurship training to develop projects in priority economic sectors. Likewise, the Burundian Agency for Youth Employment also operates a small internship program with financial support from Enabel.³⁵ The Department of Economic Integration and Youth Entrepreneurship builds capacity in entrepreneurship and provides startup kits (for example, sewing machines for tailors, goats and/or pigs for agri-breeders) to more than 100 young entrepreneurs a year, depending on the area of intervention (Republic of Burundi 2019). However, more needs to be done to

ensure that youth entrepreneurs have the necessary knowledge, skills, and access to capital to start their ventures and enable them to succeed. Lessons of experience indicate the importance of providing continuous support to entrepreneurs at various stages of development, from ideation to growth.

3.3. LAND MANAGEMENT CHALLENGES

Burundi's geographic and demographic characteristics, exacerbated by climate risks, have subjected rural lands to immense pressure. Burundi's high population density and rapid population growth, combined with slow urbanization, puts substantial pressure on forests and agricultural lands. Land resources are becoming scarcer and less productive because of the increasing demographic pressure, low level of irrigation, lack of conservation and processing, and land degradation. Land use change for farming is a main cause of deforestation: only 6.6 percent of the territory is now covered by forests. Intensive farming practices related to the fragmentation of plots affect soil fertility and cause land degradation. Plots are rapidly and continuously fragmented by an average of 0.5 hectare per household, and down to 0.3 hectare in some areas. This affects topsoils and cultivable land, thereby increasing the pressure to convert remaining forests to agricultural lands.

Land is a key productive asset held by rural households in Burundi. Yet, land policies and institutions constrain investment and productivity growth. Weak registration on state ownership of land, expropriation of private land for investments in large-scale infrastructure, and compensation increase the challenge of infrastructure upgrading in Burundi. Competition for land remains complicated by decades of conflict between groups and remains a flash point for community violence in Burundi. Women's access to land is particularly limited due to customary rules based on a patriarchal regime and limited legal protection. Burundi has engaged in land reform since 2008 and should focus on developing an efficient management of land issues. Enhancing legal security and transparency in land tenure management is crucial to induce investment. Securing land rights in rural areas is key to bolstering agriculture productivity. In the context of the ongoing urbanization of the country, conducting an inventory of public land, buildings, and infrastructure in Bujumbura and secondary cities is a first step to accomplish better infrastructure in urban areas.

The scarcity of available land, burdensome land administration, and political instability limits foreign investors in the agriculture and construction sectors. Land property rights are regulated under the Burundi 2011 Land Code. However, the constitutional right is not supported by a specific law related to land, and formal land administration is spread across several ministries and local governments, which creates a burdensome land administration. Poor land governance resulting in rare land registration creates confusion and tensions over legitimacy of ownership claims.

3.4. LIMITATIONS OF LOGISTICS AND TRADE TO CONNECT LANDLOCKED BURUNDI TO MARKETS

Given the significant impact of logistics on access to markets and trade, freight logistics and supply chain activities are critical for private sector development. The logistics sector can play an important role in enabling certain types of upgrading, such as "multi-chain," including through horizontal integration and development of producers' capabilities.

New investments will address the challenges of declining logistics performance. Burundi's logistics performance score fell since 2014, and it ranks 158 out of 160 countries on the Logistics Performance Index,³⁷ with low scores across all six dimensions: customs, infrastructure, quality of logistics services, international shipments, ability to track and trace shipments, and timeliness. High transport costs limit internal movement of goods and people and reduce Burundi's trade opportunities with East Africa and the rest of the world: transport costs represent on average 35 percent of import prices and 40 percent of export prices (Republic of Burundi 2017).

Traditionally, shipments from and to Burundi and other landlocked countries are subject to multiple legal and administrative requirements and must undergo several formalities in each transit country. The agencies involved include customs, police, immigration, road agencies (weighbridges), bureaus of standard, sanitary and phytosanitary, food and drugs administration, and port health. Over time, some of these requirements and formalities have caused additional costs and delays, resulting in higher logistics costs.

Progress has been recorded in both the Northern Corridor and Central Corridor regarding non-tariff barriers,³⁸ but issues remain that delay shippers. Issues include multiple customs and police checkpoints, corruption among public officials, and an inadequate legal framework to regulate the use of shipping lines' containers (as temporary imports). These issues lead to delays in the return of containers back to the shipping lines, and in compensation the shipping lines require large cash deposits and apply large fees and penalties. The problems go beyond Burundi's sole remit and require cooperation with authorities and stakeholders in Tanzania, and more broadly the EAC and Central Corridor Transit Transport Facilitation Agreement Permanent Secretariat.

In addition, Burundi has yet to adopt the Regional Electronic Cargo Tracking System (RECTS), due in great part to it not being in place on the Central Corridor. The RECTS was launched in 2018 and is being implemented along the Northern Corridor by Kenya, Rwanda, and Uganda, but it is not yet operational along the Central Corridor. Burundi and Tanzania are only implementing national cargo tracking systems operated by the revenue authorities (Office Burundais des Recettes and Tanzania Revenue Authority) and hence can only track and trace cargo within their respective territories. The RECTS enables the revenue authorities to integrate their systems' transit modules so that they can seamlessly monitor consignments using the same platform within their combined territories.

Furthermore, heavy costs remain for small-scale cross-border traders, the majority of whom are women. There is a large amount of trade between Burundi and Democratic Republic of Congo, one of the main export partners of the country. At the Burundi–Democratic Republic of Congo border, the following have been identified as constraints hampering this type of trade: (a) while the distances between the crossing points are short, poor roads and lack of efficient navigation facilities along Lake Tanganyika make transportation cumbersome and expensive; (b) impediments in infrastructure, availability of information, and competitiveness of products continue to affect cross-border trade; and (c) participation is constrained by the cost and difficulties in crossing borders, transport, accessing customers, market information, market facilities (such as storage), producer links, access to finance, and border conditions insensitive to small trade and the needs of women traders. There is a need to reduce the barriers facing traders, particularly women traders.

Reducing costs on transit corridors is key for private sector development and access to key inputs and destination markets. By one estimate, the elimination of all non-tariff barriers on the Northern Corridor to Kampala would reduce the cost of freight per ton by 23 percent (Eberhard-Ruiz and Calabrese 2017). By the shortest corridor, Burundi is 1,500 kilometers away from the sea. The near totality of trade freight with markets outside of Africa in Burundi is handled through the Central Corridor: 99.5 percent of the total in 2019.

The small domestic market, weak domestic demand, and low integration in regional and international markets limit the country's growth. The decline of local purchasing power reduced an already small domestic market, especially for higher-value processed goods. For a landlocked country such as Burundi, regional markets present unique opportunities to diversify exports into nontraditional goods. Cross-border trade with neighboring countries and regional transport and energy connectivity offer economies of scale and opportunities to attract investment, increase access to regional infrastructure, stabilize politics, improve security, create employment, generate incomes, and reduce poverty. Binding constraints, such as lack of transport and proper connections between countries, need to be addressed to establish a durable trade partnership, in particular with Democratic Republic of Congo, one of the biggest markets. Some of the reforms are already underway to tackle road, rail, and water transports, with support from development finance institutions, such as the renovation of the port of Bujumbura. Similar reforms and investments are needed in other border regions, in particular with Tanzania.

3.5. RECOMMENDATIONS TO IMPROVE FRAMEWORK CONDITIONS

The government recognized that it cannot achieve its ambitious objectives without the participation of the private sector and support from development partners. The government is already pursuing reforms to create incentives for domestic and foreign investors, and it is open to more private sector participation in public enterprises, especially in tradeable sectors, such as tea, coffee, and cotton. Private sector dynamics are essential for economic integration of the increasing labor force, which cannot be absorbed by the swelling of the public sector (jobs agenda), and for technology adoption and diversification into higher value-added activities (economic transformation agenda). The following recommendations focus on short-term actions that could be taken over the next few months and more complex, medium-term actions that could be taken over the next few years. More granular, sector-specific recommendations follow in the next two chapters on sectoral opportunities.

SHORT-TERM RECOMMENDATIONS

Work toward a more stable macroeconomic environment.

- Leverage re-engagement of development partners, in particular the International Monetary Fund (IMF), to address the critical issue of foreign exchange controls.

Pursue efforts to improve the business and investment climate.

- Enhance investment promotion capacity, including the competitive proposition for facilitating investment in priority sectors and capacity building for outreach and facilitation.
- Review tax policy and import duties to ensure imports of technology and equipment for productive sectors, such as agribusiness, energy, and manufacturing, are not discouraged.
- Improve the government's capability to design, implement, monitor, and enforce compliance of PPPs and SOEs through the establishment of a new agency in charge of SOEs, and the development of a national policy and strategy for public investment and disinvestment in SOEs.
- Review and improve the existing legal framework for private sector participation in public programs and develop a pipeline and portfolio of PPP projects based on priority needs.

Improve the systems and infrastructure for trade and transportation.

- Facilitate the development of logistics platforms, especially around inland ports, by easing the requirements and time necessary to set up licenses and operate inland logistics terminals.
- Foster closer coordination and cooperation among the key players along the transit corridors to improve operational efficiency and reduce costs.

MEDIUM-TERM RECOMMENDATIONS

Revive investment climate reforms.

- Revive investment climate reforms to improve trade across borders: (a) modernize, streamline, and harmonize cargo clearance, standards, and other administrative formalities; (b) strengthen the monitoring and oversight frameworks and systems for implementation of trade facilitation and regional integration; and (c) fully implement e-government in this area by automating all processes.
- Ratify the EAC Elimination of Non-Tariff Barriers Act, 2017.
- Align the legislation on protection of property rights with international standards and enforce implementation.
- Ensure competition and transparency, enforce compliance with existing laws and regulations governing public procurement, and remove preferential treatment.
- Adopt regulations that encourage participation of local SMEs in competitive public procurement, while building capacity in the public sector and among SMEs to strengthen the supply of quality bids.
- Conduct a feasibility study to assess opportunities to leverage diaspora investment, such as diaspora bonds or securitization of remittances, and mobilize diaspora investment capital as well as their technical and entrepreneurial skills.
- Strengthen the capacity of the Support Agency for the Implementation of Public-Private Partnership Contracts (l'Agence d'Appui à la Réalisation des Contrats de Partenariats Publics-Privés) for better support to all major national projects looking for private investments and better assistance in the structuring of contracts.

MEDIUM-TERM RECOMMENDATIONS, CONTINUED

Improve the regulatory framework to attract investments in productivity infrastructure.

- Improve the regulatory framework while leveraging emerging improvements in transport infrastructure (road, rail, and water), especially through an enhanced regional coordination.
- Improve access to existing digital infrastructure and invest in new networks. Boost internet demand.
- Improve the transparency and regulatory framework for sustainable energy.

Facilitate better transport and logistics services.

- Strengthen the monitoring and oversight systems for trade facilitation and regional integration (AfCFTA, EAC).
- Address the market demand for shipping services on Lake Tanganyika, such as freight of maize from Zambia.
- Construct and/or operate One Stop Border Post (under PPP) at select key borders.

Continue to implement land administration and commercial justice reforms to address land tenure security and streamline trade transactions.

- Enhance legal security and transparency in land tenure.
- Secure land rights to bolster agriculture productivity and enhance food security.
- Operationalize the mechanisms of judicial composition and bankruptcy of companies in difficulty.
- Operationalize the National Competition Commission (Commission Nationale de la Concurrence).

Improve state-owned enterprises' competitiveness.

- Conduct an independent performance assessment of all SOEs and identify opportunities for private sector participation, including through PPPs, and make the results publicly available.
- Strengthen the capacity of the Support Agency for the Implementation of Public-Private Partnership Contracts (l'Agence d'Appui à la Réalisation des Contrats de Partenariats Publics-Privés) for better support to public companies in their search for private investments and in the structuring of contracts.
- Institute an SOE monitoring and evaluation framework compliant with national regulations that meets regional and international standards. Establish a management dashboard and conduct an annual accounting audit.
- Improve the competitiveness of SOEs and PPPs—where they have revealed comparative advantages and do not contribute to market distortions—through technical and financial assistance for value-added production, capacity building, and skills upgrading.

4. INCLUSIVE FINANCE TO FUEL PRIVATE SECTOR GROWTH

4.1. FINANCIAL SECTOR OVERVIEW

A strengthened financial sector could play a foundational role for the economy and boost private sector development. Burundi's financial system showed some resilience to past crises, but still faces some challenges: (a) bank exposure to government securities, (b) deteriorating quality of loans, (c) absence of appropriate credit infrastructure, (d) absence of an operational deposit insurance scheme, and (e) lack of an articulated crisis management and resolution framework. The resulting financial system is shallow, underdeveloped, deters lending (especially to SMEs) and contributes little to growth and poverty reduction.

The financial sector is dominated by commercial banks, characterized by a significant exposure of banks to government securities, a declining loan book, and worsening quality of bank loans. Traditionally, the State either fully owned or had controlling shares in most Burundian financial institutions. In 2019, 14 active banks held over 82.8 percent of total assets, followed by the microfinance sector (40 microfinance institutions held 11.3 percent) and the insurance sector (14 companies held 5.9 percent). The total assets of the financial sector as percentage of GDP reached 60 percent in 2019 against 52.1 percent in 2018. The average size of a bank in Burundi is about \$128 million, but the three largest banks have a market share close to two-thirds of total bank assets. There is no stock market in Burundi, and the state finances its deficit mainly by issuing public securities bought by commercial banks, insurance companies, and pension funds.

The financial system is shallow, although capital adequacy levels are high. In 2020, resource mobilization, as measured by the ratio of bank deposits to GDP, decreased to 31 percent from 36 percent in 2019, while private credit as a percentage of GDP increased to 19 percent from 17.6 percent in 2019. The ratio of M2 (money and quasi money) to GDP in May 2020 was 36 percent. As of May 2020, equity in the banking sector increased by 24.5 percent and the capital adequacy ratio for the overall banking system was 29.5 percent, an increase from 28.9 percent in May 2019. Following the 2015 political crisis, the banks' asset structure changed dramatically, with the loan portfolio decreasing in absolute terms. The share of the loan book in banks' total assets declined from 52.9 percent in 2014 to 35 percent in May 2020, with the banking system

lending increasingly less to the private sector. The share of private sector credit in total assets declined from 49.9 percent in 2014 to 32.8 percent in 2019.

While the overall credit portfolio improved between September 2018 and September 2020 (due to significant write-offs of bad loans), loans to the agriculture and tourism sectors continued to deteriorate. Credit remains concentrated, creating significant risks if large counterparts were to default. Nonperforming loans declined from 9.2 percent in 2018 to 5.7 percent in 2019 of total loans (following a cleaning of the banks' balance sheets through write-offs of bad loans) but increased to 6.5 percent in September 2020 due to COVID-19 effects. The exposure of banks to government securities reached 42.5 percent³⁹ of total bank assets in October 2020 (from less than 10 percent in 2013). This situation poses significant risk that the public debt becomes unsustainable, and it continues to “crowd out” private sector lending. On a year-over-year basis, the short-term liquidity ratio in BIF stood at 229 percent at the end of September 2020, well above the standard set at 100 percent. The foreign currency liquidity ratio, which stood at 94.4 percent at the end of September 2019, improved to 186 percent at the end of September 2020.

High lending deposit spreads reflect the lack of effective competition among commercial banks and the absence of enough low-risk lending opportunities. Bank lending deposit spread is 10.1 percent, with 15.3 percent the rate charged by banks on loans to the private sector and 5.2 percent the interest rate offered by commercial banks on three-month deposits.

The absence of a credit bureau and resulting information asymmetry restricts financial institutions from extending loans to MSMEs and households, with ripple effects on the enabling environment for private sector development. A credit bureau would provide lenders with products and services, such as credit reports, fraud alerts, and credit scoring, supporting better credit management practices and allowing lenders to share credit information, increase financial inclusion, and facilitate mobility. In addition, a well-functioning, centralized electronic collateral registry for movable securities could give a much-needed boost to the agriculture sector in Burundi. This would allow entrepreneurs and smallholders to obtain loans against movable securities, such as agricultural equipment, future harvests, warehouse receipts, accounts receivables, livestock, and so on. In doing so, it would contribute to the financial inclusion of large segments of the population.

4.2. CAPITAL MARKETS

The Burundi capital market is nascent. In February 2019, the law governing the capital market was enacted by the president and made public. In October 2020, the law governing the regulator of the capital market was published. In November 2020, the government hired the expert who launched the Rwanda Stock Exchange to help operationalize the Burundi stock market by December 2021. While there is no stock market yet, the state of Burundi finances its deficit by issuing public securities that are bought by commercial banks, insurance companies, and pension funds. About 14 insurance companies control about 5.9 percent of financial sector assets. The insurance penetration rate is low at 0.87 percent in 2019.

Developed capital markets could improve the availability of long-term financing for SMEs by mobilizing institutional investors. Long-term local currency financing is not available for SMEs, and pooling SME loans and investigating the potential for SME minibonds are

among the potential alternatives. Other possibilities include bundled SME bond issues, guarantees for developing the venture capital sector, and supporting SME listings through the creation of sub-funds on commercial stock exchanges. A fragmented and complex regulatory framework limits potential investors, and the amount of their mobilization is not conducive to allowing institutional investors to expand the type of issuers and products in their portfolios. The next steps in the development of capital markets include more appropriate and harmonized prudential supervision, improved market infrastructure (such as ratings and pricing information), the responsible deployment of new products and innovative transactions, and building a risk culture and risk assessments. It is recommended to explore solutions that would mobilize institutional investors via the capital market to finance SMEs.

4.3. MICRO, SMALL, AND MEDIUM ENTERPRISES FINANCE

Constraints on the business environment reduce the number of viable MSMEs that financial institutions can finance. Despite recent sector and regulatory reforms, the business climate remains unfriendly to the private sector. Limited access to finance hinders the private sector's development and growth at every stage and in every economic sector. With private credit at 19 percent of GDP in 2020, MSME credit is scarce and expensive. According to BRB statistics, average effective interest rates in 2020 were 15.3 percent. These average rates mask significant differences depending on the counterparts.

Banks in Burundi do not have any unit or department specifically devoted to SMEs.

Diversification of financial products offered by banks is extremely low, with retail banking mostly directed toward salaried workers. Burundian SMEs face multiple difficulties accessing financing, mostly because they are unable to provide tangible collateral and because of the absence of reliable market infrastructure providing information on borrowers (for example, a credit bureau). According to the BRB (2018), the number of household depositors with commercial banks increased from 28 in 2015 to 35 in 2017 (per 1,000 adults), and the number of household loan accounts with commercial banks rose to 14.5 in 2015 from 12.5 in 2014 (per 1,000 adults). Also, the number of automated teller machines (ATMs) per 100,000 adults rose from 1.40 in 2016 to 4.8 (in 2018). The indicators of comparator EAC countries are: Uganda (4.06 in 2017), Rwanda (5.56 in 2017), Tanzania (6.00 in 2015), Kenya (9.27 in 2016), and South Sudan (0.44 in 2017). The bank account ownership rate is 66 percent for men and 34 percent for women, 90 percent for state employees, 52 percent for private sector employees, 30 percent for traders, and 5 percent for farmers.

Lending to the SME sector is challenging. Registration of mortgages is expensive, and the realization of guarantees is long and cumbersome due to challenges with the judiciary system. Although minor in terms of size compared to the banking sector, the microfinance sector plays a significant role in providing access to financial services to SMEs and households. The sector recorded rapid growth during the last five years. Total assets of microfinance institutions nearly quadrupled from BIF 106 billion in 2011 to BIF 416 billion in 2019. The microfinance sector had 40 licensed microfinance institutions in its books as of December 31, 2020 (RIM 2021), including FENACOBUR, which is an apex structure with 107 savings and loans cooperatives (COOPECS) located throughout the country and 19 active savings and loans cooperatives (BRB 2022). Microfinance institutions offer 425 service locations to the public across the country, accounting for larger access compared with banks (269). In addition, post offices across the country collect deposits from the public through a "Poste Finance" unit, which is under BRB supervision with the new Banking Act (2018).

Up until the 2015 political crisis, microfinance institutions had been growing rapidly and remain key players in providing financial services to the lower- to middle-income segment of the population, particularly in rural areas. Many factors explain the increase in demand for microfinance services, including: (a) the increase in the cost of living and the deterioration of purchasing power as the past civil war and the economic crisis have made it more difficult for a large segment of the population to survive on regular wage incomes, and (b) the increasing difficulty and cost of accessing formal banking services.

The microfinance market is largely untapped. Most microfinance institution clients are salaried workers (rather than micro or small enterprise owners and workers) who seek access to financing for consumption purposes and have bank accounts at large savings and credit cooperatives. The number of active borrowers of microfinance institutions in Burundi rose from 173,311 in 2014 to 223,669 in June 2018. With 40 licensed institutions, it is expected that the sector will experience a dynamic expansion under the impulse of the authorities. Numerous institutions are bound to exist without real capacity to develop operations, mostly because of the lack of institutional capacity and funds. The needs of underserved, financially excluded, and economically active households are not being addressed adequately, despite initiatives led by nongovernmental organizations.

