Burundi's Growth: The Need for Long-lasting and Stable Performance

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CHAPTER 2

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The Need for Long-lasting and Stable Performance

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In the 40 years of cyclical violence, economic growth has remained well below the SSA average, and Burundi is now the third poorest country in the world. In 2005, real per capita GDP dropped to $105, a level that had not been recorded since the mid-1960s.[3] If trends persist, Burundi will need 225 years to reduce its poverty by one-half. The status quo is unacceptable, and it is essential that the Government drive the changes needed to achieve sustainable growth.

This chapter provides an overview of past and current macro growth trends and describes how the poverty profile should influence policy reforms. The macroeconomic analysis identifies past sources of growth, binding constraints, and the way forward, while the poverty analysis discusses the relationship between agriculture—the main contributor to growth—and poverty alleviation. It is widely acknowledged that unless policies are explicitly pro-poor, they benefit mostly the elite.

The weakness and volatility of Burundian growth can be partly attributed to the very high dependence on coffee. Although the subsector benefited from most of the public investments, its performance has been mediocre. The country's economic development was also strongly hampered by recurrent conflicts that had devastating consequences on national resources, human capital, and social cohesion. These problems were further worsened by the State's fragility, political instability, and the administration's weak capacity to manage and develop the domestic economy. This chapter suggests that full attention should be given to the need and means to reinforce and diversify sectors contributing to growth in a way likely to mitigate the risk of conflict.

3. All dollar figures are in US dollars.

Understanding Burundian Growth Patterns[4]

With a population of about 6 million distributed over 27,834 square kilometers, Burundi has one of the highest population densities in Africa. The country is landlocked and thus depends on the extremely degraded road and rail infrastructure of its neighbors to conduct international trade. Since independence in 1962, ethnic and political feuds and a number of other factors have led to five wars (in 1965, 1972, 1988, 1991, and 1993) involving the two main ethnic groups. Estimates suggest that over the last four decades, over 500,000 lives have been lost, and hundreds of thousands of Burundians have been uprooted by the violence, fleeing to neighboring countries. Against this challenging background, the real GDP growth rate in Burundi has followed a downward trend. Moreover, growth has been quite volatile, and the average level has fallen well below that needed to reach the Millennium Development Goals (MDG).

Despite the sporadic civil unrest of the 1970s and 1980s, GDP grew at a higher rate during these two periods. However, Burundi's recent economic performance has been sluggish and unstable. GDP growth averaged 4.3 percent and 4.5 percent, respectively in the 1970s and 1980s, but declined in the 1990s by an average of 1.4 percent. From 2000 to 2005, annual GDP growth was only 1.7 percent—far too low to improve living standards for a population that has been expanding at an annual rate of 2.8 percent during the same period. Per capita income today is at a level 17 percent lower than the level in the 1970s, having declined from an average of $130 in during the 1970 to 1979 period, to $108 during the 2000 to 2005 period.[5]

Burundi's growth and agricultural performances have been dismal compared to other African countries. Despite agriculture's large share in terms of GDP and employment, agricultural productivity has been volatile and the lowest when compared with the G-11 and SSA countries. In 2000, per capita agricultural productivity stood at $97 in Burundi and averaged $317 in SSA. While Chapters 2 and 3 identify sector-specific factors in low weak agricultural productivity in Burundi, it must be noted that political instability and rainfall dependency also play an important role.

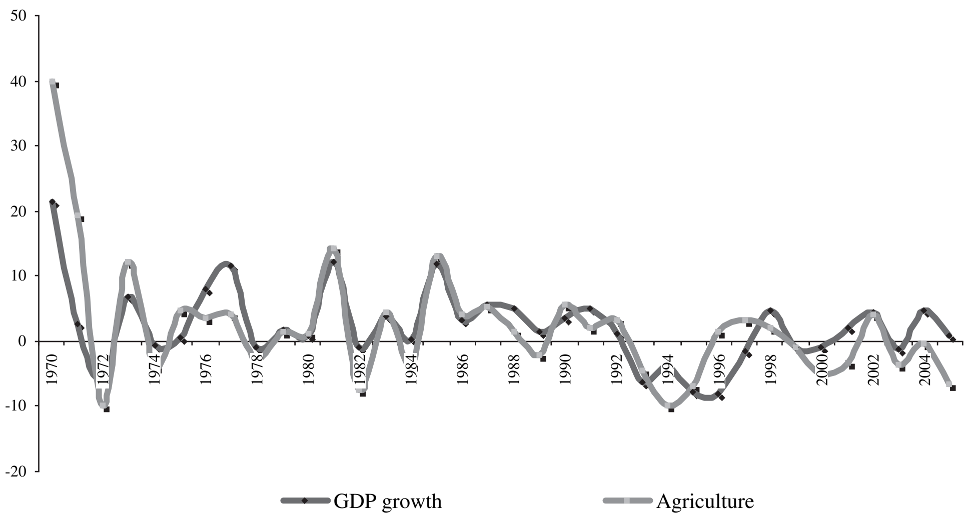
Burundi's growth potential has yet to be explored and is mired by dynamics that limit the country to low and transient growth equilibrium. Accelerating growth and engaging in a structural transformation process will necessitate unraveling these self-reinforcing mechanisms. This could be done by changing the composition and level of public investment and by providing public services that will enhance performance. Diversification into new sources of growth within the agricultural sector and across sectors (industrial and services) would also play a key role. While this remains a big challenge given the country's lack of physical and human capital, expanding sources of growth will be essential in enhancing the export sector.

