



Burundi

Burundi: Current Path forecast and sectoral scenarios

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Table of contents

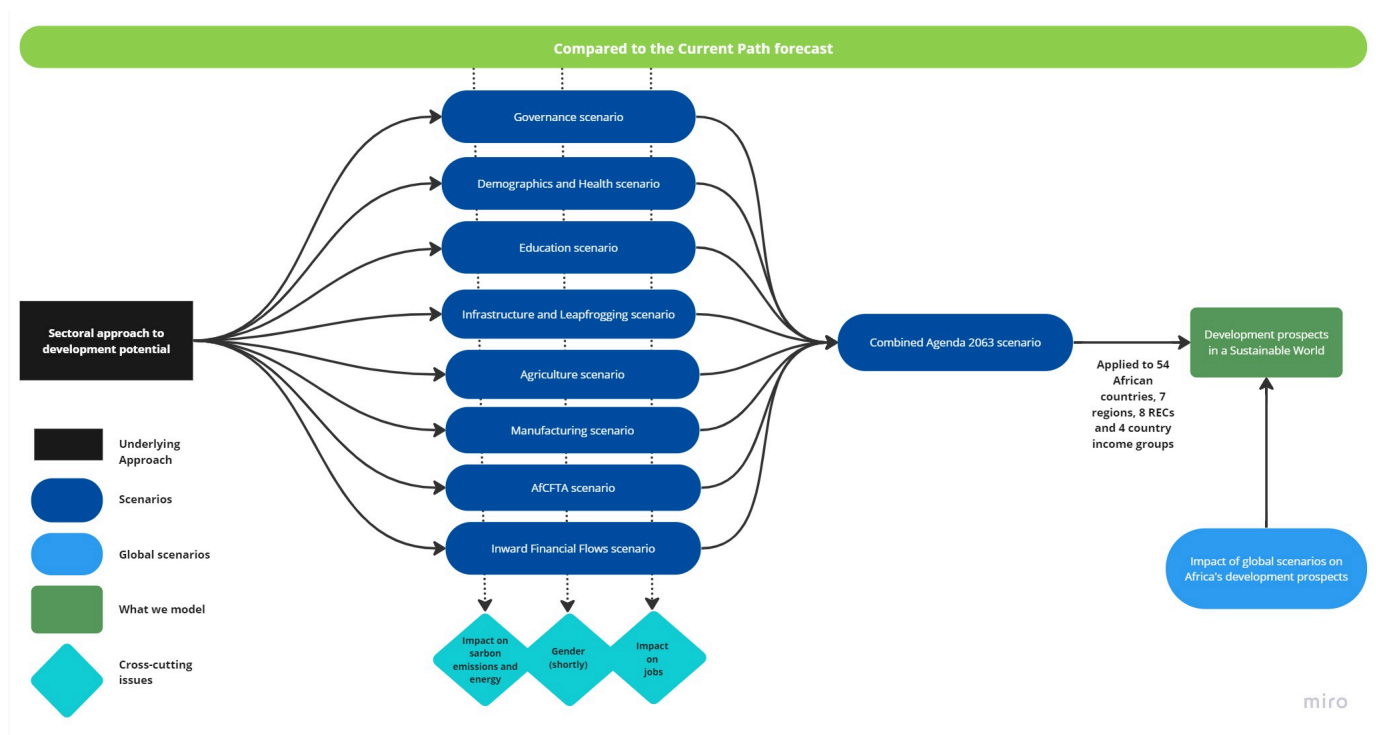
| | |
|---|----|
| Burundi: Current Path forecast and sectoral scenarios | 3 |
| Briefly | 3 |
| Governance: Current Path vs scenario | 5 |
| Demographics and Health: Current Path vs scenario | 8 |
| Education: Current Path vs scenario | 14 |
| Infrastructure/Leapfrogging: Current Path vs scenario | 17 |
| Agriculture: Current Path vs scenario | 21 |
| Manufacturing: Current Path vs scenario | 24 |
| AfCFTA: Current Path vs scenario | 26 |
| External Financial Flows: Current Path vs scenario | 28 |
| Endnotes | 31 |
| Donors and Sponsors | 32 |
| Reuse our work | 32 |
| Cite this research | 32 |

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- Briefly
- Governance: Current Path vs scenario
- Demographics and Health: Current Path vs scenario
- Education: Current Path vs scenario
- Infrastructure/Leapfrogging: Current Path vs scenario
- Agriculture: Current Path vs scenario
- Manufacturing: Current Path vs scenario
- AfCFTA: Current Path vs scenario
- External Financial Flows: Current Path vs scenario

Briefly

Chart 7: Current Path and sectoral scenarios



This section provides an overview of the key characteristics of Burundi along its likely (or Current Path) development trajectory and the impact of a single positive scenario in eight separate sectors.

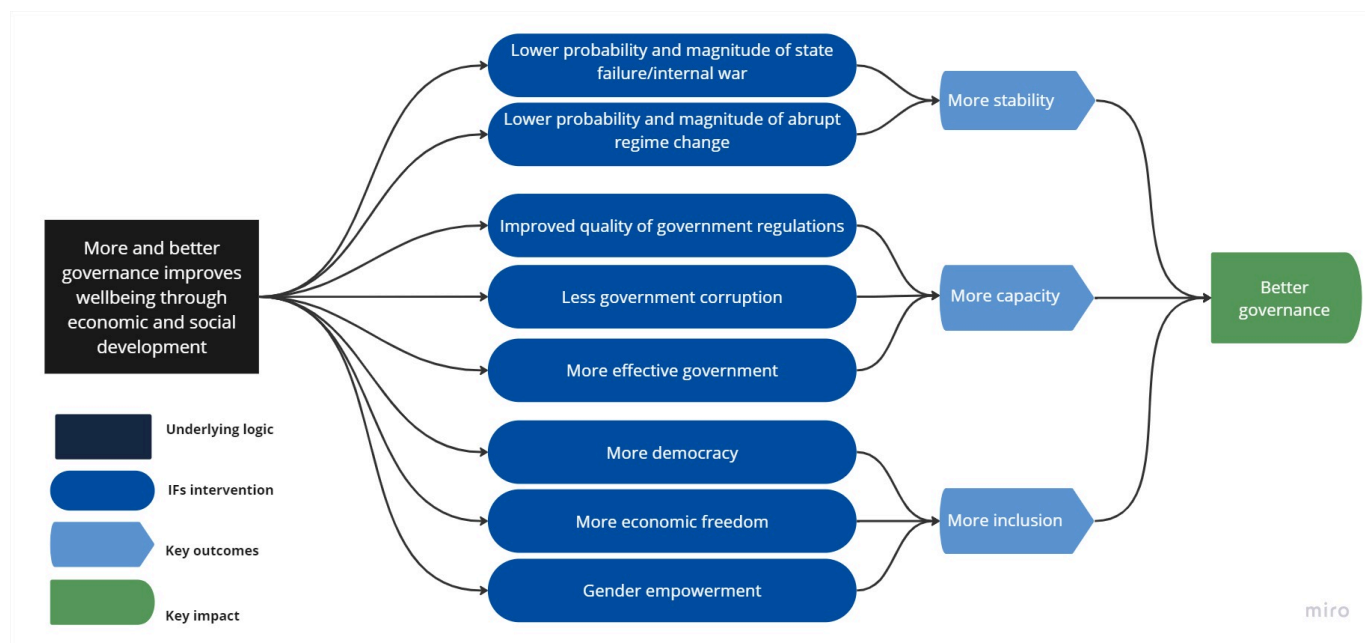
The Current Path forecast from the IFs platform is a dynamic scenario that imitates the continuation of current policies and environmental conditions. The Current Path is, therefore in congruence with historical patterns and produces a series of dynamic forecasts endogenous in relationships across crucial global systems.

The eight sectoral scenarios are on: Governance, Demographics and Health, Education, Infrastructure/Leapfrogging (consisting of the impact of renewables, ICT and the more rapid formalisation of the informal sector), Agriculture,

Manufacturing, AfCFTA (the implementation of the African Continental Free Trade Area), and External Financial Flows (consisting of aid, FDI, remittances and a proxy on illicit financial flows). The interventions in each scenario are benchmarked to present an ambitious but reasonable aspiration for countries at similar levels of development.

Governance: Current Path vs scenario

Chart 8: Governance scenario



Good governance is key to economic progress. Greater security and stability at the national level creates an enabling environment for domestic and foreign investment. It also creates conditions in which governments can pursue effective sustainable development strategies.

Weak governance, conflicts and political instability have stunted development progress in Burundi. Since independence, the country has changed leadership 11 times, with six of these through military coups. Recurrent instability has led to displacement, disruptions in livelihoods and human capital formation, losses of assets, deterrence of potential FDI and tourism, destruction of infrastructure and losses in human life.[1]

The evolution of the public sector has also been driven to a significant extent by patronage rather than by meritocratic criteria.[2] Poor governance undermines the state's ability to provide security for citizens, deliver social services, manage public investments, or encourage agricultural and other private sector growth.[3] Corruption, abuses of the judicial system, lack of security and access to the judicial system, and criminality are all major concerns. Indeed, according to the 2020 Ibrahim Index of African Governance (IIAG) report, Burundi is one of the countries with the greatest governance challenges in Africa. In the report, a score of 100 indicates the full provision of political, social and economic public goods and services that a citizen expects from the government, and the state has responsibility to deliver to its citizens. Burundi scored 36.9, and it ranked 44th of 54 African countries.[4] Corruption is systemic in Burundi. According to the global Corruption Perceptions Index (CPI) 2021 by Transparency International, Burundi, with a score of 19 out of 100, was ranked 169th of the 180 countries surveyed. This high level of corruption undermines government effectiveness in service delivery. With a score of 1.2 out of a maximum of 5 in 2020, Burundi ranked 41st of 54 countries in Africa in terms of government effectiveness as measured by the World Bank.

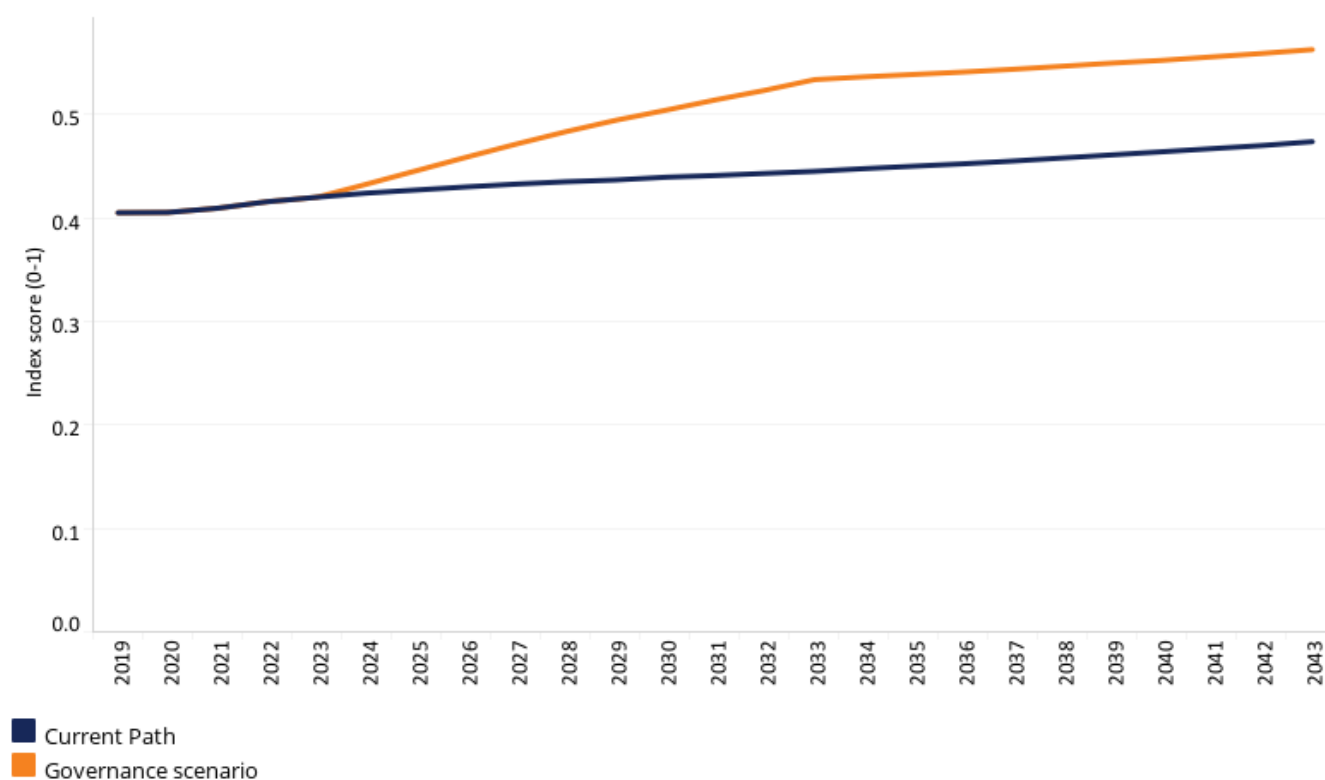
On the Current Path, Burundi's government effectiveness score is projected to slightly increase to 1.5 (out of 5) by 2043, which is below the projected average score of 1.8 for low-income African countries. In sum, governance, stability and

security indicators are weak in Burundi. While addressing the general debate of the UN General Assembly's 76th session in 2021, President Ndayishimiye said that 'the fight against corruption, economic embezzlement and the fight against impunity are among the priorities of the Government.'^[5]

The Governance scenario (Chart 8) represents reasonable but ambitious improvements in security, capacity and inclusion in Burundi. The scenario reduces the risk of regime instability, lowers the levels of internal conflict and societal violence, reduces corruption (thus providing more transparency), improves the level of democracy, increases economic freedom, enhances governance effectiveness and increases gender empowerment.