4.4. DIGITAL FINANCIAL SERVICES

Digital financial services have strong demand and growth potential. The growth of digital financial services is crucial for financial inclusion, and recent improvements in the regulatory environment allowed for the proliferation of mobile money. Key reforms to further expand the market for digital services include e-Know-Your-Customer and digital signature laws, providing the foundational infrastructure necessary for the growth and development of digital financial services and inclusion. Innovation (especially of financial technology) relies heavily on the availability of and automated access to reliable identification databases to register and authenticate users and transactions.

Although demand-side data is scant, evidence does show large pockets of the population that remain underserved. Using the BRB's financial inclusion rate of 20.88 percent, this shows the enormous potential to increase products and services for the general populace. A recent survey reveals that mobile money made significant incursions into the lives of the financially excluded (World Bank 2018). Half of mobile money users had no access to an account at a formal financial institution. Financial service providers could leverage this demand for digital services that match the preferences of low-income households. For example, digitalizing payments along agricultural value chains would imply that all payments for agricultural inputs, compensation for harvest, and premiums are paid digitally. This digitalization would lead to financial inclusion for farmers and enable better outcomes for them in terms of formal savings and formal borrowings in the future.

Burundi has three mobile money service providers: Lumitel, Econet-Leo, and SmartCash. Of the three, Lumitel and Econet-Leo cater to about 99 percent of the market. Econet-Leo launched mobile money in 2010. However, the introduction of Lumitel animated the market and led to an explosion in the usage of mobile money services. Thus, in this instance, the competitive market for mobile money led to improved marketing and customer awareness so that the usage of mobile money increased dramatically.

BOX 3.1. AUXFIN/UMVA BURUNDI ONLINE VALUE REGISTRATION AND MANAGEMENT SYSTEM

AUXFIN installed the UMVA platform to support the fertilizer distribution of PAN-PNSEB, a national program to receive subsidized fertilizer for smallholder farmers. To support 640,000 low-income smallholder families, an agent solution was developed and installed. The agent is the group leader of 50 members called G50. Each group is connected to a financial institution. Every member has her or his individual transaction account in UMVA CLIENT. A UMVA transaction account is more than a bank account, it is also a payment, product, message, and reporting account. The agent organizes the finances for his group, deposits their savings, withdraws cash as needed, and applies for loans. On top of the financial transactions the agent can order products such as fertilizer, seed, or solar for group members. By entering the product and quantity for a member, she or he can place the orders automatically and the member can pay online. The platform can also handle sales of agricultural products. In Burundi, the platform is used to report ordered and paid fertilizer by all levels, such as group, village, commune, and province.

The provision of digital financial services is dominated by mobile money service providers in Burundi. Since these providers may only offer payment services, money transfers, cash in, and cash out, this limits the services that customers of mobile money may access. To enable financial inclusion for underserved populations, more financial institutions will need to offer digital financial services successfully. It is also important to start creating a partnership mentality in the market so that players can consolidate their various capabilities to deliver better services, such as savings and credit in partnership, for example, between a mobile network operator and a bank or microfinance institution.

Financial institutions are keen to enter the space; however, they lack the knowledge and capacity to do so. Several banks closed multiple branches in Burundi to cut costs and improve profitability. Banks require innovative technology solutions and capacity building to remain competitive and cater to the vast unbanked and underbanked population in the country. However, due to the foreign exchange controls, banks have difficulties with procuring business development and technology services.

Payment systems are not interoperable in Burundi, a missed opportunity for financial inclusion and mobile money market development. There is an ongoing project to make payments through bank cards interoperable through Bi-Switch, owned jointly by commercial banks and the BRB. The plan will eventually include mobile money service providers in the interoperability project. However, now the customer base of each mobile money service provider operates independently. Interoperability typically increases activity levels and the financial well-being of the customer base and improves the business model of the service providers.

A lack of sufficient investment by stakeholders in Burundi is preventing digital financial services development. Digital financial services, whether implemented by financial institutions or mobile money service providers, requires considerable time, resources, and attention to various aspects, such as product development, agent network development, marketing, performance management, and customer education. Stakeholders need more education to become aware that digital financial services will require sustained and substantial input for marketing and agent network build-out.

Burundi does not have a centralized national identification system. In 2013, Burundi launched a pilot program to issue machine-readable national identity cards to those aged 16 years and older. The initially proposed timeline for implementation was 2013–17, but the rollout was interrupted by the crises. CPSD consultations describe the government's plans

to revive this reform, but until it is completed, Burundi continues to use a variety of formal identifications, such as driver's licenses, passports, and so on. The lack of centralized national identification hinders the ability of a financial services platform to attribute transactions appropriately to the customer in question. It hampers the development of effective credit information systems.

Products and services are not aligned with the preferences and pain points of target clients. The financial sector has little knowledge of the financial lives of the unbanked and what they desire from a financial product. Much more research and understanding of the demand side details is required in Burundi to design products that will be successful in the market. Although 90 percent of Burundi's population lives in rural areas, a disproportionate number of the financial access points in terms of ATMs and bank branches are in urban areas. Burundi has about 142 ATMs and about 3.22 commercial bank branches per 100,000 adults. They are located in urban areas with over half the branches in Bujumbura.

Agents of financial institutions and payment service providers are regulated by the BRB "Regulation No. 002/2017 relating to commercial agents in banking operations and payment services." It permits licensed financial institutions and payment services providers to appoint agents for those operations and activities for which they were licensed. The financial institutions and payment services providers must register these agents with the central bank but remain liable for the acts of their agents. Currently, six commercial banks have mobile banking platforms and a combined network of over 3,020 banking agents, unevenly distributed throughout the country.

Mobile money agents are an opportunity to improve access points across the country in rural and urban areas at low cost, but network build-up and maintenance is time- and resource-intensive. While commercial banks are expanding the network of banking agents that enables them to reach last-mile clients, microfinance institutions are less active in recruiting commercial agents who are authorized to represent more than one financial institution or payment services provider. Mobile money service providers are not allowed to offer deposit services and instead offer payment accounts that provide a store of value. Customers may hold up to \$50 within a relaxed know-your-customer regimen that allows access for Burundians who lack formal identification. A local third-party payment aggregator, Payway, provides merchant payments, utility payments, banking and mobile money integrations, airtime top-ups, and integration with the Burundi revenue service via its network of about 400 agents.

4.5. RECOMMENDATIONS TO PROMOTE INCLUSIVE FINANCIAL SERVICES

The local capital markets authority and stock exchange are scheduled to be launched in 2022. This development will require institutional capacity development to support the privatization process of SOEs, securitization of receivables, and aggregation of pools of assets through financial technology and/or digital platforms.

Ensuring access to finance for MSMEs in Burundi is key to boosting the economy, creating jobs, and ensuring a resilient economy. CPSD consultations identify several opportunities for reforms and private sector participation:

- Risk-mitigating instruments, such as partial credit guarantee instruments (including those offered by donors), could address the lack of adequate collateral by SMEs that often lead to loan rejections.
- Adoption of a legal and regulatory framework could create the opportunity for leasing companies and alternative sources of productive investments by SMEs who otherwise may not be able to buy equipment and machinery due to lack of collateral.
- In anticipation of the macroeconomic situation improving post COVID-19, opportunities to engage with the financial sector could include lines of credit to financial institutions (such as trade finance lines and risk-sharing facilities), as well as innovative financing products (such as leasing) or lines of credit for long-term loans to SMEs for productive investments.
- Financing of aggregators in the agriculture and renewable energy sectors could be achieved through special purpose vehicles.
- Increasing SME digitalization could be achieved by supporting their access to e-commerce platforms and mobile payment technology, as well as capacity building.

The lockdowns that came with COVID-19 and the rapid switch to digital processes contributed to overcoming the cultural resistance to change. Burundian financial technology startups are emerging as the natural solution to the demand for rapid digitalization. However, their development faces several constraints, including double regulation by the telecommunications regulator and the central bank; lack of interoperability for payment services providers; poor electricity and internet coverage; low rate of financial literacy; and an inadequate anti-money laundering and regulatory framework to combat the financing of terrorism.

SHORT-TERM RECOMMENDATIONS

- Improve the functioning and reach of tribunals of commerce and alternative dispute resolution mechanisms (mediation and arbitration) to address the challenges of debt recovery in the judicial system.
- Support the uptake of digital financial services by setting up a National Payment Council to assure interoperability and support for the development of Bi-Switch.

MEDIUM-TERM RECOMMENDATIONS

- Create a movable collateral registry and a credit reporting system, including an option to modernize credit risk management at the BRB if a standalone credit bureau is not feasible.
- Develop a shared management information (core banking) system and digital financial services platforms for microfinance and savings and loans cooperatives.
- Support financial stability and integrity by: (a) modernizing the public credit registry, (b) developing a crisis management and resolution framework, (c) adopting a unique digital financial identifier, and (d) supporting the operationalization of the deposit insurance fund.
- Support capital markets development, including support to strengthen the insurance sector (in particular to support the agriculture sector) to expand the institutional investor base.
- Support the development of SME finance by: (a) reforming regulations pertaining to leasing, private equity, venture capital, and factoring, (b) developing long-term finance, and (c) developing risk-sharing mechanisms, including options for de-risking strategic first movers.

5. AGRIBUSINESS VALUE CHAINS FOR BETTER JOBS AND INCLUSIVE GROWTH

5.1. OVERVIEW OF THE AGRIBUSINESS SECTOR IN BURUNDI

The agribusiness sector in Burundi is not dynamic, adds limited value, and does not provide quality jobs despite being the key employment sector for Burundi's labor force. The agriculture sector is dominated by smallholders operating on subsistence principles and SOEs that face considerable performance issues. As discussed in the country context chapter, agriculture and agribusiness drive Burundi's economy, but their value added and productivity are low because of: (a) limited availability of agricultural land and land degradation, (b) low level of adoption of technology, (c) underdeveloped input supply mechanisms, (d) rudimentary R&D sector and agricultural innovation systems, (e) lack of conservation and processing equipment, (f) shortage of skills and expertise in the value chains, and (g) limited access to finance and especially long-term finance. Reforms are needed to increase the productivity and production of agricultural inputs (crops, livestock, and fishery), processing of intermediary inputs, and transformation of the consumer goods necessary to develop local agribusiness industries. Improving productivity in subsistence agriculture will also free a low productivity labor force, which can move from rural areas to higher productivity activities in urban and semi-urban settings.

Despite the challenging business environment, Burundian entrepreneurs increasingly recognize opportunities in agricultural markets. Although agribusiness FDI is limited, the CPSD consultations identify more investor interest in cash crops due to recent progress made in the liberalization of the sector.

Recognizing the urgency to boost agribusiness value chains, the government committed to support private sector participation as a driver for economic transformation and job creation. The PND 2018–27 and new national PNCP-SS-PCE (2021) place agribusiness as a top priority with the private sector as drivers of transformation. As such, priority is given to the diversification and productive growth of the agro-industrial sector, particularly in the horticulture, fish, and poultry sectors. This chapter identifies policy, private sector, and farmer-level short- to medium-term solutions to address the sector's challenges. These

solutions can boost productivity, production, and exports, which in turn, will address food insecurity and nutrition-related issues, reduce dependency on food imports, and generate good jobs for the majority of Burundians.

5.2. KEY AGRICULTURAL PRODUCTS THAT DRIVE AGRIBUSINESS VALUE CHAIN DEVELOPMENT

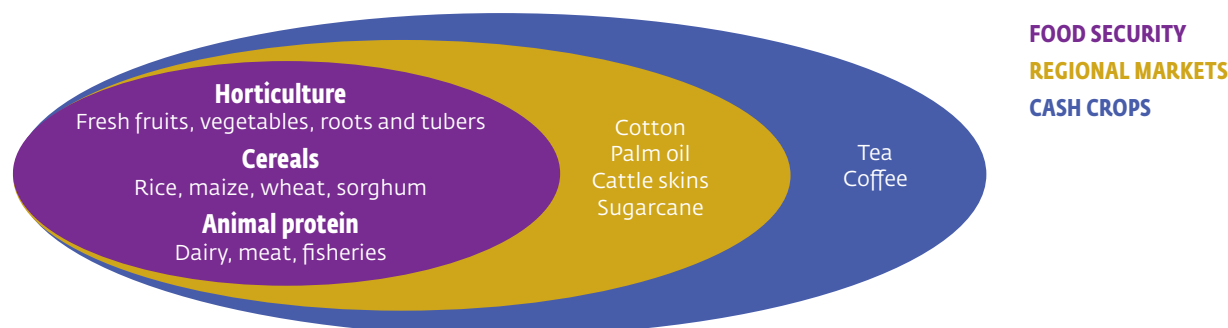
Agriculture provides 95 percent of Burundi's food supply and is the main supplier of inputs and raw materials for the agribusiness sector. Farmers are predominantly smallholder, cultivating an average of 0.14 hectare of land to food crops. According to FAOSTAT 2021, in 2016–19, the key crops by annual average value were cassava (30 percent), banana (11 percent), beans (10 percent), sweet potatoes (5 percent), and maize, fruit, vegetables, and potatoes (4 percent each). Farmers also engage in animal husbandry and artisanal fishing for subsistence consumption. Livestock has been contributing to improved food security in Burundi. However, Burundi presents low levels of fish production, though it is consumed by more than 25 percent of households. Fish production is insufficient to satisfy local demand, and the country imports 5,500 tons of fish annually from Tanzania and Democratic Republic of Congo (mainly dry or in cans for easy storage, thus contributing little as a source of animal protein). According to FAOSTAT 2021, the biggest agrifood export products by average value in 2017–19 were green coffee (46 percent of agrifood exports), tea (30 percent), wheat flour (11 percent), and cigarettes and beer (six percent each).

The agriculture sector in Burundi has natural advantages that include an abundant and cheap agricultural labor force, varied ecosystems, and a vast water network. The ecosystem variety allows the cultivation of different tropical and temperate crops and a regional specialization of crops. The abundant 6 to 9 months rainfall during the year⁴⁰ ensures three cropping seasons. The vast hydrographic network with irrigation potential, unexploited marshlands, irrigable plains, and relative fertile land in certain regions (such as Imbo, Moso, and Buragane) offers export and diversification opportunities with EAC regional markets.

TABLE 5.1. COMPARATIVE ADVANTAGES OF BURUNDI AGRIBUSINESS VALUE CHAINS

Value Chains	Comparative Advantages	Jobs Impacts	Targeted Markets	Exports	Government Priorities
Industrial crops					
Coffee	Existing	Very high	Global	Existing	Top priority
Tea	Existing	Very high	Global	Existing	Top priority
Cotton	Potential	High	Domestic/Regional	Existing	Top priority
Palm oil	Potential	Very high	Domestic	Early stage	High
Sugarcane	Potential	Very high	Domestic/Regional	Emerging	High
Food crops for food security and nutrition					
Horticulture	Potential	Very high	Domestic/Regional/ Global	Existing	Top priority
Cereals	Potential	Very high	Domestic	Emerging	High
Animal proteins	Potential	High	Domestic/Regional	Emerging	High

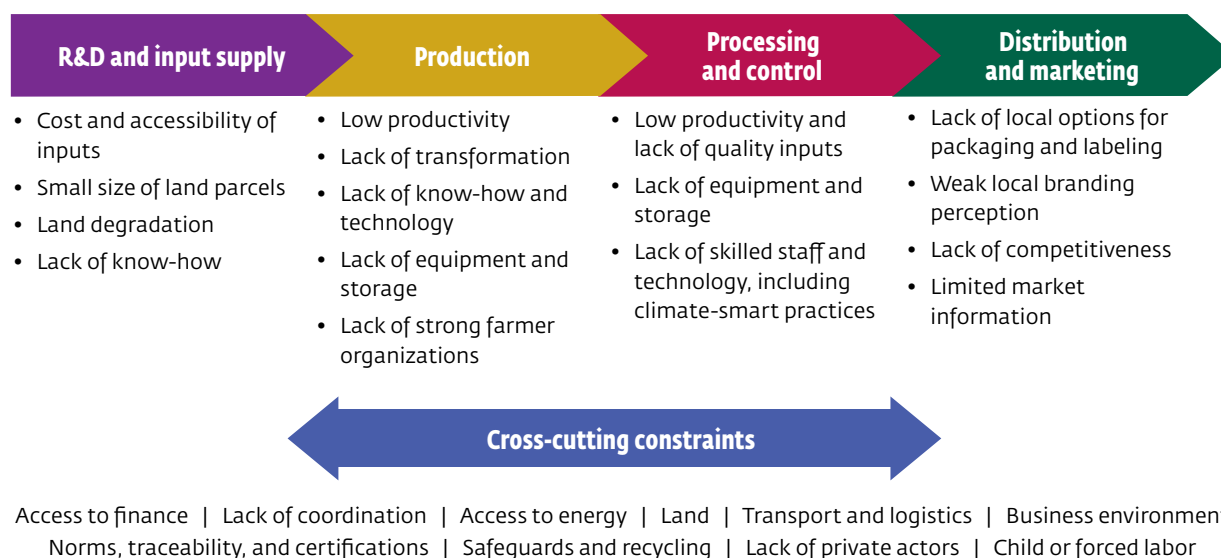
Source: IFC.

FIGURE 5.1. STRATEGICALLY IMPORTANT AGRIBUSINESS VALUE CHAINS IN BURUNDI

Source: IFC.

CPSD consultations identified short- to medium-term prospects for private sector investments based on these comparative advantages and the quality and availability of agricultural inputs. The following value chains were included in the CPSD analysis based on current comparative advantages, potential impact, and market opportunities (table 5.1): coffee, tea, palm oil, cotton, sugarcane, hides and skins, horticulture (fresh fruits, vegetables, roots and tubers, flowers, essential oil, and medicinal plants); cereals (rice, maize, wheat, and sorghum); and animal protein (livestock, meat, poultry, dairy, and fisheries). The impact potential was assessed in terms of opportunities to attract private investments, generate jobs (formal and informal, direct, indirect, and induced jobs) and contribute to the country's food security and nutrition. The jobs impact was proxied by employment multipliers (appendix F). The competitiveness assessment of the value chains was based on the country's long-term comparative advantages (1995–2015) before the latest conflict. Targeted markets were determined based on the value of sales and share of exports in total sales in the domestic, regional, or global markets and as described in the country's official documents.

CPSD consultations collected data on value chains that could help Burundi address social and economic challenges, including job creation, food and nutrition, competitiveness in regional and global markets, and increased foreign exchange inflows (figure 5.1). Horticulture, cereals, and animal protein play a critical role for nutrition and food security. Increased private investment in these sectors could increase productivity, promote diversification and transformation, and create wage jobs. In addition to local market demand, several products in this category (especially banana and cassava) could serve import substitution and expand exports to regional markets. Other products that have potential for increased regional market penetration are cotton, cattle skins, and palm oil. These products could strengthen regional trade and improve the trade balance with neighboring countries. The cash crops, including coffee and tea, play an important role in Burundi's economy. The short- to medium-term success of value chain development will depend on the government's willingness and capacity to improve the performance of SOEs and attract private investors, such as through PPPs. This will also depend on its ability to implement legal, regulatory, and institutional reforms to improve the business environment and increase the attractiveness of these value chains. In the longer run, a gradual shift toward liberalization of cash crops markets and efficient market regulation and facilitation by the government will support the growth and competitiveness of these sectors. The rest of this chapter focuses on two value chains, horticulture and tea, wherein the CPSD found short- to medium-term market

FIGURE 5.2. CONSTRAINTS IN BURUNDI'S AGRIBUSINESS ECOSYSTEM FOR VALUE CHAIN DEVELOPMENT


Source: IFC.

opportunities. Appendix I focuses on the performance and challenges of the remaining value chains with high potential: coffee, cotton, cereals, sugarcane, and animal proteins.

To develop the potential of agribusiness value chains, Burundi will need to address major constraints in its agribusiness ecosystem. Private sector involvement in the agribusiness sector remains limited due to general constraints in the business environment and sectoral constraints. Burundi's agribusiness value chains are characterized by a poorly developed input sector, low productivity across the value chains, lack of storage capabilities, and an absence of organized processing and downstream markets (figure 5.2).

5.3. CLIMATE CHANGE IMPACTS AND RISK ASSESSMENT

Burundi needs to develop mitigation and adaptation mechanisms to address climate risks and improve its resilience to ecological challenges. Agriculture and agribusiness are vulnerable to changing climate patterns, such as increased rainfall and heat and natural catastrophes. The coffee sector illustrates the impact of climate change on the agriculture and people of Burundi: in the last 40 years, severe soil erosion led to a two-thirds decrease in coffee production, pushing millions of Burundians back into poverty. Projections indicate that by 2050, the average annual temperatures will increase by up to 3 degrees celsius, which will increase the prevalence of flooding, extreme droughts, hail, land degradation, declining soil fertility and water resources, and the frequency and severity of extreme weather events. The intensity and frequency of natural disasters have already increased in Burundi, such as drought, torrential rains, hail and violent storms, flooding and flash flooding, landslides, and mudslides (World Bank 2021b). Poor agricultural practices and pollution have affected soil integrity and fertility and caused the degradation of water resources, including Lake Tanganyika, which is increasingly exposed to pollution.