Investment in infrastructure should create the conditions necessary to improve market integration and spur higher rates of growth. A growth strategy in Burundi will also require addressing issues with potential to enhance the private sector. Three areas are noted here—better understanding of the dynamics that will create development in the agricultural sector (including risks to farmers); improving the environment for private sector development; and

4. This section summarizes a background report by Jean-Pascal Nguessa-Nganou (Economist, AFTP3, World Bank), Eric Mabushi (Economist, AFTP3, World Bank) and Ephraim Kebede (Economist, AFTP3, World Bank). Sources of Growth in Burundi: A Macroeconomic Perspective. June 2007.

5. All dollar figures are US dollars.

Figure 2.1. Agriculture and Real GDP (annual growth rates, 1970 to 2005)



Source: World Bank, World Development indicators

tapping high-potential areas through major investments. Increasing the effects of a growth strategy can be attained through sound macroeconomic policy reform. In the initial stage of a long-term growth strategy, given the limited resources available, scaling-up foreign aid will have a significant role, as will strong partnerships with the private sector Burundi's economic performance since 1960.

Burundi's economy and performance can be categorized into four periods driven largely by politics.

1962 to 1972—Initial Progress until the 1970s. Burundi's economic performance was noteworthy at the beginning of its independence, but began to weaken as political instability spread in the early 1970s. After Burundi gained its independence in 1962, real GDP grew by an annual average of 6.4 percent until 1971. During the 1962 to 1972 period, per capita income growth averaged only 2 percent per year, with the biggest decline (minus 7.1 percent) observed in 1972. The sluggish growth during this period was mainly due to a drop of value-added agriculture and poor productivity in other sectors. In 1972, devastating civil strife that claimed up to 300,000 lives drove the economy down by about 7 percent. The loss of lives followed by massive displacement of people could have been the major factors that lowered productivity and output, particularly in the agricultural sector. Lack of adequate capital inflows (probably due to conditions following the departure of the Belgians) could also be sited as one of the constraints to investment and growth.

1973 to 1991—Less Political Tension and Modest Economic Growth. The period from 1973 to 1991 was somewhat serene despite the fatal domestic conflict in 1988. This period was mainly characterized by increased investments, which doubled from an average of 6.3 percent of GDP in 1962 to 1972 to an average of 13.8 percent of GDP in 1973 to 1991. Most of this investment was financed by external resources because ODA also increased from an average of 3.3 percent of GDP to 17 percent and average gross domestic savings were only 2.6 percent of GDP. Although Burundi's economy grew at an average rate of 4.1 percent, this period (particularly the mid-1980s) was marked by increasing debt and resource mismanagement. For instance, in 1972 external debt as share of GDP was only 2.8 percent, but in 1991 it reached 82.5 percent. Burundi adopted a Structural Adjustment Program (SAP) in the late 1980s to try and manage its high external debt. In 1988, the conflict between the army and Hutus left 5,000 to 20,000 people dead and 60,000 more fled to Rwanda, leaving the economy, particularly the agricultural sector, unstable and frail.

1992 to 1999—Overt Civil War and Low Economic Performance. Armed conflict after the assassination of President Ndadaye in 1993 left tens of thousands massacred and close to 2 million displaced or fleeing to Rwanda. In 1995, sabotage caused protracted power cuts in Bujumbura and other urban areas of the country. This had severe consequences for the economy. Due to the power shortage, several industries were disrupted or stopped production. In 1995 alone, industrial output fell by 16.6 percent, agriculture by 6.8 percent, and services by 3.6 percent, while aggregate GDP fell by 7.9 percent. The government was severely affected because it was earning a large share of its tax revenue from the industrial sector.

The second coup staged by Pierre Buyoya in 1996 prompted the international community to impose an economic embargo on Burundi. GDP fell by about 8 percent following a about a 17 percent decline in service sector output. Between 1992 and 1999, Burundi's franc plummeted by an average of 15.6 percent, and inflation rose to an average of 22.9 percent (with the highest rate of 31 percent in 1997), while GDP fell by an average of 5.3 percent. In 1999, external debt reached 140.4 percent of GDP, which is about 23 times higher than its level in 1970 or about eight times higher than its level in 1980. Poverty reached a peak. The continued sanctions, civil war, internal population displacement, a military budget that consumed about one-half of government spending, and the absence of foreign aid, (which in the past was the main means for tackling Burundi's balance of payments), were the main factors that severely harmed the Burundian economy during 1992 to 1999. During the sanctions period, Government instituted fuel rationing. The considerable rise in oil prices led to irrepressible expansion of illicit trade.

The exchange rate was overvalued by about 80 percent, and the gap between the official and parallel market was larger in the 1990s than at any other time. In the absence of a well-established and regulated financial system, this created opportunities for arbitrage and rampant corruption.

