



COUNTRY PRIVATE SECTOR DIAGNOSTIC

# CREATING MARKETS IN BURUNDI

Leveraging Private Investment for Inclusive Growth

Executive Summary

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# EXECUTIVE SUMMARY

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## 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.<sup>1</sup> 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.<sup>2</sup> 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, 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.

## NOTES

- 1 World Bank. 2021. Breaking out of Fragility: Towards Inclusive and Sustainable Growth. Burundi Country Economic Memorandum. Washington, DC: World Bank Group.
- 2 ECVMB (Énquête sur les Conditions de Vie des Ménages du Burundi). 2013–14. Survey of Household Living Conditions in Burundi.



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