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Burundi: Selected Issues

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BURUNDI

Selected Issues

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Approved by the African Department

June 24, 2008

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A. Introduction

1. **Burundi has been struggling for decades with political tensions while making efforts to reform and rebuild a very young democracy**. The country has known recurrent episodes of civil conflicts since its independence in 1962. Repeated ethnic conflicts have exacted a heavy toll on the economic and social fabric. Box 1 summarizes progress since 2000.

2. **Satisfactory implementation of the government postconflict program in 2002 and 2003, supported by IMF postconflict emergency assistance, laid the foundation for more comprehensive engagement**. As in other postconflict countries, early involvement of the IMF in Burundi helped catalyze support for reforms and foster the willingness of the international community to buttress the reconstruction and peace process.[2]

3. **In December 2003 the Burundian authorities requested a PRGF arrangement in an amount of SDR 69.3 million (90 percent of quota)**. The arrangement supported the authorities' economic and financial program for 2004–07 and helped Burundi to implement its interim poverty reduction strategy paper.

4. **This Selected Issues Paper draws some useful lessons from the past PRGF arrangement**. Substantial progress was made especially on stabilization of the economy and reforming monetary and fiscal policies. However, in other areas, notably delays in structural reform, the objectives of the program were not totally achieved. After comparing the objectives of the PRGF (Section B) with the outcomes (Section C), lessons for program design and implementation are drawn (Section D). The last section summarizes the main conclusions.

[1] Prepared by Alvaro Manoel.

[2] See, for example, the experience of the Democratic Republic of the Congo (Clément, 2004).

Box 1. Burundi: Civil Conflict and Political Developments After 2000

Decades of strife ended, with support from the international community, with the 2000 Arusha peace agreement.

Burundi has known recurrent episodes of civil conflict since its independence in 1962. The most severe conflict erupted when the first democratically elected President was assassinated in 1993. In the decade that followed, some 1.2 million people were displaced as refugees and 250,000 were killed. In August 2000, however, most of Burundi's political parties reached a comprehensive Peace and Reconciliation Agreement in Arusha (Tanzania) and, after further negotiations, in November 2001 formed a three-year transitional government, though sporadic hostilities continued, because several groups refused to join the Arusha consensus, especially the CNDD-FDD and Palipehutu-FNL. However, with the assistance of AU and UN peacekeepers and a World Bank demobilization project, the army and former armed rebels were integrated into a new army and national police, which have been a major success.

The cease-fire agreement and return to peace led to a new constitution and democratic elections.

Another milestone in Burundi's peace process was reached in late 2002 with the signing of a cease-fire agreement with three more rebel groups. Implementation of the cease-fire moved forward decisively in 2003 with the gradual deployment of peacekeeping troops and the signing of a power-sharing agreement in Pretoria in October. In April 2003 Mr. Mdayizeye became president of Burundi. In October 2003, a further breakthrough occurred with an agreement with the largest rebel group, the CNDD-FDD, which joined the government. Although Palipehutu-FNL kept fighting, the entry of the CNDD-FDD into government meant that by early 2004 relative peace had returned to most of Burundi. A referendum approved a new constitution, which was signed into law in March 2005. The CNDD-FDD won a resounding victory in the long-awaited elections in July 2005. Mr. Nkurunziza was sworn in as president on August 2005.

Political difficulties arose in the first year of President Nkurunziza's government.

In early 2006 the government accused opposition politicians of a plot to depose the president. Political tensions rose in the summer of 2006 with the arrest of the former president, Mr. Ndayizeye, and other leading figures. After a trial they were eventually acquitted by the High Court. Relations between Mr. Nkurunziza and the CNDD-FDD party president, Mr. Radjabu, deteriorated as the apparent plot evolved. Mr. Radjabu, who was considered the main government figure to concoct the alleged plot, was arrested on allegations of plotting himself against the state. The result was paralysis in the National Assembly in mid-2006. The cabinet was reshuffled in September 2006 and again in February 2007.

The most recent crises were an attempt at a new coalition government in 2007 and rebel attacks in early 2008.

The security situation deteriorated somewhat after the FNL, the last rebel group, abandoned peace negotiations in July 2007. To restore the National Assembly to normal functioning, the president secured a power-sharing agreement with Uprona and Frodebu in September, leading to a new coalition government in November 2007. On April 17 and 22, 2008, the rebels attacked the capital, causing several casualties. However, hostilities ended when a cease-fire agreement was signed on May 26 between the government and the FNL.

B. Objectives of the First PRGF

5. **After the Arusha Peace Agreement in 2000 Burundi faced a wide range of challenges to generate sustained and equitable economic growth, improve social conditions, and achieve some measure of external stability and viability.** The most pressing challenges were to

- Restore normal peaceful conditions and establish a stable political regime.
- Implement wide-ranging programs to repatriate and resettle refugees, rebuild and construct infrastructure, and improve access to health and education services.
- Identify impediments to accelerating economic growth—improve efficiency in traditional export sectors (coffee and tea), facilitate resumption of regional trade, and remove bottlenecks to new exports (e.g., fruits, vegetables, and cut flowers).
- Strengthen monetary and exchange rate management—ensure a stable financial system and low inflation and enhance external competitiveness through structural reforms.
- Address the heavy external debt burden and implement fiscal policies and structural reforms to move toward a sustainable debt path.
- Adapt fiscal and trade policies to the reforms underway in the Common Market for Eastern and Southern Africa (COMESA).

6. **Against this background the 2004 PRGF-supported program set forth the following objectives**:

- Normalization of relations with external creditors.
- Finalization of I-PRSP, with a focus on its macroeconomic components.
- Macroeconomic stabilization and further reduction in the parallel market exchange rate differential.
- Resolution of the financial situation and prospects for the coffee sector.
- Identification of sources to cover the external financing needed for 2004–06.

7. **On structural reforms, the first PRGF arrangement addressed national reconciliation and reconstruction**. It included poverty reduction policies for sustained improvement in the employment situation and policies conducive to private sector development. As defined in the outset of the PRGF arrangement, there were some

objectives that fell into the core area of the Fund, for example, macroeconomic stabilization, monetary and exchange rate reforms. On the other hand, there were important areas on which objectives were shared with other development partners or were entirely out of Fund expertise, such as accelerating growth and reforms in the coffee sector.

8. **One enormous challenge has been moving the country toward a sustainable debt path.** The present value of Burundi's external debt was estimated at about 1,500 percent of exports at the end of 2002, among the highest for HIPC countries. In view of the weighty external burden, the authorities intended to seek debt relief under the Enhanced HIPC Initiative.

C. Degree to Which Objectives Were Achieved

9. **In the first PRGF-supported program Burundi moved forward on the long road to macroeconomic stability and rebuilding the economy**. It began to stabilize the economy, liberalized the trade and exchange regimes, reformed monetary policy, and took steps to reinforce public financial management (PFM).

10. **Some achievements have been elusive, however, especially the deep-rooted structural reforms needed to relaunch economic growth.** In particular, privatization of extensive state holdings has been held up, primarily by political tensions and governance issues, delayed provision of technical assistance, and poor administrative capacity. The economy is further handicapped by deteriorated infrastructure—the legacy of more than a decade of low investment, poor integration with the rest of the world, and an underdeveloped financial system.

11. **Governance issues complicated government efforts to implement the program, but forceful corrective measures allowed Burundi to complete the PRGF arrangement**. In 2006 mid-year political tensions paralyzed the government and the National Assembly. Governance slippages in 2006 (related to sale of the presidential jet) and in 2007 (illegal payments from the budget of 1.6 percent of GDP to the largest oil company, INTERPETROL) raised donor concerns. The World Bank's approval of an Economic Reform Support Grant (ERSG) in 2006 and IMF completion of the fifth and sixth PRGF reviews were delayed because corrective measures had to be taken. As a result, budget support from bilateral donors was delayed, complicating budget execution. At the same time, frequent reshuffling of the administration, which were necessary to secure a coalition government, further undermined the government's capacity to implement its policies.

12. **However, adoption of market instruments for monetary and exchange rate policy and prompt action to restrain budgetary expenditure using a more reliable budget execution system helped Burundi to achieve reasonable economic stability (Table I.1)**. There was thus an interesting interaction between some structural reforms and the implementation of economic policies. Performance of the main variables—growth,

inflation, international reserves, external debt, and fiscal position—are analyzed next. Table I.2 summarizes the main objectives of structural reforms and outcomes through 2007.

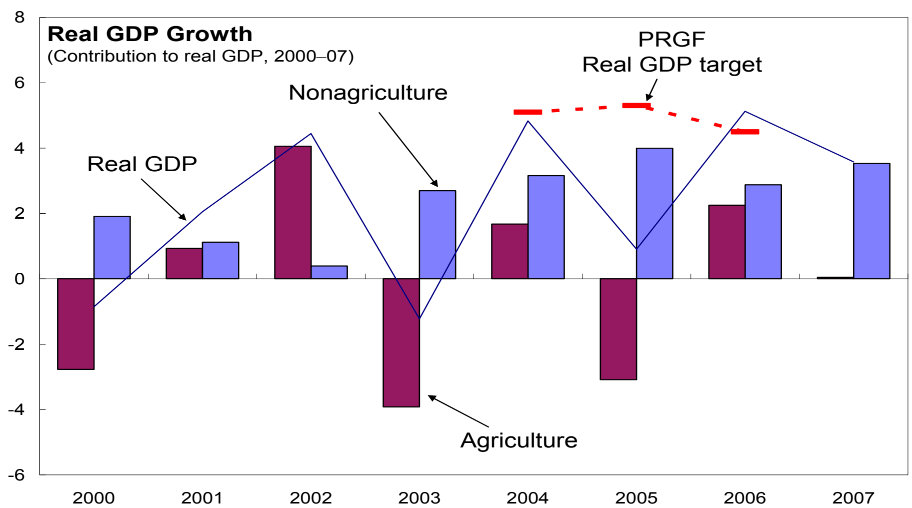
Macroeconomic performance

Growth

13. **GDP growth was high during the program, except in 2005 when drought and floods reduced growth to about 1 percent of GDP (Table 1.1)**. With the return to normal conditions at the end of conflict-related disruptions to economic activity, and based on an expected rebound in food crops, GDP was projected to increase to about 5 percent a year at the end of the program; it did achieve an average of 3.6 percent. In 2004, for example, real growth rebounded after a bumper coffee harvest even though other areas of agriculture suffered from severe drought and crop disease in the north, the granary of the country.