▼ < Chart 4 Chart 5 Chart 6 Chart 9 Chart 10 Chart 12 Chart 14 Chart 15 Chart 17 Chart 19 Chart 21 >

Chart 9: Composite governance index in CP vs Governance scenario, 2019–2043



Source: Forecast in IFs version 7.84

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In the IFs system, governance is conceptualised along three dimensions – security, capacity and inclusion – reflecting the traditional sequencing of the state formation process.

The score for each dimension of governance ranges from 0 (bad) to 1 (good). The first dimension, security, measures the probability of intrastate conflict and the general level of risk. The second dimension, capacity, is related to government revenue, corruption, regulatory quality, economic freedom and government effectiveness. The third dimension, inclusiveness, measures the level of democracy and gender empowerment.^[6]

Burundi performed poorly in terms of capacity compared to other dimensions of governance. In addition, the political crisis in 2015 has curtailed aid flows to Burundi as Western countries — led by the European Union (EU), the United States

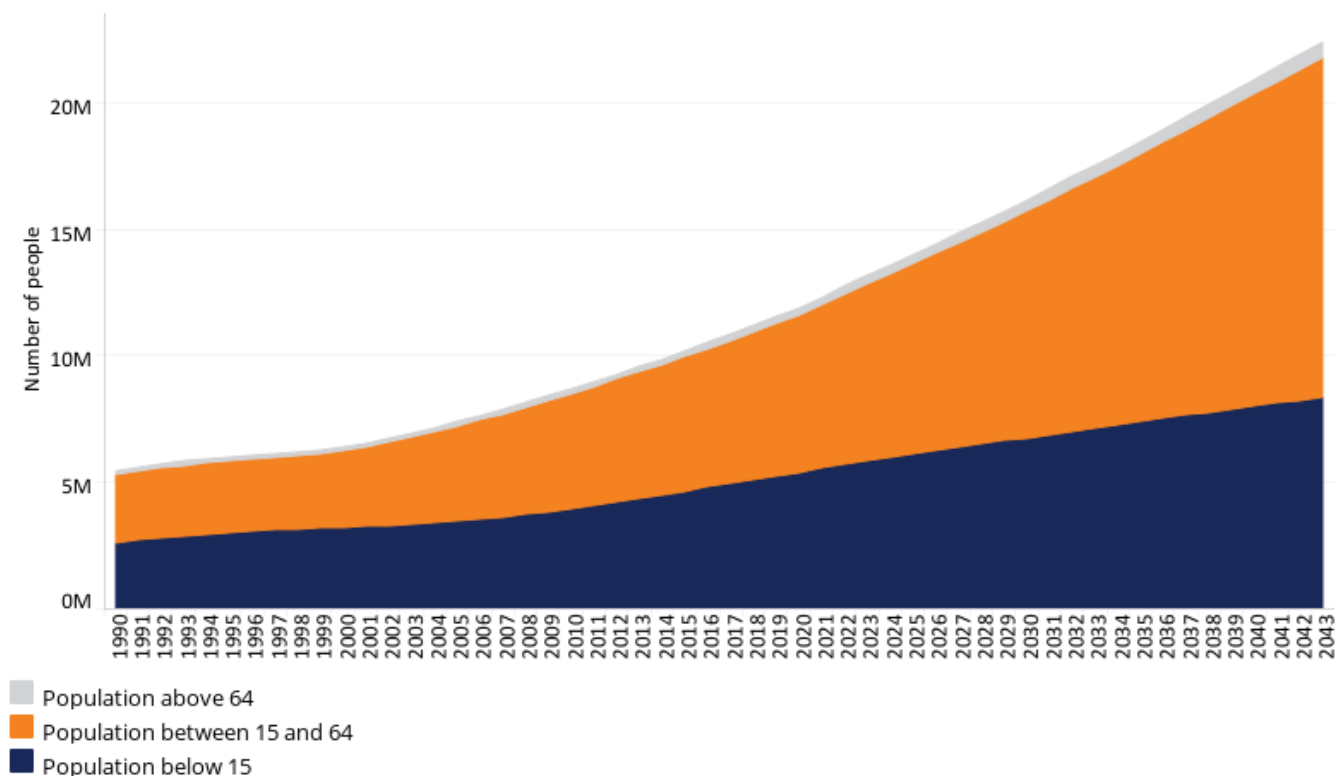
(US), Belgium, and the Netherlands — withheld aid to Burundi in an attempt to prompt the late president into negotiating with the opposition. The result was a significant reduction in government revenue which reduced government capacity to deliver public services.

The change of leadership in 2020 has led to a more moderate political tone, improved relations with donors and a slight reduction in anti-democratic tendencies.^[7] Thus, on the Current Path, Burundi is forecast to make progress in all the three dimensions of governance. As a result, Burundi's score on the composite governance security index, which is a simple average of the three dimensions of governance mentioned above, is forecast to be about 20% higher in 2043 than its level in 2019 (Chart 9). In the Governance scenario, the overall governance performance of Burundi is nearly 20% higher than the Current Path forecast for the same year, and 9% above the average for low-income African countries.

Demographics and Health: Current Path vs scenario

Chart 4 Chart 5 Chart 6 Chart 9 Chart 10 Chart 12 Chart 14 Chart 15 Chart 17 Chart 19 Chart 20

Chart 10: Population structure in CP, 1990–2043



Source: Forecast in IFs version 7.84 and historical data from UNDP world population prospects

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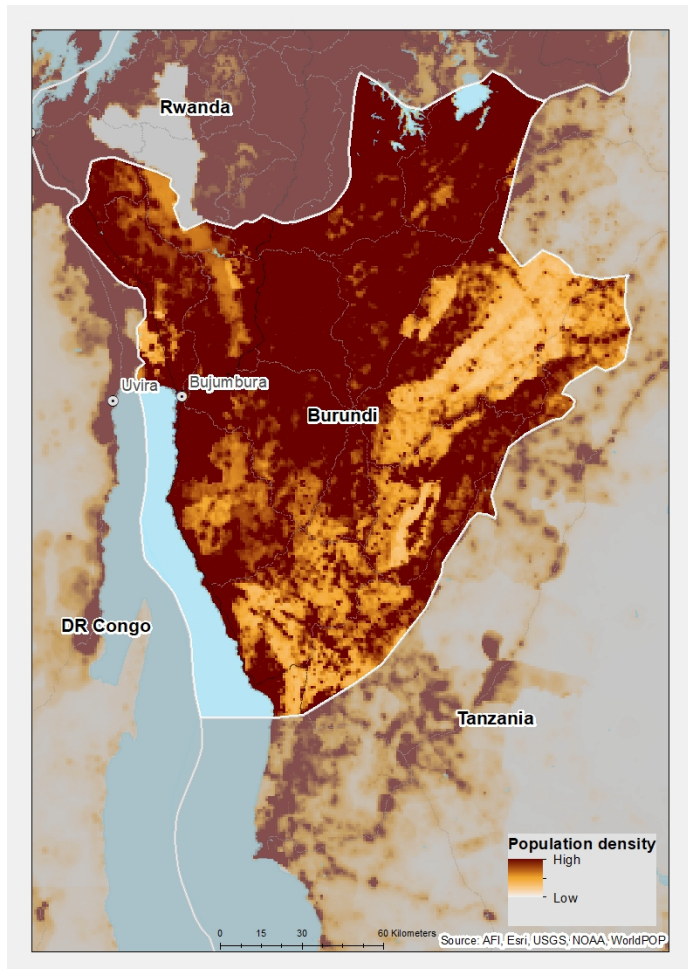
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This section presents the Current Path forecast of demographics and health for Burundi and the impact of a scenario that aims to improve health and hasten and increase the size of the demographic dividend.

The characteristics of a country's population can shape its long-term social, economic and political foundations. Burundi is a densely populated, poor and highly fragile country. The population is composed of three ethnic groups: the Hutu majority (85% of the population), the Tutsi (14%) and a very small Twa minority (1%). This diversity is an important factor in political, social and cultural terms and has evolved into an important source of tensions and conflict in the country. The population is predominantly Christian (60% Roman Catholic), and Rundi (Kirundi), a Bantu language that is the standard medium of communication throughout the country, and French are the official languages.

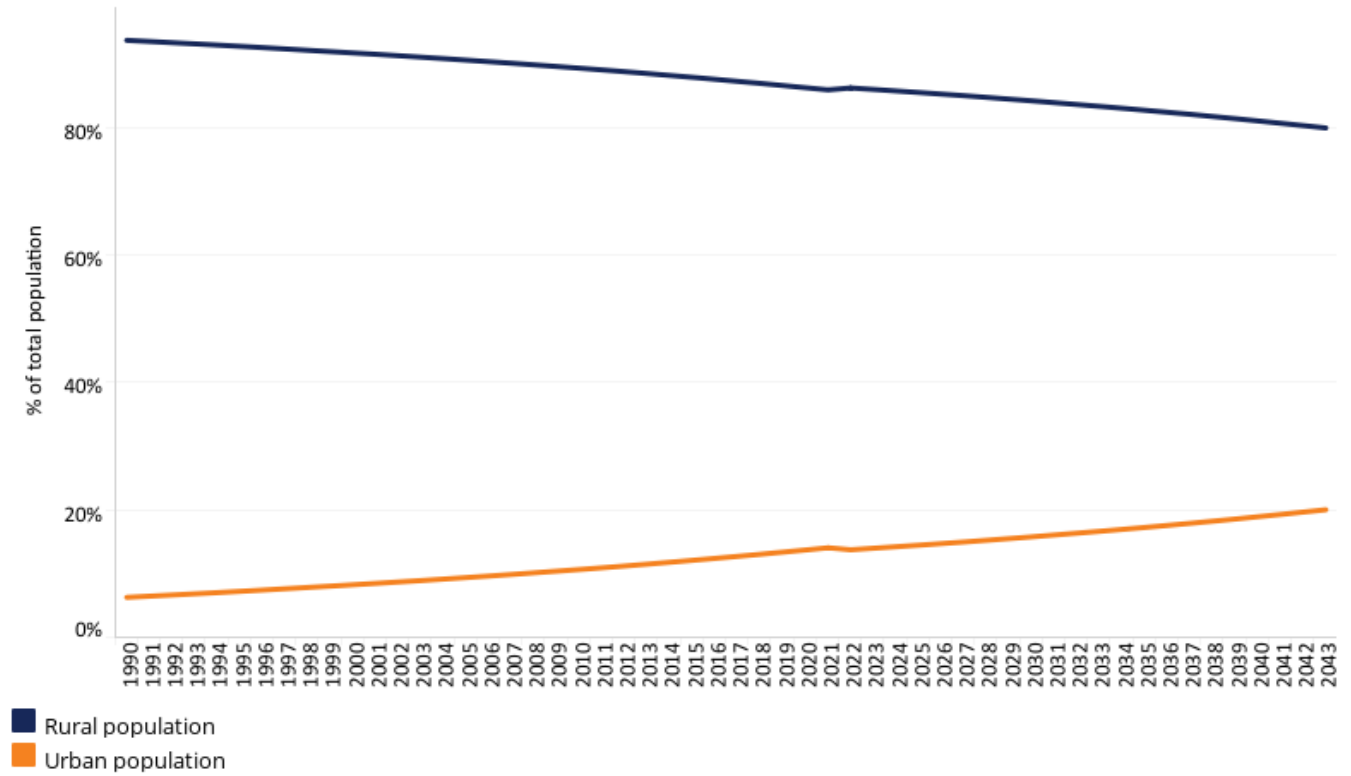
The population of Burundi is growing rapidly, as shown in Chart 10. The fertility rate was 5.2 children per woman in 2019 (the eighth highest in Africa), down from 7.4 in 1990. The sharp rise in population has increased population densities and exacerbated development challenges. On the Current Path, the population is projected to almost double by 2043 to 22.4 million. Population growth in Burundi is driven by high fertility rates, low access to modern contraceptives, limited education in family planning and limited access to healthcare facilities.