2000 to 2006—Transition, Reform, and Rehabilitation. Major conflicts subsided in 2000, following the peace agreement signed in Arusha, and the country entered a period of transition, reform, and rehabilitation, both politically and economically. Since then, the government has carried out a number of policy reforms, among which stabilizing the economy and promoting recovery were the main priorities.[6] In 2004, real GDP grew at a relatively

6. The World Bank supported the government's initiative and provided a $35 million emergency economic recovery credit, the main objectives of which were to improve access to foreign exchange for the private sector and provide counterpart funds to support increased social sector expenditures. Privatization was another objective of the Government, and the companies that it considered selling are the telecommunications company (Onatel), the cotton manufacturer (Cotebu), the energy parastatal (Regideso), and the tea marketing board (OTB)

stronger of 4.8 percent, driven solely by the service sector (which grew by 14.4 percent) as both the agricultural and industrial sectors fell by 0.2 percent and 6.2 percent, respectively.[7] Once the economic embargo was lifted in 2001, donor-funded reconstruction activities increased significantly. While Bujumbura (which has an historic position as a regional trading hub) and other urban areas benefited from peace, the wholesale and retail subsectors expanded considerably. Although Burundi has been more or less politically stable since 2000, agriculture performance continued to be unimpressive and fell by 6.6 percent in 2005, partly because of the adverse weather conditions for food crops but also because of structural constraints, including highly fragmented land ownership, declining soil productivity, and a lack of inputs. It is, therefore lack of improvements in the agricultural sector that constrained real GDP to grow to a mere 0.9 percent in 2005, despite improvements in the manufacturing, construction, and trade subsectors.

Determinants of and Constraints to Growth

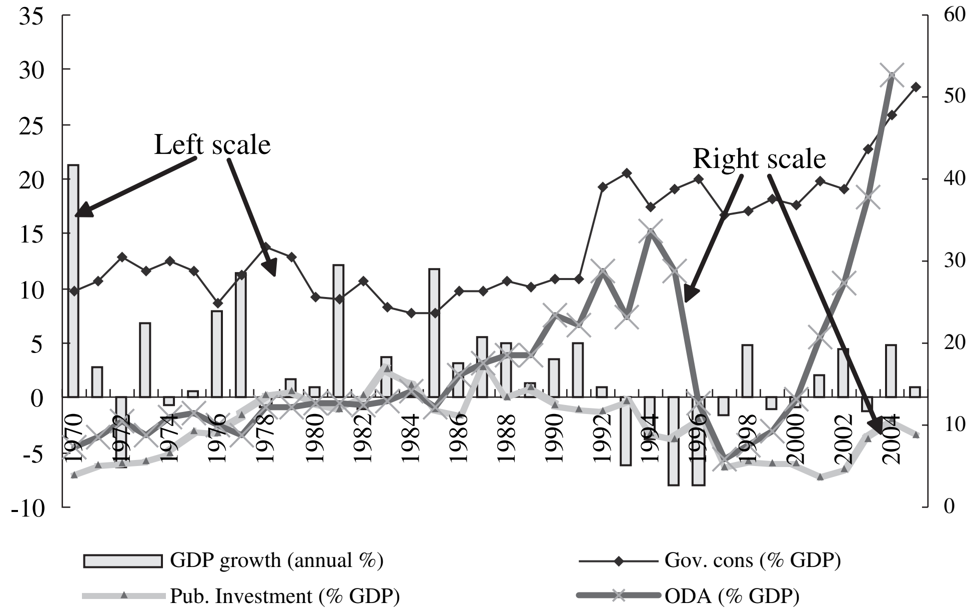
Burundi's experience in the 1970s and 1980s suggests that the country is capable of attaining accelerated economic growth. Nevertheless, this economic activity was not sustained and was even very volatile during the same decade due to political instability and poor economic policies, characterized by restrictive fiscal and trade policies, monopolistic public enterprises, and improper public expenditures that failed to increase the country's productive or absorptive capacity (Figure 2.2). A donor-imposed embargo should also be noted as one of the factors that affected Burundi's economic performance. In the first few years of the 2000s, Burundi experienced short-lived economic growth boosted by a significant increase in external aid, yet per capita GDP growth was extremely low and even dropped to negative in more recent years.

Savings and Investment Rates in Burundi Are Very Low. Gross investment in Burundi has averaged around 9 percent of GDP, while savings stood at minus 10 percent of GDP. The dismal savings rate indicates that the recent expansion of investment was to a large extent driven by external financing, possibly in the form of aid. Burundi's investments are entirely driven by the public sector. Movement of public investments drove the entire pattern of total investments during the 1980 to 2005 period, while investments in the private sector stayed sluggish. It is, however, important to note that the past few years have witnessed an increasing trend in the private sector investments, from about 6 percent of GDP in 2000 to 12 percent in 2005. This is an encouraging indicator, albeit still very low. In 2005, gross fixed investment in Burundi stood at 11.8 percent of GDP. For the private sector alone, in 2005 gross fixed investment was only 3 percent of GDP, while in Rwanda and Uganda it was 12.2 and 17.3 percent of GDP, respectively. This indicates that government investment has been four times higher than private sector investment.

