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Investment Policy Review

Burundi

Main Conclusions and Recommendations

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Investment Policy Review of Burundi
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Attracting Foreign Direct Investment (FDI) and Benefiting from it:

Main Conclusions and Recommendations

Since the mid-2000s, Burundi has embarked upon an ambitious programme of stabilization, national reconciliation and economic reforms. The peace process has made significant progress with elections held in 2005 as well as the signing of a ceasefire and a peace agreement with the last rebel group in 2008. The international community is again very active in the country and has committed to provide assistance for its reconstruction. Burundi is thus better positioned to improve its economic and social conditions. In addition, the government has launched a programme of withdrawal of the state from various economic activities and an opening up of the economy to private investment, including FDI. Although FDI inflows are still very limited, opportunities exist, prompted by the country's integration into the East African Community (EAC). FDI attraction is now part of Burundi's development strategy and the country intends to use it to stimulate economic growth.

Experience of other post-conflict countries suggests, however, that one should be very cautious with regard to Burundi's current situation. The risks of falling back into conflict remain significant as security is still fragile and the population's socio-economic conditions remain poor. In this respect, the current global economic crisis represents an additional risk as it might divert the attention of international donors from Burundi. It is therefore very important for the government to sustain its efforts towards continued reforms, with a view to reaching its main development objectives, while continuing to mobilize the support of the international community.

Burundi faces numerous challenges. Beside a fragile political and security situation, the country's public institutions lack human and financial capital and its technical capacities are limited. The private sector is still underdeveloped and lacks organization, while the domestic market requires more diversification. The great majority of the population makes a living from agriculture, a sector whose productivity has declined dramatically. Moreover, the war has affected human capital and left the country with infrastructure that is destroyed, outdated or deficient. In this context, the *Investment Policy Review (IPR)* presents an in-depth analysis of the general and economic situation of the country and provides recommendations on regulatory, strategic and institutional issues, which, if effectively implemented, should enhance the contribution of FDI to the country's development and poverty reduction goals. These recommendations are brought together under six major pillars as presented below.

A. Consolidating peace and political stability

The government must continue investing in the peacebuilding and political stabilization process. In this respect, Burundi benefits from the support of the United Nations Peacebuilding Commission, whose main areas of intervention are the promotion of good governance, implementation of the ceasefire agreement, improvement of security, reinforcement of justice and action to combat impunity, socio-economic recovery – including solving the land issue – and a more active integration of women in decision-making.

Consolidating peace is the main condition for attracting significant FDI inflows. The support of the international community is crucial in the intensification of this process, and its assistance must be

sustained. In particular, with a view to guaranteeing sustainable peace in Burundi, the government, backed by donors, should continue its efforts towards improving the population's socio-economic conditions. Among other factors, FDI too can contribute to the stabilization of peace as it can play a role in the improvement of the country's economic conditions. Foreign investments can indeed participate in the reconstruction of infrastructure: they can generate fiscal revenues, strengthen human capital and create employment, especially outside of traditional agriculture, helping to reduce pressure on land. Peacebuilding and FDI can thus mutually reinforce each other.

B. Enhancing competitiveness

In order to attract significant FDI inflows, Burundi should enhance its competitiveness by pursuing the reforms of its investment legal framework. To this end, various actions have to be considered, among which reforming the corporate tax system is a priority. The indirect tax system has already undergone an important improvement with the introduction of the value added tax. This measure should smooth the progression of private economic activities, in particular exports, and encourage a better integration of the country into the EAC. Nevertheless, the complexity and the burden of corporate income taxes hinder the further development of economic activities. The corporate tax system needs to be simplified and fiscal administration strengthened. Furthermore, following the elimination of fiscal incentives in the new Investment Code, a reform of the Tax Code seems to be necessary to ensure consistency between the two.

With regard to attracting FDI in production-supporting infrastructure (transport, electricity, water and telecommunications), similarly to many other developing countries, Burundi faces difficulties. However, infrastructure development is central to the country's strategy, notably in its quest to benefit from the opportunities to be derived from its entry in the EAC. The legal framework could thus be improved in order to further encourage private sector participation in infrastructure development. Cooperation between the public and private sectors in infrastructure ventures can also be supported through public-private partnerships. Also, it is important to harmonize the national regulatory framework with the EAC initiatives on infrastructure and to boost Burundi's participation in regional infrastructure projects. Finally, in view of increasing support for infrastructure development, the government should also intensify the mobilization of donors.

Another priority for Burundi is to enhance its competitiveness through the strengthening of its human capital. Armed conflict has indeed caused a brain drain and a disinvestment in education, which hinders Burundi's capacity to attract FDI. The school system has improved and labour legislation has experienced real progress. However, capacity-building at the Ministry of Labour would be necessary to, among other things, better implement the legislation in force. Moreover, technical and professional training programmes could be designed in the labour legislation to provide the Burundian workforce with the skills required by the market. These programmes can also be accompanied by specific training for entrepreneurs, which could be supported by UNCTAD. In addition, in view of tackling the shortage of qualified labour, the law on the employment of foreigners should be updated and policies must be designed to attract qualified workers from abroad more easily, such as those from the diaspora, the EAC or other countries.