Chart 11: Population distribution of Burundi



Burundi is heavily populated. It has one of the highest population densities in Africa, estimated at about 4.6 people per hectare, which is well above the African average of 0.44 people per hectare. Urban centres are rare, the exceptions including Gitega in the central part of the country, Musinga and Ngozi in the north, and Bujumbura, the largest city, sprawled along the northern tip of Lake Tanganyika (Chart 11).

Chart 12: Urban and rural population in the CP, 1990–2043
 % of total population

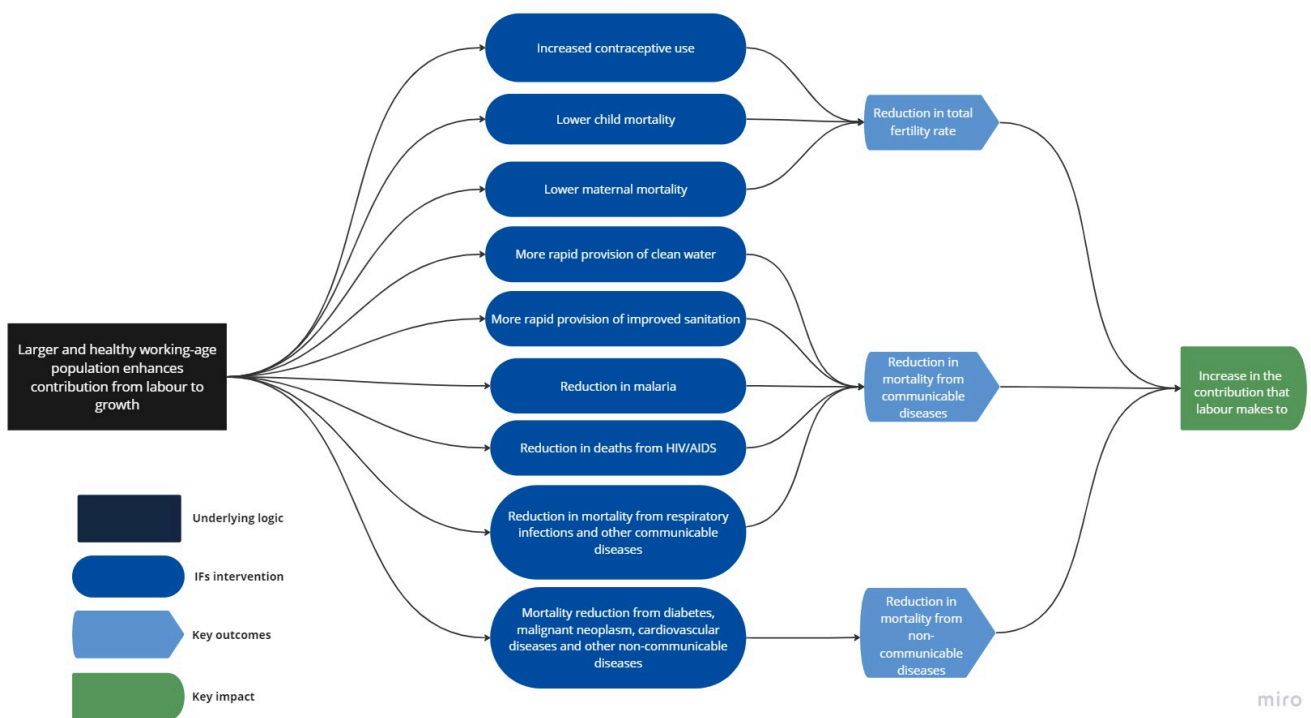


Source: Forecast in IFs, historical data from UN world urbanization prospects

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Chart 12 shows the trends in urbanisation in Burundi. The country has the second highest proportion of rural population in the world, after Papua New Guinea, and it is therefore the least urbanised country in Africa. In 2019, only 13.4% of the population lived in urban areas. However, from a low base, the urban population is rapidly growing at almost 6% per year — the highest in Africa. On the Current Path, 20% of the population will likely reside in the cities by 2043, meaning that the country will remain predominantly rural over the forecast horizon.

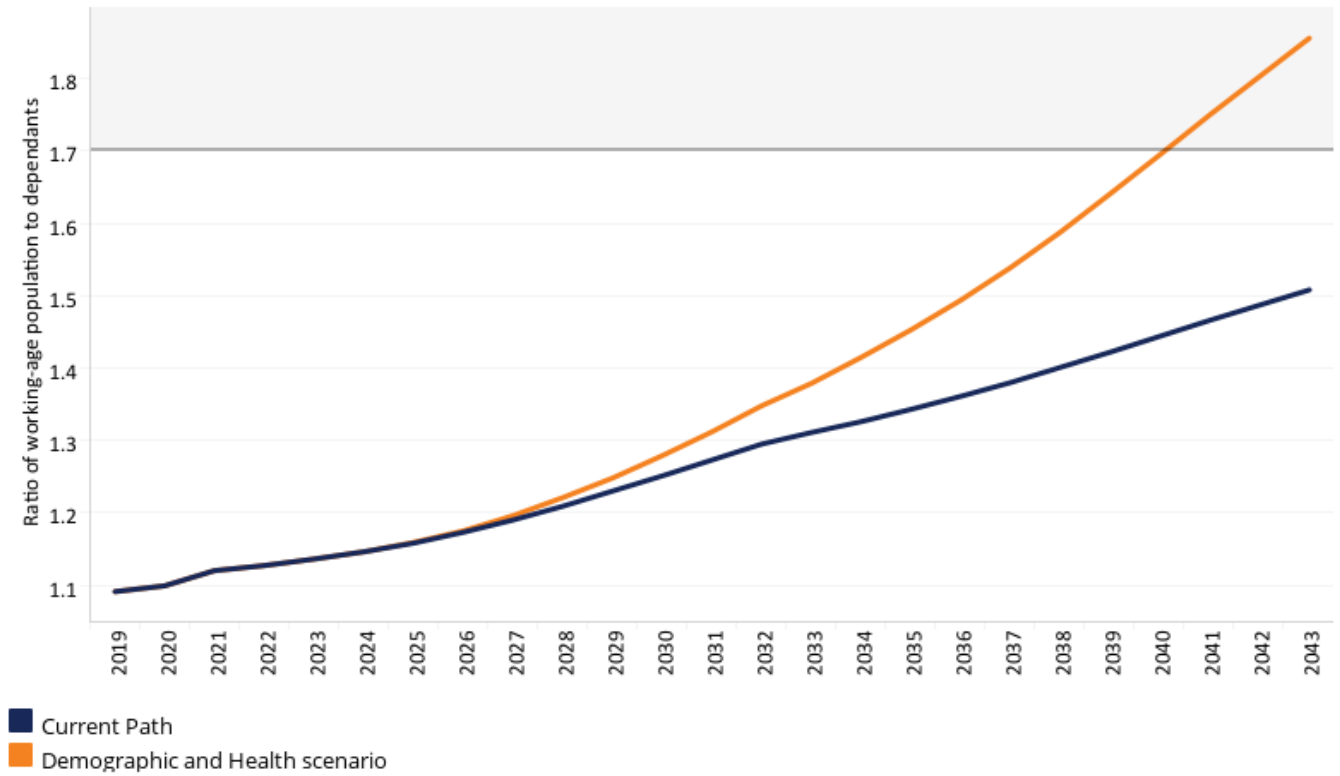
Chart 13: Demographics and Health scenario



The Demographics and Health scenario consists of reasonable but ambitious reductions in child and maternal mortality ratio, increased access to modern contraception, reductions in the mortality rate associated with both communicable diseases (e.g. AIDS, diarrhoea, malaria and respiratory infections) and non-communicable diseases (e.g. diabetes), as well as improvements in access to safe water and better sanitation.

See Chart 29 for the impact of the Demographics and Health scenario on GDP per capita and Chart 30 for the impact of the scenario on extreme poverty.

Chart 14: Demographic dividend in CP and Demog & Health scenario, 2019–2043



Source: Forecast in IFs version 7.84 and historical data from UNDP world population prospects

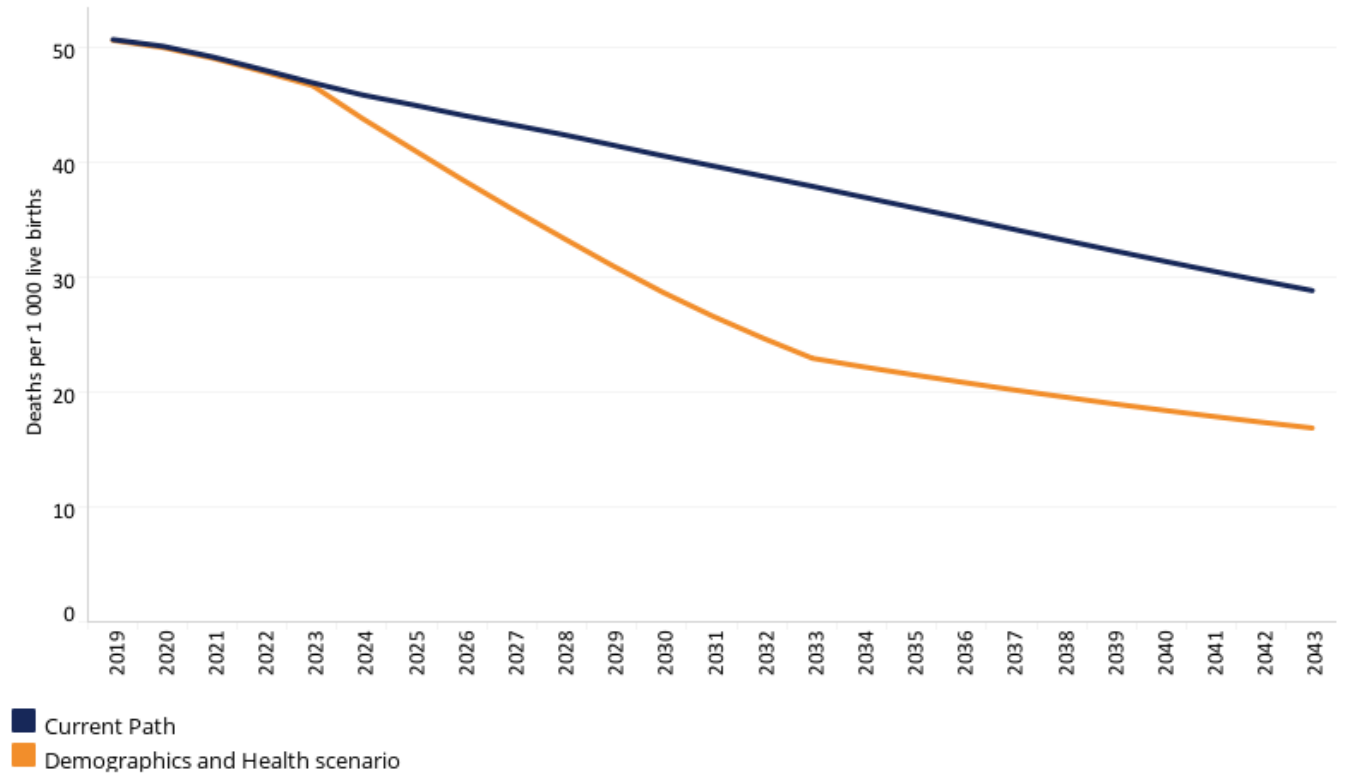
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Demographers typically differentiate between a first, second and even third demographic dividend. We focus here on the first dividend, namely the contribution of the size and the quality of the labour force to incomes. It refers to a window of opportunity when the ratio of the working-age population (between 15 and 64 years of age) to dependants (children and elderly people) reaches at least 1.7 to 1.

A steady decline in fertility is critical to accelerating the demographic transition. In this scenario, the fertility rate is 2.6 births per woman by 2043 compared to 3.7 on the Current Path in the same year. In addition, on the Current Path, the ratio of working-age people to dependants will improve slowly from 1.1 to 1 in 2019 to about 1.5 to 1 by 2043. This is below the minimum threshold of 1.7 to 1 at which point a country can expect to experience a demographic dividend, provided other enablers such as appropriate education and potential job opportunities are also available. Whereas Burundi only gets to this positive ratio around 2055 in the Current Path forecast, the ratio of working-age people to dependants is 1.7 to 1 by 2041, i.e. 14 years earlier than the Current Path forecast.

Fewer dependants to take care of frees up resources for investment in physical and human capital formation and eventually increases labour force participation, particularly that of women.