To sustain even moderate growth, Burundi requires gross fixed investment rates comparable to those in Rwanda and Uganda (21 and 22.3 percent of GDP, respectively). The comparative figures for Asian countries with high and sustainable economic growth rates are 42.3 percent for China, 28.1 for India, and 33.1 for Vietnam. Foreign direct investment, on the other hand, has been disappointing. FDI inflow to Burundi has never exceeded 2 percent

7. It is also clear that the peace agreement between the Government and the main faction of the CNDD-FDD has contributed significantly.

Figure 2.2. GDP Growth, Government Expenditures, and ODA, 1970 to 2005



Source: World Bank, World Development indicators

of GDP, suggesting that the business climate that is vital for structural transformation needs substantial enhancement. In addition to political and macroeconomic instabilities, lack of adequate human capital accompanied by poor infrastructure is a major constraint in deterring FDI inflows.

Investment productivity has been very poor in Burundi. During the past few years the incremental capital output ratio (or ICOR)[8] for Burundi varied widely from year to year. For instance, in 2005 the ICOR for Burundi was in the range 14 to 15 while in the previous year it was in the range 2 to 3.[9] The ICOR of 14.8 for 2005 indicates that about $15 of gross investment has been needed per $1 of extra output. This is almost triple the investment required in Rwanda and Uganda, with corresponding figures of 3.2 and 4, respectively. The worrisome aspect is that this number has been rising, which means that capital efficiency is falling and therefore Burundi has to employ more capital to generate the same level of growth. One of the reasons for this decline could be the increasingly dilapidated nature of Burundi's infrastructure that makes it harder for businesses to operate efficiently.

8. ICOR measures the incremental capital investment required to generate an extra unit of output. It measures the capital efficiency of new capital investments. It is the ratio of the investment rate to the growth rate. For example, if the investment rate is 24 percent and the ICOR is 4, then the economy will grow at 6 percent. However, if the economy makes more efficient use of capital and has an ICOR of 3, then it takes only an 18 percent rate of investment to achieve 6 percent growth. ICOR can be thought of as a measure of the inefficiency with which capital is used. In most countries ICOR is in the neighborhood of 3.

9. For good performing countries, the (ICOR) number is generally in the 3 to 4 range.

A second reason could be mismanagement in the system. If we assume an ICOR of 4, it implies that for Burundi to grow at a significant level, say 8 percent a year, the country needs gross capital formation (GCF) to be approximately 32 percent every year. The number for Burundi in 2005 was 12 percent—a shortfall of 20 percent of GDP every year. In other words, Burundi lacks capital formation by about $160 million every year. Another interesting point is that the gross national savings in 2004 and 2005 were 5.2 and 0.4 percent of GDP, respectively. The public sector, which should have been the most aggressive driving force of Burundi's capital formation, is actually showing a lack of saving of 3.4 in both years. In 2005, Burundi received about $208 million (26 percent of GDP) of external flows in the form of grants and loans to the government and private sector. However, given the scale of the shortfall, these flows will simply not plug the requirement of the economy. It is also important to note that a significant share of the inflow goes to recurrent expenditures and does not contribute to filling the gap. Although external sources play a significant role in financing part of the investment in Burundi and are one of the preferred sources, the main funding should come from within the country. This could be done by promoting savings and adopting better capital utilization by the government, a reduction in fiscal deficits through increased profitability and higher savings among public sector units, and improving the country's revenue base.

Doing Business in Burundi Is Not Easy. According to the World Bank's Doing Business 2007 survey, Burundi is ranked 166 out of 175 countries.[10] The survey also reveals that starting a business in Burundi is relatively less complex, with the country ranked at 109. Burundi's worst performance is in dealing with licenses, for which requirements are much more arduous, taking an average of 302 days, placing the country at 164. The other worst scenario, according to the survey, is that getting credit is also difficult, mainly due to the unfavorable legal framework and the inadequate number of institutions offering the service. Businesses in Burundi are liable for 40 different taxes, with a total tax rate of 286.7 percent, placing Burundi at 123 in the world in terms of tax evasion. Burundi's external trade stance is the worst category of all, ranking the country at 171. While exporters need to have 12 documents before they can send their goods, 14 documents are required for imports. On average, it takes 80 days to export and 124 days to import. In such cumbersome procedures and costs, illegal trade across the border is inevitable.

Government Consumption in Burundi Is the Highest by International Standards. Public consumption, which stood at an average of 11.5 percent of GDP in the 1970s, has slightly declined in the 1980s to an average of 9.3 percent; it then increased by about 7 percentage points to 17 percent of GDP, and in the period 2000 to 2005 it further increased to 22 percent of GDP. Government consumption as a share of GDP in Burundi is the highest when compared to G-11 and SSA countries. In the past few years, public expenditures increased while revenue remained almost constant. This indicates the need to increase public resources as government revenues have come under pressure and have even decreased as a proportion of GDP. This is not only because of the decline in ODA and the uncertain and often volatile nature of external capital flows, but because macroeconomic and trade policy reforms in Burundi may tend to reduce tax revenues.