14. **Performance in industry and services sectors improved substantially and became a force driving growth (Figure 1.1)**. These sectors, which have benefited from donor transfers and foreign capital investment, indicate that GDP growth is gradually broadening its base. Since performance in these sectors is more stable, it will likely reduce GDP growth volatility in the medium-term.

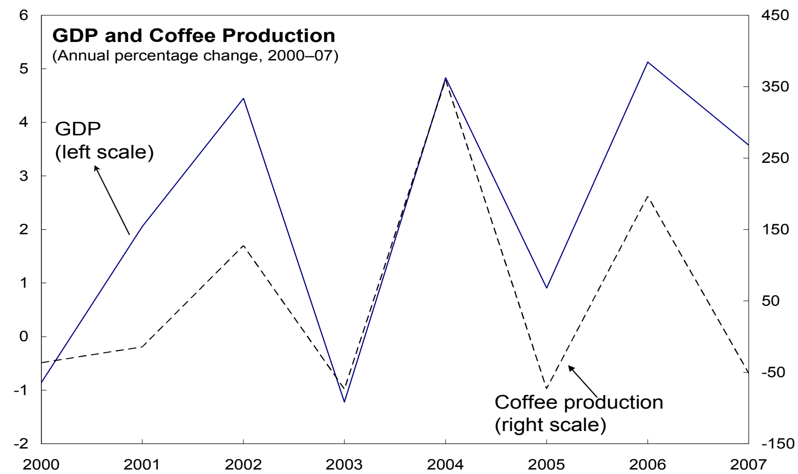
Figure I.1. Volatility in Agriculture and Improvement Elsewhere Since 2003



Source: Burundi authorities, and IMF staff estimates.

15. **Agriculture was the main reason for the high volatility of GDP growth in Burundi**. The cyclical performance of coffee production explains most of the volatility (Figure I. 2). Drought and floods are common. Deficient infrastructure and limited investment in irrigation and protection against floods, especially in the coffee sector, have left agricultural productivity at the mercy of the weather. Coffee reform, especially privatization of state holdings, would attract more private investment in production, trade, and marketing. Despite recurrent structural conditionality in the PRGF arrangement, little progress was made in this area because of the resistance of vested interests.

Figure I.2. Coffee and the Volatility of GDP Growth



Source: Burundi authorities, and IMF staff estimates.

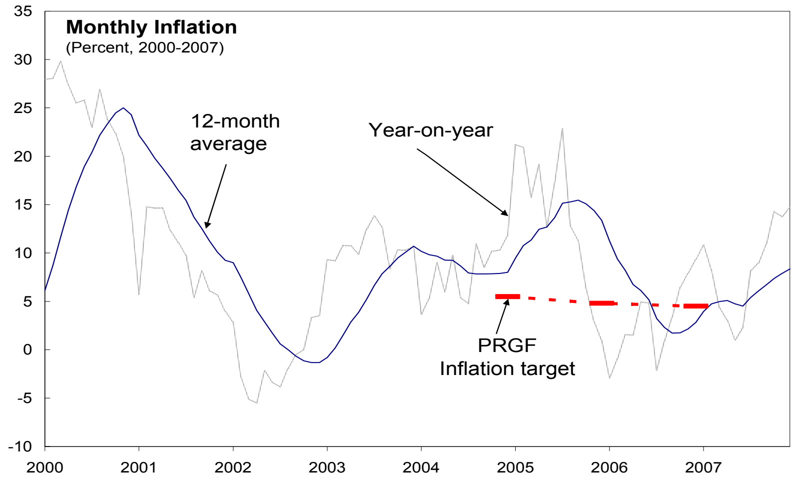
16. **One of the structural objectives of the PRGF—reducing the bottlenecks to growth in rural areas—has not been achieved**. What was obvious when the program began was that it was imperative to remove impediments to accelerating economic growth by improving efficiency in traditional export sectors (coffee and tea), facilitating resumption of regional trade, and making it easier to promote new exports (e.g., fruits, vegetables, and cut flowers). A recent World Bank study on sources of growth in Burundi[3] again highlighted areas with potential for quickly ramping up agricultural production. It stressed reinforcement of export crop contributions to growth by thoughtful privatization of the coffee and tea sub-sectors as one means of making agriculture more competitive.

Inflation

17. **Inflation generally abated during the PRGF arrangement (Figure I.3).** It has continued to be highly volatile; however, the program objective of slowing it to 4–5 percent was not achieved, mainly due to supply-side factors. Because monetary policy during the program was prudent (most of the monetary performance criteria and indicative targets were met), food and imported goods, such as oil, explain major spikes in domestic prices.

[3] World Bank (2007).

Figure I.3: Less Inflation but Still Volatile



Source: Burundi authorities, and IMF staff estimates.

Reserves and the external account

18. **Burundi external accounts performance illustrates that in a postconflict situation, an externally financed large expansion in the fiscal and current account deficits might be desirable**.[4] The external current account, including official transfers, has deteriorated somewhat in response to a major increase in imports for foreign-financed projects (Figure I.4). This mainly reflects more aggregate investment in national reconstruction. Exports, which are almost entirely dependent on coffee production and prices, have usually been lower than imports. Terms of trade losses, especially fuel prices, also put some pressure on current account deficit.

19. **Initial targets for external account were optimistic and did not take into consideration the fact that expenditures and imports would grow substantially in face of the reconstruction needs**. As a result, official reserves in months of imports of the following year have been held within the 2.5–3.9 range (much lower than program objectives); the variability is explained by lumpy external budget support. The impact of these developments on the exchange rate has been inconsequential in terms of competitiveness: the real exchange rate (RER) in Burundi has been relatively stable since the end of 2002. The nominal exchange rate has been in line with price developments, resulting in a generally stable RER. [5]

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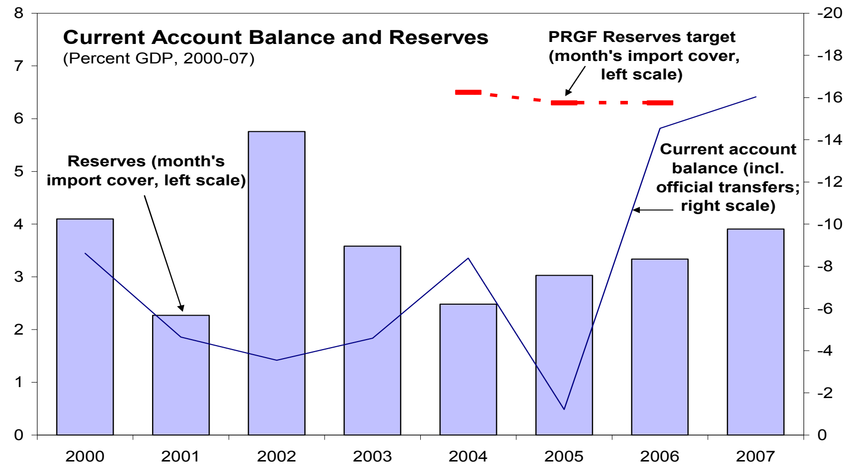
[4] This result is akin to scenario of scaling up of aid and the "spend-and-absorb" approach. See, for example, Berg and others (2007) and Gupta and others (2006).

[5] See chapter II in this Selected Issues Paper.

Figure I.4. A Wider Current Account but Steady Official Reserves

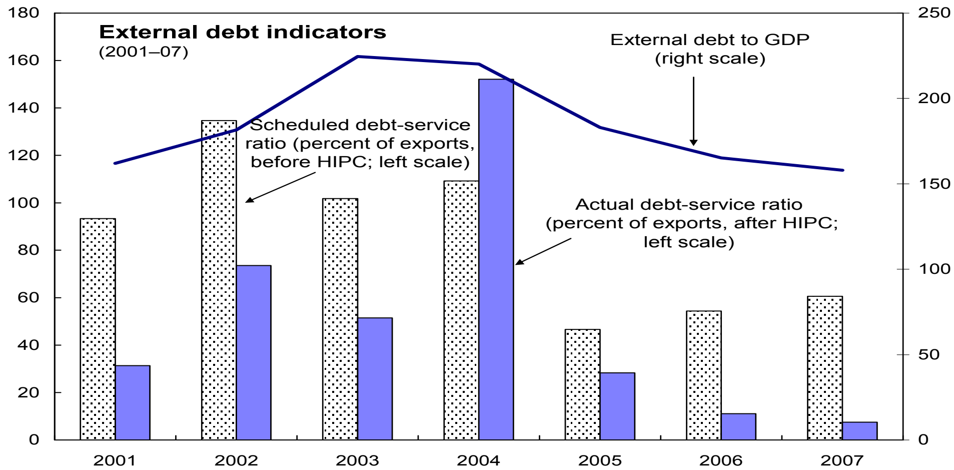


Source: Burundi authorities, and IMF staff estimates.

External debt

20. **HIPC debt relief has helped to improve external debt profile but Burundi is in debt distress (Figure I.5 and Text Table 1)**. Main indicators of external debt improved substantially after reaching the enhanced HIPC Initiative decision point in August 2005. However, a debt sustainability analysis prepared at the end of 2007 demonstrated that Burundi will be highly vulnerable to debt distress even after full delivery of HIPC and MDRI relief; key debt ratios are well above country-specific thresholds. At the HIPC completion point, the NPV of debt would fall below the threshold of 100 percent of exports. However, Burundi would still be vulnerable to exogenous shocks, particularly those that deter growth. This argues in favor of a fiscal stance financed primarily by external grants and highly concessional terms.