Chart 15: Infant mortality in CP and Demog & Health Scenario, 2019 –2043



Source: Forecast in IFs version 7.84; historical data from the Institute for Health Metrics and Evaluation (IHME)

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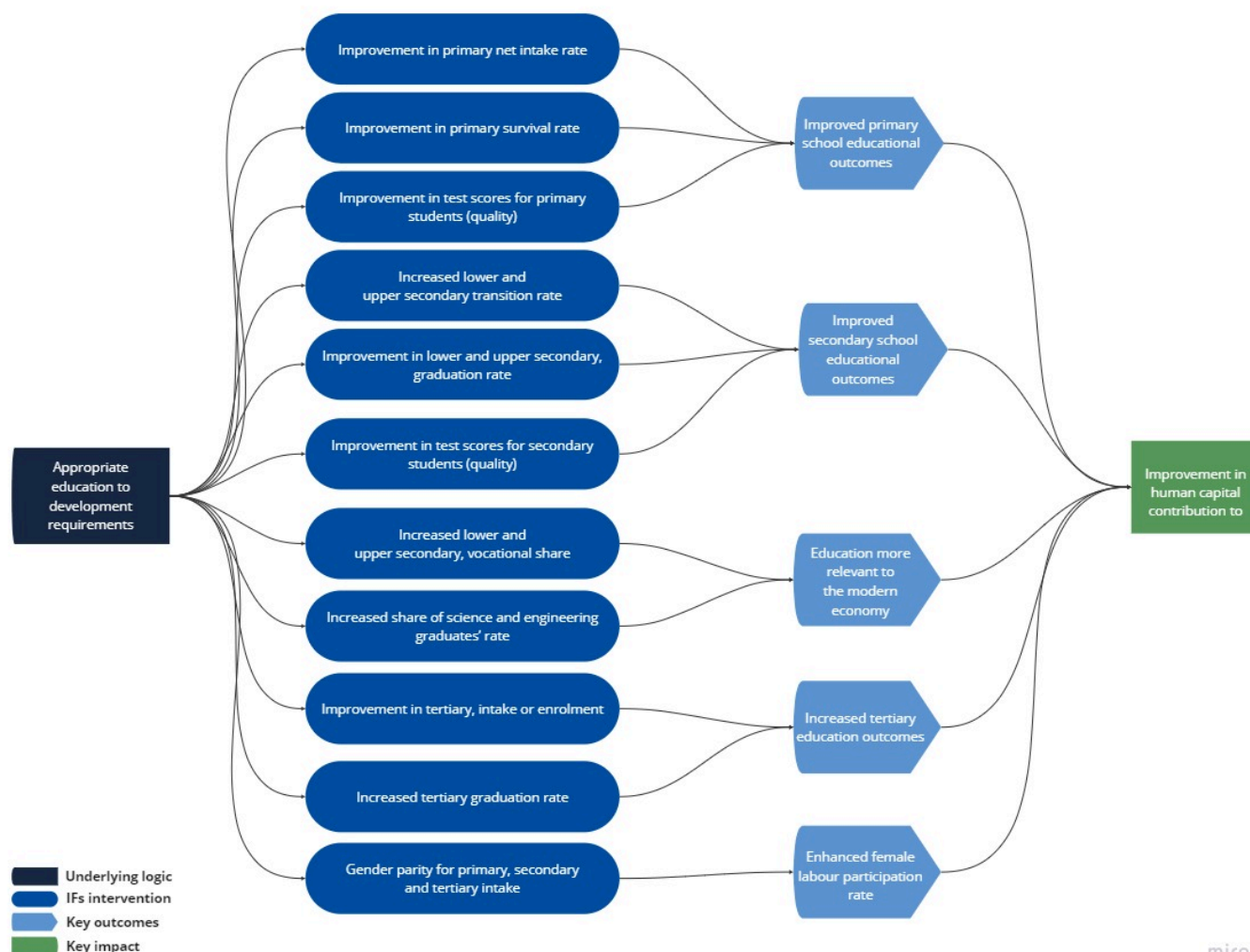
The efficacy of a country’s health system can be evaluated by several indicators such as maternal mortality, life expectancy and infant mortality.

Even though it is still high, Burundi has made progress in reducing infant mortality from 100 deaths per 1 000 live births in 1990 to 50 in 2019. Donor interventions in prevention and treatment of common childhood illnesses, and birth preparedness and maternal services have contributed to this result.[8] However, the country is not on track to achieve the SDG target of 12 deaths per 1 000 live births by 2030. On the Current Path, the infant mortality rate is forecast to be 40 deaths per 1 000 live births by 2030 and 29 deaths by 2043. The Demographics and Health scenario could lead to a more rapid reduction in infant mortality to 29 deaths per 1 000 live births in 2030 and 17 deaths in 2043.

Improving health outcomes and accelerating the demographic transition could generate increased per capita incomes and reduce poverty in Burundi (see Chart 29 and Chart 30).

Education: Current Path vs scenario

Chart 16: Education scenario



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The education system in Burundi has a structure of six years of primary education, seven years of secondary education divided into four years of lower secondary and three years of upper secondary school, and three to five years of tertiary education.

Since the introduction of the free primary education policy in 2005, Burundi has made significant progress in terms of the quantity of education, especially at primary level. The literacy rate of the youth has significantly increased from 62% in 2008 to 88% in 2017, placing Burundi among the top 20 countries in Africa.[9] The gross enrolment rate for primary education stood at 128% in 2018, while the net primary school enrolment was 92.8% without significant variation between provinces, gender or socio-economic background.[10]

However, significant challenges remain. While education completion rates have significantly improved, they remain below the sub-Saharan Africa average and low-income African countries average: four out of 10 children do not complete primary school and seven out of 10 do not finish secondary school.[11] Out of school children have declined from 44% in 2010 to 39% in 2017, but the number remains high (almost 2 million).[12] The tertiary enrolment is also very low, at 6% in 2017, but on par with the average for African low-income countries. This situation is explained by several factors, such as

insufficient educational infrastructure and teachers' and parents' lack of resources to meet costs related to educating children.

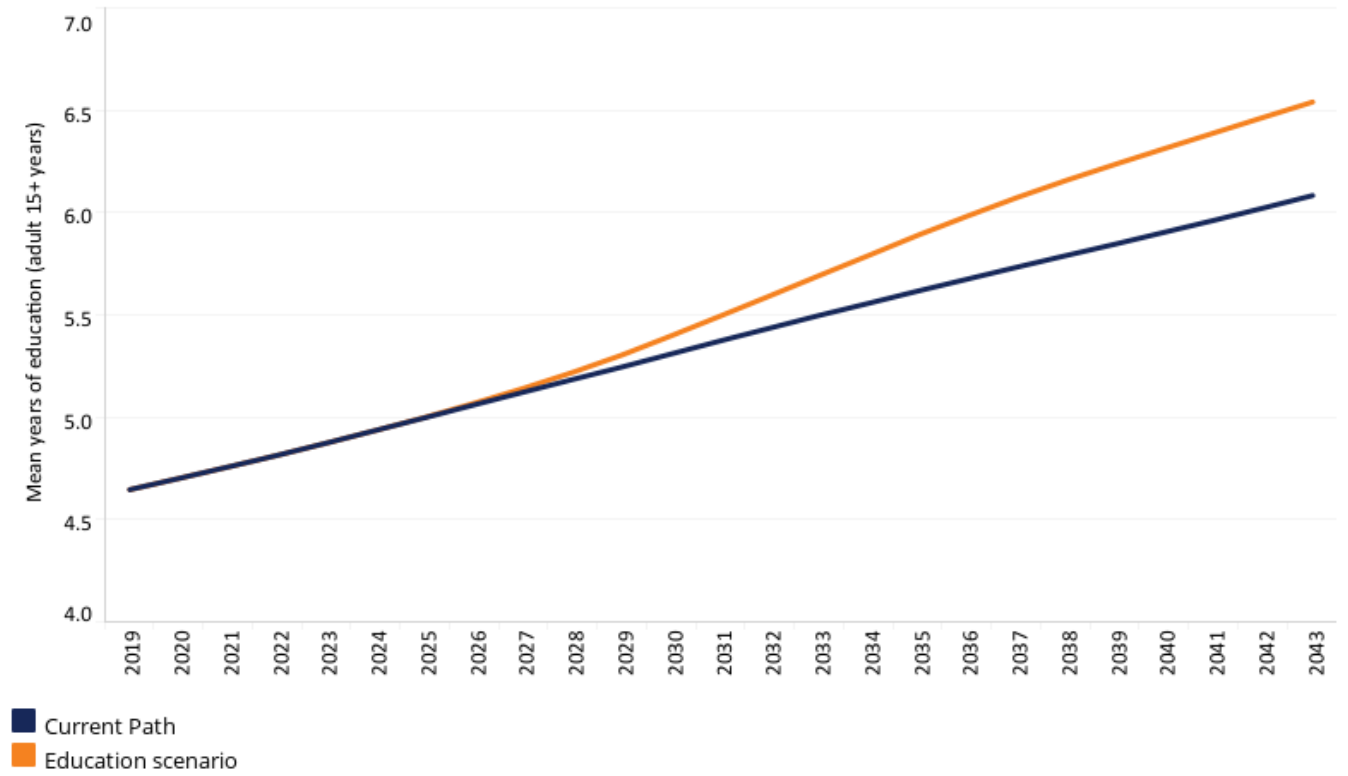
While inequalities in the education system are minor at primary education level, they are high at secondary and tertiary levels. For instance, out of every 100 children who reach post-basic education, seven come from the poorest households and 49 from the wealthiest. Finally, urban and more affluent households obtain seven and ten times more educational resources than rural and poorer households, respectively.[13] Females are also less likely to attend higher education than males. Burundi has achieved gender parity in primary and secondary enrolment; however, the gender parity ratio for tertiary enrolment was only 0.39 in 2019. On the Current Path, the gender parity ratio for tertiary enrolment is forecast to improve to 0.82 by 2043.

The quality of education in Burundi is also low. While performance is relatively good at the start of schooling (Grade 1 and Grade 2 of primary education), it struggles to reach desirable levels from Grade 4. According to the PASEC 2019 (*Programme d'analyse des systèmes éducatifs de la CONFEMEN*) report, in Grade 6 of primary education, fewer than 30% of students score above the minimum skills threshold in reading, and just 60% achieve the minimum score in mathematics — a significant drop from 2014.[14] In addition, there is a disconnect between graduates' skills and the job market's needs. The technical and vocational education and training (TVET) sector is neglected. As of 2016, only 7% of students were enrolled in TVET.[15] According to UNESCO, Burundi is one of the countries in sub-Saharan Africa with the least funding for its TVET sector. The government should build an effective and sustainable TVET system to provide skilled labour to the economy.

In Burundi's NDP, developing a skilled workforce is viewed as a priority for improving the country's socio-economic prospects.

The Education scenario improves the quantity and quality of education in Burundi. It represents reasonable but ambitious improved intake, transition and completion rates from primary to secondary and tertiary levels and better quality of education at primary and secondary levels. It also models substantive progress towards gender parity at all levels, additional vocational training at the secondary school level and increases in the share of science and engineering graduates to provide skilled labour to the economy.

Chart 17: Mean years of education in CP and Education scenario, 2019–2043



Source: Forecast in IFs, historical data from Barro-Lee

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The average years of education in the adult population (aged 15 years and older) serves as a good first indicator of the stock of education in society. Chart 17 shows the trends in mean years of schooling in the Current Path forecast and in the Education scenario. In 2015 (the last year of available data), the average years of schooling for adults aged 15 years and over was 4.1 years in Burundi, which is below its neighbours Tanzania (6.1 years), Rwanda (4.4 years), and on par with DR Congo and the average for African low-income countries.[16]

When disaggregated by gender, males have on average 4.6 years and females 3.7 years of schooling. This means that most adults in Burundi have not completed primary education. On the Current Path, the average years of education for adults 15 years and older will likely be six years by 2043, 0.5 years lower than in the scenario.

See Chart 29 for the impact of the Education scenario on GDP per capita and Chart 30 for the impact of the scenario on extreme poverty.

Infrastructure/Leapfrogging: Current Path vs scenario

Chart 18: Infrastructure/Leapfrogging scenario



Infrastructure shortage is one of the significant constraints to the modernisation of the Burundian economy. In 2020, Burundi ranked 39th out of 54 African countries on the African Infrastructure Development Index (AIDI) with a score of 15.9 out of 100.[17] Poor coverage and low-quality infrastructure in Burundi increase transaction costs and lower the return on capital and work, discouraging domestic and foreign investment and constraining economic growth. In the agriculture sector, for instance, it is estimated that transport costs represent, on average, 35% of import prices and 40% of export prices.[18]

Despite the abundant hydroelectric potential, Burundi has Africa's second lowest electricity access rate, only ahead of South Sudan. As of 2020, only 11.7% of the country's total population had access to electricity compared to 34% for the average for low-income Africa and 42% for the average for global low-income peers. And for those connected to grid power, supply remains unreliable mainly. Electricity demand significantly exceeds capacity, and the old, poorly maintained transmission system leads to rolling blackouts and outages. There is also a significant rural-urban disparity in terms of electricity access. In 2019, 62.7% of the population in urban areas had access to electricity, while only 3.1% of people in rural areas had access. On the Current Path, the national electricity access rate is forecast to improve modestly to 20.5% by 2043.