10. The world's worst place for business is the Democratic Republic of Congo (DRC).

Aid Flows and Economic Growth in Burundi. The past few years have witnessed unprecedented levels of aid flows to Burundi, an increase from 156 percent of gross capital formation (GCF) in 1999 to 387 percent in 2004. Foreign aid dropped slightly in recent years, both as a share of GDP and investment. For instance, in 2005 ODA as a share of GDP was 45.6 percent, while in the previous year it was 54.4 percent (down by about 10 percent of GDP or $80 million). Nevertheless, ODA is still the main source to finance a significant proportion of the government deficit or even the balance of payments deficit. ODA can reduce three gaps that keep domestic investment and growth below potential—savings, foreign exchange, and the fiscal gap. Foreign aid that fills the gaps can be very important for Burundi, especially when private investment is very low and public investment is intended to generate higher aggregate economic growth in a stable way; otherwise, such investment could lead to balance of payments problems or cause domestic inflation where there are domestic supply constraints. It effectively amounts to an addition to domestic savings and allows government to spend more than the revenues raised through taxation and other means. Thus, it allows for more accumulation through public investment in critical areas, including infrastructure and social sector spending with future social productivity implications, such as in health and education.

Aid and Dutch Disease in Burundi. Aid inflows can also create problems such as putting upward pressure on exchange rates, which can then shift domestic incentives away from tradeables to non-tradeables if domestic relative prices move in response. Therefore, if ODA is used to increase public investments in important areas to ease supply constraints and improve aggregate productivity, it will not be inflationary and can have expansionary effects. These effects could spill over into positive balance of payments effects through more exports or reduced imports. It is important to ensure that ODA translates into higher public investments, preferably in areas where there are shortages or which constrain production, or in areas where existing levels of provision are socially sub-optimal.[11]

The so-called Dutch disease is when real exchange rates appreciate in relation to their effect on the market of tradeables. Our analysis indicates that the government now needs to be vigilant about the potential consequences of aid inflows related to macroeconomic management associated with the appreciation of aid and an increased inflation rate.

Burundi Has a Higher Debt-to-GDP Ratio than the SSA Average. Burundi owes about $1.4 billion to its external creditors. External debt rose at an average of 36.4 percent per year during the 1973 to 1988 period, while in more recent years (2000 to 2005) it grew by only 4.3 percent. High external debt depresses Burundi's investments and lowers economic growth. In 2005, the external debt-to-export ratio stood at 1,422.8 percent. Even with the help of debt relief, it is difficult to suggest that Burundi will reach its global poverty reduction goals. Burundi is one of the Highly Indebted Poor Countries in the world—its external debt has changed significantly in magnitude, structure, and composition over the last few decades. In 1970, it stood at about $15 million, equivalent to 6.2 percent of GDP, and $166 million in 1980. At the beginning of the 1990s, this figure had increased to $907 million, which is equivalent to about 80 percent of GDP. In 2005, Burundi's external debt reached its highest ever level of $1.4 billion, an equivalent of 208.6 percent of GDP.

11. The upcoming PER will address some of the issues that are related to aid efficiency and social expenditures.

Credit Availability to the Private Sector Has Been Relatively Good Compared to Other African Countries. Furthermore, despite the recent surge of aid, provision of credit to the private sector has been increasing, from an average of 18 percent of GDP during the 1995 to 1999 period to 25 percent of GDP during the 2000 to 2005 period. The increase in domestic credit to the private sector has also been reflected in the development of private investments. Meanwhile, credit access to the private sector seems to be unevenly distributed among various sectors. In fact, as reported in the recently published Government poverty reduction strategy, lack of access to credit remains as one of the main obstacles to agriculture growth. The government's commitment to improve farmer access to credit is worth mentioning. During his end of the year address to the nation, the Head of State said the government's immediate plan to move ahead with privatization of several state corporations and radical reforms in the banking subsector is a deliberate effort to promote microfinance and give greater loan access to disadvantaged groups. In the context of the Burundian economy, such moves or policies need to focus on promoting development of a range of financial intermediaries to meet the specific demands of a broad spectrum of clients such as farmers, agribusiness industrialists, and other rural sector businesses.

Changes in Growth Structure

The Sare of Agriculture in GDP Has Dropped Significantly Since 1970. In recent years, the service sector has become one of the mainstays of the economy, accounting for about 45 percent of GDP in 2005. The sector has continued its impressive growth since 2000, recording growth of 14.4 percent in 2004 and 10.6 percent in 2005. The service sector contribution doubled during the 1970 to 1979 and 2000 to 2005 periods, from 21 to 42 percent of GDP, respectively (Table 2.1). On the other hand, the share of agriculture in GDP has fallen by more than 26 percentage points. The industrial sector's contribution has also improved slightly by about 6 percentage points.[12] On average, however, over the entire study period (1970 to 2005), agriculture remained the dominant sector both in terms of its contribution to GDP and size of employment. The decline in agriculture's contribution to GDP is due to poor productivity, an effect of weather and periodic civil strife.[13] It is not plausible at this point to suggest that Burundi's apparent structural change will be sustainable. Although the service sector grew by an average of 11 percent during 2000 to 2005 (while the other two sectors performed poorly), the increase was largely due to a rise in public services and to a much lesser extent due to the transport and trade subsectors. Furthermore, the increase in service sector value-added could be driven both by relatively higher employment income and higher profits than those registered in the previous years.