Figure I.5: External Debt Indicators Improved After Debt Relief



Source: Burundi authorities, and IMF staff estimates.

Text Table 1: External Debt Indicators Have Improved but Burundi is Still in Debt Distress

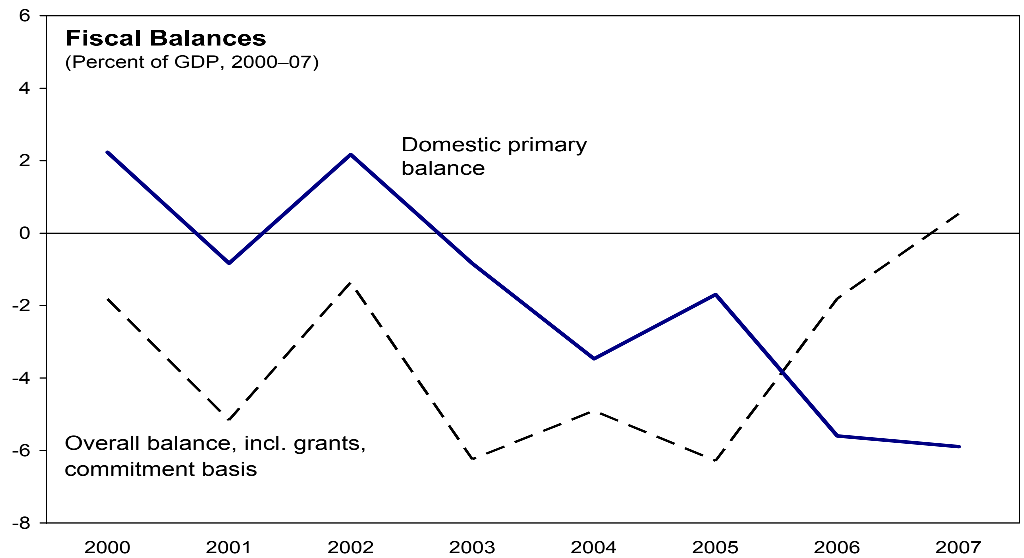
	2001	2002	2003	2004	2005	2006	2007
External debt to GDP	162.0	181.6	224.6	220.1	183.0	165.1	157.9
NPV of external debt to exports				1,772.3	1,332.2	840.8	997.5
NPV of external debt to revenues				666.3	594.7	461.9	468.0
Debt-service ratio (scheduled; percent of exports, before HIPC)	93.4	134.7	101.8	109.2	46.7	54.4	60.6
Debt-service ratio (actual; percent of exports, after HIPC)	31.4	73.6	51.5	152.1	28.4	11.1	7.5
Flow debt relief under HIPC (US$ millions)				0.0	39.0	39.6	57.1
External debt (US$ millions)	1,073.0	1,140.8	1,336.4	1,462.8	1,465.2	1,516.1	1,537.5

Sources: Burundi authorities, and IMF staff estimates

Fiscal position

21. **The fiscal position was dominated by the role of crescent external aid and rising primary expenditures that caused the primary balance to deteriorate somewhat (Figure I.5).** The overall balance (on a commitment basis including grants) improved especially in 2007 with receipt of more external grants than expected. But the initial program objective of fiscal consolidation has been elusive.

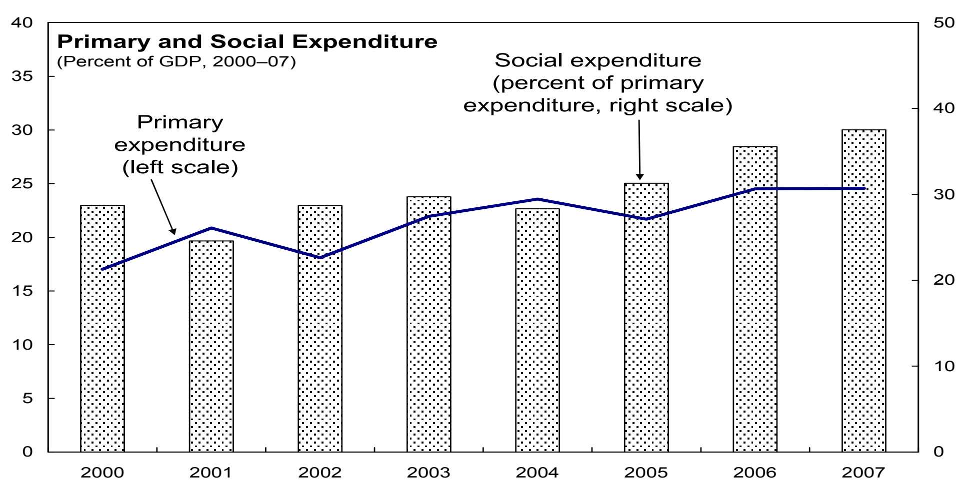
Figure I.6. External Aid Buoyed the Overall Balance but the Domestic Primary Balance Suffered from Expenditure Pressures



Source: Burundi authorities, and IMF staff estimates.

22. **High expectations for a peace dividend and difficulties with demobilizing the army and police explain the steady increase in primary expenditures for 2003–07 (Figure I.7).** However, the wage bill has been rising, while security spending remained reflecting the unsettled security situation.

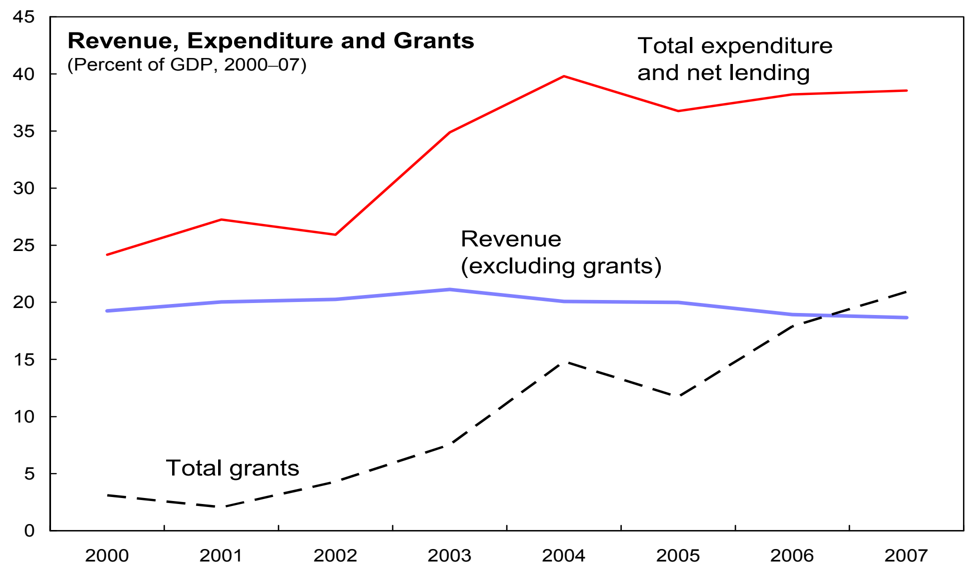
Figure I.7. Increased Social Spending Should Help Reduce Poverty



Source: Burundi authorities, and IMF staff estimates.

23. **Revenue performance has been kept in the range of 19–20 percent of GDP—a reasonable level for poor countries like Burundi (Figure I.8)**. It is already very high compared with other sub-Saharan countries at the same stage of development. The narrowness of the tax base in Burundi increases the burden on a few taxpayers and sectors.

Figure I.8. With Revenue Stable, Higher Grants Must Finance Rising Expenditures



Source: Burundi authorities, and IMF staff estimates.

24. **Budget arrears were a major fiscal issue**. Shortcoming in budget preparation and execution associated with civil conflict led arrears to accumulate to about 3 percent of GDP in 2006. The government inventoried the arrears in 2005 and an independent firm did so in early 2006. A variety of creditors were identified: private banks, companies, suppliers, public enterprises, and autonomous entities. A strategy for clearance was put in place that was transparent (publicly announced and budgeted) and consistent with fiscal policy.

Structural Reforms

25. **Despite recurrent structural conditionality, progress on structural reforms has been unexpectedly slow, hindering growth and development.** PRGF structural conditionality was designed to (1) further liberalize the exchange and trade system; (2) initiate fundamental reform in the coffee sector; (3) introduce more efficient monetary policy instruments; (4) establish an audit court for public finances; and (5) strengthen expenditure monitoring and control.

26. **Except for privatization and reform in the coffee sector, there has been substantial progress on all other structural reforms.** Table I.2 details objectives and challenges of the first PRGF and the outcomes of structural reforms. Benchmarks during the program focused on governance issues and domestic arrears. Structural reform lost momentum in 2006 due to political tensions and governance issues. Achievements on structural reforms include:

- Liberalization of the trade and exchange system.
- Improvement in the budget and fiscal reporting systems with better budget control.
- Introduction of modern instruments for monetary policy, such as a rediscount facility, liquidity auctions, and tradable treasury securities.
- Reinforcement of central bank functions, especially banking supervision.

27. **The first full PRSP was published in September 2006**. It presents a medium-term development vision for Burundi and sets poverty reduction targets. The PRSP is built on the following principles: (1) refocusing the role of the state to promote private sector development; (2) maintaining peace and security; (3) capacity building; (4) resuming economic growth; (5) reactivating community involvement and affirming the central role of women; and (6) promoting a new partnership with donors. The sectoral programs and macroeconomic framework are oriented around four strategic axes: improvement of governance and security, promotion of sustainable and equitable economic growth; development of human capital; and combating HIV/AIDS.

D. Lessons Learned

Program Design

28. **Early involvement of the IMF in Burundi was crucial to catalyzing support for reforms and attracting the goodwill of the international community to help buttress reconstruction and the peace process**. The macroeconomic stabilization objective, combined with a comprehensive reform of key sectors, was vital to guide economic policies and fine-tune the program as needed.

