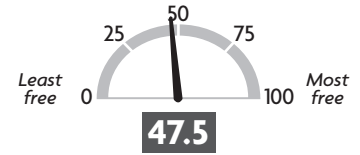


# BURUNDI

## Economic Freedom Score



World Rank: **160**

Regional Rank: **38**

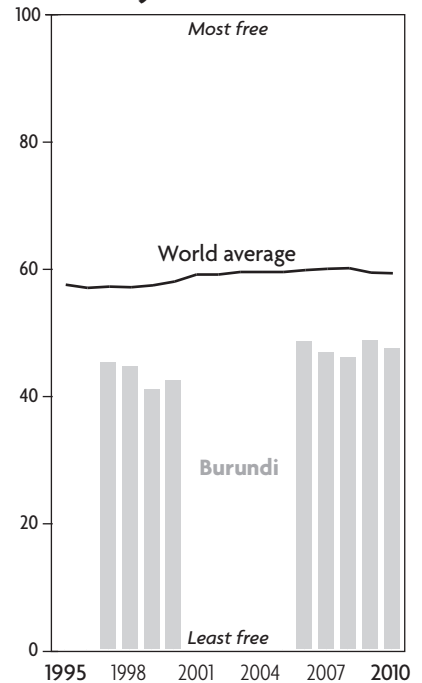
**B**urundi's economic freedom score is 47.5, making its economy the 160th freest in the 2010 *Index*. Its overall score is 1.3 points lower than last year, reflecting lower scores for government spending and monetary freedom that are only partly offset by an increase in investment freedom. Burundi is ranked 38th out of 46 countries in the Sub-Saharan Africa region and scores much worse than the world average.

Following years of political instability, Burundi faces major challenges. Law enforcement is weak and vulnerable to political influence. Economic expansion averaging 3 percent per year for the past five years is at risk due to over-reliance on the widely fluctuating agricultural sector, the principal source of jobs for 80 percent of the population.

Burundi scores significantly below world averages in many of the 10 economic freedoms. The lack of institutional capacity still delays reforms needed to restructure and modernize the economy. Many aspects of doing business, from obtaining licenses to attracting foreign investment, are subject to intrusive and inefficient regulations. The weak judiciary fuels corruption.

**BACKGROUND:** Since becoming fully independent in 1962, Burundi has suffered from tension between the dominant Tutsi minority and the Hutu majority. The 1993 assassination of the first Hutu president, Melchior Ndadaye, sparked a civil war, and the violence following the death of his successor, Cyprien Ntayamira, and Rwandan President Juvenal Habyarimana in a 1994 plane crash led to an estimated 300,000 deaths and the beginnings of the Rwandan genocide. Negotiations mediated by South Africa resulted in a power-sharing government in 2001, and the last active rebel group signed a cease-fire in 2008. In 2005, a new constitution was adopted by referendum and the National Assembly elected Pierre Nkurunziza president. Burundi remains very poor. A majority of the population depends on subsistence agriculture, and agriculture accounted for 34 percent of GDP in 2007.

## Country's Score Over Time



## Quick Facts

**Population:** 8.1 million

**GDP (PPP):** \$3.1 billion

4.5% growth in 2008

3.5% 5-year compound annual growth

\$383 per capita

**Unemployment:** n/a

**Inflation (CPI):** 24.4%

**FDI Inflow:** \$1 million

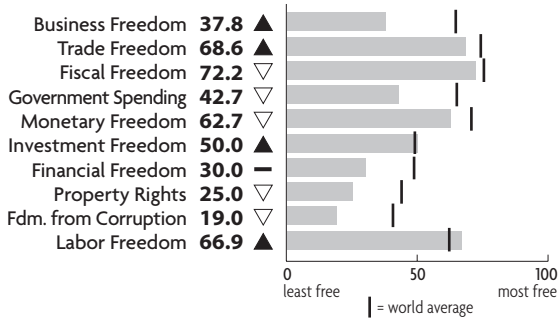
2008 data unless otherwise noted

Data compiled as of September 2009

## How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## BURUNDI'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 37.8

The overall freedom to establish and run a business is constrained by Burundi's regulatory environment. Despite new regulations, continuing instability and a massive, corrupt bureaucracy make it difficult to conduct entrepreneurial activity. Obtaining a business license requires more than the world average of 18 procedures.

### TRADE FREEDOM — 68.6

Burundi's weighted average tariff rate was 10.7 percent in 2008. The government has adopted a relatively open trade regime, but import restrictions, inadequate administrative capacity, poor infrastructure, and customs corruption add to the cost of trade. Ten points were deducted from Burundi's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 72.2

Burundi has relatively high tax rates. The top income and corporate tax rates are 35 percent. A value-added tax (VAT) replaced the general sales tax on July 1, 2009. In the most recent year, overall tax revenue as a percentage of GDP was 18.3 percent.

### GOVERNMENT SPENDING — 42.7

Total government expenditures in Burundi, including consumption and transfer payments, are high. In the most recent year, government spending equaled 43.7 percent of GDP. Much-needed privatization of the coffee industry remains stalled.

### MONETARY FREEDOM — 62.7

Inflation has been high, averaging 18.6 percent between 2006 and 2008, but falling international food and fuel prices helped to ease pressure in 2009. The government influences prices through state-owned enterprises, subsidies, and agriculture-support programs. Ten points were deducted from Burundi's monetary freedom score to adjust for measures that distort domestic prices.

### INVESTMENT FREEDOM — 50

Foreign investment receives equal treatment. The 2008 investment code, established to attract and reassure investors, is vague and dependent on further tax and customs reform. Corruption, underdeveloped markets, the state of post-conflict infrastructure, geographic isolation, and proximity to regional conflicts discourage large foreign invest-

ment. In theory, there are no limitations on the flow of funds for remittance of profits, debt service, capital, capital gains, returns on intellectual property, or imported inputs; however, there are no significant foreign enterprises to test the effectiveness of this policy. In principle, there are no restrictions on converting or transferring funds associated with foreign investment; in practice, limitations depend on the availability of hard currency. The government may expropriate property for "exceptional and state-approved reasons," but "a just and prior compensatory allowance is required."

### FINANCIAL FREEDOM — 30

Burundi's small financial sector provides a very limited range of services. Retail and corporate banking are at a relatively early stage of development. Many people still rely on microcredit or informal lending. The state dominates the two largest commercial banks. It is not easy for small enterprises to get credit, and the lack of domestic investment opportunity also hinders bank development. The many loans made to the government and to state-owned enterprises have resulted in non-performing loans that have reached around 19 percent of gross total lending. Banking regulation is bureaucratic and arduous. Other difficulties include the largely inadequate availability of long-term capital and an undeveloped payments system.

### PROPERTY RIGHTS — 25

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 subject to political pressure. Judicial personnel, predominantly Tutsi, 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 property rights systems and by the lack of ownership records.

### FREEDOM FROM CORRUPTION — 19

Corruption is perceived as pervasive. Burundi ranks 158th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008, a significant deterioration from 2007. From senior government officials demanding large kickbacks on procurement tenders to low-level civil servants demanding petty bribes for services, licenses, or permits, corruption is present in every area of life. Corruption is most pervasive in government procurement, where the purchase and sale of government property frequently leads to allegations of bribery and cronyism. The ruling party has been accused of using arbitrary arrests, detentions without trial, and even torture against political adversaries.

### LABOR FREEDOM — 66.9

Rigid employment regulations and an underdeveloped labor market hinder productivity growth and job creation. The non-salary cost of employing a worker is low, but the difficulty of dismissing a worker creates a disincentive for companies that would otherwise hire more people.