12. Data on the sectoral share of GDP were obtained from the World Bank's World Development Indicators (2007), and computed by disaggregating the value-added by sector. Value-added was computed separately for each industrial sector, and the sums were then added to obtain the GDP figure. Thus, the figures for sectoral share of GDP may differ from other similar studies such as IMF (2006).

13. Undoubtedly, this results from a productivity decline in the sector, a direct consequence of a prolonged period of ethnic conflicts and military coups (1976, 1987, and 1993). The 1976 to 1989 period was marked by two military coups—in 1976 Micumbero, who came to power in 1966, was overthrown by J-B Bagaza, and the latter was removed by Pierre Buyoya in 1987. Moreover, 1988 was marked by ethnic clashes, resulting in several deaths in both main ethnic groups.

Table 2.1. Contribution of Three Sectors to the Economy, 1970–2005

Parameter	Agriculture	Industry	Services	Overall
Percent of GDP				
1970–1979	65.5	13.1	21.5	100
1980–1989	58.1	15.1	26.8	100
1990–1999	50.8	18.7	30.5	100
2000–2005	39.2	19.1	41.7	100
1970–2005	**53.4**	**16.5**	**30.1**	100
Growth rate (%)				
1970–1979	6.8	6.3	2.2	4.5
1980–1989	3.0	5.3	1.8	4.3
1990–1999	–0.4	–1.0	4.1	–1.4
2000–2005	–2.5	–6.2	2.8	1.7
1970–2005	**1.7**	**1.1**	**2.7**	**2.3**

Source: World Bank staff estimates using *World Development Indicators.*

Understanding Poverty to Better Design Reforms[14]

Throughout the past 40 years of cyclical violence, economic development in Burundi has been used to favor one group over another, leading to devastating consequences for national resources, human capital, and social cohesion. While designing a new growth strategy, full attention must be given to the county's poverty profile, which identifies specific vulnerabilities and potential opportunities that need to be considered to soundly tailor sector reforms. In this section, we review the main findings of Burundi's poverty profile and discuss the relationship between agricultural growth and poverty alleviation. A special emphasis is given to the analysis of farmers' main income sources, including coffee production.

For many years conflicts have displaced a large portion of the rural population and made it difficult to access seeds and other inputs, as well as destroyed important economic and social infrastructure. Livestock were looted or killed and crops were burned. Other factors also contributed to lower productivity, including land fragmentation, soil erosion as a result of overgrazing, chemical contamination (many fields are contaminated by high levels of iron and aluminum-based toxins), expansion to marginal lands, limited access to credit and financial services, and use of basic agricultural techniques. Some provinces have been hit by droughts in recent years. As a result, poverty is massive in Burundi and particularly widespread in rural areas, which account for more than 90 percent of the population according to survey-based estimates. Importantly, people in Burundi consider that maintaining peace is the number one priority for reducing poverty.

Broad Characteristics of Poverty

Poverty in Burundi Is Massive. New estimates of poverty based on the 2006 QUIBB survey suggest that nationally, some 66.9 percent of the population is poor, a very high level even in comparison to other post-conflict countries in Sub-Saharan Africa. On the basis of changes in per capita GDP over time, it is fair to say that today's share of the population in poverty is much higher than before the start of the conflict in 1993. According to a 2004 perceptions

14. This chapter draws from Quentin Wodon (Lead Poverty Economist, AFTPM, World Bank) and Jean-Paul Zoyem (Consultant, Casafrique) in Burundi's poverty profile, 2006.

survey, most individuals actually believed that poverty had increased over the previous five years, a feeling that was especially strong among the poor. For the future, perceptions were more balanced, but a large share of the population still remained pessimistic. These perceptions suggest that despite progress over the last few years in economic stabilization and recovery, this turn-around has not yet succeeded in making a large difference in the expectations of the population. Finally, growth scenarios considered for the next three to five years suggest that even with a growth rate in per capita GDP of more than 5 percent per year, which would be very difficult to achieve, Burundi would not be able to halve poverty by 2015.

Poverty Intensity Varies among Groups. Households living in urban areas whose head or spouse has a better education and who benefit from better employment are less likely to be poor or feel poor. There are also important geographic differences in poverty, with temporary migration associated with consumption gains, and much higher rates of poverty (and food insecurity) in the northern part of the country. In addition, when confronted with poverty or a shock, most individuals aim to increase their revenue by working more and also reduce their expenditures while trying at the same time to protect their few assets. But for some segments of the population, these coping strategies are not readily available. Even if a majority of the population can be considered as vulnerable in one way or another, special attention should be placed on: (a) children in difficult circumstances, including orphans, street children, children associated armed groups, and children in trouble with the law; (b) women in difficult circumstances, including teenage mothers, female-headed households with young children, and women who have been victims of the war and have lost most of their possessions; (c) people affected by HIV/AIDS; (d) the disabled, including physical, sensory, and mentally handicapped, and possibly the old who live alone; and (e) people who are internally displaced due to conflict.