Given the country's high vulnerability to climate change hazards, plans to exploit market potential—such as for project siting, design, and construction methods—must integrate climate risk mitigation and adaptation measures. Market opportunities must integrate measures of environmental sustainability,⁴¹ including investments in development and adoption of new seed varieties and animal stock adapted to climate changes, and promotion of climate-smart agriculture practices and livestock production techniques. Furthermore, private sector investments in land-intensive sectors will require comprehensive due diligence and community consultation with respect to potential land rights and resettlement, particularly for vulnerable and marginalized groups.

5.4. OPPORTUNITIES FOR GROWTH

Over the years, the government of Burundi has increased its efforts to bolster the agribusiness sector (appendix I). The new national development program prioritizes agribusiness to increase value added and competitiveness. A series of sectoral policies, strategies, programs, projects, and action plans aim to revive agriculture and agribusiness: the Malabo Declaration on Agricultural Transformation, National Agricultural Strategy, National Food Security Program, PNIA, strategy orientation document, and PND 2018–27. Several government initiatives and reforms include dedicated incentives for private sector participation:

- In 2012, the government created a new National Fertilizer Subsidy Program that provides fertilizer to farmers at about 10 percent of the market price. This program was based on principles of liberalization of fertilizer distribution and establishment of a traceable and transparent system. The government and development financial institutions established and jointly financed a Common Fund for Fertilizers and Fertilizer Amendments. Despite the broad targeting range, only wealthier households were able to afford to buy fertilizer and/or take out loans to pay for chemical fertilizer (Niragira et al 2021). Improved access to finance will be critical to include poorer smallholders.
- PNIA programs offer subsidies to cooperatives (averaging BIF 10 million), mandates low interest rates of 2 to 7 percent for agribusiness activities that support the PND, and established new dedicated banks for youth, women, and farmers.
- Agropastoral reforms and the creation of calving centers (Centres Naisseurs) aim to improve the coordination of agriculture and animal husbandry at the communal level.

Ongoing and planned government efforts align with CPSD recommendations. They will require improvement in institutional capacity, public-private dialogue, and integration of the private sector to successfully achieve ambitious targets. For example, to effectively incentivize private investors in the seed sector, the government needs to: (a) promulgate the Plant Variety Protection Law, (b) adopt or ascend to membership status of the International Union for the Protection of New Varieties of Plants, (c) participate in OECD Seed Schemes, and (d) establish an International Seed Testing Association accredited laboratory. Burundi also needs to adopt measures that will improve agricultural productivity through intensification, adequate supply of quality inputs, more agribusiness R&D, and improved farmer access to advisory services.

Examples of government initiatives include the recently created Centres Naisseurs program to boost livestock and fishery production with opportunities for private sector participation. These regional breeder centers will increase production in the animal and fishery protein value chains. The government will manage some centers, and others will be left for

the private sector and farmer organizations. The centers will have specific functions across entire value chains, from R&D and inputs to production, aggregation, processing, and distribution. The centers also include support services, such as veterinary drugstores and services, vaccines, livestock feeding processing units, transportation and storage equipment, training, and technical support centers. The government of Burundi is looking for financial and technical assistance to implement this initiative, which integrates the participation of the private sector and farmer organizations.

The Burundi industrial sector is still in its infancy, and strong private sector participation could provide the investment needed to drive economic transformation throughout agribusiness value chains. This implies that the gradual liberalization process takes place, and there are market signals and government incentives that create trust and attract domestic and private investors. According to the Burundi Development Agency, several private sector opportunities could support the government's priorities in agribusiness transformation.

Digital technologies provide solutions to many challenges and constraints that prevent agriculture and agribusiness value chains from transforming into high value-added activities. Agri-technology could optimize the entire value chains of otherwise traditionally fragmented input providers, producers, and processors. It also offers opportunities to improve access to domestic and global markets. Digital financial services could improve financial inclusion, and digital services and platforms could improve supply chain and productivity management. For example, iProcure is an agricultural supply chain platform that provides procurement and distribution services, business intelligence, and data-driven stock management across the supply chains, delivering value to suppliers and farmers. Digital technologies and e-commerce could be used to improve market links and connect smallholder farmers to high-quality inputs, such as seeds, fertilizers, pesticides, and herbicides or to link farmers to input suppliers, aggregators, or end consumers. For example, Auxfin and Media Box help agribusinesses and farmers access inputs, provide information on real-time availability of products for transporters and processors, and offer access to finance for farmers. For the coffee and tea value chains, digital payment services to producers have the potential to improve efficiency, equity, and sustainability. Digital solutions were especially important during the COVID-19 pandemic, to link consumers with sellers while reducing the risk of infection and creating new opportunities for direct-to-consumer models with online platforms and third-party delivery.

5.5. OVERALL RECOMMENDATIONS FOR THE AGRIBUSINESS SECTOR

Gradually liberalize agribusiness value chains to improve productivity and added value

To transform its economy, Burundi will need to transform its agricultural base, which can trigger social and economic changes across the entire system. The structural reforms will be critical for private sector participation in agribusiness. Agricultural productivity is the cornerstone for the sector's dynamics; the government has already launched reforms and programs to improve farming methods and address issues of land scarcity. These CPSD recommendations focus on the reforms needed to increase private sector participation in other parts of the agribusiness value chains. CPSD discussions also noted the willingness of the government to re-engage in gradual liberalization of the agribusiness sector—the related reforms are described in chapter III of this report.

SHORT-TERM RECOMMENDATIONS

Improve quality control and national branding to expand into regional markets.

- Implement gazetted grades and standards to reduce monitoring and compliance costs and enhance the penetration of regional and international markets.
- Support programs of the Burundi Chamber of Commerce and Industry to improve local branding and expand access to information on international markets.

Improve the coordination, structure, and organization of value chains.

- Improve collaboration between the Ministry of Agriculture, livestock breeders, and butchers on breed selection that engages youth in animal production.
- Enforce contract agreements signed with off-takers to prevent side-selling and hold them accountable for their parts of the agreements.
- Support producer groups (crops and livestock and fisheries) to help them mobilize more members and increase the groups' bargaining powers for services from government and pricing of their produce from off-takers and individual aggregators.

Conduct an in-depth assessment of each SOE operating in the agribusiness value chain and undertake the necessary reforms as presented in the recommendations in chapter III.

MEDIUM-TERM RECOMMENDATIONS

Improve productivity and competition along value chains.

- Strengthen R&D and agribusiness innovation ecosystems and establish facilities to support implementation of certification protocols and phytosanitary standards.
- Incentivize the private sector to explore more profitable markets to receive the most value from Burundi's tea, banana, cotton, cassava, palm oil, and livestock products.
- Support technology adoption, especially of digital technologies, to improve farmer productivity and support agribusiness transformation across value chains. The support could be done through exporters or intermediaries, capacity building for farmers and SMEs, private sector technology transfers (such as through exporter or intermediaries), and investments in value-added activities to meet domestic demand and for exports.

Adopt regulation and certification standards aligned with international practices to improve the quality and competitiveness of agribusiness products.

- Establish facilities or laboratories to support implementation of certification protocols for standard commodities adopted by the government, to comply with international sanitary and phytosanitary standards and facilitate regional and international trade and certification protocols for organic products.
- Establish a regulatory framework to define subregional food export mechanisms (including palm oil) and encourage competitiveness and foreign exchange repatriation.

Ensure access to relevant financial and insurance products for all actors along value chains.

- Improve services provided by the associations to their members to attract more growers (tea, banana, palm oil, and cotton) and mobilize financial contributions from cooperative members to support their own activities.
- Adopt innovative de-risking strategies and risk insurance and finance designed for agriculture and agribusiness value chains.

5.6. EXAMPLES OF MARKET OPPORTUNITIES IN AGRIBUSINESS VALUE CHAINS

This section uses the examples of tea and horticulture sub-sectors to exemplify constraints and opportunities for private sector growth and competitiveness. Recommendations specify the reforms that need to be implemented at sectoral levels to stimulate private sector development. However, the report recognizes investment opportunities in other value chains (described in table 5.1), where government strategies and CPSD consultations identify the highest strategic relevance. The tea value chain demonstrates an industrial crop that could promote integration in global value chains and generate foreign exchange revenues. Horticulture is a value chain whose transformation would be essential to improve food security and nutrition.

Market Opportunities in the Tea Value Chain

The tea sector is the third largest export industry in the country, but recent years have experienced a decline in tea production due to high production costs and a global decline in tea prices. Main tea exports are to Pakistan (48 percent), Egypt (24 percent), United Kingdom (14 percent), Oman (12 percent), and the rest to other countries⁴² through Mombasa in Kenya (about 70–75 percent). Burundi's tea is ranked third best in the region after Rwanda and Kenya, but it is not competitive in global markets because of obsolete production methods, including the use of firewood to heat and transform the green tea into dry tea, high transportation costs, high electricity costs, unskilled personnel, and lack of certification (Burundi's dry tea is certified only by Rainforest Alliance).

Tea is largely produced by smallholder farmers (80 percent) and processed by the Office du Thé du Burundi, an SOE. The latter is involved in the remaining 20 percent of production, and also transformation, trade, marketing, and regulation of the industry. An estimated 64,000 smallholders and 5,000 tea plantation and estate laborers rely on the crop for their livelihoods. Farmers are organized into associations and cooperatives at community levels, which form the Confédération Nationale des Théiculteurs du Burundi at the national level. By offering a permanent income throughout the year, the national confederation strengthens the resilience of smallholder tea farmers during lean seasons and against various shocks.

Following the restructuring and liberalization of the tea sector in 2011, two large private companies also developed operations. Together with the Office du Thé du Burundi, there are six tea factories in Burundi. One of the private factories is PROTHEM, registered in 2007, and another is LOVIMAX. PROTHEM operates in five regions in central Burundi, providing over 10,000 farmers with inputs and procuring up to 99 percent of the outputs from them. PROTHEM's one-line factory runs full-time in the high season.

The high quality of Burundian tea and favorable climate offer opportunities for attracting private investors to modernize and expand production, improve value addition, and reduce production costs. The government allocated 75,000 hectares to expand tea cultivation to cope with Burundi's relatively smaller crop area and attract private sector participation. In addition, regarding agribusiness reforms, the tea sector will need targeted support to improve certification, promote national branding globally, modernize production equipment, and provide advisory and financial assistance to farmers to upgrade their capabilities and skills. Reforming green leaf pricing could also lead to

BOX 5.1. EXAMPLE OF THE IMPACT OF GREEN LEAF TEA PRICING REFORM IN RWANDA

Tea is one of Rwanda's main export crops and largest employers. The government of Rwanda undertook several reforms of the tea sector to improve its production and competitiveness. In 2000, the government privatized tea estates to improve output and quality. The government identified farmers' perceived low level of remuneration for their green tea leaves as a constraint to the development of the sector.

In 2012, the government reformed the pricing mechanism for green leaf from factory cost basis to a more transparent mechanism that links the prices paid to farmers to the international market price for "made tea." The reform linked farmers to the international tea market through a 30 percent price share of the international tea price, as determined at the Mombasa tea auction. A World Bank Group impact evaluation found that the average nominal price for green leaf tea in Rwanda rose by about 40 percent because of the reform. This confirms the existence of a pass-through from international tea prices to farm-gate prices as anticipated by the policy, though a wedge of 25 percent remains between what the factories pay cooperatives on average and what farmers receive.

Further, the pricing reform had a positive impact on productivity, and farmers' annual tea revenues and investments increased post-reform. The reform led 20 percent of farmers to expand tea cultivation. Tea-pluckers, a critical segment of tea production, also reported improvements in work conditions, which indicates the improved quality of these rural jobs.

IFC supported the green leaf pricing reform under the second phase of the Rwanda Investment Climate Reform Program. This program aimed to improve agribusiness market efficiency through market, legal, and regulatory remedies as part of a broader World Bank Group effort to increase exports and investment in the Rwandan agribusiness sector, with a focus on horticulture and tea. The government of Rwanda has formally requested assistance for their tea sector expansion program from the World Bank Group.

Source: World Bank 2017b.

impactful results, including a price adjustment in favor of smallholders, higher income, and improved productivity (box 5.1 provides an example).

More private sector participation is necessary to improve the quantity and quality of tea produced in Burundi. For example, private equity in the Office du Thé du Burundi could improve governance, increase production capacity, improve market links and increase Burundi's comparative advantages. PPPs in the tea sector would allow Burundi to gradually reduce Office du Thé du Burundi's share in the segments of the value chains where it has shown structural weaknesses over the past years. This process should involve extensive public-private dialogues to sensitize stakeholders, build consensus around the gradual privatization process, and release the tea sector regulation (currently under the auspices of the Office du Thé du Burundi) to an independent body. Office du Thé du Burundi will need technical and financial assistance to evaluate its assets, develop and implement a diversification strategy to varieties beyond the green tea, improve organizational capacity, and replace the biofuel used to dry the beans with a sustainable energy solution.

Recommendations for the Tea Value Chain

SHORT-TERM RECOMMENDATIONS

Structure the value chain, especially at the farmer level, to increase the production and quality of the tea leaves.

- Set up smallholder cooperatives to give farmers better access to finance and improve their ability to negotiate with factories, therefore increasing incentives to produce a larger quantity and better quality.
- Improve the quality of inputs through continuous capacity development of smallholders on plantation care, sustainability, preservation (natural mulching), and income diversification.

Reform the Office du Thé du Burundi to level the playing field for private investors.

- Establish a well-functioning, independent sectoral regulatory body that will ensure compliance and clarify the roles of all stakeholders for fair market competition.

MEDIUM-TERM RECOMMENDATIONS

Develop and implement investment promotion and national branding strategies, identify niche markets, improve compliance with international standards, and diversify tea products.

- Explore opportunities to diversify Burundi's tea production through a market study.
- Upgrade certification processes to meet international standards, such as organic certification to obtain higher prices. This is important for Burundi green leaves.

Improve the competitiveness of the Office du Thé du Burundi through private sector participation.

- Bring private sector investors into the SOE through a consultative, inclusive, and gradual process to improve management practices and modernize production.

Market Opportunities in the Horticulture Value Chain

Burundi's climate has multiple farming seasons and is favorable for growing diverse horticultural crops. Burundi offers an exceptionally favorable natural environment: different climatic zones, fertile alluvial soils, rainfall and abundant water sources that could provide year-round irrigation, sunshine, and a young, abundant, and available workforce. These conditions could enable smallholders to produce off-season, high-value horticulture crops (USAID 2013b). The main horticulture categories currently produced in Burundi include:

- Fresh fruits: banana, avocado, maracuja, pineapple, citrus fruits, mango, watermelon, tomato fruit, papaya, and jacquier
- Vegetables: cabbage, tomato, onion, cassava leaves, and mushrooms
- Roots and tubers: cassava root, potato, and sweet potato
- Essential oils, medicinal plants, and flowers

BOX 5.2. KENYA'S PRIVATE SECTOR SUCCESS STORY IN THE HORTICULTURE VALUE CHAIN

Kenya's horticulture is often presented as a private sector success story that benefited from limited government intervention. It allowed the private sector to organize itself, source technology and expertise, and create its own coordination mechanisms. A World Bank report on the lessons learned from Kenya's horticulture recommended leaving the private sector alone. Since the 1970s, the Kenyan government played a more facilitative role, by providing support on infrastructure, air freight, market access, and inputs. However, during the 1980s and 1990s, due to fiscal constraints, the State began outsourcing these functions to the private sector. Instead of being the producer and interfering in the sector, the State let the private sector take control of activities across the value chains.

Kenya has become Sub-Saharan Africa's largest exporter of fresh fruits, vegetables, and cut flowers to Europe. Kenya is the world's fourth largest exporter of cut flowers, and the largest supplier of the European Union for roses, green beans, peas, avocados, and Asian vegetables. Horticulture is the third largest foreign exchange earner. The industry provides about 350,000 direct employment jobs and supports over six million livelihoods.

Source: Association of Kenya Fresh Produce Exporters 2021; Tyce 2020.

In recent years, the horticulture sector has become a top development priority because of its potential for income diversification and its high nutritional value. Horticulture provides diverse income supplements for the majority of households throughout the year and provides an option for mitigating land erosion related to deforestation. The government aims to promote the transformation of new niches in the horticulture value chains that will increase the contribution of export crops to growth. Horticultural crops have the potential to capture regional niche markets and diversify exports. The quality of Burundian produce is recognized by neighboring countries and could be used as leverage to boost the regional exports of products and byproducts. The CPSD consultations identified many horticulture products with investment and value-added potential: bananas, avocado, vegetables, and fruits, such as maracuja, flowers, cinchona, stevia, moringa, sunflower, umuviyi, macadamia, cocoa, vine, and apple.

The development of the horticulture value chain would require Burundi to meet prior conditions to facilitate private sector investment. Lack of transport and quality infrastructure is a major constraint. Lack of cold storage and processing units and limited packaging options also contribute to post-harvest losses. There are issues related to cost,⁴³ availability of products standards and certifications (ISO 22000 and Hazard Analysis and Critical Control Point standards), and the length of the certification process because the lack of equipment requires the BBN to use international laboratories. The BBN does not have enough capacity or means to certify products, and they cannot certify the system of transformation units because they are not accredited to do so. There are no local structures able to train and provide organic or other quality certification to local companies. Further, the COVID-19 pandemic has far-reaching implications for agriculture, especially for the horticultural sector, due to the high degree of perishability of these products and producers' limited access to adequate equipment, such as storage and cold infrastructure.

Burundi's government already has plans for the increased use of PPPs in horticulture and could learn from successful international experiences. The government is promoting PPPs for the construction of processing units across the country and aims to set up modernized fruit and vegetable processing units by 2027. Additional measures could be inspired by

regional success stories (box 5.2), wherein the government enables value chain development through support for technology adoption, technical training, and access to markets.

Market opportunities in horticulture include preservation, processing, and production of derivatives and byproducts, such as fruit juice, dried fruits, vegetables, seed oils, and essential oils. Organic waste, such as cassava waste, can also be recycled into animal feeds. The banana value chain provides a good example of market opportunities in horticulture. In recent years, new private investors have entered in the banana brewery industry.

Recommendations for the Horticulture Value Chain

SHORT-TERM RECOMMENDATIONS

Increase local and regional market access.

- Support programs of the Burundi Chamber of Commerce and Industry to improve local branding and expand access to information on international markets.

MEDIUM-TERM RECOMMENDATIONS

Support the export of niche products.

- Establish facilities or laboratories to comply with international sanitary and phytosanitary standards.
- Facilitate regional and international trade and certification protocols for organic products.
- Support the local production of packaging and labeling through subsidies and tax exemptions.
- Provide capacity building and advisory services to farmers and their organizations and incentives for more private investment in priority sectors.

Improve coordination of the value chain.

- Support producer groups to mobilize more members.
- Create economies of scale in transportation and conservation services.
- Initiate steps to coordinate the different producers and processors so they can aggregate production around warehousing, for example, by using agreements with the financial sector.

Improve access to internationally accredited certifications.

- Improve the capacity of the BBN to provide accreditation for international certifications and norms. The BBN needs technical equipment and training to be able to certify fruit derivatives or byproducts, and additional staff and means to provide services nationwide.

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Appendix A

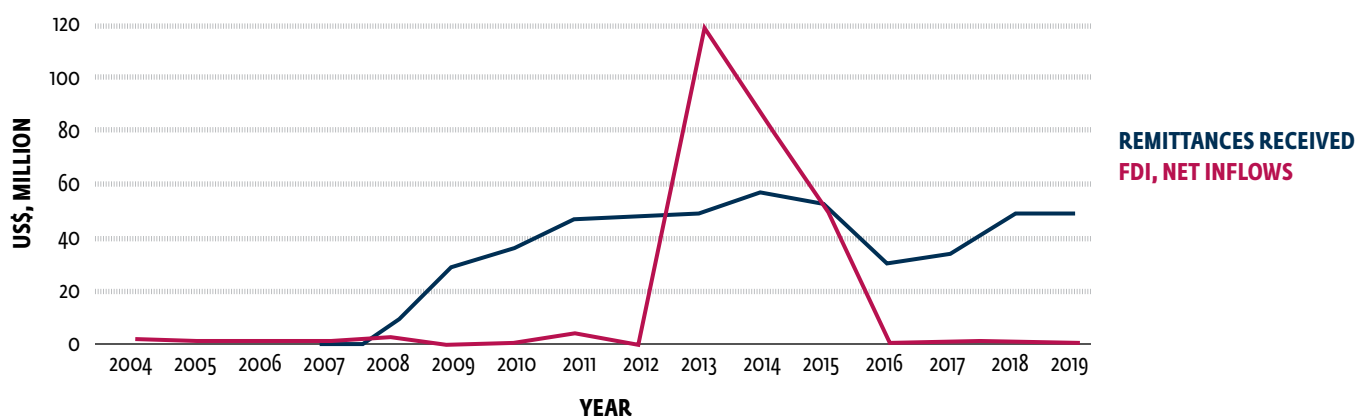
BURUNDI FOREIGN EXCHANGE MARKET

For more than five years, Burundi's economy experienced a persistent shortage of foreign exchange. Until 2014, reserves fluctuated at between three to five months' worth of imports, their dollar amount managing to keep pace with the sharp increase in imports.⁴⁴ The interruption of most external public financing in 2015 brought them down to two months' worth, with net reserves turning negative. Reserves have since remained very low, falling to less than one month's worth of imports at the end of 2018, before a modest rebound in 2019 (1.4 months).

