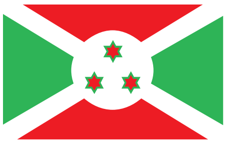
Burundi



KEY FIGURES

Main urban centres	Bujumbura Ruyigi
Exchange rate: 1 US$ = [a] 8 Aug 2018	1781.45 Burundi franc
PPP Exchange rate (Local currency/PPP$) 1 Burundi franc = [b]	717.9
Inflation 2016 [c] | Inflation 2017 [c] | Inflation 2018 [c]	5.6 | 16.6 | 12.7
Population [b] | Urban population size [b]	10 864 245 | 13 76 174
Population growth rate [b] | Urbanisation rate [b]	3.18% | 5.64%
Percentage of the total population below National Poverty Line [d]	65%
Unemployment rate [d]	7%
GDP (Current US$) 2017 [b] | GDP growth rate annual 2017 [b]	US$3 478 million | 0.52%
GDP per capita (Current US$) 2017 [b]	US$320
GNI per capita (Current US$) 2017 [b]	US$290
Gini co-efficient [b]	38.6
HDI global ranking 2017 [e] | HD country index score 2017 [e]	180 | 0.417
Is there a deeds registry?	Yes
Number of residential properties that have a title deed	n/a
Lending interest rate Q3 2016 [a]	16.43%
Mortgage interest rate | Mortgage term (years)	16% | 20 years
Downpayment	20%
Mortgage book as a percentage of the GDP	n/a
Estimated number of mortgages	1 500
Price to Rent Ratio in City Centre | Outside City Centre	n/a | n/a
Gross Rental Yield in City Centre [e] | Outside City Centre [e]	36% | 57%
Construction as a % of GDP	n/a
What is the cost of standard 50kg bag of cement?	US$25
What is the price of the cheapest, newly built house by a formal developer or contractor? (Local currency)	54 757 890 Burundi franc
What is the price of the cheapest, newly built house by a formal developer or contractor? (US$)	US$31 000
What is the size of this house (m²)?	60m²
What is the average rental price for this unit (US$)?	US$500
What is the minimum stand or plot size for residential property?	250m²
Ease of Doing Business Rank [f]	164
Number of procedures to register property [f]	5
Time to register property (days) [f]	23 days
Cost to register property (as % of property value) [f]	3.10%

NB: Figures are for 2018 unless stated otherwise.

[a] Bank of the Republic of Burundi
[b] World Bank World Development Indicators
[c] IMF World Economic Outlook Database
[d] Central Intelligence Agency (CIA) World Factbook
[e] UNDP Human Development Reports
[f] World Bank Doing Business

Overview

Burundi's economy has seen slowed growth because of civil strife arising from the 2015 disputed election of President Pierre Nkurunziza. There has been a slowdown in economic activity in agriculture, which contributes more than 40 percent of national output and employs close to 90 per cent of the population. Real per capita GDP declined by 1.6 percent in 2016 and the economy contracted by 1.3 percent in 2017. The agricultural exports of coffee and tea, which account for over 60 percent of total exports, have also declined in value because of low production. Specifically, the 2017-2018 coffee season produced 15 824 tons of the expected 20 000 tons.[1] Foreign aid from donor agencies including the European Union was withdrawn because of accusations of human rights violations. This points the country towards increased reliance on domestic tax collection and modest revenues from coffee and tea exports.

Several reforms were implemented in 2017, leading to higher than budgeted tax revenue with the intent of boosting local revenue mobilisation. These revenue collection measures include a fuel and mobile phone tax increment. In addition, government spending relating to recurrent and capital expenditure was restrained. This has led to the narrowing of the fiscal deficit to approximately 5.7 percent of GDP in 2017 from 6.1 percent in 2016.[2] This deficit was largely financed through the issuance of government treasury bills.

The economy is expected to grow 1.9 percent in 2018 from an estimated 0.5 percent in 2017[3] with a boost provided by the May 2018 political referendum that re-affirmed the continuity of relative peace by approving constitutional amendments that scrapped the presidential term limits, paving way for the anticipated peaceful elections of 2020.