29. **Countries such as Burundi faces two big challenges in the immediate aftermath of a civil conflict: rebuild macroeconomic institutions to stabilize the economy and implement structural reform to rebuild the economy and jump-start growth.** In the former, the program was successful because it: (1) helped normalizing relations with external creditors and retting Burundi to the HIPC decision point; (2) unlocked donor support; (3) restored basic functioning of the financial sector (central bank and exchange rate policy reform); (4) helped clear up domestic arrears; and (5) reduced inflation. The track record for the longer-term structural reforms, however, appears less impressive. This outcome indicates that priority is always given to the most immediate tasks which are also easier and faster to be implemented. More deep-rooted reforms are much more difficult and in similar programs would need more sequencing and prioritization of activities. In the case of Burundi, the inadequacy of the country’s institutional capacity and the resistance of special-interest groups (in particular in the coffee sector) explain the delay in implementing reforms. Long-term reforms also suffered from delays in the provision of technical assistance and the disbursement of external support.

Furthermore, provision of technical assistance from donors and external aid disbursement were intertwined with performance of the program, which, in some cases, was off track due to governance slippages.

30. **Contingent expenditure was an important lesson during the program and helpful when fiscal policy had to cope with uncertainty about revenues.** Given the unpredictability of external financing, the 2007 and 2008 budgets called for prioritization of expenditure and for making nonpriority expenditures contingent on receipt of external aid and other sources of revenue. This specification in the program made it easier to keep budget implementation in line with program objectives.

31. **Structural conditionality was streamlined when targets and conditions for each review were originally set**. However, when frequent delays in completing reviews owing to governance issues and political tensions derailed the program, the conditionality had to be renegotiated and additional measures agreed on to remedy the situation and bring the program back on track. Therefore, in some reviews the conditionality had to be stretched.

Implementation

32. **Delays in donor disbursements hampered macroeconomic policy implementation in 2006 and 2007, but flexibility made it possible to complete the PRGF arrangement.** The program targets were adjusted to delays in budget support disbursement, and monetary policy was crucial in keeping the economy stable despite the delays. Revision of program targets during the semiannual reviews—which were tailored to precise circumstances and events—also demonstrated flexibility in implementing the original program. Although flexibility in implementing the program was very helpful for the completion of the PRGF arrangement, there is always a trade-off between being flexible to keep the program on track—thereby keeping donor support going—and the quality of the program. For example, drawbacks may appear, such as some spells of double-digit inflation.

33. **Technical assistance should take into account the extensive need for capacity building in Burundi and effective transfer of knowledge to Burundi's institutions.**[6] Although the authorities have been receptive to the considerable amount of technical assistance they have received in various areas, they have been slow to implement recommendations, and institutional capacity is still limited. Sequencing of TA remains critical.

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[6] The Fund has provided extensive technical assistance to Burundi on monetary policy, public finance, statistics, and legal issues.

E. Conclusions

34. **The success of the first PRGF arrangement in Burundi (2003-07) points up several lessons:**

1. Early involvement of the Fund helped to stabilize the economy and encourage donor support.

2. Reforms in monetary and fiscal areas are critical to generate policy instruments for macroeconomic control (e.g., modern and market-based monetary instruments and better control of budget execution).

3. Program flexibility with adjustors and frequent fine-tuning of plans help the program to adapt to problems like governance slippages and supply shocks; bringing the program back-on-track helped to unlock donor support; this was fundamental to maintain and increase the level of expenditures in priority sectors.

4. Structural reforms in the real sector, especially coffee, are fundamental to growth (the limited progress in this area explains the poor GDP performance).

5. Burundi has demonstrated capacity to implement structural reforms, as is clearly shown by liberalization of exchange regime and trade, modernization of central bank activities, and better management of public finances.

Table I.1. Burundi: Selected Economic and Financial Indicators, 2000–07

	2000	2001	2002	2003	*2000-03 Average*	2004	2005	2006	2007	*2004-07 Average*
	(Annual percentage change, unless otherwise indicated)									
National income and prices										
Real GDP growth	-0.9	2.1	4.4	-1.2	*1.1*	4.8	0.9	5.1	3.6	*3.6*
GDP deflator	13.2	5.5	1.8	11.6	*8.0*	8.3	16.6	4.4	8.2	*9.4*
Consumer prices (period average)	24.3	9.3	-1.3	10.7	*10.7*	8.0	13.4	2.8	8.3	*8.1*
Consumer prices (end of period)	14.1	3.9	3.5	10.7	*8.1*	11.8	1.0	9.3	14.7	*7.2*
External sector										
Exports, f.o.b. (US$)	-11.1	-21.2	-19.5	21.0	*-7.7*	27.5	19.5	2.6	-14.3	*17.8*
Imports, f.o.b. (US$)	10.8	0.5	-1.1	19.7	*7.5*	16.1	27.6	28.7	20.6	*20.2*
Export volume	4.7	3.9	-19.1	28.8	*4.6*	-10.9	-1.7	-7.6	-5.5	*7.9*
Import volume	1.7	4.3	0.2	25.7	*8.0*	3.9	16.4	10.3	6.0	*13.1*
Terms of trade (deterioration = –)	-22.0	-21.3	0.9	-1.4	*-10.9*	28.1	10.9	-4.9	-20.3	*3.4*
Real effective exchange rate (end of period; depreciation = –)	-5.2	-4.0	-24.1	-6.6	*-10.0*	-0.9	17.1	-2.7	-10.6	*0.4*
	(Change in percent of beginning of period M2, unless otherwise indicated)									
Money and credit										
Net foreign assets	1.3	-17.0	7.1	19.0	*2.6*	-4.1	15.9	1.7	11.5	*4.2*
Domestic credit	15.4	36.2	23.7	12.4	*21.9*	39.5	-0.4	29.6	6.6	*13.8*
Government	-18.9	24.5	-10.2	9.6	*1.3*	34.8	7.2	14.4	-0.2	*3.8*
Private sector	36.5	10.4	33.6	3.8	*21.1*	4.7	-6.7	13.7	7.6	*10.1*
Money and quasi money (M2)	3.9	16.2	27.0	23.3	*17.6*	16.7	27.1	16.4	10.1	*15.8*
Income velocity (= Ratio of GDP to M2; end of period)	5.4	5.0	4.2	3.7	*4.5*	3.6	3.3	3.2	3.2	*3.3*
Reserve money (12–month growth rate)	-2.6	11.1	23.2	10.9	*10.6*	37.2	32.7	5.9	17.4	*13.2*
Central bank refinancing rate (percent; end of period)	14.0	14.0	15.5	14.5	*14.5*	14.5	12.0	13.0	14.0	*13.6*
Commercial bank lending rate (percent; medium term; period average)	15.8	16.8	20.6	20.7	*18.5*	19.5	19.2	18.4	19.2	*19.1*
	(Percent of GDP, unless otherwise indicated)									
General government										
Revenue (excluding grants)	19.2	20.0	20.3	21.1	*20.2*	20.1	20.0	18.9	18.7	*19.4*
Total expenditure and net lending	24.2	27.2	25.9	34.9	*28.1*	39.8	36.8	38.2	38.5	*38.3*
Primary budget balance (excluding foreign-financed projects)	2.2	-0.8	2.2	-0.8	*0.7*	-3.5	-1.7	-5.6	-5.9	*-4.2*
Overall balance (commitment basis)										
Excluding grants	-4.9	-7.2	-5.7	-13.8	*-7.9*	-19.7	-16.8	-19.3	-19.9	*-18.9*
Including grants	-1.8	-5.2	-1.4	-6.2	*-3.6*	-4.9	-6.3	-1.8	0.5	*-3.1*
	(US$ millions, unless otherwise indicated)									
External sector										
Current account, including grants	-61.1	-30.8	-40.7	-27.3	*-40.0*	-55.7	-9.7	-133.5	-156.1	*-115.9*
Overall balance of payments	-29.0	-41.3	-27.1	-17.1	*-28.6*	11.0	25.2	13.4	45.4	*2.8*
Gross official reserves (end of period)	0.0	23.8	60.1	68.9	*38.2*	67.2	112.7	131.0	177.3	*122.0*
Gross official reserves (months of imports of the following year)	4.1	2.3	5.8	3.6	*3.9*	2.5	3.0	3.3	3.9	*3.2*
Debt-service ratio (scheduled; percent of exports; before HIPC and MDRI relief) [2]	82.1	93.4	121.7	101.8	*99.8*	109.2	46.7	54.4	60.6	*67.7*
Stock of debt	1,100	1,073	1,141	1,336.4	*1162.5*	1,462.8	1,465.2	1,516.1	1,498.5	*1485.7*
Memorandum item:										
GDP at current market prices (Fbu billions)	511.0	550.0	584.6	644		732	861	945	1,059	

Sources: Burundi authorities; and IMF staff estimates and projections.