Burundi should also put in place a legal framework for competition, in particular to protect the most vulnerable consumers and minimize the potential negative effects of FDI on local competition. The draft law on competition represents real progress, however its coherence with the sectoral competition rules and its harmonization with the EAC clauses need to be strengthened.

Finally, there are still red tape and heavy administrative regulations that constrain, in terms of costs and time, the business creation process. These administrative procedures should be simplified and rationalized so as to enable the efficient application of the new Investment Code. Different measures can be considered, among which the consolidation of the procedures in a single law, the creation of a one-stop shop within the investment promotion agency (IPA) and the publication of an explanatory leaflet on key steps to follow during the procedures.

C. Modernizing the legal framework and harmonizing it with EAC initiatives

Burundi's entry into the EAC opens up major economic opportunities for investors that could be better exploited if the legal framework were modernized and harmonized with regional initiatives. The customs system, for example, has experienced a clear improvement with the adoption of the new Customs Code in 2007. However, progress still needs to be made in order to modernize the system of customs duties and to harmonize them with those of the EAC, notably with the adoption of the common external tariff. Moreover, capacity-building for customs officers is required as well as, in the medium term, reinforcing the computerization of the customs system.

It would also be important to harmonize the free zone regime with those of other EAC members. In principle, it constitutes the main investment incentive regime but it is non-transparent and not used in practice. In this context, it would be advisable to identify a way to link the strategic plan of free zone promotion with infrastructure development and FDI attraction, and to integrate the production of the Burundian zone with other EAC free zones.

Lastly, some other more general parts of the legal framework also need to be harmonized with other EAC countries, including competition policy, corporate taxation, regulation of capital account transactions, liberalization of trade in services, environmental protection and regulation of intellectual property rights. In addition, it would be useful to develop a new land policy through the adoption of a new Land Code. In fact, the predominance of agriculture in the livelihood of the population and the displacements caused by the war have increased pressure on land. In the area of land rights, the elimination of the clause of reciprocity as well as a special facility to allow the registration of property deeds related to companies under the free zone regime could be considered.

D. Strengthening institutions

To carry out an FDI promotion and facilitation strategy aimed at stimulating economic growth efficiently, Burundi needs to strengthen its institutions. In fact, it has been a recurrent finding of the IPR that the country too often lacks human and financial resources, as well as technical and managerial capacities. The government should encourage more training and capacity-building programmes for different parts of public administration with the active support of the international donor community.

Among the measures most urgently needed, setting up an investment promotion agency is central. Due to strong international competition for FDI, the government has decided to create an IPA with a view to adopting a systematic approach to FDI promotion and facilitation. IPAs are of particular importance for economic development as their role is not limited to FDI attraction but extends to ensuring that its impact on development is beneficial and sustainable.

As suggested in the IPR of Burundi, the structure of this IPA should be adapted to Burundi's local needs, context and resources. Its establishment should be undertaken in three successive stages – launching, strengthening and maturing. The size of the agency and the diversity of its functions will progress based on the country's needs, the evolution of FDI inflows, the available financial resources for the IPA and the learning capabilities of its employees.

The first stage would thus be the launching of the IPA, run with a limited number of professionals. The agency would start by working on a small number of critical functions, namely image building, investor targeting and FDI facilitation. The agency's main activities would be creating a website, identifying key companies and supporting investors in dealing with administrative procedures. It is important during this first stage to put emphasis on local capacity-building in order to facilitate the organic growth of the IPA. The second phase would consist of strengthening the IPA through the consolidation of its competencies and credibility. The IPA could, at this point, expand its functions to aftercare, as the number of investors in Burundi would increase gradually. It could also develop more specific activities, such as targeting the diaspora and using more systematically the network of embassies. Finally, once a certain number of conditions are met, the IPA could, in the third phase, become more autonomous and carry out a wider range of activities. It could develop policy advocacy with regard to the government in order to improve the business environment and set up a one-stop shop to better assist investors in their administrative procedures.

The establishment of the IPA within the framework of an FDI attraction strategy should enable Burundi to attract foreign investors and maximize their contribution to the country's reconstruction process and economic growth. FDI should play a role in meeting people's social and economic needs by stimulating key sectors of the Burundian economy, encouraging domestic investment, allowing the transfer of know-how and generating employment in various business sectors.

E. Reinforcing the quality of, and the access to, information

A weakness recurrently highlighted in the IPR is the lack of information for both domestic and foreign investors. It would thus be important to make clear and comprehensive information available to them through the publication of booklets or through websites. These measures would help them in their decision-making process and their administrative procedures, in particular those on business creation or extension, customs duties, visas and residence permits, and corporate taxes. In coordination with the various public services concerned, the IPA will have a central role in the compilation and dissemination of such information. Rapid access to quality information is, in fact, very important when an investor is looking for a new destination to establish its operations. In addition to this administrative information, details on business opportunities and ongoing investment projects should also be provided.