The return to political calmness presents a foundation upon which renewed growth efforts can be built. This growth will be supported by a rise in government spending for defence, energy, agriculture and infrastructure projects. The 2018/19 national budget was approved in June 2018 indicating an increment in spending from BIF 1.32 trillion in 2017 to BIF 1.4 trillion ($795 million) for the 2018/19 financial year.[4] About 81 percent of the budget will be sourced internally, and the fiscal deficit is expected to reduce to BIF 164 billion, down from BIF 174 billion in 2017. The country's inflation rate rose from 5.6 percent in 2016 to 16.6 percent in 2017. This was mainly due to a rise in food and fuel costs, with food inflation recorded at 22.7 percent over the same period. Inflation is expected to rise in 2018 with an expansionary fiscal policy financed by domestic borrowing. With limited external borrowing options, Burundi carries a heavy debt burden amounting to 47.6 percent of total public debt to GDP in 2016, slightly declining to 41 percent in 2017 because of improved domestic revenue collection. This improvement has also been reflected in the current account deficit standing at 10.8 percent of GDP in 2017, down from 11.8 percent in 2016.

This general improvement in economic performance is also reflected in the growth of private sector credit to business entities and households. There has been a 10.9 percent growth in banking sector loans from BIF 731 099.6 million in March 2017, to BIF 810 749.5 million in March 2018.[5]

Although the increase in private sector credit is significant in real terms, the period 2017 to 2018 witnessed a drop in the share of private sector loans in the total banking assets portfolio from 39.4 percent to 35.8 percent at the end of March 2018. The preference for most lenders has been an uptake of government securities because of a higher credit risk associated with private sector projects during fragile political periods. Indeed, there was a notable increase in the deterioration of loan portfolio quality across housing-related finance and other sectors. General banking assets impairment increased from 20.8 percent in March 2017 to 22.1 percent in March 2018. Over the same period, overdue loans increased by 17.9 percent, from BIF 152 027.7 million to BIF 179 260.5 million in March 2018.[6]

The impairment rate of loans in the construction sector was15.3 percent and the tourism and hotel sector hit a record 38.8 percent. This was significantly higher than the impairment rate in the agriculture and trade sectors, which recorded 10.9 percent and 15.3 percent respectively. Against this background, lenders have been cautious about lending to the private sector and have increased their interest in treasury securities, increasing their share of these government securities from 24.9 percent in March 2017 to 31.6 percent in March 2018.

Access to finance

Access to financial services continues to be a key development challenge in Burundi with only 12.5 percent of the country's adult population operating accounts in formal financial institutions. This low level of financial inclusion in the country is attributed to lower incomes, low levels of financial education as well as limited coverage of financial institutions in areas outside the capital city of Bujumbura. To improve this, the government of Burundi signed a US$24.9 million grant agreement with the International Fund for Agricultural Development (IFAD) in October 2017 with the objective of enhancing the availability of financial services in rural areas where demand far outstrips supply. Key beneficiaries of the grant will be the most vulnerable groups, including women and young people.

The Financial Inclusion in Burundi (PAIFAR-B) project is expected to aid a total of 99 200 Burundian rural households in 17 provinces. The total cost of the project is US$38.6 million, including a US$24.9 million Debt Sustainability Framework grant from IFAD. The project will be co-financed by the Government of Burundi (US$2.6 million) and by the project beneficiaries (US$2.1 million). The agreement aims to provide access to financial and other diversified services, and to foster the emergence of a wide range of income-generating enterprises, with a focus on assisting the rural poor. The project will be implemented through several partners including the Bank of the Republic of Burundi for regulatory issues, as well as the private banking sector for managing funds and refinancing the microfinance establishments (MFEs).

The MFEs will finance the small-scale farmers, traders, processors, craftsmen and the cooperatives working in the agricultural and non-agricultural rural sector. The project will also help strengthen the Bank of the Republic of Burundi's microfinance technical capacity. The MFEs will also be in position to provide a more complete range of services that are adapted to the needs of rural communities, and to sustainably expand their scope in rural areas.

The banking system has continued to stabilise with an 18 percent rise in the total balance sheet of banking sector assets between December 2016 and December 2017, mainly due to a rise in total deposits and private sector credit. Total deposits rose by 23.2 percent over the same period, thereby enabling banks to create more assets on the loan side. The rise in deposits was supplemented by Central Bank refinancing, which increased by 93.9 percent between December 2016 and December 2017.

The sector assets were largely comprised of credit to the private sector and credit to government through treasury securities. Private sector credit constituted 36.8 percent of total bank lending while the banking sector holding of government securities was to the tune of 29.7 percent of the total banking assets in December 2017. The rise in the domestic Public Sector Borrowing Requirement (PSBR) translated into a 46.9 percent increment in the value of commercial banks' lending to government against a modest 8.2 percent rise in credit to the private sector over the same period. The observed banks' preference to increase the low risk government securities' holding against private sector credit partly indicates their level of confidence in the economy influenced by a sluggish return to political normalcy.

