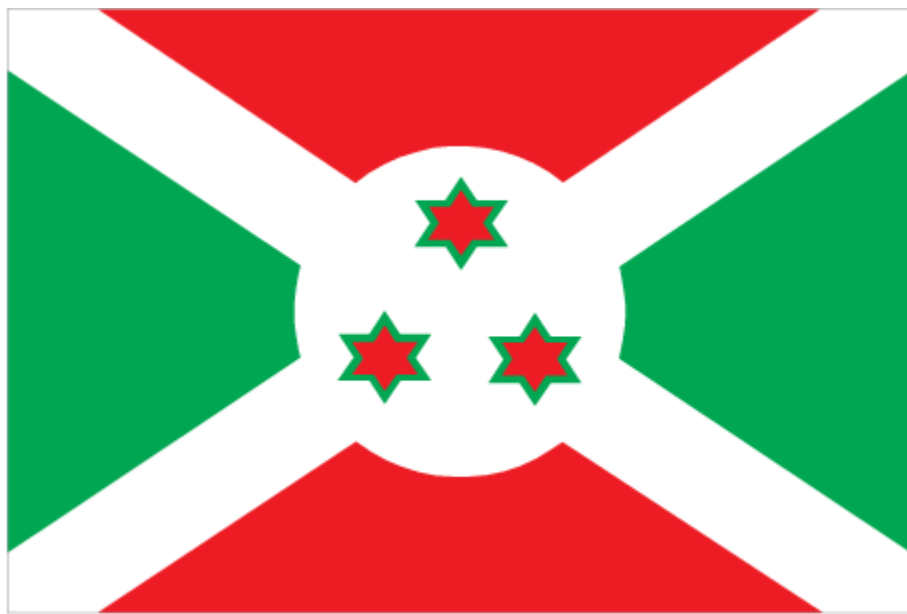


Burundi



Tali Asias

Brief history of the country:

Burundi is a landlocked country of 8.7 million people that is located in Central Africa. Only 10% of the country lives in urban areas. Burundi is a former Belgium colony that received its independence in 1962. Burundi has had a turbulent history. Between 1962 and 1993, it was ruled by a series of military dictatorships. Much of this period was characterized by inner-ethnic tensions that flared into violence as Hutu extremists attacked the Tutsi minority. Burundi's first democratically elected president was assassinated in October 1993 after only 100 days in office, triggering widespread ethnic violence between Hutu and Tutsi factions. More than 200,000 Burundians perished and hundreds of thousands of Burundians were internally displaced.

An internationally brokered power-sharing agreement between the Tutsi-dominated government and the Hutu rebels in 2003 paved the way for a transition process that led to an integrated defense force, established a new constitution in 2005, and elected a majority Hutu government in 2005. The new government signed a South African brokered ceasefire with the country's last rebel group in September of 2006, but still faces many challenges.

On the Economy:

Burundi is one of the ten poorest countries in the world. Burundi has a low gross domestic product, largely due to civil wars, corruption, poor access to education, and the effects of HIV/AIDS. The country GDP is ~ 2.7 \$billion and the per capita income is estimated at \$300. The economy expanded at an estimated rate of 2.5% annual between 1998 and 2007, which is significantly lower than neighboring countries due to high population growth and sluggish economic conditions. Burundi is very dependent upon foreign assistance to sustain its economy.

According to the IMF data from 2005, agriculture was the largest sector of the economy, accounting for 27.1% of GDP, followed by public services at 25.6%, manufacturing and handicrafts with 12.2% share and transport and communication at 5.4%. The agricultural sector is also the dominant employer, accounting for 93.6% of the workforce. Among the major crops grown are coffee, tea, cotton, corn, sorghum and bananas. Coffee is the largest earner of foreign exchange and it accounted for ~ 60% of exports in 2007. Burundi's natural resources include nickel, uranium, cobalt, copper, platinum, gold, tin, and limestone, most of which are mined in small quantities. The manufacturing sector is dominated by light industries such as textile, leather goods and food processing.

As a developing economy recovering from years of civil strife, Burundi faces significant economic challenges. Enforcement of the rule of law is highly politicized, inefficient, and arbitrary in much of the country. Virtually all aspects of business, from obtaining licenses to firing inefficient workers, are subject to intrusive regulations that inhibit business formation or survival. Investment regulations are burdensome and discourage private foreign investment.

OVERVIEW OF THE FINANCIAL SYSTEM

Bank and non-Bank financial sector:

Burundi has a relatively small, undeveloped financial sector that is dominated by banking. The Government retains stakes in several banks. In 2007, there were eight commercial banks, including four with access to private capital.

There are currently eight main commercial banks in Burundi, of which three have private capital (IBB, BGF, and Finlease Bank). See list below.

Bank	Total Assets (\$ in mm)
Interbank Burundi (IBB)	126
Banque de Crédit de Bujumbura (BCB)	110
Banque Commerciale du Burundi (BANCOBU)	67
Commercial Banks in Burundi	
Banque de Gestion et de Financement (BGF)	
Banque Burundaise pour le Commerce et l'Investissement (BBCI)	
Finlease Bank	
Société Burundaise de Banque et de Financement (SBF)	

Source: U.S. Department of States

On average, approximately 20 percent of the top three banks' total asset base is non-performing, which indicates a relatively stable banking environment.