The Lack of Employment for Youth Is an Important Issue in Burundi. Data from the QUIBB 2006 survey suggest that at the national level 23 percent of youth (individuals aged 15 to 24) have a job (see table 2.2). Among those working and living in a household in the bottom quintile of the distribution of consumption, three fourths (76 percent) are employed in agriculture (excluding export crops), while that proportion is 46 percent for those youth working and belonging to the top quintile of consumption. The second source of employment for youth is export crops, but only for 7 percent of the workers. In urban areas however, some 36 percent of the youth are working as domestics, nurses, drivers, and other similar low-skilled occupations. Virtually none of the youths that are employed benefit from a work contract, suggesting that youth employment takes place almost entirely in the informal sector. About a third of youths who are working are also studying, and the proportion is about half in urban areas. Yet there are also a large number of youths who seem to be inactive. Table 2.2 provides the shares of youths according to occupational status at the national level, in urban areas as well as in rural areas, and by quintile. As youths can combine work and study, the proportions add up to more than 100 percent. Yet the inactive category is defined as those youths who do not belong to any of the other three categories in the table. Thus, while about one fourth of all youths are working, and about one third are studying, the largest group is composed of individuals, who neither work, nor study (and who also do not actively seek work). Furthermore, only 6.2 percent of youths are heads of households, which suggests that probably in part due to a lack of resources due to limited employment opportunities, most youths cannot start a family and make it on their own without the support of their elders. Given the demographic transition taking place in Burundi, whereby the share of youths in the population is expected to grow in the future, policies to improve employment opportunities for this category of the population are thus extremely important.

Table 2.2. Occupational Status of Youths in Burundi, 2006 (percent)

	National	Urban	Rural	Q1	Q2	Q3	Q4	Q5
Studying	34,5	51,7	31,6	32,2	34,0	34,8	36,7	34,6
Working with paid job	23,2	15,5	24,5	26,2	24,1	24,8	20,4	21,4
Looking for work	6,7	8,7	6,3	9,5	6,5	7,1	5,6	5,2
Inactive (not in any of the above categories)	40,4	27,7	42,6	38,2	41,0	38,5	42,0	41,8

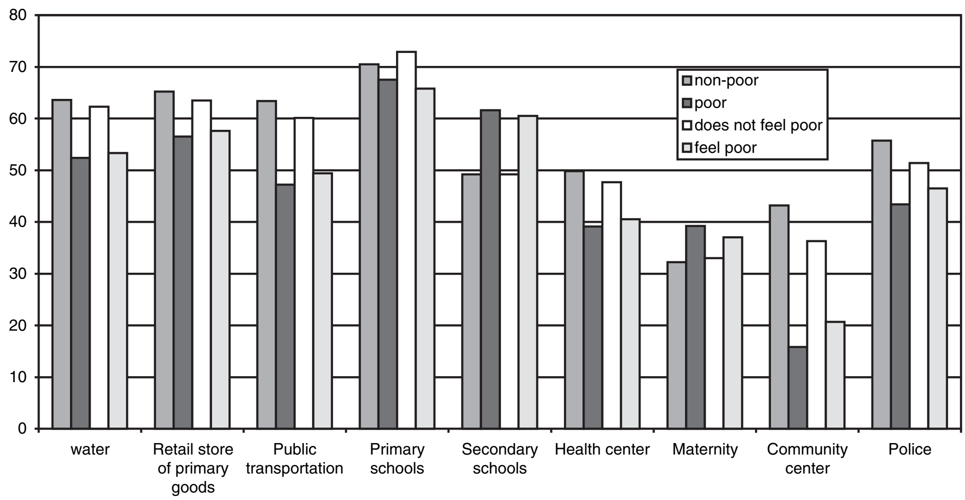
Source: World Bank staff using QUIBB 2006.

Satisfaction with Public Services Is Low. According to results from a 2004 perception survey, satisfaction rates with the quality of public services are low and lower among the poor than among the population as a whole (Figure 2.3). It is unlikely that this has changed significantly over the last three years. The only public services for which users express moderately high levels of satisfaction are primary schools, basic needs retail stores, drinking water, and public transportation. Satisfaction rates are low (below 50 percent), especially with respect to maternity, health centers, and community centers. Satisfaction rates among non-poor individuals are systematically higher than those among poor individuals by 5 to 15 percentage points on average, and satisfaction among individuals who do not feel poor is 5 to 10 percentage points higher than among individuals who feel poor. Part of the lack of satisfaction may be due to the high costs of using public services in most areas, including education and health. Affordability was cited as a key reason for not sending children to school, for example, and it is striking that the decision in 2005 to make primary public schools free has resulted in a dramatic enrollment increase. Apart from the issue of affordability, important questions should also be raised about quality, but for those who are excluded from the system, affordability is key. The findings for healthcare are similar to those obtained for education. Affordability also limits the demand for healthcare, especially because public funding for the sector is very low.