The cautious approach to credit approval for the private sector could be attributed to the increase in credit risk arising from low productivity, slow economic growth and a less favourable trading environment. Indeed, non-performing loans increased from 18.9 percent to 19.8 percent between December 2016 and December 2017. Banks have continued to write off loss loans, even in 2018, to bring the non-performing loan figure down to 12.3 percent. In line with the regulatory requirements, loan loss impairment provisions have significantly risen for tourism, housing and hostel facilities over the year.

The mortgage market in Burundi is still dominated by three financial institutions. Burundi Bank of Commerce and Investment, Ecobank Burundi and KCB Bank offer mortgage facilities alongside the second-tier Fund for Promotion of Urban Housing and the National Bank for Economic Development. These lenders offer housing and real estate loans ranging between BIF 500 000 (US$282.4) for small home improvement facilities and BIF 50 million (US$28 243.8) for home construction finance. On average, the tenure allowed ranges between 4 and 20 years. Interest rates on housing loans have been relatively high, averaging between 16 percent and 19 percent. Medium-term mortgages (maturing in two to seven years) account for 13.6 percent of the total stock of loans granted by the institutions in March 2018, rising marginally from 12.5 percent in March 2017.

Overall, the housing loan portfolio in the country has increased by 17.5 percent from BIF 94.2 billion (US$53.2 million) in March 2017 to BIF 110.5 billion (US$62.42 million) in March 2018. This is attributable to the emerging gain in confidence as a result of the country's slowly returning peaceful political state. Owing to the collateralized nature of lending to the housing sector, banks have preferred housing loans as a relatively safer investment avenue compared to the business sector during this era of slow gains in political and economic stability.

Affordability

Burundi's GDP per capita is estimated at US$320.1 in 2017, positioning the country as the poorest in the world.[7] For the past five years, Burundi has consistently been ranked as a low human development country, with a Human Development Index of 0.417 in 2017. With an agrarian economy and struggling industrial and services sector, the affordability of housing finance has been significantly affected.

The escalation of inflation and interest rates has pushed several households out of the housing affordability bracket. In the fourth quarter of 2017, the lending interest rate on outstanding loans slightly increased to 16.16 percent from 16.13 percent the previous quarter. This is compared to 16.77 percent recorded in the fourth quarter of 2016. Similarly, the interest rate on new loans slightly increased to 17.17 percent in December 2017 from 17.14 in December 2016.[8] The lending interest rate has remained high, averaging 17.32 percent over the first quarter of 2018, compared to 16.43 percent recorded in December 2017. The rise in lending interest rates can be partly attributed to the increased credit risk from the lenders' perspective as evidenced by the upward movement of non-performing loans to 16.8 percent in March 2018 against 14.1 percent recorded in December 2017.[9] Worryingly, the loan loss category of non-performing loans has risen sharply to 42.3 percent of overdue loans from the previous year of 34.9 percent. Banks therefore continue to write off the loss loans, affecting their profitability and ability to extend further credit to this growing economy.

Owing to the slow return to political and economic normalcy in Burundi, commercial banks have been increasing their asset holdings in treasury bills which are considered less risky than most personal or business loans. This effectively reduces the volume of funds available for incremental home construction through personal unsecured loans taken by retail borrowers. With the growth rate in per capita terms remaining modest over 2017 and 2018, the poverty incidence is projected to increase to 84.1 percent in 2018 from 65 percent in 2017.[10]

Burundi suffers from low household incomes that greatly affect affordability for housing units and eligibility for housing finance in the country. Modest income households earning between BIF 4 000 (US$3.3) and BIF50 000 (US$42) per week constitute 81 percent of the working population. Sadly, the country's high annual population growth of 3.2 percent and the youthfulness of the population underline a demographic challenge for the country's undeveloped housing and housing finance sector/industry.

Given that the average monthly net salary (after tax) for Burundians is US$64.98, it is unlikely that low income earners can afford a two-bedroom house, at about US$25 000 on the property market. Regrettably, prospective individual developers would struggle to put up a similar two-bedroom house at the lower side of US$15 000. Acquiring a mortgage will also be an uphill task for most Bujumbura low income earners, given the mortgage interest rate is at an average 16 percent and their incomes are below the minimum BIF 1 million required by banks to offer mortgage finance. Less than 0.1 percent of the population earn above BIF 1 million.