Burundi's transport infrastructure is also inadequate. The country mainly depends on road transport for the transportation of goods and services and has a crumbling road network of about 12 300 km, of which about 10% is paved. The communication infrastructure bottleneck also limits Burundi's growth potential. Mobile phone subscriptions in

Burundi stood at about 57 per 100 people in 2019^[19] — below its neighbours Rwanda (72) and Tanzania (70) but above DR Congo (43). The mobile broadband subscriptions per 100 people stood at 27 in 2019, compared to an average of 19 for low-income Africa. IFs estimates it at 153 by 2043.

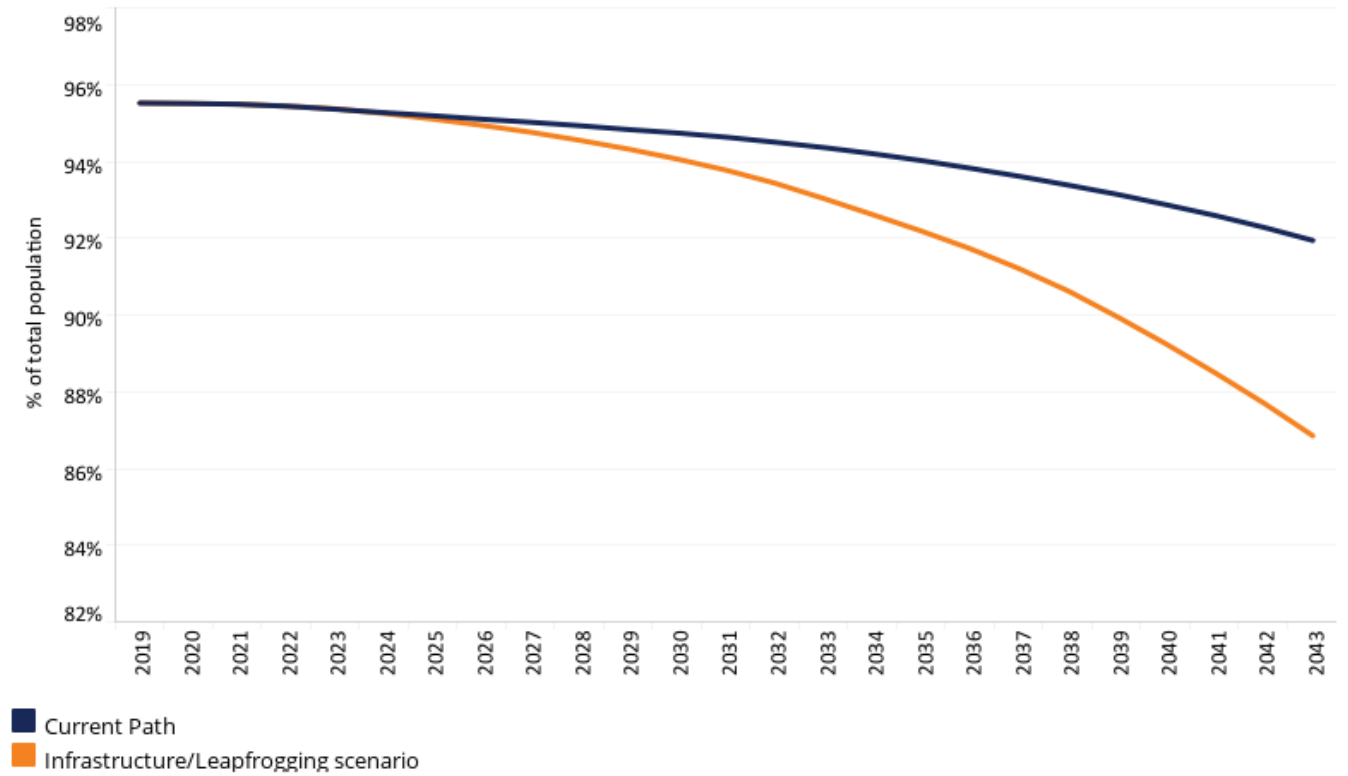
Fixed broadband provides faster Internet access speeds with more secure connections and is important for high value-add service sectors. However, fixed broadband penetration in Burundi is strikingly low, with a subscription rate of 0.03 per 100 people, below the average of 0.2 for African low-income. On the Current Path, fixed broadband subscriptions are forecast to be 16 per 100 people by 2043.

To overcome difficulties associated with the poor telecom infrastructure, the government of Burundi has supported a number of prominent telcos in building a national fibre backbone network. This network offers onward connectivity to submarine cable infrastructure landings in Kenya and Tanzania. The first sections of this network were switched on in early 2014, and additional provinces have since been connected. In addition, in early 2018 the government kick-started the Broadband Burundi project, which aims to deliver national connectivity by 2025.^[20]

In sum, the infrastructure deficit, especially poor access to electricity and the lack of a good road network, is cited as the most significant obstacle to expanding the small private sector in the country. The NDP 2018–2027 identifies infrastructure development as one of the key pillars to structurally transform the Burundian economy for robust, sustainable, resilient and inclusive growth.

The Infrastructure/Leapfrogging scenario addresses these issues. It represents reasonable but ambitious investment in road infrastructure, renewable energy technologies and improved access to electricity in urban and rural areas. The scenario also includes accelerated access to mobile and fixed broadband and the adoption of modern technology that improves government efficiency and allows for the more rapid formalisation of the informal sector.

Chart 19: Traditional cookstoves usage in CP and Infra/Leapfrogging scenario, 2019–2043



Source: Forecast in IFs version 7.84

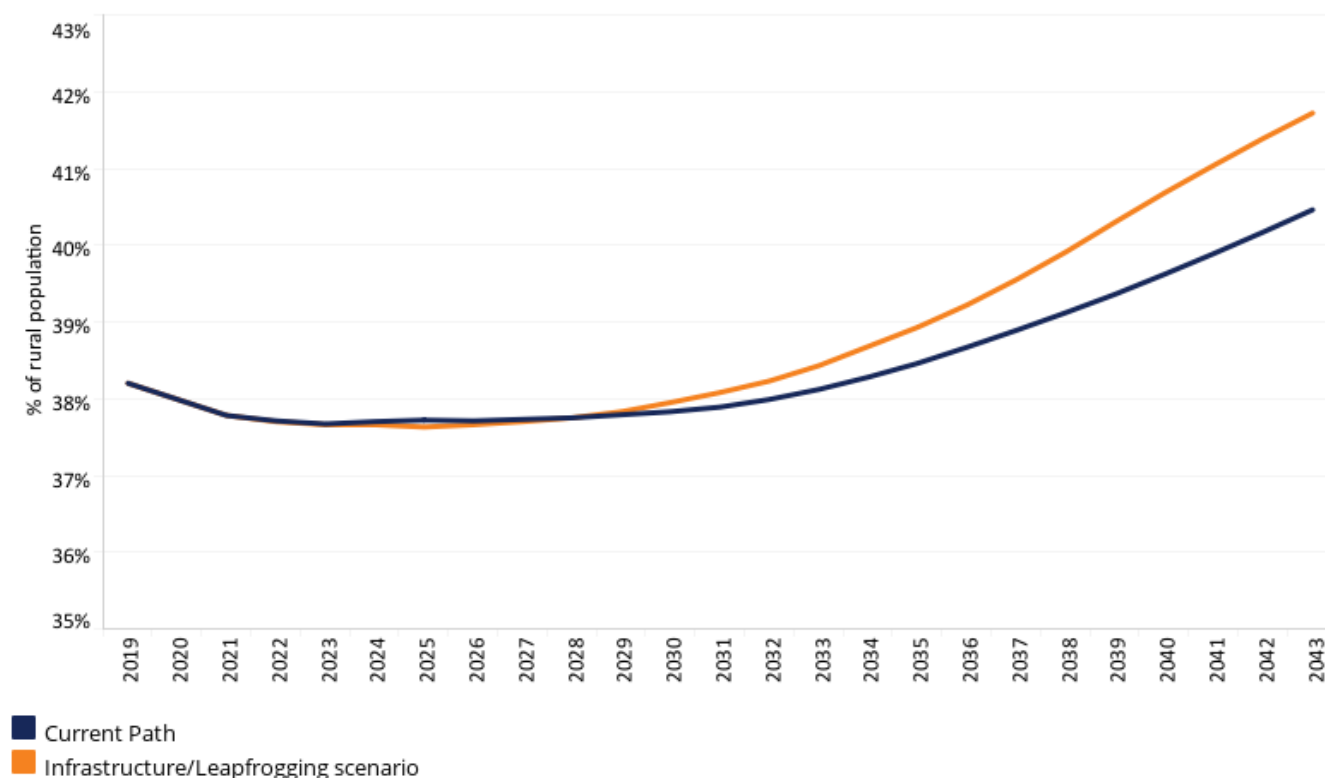
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As a result of limited access to electricity, many households rely on firewood and charcoal (traditional cookstoves) for energy. It is estimated that about 90% of the population in Burundi uses charcoal for domestic use.[21] This poses a risk to the environment with the acceleration of deforestation and poor air quality that negatively affects people’s health by causing respiratory problems. Reports estimate that in 30 years the forest cover in Burundi could be erased [22] and major environmental problems will continue to threaten the country due to soil degradation and exhaustion, forest resource degradation and human environmental degradation if urgent action is not taken.[23]

Chart 19 shows traditional cookstoves usage trends in the Current Path and Infrastructure/Leapfrogging scenario. As of 2019, 95% of the households in Burundi were using traditional cookstoves. On the Current Path, it is projected to decline slightly to 92% by 2043. However, in the Infrastructure/Leapfrogging scenario, it is forecast to be 86% (six percentage points lower than the Current Path forecast). The share of households using modern fuel cookstoves is 13% by 2043, almost double the Current Path forecast of 8% in the same year. These findings imply that increasing access to energy/electricity and/or off-grid renewable energy solutions, especially in rural areas, could contribute to forest protection and reduce emissions by shifting households away from traditional cooking methods to modern ones.

Chart 20: Rural road access in CP and Infra/Leapfrogging scenario, 2019–2043



Source: Forecast in IFs version 7.84

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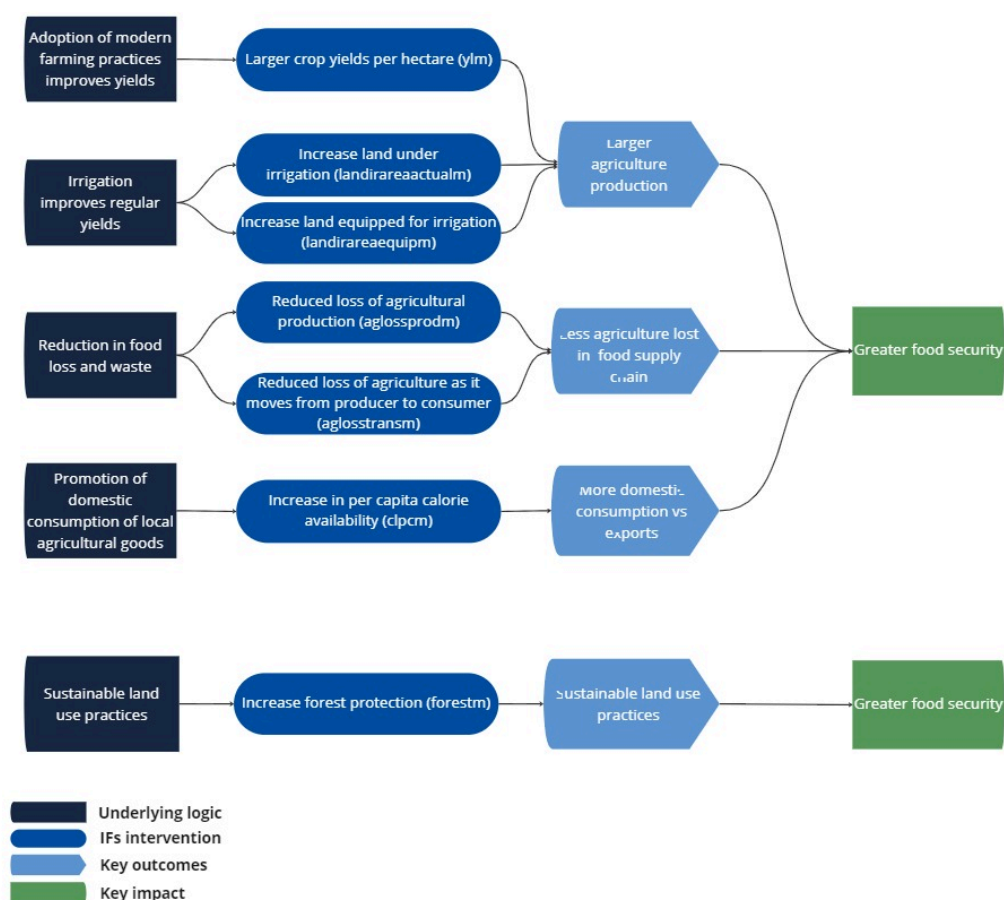
Access to rural roads reduces transportation time and cost and facilitates agricultural commercialisation. Poor rural road connectivity to markets may push farmers to continue to produce solely for their households' consumption as they are unsure whether they can sell the crop in the market. Given the large rural population, improving access to rural access roads will promote positive economic impacts such as improved rural incomes, increased agricultural productivity and food security, and increased participation in the economy. Additional mobility and connectivity for rural population groups will also have other positive social impacts, such as reducing the high maternal mortality rate and improving paediatric health by means of easier access to critical services (for example, healthcare facilities).[24]

As shown in Chart 20, in 2019 the share of rural population within 2 km of an all-weather road was estimated at 38.2%, and it is forecast to reach 40.5% by 2043. As a result of investment in road infrastructure, in the Infrastructure/Leapfrogging scenario, it is projected to be about 42%—1.5 percentage points above the Current Path forecast in 2043.