Table I.2. Burundi: Structural Measures and Reforms During the 2004-2007 PRGF Arrangement

Objectives and Status Quo in 2003	Reforms Completed or Nearly So
Political and security areas • Restore normal peaceful conditions—complete transition period, and establish a stable political regime. • Implement wide-ranging programs to assist in repatriation and resettlement of refugees	An ethnically balanced army and national police were created. By mid-2004, hostilities in most of the country had ceased, and demobilization, disarmament, and reintegration (DDR) operations supported by the World Bank began in December 2004. A ceasefire agreement with the remaining rebel group, the FNL-Palipehutu, was reached in May 2005. The political transition process has advanced significantly. Following the successful referendum of the new constitution in February 2005, local elections were held in June, parliamentary elections in early July, and a new president chosen by Parliament in August.
Fiscal policy and public financial management	Budget control and audit were revamped: The audit court (*Cours de Comptes*) begun operations in late 2004. First audit of government accounts was published in 2005. The government also set up an Inspectorate General of State Department and an internal inspection and control unit in the Ministry of Finance. Budget and fiscal reporting systems improved substantially. A system of economic, functional, and administrative classifications was introduced. The regulatory framework for public finances has been strengthened through the enactment of procurement and customs codes. In 2006 coordination with donors on PFM reforms and budget support was reinforced. The partnership between the donors providing budgetary aid and the Ministry of Finance was reactivated in October 2006. An independent audit of the use of HIPC Funds for 2005-07 was completed in early 2008. A new customs code was promulgated in 2007, and computerization of customs operations has helped reduce clearance times.
Central bank and monetary policy • The BRB relied on direct individual ceilings for credit to financial institutions. Separate credit ceilings were extended in the coffee, tea, and rice sectors, backed by a state guarantee. • Interest rates were rarely adjusted and reserve requirements were not strictly enforced. • There was no instrument for active liquidity management.	Reserve requirements were lowered, tightened, and enforced in mid-2004. A marginal refinancing window at a penalty rate was introduced in mid-2004, and a new rediscount facility introduced in early 2005. Credit ceilings were abolished with the introduction of liquidity auctions in April 2005. The first external audit of BRB's operations was completed in June 2005. The first auction of new standardized and tradable treasury securities was launched in December 2006. The Council of Ministers approved an anti-money-laundering law in February 2007 and has submitted to Parliament consideration. In 2007 BRB's charter was amended to grant de jure independence in and make BRB more accountable. The new charter has been submitted to Parliament. Banking supervision has been improved. Minimum capital requirements were raised from Fbu 1 billion to Fbu 2.5 billion as of January 1, 2008.

(continued)

Table I.2. Burundi: Structural Measures and Reforms During the 2004-2007 PRGF Arrangement (Concluded)

Objectives and Status Quo in 2003	Reforms Completed or Nearly So
Exchange rate • The exchange regime was highly controlled. • There was a 70 percent surrender requirement for export receipts. • A differential of 20 percent persisted between official and parallel market exchange rates.	Foreign exchange bureaus were licensed in spring 2004, and the surrender requirement for export receipts was eliminated in early 2005. There has been commendable progress in liberalizing the exchange regime, especially for current international transactions. The differential between the official and parallel market exchange rate has narrowed to about 3 percent since 2005. The new unified foreign exchange regulation, published by the BRB in December 2006, codified previous reforms and further liberalized the foreign exchange regime, allowing the unrestricted convertibility of the currency for current transactions.
Private sector and privatization • Improve efficiency in traditional export sectors (coffee and tea), facilitate resumption of regional trade, and remove bottlenecks to new exports (e.g., fruits, vegetables, and cut flowers). Sell off coffee washing stations. • Accelerate privatization	Investment in traditional export sectors, especially coffee, has not increased due to the dominant presence of the government in the production stage (washing stations) and trade (OCIBU). Bottlenecks remain in both traditional and new export sectors where there is potential for growth. Preparations for a strategy to sell washing stations and for a new regulation were delayed. In 2006 the government relaunched work on a privatization program but very little has been accomplished.
Statistics • There are acute shortcomings in national accounts, government finance, and balance of payments statistics. • Data provided to the Fund are not generally adequate for effective surveillance. • The last national accounts survey was prepared in 1998.	Improvements in the reliability and coverage of the consumer price index were achieved in 2007. Its coverage has been extended beyond the capital, Bujumbura, to the provinces. Annual balance of payments and international investment position statistics are being compiled according to the fifth edition of the Balance of Payments Manual (BPM5). The central bank has made progress in submitting monetary statistics using the new IMF Standardized Report Forms (SRFs). A new law that provides a legal basis for the data collection entities was promulgated in September 2007. An action plan for national statistics development was adopted. The implementing provisions of the new law incorporate a new institutional framework for the National Statistical Institute (ISTEEBU). Personnel regulations were approved in December 2007. Burundi is expected to become a GDDS participant in 2008, once the authorities finish reviewing the metadata.
Integration with the world economy • Normalize relations with external creditors. • Adapt fiscal and trade policies to the reforms taking place in the Common Market for Eastern and Southern Africa (COMESA) • Accede to the East Africa Community (EAC)	Relations with external creditors were totally restored during the first PRGF program. External support increased markedly. Burundi reached the HIPC decision point in August 2005, and interim debt relief has been granted. The last relations to be normalized are with non-Paris Club bilateral creditors. The authorities have begun discussions with them on debt relief comparable to the Paris Club agreement. Burundi became a full member of COMESA in 2002. Burundi's admission to the East Africa Community in November 2007 will help stimulate trade, growth, and competition. Adoption of the common external tariff will reduce customs revenue over three years.

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II. ASSESSING EXTERNAL COMPETITIVENESS IN BURUNDI [1]

A. Introduction

1. **Burundi is emerging from a decade of civil war that has had devastating consequences for the country's economic infrastructure and resulted in a steady decline in living standards.** The conflict and the associated political instability have also contributed to a significant deterioration in government capacity to manage and build the domestic economy. As it begins to rebuild and move forward, external stability remains a concern. The export base is mainly limited to the traditional coffee sector, where volumes are well below their average before the onset of conflict in 1993, while terms of trade losses and reconstruction-related imports have boosted the current account deficit (including official transfers) to 16 percent of GDP.

2. **This chapter reviews recent movements of the real exchange rate and assesses the extent to which disappointing export performance reflects structural factors that still weigh on competitiveness.** As is the case for most post-conflict countries, assessment of Burundi's real exchange rate (RER) is complicated by serious deficiencies in macroeconomic data and structural breaks in the time series related to the civil war (1993–2000), the international embargo (1996–1999), and significant current account and exchange market restrictions that were in place up to 2003. In the light of the constraints that this presents for a quantitative assessment of possible RER misalignment, the analysis also focuses on non-price indicators of competitiveness, such as external sector outcomes and the quality of the business environment.

3. **It appears that the RER has moved broadly in line with economic fundamentals.** Survey-based indicators of competitiveness, governance, and the business environment indicate significant weaknesses in the business climate, meanwhile, which have combined with the marked deterioration of the domestic capital stock over the past decade to impede both development of the coffee sector and diversification of exports. These structural shortcomings exacerbate the natural constraints imposed by Burundi's landlocked situation, highlighting the importance of moving forward with key reforms needed to facilitate development of the private sector and attract the investment inflows required to rebuild the country's depleted economic infrastructure.

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[1] Prepared by Matthew Gaertner.

B. The Exchange Rate Regime and Recent Exchange Rate Developments

4. **Burundi maintains a managed floating exchange rate.** The central bank is able to influence the exchange rate through weekly foreign exchange auctions that are used to manage domestic liquidity.

5. **The foreign exchange regime has been liberalized significantly in recent years, with removal of restrictions introduced during the civil war.** Those restrictions included suspension of dividend payments, an export surrender requirement of 100 percent, and tight limits on residents' access to foreign exchange. The result was the development of a parallel exchange rate market, with a rate that was as much as 50 percent higher than the official rate. These measures were steadily removed starting in 2000, such that the exchange system was effectively free of restrictions on current account transactions by the end of 2003, while regular foreign exchange auctions were instituted to give commercial banks and foreign exchange bureaus access to foreign exchange.

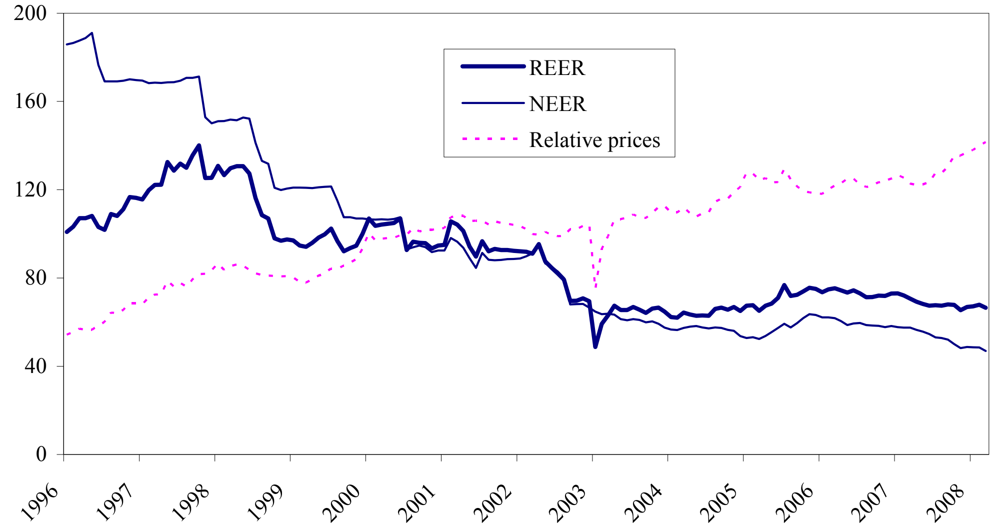
6. **Liberalization of the current account and the accompanying reforms provided the basis for a sharp reduction in the differential between the official and parallel market exchange rates.** The differential fell from 50 percent in mid-2001 to 15 percent by the end of 2002 and continued to steadily decline thereafter; the discrepancy between the two rates was virtually eliminated by mid-2005.

7. **The RER was broadly stable from 1996 through the end of 2001, depreciating by a modest 5 percent (Figure II.1).** However, in 2002 it depreciated by 25 percent as the nominal exchange rate was devalued in response to concerns about the competitiveness of the export sector, in particular the declining profitability of the coffee sector as world prices declined. The RER has since stabilized at close to its end-2002 level, following the central bank's shift to a floating exchange rate from a series of pegged arrangements that had been in place previously. A depreciation of 6 percent in 2007 mostly reversed a comparable appreciation in 2005–06, leaving the RER 3 percent higher in early 2008 than it had been at the end of 2002 but still 33 percent below the average for 2000.