The BRB increased its interventions and strengthened its control over the foreign exchange market. Since March 2016, it centralized all the foreign exchange accounts of export companies and bilateral, multilateral, and nongovernmental organizations, and allocated foreign exchange to imports deemed to be priorities (such as petroleum products, pharmaceuticals, raw materials, and fertilizers) through a rationing system. Recipients of foreign exchange must deposit it in accounts at the BRB and may withdraw only its equivalent in Burundi francs at the official exchange rate. The rules were relaxed at times, but restrictive measures are in place.

One of the objectives of these interventions is to ensure price stability by avoiding excessive exchange rate fluctuations and the impact of such fluctuations on the price of imported goods, especially for priority imports. These measures may have helped contain prices in 2018 and 2019, but they also required the introduction of administrative controls and led to the emergence of a parallel market. The differential between the official and parallel exchange rates widened significantly from March 2016 on, and by October 2020 the value of the Burundi franc on the parallel market was 37 percent lower than the official rate.

The current foreign exchange management system has a negative impact on economic activity. It serves as a de facto tax on exports, exacerbates capital flight, constrains the replenishment of foreign exchange reserves, stymies the competitiveness of the economy, and creates competitive distortions between well-connected companies and other businesses. The obligation imposed on exporters to deposit their foreign currency revenue in BRB accounts, from which they can only withdraw the Burundi franc equivalent at the official rate, is tantamount to a heavy tax on their activities; exchanged at the parallel rate (now illegal), these revenues would bring exporters nearly 50 to 60 percent more in local currency.⁴⁵ Therefore, there is an incentive to conceal exports and repatriate only a portion of export earnings,⁴⁶ which makes it more difficult to replenish foreign exchange reserves. A reunification of the foreign exchange market would likely not result in a mechanical alignment with the current parallel exchange rate; rather, the market enlargement and increased repatriation of export earnings would probably lead to a lower equilibrium exchange rate. The experience of other countries that maintained an overvalued exchange rate through administrative measures shows that exiting this system is difficult.

FIGURE A1. REMITTANCES AND FOREIGN DIRECT INVESTMENT NET INFLOWS TO BURUNDI, 2004–19

Source: World Development Indicators 2019.

The impact on competitiveness is less direct. While in some countries the existence of a parallel market points to the non-competitiveness of the official exchange rate,⁴⁷ the official rate does not appear to be significantly overvalued in Burundi,⁴⁸ where the existence of two markets seems to be the result of an objective scarcity of foreign currency coupled with administrative constraints. However, even if the prospects for value chain development in Burundi are uncertain (its strongest asset is the abundance of labor, but it faces many handicaps), it is clear that an overvalued currency is an additional obstacle.

Remittances partially filled the foreign exchange gap and remain a steady source of foreign currencies. The officially recorded remittance inflows to Burundi stood at \$46 million in 2020 (figure A.1). These inflows do not account for informal remittances, and the real figure might be three to four times higher. Remittances have shown more resilience during crises than FDI and played an important role as a large and stable source of external financing that reduces poverty and improves creditworthiness, debt sustainability, and access to capital. Remittances helped sustain consumption and investment during downturns and acted as a shock absorber.

Finally, the BRB's priority allocation of available foreign exchange to certain imports (such as petroleum products, pharmaceuticals, raw materials, and fertilizers) is a source of price distortions,⁴⁹ with some working to the disadvantage of the poorest populations. With the exception of fertilizers, the “priority” imports are mainly intended for urban dwellers, who therefore benefit from the more favorable exchange rate. This is particularly the case for imports of petroleum products.

TRADE, TRANSPORT, AND LOGISTICS IN BURUNDI

GOODS TRADE CONCENTRATED IN PRIMARY PRODUCTS

Burundi's exports of goods and services as a share of GDP moderately grew from 6.3 percent in 2000 to 9.1 percent in 2019. Structural peers Burkina Faso, Central African Republic, Mali, and Niger all outperform Burundi, as do aspirational peers Lao People's Democratic Republic and Rwanda. Rwanda had a lower performance in 2000 than Burundi but grew its trade to 21.8 percent of GDP in 2019, more than double Burundi's performance in the same year. Also, the Sub-Saharan Africa average has been consistently higher over the same time period. This implies that Burundi is not realizing its trade potential given its economic structure, and it is important to examine and address the constraints.

Burundi consistently records a large trade balance deficit. Burundi's external trade of goods has been on an upward trend, with exports growing at an annual average rate of 4.6 percent since 2014. Over the same period, imports grew at an average annual rate of 4.2 percent. However, the trade deficit amounted to \$706.3 million in 2019. The value of merchandise exports from Burundi totaled \$180 million in 2019, increasing by \$11.6 million (6.88 percent) compared to 2018.

Over the last decade, the export mix has focused on primary products, but there are changes. Gold exports have substantially increased. Coffee, the top traditional export, has stagnated in value, not growing compared to pre-2011 levels. Burundi's export statistics show it as exporting petrol that it does not produce.⁵⁰ Tea exports were on a positive trend prior to 2015, but in the last four years experienced negative growth. Finally, exports of rare metals emerged, a potentially important development for the country.

Gold exports have fluctuated significantly and seem to be underestimated. The value of gold exports grew dramatically from 2011 to 2013. The officially declared gold exports increased to two tons in 2013, but this jump corresponds to the increase in the number of organizations that were approved for the production and export of gold during this period (World Bank 2016). However, reported exports fell significantly in 2014 to about 650 kilograms, and presumably to much lower levels until 2017, after the increase of taxes that disincentivized trade. The country has an estimated 14,000 to 27,000 artisanal gold miners.

Several sources agree that official gold export amounts represent only a fraction of the actual quantity of gold exported from Burundi, but because there is no system in Burundi to trace gold, it is difficult to accurately estimate production and differentiate between the exports under official channels and those under the informal route.

The services trade is growing but underperforming. Despite an ascending trend of trade in services, which reached \$104.8 million in 2018, the service trade deficit remains significant at \$124.4 million due to transportation services that account for 70 percent of the 2018 deficit.

TRANSPORT AND LOGISTIC INFRASTRUCTURE

Transport and logistics are important for competitiveness since Burundi is a landlocked country. It relies on transit for a major portion of its imports and exports on the maritime façade of its two neighbors, Tanzania and Kenya, as well as transport on Lake Tanganyika. Better transport and logistics offer the potential to better connect Burundi to global markets and offer opportunities in regional markets, notably on the shores of the Lake. As a small economy, Burundi must rely on external markets to reach economies of scale and procure most of its consumptions.

Infrastructure gaps in Burundi's transport sector, largely dominated by roads, contribute to the poor performance of transport. About one third of the network of classified road of 4,456 kilometers is paved, and about a quarter of the network (1,069 kilometers) are in good or very good condition. Road transport dominates corridor traffic, with 91.3 percent of the freight in 2018. The remaining 8.7 percent uses the rail and lake route in Tanzania through the port of Kigoma, thus suggesting the relevance of Lake transport for transit with Tanzania in addition to trade with Zambia and Democratic Republic of Congo. Containerized cargo transits travel by road due to the long times associated with the rail and lake routes. Some significant borders (such as the Gahumo border with Tanzania) are yet to be connected by paved roads, which hampers cross-border trade and regional connectivity. Connections between production sites and national roads are in poor condition. The feeder roads network that links production sites to the collection or processing centers, and ultimately markets, are in poor condition. Most trunk roads require widening to cater to rapidly increasing traffic and comply with EAC design standards.

The performance of Burundi in the road transport sector in terms of regulatory framework and practices of road operators was considered very low as recently as 2016. The government's limited capacity for funding road maintenance and investments is unable to satisfy the needs. PPPs can also be considered to fund construction and equipment (such as tolls and weighbridges) and ensure maintenance on the busiest segments. Fighting overloading requires enforcing and modernizing vehicle load control, including installing weight control equipment along regional road links, such as Bujumbura-Kobero on the Central Corridor.

Bujumbura is the most active port on Lake Tanganyika with rapidly increasing traffic that culminated in almost 180,000 tons in 2018. In 2020, preliminary data show that exports reached 105,858 tons, a reduction owing to the pandemic slowdown. Traffic at the port of Bujumbura is projected to grow by 6 percent per year to 288,000 tons in 2025. The bulk of traffic is imports, and projections are that in 2025, there will be 281,000 tons of imports and 7,000 tons of exports. The port connects Burundi to Kigoma in Tanzania (at the end of the rail-road central corridor), which accounts for 22.6 percent of the incoming traffic; Zambia (Mapulungu) representing 72.6 percent of imports; and Democratic Republic of Congo (Kalemie), 1.3 percent. No major infrastructure developments were made in the port since 1959, and rehabilitation and/or expansion is needed. Originally, the draft of the port was 5 meters, but it has been reduced to 3 meters in some parts due to sedimentation. The same rehabilitation applies for cargo handling equipment and warehousing facilities. In addition, aids to navigation infrastructure and installations in the port basin and along the waterways are lacking or in bad condition.⁵¹

The Bujumbura-Kigoma lake connection, which is part of the rail (Dar Es Salaam-Kigoma) and lake route of the Central Corridor, has potential to bear more traffic, including for containerized cargo. Now, 87.5 percent of the traffic to Bujumbura is by road due to inefficiencies in the rail and lake route (the movement of cargo on that route is very slow (15 to 30 days), which is an issue since shippers are required to return the empty containers to the shipping lines' agents in Dar es Salaam within 30 days). One reason for the poor performance on the rail is the shortage of wagons and locomotives in Tanzania. Another constraining factor is the state of the fleet: most vessels are old and many are not in operation. The importance of the Southern Corridor that links Burundi to Zambia should be noted, as it accounted in 2018 for 106,561 tons, equivalent to about one quarter of the country's freight through Dar Es Salaam and Mombasa.

The containerized cargo and liquid bulk segments of the shipping market clearly suffer from a shortage of ships and increased demand. Key drivers of demand for lake transport include: (a) regional and overseas trade volumes steadily increasing since large riparian regions depend on lake transport for their imports and exports; (b) increasing industrialization, for example, Musumba steel, a manufacturer of rebar and tubes, plans to erect its own steel production plant; (c) some firms shifting to sourcing regionally or locally; (d) the mining sector expecting to expand, perhaps drastically, if the Musongati nickel mine project materializes; and (e) growing value chains catalyzing demand for transport and logistics services, such as coffee, tea, maize, and cement.

Considering these constraints, there are options to boost rail or lake transports. One option could be for Burundi to open negotiations with Tanzania to be allowed to bring in its own wagons. This would not be the first time for such an arrangement.⁵² An alternative arrangement is for Burundi to be allowed to operate their own trains in the context of a PPP arrangement. This would be a more substantial policy shift, since Tanzania Railways is a monopoly.

Focus Areas	Opportunities for Increased Private Investments	ST	MT	Proposed Policy Reforms	ST	MT
Road infrastructure	Target trunk and feeder roads in output and performance-based projects			Train officials in project planning and management Strengthen the capacity of the Road Agency and the Road Maintenance Fund Implement vehicle overload control along regional trunk roads		
	Set up a pilot leasing business for road construction equipment			Develop and implement a feeder road development policy and plan targeting key zones		
Transport and logistics services	Set up service centers for long-distance trucks, particularly around Bujumbura and Gitega and along regional trunk roads			Promote and facilitate training and accreditation of truckers and key personnel		
Corridors and trade facilitation	Construct and/or operate one-stop-border post (eventually under PPP) at select borders			Operate Kobero one-stop-border post 24 hours a day, 7 days a week		
				Consider with Tanzania reinstating the Taveta/Holili border transit route and solving security issues around Nzega in Tanzania Under the Central Corridor Transit Transport Facilitation Agency, reduce controls and other sources of transport costs		
				Work with Tanzania to adopt the Regional Electronic Cargo Tracking System		
Inland ports	Develop logistics platforms (including agro-logistics and cold-chain facilities) integrated with the Bujumbura port in Gatumba, subject to the special economic zone project, and Gitega			Ease the requirements and time it takes to get licenses and operate inland logistics terminals		
Port infrastructure development	Manage under PPP the container terminal, ship repair facility, and petroleum products terminal at Bujumbura port			Review the current legal framework governing PPPs and update as needed		
	Manage under PPP the Rumonge port					
Lake shipping services	Invest in specialized container carriers along the Bujumbura-Kigoma waterway and RoRo ferries and bulk cargo ships along ferry lines where most suitable			Secure an agreement with Tanzania allowing Burundi to bring in its own wagons and eventually locomotives on the Dar es Salaam-Kigoma rail line Formulate and implement a clear strategy for improving Lake transport Enhance the enforcement of the legal provisions governing safety of Lake navigation Pursue regional harmonization and cooperation around the Lake Establish a maritime training facility		
	At the regional level, invest in locomotives and/or wagons between Kigoma and Dar es Salaam			Foster closer coordination and cooperation among the key players along the transit corridors to improve efficiency and reduce costs Establish an Office for Budget Responsibility in Kigoma and remove the requirement for a transit bond between Dar es Salaam and Bujumbura Improve the availability of information on government policy measures, including setting up an online platform for dissemination		

Note: ST = short-term; MT = medium-term.

Appendix C

MINING SECTOR OVERVIEW

The mining industry is a key sector that attracts attention from foreign investors. Considering the capital constraints in Burundi, the mining sector could benefit from large-scale foreign investments, provided that they also create social and economic benefits locally. Progress in attracting FDI has been mixed, as the operations of several international mining companies in Burundi have been suspended pending contract renegotiations (per a mining ministry order dated July 13, 2021). The suspension order alleged multiple violations of the mining code, and that unbalanced mining contracts have resulted in the state not receiving a fair share of profits, with the expectation that any new agreements would be on a win-win basis. Some of these issues stem from gaps and lack of consistent application in the Mining Code, which does not include specific provisions on licensing of artisanal or small-scale semi-industrial and large-scale industrial projects and on how to tax them. In addition, the ownership interests set under the mining code discourage foreign investors. Currently, mining companies may own up to 51 percent, while 39 percent is to be held by other shareholders and 10 percent by the Burundian state. The mining law also requires a commitment from the investor to recruit staff or subcontractors of Burundian nationality as a precondition for granting a mining license. Mining projects are capital-intensive, and allocating up to 49 percent of the economic interests in a project to parties that may be unable to fund their equity contributions will impede project development. The appropriate balance on ownership interests will be required to increase FDI in the sector.

Only eight large-scale mining operations exist in Burundi, with only one rare earth element project considered near operational. In the past, most mining in Burundi has been traditionally done by artisanal or small-scale mining methods, employing about 10,000 artisanal and small-scale miners who focus on gold. Ironically, the geology of Burundi would not be seen as a high priority opportunity for commercial scale gold producers.

Compared to its neighbors, Democratic Republic of Congo and Tanzania, the mining industry in Burundi remains underdeveloped. While mining does not form a major part of Burundi's economic activity, it is a major part of the country's exports and a large source of foreign currency. In 2019, the mining industry overtook the tea and coffee sector in Burundi as the leading source of foreign earnings, producing mainly gold, niobium, tin, and tungsten. In 2019, nearly half the country's total exports of \$275 million was gold (\$137 million). A 10-year development plan unveiled in 2017 hoped to expand mining operations in Burundi by as much as 47 percent, which is expected to spur economic growth.

The legislative framework for the mineral sector in Burundi is provided by the Mining Code of Burundi (law No. 1/21 of October 15, 2013). The Burundi Mining Code is key in allowing foreign companies to establish a presence, and recent discoveries of rare earth elements at the Gakara Project attracted attention from international investors. Rare earth elements have diverse applications in electronics and electrical components, and are thus important for a low-carbon future.

Burundi could be considered to have significant geological potential being located along the Albertine Rift, which forms the westerly most part of the East African Rift System. Burundi's geology mostly consists of rocks belonging to the Mesoproterozoic Kibaran province. Tertiary and Quaternary sediments fill parts of the Western Rift at the northern tip of Lake Tanganyika. The East African Rift System is an active continental rift zone and characterized by potassic and calcium-rich kamafugites and carbonatites (Evans 2017).

Despite promising results, the government recently suspended the export of rare earth element concentrate from Gakara, which is in a trial mining phase. The government and mining company had differing expectations for profit sharing. Operations of several international mining companies in Burundi were suspended pending contract renegotiations, as per a mining ministry order dated July 13, 2021. The suspension order alleged multiple violations of the mining code, and that unbalanced mining contracts resulted in the state not receiving a fair share of profits, with the expectation that any new agreements would be on a win-win basis.

Burundi's 2013 Mining Code lacks provisions on licensing semi-industrial and industrial projects and how to tax them. The code draws no distinction between artisanal and small-scale mines and large-scale mining operations, nor does it specify how to manage such operations or the criteria that would apply. While Burundi's mining sector is still mainly made up of artisanal and small-scale sites, the need to fill the code's gaps is becoming more pressing amid growing interest from foreign investors in the country's rare earth and nickel deposits. International investors will want certainty of agreements with the government, so if the government wants to improve benefits from mining, the 2013 Mining Code may need to be updated and then consistently applied.

The ownership interests specified in the 2013 Mining Code may also need to be updated. Currently, mining companies may own up to 51 percent, while 39 percent is to be held by other shareholders, and 10 percent by the government. Mining projects are capital-intensive and allocating up to 49 percent of the economic interests in a project to parties that may be unable to fund their equity contributions will impede project development. Any update to the code will need to reflect an appropriate balance of ownership interests.

Power and transport infrastructure are essential requirements for large-scale mining. Burundi is landlocked and development of bulk commodity projects, such as nickel and copper, would benefit from efficient transport arrangements, such as rail and to some extent trucking. Burundi has strong relations with its neighbors, which bodes well for transport arrangements for export of bulk commodities.

Burundi is not an implementing member of EITI. EITI is a global standard to promote the open and accountable management of oil, gas, and mineral resources that requires the disclosure of information along the extractive industry value chain from the point of extraction, to how revenues make their way through the government, and how they benefit the public. By doing so, EITI seeks to strengthen public and corporate governance, promote understanding of natural resource management, and provide data to inform reforms for greater transparency and accountability in the extractives sector. If Burundi wishes to attract FDI, the country should consider implementing EITI. Lastly, if Burundi is to develop the mining sector, then it may be in the country's best interests to also update associated environmental laws and regulations as they would apply to the mining sector, again distinguishing between artisanal and small-scale mining and large-scale commercial operations.

RECOMMENDATIONS

Moving forward, the government will need focus on key areas to ensure the continued growth of its mining industry. These areas include:

- **Update of the Mining Code:** To reflect an agreed upon sharing of the benefits from mining between the public and private sectors, while further ensuring key stakeholders share in the benefits.
- **Consistent application of the Mining Code:** To ensure higher levels of transparency for the private sector, as well as limit uncertainty created by government participation in mining projects.
- **Availability of regional geological and geophysical data:** To ensure ongoing exploration spending by the private sector, enabling easy access to exploration tenements.
- **Infrastructure development:** To significantly improve access to transport, water, and power infrastructure for large-scale mining. In such cases, mining projects can anchor the development of such infrastructure with benefits for the broader stakeholder group.
- **Artisanal and small-scale miners:** To develop a strategic plan that ensures artisanal and commercial exploration activities are adequately managed and consider how best to minimize the socioeconomic impact to artisanal work forces.
- **Become an implementing member of EITI:** To promote the open and accountable management of oil, gas, and mineral resources.
- **Review the mining sector and update the 2013 Mining Code:** To ensure it is current and consistency in its compliance.
- **Review and update the 2013 Mining Code:** To include provisions on licensing of semi-industrial and industrial projects, how to tax them, and identify an appropriate balance on ownership interests.