See Chart 29 for the impact of the Infrastructure/Leapfrogging scenario on GDP per capita and Chart 30 for the impact on extreme poverty.

Agriculture: Current Path vs scenario

Chart 21: Agriculture scenario



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The agriculture sector in Burundi is the main source of livelihood for the majority of the population. Although its contribution to GDP has declined over time, it still provides income for about 86% of the population[25] and remains the main supplier of raw materials to the country's agro-industry.

Heavy dependence on rain-fed agriculture increases the country's humanitarian, social and macroeconomic vulnerabilities to rising temperatures and extreme weather shocks. Burundi's location in the Great Lakes area makes it prone to cycles of flooding and drought, and with low irrigation penetration, the sector is particularly vulnerable to rainfall variability. Climate change has already increased the frequency and severity of floods and droughts in recent years.[26] Since the turn of the century, the country has faced 34[27] flooding and drought events directly affecting an estimated 3.2 million people. The 2005/2006 droughts caused particular devastation when crop failures led to food shortages especially in the eastern provinces.

Around half of Burundi's land area is considered cultivable and about one-third is suitable for pasture. Staple food crops include beans, corn (maize), cassava and sorghum, and cash crops include coffee, cotton and tea. However, the low productivity in the sector — driven by poor farming practices, insecure property rights over land and climate-related shocks — limits economic growth and poverty reduction and increases food insecurity. Burundi ranked last on the 2022 Global Hunger Index.[28] Domestic production cannot meet the population's nutritional needs demand despite the country's fertile land and the fact that most of the workforce work in agriculture. Many Burundians face hunger and undernutrition. It is estimated that chronic malnutrition costs Burundi about US\$102 million per year.[29]

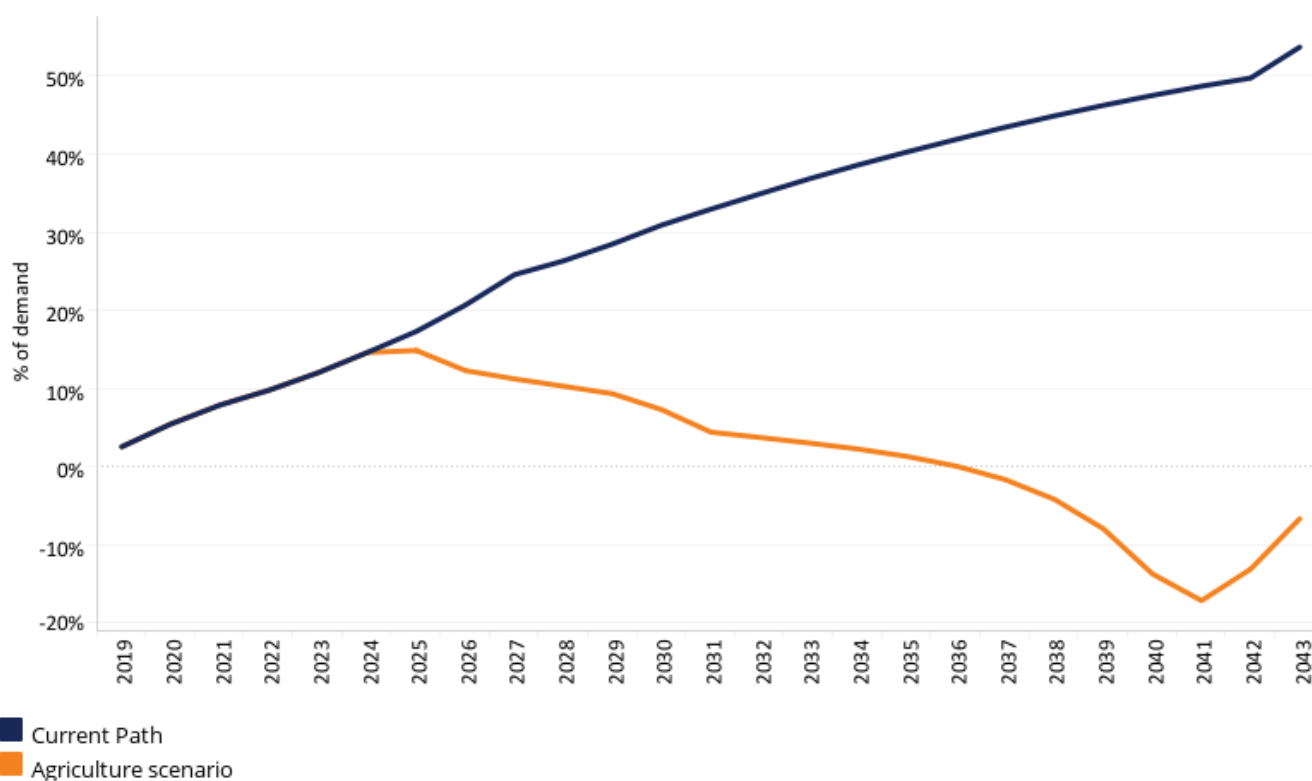
In 2019, the average crop yield was estimated at 5.6 tons per hectare, which is above the average of 2.7 tons for low-income Africa. The average crop yield in Burundi is projected to rise modestly to 6.6 tons per hectare by 2043, meaning that agriculture production will remain sluggish and undoubtedly be insufficient to meet the nutritional needs of the growing population, which is estimated to almost double by 2043.

Boosting agricultural productivity would not only raise the incomes of farm households, which account for more than 50% of the country's population, but it would also lower food costs for the non-farming population and pave the way for agro-industry development. To revive agricultural production and reduce the food deficit, the government of Burundi has adopted a National Agricultural Investment Plan (PNIA), divided into 16 Provincial Agricultural Investment Plans (PPIAs). Thus, a national fertiliser subsidy programme (PNSEB), a subsidy programme for selected seeds, the reorganisation of certain crops (coffee, tea, cotton, rice) into sectors and organisational and institutional reforms have been implemented.[30] In the current NDP 2018–2027, modernisation of the agriculture sector is a critical pillar of achieving the country's development objectives.

The Agriculture scenario represents a reasonable but ambitious improvement in agriculture productivity. To this end, it increases crop yields per hectare (reflecting better management and seed and fertiliser technology), increases land equipped and under irrigation, and reduces food loss and waste. It includes an increase in calorie consumption, reflecting the prioritisation of food self-sufficiency above exports as a desirable policy objective. The scenario also increases forest protection for sustainable land practice.

▼ < Chart 14 Chart 15 Chart 17 Chart 19 Chart 20 Chart 22 Chart 24 Chart 26 Chart 28 Chart 29 Chart >

Chart 22: Agriculture import dependence in the CP and Agri scenario, 1990–2043



Source: Forecast in IFs

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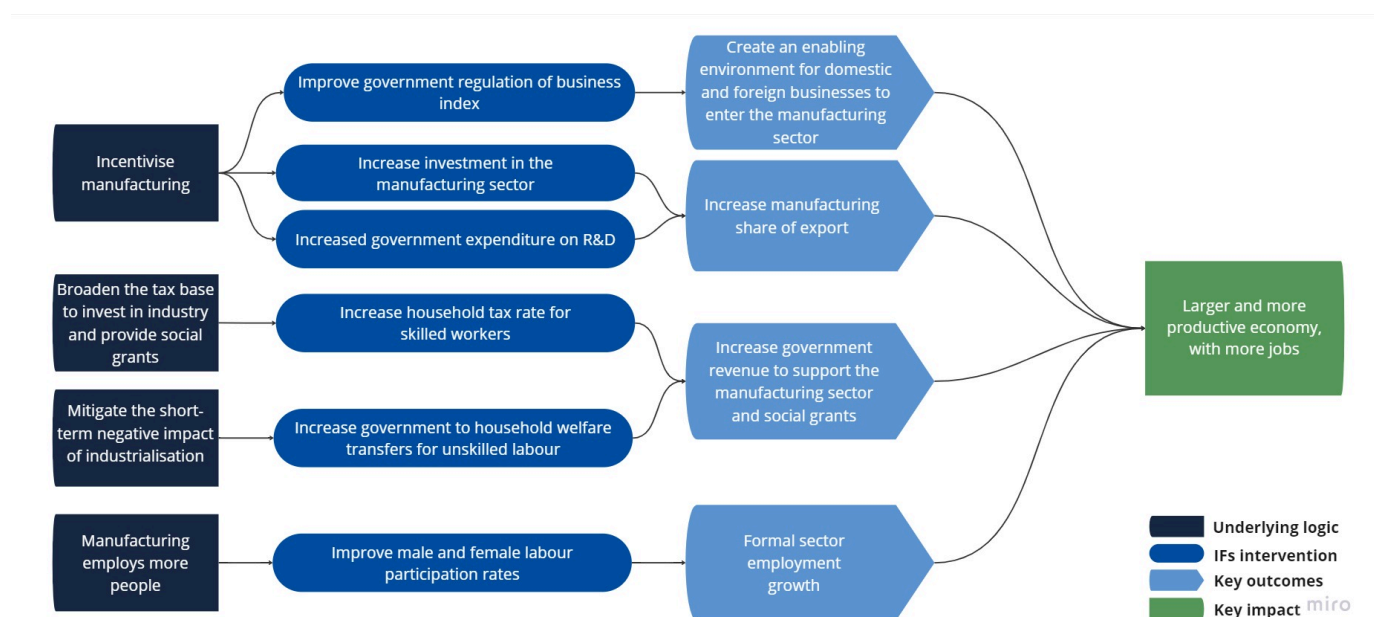
The agricultural production and demand data in the IFs forecasting platform initialises from data provided on food balances by the Food and Agriculture Organization (FAO). IFs contains data on numerous types of agriculture but aggregates its forecast into crops, meat and fish, presented in million metric tons. Chart 22 shows the agriculture import dependence in the Current Path and Agriculture scenario.

On the Current Path, the agriculture import dependence will continue to increase to 53.7% of total demand in the country by 2043 (Chart 22). If the Agriculture scenario were to materialise, agriculture production would significantly increase such that the country would record an agricultural surplus by 2037. By 2043, the agricultural surplus in the scenario is forecast to represent 6.6% of total demand. This could potentially raise farmers' incomes, but it would also increase food security and foreign reserves and provide input for the agro-industry.

See Chart 29 for the impact of the scenario on GDP per capita and Chart 30 for the impact of the scenario on extreme poverty.

Manufacturing: Current Path vs scenario

Chart 23: Manufacturing scenario



Agriculture is crucial for the economy of Burundi, but increasing agricultural productivity alone will not be enough to achieve sustainable growth and poverty reduction. Diversifying the economy from agriculture to high productivity sectors such as manufacturing is important for economic resilience.

The manufacturing sector in Burundi is underdeveloped — almost all manufactured consumer goods are imported. The sector is limited to small-scale processing; its contribution to the GDP remains low at about 15% of GDP and it employs about 2% of the population. In 2021, Burundi ranked 51st of 52 countries on the African Development Bank's African Industrialisation Index, which measures African progress in industrialisation. Beer brewing, jointly owned by the Dutch and the government, is a key industry that contributes up to 40% of government revenue. According to the Burundi Manufacturers Association, of the 82 manufacturing companies, 45% are owned by private companies, 28% by foreign companies and 27% by the government. The manufacturing sector produces diverse products including cement, cosmetics, glass, textiles and agricultural fertilisers of which about 90% are locally consumed and 10% are exported.

Industrialisation is a foundation for inclusive growth, the creation of decent jobs and many other development goals. This is recognised by the NDP 2018–2027 as industrialisation is one of the pillars to structurally transform the Burundian economy for robust, sustainable, resilient and inclusive growth, thereby creating decent jobs for all and leading to improved social welfare.