Ending the Conflict and Maintaining Peace Is the Number One Priority for Reducing Poverty. The various sources of evidence indicate that the population has been severely affected by the war, both in terms of past economic, social, and health effects, but also in terms of current psychological well being and perceptions of the future. The end of the war is one of the most frequently cited ways poverty can be reduced, and increasing security is one of the more frequently cited priorities for the state. Apart from providing security, the state should also devote its attention to education and health. The fact that communal and parliamentary elections were successfully held in June and July 2005, and that the presidential transition was also successfully completed in August 2005 with a new post-transition

Government taking office on September 1, 2005, are all positive outcomes that are very encouraging for the future stability of the country.

Figure 2.3. Satisfaction with Public Services Among Users, Burundi 2004



Source: World Bank staff based on 2004 Burundi perception survey.

Individuals Prefer that Their Communities Focus More on Encouraging Productive Activities than on Service Delivery (Figure 2.4). The provision of health, education, and security services is seen as the responsibility of the state. The population maintains that these priorities should be first and foremost to promote income-generating activities. This is in contrast to the actual priorities of communities as perceived by the population, where local authorities may place a higher weight on service delivery, especially water.

The Crisis in Agriculture Is Related to the Emphasis on Income-generating Activities. Many factors are at the root of the difficulties encountered by the agricultural sector, including the displacement of farmers, difficulties in accessing seeds and other inputs, destruction of important infrastructure, loss of livestock in the conflict, low productivity and land fragmentation, limited access to credit and financial services, use of basic agricultural techniques, and the fact that some provinces have been hit by droughts. Another major difficulty is the crisis affecting the coffee subsector, which is in need of reform. While the liberalization of the subsector is expected to increase the price paid to producers, it will also increase their risks. The following section discusses in a bit more detail the link between coffee production and the poverty status of households.

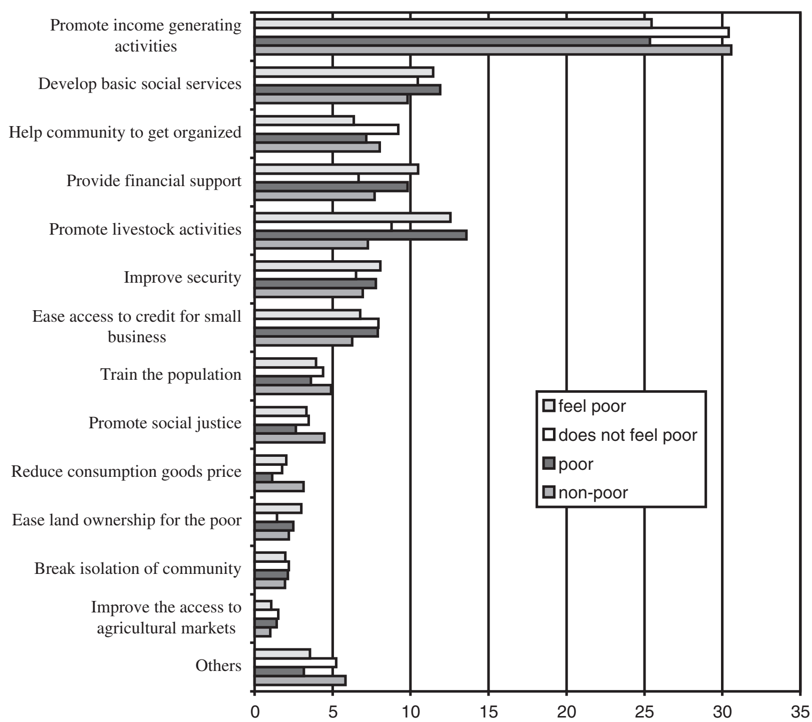
Agricultural Sector, Income Sources, and Poverty

While identifying ways to strengthen and diversify rural sources of growth, it is important to know poverty rates for different socioeconomic households. According to data from the 2006

QUIBB survey, more than 90 percent of the population in Burundi remains rural. This means that a majority of the households that belong to these various socioeconomic groups are in rural areas, except for skilled workers in the private formal and public sectors. Skilled workers represent less than 5 percent of the population and have the lowest poverty rate.

Overall, the poorest group is also the largest, households whose main source of income is food crops (poverty rate of 72.5 percent, with a population share of close to 40 percent). Households considered as inactive (no identified main income source) also have a very high probability of being poor (71.5 percent). Other households involved in agriculture have slightly lower probabilities of being poor—68.3 percent for households involved mainly in livestock and 68.2 percent for households involved mainly in export crops (especially coffee). The next group is households that derive their main source of income from unskilled labor in the public or private sector, as well as in the informal service sector, with poverty rates slightly above 50 percent. Thus, broadly speaking, three large groups emerge from this analysis—households in agriculture, with seven out of 10 individuals in poverty; unskilled and informal service workers, with one in two individuals in poverty; and skilled private and public sector workers, with much lower poverty rates.

Figure 2.4. What Should Be the Priorities of Your Community? Burundi 2004



Source: World Bank staff based on 2004 Burundi perception survey.