Appendix D

STATE-OWNED ENTERPRISES IN BURUNDI

Name of Enterprise	Acronym	Percent of State Ownership
State enterprises		
Air Burundi	AIR BURUNDI	100
Compagnie de Gérance du Coton	COGERCO	100
Encadrement des constructions sociales et aménagement des terrains	ECOSAT	100
Fonds de soutien à l'investissement privé	FOSIP	100
Office national des telecommunications	ONATEL	100
Office national de la Tourbe	ONATOURL	100
Office du the du Burundi	OTB	100
Office des transports en commun	OTRACO	100
Regie des productions pedagogies	REGIDESO	100
Regie des productions pedagogies	RPP	100
Société régionale de développement de l'Imbo	SRDI	100
Fonds national d'investissement communal	FONIC	100
Mixed enterprises > 50% public		
NOVOTEL (waterfront hotel)	NOVOTEL	95.6
Société de gestion des stations de lavage de Kirimiro	SOG. KIRIMIRO	91.6
Société de deparchage et de conditionnement du café	SODECO	92.7
Hotel source du Nil		81
Société sucriere du Moso	SOSUMO	78.4
Office du café du Burundi	OCIBU	75.5
Société d'asurances du Burundi	SOCABU	67.7
Société d'entreposage des produits pétroliers	SEP	62.6
Fonds de promotion de l'habitat urbain	FPHU	61.6
Banque Burundaise pour le commerce et de l'industrie	BBCI	55.4
Banque Commerciale du Burundi	BANCOBU	54
Banque nationale de développement économique	BNDE	52.6
Société immobiliere publique	SIP	50.3
Mixed enterprises < 50% public		
Exploitation du Port de Bujumbura	EPB	46.9
Burundi Mining company	BUMINCO	46
Banque de crédit de Bujumbura	BCB	45
Brasseries et Limonaderies du Burundi	BRARUDI	40.7
Société de Gestion des Stations de Lavage de Ngozi	SOG. NGOZI	39.3
Société de gestion du marché contral	SOGECAVC	39
Société de gestion des stations de lavage de Kayanza	SOG. KAYANZA	25.3
Société d'économie mixte pour l'exploitation du Quinina	SOKINABU	17.4

Source: Department for Public Enterprises report, 2018 (based on 2011 data).

Appendix E

SECTORAL GROSS DOMESTIC PRODUCT AND EMPLOYMENT MULTIPLIERS IN BURUNDI

Private investment in Burundi generates different impacts on the economy depending on the sector of investment as computed by the SAM multiplier approach,⁵³ which assumes that increases in revenue or output are driven by positive shocks related to investments or business model improvements across different industry sectors. Figure E.1 shows sectoral multiplier effects in Burundi on GDP and employment in response to a \$1 million increase in sector revenues. These shocks generate direct, indirect, and induced effects throughout the economy that add up to a cumulative impact. Direct effects pertain to the sectors directly impacted by these shocks and show the increase in output or revenue in that sector. Indirect effects arise from the backward production links in the economy, and induced effects are caused by consumption links that increase expenditure on goods and services in following an increase in labor and capital income (through expanded employment and capital). The SAM multiplier approach is based on strong assumptions, including unlimited resources and supply responses in the economy, fixed prices, no substitution effects, and a static or unchanged structure of the economy with respect to technology. Reported results are rounded and should be interpreted as an approximation that provides orders of magnitude of expected economic impacts.

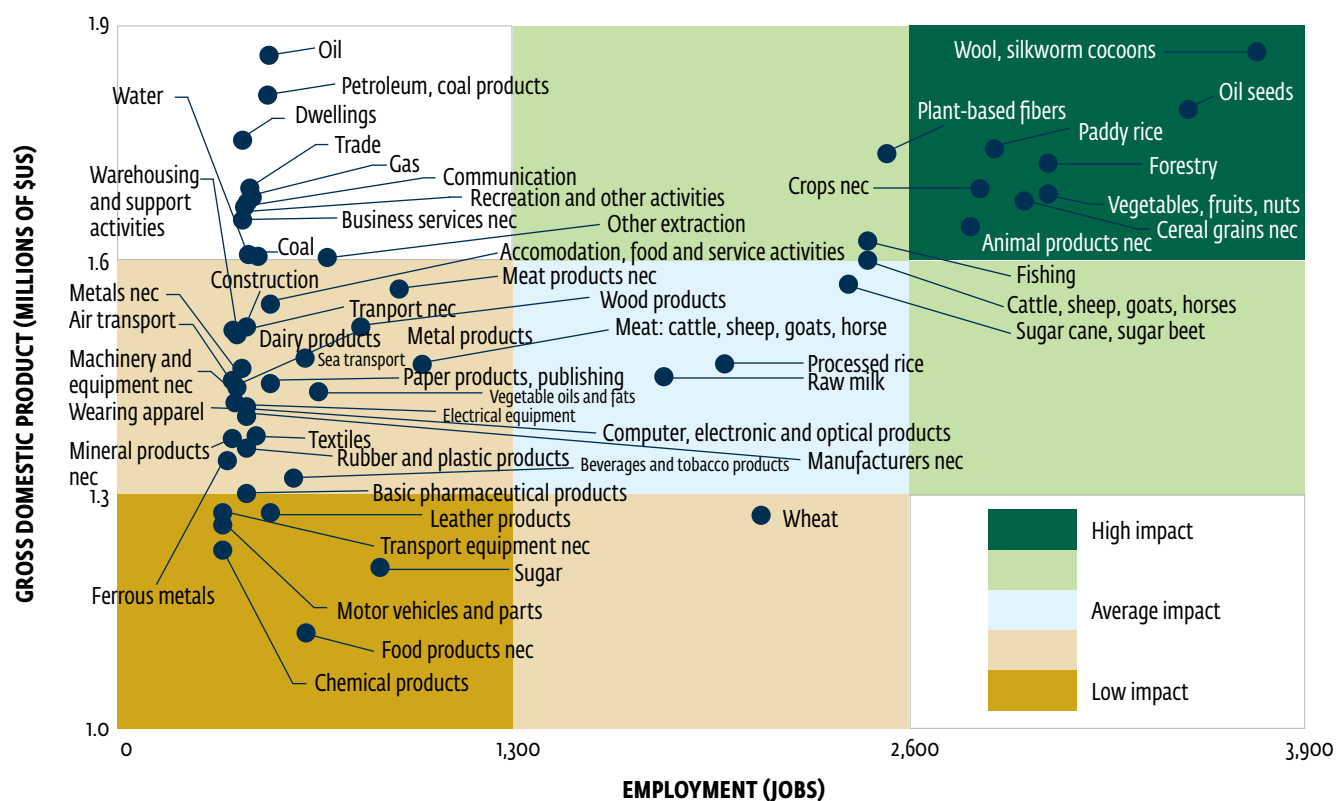
Agriculture sectors are among the industries with the highest GDP multipliers, driven by large direct and induced effects despite weak backward links with other sectors. Figure E.1 shows that agriculture sectors, such as oil seeds, paddy rice, crops nec. (not elsewhere classified), vegetable, fruit, and nuts have relatively high, above 1.6 GDP multipliers. These industries do not have strong backward production links in the economy but generate large multiplier effects. The decomposition of multipliers into direct, indirect, and induced effects helps explain these patterns. First, direct effects in these agriculture sectors have significantly larger magnitudes compared to other sectors due to a high ratio of value added to output (on average more than 58 percent) driven by the low cost of intermediate goods relative to revenue. Also, agriculture sectors have large, induced effects primarily driven by an increase in labor income, given their labor-intensive production structure: the average labor share in the value-added accounts for 79 percent. Increased labor income of agricultural workers, most of whom are subsistence farmers, is primarily spent on food consumption or agricultural products which have high multipliers. Most Burundians work in agriculture, which is generally characterized by small-scale, low-technology farming; animal husbandry; and artisanal fishing for subsistence consumption. It is important to emphasize that investing in agriculture and addressing food security problems for vulnerable groups of the population is critical. It is not, however, sufficient for ensuring sustainable growth that requires investment in productive sectors and creation of good quality jobs.

Among other sectors with high GDP multipliers are non-tradeable services with large direct and induced effects. Large direct and induced effects in service sectors, such as trade, recreation, and other activities, explain high GDP multipliers, as in the case of agriculture. These sectors have high GDP-output ratios (on average, 50 percent) due to the

low cost of intermediate goods relative to revenue that inflates the direct impact of investment. The direct effects combined with relatively large induced effects raise GDP multipliers in these sectors.

High-productivity manufacturing sectors have strong backward production links with other industries; however, this is not the case in Burundi, which has average or low GDP multipliers. Burundi demonstrates average or low GDP multipliers in most food and non-food manufacturing industries such as electrical equipment; motor vehicles and parts, and food products nec., with manufacturing accounting for only 16 percent of GDP. These industries have a relatively large share of intermediate goods in production with value added to output ratio accounting for average 34 percent, which reduces direct effects compared to agriculture and services. At the same time, indirect effects are relatively low because of imported intermediate goods that weaken the production links: the average share of imported intermediate goods in total manufacturing output comprises nearly 20 percent. It is important to note that industries with strong backward production links and low import shares in the supply chain have high sectoral multipliers. However, having an open economy is critical since it promotes competition and improves the competitiveness of the domestic firms due to access to frontier technologies and know-how among other benefits.

FIGURE E.1. IMPACT ON GROSS DOMESTIC PRODUCT AND EMPLOYMENT

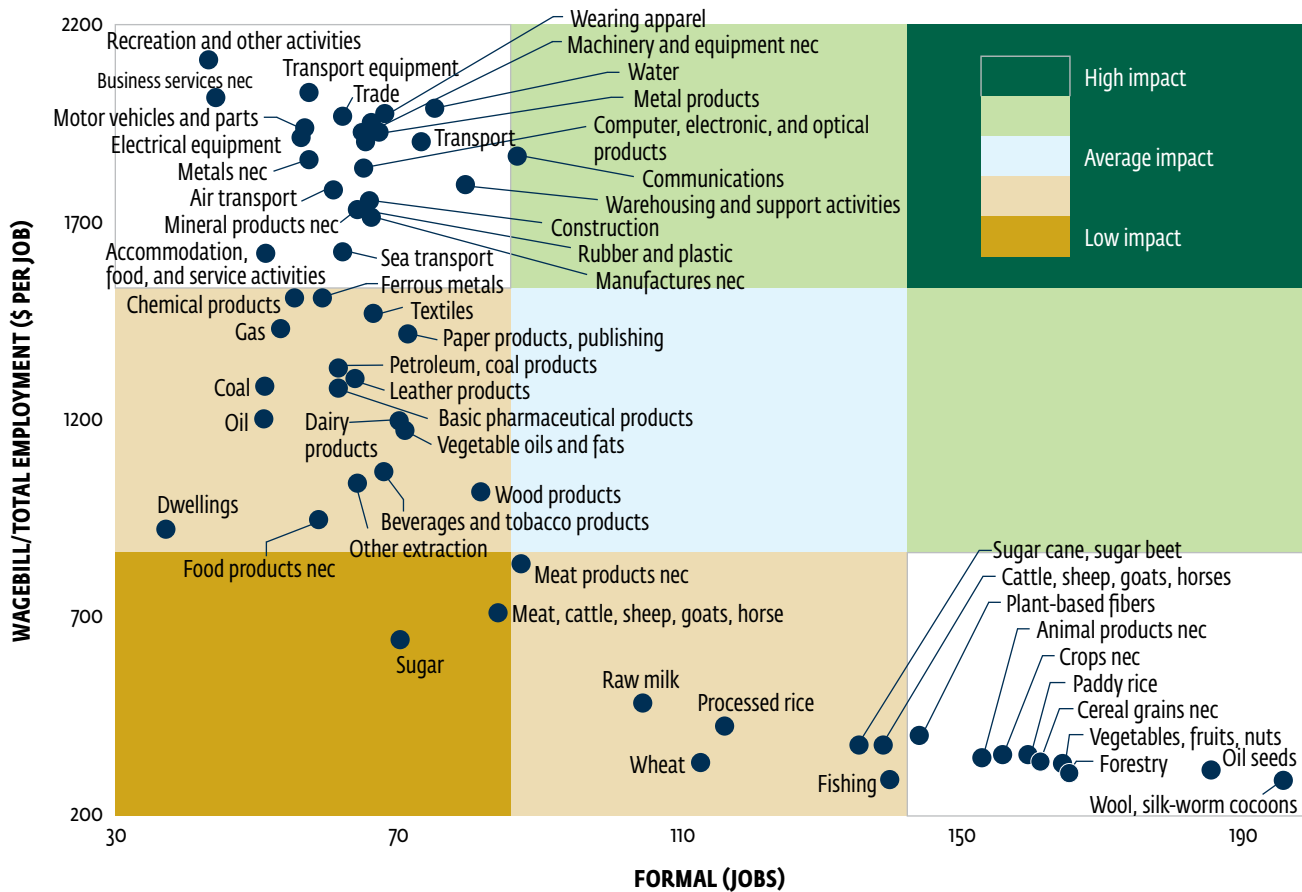


Source: IFC.

Most agriculture sectors exhibit higher employment multipliers compared to services and manufacturing in Burundi. Employment multipliers for agriculture sectors have large magnitudes due to higher GDP-employment elasticities in agriculture relative to other sectors. These employment multipliers are computed using an approach that combines GDP multipliers and employment elasticities for three broad sectors: agriculture, manufacturing, and services. Investment in any sector generates GDP growth in all sectors due to backward production links. The GDP growth in each sector is multiplied by its respective employment elasticity derived from a GDP growth decomposition into changes in employment and labor productivity.

Burundi has a significant number of informal workers who receive low pay and lack employment benefits. Decomposing employment multipliers into formal versus informal jobs helps distinguish good quality employment critical for reducing poverty and improving population welfare. Figure E.2 depicts labor payments per worker and employment multipliers for formal or good quality jobs across sectors with formal employment defined as self-employed and non-paid workers.⁵⁴ Disaggregation of jobs into formal versus informal categories is important for measuring development impact and understanding welfare

FIGURE E.2. IMPACT ON TOTAL EMPLOYMENT AND FORMAL JOBS

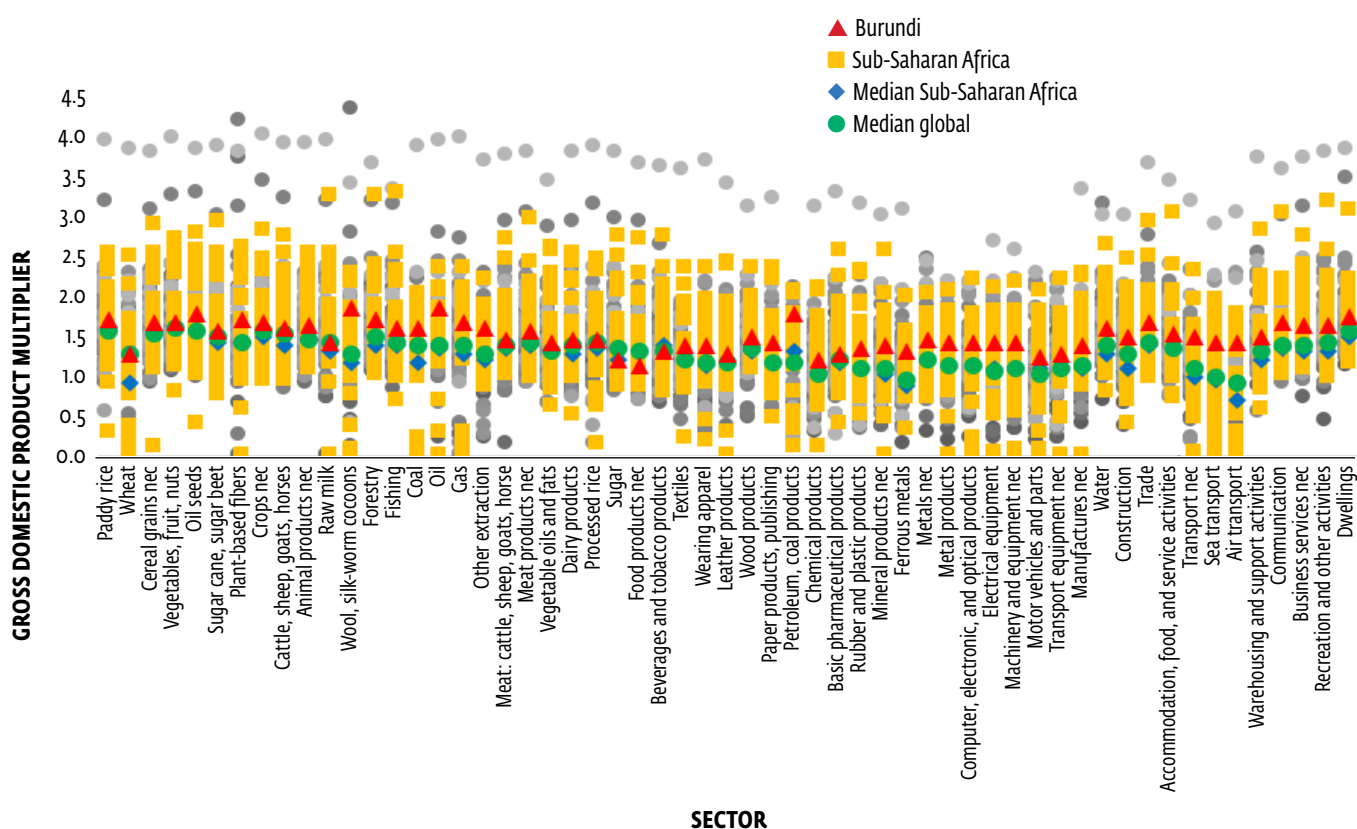


Source: IFC.

implications of investment. Formal jobs help reduce poverty and improve welfare of the vulnerable groups of population as they pay at least minimum wages and provide various employment benefits. Employment multipliers decrease in value when measured in terms of formal job creation given the substantial size of the informal sector in Burundi (see magnitudes of the horizontal axis). Informal employment accounts for over 90 percent of the country’s workforce (World Bank 2018). Finally, the labor payments per worker vary across sectors.

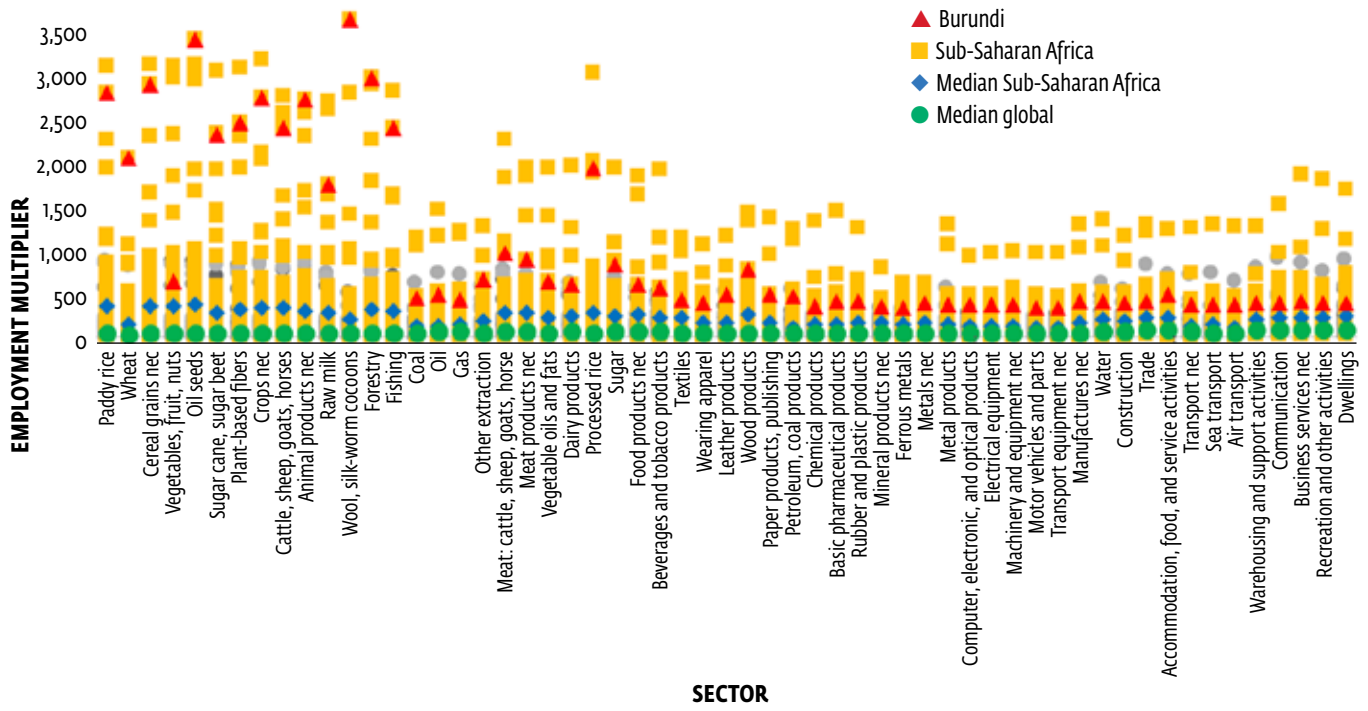
Investments in Burundi generate slightly higher economy-wide effects across most sectors when measured in terms of GDP and compared to the median of IFC client countries in Sub-Saharan Africa and the world. Interesting facts emerge when benchmarking Burundi’s GDP multipliers with other countries, including those in Sub-Saharan Africa. Figure E.3 shows that Burundi has GDP multipliers that are marginally higher compared to the medians of the universe of IFC client countries and Sub-Saharan Africa across most sectors. The multiplier decomposition into direct, indirect, and induced effects helps explain these patterns. Burundi has larger induced effects compared to the world and regional medians, which leads to higher sectoral multipliers. Instead, the direct effects show mixed patterns, and indirect effects demonstrate similar magnitudes across the sectors when compared to Sub-Saharan Africa and global medians.