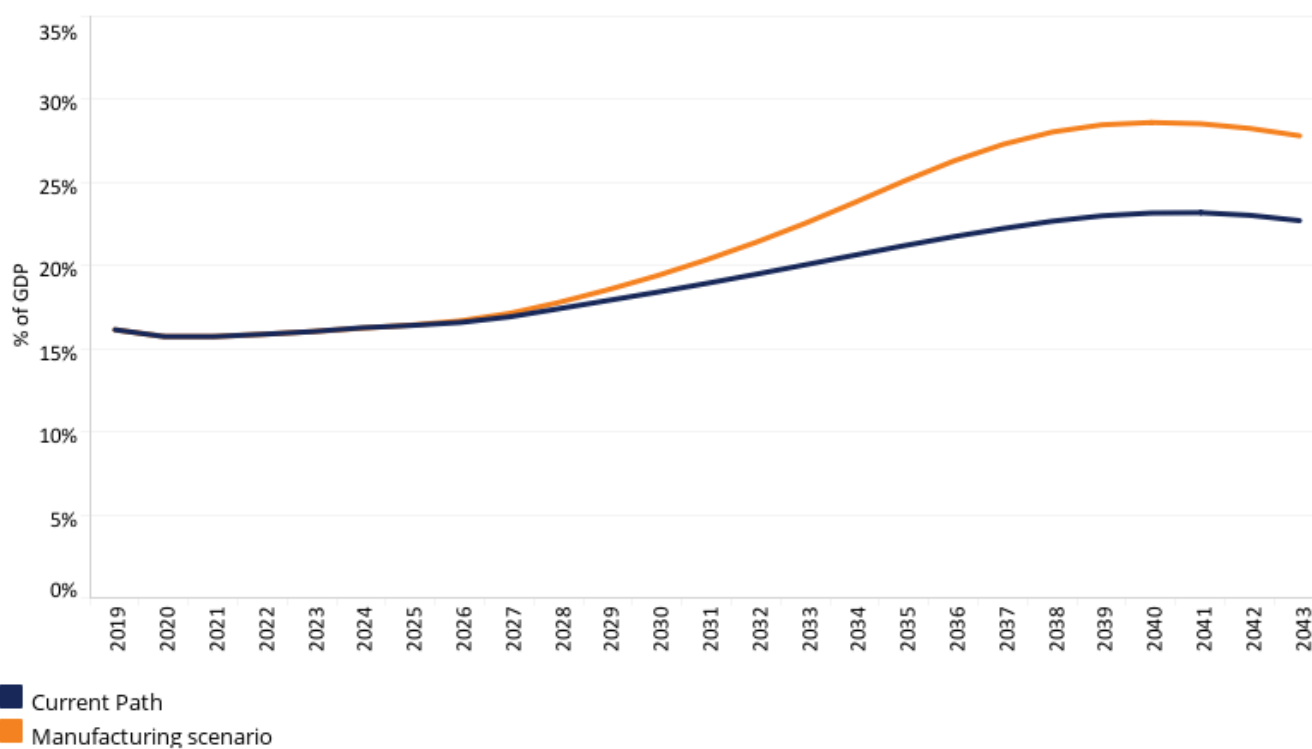
Industrialisation or economic transformation is a long-term process. It requires constructive relationships with the state encouraging and supporting the private sector. Firms need a government that has strong capabilities in setting an overall economic vision and strategy, efficiently providing supportive infrastructure and services, maintaining a regulatory environment conducive to entrepreneurial activity, and making it easier to acquire new technology and enter new economic activities and markets. The government of Burundi has undertaken several reforms in recent years to promote industrial development. These reforms have focused on: (i) improving the business climate; (ii) developing of the private sector; (iii) simplifying procedures for establishing and creating companies, (iv) protecting industrial property; (v)

encouraging the use of ICT; and (vi) enacting the new investment code. However, the sector still faces several challenges, including: (i) the shortage of economic infrastructure (energy, transport, ICT, etc.); (ii) access to financial resources; (iii) and a tax policy favourable to industrial development.

The Manufacturing scenario represents reasonable but ambitious manufacturing growth through greater investment in the manufacturing sector, research and development (R&D) and improvement in government regulation of businesses. It increases total labour participation rates with a larger increase in female participation rates where appropriate. It is accompanied by an increase in welfare transfers (social grants) to unskilled workers to moderate the initial increases in inequality which is often associated with industrialisation. Rapid structural transformation may entail a trade-off between growth and inequality, which is called the developer's dilemma. The welfare transfers are funded by increased taxes on skilled workers.

Chart 15 Chart 17 Chart 19 Chart 20 Chart 22 Chart 24 Chart 26 Chart 28 Chart 29 Chart 30

Chart 24: Value added by manufacturing sector in CP and Manufac scenario, 2019-2043
% of GDP



Source: Forecast in IFs version 7.84

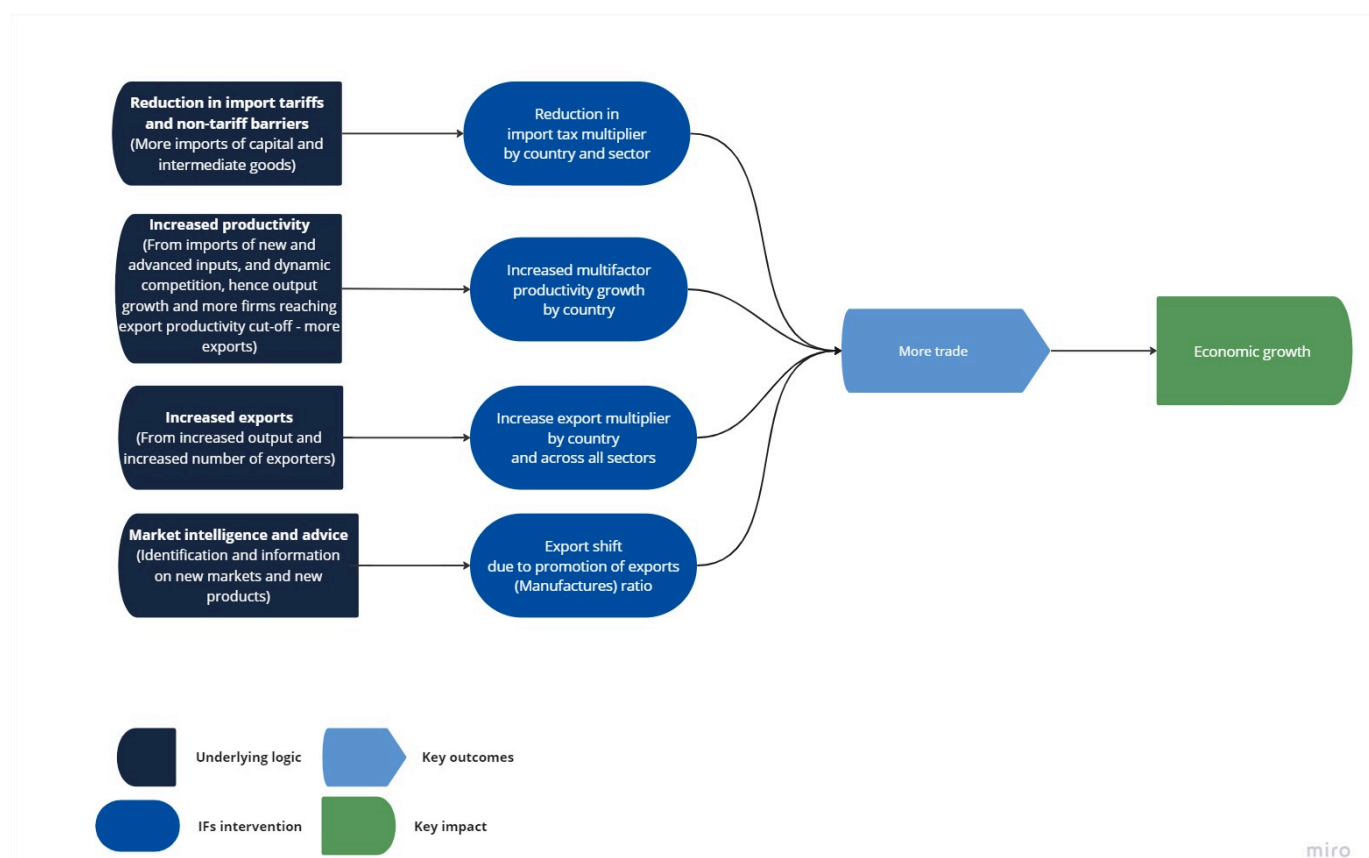
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The manufacturing sector accounted for about 15% (0.44 billion) in 2019, and on the Current Path it is projected to increase to 22.7% of GDP (US\$1.75 billion) by 2043. In the Manufacturing scenario, Burundi makes substantial progress in industrialisation such that, by 2043, the share of the manufacturing sector in GDP is about 28% of GDP (US\$2.35 billion) — more than five percentage points of GDP or US\$0.6 billion above the Current Path forecast.

See Chart 29 for the impact of the scenario on GDP per capita and Chart 30 for the impact of the scenario on extreme poverty.

AfCFTA: Current Path vs scenario

Chart 25: AfCFTA scenario



The trade pattern of Burundi is similar to that of many other African countries that rely on a few key commodity exports while importing higher-value manufactured goods, consumer items and foodstuffs. The country is open to global trade with a foreign trade to GDP ratio of 32.9% in 2020 but has not made progress in export diversification. Coffee and tea remain the key exported products, accounting for more than 80% of total exports.

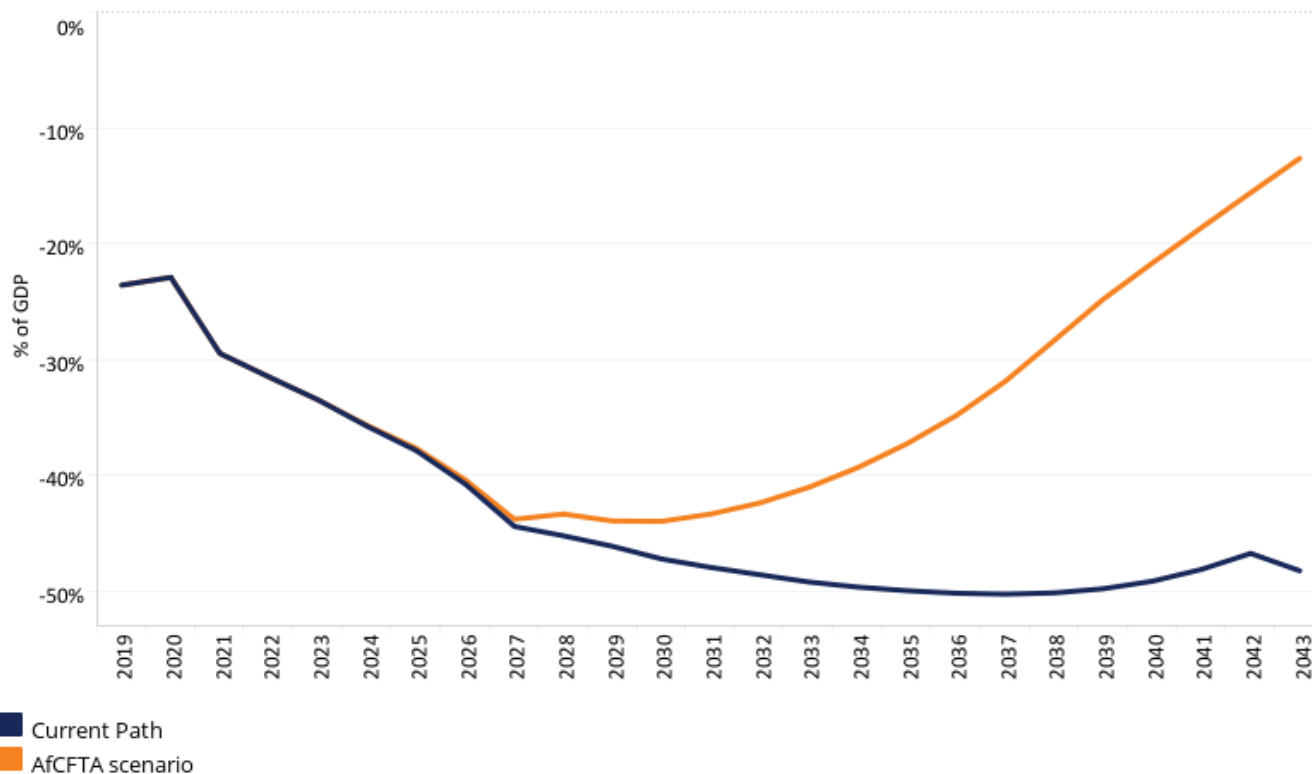
Burundi's trade balance is structurally in deficit, and this persistent negative net export balance has been a drag on its economic growth. In 2020, the trade deficit was equivalent to 22.8% of GDP — a slight decline compared to its pre-COVID-19 level of 23.6% of GDP. This trend is forecast to continue on the Current Path in the coming years. This situation is mainly due to the country's narrow export base and large imports of manufactured goods and fuel, its poor manufacturing sector and a lack of diversity in the tertiary sector. In 2020 and 2021, due to the COVID-19 pandemic and weak global demand, exports decreased while imports of medical products increased, deteriorating the trade balance. Burundi's external sustainability has further worsened amid higher food and energy prices, combined with the depreciation of the Burundian currency (Burundian franc) and foreign exchange shortages.