The lack of reliable, recent and good quality FDI statistics is yet another major information problem for Burundi. Such statistics are essential for the analysis of foreign investment inflows and the evaluation of their impact on the host economy. UNCTAD has put in place a technical assistance programme that could be useful for Burundi in the compilation, processing and analysis of FDI-related data.

F. Exploiting sectoral opportunities

Burundi enjoys several comparative advantages, such as access to its region through Lake Tanganyika and its membership in various integration groupings – in particular the EAC – as well as its relatively low labour costs. These advantages should be exploited in the country's sectoral FDI attraction strategy.

Services

The impact of the economic reforms is particularly tangible on the services sector where investment opportunities are increasing. In particular, information and communication technologies (ICTs), especially the mobile phone industry, have experienced a remarkable development and constitute the sector most open to FDI in recent years. Moreover, investment opportunities in services are made easier by Burundi's adherence to the EAC, which: (i) increases the market size; (ii) stimulates the diversification of services; and (iii) enables the country to earn the status of a subregional corridor. In fact, being strategically located at the crossroads of Central, Eastern and Southern Africa, the country could become a subregional trade transit centre.

In this context, the role of the IPA is important in the promotion to the investment community of the image of Burundi as a centre of activity and in the attraction of FDI in logistical services that will cater to the needs of the transiting economic actors. These include construction, mechanics, repair activities, catering, retailing and the hotel business. In the longer term, the IPA could expand its targeting activities to judicial services, business management consulting and other ICT services.

Tourism

Burundi holds an untapped tourism potential that the government wishes to exploit and put at the centre of the country's development strategy. The experience of other post-conflict countries shows that the development of tourism, notably through FDI, can contribute to the improvement of the country's economic situation and in this way assist in the building of durable peace. By revealing its comparative advantages, Burundi can establish itself as a stopover destination in Eastern African tourist circuits. In the area of tourism development, it is important to delineate clearly the respective roles of the IPA and the national tourism office.

In this sector, the IPA should focus its strategy on: (i) targeting service providers and travel organizers that are present in other EAC countries; (ii) promoting FDI that offers specialized tourism services, notably adventure tourism and ecotourism; and (iii) attracting FDI in ancillary services to tourism (e.g. catering, vehicle rental, sport and recreational equipment, entertainment).

Mining

The development of the mining sector is also a government priority. Like the tourism sector, it could contribute to job creation (thus reducing pressure on agricultural employment), diversification of the economy, technology transfer and higher government revenues. Burundi has rather modest but diversified mineral resources, among which the main one is nickel. Mining exploitation is to date essentially artisanal but industrial exploration licences have been granted to foreign investors since 2007.

It is recommended that the government, which is currently working on the preparation of a new Mining Code, clarify some clauses related to mining negotiations and harmonize the new code with the investment and environment codes, and with the new companies law currently under revision. As to the IPA, it should focus its targeting at this stage on “junior” companies, generally more open to high-risk prospecting and exploration before trying to attract “major” companies.

Agriculture

Agriculture is the population’s main activity. It has suffered deeply from the conflict and its productivity has been in constant decline ever since. The main export crop is coffee, an industry that is currently under privatization, open to opportunities for investors. The latter could have a significant impact on the quality and the productivity of the coffee industry.

The IPA should focus on two main tasks in the coffee industry: (i) attracting small regional investors in coffee washing and packaging activities, which has some growth potential; and (ii) targeting one major foreign investor owning a major brand that has the capacity to improve production standards and to promote good quality Burundian coffee with a view to integrating it into the upscale markets of specialized coffee. The agency should also promote investment projects in the tea and agro-processing industries.

Manufacturing

The competitiveness of the manufacturing sector is limited and its production is not diversified. The bulk of manufacturing production is carried out predominantly by the state. Its export potential is mainly subregional and most of the investment opportunities lie in the agro-industrial sector.

The IPA should focus its strategy on the attraction of small investors from the subregion or the diaspora interested in supplying the domestic market from a local production base. After gaining in experience, the domestic manufacturing sector will become regionally more competitive and could be used as a stepping stone towards export activities to the subregion.

G. Conclusion

The challenge for Burundi to attract significant FDI inflows is considerable. However, the country has made a promising start by creating the appropriate conditions for attracting FDI and for having it contribute to reconstruction and economic growth. Investment promotion and facilitation will require continuous and coherent efforts from the government, coordinated at the national level and supported by an active and sustainable assistance from the international community. In this regard, the economic management assistance project (“PAGE” in French) is a very important initiative for Burundi, helping the country improve its investment climate. This UNCTAD report is in line with that initiative. It aims at strengthening the legal framework for investment, developing a proactive FDI promotion strategy and setting up institutions that fit the country’s context. It is thus hoped that the recommendations of this review, as well as the follow-up activities to implement them, will complement the ambitious actions carried out by the international community.