BURUNDI

Annual income profile for rural and urban households based on consumption (PPP$)

Population:	10 864 245
Urbanisation rate:	5.64%
Cost of cheapest newly built house:	54 757 890 BIF PPP$76 275
Urban households that could afford this house with finance:	0.73%
1 PPP$:	717.9 Burundi franc

Source https://www.cgidd.com/

For those in the middle and high income brackets (above BIF 1.5 million), the average mortgage taken up from financial institutions is about US$30 000. Through subsidies from the government and development partners such as Habitat for Humanity, complemented by beneficiaries (in-kind contribution), 39 460 households were able to purchase a dwelling and use rehabilitated social facilities. With the political situation easing, another 1 000 households have been aided by the Swedish International Development Cooperation Agency (SIDA) to return to their communities following the decommissioning and closure of four displacement camps in Burundi. A decommissioning process began in January 2018 to improve the living conditions of internally displaced persons (IDPs) in the camps of Mush Asha I and Mushasha II, Giada and Cashi. The International Organization for Migration (IOM), with the support of SIDA, provided aid aimed at enabling displaced households to transition from the camps. The support included construction of semi-permanent shelters and the provision of rental support to the affected households. Several households that had been displaced by floods and other natural disasters were key beneficiaries of this programme. The programme was structured to involve the government, IOM and local households as stakeholders.

Households earlier displaced from rental units were offered rental support while those with land titles in relatively safer areas were provided with transitional shelter. Households without land and without clear income sources to support rental payments were provided with transitional shelter on plots provided by the government of Burundi. To support settlements in the new areas, all households were provided with aid packages containing blankets, mosquito nets and floor mats among other household items. To boost their income-earning potential, households earmarked for rental support were also provided with agricultural kits in the areas of Gautama and Rumonge province, along the shores of Lake Tanganyika. In this province, 159 housing units were built at sites for resettlement of households from the decommissioned camps. It is hoped that the agricultural kit initiative will complement other projects, such as the IFAD-funded project, to boost rural productivity, enhance household income and work towards poverty alleviation.

Notably, however, more than 500 000 families are still internally displaced or likely to return from abroad without homes to go to and income sources to support their livelihoods. There is therefore an urgent need for additional housing solutions for the internally displaced in Burundi. A related challenge to affordable housing is the need for appropriately packed financing solutions. IDPs have no significant income sources and are unable to attract lenders. Grant and concessional finance could be an alternative to conventional financing options in Burundi.

Housing supply

Delivery of new housing unit stock in Burundi is still below the demand in the affordable housing space. The country has had a few private developers individually setting up an average of five housing units for sale over the past year. These developers normally target the middle to high-end income earners for housing units constructed in areas including Kavuma, Mboza, Byenzi, Mutanga, Rohero, Bwiza, Nyakabiga and Nyamitanga.

The challenge of large-scale delivery of housing units remains as no single developer has the capacity to deliver projects of more than 30 units. The sluggish return to a stable political state has not favoured regional developers due to the absence of a vibrant services sector that would attract a labour force with strong salaried income to rely on for downpayments. The government has also not realised its goal of setting up housing units for civil servants, mainly because of budgetary constraints. A new 10-year national strategic plan (2018 - 2027) was launched on 2 July 2018 with renewed focus on consolidating independence and reducing reliance on external parties for development support.

Across the East African region, recent delivery of housing units has mainly been through the construction of high-rise apartments sold off with condominium titles. Although this approach tends to be costlier than the construction of ground-based bungalows, most developers have preferred the high-rise structures because of significant land-use efficiencies realised through such settlements. Burundi presents a unique challenge in making its legal framework support the creation of condominium titles.

High interest rates and immature mortgage markets in Burundi have hampered sales volumes. Interest rates have remained high at 16.5 percent, impeding affordability for low income households. Banks are reluctant to finance developers because of the difficulties in off-loading stocks of houses, given the low level of incomes and the weakness of developers (with respect to cash flow analysis and marketing budgeting). This has led to a stagnation of development projects, particularly in the mid-market segment. The exception is high-end residential property sales. For example, the civil servants housing project, of about 2 000 units, by Biz Planners, has been on halt since 2014. Each house was planned at US$30 000.

Construction costs are relatively high as most of the building materials such as cement, steel bars and roofing iron sheets are imported, and overland transport costs are relatively high. For instance, the cost of a 50kg bag of cement is US$25 compared to US$8.9 for the same 32.5 grade 50kg bag in Uganda. For the delivery of housing units, this high cost translates into over US$31 000 for a one-bedroom structure compared to US$20 000 for a similar unit in Uganda.