Lending rates tend to be high (17- 20% per annum in mid 2007), and costs of transactions are also high.

The formal banking sector mainly serves Burundi's small elite of wealthy business people and government officials, as well as its miniscule middle class, composed mostly of civil servants. The majority of Burundians has no access to formal credit and relies on micro-finance institutions that dispense commercially-negligible amounts.

It is not easy for small enterprises to get credit, and the lack of domestic investment opportunity has also hindered bank development. The many loans made to the government and to state-owned enterprises have resulted in a large number of non-performing loans.

The main development bank is the Banque Nationale de Developpement Economique (BNDE).

Banking regulation is bureaucratic and arduous.

Insurance companies and other financial institutions:

The insurance sector is small, but there are private as well as partially government-owned companies. The sector is regulated by the Insurance Regulation and Control Agency, which falls under the Ministry of Finance. There are private or partially state-owned insurance companies operating in the country.

Private property is subject to government expropriation and armed banditry. The constitution guarantees the independence of the judiciary, but judges are appointed by the executive branch and generally have proved to be strongly influenced by political pressure. Judicial personnel are predominantly Tutsi, however, and have shown increasing signs of independence under Hutu presidents. A large number of refugees and internally displaced persons are blocked from resettlement by weak land tenure and by the lack of ownership records.

Central Bank:

The Banque de la République du Burundi (BRB) is the central bank and supervises the banking sector. In recent years, BRB has taken steps towards enforcing prudential requirements in the financial system.

Alongside the development of microcredit, which will be discussed in more details below, the effectiveness of the traditional banking system is a key factor in stimulating growth. The Central Bank has taken actions in favor of consolidation and strengthening so that the financial sector can play such a role. The measures are aimed primarily at: (i) increasing bank capital, for which the minimum is now set at FBu 5 million; and (ii) facilitating the recovery of banks in difficulty. The BRB also plans to review bank licensing procedures, update the banking law, and launch a comprehensive study to evaluate the financial sector.

The Role of Microfinance:

In recent years there has been a proliferation of the microfinance institutions, the vast majority of which could not sustain their activities. Cascading bankruptcies occurred largely because of management omissions. In this regard, two major danger areas are often cited: lack of probity on the part of the promoters of microfinance, and the low repayment capacity of customers, itself directly related to high interest rates.

Restoring the credibility of the microfinance sector is crucial to improving the supply of credit in rural areas. Cognizant of its central role for growth and poverty reduction, the Central Bank of Burundi (BRB) is now closely supervising the financial activities of the microfinance institutions. It has also encouraged the creation of a Network of Microfinance Institutions (RIM) in order definitively to restore order to this sector. Overall, 26 microfinance institutions were

Principal characteristics of microfinance in Burundi, 2007

Population served	311,094 customers or members
Amount of loans granted	FBu 8,704,138,000 (or US\$8,704,138)
Penetration rate	10 percent
Number of beneficiaries	63,051 customers
Average loan	FBu 138,050 (or US\$138)
Saving gathered	FBu 3,109,743,000 (or US\$3,109,743)
Loans outstanding	FBu 13,897,427,000 (or US\$13,897,427)

licensed by the BRB at end-2007. Their financing is based primarily on contributions from projects and from NGOs involved in the sector.

Source: Bulletin d'analyse et d'information sur la micro-finance ZAMUKA, No. 10, March 2008.

Capital Markets:

There is no stock, corporate, or government bond market in Burundi. Capital is raised from commercial banks. In term of government securities, the BRB issues 91-day treasury bills.

International Financial Institutions:

Burundi, as a signatory to the agreement between African, Caribbean and Pacific nations (ACP) and the European Union, known as the Cotonou Agreement, has access to the facilities of the European Investment Bank (EIB). As a member of the World Bank, the projects of the International Finance Corporation (IFC) also apply to Burundi.

Other potential financial sources for development projects include the African Development Bank (AfDB), the Preferential Trade Area Bank (PTA) which have headquarter at Bujumbura(Capital of Burundi) and the New Partnership for Africa's Development (NEPAD). In February 2007, the World Bank approved an International Development Association (IDA) grant of \$20 million to support the reconstruction of the educational sector in Burundi.

Foreign Exchange:

The Burundi Franc is pegged to the value of a composite of currencies, consisting of Burundi's major trading partners. The central bank is committed to pursuing the liberalization of the exchange system. Along with Kenya, Uganda, Rwanda and Tanzania, Burundi is a member of the East Africa Community (EAC), which plans to form a monetary union that will introduce a single currency by 2012.

In late 2004, the central bank abolished the mandatory nature of its auction reference price for commercial transactions. The determination of the official exchange rate was also

changed, from the weekly auction to the daily average of market rates. The surrender requirement (50% on coffee, tea, and cotton exports) was abolished in March 2005.

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