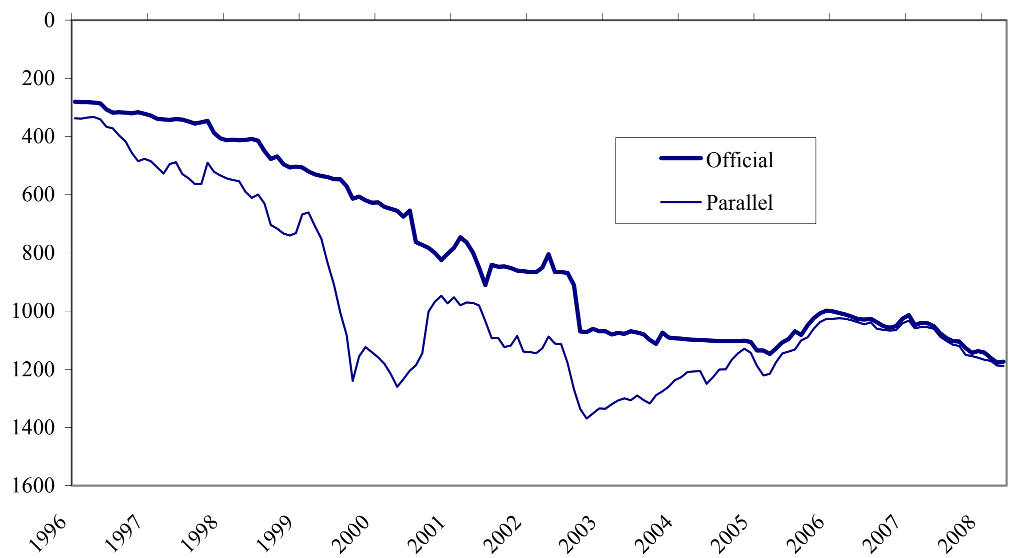
8. **Although the RER has been relatively stable since late 2002, there has been a steady depreciation of the nominal exchange rate.** The nominal exchange rate depreciated 27 percent during 2002-2007, offset by a growing inflation differential relative to trading partners. The differential in relative prices increased sharply in 2007 and early 2008 as 12-month domestic consumer price inflation jumped from 5 percent to 27 percent by April 2008.

Figure II.1. Exchange Rate Developments

Nominal and Real Exchange Rates
(Index, 2000=100)



Exchange Rate
(FBu/US$)

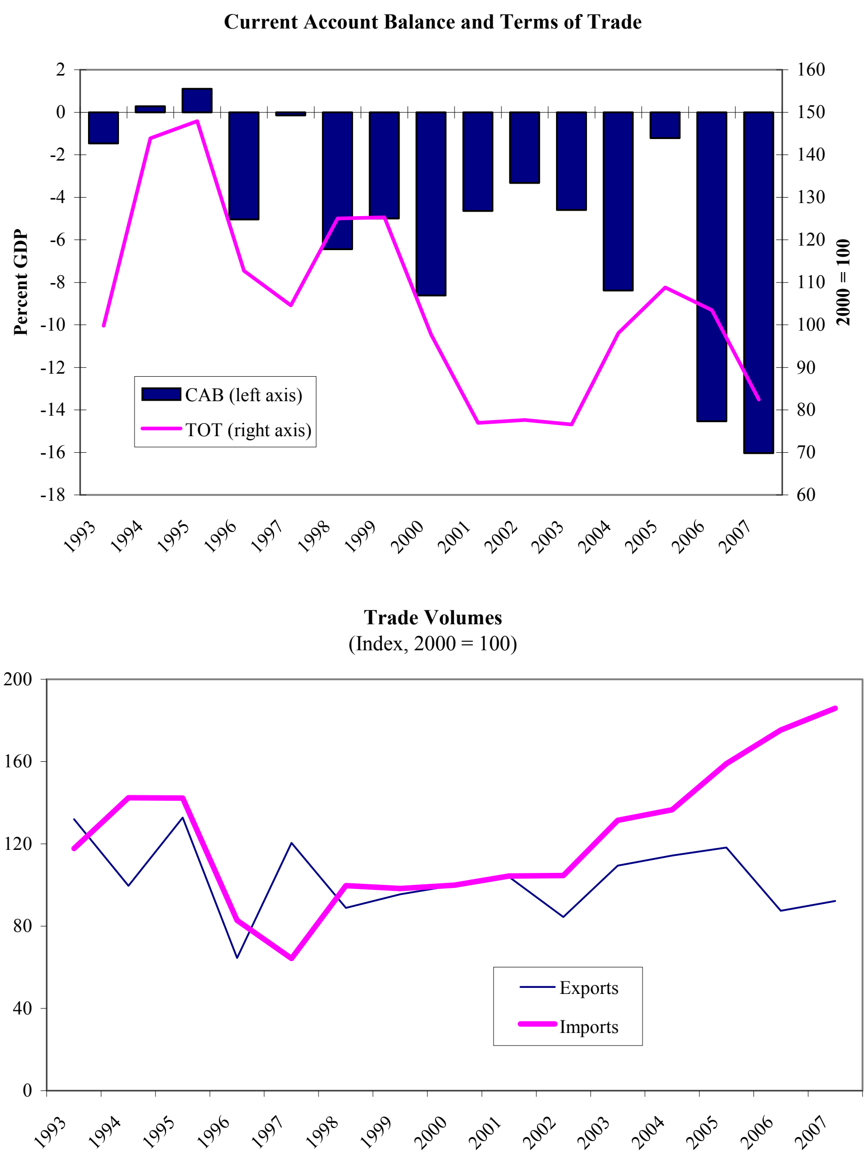


Source: Burundi authorities, INS database, and IMF staff estimates.

C. External Developments

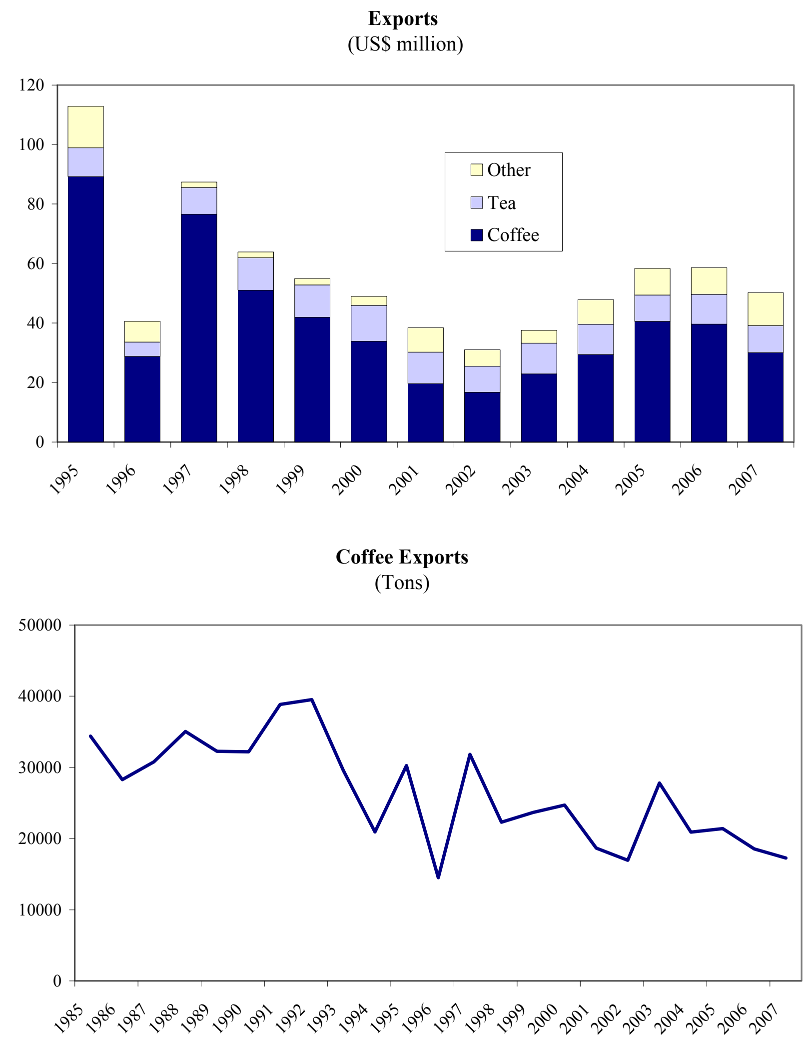
9. **The current account deficit has increased significantly since 2002, reflecting both a steady increase in imports to finance post-conflict reconstruction and terms of trade losses in recent years.** The current account deficit doubled from an average of 4.7 percent of GDP for 1996–2002 to 9 percent for 2003–07, jumping to 16 percent of GDP in 2007 as a result of investment linked to reconstruction and rising prices for imported food and commodities (Figure II.2). Imports of goods and services relative to GDP rose from an average of 17.8 percent for 1996–2002 to 39.4 percent for 2003–07.

Figure II.2. Balance of Payments Trends



Source: Burundi authorities, and IMF staff estimates.

Figure II.3. Export Patterns



Source: Burundi authorities, and IMF staff estimates.

10. **Today exports are still extremely low, amounting to only 5.2 percent of GDP in 2007 and averaging just 6.2 percent for 1997–2007.** Exports are dominated by coffee, which accounted for 65 percent of the total on average for 2003–07 and to a lesser extent tea, which accounted for 20 percent of total exports during the same period (Figure II.3). As a result, export volumes tend to fluctuate considerably from year to year in line with the cyclical patterns of coffee production. The volume of coffee exports remains well below the level of production before the civil war, with average volumes for 2001–07 about 20 percent below the average for 1993–2000 and 40 percent below the average for 1985–1992. The declining trend of coffee production reflects falling yields and declining soil productivity as

the civil war prevented proper maintenance and resulted in some coffee trees being destroyed. There has also been little progress on critical structural reforms to reduce state involvement in the sector and improve prices paid to producers, and insufficient investment in new inputs and more modern methods of production. Many of the coffee trees are now too old to sustain a high level of production year-to-year, contributing to the large fluctuations in annual output. Although there has been a modest recovery in exports other than coffee and tea in recent years as the domestic situation has improved, those exports are still slightly below 1993 levels, accounting for less than 1 percent of GDP.