FIGURE E.3. TOTAL GROSS DOMESTIC PRODUCT MULTIPLIERS ACROSS COUNTRIES AND SECTORS



Source: IFC.

FIGURE E.4. EMPLOYMENT MULTIPLIERS ACROSS COUNTRIES AND SECTORS



Source: IFC.

High GDP multipliers and historical job creation in Burundi result in employment multipliers that are above the regional and global medians across all sectors. Positive GDP-employment elasticities across all sectors, including agriculture, combined with high GDP multipliers, translate into more job creation in Burundi compared to the regional and global medians among IFC client countries (figure E.4). The GDP-employment elasticities in agriculture are positive in Burundi and in many low and lower middle-income countries of Sub-Saharan Africa as opposed to other countries, as agriculture accounts for a large share of GDP and absorbs labor surplus in the economy.

TELECOMMUNICATIONS MARKET OVERVIEW

According to the GSMA Mobile Connectivity Index 2020, Burundi ranks among the least digitally developed countries in Africa and globally next to Democratic Republic of Congo. In 2020, the country reported a stable internet penetration rate of 10 percent while mobile penetration was estimated at 39 percent (69 percent of adult population). Mobile is the most used medium to access the internet: 1.1 million active unique internet subscribers, 25 percent of the total mobile user base. The Agence de Régulation et de Contrôle des Télécommunications (ARCT) reported a declining number of 4,000 active fixed internet line over the same period. Despite a telecom investment prone small territory and a high population density, mobile broadband coverage (3G+) remains at a low level of 40 percent versus an average 70 percent for the subregion. In addition to low mobile broadband coverage, demand is affected by low mobile internet affordability levels with the cost of 1 gigabyte estimated at 10 percent gross national income per capita per month well above the 2 percent recommended threshold.

The mobile market comprises four active mobile network operators.⁵⁵ Econet controlled 48 percent of the local market at the end of March 2020, while Lumitel, which entered the market in 2015, is on course to achieve its goal to become the largest telecom operator in Burundi with a 44 percent market share. It currently lags behind the market leader Econet Wireless, but the gap is narrowing. Lumitel rolled out more than 1,000 base transceiver stations supporting 95 percent population coverage in October 2020.

Fixed retail broadband access in Burundi is under-developed. Currently, only 4,000 fixed internet subscribers exist. The low household penetration rate of 0.2 percent largely relates to unaffordable access rates of above \$50 per megabits per second. On the wholesale side, the former monopoly operator, state-owned Office National des Télécommunications, and domestic mobile operator-turned fixed line full-service provider Viettel Burundi (branded Lumitel) are the main commercial providers of wholesale services. Both operators provide international and national capacity. In 2011, several Burundian telecoms operators joined forces to build out a national fiber-optic backbone network, Burundi Backbone System. By October 2020, the backbone had been extended to more than 1,700 kilometers, spanning the national road network and connecting all the main cities in the provinces. It features 35 PoPs, seven microwave links, and a network operating center in Bujumbura. The Burundi Backbone System company operates as a wholesaler, initially owned and managed jointly by the government and private sector operators as a PPP special purpose vehicle. On January 16, 2017, the government announced termination of the contract governing the PPP arrangement, effectively ending the arrangement set out under the Regional Communications Infrastructure Program. Burundi Backbone System is now part of the country's so-called Wide Band Communication Infrastructure Initiative, whose management is entrusted to the Executive Secretariat of Information and Communication Technologies. In June 2019, Burundi Backbone System launched its fixed-wireless 4G LTE network in Bujumbura, offered as an effective option for customers lying outside its fiber-optic footprint. The implementation phase saw LTE eNode B base stations installed in the city center, with other areas set to follow, ahead of the deployment of LTE to all 17 provinces.

As of October 2020, the average acquisition price of internet capacity at the Burundian border is \$30 per megabits per second. The average purchase price of a megabits per second for internet service providers in Burundi is \$85. The capacity was sold to the end user at an estimated average unit price of \$151, a significant drop from the initial \$1,250 per megabits per second witnessed prior to Burundi Backbone System implementation but still above required affordability levels.

In terms of regulation, the country is yet to implement an overarching regulatory framework aligned with digital policy objectives. The sector is ruled by a set of decrees impeding the development of the digital economy. ARCT is reportedly drafting a new telecoms regulatory framework, the details of which are yet to be published. Since 2018, the government is planning new laws and digital strategy to increase inward investment in ICT and broadband penetration as part of a Burundi Broadband 2025 Program. By 2020, however, the draft law governing electronic communications had still not been promulgated. The regulator adopted Decree No. 100/186 to establish the country's universal service fund, covering the provision of public access points for electronic communications services throughout the territory, the connection of any person to public networks, and access to basic electronic communications services. Mobile network operators are required to contribute 1 percent of their annual turnover excluding tax to the fund. So far, the fund lacks transparency on the use of the estimated \$8 million collected.

Burundi remains an attractive African telecom market for investors, and the high population density and low penetration provides potential. Nevertheless, investor reticence is still evident given the country's low economic output and poor fixed-line infrastructure outside main urban areas. The digitalization of the country and the enabling of value-added services, such as mobile money, will require addressing the regulatory and market issues that prevent full access to the internet to a large segment of the population.

Recommendations To Improve Telecommunications

- Implement full liberalization of the wholesale sector to increase fiber deployment.
- Allow full access to the international gateway.
- Open the infrastructure market to TowerCos to increase infrasharing and accelerate mobile broadband coverage deployment.
- Develop an overarching digital regulatory framework.
- Improve the efficiency of the universal service fund.

Appendix G

AGRIBUSINESS PROCESSING FIRMS IN BURUNDI

Company Name	Ownership	Sector	Value Chain Position
Agro-industries			
AKEZAMUTIMA	Private	Fruit juice	
BTC	Private	Cigarette	
Brarudi	Private/Heineken	Brewery	Processing and marketing
Burundi Brewery S. A.	Private	Brewery/mineral water	
BUMAC	Private	Agri-food transformation (rice)	
Bakhresa Grain Milling	Private	Wheat milling	Milling
Cerealis Sprl	Private	Processing of cereals	Processing
Kinju	Private	Mineral water	
House of Africa tea LTD	Private	Tea	
Liquids	Private	Mineral water – juice	
Mugongo Water Industries	Private	Non-alcohol beverage/mineral water	
Tanga Burundi	Private	Mineral water	
COGERCO	SOE	Cotton	Production
Farisana	Private	Wheat flour	
MINOLACS	Private	Wheat flour	
SODECO	SOE	Coffee	Production, processing, and marketing
Laiterie Ntazimba	Private	Milk	
SOSUMO	SOE	Sugar	Production, processing, and marketing
Prothem	Private	Tea	
Boucherie Moderne	Private	Meat and derivatives	Processing and marketing
FRUITO	Private	Fruit	Processing and marketing
Office du Thé du Burundi	SOE	Tea	Production, processing, and marketing
Chemical and textile industries			
Savonor	SOE	Soap, palm oil	Production, processing, and marketing
Akshar Krupa SA	Private	Processing and recycling of plastic products	
Bujumbura Polythene	Private	Plastic badges	
Rudi Paints	Private	Paint, soap, lotion	
Afritan	Private	Leather and leather products	
Afritextile	Private	Textile	Production, processing, and marketing
Afobuco	Private	Fertilizer	
Burundi global commodities export	Private	Fertilizer	

Company Name	Ownership	Sector	Value Chain Position
Chemical and textile industries, continued			
FOMI (Fertilisants Organico-Mineraux Industriels)	Private	Fertilizer	Production, processing, and marketing
EXIM	Private	Mattress	
International entreprises business company	Private	Toilet paper	
Quaimi Freres	Private	Toilet paper	
Confort Foam Ltd	Private	Mattress	
UPC	Private	Pad	
Wood and wooden industries			
GTS	Private	Furniture	
Wood Perfect	Private	Wooden post	
Alpha CD Technologie	Private	Furniture	

Sources: Burundi government; TradeMark; and Burundi Development Agency.

Appendix H

CONSTRAINTS, GOVERNMENT REFORMS, AND OPPORTUNITIES IN THE AGRIBUSINESS VALUE CHAINS

CONSTRAINTS IN THE AGRIBUSINESS ECOSYSTEM

Research and Development and Input Supplies

Years of political instability severely affected agricultural R&D. Most research infrastructure has been dilapidated or destroyed, donor funding withdrawn, and human capacity depleted. Recent years have seen a slow recovery, but the overall capacity is still low. The share of agricultural R&D expenditure represents only 0.1 percent of the agricultural GDP in 2020, with the main investment expenditures financed by external resources. Burundi R&D focuses on crop production by developing new varieties of seeds that could resist climate change. R&D is dominated by public research institutes. Similar to other developing countries, private sector investment in R&D is marginal, with only two private firms reportedly operating in the field: AgroBioTech and Phytolabu, in-vitro cultivation laboratories developing seedlings for commercial purposes (Bamber et al 2014).

High-quality seeds, fertilizer, and management practices are critical to crop intensification, which is the only viable option to increase production. However, farmers' lack of disposable income to invest, inaccessible and costly inputs, and poor agronomic knowledge affect farmers' ability to use appropriate inputs and techniques. Inorganic fertilizer usage is still well below the 2006 Abuja declaration⁵⁶ despite government policy, which promotes blending inorganic and organic fertilizers. A fertilizer production plant was established in February 2019 (Fertilisants Organico-Mineraux Industriels, or FOMI),⁵⁷ but improved seed use remains negligible due to limited access to seeds and farmers' preferred option of relying on farm-saved seeds. The seven registered commercial seed companies largely market imported seeds from Kenya and the Netherlands instead. Some development partners try to fill the seed demand gap by investing in community-based seed multiplication schemes of selected crop value chains.

Inputs and support services offer important market opportunities. Private investments are essential for creating conditions to better manage post-harvest losses throughout the entire value chains. The private sector can be a key player in the development of processing and transformation factories specializing in fertilizers, organic fertilizers, veterinary and phytosanitary drugs and services, and animal feeds.

Production

Production is constrained by low agricultural productivity, declining crop production, and significant post-harvest losses. Factors behind the weak performance include the impacts of climate change; resurgence of diseases and pests; soil degradation; poor access to efficient inputs; low technical, financial, and organizational capacity across the value chains; insufficient infrastructures and techniques for storage, conservation, and processing; limited

access to profitable markets; and insufficient involvement of the private sector (Republic of Burundi 2018). To increase the volume, quality, and diversification of production, Burundi will need to consolidate the agricultural markets, revert the trends of declining productivity, and address climate change risks.

- *Small market size.* Burundi's agriculture sector is characterized by a large number of small farms (about 1,200,000 farms below 0.45 hectares) that are unable to break out of the cycle of subsistence farming. Access to markets is limited due to market segmentation, uncoordinated suppliers, infrastructure constraints, and lack of upstream and downstream links, such as input distribution networks, production collection, processing, and marketing.
- *Low and declining productivity.* Reasons for low productivity include: accessibility and suboptimal use of improved purchased inputs (seeds, fertilizer, and pesticides); low soil fertility and land degradation; poor water infrastructure and management, including, when available, inadequate techniques for irrigation; limited availability and use of mechanization services, especially at critical labor demand periods to optimize land and labor productivity; lack of access to agricultural credit; and climatic events, such as El Niño and La Niña. Insufficient technology for onfarm value addition further causes losses in harvested crops and reduced supply. Increasing productivity in the traditional sectors can help alleviate the constraints linked to land availability and boost the small size of land parcel return. Additionally, higher productivity in food crops can free some land resources for other agriculture products.
- *Risks related to climate change and diseases.* For example, banana and cassava production have declined due to uncontrolled diseases. Although national agriculture research institutions developed more resistant varieties, the disease continues to plague most of the country's communes. Cereals, especially maize, also have been threatened by the fall armyworm invasion (pests) since 2017.

Access to efficient, small-scale irrigation technology is needed to improve agricultural productivity and production. Smallholder access to year-round irrigation infrastructure will improve the efficiency of water use, reduce the risk of crop failure due to drought, enhance crop yields and quality, and enable production of off-season high-value horticulture crops (Mati 2004; USAID 2013).

Burundi needs large private sector investments in transport, logistics to improve the country's production capacity, especially cold chains, and packaging factories. Additionally, providing farmers and their organizations with adequate advisory services and capacity building, combined with improved access to long-term finance, will be key in boosting agriculture and agribusiness productivity and production. This includes investing more in post-harvest capacities, such as food storage and transportation infrastructure, while working closely with smallholder farmers.

Processing and Quality Control

Burundi needs large private sector investments to scale up agriprocessing capabilities. The country's industrial and agriprocessing capacities were strongly affected by numerous closures that took place during the period of conflict. The government still has a large presence in the industrial sector, but the gradual liberalization of SOEs is important for the agribusiness sector where they dominate all the strategic value chains and have shown serious

inefficiencies and mismanagement over the years. However, to ensure fair market participation and competitiveness, setting up an effective regulatory body that will govern the market in the tradeable agribusiness value chains is essential for a successful liberalization.

Although some initiatives received support from donors in the milk, rice, corn, palm oil, and horticulture value chains with positive results, the processors are still poorly organized and under-equipped. Private investment in large-scale processing is rare in Burundi because of the unreliable input supply of raw material, poor market coordination and limited information across the value chains, unpredictable electricity supply, limited access to long-term financing, and lack of suppliers in packaging and logistics. Examples of medium- and large-scale processors include: SOSUMO, the sugar processor; Brarudi, the downstream sugar processor for beverages and the largest consumer of sugar in the country; Savonor, the oil and soap products processor; Muraymva Flour Mill; Pembe Mills; Farisana mill wheat; and FRUITO, a medium-sized fruit juice processor. Appendix F presents the list of agribusiness processing firms operating in the country. All other processing is artisanal, carried out by individual producers or cooperatives. Artisanal methods are performed at a small scale and are common for rice, wheat, maize, or cassava. They operate inefficiently compared to industrial processing.

Distribution and Marketing

Burundi's agribusiness distribution channels are uncoordinated, lack market information, and have weak marketing and branding strategies. These distribution channels consist of small kiosks, a number of small supermarkets, brand-specific retail outlets, wholesalers, restaurants and hotels, and a large informal market.

Burundi's inadequate marketing and distribution infrastructure and logistics, packaging services, limited food safety practices, and low product quality standards also hinder the growth of the agribusiness sector. There are no advanced packaging companies for fresh products while industrial scale packaging operations are at their early stage of development. Firms that process goods must also produce in-house or import glass and plastic containers from neighboring countries, along with labels and lids, to ensure marketing and distribution. The transportation of agricultural products mainly occurs in human carriers and bicycles, and little in suitable motorized vehicles. This situation is aggravated by insufficient and poor storage infrastructures, which undermine the flows of agricultural products. The capacity of existing storage infrastructure is insufficient and farm-level storage is limited, which leads many farmers to sell their products immediately after harvest and the government to pay for unsold products during the harvest seasons. Access to energy, adequate storage facilities, and improved packaging are important to reduce post-harvest losses and maintain food quality and a longer shelf life. For instance, biodegradable packaging could be used to package perishable products along the value chains.

Cross-Cutting Constraints to Agricultural Value Chains

Most of the cross-cutting constraints to the development of the agribusiness sector are similar to the overall constraints to the business climate in Burundi, the top being foreign exchange controls, lack of access to long-term finance, unskilled labor, and low quality of productivity infrastructure (already detailed in the report). This section focuses on additional issues that are specific to the agribusiness sector and exacerbate these constraints. Although the agribusiness stakeholders interviewed recognized the importance of improving

the overall investment climate in the country, they identified the following three constraints as their top priorities for government reforms:

- *Foreign exchange controls and access to finance.* For private operators who want to import new equipment, the restriction on foreign exchange remains a major roadblock that undermines their productivity and production capabilities. Access to finance also impedes investment. Access to long-term finance is especially problematic: it is perceived as too risky by the financial sector, but it would take 4 to 7 years to generate profits from planting mango trees or palm oil trees for the agricultural producers. Demand-side challenges include the limited financial capability of smallholders and producer organizations.
- *Labor skills.* Despite the abundance of cheap, unskilled daily and seasonal workers who are almost exclusively Burundians, most highly skilled workers (such as senior management or specialized experts) are foreign due to the lack of technical and managerial skills in the local labor market. This is a strong constraint for the processing, marketing, and distribution segments of the value chains. In addition, child and forced labor constitute a supply chain risk for private sector investors in the production of tea, coffee, sugarcane, cotton, palm oil, peat, potatoes, and rice.⁵⁸ The government has acted to combat the issue, however, gaps in enforcement remain.
- *Productivity infrastructure.* Means of production are missing along the entire value chain, including access to land and continued inefficient use of (already scarce) land, reliable and affordable energy, production and storage facilities, and equipment and technology.

GOVERNMENT INTERVENTIONS AND ACHIEVEMENTS

Recent Government Achievements in the Agribusiness Value Chains

During the past few months alone, the newly elected government has undertaken significant and concrete actions to support to the agriculture and agribusiness sector, as described in a government progress report presentation to Parliament in April 2021. The government has demonstrated a strong commitment for change and to make agribusiness the main engine for jobs and economic transformation. During the last few months, important milestones were achieved across the entire value chains, from improving R&D and inputs to production and distribution. This is complemented by strong advisory and financial assistance to smallholder farmers and cooperatives. The progress aligns with the country's development priorities and the Malabo commitments.

Major Achievements Highlighted in the Government Progress Report

Major progress has been made in the availability of and access to inputs, capacity building, livestock and fishery value chains, agriprocessing, and access to finance. About 27,000 hectares (out of 37,700 hectares) of watersheds and 4,562 hectares (out of 7,468 hectares) of marshlands and plains have been developed, while 350 hectares (out of 948 hectares) were irrigated after the rehabilitation of the irrigation network. The availability and access to inputs significantly increased, such as hybrid maize (100 tons), composite maize (78 tons), rice (43 tons), fruit seedlings (200,000 units), and fertilizers (27,556 tons). The government provided capacity building to farmers and their organizations: 300,000 agri-pastoralists received training on good agricultural techniques, 71 trainers received training to provide capacity building to 2,500 new cooperatives, and 161 producer organizations received

training in the rice, maize, and dairy value chains. In the livestock value chains, 5,000 cattle were inseminated, 500 piglets were distributed to 500 households, and about 600 cattle will be imported from Uganda. In the fishery value chain, about 177,000 small fishes were stocked in the integrated fish farming sites of Murotsoet Vyerwa and 10 fish ponds were built in the integrated aquaculture village of Mwumba. To support agriprocessing, 23 milk collection centers were built and equipped; a mini-rice mill installed; 12 agriprocessing units were built for rice, maize, cassava, banana, and fruits; 3 mini-dairy units were built and equipped and a fourth is under construction; 10 storages were built and 5 are under construction for maize, rice, and coffee; 4 hullers were installed (8 more are still needed); and a modern slaughterhouse is under construction and its equipment ordered. Producers' access to finance improved, with more than 17,600 farm households receiving loans, more than 5,000 households receiving financial support, 21 rice projects benefiting from financial support, and 55 and 75 field schools created for respectively agricultural and livestock producers. The government is also preparing six implementing texts of the law on permanent stabilization, animal seed production, and fishery and aquaculture.

Additional efforts were made to increase the production of export crops and investments in agricultural research and food technology. In-vitro plants have been produced for potatoes (141,270), banana (380), sweet potato (238), cassava (2,808), and more than 127,800 mini potato tubers were produced. New crops have been produced at the flowering-pod stage. Furthermore, 4 new technologies for transforming and preserving local agricultural products are being developed. In addition, 12 associations, cooperatives, or units of transformation were supported in setting up agricultural processing units. Yet, more efforts are needed to develop equipment prototypes and processing tools and lab analyses for agricultural products, since only one improved rice steamer was adapted and manufactured and few pesticides residual and aflatoxin tests have been performed. Efforts were made to ensure the quality of seeds through inspection, testing, and packaging. Efforts were also made to protect the banks of the main rivers by producing 150,000 bamboo trees to be planted at the Muha, Nkokoma, Ruhwa, Rusitiet, and Ruvubu rivers.