Export potentials exist in the agriculture sector (coffee and tea), mining (gold and nickel) and tourism sectors, but they are still underdeveloped.^[31] Efforts to harness export potential in these sectors could reduce the trade balance and ease pressure on foreign reserves. The NDP 2018–2027 aims to reduce import dependence by boosting the domestic production of goods and services with the modernisation and diversification of agricultural production, and support to agribusiness industries. The full implementation of the African Continental Free Trade Area (AfCFTA) could contribute to achieving this objective, and boost and diversify Burundi's exports.

The AfCFTA scenario models the impact of the full implementation of the AfCFTA by 2034. The scenario increases exports in manufacturing, agriculture, services, ICT, materials and energy. It also includes a reduction in tariffs for all sectors and an improvement in productivity growth as a result of competition and technology diffusion emanating from trade liberalisation.

▼ < |art 17 | Chart 19 | Chart 20 | Chart 22 | Chart 24 | Chart 26 | Chart 28 | Chart 29 | Chart 30 | Chart 31 | Chart >

Chart 26: Trade balance in CP and AfCFTA scenario, 2019–2043
% of GDP



Source: Forecast in IFs version 7.84

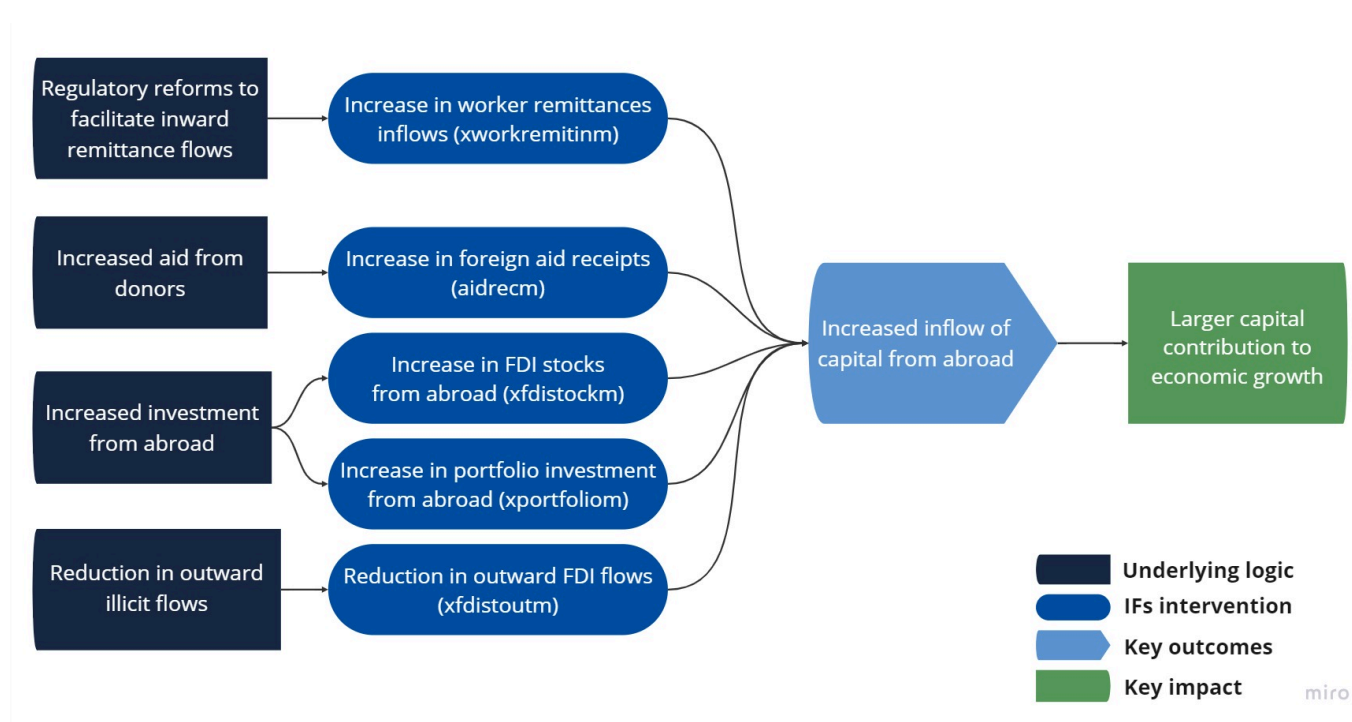
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Burundi's trade balance is structurally negative — a trend which is likely to persist over the forecast horizon. On the Current Path, the trade deficit will likely be equivalent to 48.3% of GDP by 2043, which is significantly higher than its level of 23.6% in 2019. In the AfCFTA scenario, where trade restrictions are loosened and productivity is increased, Burundi would not record a trade surplus or be a net exporter; however, its trade deficit could significantly improve from a projected deficit equivalent to 48.3% of GDP in the baseline scenario (Current Path) by 2043 to only 12.6% of GDP. The AfCFTA represents a major opportunity for African countries, including Burundi, to overcome the constraints of narrow domestic markets to boost exports. In the AfCFTA scenario, the value of Burundi's total export is about US\$2.2 billion larger than the Current Path forecast in 2043. These gains will, however, require major efforts to reduce the burden on businesses and traders to cross borders quickly and safely and with minimal interference by officials.

External Financial Flows: Current Path vs scenario

Chart 27: External Financial Flows scenario



Burundi depends heavily on aid for fiscal revenues, investments and foreign reserves. Official development assistance (ODA) accounts for about 50% of the country's annual budget.[32] Burundi ranks fourth in Africa for aid received as a percentage of GDP. However, aid flows to Burundi have been volatile over time. ODA decreased during the civil war, especially in 1996/1997 due to the sanctions imposed on the country after the military coup. After the Arusha Peace and Reconciliation Agreement, Burundi won back aid, which increased steadily to reach a peak of 40% of GDP in 2004. However, aid dropped again in the aftermath of the global financial crisis and in the run-up to the 2010 elections. The decline persisted after the 2010 elections due to concerns over financial scandals and governance.[33] Overall, between 2004 and 2014, aid flows to Burundi more than halved — from 40% of GDP to 19%.

The political crisis in 2015 caused a further decline in aid inflows to 11% of GDP, as Western countries — led by the EU, the US, Belgium and the Netherlands — withheld aid to Burundi, in an attempt to prompt the late President Nkurunziza into negotiating with the opposition. As a result, Burundi experienced economic difficulties characterised by fiscal deficit, a shortage of foreign reserves and current account deficit. With the change of leadership, levels of aid to Burundi are again slowly increasing. For instance, earlier in 2022, the US and the EU resumed aid flows amounting to US\$12 million[34] after easing the crippling sanctions imposed in response to the explosion of political violence. On the Current Path, aid (as a percentage of GDP) is projected to decline from 19.5% in 2019 to 12.3% by 2043.

In addition to aid, the government of Burundi is generally seeking to attract foreign investment to promote economic growth and industrialisation, but actual levels of FDI are miniscule. According to UNCTAD's 2021 World Investment Report, FDI inflows into Burundi increased exponentially from US\$1 million in 2019 to US\$6 million in 2020, despite the global economic crisis triggered by the COVID-19 pandemic.[35] In recent years, the government has made some progress in terms of improving the business climate. Foreign investors enjoy the same rights as domestic ones. There are no general limits on foreign ownership or control, and foreign investments are not subject to any screening mechanism. However, in the mining sector, at least 10% of the shares must be owned by the government, and foreign investors are required to make an initial investment of US\$50 000, whereas local investors are not subject to this rule.[36]

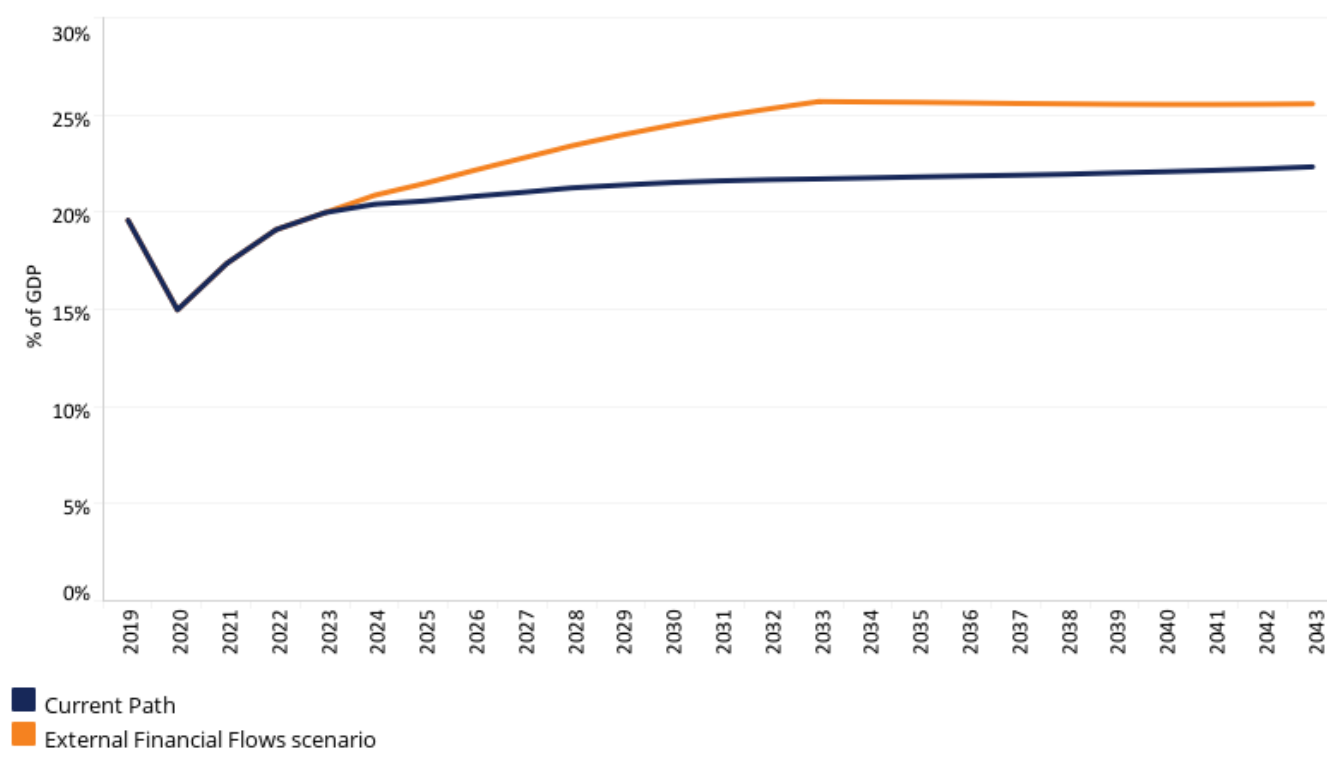
In 2020, Burundi ranked 166th out of 190 economies in the Doing Business report.[37] Political instability, cumbersome administrative procedures, ambiguous trade policies, poor infrastructure, corruption, low-skilled labour and lack of foreign exchange all limit FDI flows to the country. On the Current Path, FDI flows to Burundi are forecast to increase from 0.04% of GDP in 2019 to about 1.5% by 2043.

Many Burundians living abroad also send money back home (remittances), albeit significantly less than migrants from other countries in the region. For instance, in 2016, the average Burundian living abroad sent home US\$140, whereas Tanzanians living abroad sent an average of US\$1 448 and Kenyans abroad sent as much as US\$1 593.[38] It is possible, however, that these official statistics may be misleading, as a significant share of remittances to Africa occur via informal channels. In addition to their contribution to poverty reduction and human development, remittances tend to be less volatile to economic downturns than FDI and portfolio investment and, hence, may help reduce the striking lack of foreign exchange reserves in the country. In sum, remittances are a critical economic stabiliser and should thus be encouraged and facilitated.

An increase in foreign financial flows can bring considerable economic benefits to Burundi and reduce its persistent balance of payment difficulties. The External Financial Flows scenario represents a reasonable but ambitious increase in external capital flows to Burundi. Specifically, the scenario increases inward flows of worker remittances and aid flows to Burundi and an increase in the stock of FDI and additional portfolio investment inflows. It also reduces outward financial flows to emulate a reduction in illicit financial outflows.

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Chart 28: Government revenue in CP and External Financial Flows scenario, 2019–2043
% of GDP



Source: Forecast in IFs version 7.84

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In the External Financial Flows scenario, Government revenue increases over the forecast horizon to reach 25.6% of GDP by 2043 (US\$2.1 billion), up from 19.6% in 2019. This is 3.3 percentage points of GDP above the Current Path forecast of 22.3% (US\$1.7 billion) in the same year. Several reasons might explain the positive association between capital inflows and current government revenue. The first is direct because the government of Burundi relies heavily on donors for its budget. More aid means more revenue for the government to provide public services. Another is indirect: higher inflows are associated with higher tax revenue because foreign direct investors tend to have good tax compliance habits or are subject to natural resource taxes. Higher inflows could also be associated with higher economic growth and therefore higher government revenues.

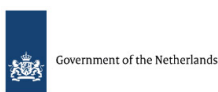
See Chart 29 for the impact of the scenario on GDP per capita and Chart 30 for the impact of the scenario on extreme poverty.

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