11. **The large current account deficits in recent years have been financed through a significant increase in official capital flows to support post-war reconstruction.** External grants and concessional loans from donors amounted to 19.2 percent of GDP in 2007, and are expected to continue to be Burundi's primary source of external financing over the next five years. Private capital flows remain minimal, meanwhile, and are unlikely to provide a significant source of current account financing in the medium term. The increase in official capital inflows has enabled Burundi to rebuild foreign exchange reserves after a rapid decline up to 2001; in 2007, the level of reserves rose to 3.9 months of imports of goods and services of the following year, from 2 months in 2001.

12. **Burundi's external indebtedness remains extremely high; the country will likely remain in debt distress even after HIPC/MDRI debt reduction.** External debt amounted to 154 percent of GDP at the end of 2007.

D. Assessing the Real Exchange Rate

13. **The equilibrium RER is defined as the relative price of tradables to nontradables that allows for simultaneous attainment of internal and external equilibrium.** Internal equilibrium is defined as a condition in which the nontradable goods market clears in the current period and is expected to be in equilibrium in future periods; external equilibrium means that the current account balances (current and future) are compatible with long-run sustainable capital flows. Movements in the long-run equilibrium RER should reflect changes in the underlying macroeconomic fundamentals, sufficient to maintain internal and external equilibrium.

14. **There are three main approaches to exchange rate assessment.**[2] These approaches are: (1) the *macroeconomic balance* approach, which calculates an equilibrium current

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[2] See Lee, Milesi-Ferretti, Ostry, Prati, and Ricci (2008) for a detailed description of the CGER methodologies for exchange rate assessment.

account balance based on a country's long-run economic fundamentals, and assesses the RER adjustment required to close any gap between the equilibrium and the underlying current account position; (2) the *external sustainability* approach, which estimates the RER adjustment required to achieve the current account balance that would stabilize a country's medium-term NFA position; and (3) the *equilibrium real exchange rate* approach, which estimates a country's equilibrium real exchange rate based on movements in macroeconomic fundamentals.

15. **The usefulness of these approaches in application to low-income countries varies, given frequent structural breaks and data weaknesses that limit the reliability of the results**[3]. This is particularly the case for post-conflict countries that are far from a steady state, such as Burundi, where it is difficult to identify the appropriate level for the fundamentals or estimate an equilibrium/sustainable current account balance. As a result, although the combination of a large current account deficit, high external debt, and sluggish exports raises concerns about Burundi's external competitiveness, the transitional nature of the economy in the face of the country's large investment needs as it recovers from conflict and begins to rebuild the domestic economy makes it very difficult to calculate a meaningful estimate of the equilibrium or sustainable current account balance. Given these constraints, it is not possible in this case to use the macroeconomic balance or external sustainability approaches to exchange rate assessment.

E. Econometric Estimation of the Equilibrium Real Exchange Rate

16. **These same issues complicate an econometric estimation of the equilibrium rate.** A single-country estimation of the long-run fundamental equilibrium exchange rate is also not possible in the case of Burundi, given the significant structural changes in the economy as the country moves away from a conflict situation, the short time series for estimation and the large differential between the official and parallel exchange rate during much of the period prior to 2005.

17. Chudik and Mongardini (2007) lay out a panel approach to the estimation of the equilibrium RER, however, that provides perhaps the best way to overcome many of the limitations of a single-country estimation for Burundi. They estimate a reduced-form relationship between the actual RER and four fundamentals for a panel of 32 oil-importing sub-Saharan African countries, including Burundi, using annual data spanning 1980–2005. The fundamentals in their preferred specification for non-oil-exporting SSA countries are: (i) the terms of trade (TOT); (ii) the sum of exports plus imports as a share of GDP, as a

[3] See Di Bella and Martin (2007) for a review of the difficulties in applying these methods of exchange rate assessment to low-income countries.

proxy for trade openness (Trade); (iii) GDP growth per capita relative to trading partners, as a proxy for productivity (Prod); and (iv) government spending as a share of GDP relative to trading partners (Gov). The resulting long-run equation, based on the coefficient estimates in the paper's Pooled Mean Group (PMG) specification, is as follows (with t-statistics in parentheses):

$$\underset{}{EREER} = \underset{(6.2)}{0.186 * TOT} - \underset{(-11.4)}{0.473 * Trade} + \underset{(18.3)}{1.047 * Prod} + \underset{(5.4)}{0.277 * Gov}$$

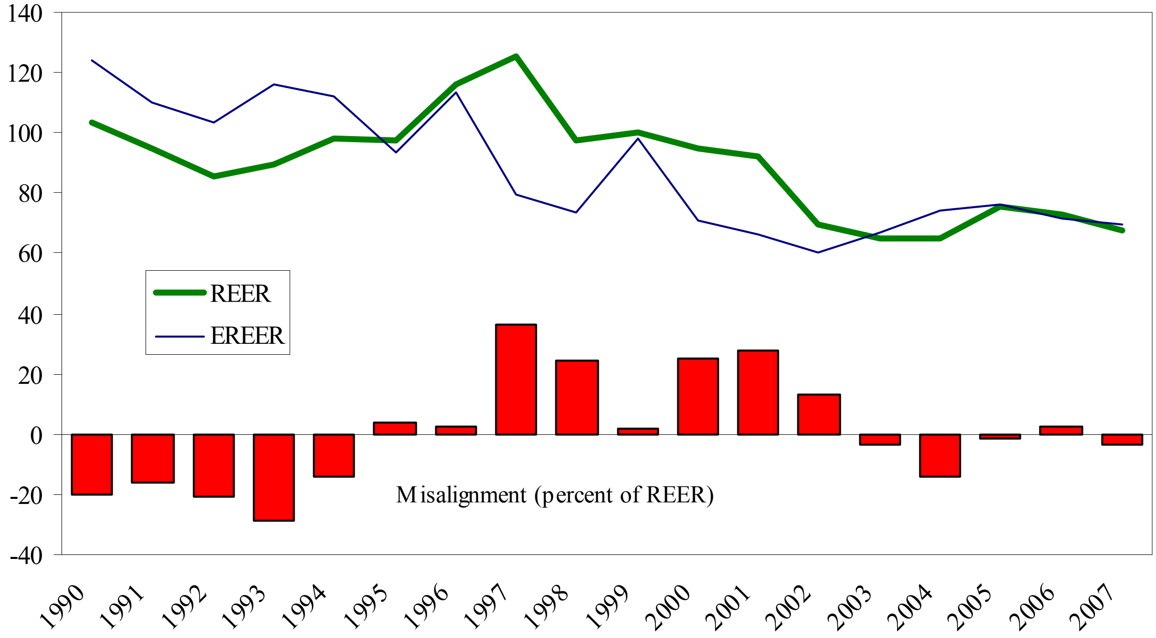
18. Using Chudik and Mongardini's coefficient estimates (2007), we have extended the estimation of the equilibrium RER through 2007 and compared the results with the latest actual RER for Burundi to identify any estimated misalignment. The results indicate that there was a fairly significant overvaluation of the RER prior to the nominal devaluation in 2002, with the subsequent real depreciation sufficient to broadly restore the RER to equilibrium in 2003. The RER seems to have moved broadly in line with the estimated equilibrium rate since 2003; an undervaluation of 14 percent in 2004 was corrected by a real appreciation in 2005 that returned the RER roughly to its equilibrium level. At the end of 2007 the RER was 3 percent below its estimated equilibrium value (Figure II.4).

19. **Movements in the estimated equilibrium RER appear to be particularly closely correlated with terms of trade developments.** The 40 percent depreciation of the equilibrium RER since 1990 mirrors a large decline in the terms of trade as prices of imported fuel and commodities rose sharply, outstripping relatively modest gains in coffee prices over the same period. In addition, the misalignment of the RER that emerged in the late 1990s appears to reflect the sharp decrease in coffee prices that began in 1997 and was not fully reflected in the RER; international prices for the variety of Arabica coffee exported by Burundi fell by 67 percent from 1997-2001.

20. **Terms of trade developments also appear to be a significant determinant of recent movements in the RER.** The real appreciation in 2005 reflected a recovery in coffee prices in 2004–05 (although prices remain one-third below 1997 levels), while the real depreciation in 2006 mirrored the decline in the terms of trade due to rising prices for imported fuel and commodities. There was a modest depreciation of the RER in early 2008, reflecting the further deterioration in the terms of trade as prices for imported food and energy have continued to increase; higher food and oil prices are expected to increase the current account deficit by 4.3 percent of GDP in 2008.

Figure II.4. Real vs. Estimated Equilibrium Effective Exchange Rate
(Index, 2000 = 100)

Burundi's REER was broadly in line with its estimated equilibrium level at the end of 2007.



Source: INS database, and Chudik and Mongardini (2007).

21. **Nevertheless, the significant structural breaks and considerable volatility in Burundi over the past 15 years suggest that these results should be interpreted cautiously**. In addition to concerns about the short time series and data limitations, the coefficient estimates produced by the panel estimation are also subject to a wide margin of error because of country heterogeneity, omitted variables, and sample dependence of the results.

F. Competitiveness Indicators

22. **International competitiveness surveys suggest that Burundi has one of the least friendly business climates in the world.** Burundi is ranked well below the average for both sub-Saharan Africa and the East African Community in many areas, highlighting deficiencies in the institutional environment and the regulatory framework, an underdeveloped domestic banking system, and high trading costs that present a significant obstacle to the emergence of a more competitive and diversified export sector.

23. **The World Bank's 2008 Doing Business survey ranks the business environment in Burundi at 174th out of 178 economies included in the study.** Its ratings are particularly low in the areas of dealing with licenses, getting credit, protecting investors, trading across borders, enforcing contracts, and closing a business. For example, the average number of days spent dealing with licenses in Burundi is 384 days with an estimated cost of 9,939 percent of GNP per capita; the average is 263 days for the region of sub-Saharan Africa as a whole, with an estimated cost of 2,549 percent. While the number of payments and the time associated with tax compliance in Burundi compares favorably with the region, total tax as a share of profits is nearly five times the regional average.