The government is engaged in the implementation of the Malabo Declaration on Agriculture Transformation in Africa.⁵⁹ According to the African Union 2020 biannual review, despite its delay in meeting all of the Malabo's commitments, Burundi has demonstrated strong performance in some areas over the past two years: completion of the Comprehensive Africa Agriculture Development Programme process; establishment of PPPs with strong links to smallholder farmers for more inclusive PPPs for commodity value chains; more than 30 percent of agricultural land now under sustainable land management practices; and 51.5 percent of farm, pastoral, and fisher households now resilient to climate-related shocks. However, areas that require government attention include: an increase in agricultural research spending (only 0.1 percent of agricultural GDP in 2020); an increase in agricultural productivity per worker; an increase in the supply of quality inputs in the agriculture sector; a reduction in the percentage of population undernourished (28 percent in 2020); and provision of agricultural advisory services to farmers (only 42.6 percent have access to these services). Finally, the country is urged to increase investment toward nutrition-sensitive agriculture and food systems to improve food availability and accessibility, as well as the quality and safety of diets.

MARKET OPPORTUNITIES IN SELECTED VALUE CHAINS

Coffee Value Chain

The coffee sector is crucial to the Burundian economy. Farmers produce mainly arabica coffee, with Robusta accounting for only 4 percent. In 2019, the coffee sector accounted for 80 percent of foreign revenue (or \$50 million) and is a source of jobs for 600,000 smallholder producers (18.4 percent of whom are age 40 or less) and thousands along the nonfarm value chain. The coffee sector in Burundi is regulated by the Autorité de Régulation de la Filière Café.

Creating a coffee production plant in the Special Economic Zone and liberalizing the sector would attract private investors specialized in premium specialty coffee high-income markets. The competitiveness of Burundi in the coffee sector is aided by an agro-ecology of high elevation and a tropical climate with cool temperatures, conditions with potential to support coffee yields of high quality. Burundi has an opportunity to exploit high prices for the fully washed market channel. It can adopt well-coordinated, strictly supervised supply relationships between farmers and coffee washing station operators with respect to processing quality standards and rigorous selection of cherries. This might also require linking with a global value chain for high-quality coffee, providing price incentives for farmers to produce high-quality coffee, and improving the regulatory environment that would attract more investors. The EAC has no dominant producers of specialty coffee, and Burundi has a comparative advantage with the large pool of low-cost labor force available to hand pick, sort, and grade coffees to yield the best quality. This informal and poorly paid labor could be upskilled by private investors to improve labor productivity and the quality of jobs.

VALUE CHAINS WITH POTENTIAL TO COMPETE IN THE REGIONAL MARKETS

There is a large regional market for agricultural products and a high potential for Burundi to increase its share in the regional market, especially in the neighboring Democratic Republic of Congo. Burundi has comparative advantages in several value chains examined in this section, and it already has a positive balance with important regional partners, such as Democratic Republic of Congo. To strengthen the existing opportunities and further expand its potential, significant improvements are required at each step of the value chains. Besides the firm-level investments driven by the private sector, larger infrastructure investments and integration into regional value chains will require upgrading processing skills, logistics, and certifications.

Cotton and Textile Value Chains

Burundian cotton is renowned for its quality and has been widely cultivated since 1920, but current production levels are insufficient to meet even the domestic demand. Cotton production used to be the second largest source of foreign revenue after coffee, but it has significantly declined since the 1990s. With an initial ambition to achieving a target of 12,000 metric tons of production in the 1990s (which was never met), the highest production of COGERCO, the state-owned company leading the cotton sector, was reached in 1993: 27,000 cotton farmers producing 8,813 metric tons of cotton seeds, which yielded 3,500 metric tons of cotton fiber. Since then, the highest COGERCO cotton seed production kept declining to reach 2,500 metric tons in 2018. Burundi's geography and climate

are favorable for cotton production, and there is potential to increase cotton production to the targeted 12,000 metric tons for cotton seed or 5,000 metric tons of cotton fiber. Burundi's intermediary cotton inputs have recognized quality and are in demand in international markets (European Union 2018; COGERCO 2021). The best performing markets for Burundi cotton and cotton byproducts in 2019 were Democratic Republic of Congo, Rwanda, Switzerland, and Uganda.

COGERCO, an SOE, is the leading producer of cotton in Burundi. It controls the cultivation of cotton, supervises and supports cotton producers, and transforms seed cotton into cotton fibers and other derivatives. COGERCO supervises and supplies seeds and fertilizers to all cotton growers and buys their cotton at an agreed price with the farmer confederation. Cotton seeds (about 1,100 tons per year) are sold to a private company specialized in the transformation of cotton seeds into cottonseed oil, cottonseed food for animal feed, fertilizers for mushroom cultivation, and cotton bark used as fuel. Cotton fibers (about 800 tons per year) are sold to a leading private company specialized in the textile industry. COGERCO's plant (the "Continental eagle") has a processing capacity of 120 tons of seed a day, however, the company has never been able to use its full potential. COGERCO's ginning plant has a processing capacity of 9,000 tons, but it recently declined to about 3,000 tons. This decline in inputs production led to the closure of several downstream operations, including but not limited to the production of medical cotton wool, gauze bands, and pads, sewing thread for the local garments industry, and blankets.

COGERCO is currently in bankruptcy, a situation that calls for a private sector solution to invest and upgrade the entire cotton value chain. CPSD consultations find that COGERCO is in a precarious financial condition due to mismanagement, inefficiency, and outdated production equipment and manpower. These continuous difficulties caused the decline of its production by more than 80 percent in less than two decades.

Burundi's cotton industry has some comparative advantages in garment exports. Afritextile is a leader in the textile industry in Burundi. The company's fabrics are recognized in the regional markets for their unique design and quality, and Afritextile opened new stores in Democratic Republic of Congo, Rwanda, and Tanzania to increase exports. Burundi's strategic location opens opportunities to supply in the EAC, Great Lakes Country Economic Community, Common Market for Eastern and Southern Africa, and Southern African Development Community markets, but it needs to increase domestic cotton production to meet the needs of the textile industry.

To revive Burundi's cotton and textile industry, the government will need to enable private sector participation across the entire cotton value chain. On the inputs production side, possibilities exist for extending the land allocation for cotton cultivation to 12,000 hectares, especially in the plains of Imbo, Moso, Bugesera, and Buyogoma. R&D institutes could also be supported in their efforts to improve seed quality and increase seedlings production. Local and regional market opportunities exist in the processing of fertilizers and animal feeding products as cotton derivatives, which is supported by the national policy on zero-grazing (or permanent stalling). Finally, the digitalization of cotton value chain activities through online sales platforms can help Burundian producers integrate the international markets.

Palm Oil Value Chain

Similar to cotton, palm oil is mainly produced by smallholder farmers with production below domestic demand. In Burundi, palm oil is cultivated mainly in the southern part of the Imbo plain, particularly in the communes of Rumonge and Nyanza-Lac, on an estimated 15,470 hectares, where it provides almost 19,000 households with livelihoods. Industrial plantations, SAVANOR,⁶⁰ and CIKAR account for 9 percent of the cultivated area (1,380 hectares and 80 hectares, respectively), while village estates, small farms, and rented lands⁶¹ account for the remaining 91 percent. The palm oil value chain contributes to the development of municipal entities (large taxpayer) and job creation. Since palm oil is a priority sector for transformation, job creation, and food security, the government of Burundi earmarked 1,000 hectares of land for development by prospective private sector investors with a commitment to establish a quality control laboratory.

The market for refined, high-grade edible oil is expanding in Burundi and the EAC as a whole, currently valued at over \$1 billion per year. Red palm oil is the preferred cooking oil for local household consumption, with the estimated supply gap in the range of 60,000 tons per year. In addition, palm oil is the key input for the cosmetic and soap industry. For example, SAVONOR supplied millions of blue soaps derived from palm oil during the COVID-19 pandemic.

Increasing domestic production could address local demand while creating value and jobs, and save the scarce foreign exchange reserves used to import palm oil. Burundi has the potential for vertical diversification of its palm oil production by upgrading the quality and variety of palm oil derivatives. Only about 20 percent of current demand for raw material is being met, so there is opportunity for private sector investment to increase the production of palm oil with a potential to export more in the subregion. To make this market attractive for private investors, the government must revoke the ban on exports as soon as domestic demand is met. Harmonizing the BBN standards with those of the EAC will pave the way for trading within the EAC region.

Sugarcane Value Chain

The sugarcane value chain in Burundi is also dominated by SOSUMO, an SOE that has not been able to fully tap into its potential. The Tanganyika Business Company, a private company, was the second large-scale factory specialized in the production of refined sugar. In 2013, like SOSUMO, Tanganyika Business Company had about 3,000 hectares of sugarcane plantation and employed between 2,000 to 3,000 unskilled and semi-skilled workers. For several years, Burundi demonstrated a clear comparative advantage in the production of sugarcane, with productivity levels sometimes on par or higher than global averages. Furthermore, unlike other agribusiness factories, the sugar cane factories survived the country's political crisis, which demonstrated the resilience of the sector, thanks to support toward import-substitution crops (Republic of Burundi 2017). Although there is local and regional demand and opportunities for increasing SOSUMO's sugar production to 40,000 tons, the production is still capped at 22,000 tons because of aging plantations, lack of irrigation systems, and issues with the processing equipment.⁶²

The government recognizes the need to increase sugar production to reduce government spending (for subsidies and imports) and earn foreign revenues. The government opened SOSUMO for private equity investments. The company's expansion project includes

equipment upgrading and an increase in production capacity. SOSUMO also plans to develop a distillery to respond to local demand for pharmaceutical alcohol, ethanol, and so on. In addition to this important step, the government should liberalize the sugar market and open it to other private actors. To ensure effective private sector participation along with PPP for SOSUMO, the government will need to create an independent regulatory body to regulate the sugar market and ensure fair market competition along the value chain.

Burundi has the potential to integrate regional value chains where there is strong demand from the beer, beverage, and pharmaceutical industries, but it will need to expand and upgrade sugar cane plantations and processing capacity. This expansion should include replacement of old plantations and investment in new plantation zones. To achieve this goal, it is important to ensure land ownership issues are resolved, especially at Tanzania's border. Improving and sustaining sugarcane productivity will require investing in agriculture R&D to better understand factors that have contributed to the highest and lowest yields observed in the past years and the measures needed to maintain high productivity over the long run. In addition, Burundi will need to increase the varieties of sugarcane plants and invest in efficient irrigation infrastructures, especially in the hills areas.

VALUE CHAINS THAT CONTRIBUTE TO FOOD SECURITY AND NUTRITION

Agribusiness has a well-documented potential to contribute to the food security of rural households and improve the nutrition of vulnerable groups. Increasing the incomes of smallholder farmers offers an important multiplier effect, because the poor consume a larger fraction of their incomes. Thus, increasing the incomes of smallholders tends to have a bigger impact on aggregate demand than for wealthier groups. This is especially true as landholdings are divided and subdivided through generations and continually increase the amount of degraded land and infertile soil. By investing in improved agricultural systems and climate-resilient practices, Burundi can address the interlinked challenges of food security and accelerating climate change (World Bank 2021a). Additionally, the diversification of agribusiness value chains could improve nutrition outcomes by increasing the affordability and access of the poor to quality and nutritious food.

Horticulture Value Chains

Commonly observed challenges and market opportunities for the entire horticulture value chains are discussed in the main report. This section focuses on a few crops and provides an overview of some of the particularities pertaining to the value chains.

Banana Value Chain

Banana⁶³ is one of the dominant horticultural crops in Burundi, cultivated by about 1.3 million houses on 152,373 hectares of land. Estimated production was 1.2 million metric tons in 2019 (FAOSTAT 2021). The banana sector's productivity is relatively low in Burundi: 7.8 tons per hectare. The World Bank Prodema Project helped increase this productivity to 22.9 tons per hectare for 640 sub-projects that benefited more than 19,460 farmers, 57 percent of whom were women. Harvested bananas are used for beer and wine brewing (77 percent), cooking (14 percent), and dessert (5 percent) (European Commission 2020). In 2019, the direct value added of the banana value chain was estimated at \$440 million, derived mainly from banana beer, which contributes 14 percent of

the country's GDP, 38 percent of the agricultural GDP, and 45 percent of the value added of food crops (FAOSTAT 2021). Taxes collected along the banana value represent around 70 percent of the municipalities' fiscal receipts.

Pests and diseases are a menace to banana production in Burundi. Producers also suffer from the aging of banana plantations, which leads to a yield decrease. The spread of new varieties, such as the FHIA-01 Goldfinger, is an improvement but this is not enough to efficiently and sustainably address the diseases (Blomme et al 2020). At the processing and marketing levels, the main constraints are the costs of imported packaging for small processors and access to external markets. There is a huge potential for diversifying into new products, such as sparkling juices, banana beers, banana crisps, banana flour, and so on. The demand for cooking types is increasing rapidly in urban areas due to rural-urban migration and changing consumer preferences. The beer banana types are partly processed into a brew consumed in households or restaurants. This processing is done informally by individual households or traders.

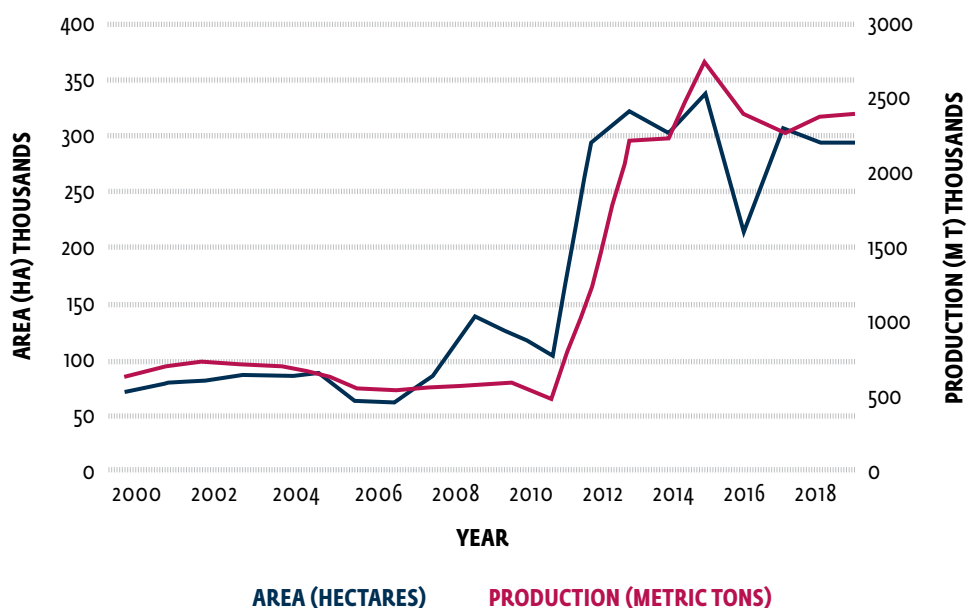
Maracuja Value Chain

Maracuja is grown throughout the country by fruit juice processors and vegetable exporters. At the current yield of 1 metric ton per hectare, output could reach 145,000 metric tons. The fruits are processed into passion fruit juice, which can be stored at an average temperature of 25–28 degrees Celsius for three months. Once the bottle is opened, it should be consumed within 24 hours. Certification of Maracuja products costs BIF 500,000, which is prohibitive for a Maracuja SME with a turnover of about BIF 5 million. But the Maracuja of Burundi is sought after for its flavor, especially by Rwanda. Possible new products would be concentrates and pulp for export to Democratic Republic of Congo and other EAC countries. At the transformation level, most machines are obsolete, reducing efficiency and causing problems in achieving basic standards and good practices (in terms of hygiene to obtain Hazard Analysis Critical Control Points).

Cassava Value Chain

Since 2014, cassava ranks first in terms of tonnage produced ahead of banana (FAO 2019) and third as the most important food crop. Production increased dramatically from 508,000 metric tons in 2011 to as high as 2.8 million metric tons in 2015 (figure H.1). The production of 2.4 million metric tons in 2019 was about 47 percent higher than the long-term average (2000–19). Domestic production annually falls short of demand, and the government imports an additional 4,938,000 metric tons at a cost of about \$693,000 to meet the excess demand. Cassava offers the cheapest source of calories and is an important cash crop for rural households, particularly rural women who are the primary cassava growers. Cassava has a multi-purpose use, as food for humans and animals and inputs for a variety of industrial products, including for breweries. Cassava contributes to 70 percent of Burundian population food needs. Thus, the government considers cassava a priority crop for food security and transformation.

The main challenges of the cassava sector are the lack of improved high-yielding planting materials for farmers and cassava diseases. Farmers rely on recycled cassava cuttings with low-yielding potential. The yields an average 7 metric tons per hectare (about half of the potential yield of at least 15 metric tons per hectare) on farm sizes ranging from 0.2–2 hectares. Increasing productivity by just 1 percent would overcompensate for the government

FIGURE H.1. CASSAVA PRODUCTION IN BURUNDI

Source: FAOSTAT 2021.

shortfall and present the opportunity for value addition. One reason for the lower yields is that cassava productivity in Burundi is constrained by Cassava brown streak virus disease and cassava mosaic disease.⁶⁴ These two diseases cause an estimated loss of \$1 billion in East and Central Africa annually (IITA 2018). Another reason for lower yields is the use of recycled, low-yield cassava plantings. Quality seed availability to farmers remains a top challenge to agricultural productivity growth in Africa, including Burundi (Lamers et al 2015; Sanginga 2015), and more so for vegetative-propagated crops, such as cassava, that have no formal system of seed delivery in these countries (Sanginga 2015). Consequently, about 83 percent of planting material is from traditional farms, 2 percent from selected multiplication farms by agricultural extension services, and 15 percent from various sources (IITA 2018).

Market Opportunities in the Cassava Value Chain

The country needs new technologies to transform this sector and increase value addition and exports to the region. In addition to cassava fresh roots and flour produced for human consumption, there are other alternative uses for cassava in its transformation into novel foods, livestock feeds, starches, ethanol, and pharmaceutical products. Among these alternatives, livestock feeds appear to be the most promising because: (a) the standards required for feed grade cassava products are not as stringent as for other products, and (b) maize is often the main constituent of animal feed, but it is not affordable (often imported) and its use as animal feed competes with human consumption. Derivatives of cassava—starch, ethanol, glucose, dextrose, maltodextrin,⁶⁵ cassava adhesive, and glucose syrup—are possible especially for the regional and international markets. The glucose, dextrose, and maltodextrin markets were estimated at \$34.47 billion in 2018 and projected to reach \$51.87 billion by 2024.

Furthermore, many governments in Sub-Saharan Africa have promoted a blending of domestically produced cassava into a number of different products, such as with wheat flours for bread production, animal feeds, and so on. Boosting cassava business given its potential for use in livestock feed would enable Burundi to cut back on animal feed imports. In comparison, in Africa, less than 10 percent of cassava production is used in livestock production, mainly in traditional breeding systems, while more than 32 percent of Latin America cassava is used for animal feeding. Furthermore, cassava roots, leaves, and peel can be used to feed sheep, goat, pigs, and poultry especially on small-scale farms, either in fresh, cut-and-dried form, or as by-products of cassava processing (IFAD 2004). In Nigeria, cassava producers are now transforming cassava peel waste into High Quality Cassava Peels as a great and cheap substitute to other animal feeds (box H.1).

Food Crop Value Chains

Cereal value chains are one of the government's top priorities for addressing the country's acute food deficits, food insecurity, and malnutrition while creating good jobs for farmers. Major cereals produced in Burundi include maize, paddy rice, sorghum, and wheat, with the production of the latter marginal. Cereal grains, paddy rice, wheat, and processed rice are among the sectors with the highest employment impacts, yet more than 94 percent remains informal. Cereal production represents a small share of national production, and since the quantity is insufficient to meet local demand, the Burundian diet relies on starches that are less nutritious compared to cereals.

Cereals are produced for household food consumption and as inputs for industrial production in the food, beverage, and beer industries. Cereal production in Burundi is below domestic demand: for the 2018 season, production increased by 8 percent but could only

BOX H.1. TRANSFORMING CASSAVA WASTE PEELS INTO CASH IN NIGERIA

In 2015, researchers at the International Livestock Research Institute and International Institute for Tropical Agriculture developed a breakthrough technique for processing wet cassava peels into a high-quality, safe, nutritious livestock feed within eight hours—transforming three tons of wet peel into one ton of dried cassava peel mash. The resulting product, High Quality Cassava Peels or HQCP, has just 10–12 percent moisture content and a six-month shelf life. The high-fiber, coarser particles can be separated out for pig and ruminant feed, while the higher-protein finer particles can be given to poultry. A series of trials by the International Livestock Research Institute and other Nigerian researchers found that HQCP could be used to replace significant quantities of maize in the diet of weaned and growing pigs without any impact on their health or weight gain. This simple innovation has had cascading benefits for Nigeria, and the International Livestock Research Institute is providing training and scaling up experimental trials of HQCP in other countries.