Furthermore, the poor quality of construction in commercial as well as residential space has resulted in lesser take-up of such properties, leading to dead supply stock in the market. For example, 27 three-bedroom houses, by Agglobu Ltd, have been on the market for over three years. The houses cost between US$205 000 and US$225 000.

To respond to the need for more housing units, a new and attractive social housing project – the New Rugo – has been kickstarted with a blend of modern and traditional building style. It combines the tenets of traditional design and modern parameters to achieve social housing concepts that cut across the low income to middle income markets.

The Rugo is the traditional Burundi and Rwanda house and is the backbone of the New Rugo project. New Rugo is mainly a low-cost housing project that draws its inspiration from vernacular solutions. It typically comprises three houses that can be valued independently at an average price in the region of US$35 000. With low-cost technologies and cultural appropriateness, the developed housing is aimed at empowering fragile communities in Burundi.

Property markets

Eighty percent of the property market in Burundi is residential. Bujumbura, the capital city, has traditionally been occupied by nearly 50 percent non-Burundians who are mostly nationals of neighbouring countries such as Tanzania, the Democratic Republic of Congo, and Uganda, as well as Europe.

Monthly rent for 85m^2 furnished accommodation in a prime area in Bujumbura is estimated at about BIF 3 million a month. A 45m^2 furnished studio in a similar area is estimated at about BIF 0.5 million. The cost of utilities (heating, electricity, and gas) for one month in a 45m^2 studio is BIF 100 000 per person. Yet, the average monthly income for a renting household is about BIF 45000.

The market space for land, residential, and commercial real estate in Burundi remains both underdeveloped and depressed. The country suffers from a dearth of real estate listing agencies. Most agencies available are based in neighbouring countries including Kenya and Rwanda. Property valuation firms are also in short supply. Knight Frank in Uganda has been the leading provider of real estate valuation services in Burundi for a long time. Large-scale construction projects are dominated by foreign firms, most of which are from China. The country's property market is still in its infancy. There are a limited number of market participants on the supply side, largely due to low levels of market demand as determined by the low income levels of more than 60 percent of the country's population.

Targeted construction and delivery of low-priced housing units would be appropriate in such a market. However, in the absence of appropriately positioned developers and sizeable government incentives, delivery of affordable housing may remain unachievable in the short to medium term. Additionally, a reduction in budget support and foreign aid has incapacitated the government and decreased its ability to build support infrastructure for the housing sector in terms of energy and transport facilities. With half of the country's budget slashed because of reduced foreign aid, government investments for housing infrastructure are likely to be affected, translating into slow growth in property markets in the country.

Policy and regulation

Burundi's National Urban Planning and Housing Policy provides the regulatory framework for the management of water, environment, land and urban developments. The policy was introduced with the core objectives of promoting a coordinated management of the environment, sound management of land, water, forests, and air, and the preservation of ecological balance.

The policy is intended to promote social development and allow each Burundian to have access to high-quality housing and basic services. In formulating this policy, the government intended to create an enabling framework for the development of 855 hectares of land and the construction of 26 000 homes annually. In addition to the policy, the government issued a decree in January 2014 on the structure of the National Commission on Land and Other Assets (CNTB). The CNTB, established in 2006, is authorised to resettle refugees who return and to resolve land disputes. Since its inception, over 38 000 cases have been handled and determined. The commission has been instrumental in determining land ownership and therefore housing developments on such land for the past decade.

Opportunities

The 2018 referendum in Burundi re-affirmed the continuity of relative peace, a much-need foundation on which the national 10-year strategic plan and Vision Burundi 2025 are to be built. The three core objectives of installation of good governance within the rule of law, development of a strong and competitive economy, and improvement of the living conditions of the people of Burundi, all entrenched in the Vision 2025 are supportive of a conducive housing investment climate and improved income levels to provide effective demand for new housing units.

Initiatives towards actualising some of the objectives have already commenced with construction and renovation of elementary schools, a move aimed at raising the literacy rate through universal primary education to reduce the adult illiteracy rate to under 20 percent and create skilled professionals through modernising agricultural production alongside the development of a strong service industry.

With such developments in place, it is envisaged that by 2025, the rate of economic growth will have reached an average of 10 percent and this will translate into a perceptible increase in incomes to US$720 per capita and poverty will be reduced by 50 percent. Development of a vibrant financial sector will be critical in ensuring availability of the relevant credit and insurance support to the rapidly growing economy. International investors will, however, be cautious in their approach as the country prepares for the next general elections in 2020.

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