24. **High transport costs remain a significant constraint on competitiveness.** The natural geographic constraints—given that Burundi is landlocked—have been exacerbated by the deterioration of the transport network during the civil war, particularly in rural areas, as well as rising energy costs. Trading costs for Burundi are well above the regional average, especially for imports. The average cost per container for exports is US$2,147 compared with US$1,660 for the region, and for imports US$3,705 compared with US$1,986 for the region. High trading costs are further aggravated by the amount of time required to complete the necessary procedures for import and export. The average time to complete an external transaction in Burundi, starting from the final contract between the two parties and ending with delivery of the goods, is 47 days for exports and 71 days for imports. The averages for sub-Saharan Africa are 35 days for exports and 44 days for imports; in OECD countries the averages are 10 and 5 days, respectively.

25. **Burundi also ranks 130th out of 131 economies on global competitiveness and 126th out of 131 economies on business competitiveness in a study by the World Economic Forum.**[4] It is rated at close to the bottom in each of the twelve pillars of competitiveness that the World Economic Forum considers critical to a country's long-run growth potential, especially with regard to infrastructure, education, market efficiency, financial market sophistication, and use of technology. Respondents to the survey identified the most problematic aspects of doing business in Burundi as access to financing, corruption, tax regulations, and policy instability. In addition, Burundi scored only 2.5 out of 10 in Transparency International's Corruptions Perceptions Index for 2007. This ranks Burundi at 131st out of the 179 economies included in the survey, and at 32nd of 52 economies in sub-Saharan Africa.

26. **The significant political instability over the past decade has contributed to the deterioration of governance and public institutions that is reflected in Burundi's poor ratings for international competitiveness.** The unstable security situation and the lingering impact of the ethnic conflict over the past fifteen years continue to weigh heavily on private

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[4] World Economic Forum, *Global Competitiveness Report 2007–2008*.

sector economic activity, given the additional uncertainty and costs resulting from security disruptions as a result of the proliferation of arms, continued activities by rebel groups, and limited government control outside the capital city of Bujumbura.

27. **Institutional and governance issues remain a significant concern.** Deterioration in institutional structure and capacity as a result of the civil conflict has given rise to corruption, policy and regulatory uncertainty, and inadequate public services, especially with regard to provision and maintenance of domestic infrastructure. Basdevant (forthcoming) suggests that the poor quality of public institutions has also been a major factor in the low productivity of investment in Burundi, given that a large share of total investment in recent years is in the form of external aid for post-war reconstruction channeled through the government. The incremental capital output ratio (ICOR)[5], which measures the efficiency of investment, has been consistently higher for Burundi than comparator countries in recent years, indicating that more capital investment is necessary to generate the same level of growth.

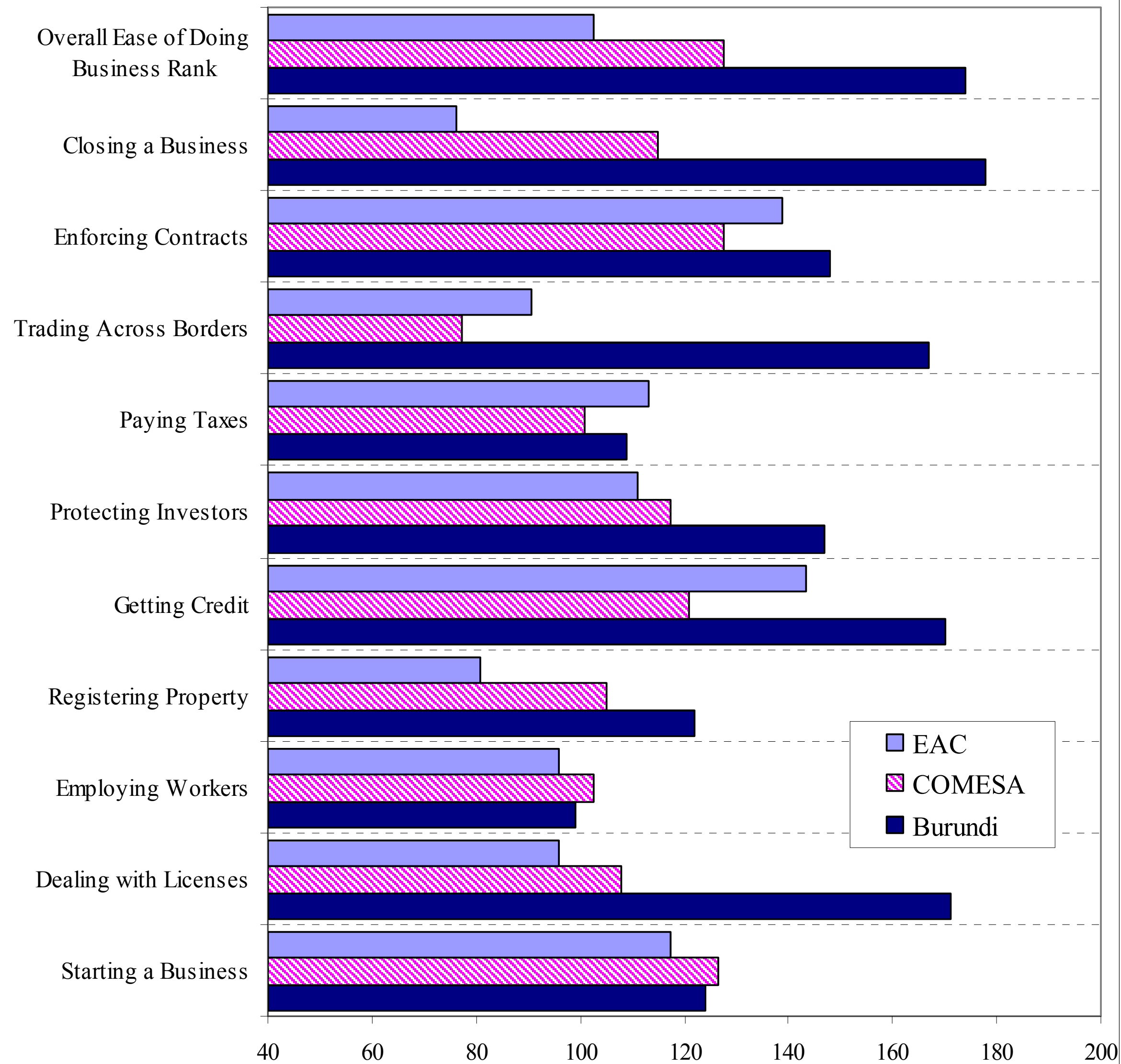
[5] ICOR measures the incremental capital investment required to generate an extra unit of output. It is the ratio of the level of investment (relative to GDP) to the growth rate. For example, if the investment ratio is 20 percent and the ICOR is 5, then the economy will grow by 4 percent. The ICOR for Burundi was 5.2 over the past decade, compared with 3-4 for well-performing countries in the region (see Basdevant, 2008).

Figure II.5. World Bank Doing Business Survey, 2008

Indicator	Burundi	Sub-Saharan Africa Average	OECD Average
A. Starting a Business			
Number of procedures	11	11	6
Time (days)	43	56	15
Cost (% of income per capita)	251	148	5
Min. capital (% of income per capita)	0	189	33
B. Dealing with Licenses			
Procedures (number)	20	18	14
Time (days)	384	263	153
Cost (% of income per capita)	9939	2549	62
C. Employing Workers			
Difficulty of hiring index	33	42	25
Rigidity of hours index	60	44	39
Difficulty of firing index	30	42	28
Rigidity of employment index	41	43	31
Firing costs (weeks of wages)	26	68	26
D. Registering Property			
Number of procedures	5	7	5
Time (days)	94	105	28
Cost (% of income per capita)	12	11	5
E. Getting Credit			
Legal rights index	1	4	6
Credit information index	1	1	5
Public credit registry coverage (% adults)	0	2	9
Private bureau coverage (% adults)	0	5	59
F. Protecting Investors			
Disclosure index	4	5	6
Director liability index	1	3	5
Shareholder suits index	5	5	7
Investor protection index	3	4	6
G. Paying taxes			
Payments (number)	32	39	15
Time (hours)	140	321	183
Total tax rate (% of gross profit)	279	68	46
H. Trading across borders			
Documents for export (number)	9	8	5
Signatures for export (number)	47	36	10
Time for export (days)	2147	1660	905
Documents for import (number)	10	9	5
Signatures for import (number)	71	44	10
Time for import (days)	3705	1986	986
I. Enforcing contracts			
Number of procedures	44	39	31
Time (days)	558	643	443
Cost (% of debt)	39	49	18

Source: World Bank, Doing Business 2008.

Figure II.6. World Bank Doing Business Indicators, Regional Comparison



Source: World Bank, Doing Business 2008.

G. Summary and Conclusions

28. **Burundi's REER appears to have moved broadly in line with economic fundamentals in recent years.** Although significant structural changes over the past decade make it difficult to reach a conclusive econometric estimation, the RER has been moved relatively closely with the estimated equilibrium rate since the 2002 devaluation and the elimination of a number of trade and exchange market restrictions introduced during the civil war. It is important to note, however, that although the RER has been relatively stable, a depreciation of the nominal exchange rate has been accommodated at the expense of a substantial acceleration in domestic price inflation.

29. **Export performance and other indicators suggest a number of non-price structural impediments to export competitiveness that could explain Burundi's poor performance in both traditional export and other sectors.** As a small landlocked country still struggling to emerge from conflict and debt distress, Burundi faces hurdles to competitiveness that highlight the need for structural reforms to enable producers to overcome geographically imposed obstacles. A more competitive private sector will be critical to reduce the widespread poverty that leaves the sociopolitical situation still fragile.

30. **In addition to deepening structural reforms, building and reinforcing its public institutions will be crucial to ensure that the aid inflows that Burundi should continue to receive are used more productively.** More effective intermediation of investment inflows will be essential to expedite the rebuilding of the domestic capital stock, especially in the agricultural sector, which accounts for a large share of total employment but where productivity remains very low.

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