This innovation has led to a form of circular economy. The management of cassava peel waste had caused some air pollution. But with this new technique, the waste is transformed into cash while resolving the pollution problem. Cassava peels also have the potential to make livestock production cheaper, making protein more accessible for the country's poorest people. HQCP could be a good import substitution option for the poorest countries. Producing HQCP costs about 60–70 percent of the cost of other feeds, such as wheat bran, rice bran, and maize bran. This is important, since the price of the common staple maize has nearly doubled over the last year, a result of COVID-19 disruptions and terrorism in Nigeria's maize-producing areas in the northwest area of the country. Though they don't quite reach the nutritional quality of maize, cassava peels are a cheaper, safe, consistently available alternative.

Source: Evans 2021.

cover 3.5 months of household total consumption (according to the Food and Agriculture Organization, government, and UK Aid estimates), making the country dependent on food imports. Staples such as sorghum, rice, and maize are also used in the beer industry for import substitution. Sorghum cultivation has declined significantly across the country, though it should be promoted since it adapts better to water stress, and it can be used for porridge consumption (nutrition) and the making of beer (competitiveness). Furthermore, cereals are used in animal feeds, especially maize. But this supply of animal feed is insufficient to meet the demand, and this in turn constrains livestock production. This could help boost the entire value chain from farming to production to processing, and exports to regional markets.

Upgrading production and processing techniques in the cereal industry is needed for Burundi to achieve food security and reduce imports. Strong private sector participation in cereal farming, processing, and distribution value chains is necessary for increasing domestic production to meet both household food consumption and demand from the beverage industry and animal feeds. Upgrading irrigation and processing techniques, as well as disease and pest control, would significantly increase cereal production. Institut des Sciences Agronomiques du Burundi and the International Rice Research Institute dominate the inputs segment and R&D. Opening up this segment to more private sector participation would help improve the productivity and production of the entire value chain. In addition, providing advisory services to farmers and their organizations and increasing their financial access will be essential for a sustainable increase in productivity and production. Importantly, improving farmers' knowledge of climate change adaptation and mitigation techniques will also be key to ensure a sustainable development of the value chain.

Animal Protein Value Chains

The livestock sector presents several investment opportunities in the meat, dairy processing, and hides and skins industry. The processing and transformation segment of the livestock value chain is still in its infancy in Burundi with some market opportunities:

- *Meat value chain.* The leader in the meat value chain is a butcher shop that produces processed meat and has a nomenclature of over 80 products sold mainly in the domestic market, with some exports to neighboring countries. The company has been in operation since 1973, and its production and cold storage equipment is outdated. The company is looking for investments to modernize and expand their production capacity to meet domestic and regional market demand.
- *Dairy value chain.* Producer cooperatives are active in this value chain, where the market potential is big (domestic consumption is 6 kilograms per person per year against 26 kilograms in Rwanda), and there are investment opportunities to modernize smallholder dairy and cottage processing units. The leading company in this sector benefited from the recent structuring and coordination of the value chain and looks to expand its product line beyond milk.
- *Hides value chain.* Hides are in high demand in local and regional markets, with some opportunities for exports to luxury skins markets, such as Italy. Growing exports and diversification of products requires upgrading technology and skills.
- *Fish value chain.* There is untapped potential for increased fish production (given Lake Tanganyika), and thus its fresh consumption, which is a great source of animal protein.

RECOMMENDATIONS

In addition to the recommendations already stated in this report, the following table presents recommendations that target the support of agribusiness growth.

Recommendations	Implementation Partner	Priority	Timeframe
Improve productivity and transformation along the value chain.			
<ul style="list-style-type: none"> Incentivize private investments in the production and transformation of local agricultural products. Open up the input sectors to more private sector participants, improve access to fertilizers, improved seed and seedlings, and increase technical know-how through an appropriate offtaker model to ensure a diversified export base. 	Burundi Development Agency; Ministry of Agriculture in collaboration with The Burundi Association of Manufacturers; Chambre d'Agribusiness; Sectorial Association of Producers	High	Short/medium
<ul style="list-style-type: none"> Implement seed sector policy reforms: promulgation and implementation of a Plant Variety Protection Law, ascension to membership status of the International Union for the Protection of New Varieties of Plants, participation in the OECD Seed Schemes, and establishment of an International Seed Testing Association accredited laboratory. 	Ministry of Agriculture and National Office of Seed Certification in collaboration with Sectorial Chambre d'Agribusiness	High	Short/medium
<ul style="list-style-type: none"> Upgrade technology adoption and digital technology to improve farmers' productivity and support agribusiness transformation across the value chains. The upgrade could be done through exporters or intermediaries, capacity building for farmers and SMEs, private sector technology transfers (such as through exporter or intermediaries), and investments in value-added activities with high potential for transformation to meet domestic demand and for exports. 	Burundi Development Agency; Ministry of Agriculture in collaboration with the Burundi Association of Manufacturers; Chambre d'Agribusiness; Sectorial Association of Producers	High	Medium
<ul style="list-style-type: none"> Encourage farmers to adopt good agricultural practices and climate-smart agricultural practices, which are critical for increasing the productivity of target crops in a sustainable way without further damaging the fragile ecosystem. 	Ministry of Agriculture, Ministry of Environment; Office Burundais de Conservation de l'Environnement; Institut des Sciences Agronomiques du Burundi	High	Medium
Improve quality and international standards to promote integration with regional markets.			
<ul style="list-style-type: none"> Implement gazetted grades and standards to reduce the government's monitoring and compliance costs and enhance the penetration of regional and international markets. 	Ministry of Agriculture; BBN	Quick win	Short
<ul style="list-style-type: none"> Incentivize private sector initiatives for upgrading onfarm processing facilities for livestock and crops (especially palm oil processing, cassava, cotton waste recycling into animal feeds, and organic fertilizer production). Build producers' capacity to manage pollution and enforce implementation. 	Ministry of Agriculture; Office de l'Huile de Palme; Centre National des Technologies Agro-alimentaires in collaboration with Chambre d'Agribusiness; Palm Oil Producers Association; SAVONOR	High	Short/medium

Recommendations	Implementation Partner	Priority	Timeframe
Improve coordination, structure, and organization of value chains.			
<ul style="list-style-type: none"> Improve services provided by the associations to their members to attract more growers (tea, cotton, banana, palm oil, and cotton) and mobilize financial contributions from cooperative members to support their own activities. 	Agence Nationale des Coopératives in collaboration with Chambre d'Agribusiness; sectoral associations	High	Medium
<ul style="list-style-type: none"> Enforce contract agreements signed with off-takers to prevent side-selling and hold them accountable for their parts of the agreements. 	Chambre d'Agribusiness; sectoral associations	Quick win	Short

ENDNOTES

1. The methodologies used by the World Bank and the Statistical Institute of Burundi have not been able to be harmonized to date to be directly comparable.
2. The number increases to 450 inhabitants per square kilometer if the waters of the lake are excluded.
3. Through the provisional accounts of 2019 under the System of National Accounts (SNA) 93, this level is calculated at \$307.50 in the official statistics. This level is likely to increase with the new series of accounts under the SNA.
4. According to the UNICEF Burundi Fiscal Space Analysis (2017), the decrease in revenues from tax and non-tax sources coupled with fewer external grants led to an increase in the government's deficit and net internal financial flows.
5. The slogan in French is “donner à manger à chaque bouche et de l'argent à chaque poche.”
6. Today, the financial sector includes 12 credit institutions, 37 microfinance institutions, 15 insurance companies, 3 social security institutions, and 3 payment institutions. The banking sector detains 82.5 percent of total assets, microfinance institutions detain 11.2 percent, and insurance companies detain 6.4 percent.
7. The exchange rate moved from fixity to flexibility in the late 1980s, and the foreign exchange market was unified in the early 2000s to address the distortions created by multiple exchange rates that rose during the protracted conflict of the 1990s. The current exchange rate policy is a fallout from the foreign exchange shortage.
8. The gap between the official rate and now illegal parallel market rate has since widened: in October 2020, the rates were 1,940 and 3,080 Burundi francs to the U.S. dollar respectively, a 37 percent drop in value on the parallel market (a 59 percent overvaluation by the official rate).
9. (a) Restrictions on the terms of settlement of instant transfers received from abroad are no longer subject to settlement in local currency. Beneficiaries will be able to receive them in foreign currency or transfer them to their foreign currency accounts in commercial banks. (b) The measure prohibiting exchange bureaus adopted in February 2020 is lifted and approvals can be granted again to old and new operators on the foreign exchange market.
10. According to a 2016 study, 93 percent of surveyed companies faced difficulties in importing raw materials due to the lack of foreign exchange, and 44 percent of processing firms reported that they used under 50 percent of their capacity (World Bank 2016). For example, some flour mills had to close since they could not import wheat.
11. The Burundi Coffee Sector Diagnostic Study (Clay and Lenaghan 2018) explains that cherry prices are negotiated between farmers and producers/exporters by Intercafe, which seems to protect processors' margins by lowering farmer prices.
12. Food insecurity in Burundi is mainly due to: (a) demographic pressure on land, (b) climate change, (c) limited use of technology, (d) the deterioration of purchasing power in the face of rising food prices, and (e) social phenomena (WFP 2014).

13. The Ministry of the Environment, Agriculture and Livestock oversees the implementation of the PNIA in partnership with an Agricultural and Rural Development Sectoral Group, composed of civil society representatives, other ministries, and donors.
14. In 2018, Burundi total exports totaled \$180 million and total imports reached \$887 million.
15. Country-level programs and associations have been initiated to support women's participation under trade reforms. Examples include Burundi's Association of Women in Business, but efforts need to be ramped up. At the regional level, the EAC is implementing the Simplified Trade Regime, which carves out provisions for small cross-border traders by separating them from mainstream high-valued transaction clearances and allowing the application of simpler customs clearance requirements.
16. The industry sector employs 1 percent of total female workers and 4 percent of total male workers (World Bank 2019a). The service sector employs 3 percent of total female workers and 10 percent of total male workers.
17. Burundi law does not mandate equal pay for women (World Bank 2021d).
18. No law prohibits discrimination with regard to access to credit, which means that women are at a significant disadvantage (World Bank 2021d). Daughters in Burundi do not have equal rights to inherit assets and neither do female spouses.
19. Public debt increased to 62.2 percent of GDP in 2020 from 58.5 percent in 2019 and 33 percent in 2014 (World Bank 2021a).
20. Law number 1/23, September 24, 2009 defining tax relief stipulated in the September 10 law number 1/24 about the investment code in Burundi. The investment code is being revised and should be promulgated in 2021.
21. According to TheGlobalEconomy.com assessment, the average value for Burundi rule of law index (-2.5 weak; 2.5 strong) in 1996–2019 was -.24 points with a minimum of -1.54 points in 2004 and a maximum of -0.97 points in 2006. The latest value from 2019 is -1.43 points. For comparison, the world average in 2019 based on 193 countries is -0.04 points.
22. The Global Innovation Index ranks world economies based on innovation capabilities. Consisting of about 80 indicators, grouped into innovation inputs and outputs, the index aims to capture the multidimensional facets of innovation.
23. See Youth Labour Statistics, International Labour Organization, <https://ilostat.ilo.org/topics/youth/>.
24. The lack of up-to-date employment data for Burundi limited the sector selection process. The latest available surveys date back to 1998 and 2013. The IFC developed an approach to link the growth in value added to employment for individual countries and sectors using a SAM multiplier approach, which constructs average GDP-employment elasticities by decomposing the annual GDP growth into job creation and improvements in labor productivity for individual countries and three sectors: agriculture, manufacturing, and services, over the period 2000–16. Sectoral choice was driven by the availability of time-series on sectoral value added and employment.
25. Although investing in agriculture and addressing food security problems for vulnerable populations is critical, it will not be sufficient for ensuring sustainable growth that requires investment in productive sectors and creation of good quality jobs.

26. The known deposits are musongati, waga, and nyabikere. Musongati is the most significant laterite deposit, with a reserve of 150 metric tons at 1.62 percent of nickel content, among the 10 largest undeveloped laterite deposits worldwide.
27. Many SOEs do not comply with Decree No. 100/069 of September 7, 1998, related to the management, monitoring, and evaluation standards for state enterprises to ensure better regulation and transparency.
28. The legal system and investment code do not differentiate local and foreign investors regarding land acquisition or lease. However, land acquisition is subject to reciprocity between Burundi and the investor's home country.
29. In the mining sector, at least 10 percent of the shares must be owned by the government, and foreign investors are required to make an initial investment of \$50,000, while local investors are not subject to this rule. Foreign investment in arms, ammunition, and other military and paramilitary activities is subject to restrictions.
30. U.S. Department of State 2019 Investment Climate Statements: Burundi.
31. According to a firm survey conducted in 2015 by the Chamber of Commerce, 58.9 percent of firms in the formal sector have 1 to 5 employees, 16.2 percent have 6 to 10 employees, and 17.5 percent have 11 to 50 employees.
32. Electricity tariffs averaged \$0.31 per kilowatt-hour in 2017 according to the Economist. According to Global Petrol Prices, tariffs per household averaged \$0.099 in Tanzania, \$0.189 in Uganda, \$0.209 in Kenya, and \$0.256 in Rwanda in September 2020.
33. World Development Indicators. 2016. Electric power consumption (kilowatt-hour per capita).
34. Tracking SDG7: The Energy Progress Report 2018 estimates that nationwide access is 9 percent.
35. Over 400,000 Burundians fled the country after the 2015 political instability, but 79,720 Burundians returned since 2017, mostly from Tanzania. In addition to these returnees, Burundi hosts 85,894 refugees and asylum seekers, nearly all of whom are from Democratic Republic of Congo: 48,269 live in one of five refugee camps located in four northeastern provinces. The remaining 37,625 live outside the camps, mostly in Bujumbura. Eighty percent of the refugees are women and children.
36. The Belgian Cooperation Enabel provides financial and technical support to 13 pilot country economic memorandums and country partnership frameworks in eight provinces in partnership with the Chamber of Trades and Craftsmen under the Federal Chamber of Commerce and Industry, as well as a newly established cooperative to promote and commercialize products by the centers and the chamber. Among the targeted sectors are agriculture and livestock, construction, beauty services, aquaculture, and beekeeping. In 2016/17, 1,582 students were enrolled in these centers and 249 students completed their training. According to the 2016 report, the low graduation rate can be explained in part by (a) students' dissatisfaction with training contents and quality (lack of materials, absence of trainers, and lack of certification), and (b) the political-security context since 2015.
37. World Bank Logistics Performance Index. See <https://lpi.worldbank.org/>.
38. Progress includes the establishment of a non-tariff barrier monitoring mechanism in 2007; at the ports the streamlining of cargo clearance requirement and formalities; on the roads harmonization of vehicle load requirements and upgrading of controls;

improvement of border controls with upgrading of border crossings to one-stop border posts; upgrading of customs authorities systems with automation of clearance and single electronic windows; and implementation of authorized economic operator schemes. Progress in transit regimes include the implementation of the Single Customs Territory system, European Train Control System for tracing transit cargo, and regional Common Market for Eastern and Southern Africa transit guarantee.

39. An analysis of sovereign bond holdings by 20,000 banks in 191 countries and 20 sovereign default episodes over 1998–2012 establishes, inter alia, that banks hold many government bonds (on average 9 percent of assets) in normal times, particularly banks making fewer loans and operating in less financially developed countries (Gennaioli et al 2018). Another study found that in countries where legal and institutional imperfections make lending to the private sector very risky, banks consider holding government debt as a much safer investment resulting in banks being highly exposed to government debt and thus to macroeconomic shocks (Ozkan et al 2010).
40. The short rains in September to December account for 35 percent of production, such as maize, cassava, potatoes, sorghum, rice, bananas, and taro. The main rains in February to May cover 50 percent of production, which includes beans, taro, cassava, sweet potato, wheat, and potato. For the rest of the year, June to August, 15 percent of production is cultivated and includes gardening, green beans, sweet potato, rice, and potato (FAO 2016).
41. See “Diagnosing Drivers of Climate and Environmental Fragility in Burundi’s Colline Landscapes – Climate & Conflict Risks,” Red Cross Red Crescent Climate Centre, 510 of the Netherlands Red Cross, and University of Cape Town. Commissioned by the World Bank 2021.
42. Less important import countries, such as Belgium, Brazil, Chad, China, France, Germany, Rwanda, Singapore, and Tanzania.
43. According to CPSD consultations, the cost of certification for a maracuja juice could be as high as 10 percent of the average turnover of a local producer.
44. With the exception of a brief foreign exchange crisis in 2001, when reserves fell to 1.5 months of imports, and a period of “comfort” in 2009/10, during which they exceeded as much as 7 months.
45. The implicit tax rate is therefore at least 33 percent.
46. Part of this revenue that is not repatriated through official channels may be repatriated clandestinely and exchanged at the more advantageous parallel market rate. The authorities are aware of this risk. In January 2020, the Minister of Agriculture estimated that of the \$15.2 million received in exchange for coffee exports from the previous season, only \$5 million had been repatriated.
47. As in Argentina under the presidency of Cristina Fernández de Kirchner, 2007–15.
48. Some studies do show an increase in the real effective exchange rate between 2005–17, which may have been partly offset by the decline in the consumer price index in 2018 and 2019.
49. This priority allocation also created an opportunity for fraud in some countries.
50. Burundi imports its fuels since it does not produce any. Thus, petrol listed as a top export signals that this could be re-export figures.

51. Projects by the Japan International Cooperation Agency, African Development Bank, and the World Bank aim to address most infrastructure constraints, and once realized, key constraints would be on the operations and services side, notably the involvement of private sector operators in ferry and cargo services on the lake and coordination between the riparian countries.
52. A Tanzanian operator owned wagons along the Central Corridor. Similarly, Burundi, Democratic Republic of Congo, Rwanda, and Uganda reached an arrangement with Tanzania, under which a fleet of wagons would be dedicated exclusively to the cargo to and from the four landlocked countries. The European Union facilitated the implementation of this initiative by providing a grant to Tanzania, which enabled the Truth and Reconciliation Commission to acquire the wagons.
53. The main database is the Global Trade Analysis Project version, which provides a representative SAM table for Rest of Eastern Africa (Burundi, Comoros, Sudan) and the World Development Indicators.
54. Authors' calculations using 2013 data from International Income Distribution Database (I2D2).
55. Econet Wireless Group-owned Econet Wireless (formerly Econet Leo), Viettel Global-backed Viettel Burundi (Lumitel), and Smart Burundi, backed by the Aga Khan Fund for Economic Development and Onatel's mobile arm ONAMOB.
56. In June 2006 in Abuja, Nigeria, the African Union Special Summit of the Heads of State and Government adopted the 12-Resolution "Abuja Declaration on Fertilizer for the African Green Revolution." At the end of the summit, the Member States resolved to increase fertilizer use from 8.0 kilogram per hectare at the time to 50 kilogram per hectare by 2015.
57. FOMI is a private, locally owned company. Its raw material contains organic manure and dolomitic limestone, and 65 percent of its composition consists of locally sourced elements, while the remaining 35 percent of chemical fertilizer is imported.
58. The U.S. Department of Labor outlines this further, as well as government efforts to combat child labor through revisions to its labor code to align with international standards on child labor and launching a partnership with the International Organization for Migration. See <https://www.dol.gov/agencies/ilab/resources/reports/child-labor/burundi>.
59. The Malabo Declaration refers to accelerated growth and agricultural transformation for shared prosperity and improved livelihood. New Partnership for Africa's Development 2016. The African Union urged the government of Burundi to fast-track the implementation of Malabo, supported by appropriate policies and investments.
60. Since 1970, SAVONOR has been in the agrifood and cosmetic sector. Its main products are red palm oil and sunflower oil, edible refined oil, soap (household, cooking, cosmetic), food for livestock (cake), candles, and margarine.
61. Some farmers rent palm oil trees from landowners who have no time, interest, or ability to manage the trees, at the cost of about BIF 15,000 annually per tree in 2019.
62. No recent information was made available to assess SOSUMO's financial performance and efficiency over its 40 years of existence. The most recent available performance assessment of the SOE was conducted in 2014 and found that the company was profitable, and the company investment management was satisfactory.

63. In Burundi, there are three main varieties of bananas and each of them have different varieties: varieties for dessert, varieties for beer/wine, and varieties for cooking (plantain). The beer varieties account for 60 percent of total production, plantain banana for 30 percent, and dessert banana for 10 percent.
64. The International Atomic Energy Agency, in partnership with the Food and Agricultural Organization, supports Burundian scientists in using nuclear technology to develop high-yielding varieties of cassava resistant to these diseases.
65. Maltodextrins are products of starch, which are commonly used as spray-drying aids for flavors and seasonings, carriers for synthetic sweeteners, texture providers, fat replacers, film formers, and bulking agents in the food industry. Glucose syrup is a food ingredient obtained from the hydrolysis of starch and used in ice cream, yogurt, and processed foods.

IFC

2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433 U.S.A.

CONTACTS

Natalia Agapitova

nagapitova@worldbank.org

Sarah Lenoble

slenoble@worldbank.org

Nadege D. Yameogo

nyameogo@worldbank.org

ifc.org



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